TAURON Polska Energia S.A. Capital Group

Consolidated financial statements
compliant with the International Financial Reporting Standards
approved by the European Union
for the year ended 31 December 2022

(in PLN million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Sales revenue	**15**	36 311	25 164
Recompensation revenue	**16**	484	(9)
Cost of sales	**17**	(34 854)	(22 928)
Profit on sale		**1 941**	**2 227**
Selling and distribution expenses	**17**	(528)	(485)
Administrative expenses	**17**	(558)	(490)
Other operating income and expenses	**18**	86	76
Share in profit/(loss) of joint ventures	**29**	128	32
Operating profit		**1 069**	**1 360**
Interest expense on debt	**19**	(591)	(365)
Finance income and other finance costs	**19**	(368)	130
Profit before tax		**110**	**1 125**
Income tax expense	**21**	(319)	(293)
Net profit (loss) on continuing operations		**(209)**	**832**
Net profit (loss) on discontinued operations	**22**	**75**	**(447)**
Net profit (loss)		**(134)**	**385**
Measurement of hedging instruments	**39.4**	187	455
Foreign exchange differences from translation of foreign entity		17	16
Income tax	**21**	(36)	(88)
Other comprehensive income on continued operations to be reclassified in the financial result		**168**	**383**
Actuarial gains	**42**	68	104
Income tax	**21**	(12)	(18)
Other comprehensive income on continued operations not to be reclassified in the financial result		**56**	**86**
Other comprehensive income on discontinued operations	**22**	**18**	**11**
Other comprehensive income, net of tax		**242**	**480**
Total comprehensive income		**108**	**865**
Net profit (loss):			
Attributable to equity holders of the Parent		(134)	338
Attributable to non-controlling interests		–	47
Total comprehensive income:			
Attributable to equity holders of the Parent		108	818
Attributable to non-controlling interests		–	47
Profit (loss) per share basic and diluted (in PLN):	**23**		
net profit (loss) for the period attributable to shareholders of the parent company		(0.08)	0.19
net profit (loss) from continuing operations for the period attributable to shareholders of the parent company		(0.12)	0.45

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

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

(in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2022	As at 31 December 2021
ASSETS			
Non-current assets			
Property, plant and equipment	**24**	29 731	29 174
Right-of-use assets	**25**	1 996	1 946
Goodwill	**26**	26	26
Energy certificates and CO_2 emission allowances for surrender	**27.1**	55	444
Other intangible assets	**28**	726	540
Investments in joint ventures	**29**	682	597
Loans granted to joint ventures	**30**	206	99
Derivative instruments	**31**	390	532
Other financial assets	**32**	301	215
Other non-financial assets	**33.1**	268	159
Deferred tax assets	**34**	672	123
		35 053	**33 855**
Current assets			
Energy certificates and CO_2 emission allowances for surrender	**27.2**	597	157
Inventories	**35**	1 118	543
Receivables from buyers	**36**	3 819	3 322
Income tax receivables	**50**	518	415
Receivables arising from other taxes and charges	**37**	803	292
Derivative instruments	**31**	459	465
Other financial assets	**32**	478	89
Other non-financial assets	**33.2**	790	112
Cash and cash equivalents	**38**	1 678	815
Assets classified as held for sale		7	10
		10 267	**6 220**
TOTAL ASSETS		**45 320**	**40 075**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED

	Note	As at 31 December 2022	As at 31 December 2021
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	**39.1**	8 763	8 763
Reserve capital	**39.3**	3 009	2 749
Revaluation reserve from valuation of hedging instruments	**39.4**	450	299
Foreign exchange differences from translation of foreign entities		60	43
Retained earnings/(Accumulated losses)	**39.5**	4 299	4 637
		16 581	**16 491**
Non-controlling interests	**39.6**	**33**	**33**
Total equity		**16 614**	**16 524**
Non-current liabilities			
Debt	**41**	15 959	10 947
Provisions for employee benefits	**42**	494	789
Provisions for disassembly of fixed assets, land restoration and other provisions	**43**	157	436
Accruals, deferred income and government grants	**46**	571	568
Deferred tax liabilities	**34**	1 200	741
Derivative instruments	**31**	10	116
Other financial liabilities	**52**	119	33
Other non-financial liabilities		1	4
		18 511	**13 634**
Current liabilities			
Debt	**41**	528	2 143
Liabilities to suppliers	**47**	2 246	1 242
Liabilities due to the acquisition of non-controlling interests	**48**	–	1 061
Capital commitments	**49**	707	616
Provisions for employee benefits	**42**	92	104
Provisions for liabilities due to energy certificates and CO_2 emission allowances	**44**	3 692	1 890
Other provisions	**45**	387	619
Accruals, deferred income and government grants	**46**	513	177
Income tax liabilities	**50**	17	4
Liabilities arising from other taxes and charges	**51**	324	629
Derivative instruments	**31**	331	379
Other financial liabilities	**52**	514	483
Other non-financial liabilities	**53**	843	570
Liabilities directly related to assets classified as held for sale		1	–
		10 195	**9 917**
Total liabilities		**28 706**	**23 551**
TOTAL EQUITY AND LIABILITIES		**45 320**	**40 075**

(in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
As at 1 January 2021		**8 763**	**6 339**	**(68)**	**27**	**773**	**15 834**	**893**	**16 727**
Coverage of prior years loss		–	(3 590)	–	–	3 590	**–**	–	**–**
Dividends		–	–	–	–	–	**–**	(3)	**(3)**
Acquisition of non-controlling interests		–	–	–	–	(158)	**(158)**	(903)	**(1 061)**
Other transactions with non-controlling shareholders		–	–	–	–	(3)	**(3)**	(1)	**(4)**
Transactions with shareholders		**–**	**(3 590)**	**–**	**–**	**3 429**	**(161)**	**(907)**	**(1 068)**
Net loss		–	–	–	–	338	**338**	47	**385**
Other comprehensive income		–	–	367	16	97	**480**	–	**480**
Total comprehensive income		**–**	**–**	**367**	**16**	**435**	**818**	**47**	**865**
As at 31 December 2021		**8 763**	**2 749**	**299**	**43**	**4 637**	**16 491**	**33**	**16 524**
Distribution of prior years profits	**39.3**	–	260	–	–	(260)	**–**	**–**	**–**
Dividends		–	–	–	–	–	**–**	(3)	**(3)**
Acquisition of a subsidiary		–	–	–	–	–	**–**	(15)	**(15)**
Acquisition of non-controlling interests	**39.6**	–	–	–	–	(18)	**(18)**	18	**–**
Transactions with shareholders		**–**	**260**	**–**	**–**	**(278)**	**(18)**	**–**	**(18)**
Net loss		–	–	–	–	(134)	**(134)**	–	**(134)**
Other comprehensive income		–	–	151	17	74	**242**	–	**242**
Total comprehensive income		**–**	**–**	**151**	**17**	**(60)**	**108**	**–**	**108**
As at 31 December 2022		**8 763**	**3 009**	**450**	**60**	**4 299**	**16 581**	**33**	**16 614**

(in PLN million)

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Cash flows from operating activities			
Profit before tax from continuing and discontinued operations	**54.1**	**133**	**675**
Share in (profit)/loss of joint ventures		(128)	(32)
Depreciation and amortization	**54.1**	2 216	2 101
Impairment losses on non-financial non-current assets	**54.1**	214	1 129
Write-down of disposable group due to revaluation to fair value		460	–
Impairment losses on loans granted		14	(1)
Exchange differences		102	(10)
Interest and commissions		591	367
Other adjustments of profit before tax	**54.1**	199	(91)
Change in working capital	**54.1**	(486)	1 209
Income tax paid	**54.1**	(540)	(392)
Net cash from operating activities		**2 775**	**4 955**
Cash flows from investing activities		**–**	**–**
Purchase of property, plant and equipment and intangible assets	**54.2**	(3 879)	(3 255)
Purchase of financial assets		(28)	(28)
Loans granted	**54.2**	(120)	(1)
Loss of control over a subsidiary	**54.2**	(216)	–
Other payments		(14)	–
Total payments		**(4 257)**	**(3 284)**
Proceeds from sale of property, plant and equipment and intangible assets		28	76
Disposal of financial assets	**54.2**	180	53
Dividends received		72	47
Other proceeds		1	5
Total proceeds		**281**	**181**
Net cash used in investing activities		**(3 976)**	**(3 103)**
Cash flows from financing activities		–	**–**
Redemption of debt securities		(170)	(170)
Repayment of loans and borrowings	**54.3**	(6 067)	(3 466)
Purchase of non-controlling shares	**54.3**	(1 061)	–
Interest paid	**54.3**	(500)	(343)
Repayment of lease liabilities		(126)	(117)
Other payments		(36)	(24)
Total payments		**(7 960)**	**(4 120)**
Proceeds from contracted loans and borrowings	**54.3**	9 440	2 003
Subsidies received		38	114
Total proceeds		**9 478**	**2 117**
Net cash from financing activities		**1 518**	**(2 003)**
Net increase/(decrease) in cash and cash equivalents		**317**	**(151)**
Net foreign exchange difference		(24)	(3)
Cash and cash equivalents at the beginning of the period	**38**	**623**	**774**
Cash and cash equivalents at the end of the period, of which:	**38**	**940**	**623**
restricted cash	**38**	322	146

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

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

TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", "TAURON Group") consists of TAURON Polska Energia S.A. (the "parent entity", the "Company", the "Parent Company") and its subsidiaries. TAURON Polska Energia S.A., with its registered office in Katowice at ul. ks. Piotra Ściegiennego 3 in Poland, operates as a joint-stock company, incorporated by notarial deed on 6 December 2006. Until 16 November 2007, the Company operated under the name Energetyka Południe S.A. The Company did not change its name or other identifying information in the year ended 31 December 2022.

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

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

The TAURON Group's core business is reflected in the breakdown into segments: Generation (the segment comprising generation of electricity from conventional sources and heat generation), Renewable Energy Sources (the segment comprising generation of electricity from renewable sources), Distribution, Sales and other operations, including customer service, which is discussed in more detail in Note 13 to these consolidated financial statements. During 2022, the Group discontinued its coal mining operations, as discussed further in notes 3 and 22.

These consolidated financial statements of the Group cover the year ended 31 December 2022 and contain comparative information for the year ended 31 December 2021.

These consolidated financial statements 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.

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

2. Composition of TAURON Group and joint ventures

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

No.	Company name	Seat	Share of TAURON Polska Energia S.A. in the company capital	Company holding direct equity interests / general partner
GENERATING				
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.	Katowice	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.	Połczyn-Zdrój	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. (formery: Marselwind Sp. z o.o.)	Tarnów	99.77%	TAURON Dystrybucja S.A.

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(in PLN million)

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

No.	Company name	Seat	Share of TAURON Polska Energia S.A. in the company capital and governing body	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.	Ostrava, Czech Republic	50.00%	TAMEH HOLDING Sp. z o.o.

3. Changes in the composition of TAURON Group

Loss of control over 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 purchaser of TAURON Wydobycie S.A. shares. 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.

The disposal of 100% of shares in TAURON Wydobycie S.A. is in line with the Group's current strategy for the years 2022-2030 with an outlook till 2050. In the context of the tightening policies of financial institutions and financial market investors over the past few years regarding the financing of entities using coal assets in their business operations, holding coal assets in the Group's structures limits the Group's ability to raise financing. As a consequence - in the Company's opinion - the divestment of TAURON Wydobycie S.A. will increase the possibilities of expanding the investor base in order to raise funds for the implementation of investments in TAURON Group, and thus facilitate the implementation of the strategic objectives included in the TAURON Group's strategy.

In the Group's opinion, discontinued operations constitute operations of the divested company, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Discontinued operations and loss of control of a subsidiary, together with a description of the impact on the consolidated financial statements, are further described in note 22 of these consolidated financial statements.

Restructuring changes as part of the government programme of transformation of the Polish electricity sector (“NABE Programme”).

As part of the implementation of the NABE Programme aimed at spinning off coal assets from state-owned power companies, the following restructuring changes were made in the Group, as further described in note 63 of these consolidated financial statements:

• establishment of TAURON Inwestycje Sp. z o.o. by way of the division of TAURON Wytwarzanie S.A. registered on 1 July 2022,

• transfer to TAURON Wytwarzanie S.A. Of 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. under a datio in solutum agreement,

• sale of 100% of the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. held by the Company to TAURON Wytwarzanie S.A.,

• merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. registered on 3 October 2022.

The above transactions did not have any impact on the consolidated financial statements of the Group.

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. According to the Group's assessment, the transaction constituted the acquisition of an undertaking within the meaning of IFRS 3 Business Combinations performed in stages without the transfer of payment and was settled using the acquisition method. As at the acquisition date, the Group remeasured to fair value its previously held equity interests in Energetyka Cieszyńska Sp. z o.o. and recognized the identifiable assets acquired and liabilities assumed of Energetyka Cieszyńska Sp. z o.o. and measured them at fair values. The fair value of the net assets acquired was negative and amounted to PLN (32) million. Given the lack of consideration transferred for the acquisition, the Group assessed that the amounts of any non-controlling interest in the acquired entity and the fair value as at the acquisition date of the previously held interest in the acquired entity exceeded the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed, and therefore the Group recognised goodwill of PLN 18 million at the time of taking over the control.

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.

The above transaction did not have any impact on the consolidated financial statements of the Group.

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

On 30 December 2022, the subsidiary, TAURON Dystrybucja S.A. joined 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. The impact of the transaction on the consolidated financial statements of TAURON Group is described in note 18 of these consolidated financial statements.

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 project 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.

In the opinion of the Company, taking into account in particular the preliminary stage of preparation for project implementation and the lack of business operations related to energy generation upon the acquisition, these transactions do not constitute a business acquisition within the meaning of IFRS 3 Business Combinations and therefore the transaction has been settled as the acquisition of assets that do not constitute a business. The total value of assets recognized as a result of the transaction amounted to PLN 226 million.

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.

4. Statement of compliance

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

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

The Group companies and the parent company keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards approved by the EU, except for TAURON Czech Energy s.r.o., which keeps its accounting records and prepares its financial statements in accordance with accounting policies applicable in the Czech Republic and the companies: Łagisza Grupa TAURON Sp. z o.o., AVAL-1 Sp. z o.o., WIND T1 Sp. z o.o., Polpower Sp. z o.o., TEC1 Sp. z o.o., TAURON Zielona Energia Sp. z o.o., FF PARK PV1 Sp. z o.o., "MEGAWATT S.C." Sp. z o.o., WIND T4 Sp. z o.o., Windpower Gamów Sp. z o.o., Wind T30MW Sp. z o.o. and Energetyka Cieszyńska Sp. z o.o., which keep their accounting books and prepare financial statements in accordance with the Accounting Act.

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

5. Going concern

These consolidated financial statements have been prepared with the assumption of continuation of activities by the Group companies 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 approving these consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group at risk.

The Group identifies and actively manages liquidity risk, understood as the possibility of losing or limiting the capacity to settle current expenses. The Group has the full capacity to settle its liabilities as they become due and payable. As at the balance sheet day, the Group has financing available under concluded financing agreements, as described in Note 56.2 to these consolidated financial statements.

In the area of liquidity, financing and securing the continuity of operational activities, the Management Board, having analysed the financial position of the Company and the Group, does not identify any risk to the continuity of operations in the foreseeable future, i.e. within a period of not shorter than 1 year from the balance sheet day, taking into account the description of the impact of the aggression of the Russian Federation against Ukraine and the COVID-19 outbreak on the Group's operations, as further discussed in Note 63 to these consolidated financial statements.

6. Functional currency and presentation currency

The functional currency of the parent entity and its subsidiaries, except for TAURON Czech Energy s.r.o., and the functional currency of the parent entity and the subsidiaries covered by these consolidated financial statements, except TAURON Czech Energy s.r.o. The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna ("CZK"). Items in the financial statements of TAURON Czech Energy s.r.o. are translated into the TAURON Group's presentation currency using the relevant exchange rates.

These consolidated financial statements are presented in the Polish zloty ("PLN") while all figures are provided in PLN million, unless indicated otherwise.

7. Accounting principles (policy)

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

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

Consolidation

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

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

Business acquisitions

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

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

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

Acquisition of businesses under common control of the State Treasury

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

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

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

8. Material values based on professional judgement and estimates

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

The items of the consolidated financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in individual notes to these consolidated financial statements. Significant estimates relate to write-downs on non-financial assets recognized as a result of impairment tests (Note 14) and provisions created (Notes 42-45).

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

Besides the foregoing, the Group makes significant estimates as regards the contingent liabilities recognized, in particular in the scope of legal proceedings where the Group companies are parties (Note 58).

9. Standards published and amendments to standards which are not yet effective by the balance sheet date

The Group did not choose earlier application of any standards or amendments to standards which were published but 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 consolidated 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 Group. 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	Date of entry into force in the EU *(annual periods staring on or after that date)*
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: *Making Materiality Judgements to accounting policy disclosures.*	The amendments are intended to enhance the relevance of the presented disclosures related to the accounting principles (policy) by replacing the requirement for entities to disclose significant accounting policies with a requirement to disclose material accounting principles and adding guidance on how entities apply the materiality principle when making decisions concerning the disclosure of accounting principles (policy).	1 January 2023
Amendments to IAS 8 *Accounting policies, changes in accounting estimates and errors: Change in accounting estimates*	The amendments clarify the distinction between changes in estimates and changes in accounting principles (policy) and corrections of errors and clarify how entities apply valuation techniques and use inputs to determine estimates.	1 January 2023
IFRS 17 I*nsurance 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 share.	1 January 2023
Amendments to IFRS *17 Insurance contracts: first-time adoption of IFRS 17 Insurance contracts and IFRS 9 Financial instruments - comparative information*	The amendment is intended to assist entities in avoiding transitional accounting mismatches between financial assets and liabilities due to insurance contracts, thereby improving the usefulness of comparative information for users of financial statements.	1 January 2023
Amendments to IAS 12 *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 consolidated 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 Group. 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	Date of entry into force according to the standard, not endorsed by the EU *(annual periods staring on or after that date)*
Amendments to IAS 1 *Presentation of Financial Statements: Classification of liabilities as short-term or long-term and long-term liabilities with covenants*	1 January 2024
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture as amended*	the date of entry into force of the amendments has been postponed
Amendments to IFRS 16 *Leases: Liability in a Sale and Leaseback*	1 January 2024

IFRS 14 Regulatory Deferral Accounts (Date of entry into force according to the standard: 1 January 2016 - 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 the standard).

The International Accounting Standards Board is working on the draft and final version of the standard for regulated activities. The standard specifies a model for accounting for assets and liabilities related to regulatory activities. According to the current proposal, the standard is to apply to entities that are parties to an agreement specifying regulated rates, with which the entity charges its customers for goods and services provided, and when a part of the total consideration for goods and services provided in a given period is charged to customers through regulated rates in another period (there are so-called time differences).The Group monitors the work carried out by the International Accounting Standards Board regarding the final version of the standard on regulatory assets and liabilities in terms of determining the impact on TAURON Group, particularly in the Distribution segment. As at the date of authorization of these consolidated financial statements for publication, the final version of the standard has not been issued. The Group will assess the impact of the standard on the Group's financial results and financial position once the International Accounting Standards Board has issued the final version of the standard.

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

The accounting principles (policy) adopted for the preparation of these consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2021, except for the application of the amendments to the standards specified below. The Group has also restated the comparable data as described below.

10.1. Application of amendments to standards

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous contracts - costs of fulfilling a contract

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 agreements 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, i.e. the period commencing on 1 January 2022. The entity does not restate comparative figures - the cumulative effect of the first application of the amendments is recognized as an adjustment to the opening balance of retained earnings at the date of first application.

As at the date of 31 December 2022, the Group calculated the provisions for onerous contracts in accordance with the revised wording of the standard. At the same time, the Group 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 recognized in the Group’s equity.

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

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

Standard	Amendments	Date of entry into force in the EU *(annual periods staring on or after that date)*
Amendments to IFRS 3 *Business Combinations: Amendments to the references to the Conceptual Framework*	Among others, the amendments replaced the reference to the previous version of the Conceptual Framework issued by the IASB (the 1989 Conceptual Framework) with 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: Proceeds before Intended Use*	The amendments prohibit the reduction of the cost of an item of property, plant and equipment by the proceeds from the sale of products manufactured in the course of bringing the asset to the intended location and condition needed for it to become operational. Instead, the entity recognizes the revenue from the sale of such products and the costs of manufacturing them in the statement of comprehensive income.	1 January 2022
Amendments to various standards *Improvements to IFRSs (2018-2020 cycle):*		
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 *Leasing*	The amendment repeals illustrative example No. 13 concerning payments from the lessor relating to investments in the leased property. This will allow to avoid ambiguity in the scope of approach to lease incentives when applying IFRS 16 *Leases.*	1 January 2022
IAS 41 *Agriculture*	The amendment removes the requirement for entities to exclude taxation payments when measuring the fair value of assets included in the scope of IAS 41 *Agriculture*.	1 January 2022

10.2. Restatement of comparable data

Presentation of discontinued operations due to loss of control over TAURON Wydobycie S.A.

On 31 December 2022, the Group lost control of its subsidiary TAURON Wydobycie S.A., as further described in Note 3 of these consolidated financial statements.

As a result of the foregoing, the Group assessed that the operations of the subsidiary, TAURON Wydobycie S.A., over which the Group lost control, including hard coal mining, formerly representing a separate operating segment, constituted a separate material line of business of the Group, meeting the definition of discontinued operations under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Accordingly, the Group presents and discloses information on discontinued operations as further described in Note 22 of these consolidated financial statements. The comparative data has been restated accordingly, in accordance with the requirements of paragraph 34 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, as presented in the table below.

(in PLN million)

	Year ended 31 December 2021 *(approved figures)*	Presentation of discontinued operations	Year ended 31 December 2021 *(restated figures)*
Sales revenue	25 614	(450)	25 164
Recompensation revenue	(9)	–	(9)
Cost of sales	(23 623)	695	(22 928)
Profit on sale	**1 982**	**245**	**2 227**
Selling and distribution expenses	(562)	77	(485)
Administrative expenses	(635)	145	(490)
Other operating income and expenses	99	(23)	76
Share in profit/(loss) of joint ventures	32	–	32
Operating profit	**916**	**444**	**1 360**
Interest expense on debt	(368)	3	(365)
Finance income and other finance costs	127	3	130
Profit before tax	**675**	**450**	**1 125**
Income tax expense	(290)	(3)	(293)
Net profit on continuing operations	**385**	**447**	**832**
Net loss on discontinued operations	**–**	**(447)**	**(447)**
Net profit	**385**	**–**	**385**
Measurement of hedging instruments	455	–	455
Foreign exchange differences from translation of foreign entity	16	–	16
Income tax	(88)	–	(88)
Other comprehensive income on continuing operations to be reclassified in the financial result	**383**	**–**	**383**
Actuarial gains	118	(14)	104
Income tax	(21)	3	(18)
Other comprehensive income on continuing operations not to be reclassified in the financial result	**97**	**(11)**	**86**
Other comprehensive income on discontinued operations	**–**	**11**	**11**
Other comprehensive income, net of tax	**480**	**–**	**480**
Total comprehensive income	**865**	**–**	**865**
Net profit:			
Attributable to equity holders of the Parent	338	–	338
Attributable to non-controlling interests	47	–	47
Total comprehensive income:			
Attributable to equity holders of the Parent	818	–	818
Attributable to non-controlling interests	47	–	47
Earnings per share basic and diluted (in PLN):			
net profit for the period attributable to shareholders of the parent company	0.19	–	0.19
net profit from continuing operations for the period attributable to shareholders of the parent company	0.19	0.26	0.45

Change in the presentation of transferred collaterals on transaction and security deposits as part of settlements with Izba Rozliczeniowa Giełd Towarowych S.A. in the consolidated statement of cash flows

In the year ended 31 December 2022, the Group changed the presentation of transferred collaterals on transaction and security deposits as part of its settlements with Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT") of the consolidated statement of cash flows. The above collaterals up to this moment had been presented as part of cash. After the change in presentation, the changes in these collaterals have been presented within the Group's operating cash flow. Comparable figures have been restated accordingly.

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

	Year ended 31 December 2021 *(approved figures)*	Presentation of collaterals provided to IRGIT	Year ended 31 December 2021 *(restated figures)*
Cash flows from operating activities			
Change in working capital	1 256	(47)	1 209
Net cash from operating activities	**5 002**	**(47)**	**4 955**
Increase/(decrease) in net cash and equivalents	**(104)**	**(47)**	**(151)**
Cash opening balance	895	(121)	774
Cash closing balance, including:	791	(168)	623
of limited disposal	**314**	**(168)**	**146**

11. Climate change and its impact on the accounting principles applied

Continuing climate change and the resulting changes in the business environment have an increasing impact on the operations of TAURON Group. In particular, it should be noted that combating climate change translates into a changing legal environment for the Group, including EU and national legislation gradually increasing environmental protection requirements imposed on enterprises. The above changes translate into an increase in operating costs, particularly in the area of electricity generation from conventional sources, affected in particular by rising prices of CO_2 emission allowances. Climate change issues also have an increasing impact on the ability of entities to raise funding for their operations, as well as on their ability to attract new customers and investors.

Bearing in mind, among others, the challenges and risks generated for the Group by the changing market environment, in 2022, the *TAURON Group Strategy 2022-2030 with an outlook until 2050* (the "Strategy") was adopted by the Management Board of the Company. The strategy responds to the challenges resulting from the current and projected situation in the market and the electricity sector, in particular related to the transformation of the power industry and new solutions supporting this transformation. One of the three priorities underlying the Group Strategy is sustainable operations, assuming the transition of the Group towards climate neutrality and reducing emissions and achieving climate neutrality by 2050. The Group's efforts are focused on increasing installed capacity in renewable energy, including the involvement in offshore wind energy development as well as maintaining capacity volumes and improving hydroelectric power efficiency and withdrawal from coal-fired power generation and activities related to hard coal mining and transforming district heating towards low- and zero-emission sources.

As part of its efforts to achieve its strategic objectives in the scope of climate protection and mitigate the risks arising from current and expected changes in the regulatory environment due to climate change, the Group:

- completed a transaction leading to the withdrawal from coal mining operations. On 31 December 2022, TAURON Polska Energia S.A. sold 100% of shares in TAURON Wydobycie S.A. to the State Treasury, which is described in more detail in Note 3 of these consolidated financial statements. As a result of the transaction, the Group will not conduct any coal mining operations starting from 1 January 2023;
- conducts actions with the aim to wind down its coal-fired electricity generation activities. In particular, during the year ended 31 December 2022, work was carried out by the Group in connection with the implementation of the governmental programme to separate coal assets from TAURON Group (NABE Programme). The aforementioned events are described more comprehensively in Note 63 of these consolidated financial statements;
- implements, in the framework of the TAURON Green Turn announced in 2019 and the strategy adopted in 2022, investment projects aimed at the sustainable transformation of the Group towards climate neutrality. In particular, in the year ended 31 December 2022, the Group commissioned the Piotrków and Majewo wind farms with the total capacity of 36 MW and the Choszczno II photovoltaic farm with the capacity of 8 MW. The subsidiary, TAURON Inwestycje Sp. z o.o. is building the Mysłowice-Dziećkowice photovoltaic farm with the target total capacity of 97 MW. The commissioning of the investment is scheduled in the second half of 2023. In addition, in 2022, the subsidiary, TAURON Zielona Energia Sp. z o.o. performed the acquisitions of the following companies: "Megawatt S.C." Sp. z o.o., Wind T4 Sp. z o.o. Windpower Gamów Sp. z o.o. and Wind T30MW Sp. z o.o., under which investment projects will be implemented in the form of construction of wind farms with the total capacity of 141.1 MW, and took control of FF Park PV 1 Sp. z o.o., under which a project for the construction of a 45.6 MW photovoltaic farm is planned. The expected commissioning date for the above investment projects is scheduled in the years 2024-2025;

- monitors on an ongoing basis changes in the area of legal regulations related to the protection of climate and environment, both at the European and at the national level, as well as changes in the economic, macroeconomic or market environment. The Group considers the planned regulatory changes under the Fit for 55 package (including, inter alia, the tightening of the EU ETS, the introduction of a CO2 border price adjustment mechanism, the so-called CBAM, and the implementation of requirements to increase the share of electricity generated from RES) and the entry into force of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investments, amending Regulation (EU) 2019/2088, the so-called "Taxonomy" (introducing the criteria for the qualification of investments as environmentally sustainable and granting additional preferences to environmentally sustainable solutions, as well as imposing additional obligations on companies to make disclosures on the achievement of environmental targets) to be particularly relevant for its operations;
- took into account, as part of the assumptions underlying the estimation of future cash flows in the impairment tests conducted, current as well as planned regulatory changes aimed at achieving the climate targets set by the European Union (including, as part of the planned changes, in particular, the "REPowerEU" package, EU ETS market reform and the Scarcity Pricing mechanism). The assumptions adopted for impairment testing, including those relating to climate issues, are described in detail in note 14 of these consolidated financial statements;
- has obtained financing on the domestic and foreign markets with the total carrying value of PLN 4 750 million, the terms of which indicate the allocation of funds for, among others, investment projects in the area of renewable energy sources and the reporting of certain ESC indicators, confirmed by an independent auditor and exclude the possibility of allocating funds raised under these instruments to the financing of projects related to coal assets;
- reviewed the assumed economic useful lives and residual values of non-financial fixed assets. In particular, the economic useful lives of the Group's coal-fired generation assets, covered by the NABE program, do not exceed the prospect of the Group's climate-neutral moment included in the Strategy, i.e. 2050, with the exception of the 910 MW unit in Jaworzno, in relation to which a longer economic useful life (until 2060) is justified by the need to ensure the security of the power system. The assumed economic useful lives by individual generation assets are detailed in Note 14 of these consolidated financial statements;
- recognised provisions on the basis of the Group's existing legislation, which imposes requirements on companies to implement climate protection-oriented measures, in particular provisions for liabilities for energy and CO_2 certificates of origin and provisions for the costs of rehabilitation and dismantling and decommissioning of fixed assets. The aforementioned provision is presented in Notes 43 and 44 hereto.

12. Significant amendments to legal regulations

In the fourth quarter of 2022, regulations to cap electricity prices and protect electricity consumers from price increases came into force. These regulations significantly affect the TAURON Group's operations in 2022 and in subsequent financial years. The main assumptions and effects of the implemented legislation on the consolidated financial statements are presented in the table below.

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

<table>
<tr><th>Act of law</th><th>Main assumptions</th><th>Recognition of the effects in the consolidated financial statements the year ended 31 December 2022</th><th>Note</th></tr>
<tr><td rowspan="2">Act of 7 October 2022 on special solutions for the protection of electricity consumers in 2023 (the “Consumer Protection Act”)</td><td>Freezing of the electricity price in 2023 at a level of 2022 for households up to level of consumption specified in the Consumer Protection Act.</td><td>Adjustments of revenue from contracts with customers

Pursuant to the Act on the Extraordinary Measures, companies in the Sales segment reduced the revenue from energy sales for the period from 24 February 2022 to 31 December 2022 resulting from the need to apply the maximum prices set out in the Act to certain groups of customers, in the total amount of PLN 655 million.</td><td>-</td></tr>
<tr><td>Establishment of compensation for electricity undertakings due to the application of frozen electricity prices in 2023 in the amount of the product of the electricity covered by the frozen prices and the difference between the energy price resulting from the electricity tariff approved by the President of the ERO for 2023 and the frozen electricity prices.</td><td>Revenue due to compensations

In view of the companies' right under the Act on the Extraordinary Measures to apply to the Settlement Administrator [Zarządca Rozliczeń S.A.] for compensation payments, the companies in the Sales segment recognized estimated compensations for electricity supply in the period until 31 December 2022 in the amount of PLN 465 million. In accordance with the provisions of the Act on the Extraordinary Measures, the applications for payment of the above compensations will be submitted after the balance sheet date from January 2023 to January 2024. The above amounts of the proceeds due are presented in the consolidated statement of financial position under Other financial assets. The Group asses, that inflow of receivable compensation will occur mainly in 2023.</td><td>16,

32</td></tr>
<tr><td rowspan="3">The Act of 27 October 2022 on extraordinary measures to limit the level of electricity prices and support certain consumers in 2023 (the “Act on Extraordinary Measures”)</td><td rowspan="3">Introduction of a fixed price for electricity trading, the so-called “maximum price”, at a defined level of PLN 785/MWh for local government units, small and medium-sized enterprises and public utilities (or PLN 693/MWh for household customers) applicable until 31 December 2023.

Establishment of a system of compensations (calculated depending on the type of customer and the time of conclusion of the agreement) payable on a monthly basis, the payment of which will be the responsibility of the Settlement Administrator [Zarządca Rozliczeń S.A.].

The imposition of an obligation on electricity generators (both in the area of conventional generation and renewable energy sources) and trading companies to transfer contributions to the Price Difference Payment Fund (the “Fund”), for the purpose of paying the compensation established by the Act on Extraordinary Measures, where the above-mentioned entities obtain from the sale of electricity prices exceeding the price limits calculated in accordance with the provisions of the regulation to the aforementioned Act.

Establish a maximum aggregate spending limit from the Fund and a limit for each year covered by the Act.</td><td>Advance payments for compensations

In the year ended 31 December 2022, on the basis of the provisions of the Customer Protection Act and the Act on the Extraordinary Measures, the companies in the Sales segment applied for advance payments within electricity trading compensation for the total amount of PLN 981 million, of which by the balance sheet date the companies had received the total of PLN 337 million and the amount of PLN 644 million was received by the companies in January 2023. Advance payments for compensations received in 2022 are presented in the item Accruals, deferred income and government grants in the consolidated statement of financial position. Advance payments received by companies of the Sales segment up to the balance sheet date will be settled in the period up to July 2023. After the balance sheet date, on Januray 2023, further applications for advance payments for compensations totalling PLN 1 003 million were submitted by the companies in the Sales segment in January 2023 and February 2023.</td><td>46.1</td></tr>
<tr><td>Costs of contributions to the Price Difference Payment Fund

Based on the obligation imposed by the Act on Extraordinary Measures with regard to the transfer of funds to the Price Difference Payment Fund (the “Fund”), companies of the Group recognized estimated costs of contributions to the Fund in the year ended 31 December 2022 in the total amount of PLN 21 million (of which within the segments: RES - PLN 14 million, Sales - PLN 5 million, Generation - PLN 2 million). The estimate is included in the consolidated statement of comprehensive income within tax and fee expenses in the Group's operations and within other non-financial liabilities in the consolidated statement of financial position. In addition, the Company estimates, after taking into account a scenario analysis of market conditions and operational and technical conditions, that the total write-downs to the Fund in 2023 of the Group companies in the RES, Sales and Generation segments should be contained in the range from PLN 1 billion to PLN 1.3 billion.</td><td>53</td></tr>
<tr><td>Provisions for onerous contracts

Based on its analysis, the Group did not find necessary to recognize a provision for onerous contracts due to the enactment of the Customer Protection Act and the Act on the Extraordinary Measures</td><td>45</td></tr>
</table>

BUSINESS SEGMENTS

13. Information on operating segments

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

The organization and management of the Group is carried out on a segment basis, taking into account the type of products and services offered. Each segment constitutes a strategic business entity offering different products and operating on different markets.

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

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

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

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

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

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

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

Operating segments	Core business	Subsidiaries/ Companies accounted for using the equity method
Generation  	*Electricity generation in conventional sources, including cogeneration.* *Production, distribution and sales of heat*	TAURON Wytwarzanie S.A. TAURON Ciepło Sp. z o.o. TAURON Serwis Sp. z o.o. Łagisza Grupa TAURON Sp. z o.o. Energetyka Cieszyńska Sp. z o.o. TAURON Inwestycje Sp. z o.o. [1] TAMEH HOLDING Sp. z o.o.[2] TAMEH POLSKA Sp. z o.o.[2] TAMEH Czech s.r.o.[2] Elektrociepłownia Stalowa Wola S.A.[2]
Renewable Energy Sources 	*Generation of electricity in renewable sources*	TAURON Ekoenergia sp. z o.o. TEC1 Sp. z o.o. TAURON Zielona Energia Sp. z o.o. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k. WIND T1 Sp. z o.o. AVAL-1 Sp. z o.o. Polpower Sp. z o.o. „MEGAWATT S.C." Sp. z o.o. WIND T4 Sp. z o.o. WIND T340MW Sp. z o.o. FF Park PV 1 Sp. z o.o. Windpower Gamów Sp. z o.o. TAURON Inwestycje Sp. z o.o. [1]
Distribution 	*Distribution of electricity*	TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiary sp. z o.o.
Sales 	*Wholesale of electricity as well as trading in CO2 emission rights and property rights of energy origin and sales of electricity to domestic end consumers or entities re-selling electricity*	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o. TAURON Nowe Technologie S.A.

[1] In the Generation segment, TAURON Inwestycje Sp. z o.o. classifies the activities related to the implementation of investment and research and development projects and generation of energy from sources other than renewable sources, while the activities related to the generation of energy from photovoltaic sources are classified in the Renewable energy sources segment.
[2] Companies accounted for using the equity method.

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

In connection with the disposal of 100% of shares in TAURON Wydobycie S.A., which is described in more detail in Note 3 of these consolidated financial statements, the operations of the above company, previously classified within the Mining operating segment, were classified as discontinued operations of the Group.

(in PLN million)

13.1. Operating segments

Year ended 31 December 2022

	Operating segments				Other	Unallocated items / Eliminations	Total, continuing operations	Discontinued operations		Total, continuing and discontinued operations
	Generation	Renewable Energy Sources	Distribution	Sales				Mining	Unallocated items / Eliminations	
Revenue										
Sales to external customers	5 586	166	3 667	26 260	275	–	**35 954**	1 387	–	**37 341**
Inter-segment sales	5 530	743	3 915	8 960	1 106	(20 254)	**–**	–	–	**–**
Sales to from discontinued operations	10	–	29	271	47	–	**357**	1 293	(1 650)	**–**
Total segment revenue	**11 126**	**909**	**7 611**	**35 491**	**1 428**	**(20 254)**	36 311	**2 680**	**(1 650)**	37 341
Recompensation revenue	**2**	**–**	**–**	**482**	**–**	**–**	**484**	**–**	**–**	**484**
Profit/(loss) of the segment	**(1 435)**	**292**	**1 679**	**550**	**163**	**(201)**	**1 048**	**490**	**(440)**	**1 098**
Share in profit/(loss) of joint ventures	128	–	–	–	–	**–**	**128**	–	–	**128**
Unallocated expenses	–	–	–	–	–	(107)	**(107)**	–	–	**(107)**
EBIT	**(1 307)**	**292**	**1 679**	**550**	**163**	**(308)**	**1 069**	**490**	**(440)**	**1 119**
Finance income (costs)	–	–	–	–	–	(959)	**(959)**	–	(27)	**(986)**
Profit/(loss) before income tax	**(1 307)**	**292**	**1 679**	**550**	**163**	**(1 267)**	**110**	**490**	**(467)**	**133**
Income tax expense	–	–	–	–	–	(319)	**(319)**	**–**	52	**(267)**
Net profit/(loss) for the period	**(1 307)**	**292**	**1 679**	**550**	**163**	**(1 586)**	**(209)**	**490**	**(415)**	**(134)**
Assets and liabilities										
Segment assets	9 475	2 910	22 174	6 701	1 156	–	**42 416**	–	–	**42 416**
Investments in joint ventures	682	–	–	–	–	–	**682**	–	–	**682**
Unallocated assets	–	–	–	–	–	2 222	**2 222**	–	–	**2 222**
Total assets	**10 157**	**2 910**	**22 174**	**6 701**	**1 156**	**2 222**	**45 320**	**–**	**–**	**45 320**
Segment liabilities	4 621	204	2 170	2 868	682	–	**10 545**	–	–	**10 545**
Unallocated liabilities	–	–	–	–	–	18 161	**18 161**	–	–	**18 161**
Total liabilities	**4 621**	**204**	**2 170**	**2 868**	**682**	**18 161**	**28 706**	**–**	**–**	**28 706**
EBIT	**(1 307)**	**292**	**1 679**	**550**	**163**	**(308)**	**1 069**	**490**	**(440)**	**1 119**
Depreciation/amortization	**(446)**	**(182)**	**(1 257)**	**(46)**	**(134)**	**5**	**(2 060)**	**(156)**	**–**	**(2 216)**
Impairment	**(82)**	**(2)**	**(3)**	**2**	**(1)**	**–**	**(86)**	**(135)**	**(460)**	**(681)**
EBITDA	**(779)**	**476**	**2 939**	**594**	**298**	**(313)**	**3 215**	**781**	**20**	**4 016**
Other segment information										
Capital expenditure *	383	459	2 137	75	391	–	**3 445**	517	–	**3 962**

** Capital expenditure includes expenditure on property, plant and equipment, intangible assets and rights to use assets excluding the acquisition of CO_2 emission rights and property rights of energy origin.*

Year ended 31 December 2021 *(restated figures)*

	Operating segments				Other	Unallocated items / Eliminations	Total, continuing operations	Discontinued operations		Total, continuing and discontinued operations
	Generation	Renewable Energy Sources	Distribution	Sales				Mining	Unallocated items / Eliminations	
Revenue										
Sales to external customers	3 504	159	3 446	17 639	177	–	**24 925**	689	–	**25 614**
Inter-segment sales	6 305	502	3 616	6 345	958	(17 726)	**–**	–	–	**–**
Sales to from discontinued operations	10	–	37	150	42	–	**239**	778	(1 017)	**–**
Total segment revenue	**9 819**	**661**	**7 099**	**24 134**	**1 177**	**(17 726)**	25 164	**1 467**	**(1 017)**	25 614
Recompensation revenue	**–**	**–**	**–**	**(9)**	**–**	**–**	**(9)**	**–**	**–**	**(9)**
Profit/(loss) of the segment	**(57)**	**224**	**1 767**	**(564)**	**92**	**(43)**	**1 419**	**(458)**	**14**	**975**
Share in profit/(loss) of joint ventures	32	–	–	-	–	–	**32**	–	–	**32**
Unallocated expenses	–	–	–	-	–	(91)	**(91)**	–	–	**(91)**
EBIT	**(25)**	**224**	**1 767**	**(564)**	**92**	**(134)**	**1 360**	**(458)**	**14**	**916**
Finance income (costs)	–	–	–	-	–	(235)	**(235)**	–	(6)	**(241)**
Profit/(loss) before income tax	**(25)**	**224**	**1 767**	**(564)**	**92**	**(369)**	**1 125**	**(458)**	**8**	**675**
Income tax expense	–	–	–	-	–	(293)	**(293)**	–	3	**(290)**
Net profit/(loss) for the period	**(25)**	**224**	**1 767**	**(564)**	**92**	**(662)**	**832**	**(458)**	**11**	**385**
Assets and liabilities										
Segment assets	8 252	2 470	21 117	4 508	891	–	**37 238**	899	–	**38 137**
Investments in joint ventures	597	–	–	-	–	–	**597**	–	–	**597**
Unallocated assets	–	–	–	-	–	1 281	**1 281**	–	60	**1 341**
Total assets	**8 849**	**2 470**	**21 117**	**4 508**	**891**	**1 281**	**39 116**	**899**	**60**	**40 075**
Segment liabilities	2 713	195	2 038	2 015	591	–	**7 552**	857	–	**8 409**
Unallocated liabilities	–	–	–	-	–	15 046	**15 046**	–	96	**15 142**
Total liabilities	**2 713**	**195**	**2 038**	**2 015**	**591**	**15 046**	**22 598**	**857**	**96**	**23 551**
EBIT	**(25)**	**224**	**1 767**	**(564)**	**92**	**(134)**	**1 360**	**(458)**	**14**	**916**
Depreciation/amortization	**(453)**	**(151)**	**(1 203)**	**(41)**	**(110)**	**–**	**(1 958)**	**(143)**	**–**	**(2 101)**
Impairment	**(947)**	**(1)**	**3**	**1**	**(6)**	**–**	**(950)**	**(185)**	**–**	**(1 135)**
EBITDA	**1 375**	**376**	**2 967**	**(524)**	**208**	**(134)**	**4 268**	**(130)**	**14**	**4 152**
Other segment information										
Capital expenditure *	240	90	2 044	82	200	–	**2 656**	276	–	**2 932**

** Capital expenditure includes expenditure on property, plant and equipment, intangible assets and rights to use assets excluding the acquisition of CO_2 emission rights and property rights of energy origin..*

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In the year ended 31 December 2022, revenues from exchange sales earned in the Sales and Generation segment by Izba Rozliczeniowa Giełd Towarowych S.A., accounted for 16% of the Group's total revenues from continuing operations and amounted to PLN 5 958 million. In the comparable period, this revenue, earned in the Sales segment, accounted for 11% of the Group's total revenue from continuing operations and amounted to PLN 2 798 million.

13.2. Geographical areas of operations

The activity of the Group is mostly carried out in the territory of Poland. Sales revenue from foreign entities is presented in the table below.

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Sales revenue from continuing operations from foreign entities, including:	**1 801**	**816**
Czech Republic	1 213	376
Germany	509	169
Belgium	68	–
Great Britain	11	271
Sales revenue from discontinued operations from foreign entities, including:	**75**	**43**
Czech Republic	73	40
Other countries	2	3
Total	**1 876**	**859**

Sales revenue from continuing operations from foreign entities in the year ended 31 December 2022 mainly related to the sales of electricity and sales of CO_2 emission allowances which accounted for 67% and 33%, respectively of revenue from operations continued to foreign entities. Sales to foreign entities in the year ended 31 December 2021 mainly related to the sales of electricity, and the restructuring of the portfolio of CO_2 emission allowances which accounted for 46% and 37% of revenues from continuing operations to foreign entities, respectively.

IMPAIRMENT OF NON-FINANCIAL ASSETS

14. Impairment in value of non-financial assets

SELECTED ACCOUNTING PRINCIPLES

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

Within the impairment tests the Group estimates the recoverable amount of an asset or the cash-generating unit ("CGU") to which the specific asset belongs. In order to conduct an impairment test, goodwill acquired under a business combination or acquisition of entities is assigned to individual cash-generating unit groups upon recognition. Information concerning identification of the CGU to which goodwill is allocated is presented in Note 26.

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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

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

(in PLN million)

In the year ended 31 December 2022, the Group recognized as part of the result on continuing operations impairment losses related to non-financial fixed assets as a result of impairment tests of assets performed as at 31 December 2022.

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

The impairment loss recognized as a result of the tests performed in the year ended 31 December 2022 is related to the following cash generating units:

CGU	Company	Discount rate (after tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized
		31 December 2022	31 December 2021	As at 31 December 2022	Year ended 31 December 2022
CGU Generation-Coal	TAURON Wytwarzanie S.A.	12.24%	8.96%	5 762	–
CGU Generation-Biomass				(161)	(35)
CGU ZW Katowice	TAURON Ciepło Sp. z o.o.	12.24%	8.96%	645	–
CGU ZW Bielsko-Biała				210	–
CGU ZW Tychy				382	–
CGU ZW Local Heating Plant Area				(3)	(16)
CGU Transmission		8.60%	6.89%	869	–
CGU ECI Generation	Energetyka Cieszyńska Sp. z o.o.	12.24%	n.a.	(12)	(24)
CGU ECI Transmission		8.60%	n.a.	27	–
Total					**(75)**

The need to write down the assets of the CGU Generation-Biomass results from the inability to generate positive cash flows in the long term. The increase in the price of biomass as a result of reduction in the supply of fossil fuel on the market has resulted in a decrease in market margins in the medium to long term.

On the other hand, the write-down of the assets of the CGU ZW Area of Local Heat Plants, the CGU ECI Generation and the goodwill of Energetyka Cieszyńska Sp. z o.o. results from the lower return on capital in the heat tariff calculated using the justified costs method in accordance with the Regulation of the Minister of Climate and Environment *on detailed rules for shaping and calculating tariffs and settlements on account of heat supply* in relation to the cost of capital assumed in the discount rate.

As at 31 December 2022, impairment tests were performed on property, plant and equipment ad goodwill, taking into account the following indications:

- the Group's capitalisation remaining below the net asset carrying amount in the long term;
- significant price increases in global energy commodities, electricity and the price of CO_2emission 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 due to the introduction of an embargo on the carriage 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 from 28 October 2022 of a mechanism for limiting offers in 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 electricity 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 rising inflation levels;
- a 4.12% increase in the risk-free rate compared to the tests carried out as at 31 December 2021.

(in PLN million)

The tests conducted as at 31 December 2022 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

Within the Generation segment, the Group has identified the following cash-generating units ("CGUs"):

- TAURON Wytwarzanie S.A., where the business of generating electricity from conventional sources (hard coal) was separated as a cash-generating centre: CGU Generation-Coal. Within other areas of activity of TAURON Wytwarzanie S.A., the following cash generating unit was identified: CGU Generation-Biomass. The key premises justifying the inclusion of coal-fired generating units within CGU Generation-Coal included: the publication of provisions regarding the new Capacity Market mechanism in 2018, launching a new product - the capacity obligation; the strategy of joining the Capacity Market consisting in the portfolio approach, where maximising the total revenue from the Capacity Market is significant, as well as capacity allocation to suppliers, determining the level of capacity constituting reserve sources for the remaining capacity contracted at the capacity market and high dependence of cash proceeds among generators;
- TAURON Ciepło Sp. z o.o., where the heat transmission and distribution business of CGU Transmission was separated. In addition, within the heat and electricity generation business, tests were carried out for individual generation plants: CGU ZW Katowice, CGU ZW Tychy, CGU ZW Bielsko-Biała EC1, CGU ZW Bielsko-Biała EC2, CGU ZW Area of District Heating Plants;
- Two CGUs were separated in Energetyka Cieszyńska Sp. z o.o. as part of its heat generation and transmission business: CGU ECI Generation and CGU ECI Transmission;

The impairment tests for the CGUs indicated above were carried out on the basis of estimated cash flows covering the entire period of their operation, except for the CGU Transmission and CGU ECI Transmission, for which the tests were carried out based on the current value of the estimated cash flows from the CGU operations based on detailed projections up till 2032, as well as an estimated residual value.

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

- operation of generation units within the CGU Generation-Coal was assumed until 2060, including: four units in Jaworzno III Branch until 2025, units in Łaziska and Siersza Branches until 2025, a biomass unit in Jaworzno II Branch until 2027, two units in Jaworzno III Branch until 2028, two units in Jaworzno II Branch until 2030, a unit in Łagisza Branch until 2035, a unit in Nowe Jaworzno Branch until 2060;
- the operation of TAURON Ciepło Sp. z o.o. and Energetyka Cieszyńska Sp. z o.o. generation units was assumed until 2049.

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 decreasing coal demand and supply, which will be caused by decreasing electricity generation from conventional sources and the need to take into account global trends in domestic coal price paths (coal mine closures are assumed in accordance with the social agreement defining the timing of mine closures).

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Category	Description
Electricity	During the calculation of the price paths, different scenarios were analysed in terms of commodities price prediction and the power balance of the National Power System ("KSE"). 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 current 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, from 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 predicted balancing situation in the KSE, forecasts of fuel prices and the costs of purchasing CO_2 emission allowances. No significant impact on electricity demand has been assumed due to global warming and the average increase in demand has been assumed taking into account projected economic development rates. 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 resulting from historical values. Electricity price regulations have been adopted on the basis of the Act of 27 October 2022 *on extraordinary measures to limit the level of electricity prices and support certain consumers in 2023* and the Regulation of the Council of Ministers of 8 November 2022 *on the manner of calculating the price cap*. The regulations had a negative impact on the cash flow estimates in 2023 for the Generation segment and the Renewables segment. For the Sales segment, the above regulations had a neutral impact due to the assumed compensation.
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 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. EUR 100/Mg (approx. EUR 140/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 system, for green energy, limited support periods were included, in line with the provisions of the RES Act defining new mechanisms for granting the support for electricity generated from this type of sources. The support period was limited to 15 years counted from the moment of first injection to the grid of electricity eligible to receive the energy origin certificate.
Natural gas	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 CGUs has been adopted in the range of 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.

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Category	Description
Remuneration	An increase in wages was assumed, based on signed wage agreements with the social side and an increase in the minimum wage with effect for the following 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. The WACC adopted for the calculation of regulated income in 2023 is 8.478% (gross), in the 2024-2032 period and in the residual period 7.478% (gross). The growth rate used to extrapolate cash flow projections beyond the detailed planning period was assumed at 2.5% and corresponds to the assumed long-term inflation rate.
910 MW Unit Nowe Jaworzno	The CGU tests assumed the most likely operating scenario for the 910 MW unit in the Nowe Jaworzno Branch. In 2023, the unit is assumed to operate at a lower net capacity of 650 MW due to ongoing PSE testing. 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 PSE 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. 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 CGU Generation - Coal	The projected working capital in the CGU Generation-Coal 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 of the CGU Generation-Coal 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.

In addition to tangible fixed assets, the CGUs tested comprised intangible assets and rights to use assets.

Sensitivity analysis

The sensitivity analysis as at 31 December 2022 to changes in the most significant assumptions is presented for the cash-generating units for which write-downs had been recognized as at 31 December 2022, i.e. the CGU Generation-Biomass, the CGU District Heating Area, and the CGU Energetyka Cieszyńska - Generation. The negative direction of changes in the assumptions used for the sensitivity analysis does not affect the increase in the write-down, due to the fact that the tangible fixed assets assigned to the indicated CGUs had been written down to zero.

Parameter	Change in	Decrease in net write-down
Change in heat prices over the forecast period	+5% -5%	33 -
Change in prices of CO_2 emission allowances over the forecast period	+5% -5%	- 9
Change in coal prices over the forecast period	+5% -5%	- 4

Impairment of the carrying amount of goodwill

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

An impairment of goodwill in Energetyka Cieszyńska Sp. z o.o. in the amount of PLN 18 million was identified as part of the test performed as at 31 December 2022.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

15. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

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

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

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

The revenue comprises only the inflows of economic benefits received or receivable to the entity's own account. Amounts obtained on behalf of third parties, with the Group acting as an agent, such as taxes on sales or VAT do not constitute economic benefits of the Company and do not result in equity increases. Therefore, these amounts are not recognised in revenue. Where the Company acts as an agent, the amount recognised as revenue is the commission payable to it and does not include amounts received on behalf of the principal. Examples of this type of revenue include:

- the transitional fee, the RES fee, the capacity charge and the cogeneration fee collected from the end user of electricity and transferred to the System Operator;
- revenue from maintenance services under contracts for the sales of products and services combined with additional services.

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

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

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

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

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

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

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

Type of revaluation	Description
Revenues on sales of electricity	
Revaluation for customers not invoiced at a given balance sheet date	Metering and billing system readings of the volume of retail electricity sold and its invoicing are largely carried out in periods other than the reporting periods. Accordingly, the Group companies belonging to the Sales segment make appropriate estimates of sales of electricity and distribution services as at the balance sheet date. For customers with comprehensive agreements and sales contracts, the revaluation is calculated in the billing systems based on the average 24-hour electricity consumption between the last actual reading and the balance sheet date.
Estimation for customers billed using forecast payments	As at each balance sheet date, a revaluation is performed, comprising customers with 6-month or 12-month billing periods, using forecast payments in the periods between readings of the metering and billing systems. The revaluation of electricity sales and distribution services is determined on the basis of sales data obtained from the billing system and the revaluation factor. The revaluation factor is based on the number of days from the reading date for billing invoices or the payment date for forecast invoices to the last day of the calendar month relative to the actual number of days in the calendar month.
Revenue revaluation for customers for whom sales are performed at balancing market prices	The revaluation covers customers for whom, in accordance with the concluded contracts, electricity is sold at prices in the balancing market. As at each balance sheet date, for those customers for whom the revaluation of non-invoiced sales of electricity has been calculated in the billing system, the revaluation is determined, which is the difference between the prices accepted for calculating the revaluation and the prices that will be accepted for invoicing the sales.
The revaluation resulting from the reconciliation of the energy balance	As at each balance sheet date, the Group companies in the Sales segment reconcile the electricity balance, determining the estimated imbalance volume on the purchase or sales side. As part of such revaluation, an amount is recognised that increases or decreases revenues from the sale of electricity, determined as a product of the estimated imbalance volume and the weighted average purchase price of electricity on the balancing market.
Revenues from the sale of gas fuel	
Revaluation for customers not invoiced at a given balance sheet date	Metering and billing system readings related to the volume of retail gas fuel sold and its invoicing are largely performed in periods other than the reporting periods. Accordingly, the Group companies belonging to the Sales segment make appropriate estimates of sales of gas fuel and distribution services as at the balance sheet date. The revaluation of gas fuel sales is calculated in the billing systems based on the average 24-hour electricity consumption between the last actual reading and the balance sheet date. The sales revaluation for distribution services is determined as a difference between the cost of purchasing gas distribution services and the invoiced revenue from the sale of distribution services.
The revaluation resulting from the reconciliation of gas balance	As at each balance sheet date, the Group companies in the Sales segment reconcile the gas fuel balance, determining the estimated imbalance volume on the purchase or sales side. As part of this revaluation, an amount is recognised which increases or decreases revenues from the sale of gas fuel, determined as a product of the estimated imbalance volume and the average monthly balancing settlement price for high-methane gas published by the Gas Transmission Operator, GAZ-SYSTEM S.A.

Revenue on sales of electricity distribution services in the Distribution Segment

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

Revenue on wholesale of electricity in the Generation segment

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

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

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Wholesale sales of electricity from non-centrally dispatched generating units (generating units under 100 MW cleared on the local market) follow similar rules. For non-centrally dispatched units (nCDGU), the entity responsible for balancing and settlement until December 14, 2022 was the Distribution System Operator (DSO). As of 15 December 2022, in accordance with the electricity distribution services agreement, TAURON Wytwarzanie S.A. took over responsibility for the commercial balancing of non-centrally dispatched units from the DSO's area. From that moment, wholesale sales of electricity from non-centrally dispatched units are carried out on the same basis as centrally dispatched generation units (CDGUs). Settlement and invoicing is based on reports generated by the TSO.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

As at 31 December 2022, additionally assessed revenue from sales of electricity and distribution services in the Sales segment amounted to PLN 824 million and, whereas when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2022 amounted to PLN (135) million.

As at 31 December 2022, the additional assessment of revenue from sales of gas fuel and distribution services in the Sales segment amounted to PLN 72 million and, whereas when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2022 amounted to PLN (28) million.

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Sale of goods for resale, finished goods and materials without elimination of excise	**28 280**	**17 139**
Excise	(49)	(109)
Sale of goods for resale, finished goods and materials	**28 231**	**17 030**
Electricity	25 134	15 026
Heat energy	860	763
Gas	1 092	576
CO_2 emission allowances	635	204
Energy certificates and similar	258	245
Other goods for resale, finished goods and materials	252	216
Rendering of services	**8 013**	**7 761**
Distribution and trade services	6 933	6 709
Capacity Market	646	652
Maintenance of road lighting	130	123
Connection fees	111	83
Other services	193	194
Other revenue	**67**	**69**
Total revenue from contracts with customers	**36 311**	**24 860**
Restructuration in the portfolio of CO_2 emission allowances	–	304
Total sales revenue	**36 311**	**25 164**

In the year ended 31 December 2022, a significant increase of sales revenues was recorded in relation to the comparative period, while the main changes concerned sales revenues of the following finished products, goods and services:

- Electricity - increase mainly as a result of obtaining higher prices as a consequence of the upward market trend and price increases in tariffs approved by the President of the ERO and price lists approved by the management boards of the companies in the Sales segment. The main reason for the market rise in energy prices was the increase in energy commodity prices caused by the disruption of supply chains as a result of Russian aggression against Ukraine;
- Gas - the increase is mainly driven by a significant rise in prices due to the observed growth in the domestic and global markets;
- CO_2 emission allowances - the increase results from the recognition of the effects of measures aimed at managing surplus CO_2 emission allowances arising from the delayed commissioning of the 910 MW unit in Jaworzno and the subsequent failure of the unit.

  In connection with the failure of the 910 MW unit at Jaworzno continuing from mid-2021 until 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 delivery date of allowances and the cash expenditure, in the first quarter of 2022, the Group 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. The revenue from contracts with customers on account of sales of the aforementioned allowances amounted to PLN 604 million while the result of the Group on the transaction amounted to PLN 405 million. At the same time, the repurchase of the volume in the EUA MAR'23 forward product at prices higher than the average price of resold allowances will increase the cost of the Group's provision created for CO_2 emission liabilities for 2022. As a result of the foregoing, the Group estimates that the cumulative impact of the measures described on its operating profit is not significant. 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 Group's judgement, the transaction is subject to exemption from the scope of IFRS 9 *Financial Instruments* and does not have an impact on the classification of other contracts for the purchase of CO2 emission allowances for redemption purposes.

(in PLN million)

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 Group 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.

As part of the restructuring of the portfolio of CO_2 emission allowances, in the comparable period, 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 roll-over was performed by concluding new contracts with the delivery dates in March 2022, 2023 and 2024. The Group recognised the result from the settlement of instruments in accordance with IFRS 9 *Financial Instruments*, thereby increasing sales revenue and the operating result in the amount of PLN 304 million.

Revenues from the sale of continuing operations by operating segment are shown in the tables below.

Year ended 31 December 2022

	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**4 858**	**158**	**3**	**22 969**	**243**	**28 231**
Electricity	3 920	1	–	21 131	82	**25 134**
Heat energy	860	–	–	–	–	**860**
Gas	–	–	–	1 092	–	**1 092**
CO2 emission allowances	–	–	–	635	–	**635**
Energy certificates and similar	77	157	–	13	11	**258**
Other goods for resale, finished goods and materials	1	–	3	98	150	**252**
Rendering of services	**724**	**8**	**3 657**	**3 557**	**67**	**8 013**
Distribution and trade services	258	–	3 474	3 201	–	**6 933**
Capacity Market	446	6	–	194	–	**646**
Maintenance of road lighting	–	–	–	130	–	**130**
Connection fees	–	–	111	–	–	**111**
Other services	20	2	72	32	67	**193**
Other revenue	**14**	**–**	**36**	**5**	**12**	**67**
Total revenues from contracts with customers	**5 596**	**166**	**3 696**	**26 531**	**322**	**36 311**
Total sales revenue	**5 596**	**166**	**3 696**	**26 531**	**322**	**36 311**

Year ended 31 December 2021 *(restated data)*

	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**2 495**	**152**	**2**	**14 229**	**152**	**17 030**
Electricity	1 644	1	–	13 351	30	**15 026**
Heat energy	763	–	–	–	–	**763**
Gas	–	–	–	576	–	**576**
CO2 emission allowances	–	–	–	204	–	**204**
Energy certificates and similar	83	151	–	1	10	**245**
Other goods for resale, finished goods and materials	5	–	2	97	112	**216**
Rendering of services	**701**	**6**	**3 443**	**3 556**	**55**	**7 761**
Distribution and trade services	241	–	3 270	3 198	–	**6 709**
Capacity Market	442	5	–	205	–	**652**
Maintenance of road lighting	–	–	–	123	–	**123**
Connection fees	–	–	83	–	–	**83**
Other services	18	1	90	30	55	**194**
Other revenue	**14**	**1**	**38**	**4**	**12**	**69**
Total revenues from contracts with customers	**3 210**	**159**	**3 483**	**17 789**	**219**	**24 860**
Restructuration in the portfolio of CO2 emission	**304**	**–**	**–**	**–**	**–**	**304**
Total sales revenue	**3 514**	**159**	**3 483**	**17 789**	**219**	**25 164**

(in PLN million)

Revenues from the sale of electricity by customer groups are presented in the following table.

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Revenue from sales of electricity	**25 134**	**15 026**
Retail sale	**14 733**	**9 442**
Strategic clients	2 237	1 179
Business clients	7 062	4 399
Mass clients - Group G	3 646	2 971
Mass clients - SME	1 520	912
Other	317	90
Excise duty	(49)	(109)
Wholesale	**9 738**	**4 941**
Other	**663**	**643**

16. Recompensation revenue

	Year ended 31 December 2022	Year ended 31 December 2021
Recompensation electricity	465	(9)
Recompensation gas	17	–
Recompensation heat energy	2	–
Total	**484**	**(9)**

The electricity recompensation applies to the companies in the Sales segment and result from the *Act of 27 October 2022 on extraordinary measures to limit the level of electricity prices and support certain consumers in 2023* described in more detail in Note 12 of these consolidated financial statements.

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

SELECTED ACCOUNTING PRINCIPLES

The Group presents costs by function.

Costs by function include:

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

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

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

(in PLN million)

17.1. Costs by type

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Depreciation and amortization	(2 060)	(1 958)
Impairment of non-financial assets	(79)	(944)
Materials and energy	(4 636)	(2 251)
Maitenance and repair services	(239)	(209)
Distribution services	(1 527)	(1 504)
Other external services	(686)	(593)
Cost of obligation to remit the CO_2 emission allowances	(3 096)	(2 147)
Other taxes and charges	(815)	(697)
Employee benefits expense	(2 630)	(2 313)
Allowance for trade receivables expected credit losses	8	(33)
Costs of provision for onerous contracts	(91)	–
Other	(128)	(127)
Total costs by type	**(15 979)**	**(12 776)**
Change in inventories, prepayments, accruals and deferred income	3	(3)
Cost of goods produced for internal purposes	764	602
Selling expenses	528	485
Administrative expenses	558	490
Cost of goods for resale and materials sold	(20 728)	(11 726)
Cost of sales	**(34 854)**	**(22 928)**

In the year ended 31 December 2022 compared to the comparative period, the main changes in the cost of goods, products, materials and services sold involved:

- the recognition in the current period of a lower impairment write-down for non-financial fixed assets compared to the corresponding period as a result of conducted impairment tests, as described in more detail in Note 14 of these consolidated financial statements;
- an increase in the cost of material and energy consumption, which is mainly related to the higher cost of coal fuel, fuel oil and biomass consumed for production purposes, which is mainly due to price increases. At the same time, within the consumption of materials and energy in continuing operations, the Group presents the costs of coal purchased from TAURON Wydobycie S.A., which is related to the presentation of the operations of the above company as discontinued operations. Data for the comparable year have been restated accordingly.
- an increase in the cost of the obligation to redeem CO_2 emission allowances, which mainly results from the increase in the price of CO_2 emission allowances included in the calculation of the provision;
- an increase in the cost of employee benefits, which mainly results from recognizing the effects of agreements concluded with the social party and the rise of the minimum wage in 2022 in the costs of the current period;
- costs of creating a provision for onerous contracts in the Generation Segment in the year ended 31 December 2022 in the amount of PLN 91 million (further details in Note 45.2 of these interim condensed consolidated financial statements);
- an increase in the value of goods and materials sold, which results mainly from the increase in the prices of electricity and gas purchased for resale to TAURON Group customers.

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17.2. Employee benefit expenses

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Wages and salaries	(2 041)	(1 757)
Social security costs	(398)	(339)
Post-employment benefit expenses, of which:	(99)	(97)
Provision for retirement, disability and similar benefits	(16)	(20)
Social Benefits Fund	(3)	(7)
Contributions to employee retirement plans	(80)	(70)
Social Fund	(59)	(53)
Jubilee bonuses	54	12
Other employee benefit expenses	(87)	(79)
Total	**(2 630)**	**(2 313)**
Items included in cost of sales	(1 620)	(1 436)
Items included in selling expenses	(290)	(242)
Items included in administrative expenses	(363)	(316)
Items included in cost of goods produced for internal purposes	(357)	(319)

17.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Amortization, included in item:	**(2 060)**	**(1 958)**
Cost of sales	(1 922)	(1 840)
Selling expenses	(67)	(51)
Administrative expenses	(44)	(40)
Cost of goods produced for internal purposes	(27)	(27)
Impairment allowance, included in item:	**(79)**	**(944)**
Cost of sales	(79)	(953)
Selling expenses	2	1
Administrative expenses	(2)	(1)
Cost of goods produced for internal purposes	–	9
Total	**(2 139)**	**(2 902)**

In the year ended 31 December 2022, as a result of impairment tests performed as at 31 December 2022, the Group recognized impairment losses in the Generation segment in the total amount of PLN 75 million. The impairment tests are further described in detail in Note 14 to these consolidated financial statements.

In addition, in the year ended 31 December 2022, the Group companies created and released write-downs on individual assets and assets due to agreements with customers, which in total increased the Group's operating costs by the total amount of PLN 4 million.

The total impairment loss on property, plant and equipment, intangible assets, rights-of-use assets and goodwill recognized as part of continuing operations in the year ended 31 December 2022 amounted to PLN 79 million.

18. Other operating revenues and costs

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Result on the loss of control over Wsparcie Grupa TAURON Sp. z o.o. company	67	–
Other subsidies/ Income from settlement of subsidies and gratuitous receipt of fixed assets parallel to depreciation	38	35
Penalties, fines, compensations received or receivable	30	34
Result on the disposal of non-financial fixed assets and costs of damages to non-current assets	(12)	20
Costs of court proceedings, fines and damages	(10)	(7)
Surplus of other provisions (recognized)/derecognized	1	9
Write-off for abandoned investments and production	(2)	(15)
Other operating income	32	40
Other operating expenses	(58)	(40)
Total	**86**	**76**

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The result on the loss of control over the subsidiary, Wsparcie Grupa TAURON Sp. z o.o. in the amount of PLN 67 million is related to the accession of TAURON Dystrybucja S.A. to the company Polski Holding Obronny Sp. z o.o. and the acquisition, for this purpose, of newly-established shares in the increased capital of the aforementioned company in exchange for a contribution in kind in the form of 100% of the shares in Wsparcie Grupa TAURON Sp. z o.o., which is described in more detail in Note 3 of these consolidated financial statements. As a result of the transaction, the Group recognized the fair value of the shares in Polski Holding Obronny Sp. z o.o. acquired as a result of the above transaction at a level of PLN 80 million and ceased to recognize the net assets of Wsparcie Grupa TAURON Sp. z o.o. in the amount of PLN 13 million.

19. Financial revenues and costs

SELECTED ACCOUNTING PRINCIPLES

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

- interest and unwinding of discounts and revenues due to participating in the profits of other entities,
- revaluation of financial instruments, except financial assets measured at a 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;
- foreign exchange differences, except for differences recognized in the initial value of a fixed asset, to the extent they are classified as adjustment to interest expenses;
- other items related to financing activities.

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 the balance sheet date, 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),

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

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

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Income and costs from financial instruments	**(931)**	**(221)**
Interest costs	(591)	(365)
Gain/loss on derivative instruments	(219)	116
Exchange differences	(124)	15
Commission relating to borrowings and debt securities	(24)	(25)
Remeasurement of loans granted	(14)	1
Interest income	75	25
Dividend income	14	10
Other	(48)	2
Other finance income and costs	**(28)**	**(14)**
Interest on employee benefits	(31)	(9)
Interest on discount of other provisions	(8)	(2)
Other finance income	22	6
Other finance costs	(11)	(9)
Total, including recognized in the statement of comprehensive income:	**(959)**	**(235)**
Interest expense on debt	(591)	(365)
Finance income and other finance costs	(368)	130

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 amount of interest expense shown in the table takes into account the above hedging effect.

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

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20. Costs arising from leases

The table below shows the total charge to earnings from continuing and discontinued operations due to lease agreements where Group companies act as lessees.

	Year ended 31 December 2022	Year ended 31 December 2021
Cost arising from leases recognized in accordance with MSSF 16 Leases, including:	(180)	(159)
Depreciation of right-of-use assets	(124)	(106)
Cost of interest on lease liabilities	(56)	(53)
Cost arising from leases for which practical exclusion from MSSF 16 Leases has been applied, including:	(11)	(14)
Cost of short-term leases	(6)	(11)
Variable lease charges not included in the measurement of lease liabilities	(5)	(3)
Total	**(191)**	**(173)**

21. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

Income tax recognized in profit or loss for the period includes actual tax charge for the given reporting period of individual companies, determined in line with the binding provisions of the Act on corporate income tax and potential adjustments of tax settlements for previous years.

Deferred Tax

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

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

The Group does not recognize the full amount of the deferred tax asset, mainly of the companies in the Generation segment, due to the lack of forecasts justifying its feasibility.

21.1. Tax burden in the statement of comprehensive income

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Current income tax	**(434)**	**(82)**
Current income tax expense	(447)	(48)
Adjustments to current income tax from previous years	13	(34)
Deferred tax	**115**	**(211)**
Income tax expense in profit/(loss)	**(319)**	**(293)**
Income tax expense relating to other comprehensive income, including:	**(48)**	**(106)**
reclassified to profit or loss	(36)	(88)
not reclassified to profit or loss	(12)	(18)

In the period ended 31 December 2022, TAURON Group companies accounted for income tax individually.

In the comparable period, TAURON Polska Energia S.A. and selected subsidiaries settled income tax for 2021 within the Tax Capital Group registered on 14 December 2020 (the "PGK"). 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 issuing the above decision was the PGK's failure to meet the legally required condition of a minimum profitability of 2% for PGK for 2021. As a result of the above decision, since 1 January 2022, the Group companies belonging to the PGK in 2021 have been accounting for income tax individually.

(in PLN million)

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

21.2. Reconciliation of the effective tax rate

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Profit/(loss) before taxation on continuing operations	**110**	**1 125**
Profit/(loss) before taxation on discontinued operations	**23**	**(450)**
Tax at Poland's statutory tax rate of 19%	**(25)**	**(128)**
Adjustments to income tax from previous years	13	(34)
Tax effect of TAURON Group reorganization transactions	(12)	–
Write-off to fair value of disposal group classified as held for sale	(87)	–
Non-tax revenue and fixed costs	(81)	(7)
Changes in deferred tax estimates	(101)	(151)
Other	26	30
Tax at the effective rate of 201% (2021: 43%)	**(267)**	**(290)**
Income tax (expense) in the financial result	**(267)**	**(290)**
relating to continuing operations	(319)	(293)
relating to discontinued operations	52	3

22. Discontinued activity

SELECTED ACCOUNTING PRINCIPLES

The Group presents as discontinued operations the results and cash flows of a disposal group classified as held for sale or which has been disposed of if the group meets the following conditions:

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group recognizes the impairment loss upon initial or subsequent revaluation of an assets (or a disposable group) to the fair value less disposal costs. The Group has estimated the fair value of the disposable group, as discussed in more detail below.

The Group estimates that transactions entered into by the Group with a subsidiary whose operations are classified as discontinued operations, made as part of its core operations will continue after the disposal of the subsidiary. Accordingly, revenues and expenses of Group companies arising from transactions with the disposable group are presented under the result from continuing operations, with a corresponding consolidation adjustment recognized under discontinued operations. In the Group's opinion, other revenues and expenses, including financial expenses arising from the Group's transactions with discontinued operations will not continue.

Discontinued operations represent the activities of the company previously classified within the Mining segment, which is related to the disposal by the Company of 100% of its shares in TAURON Wydobycie S.A. and consequently the loss of control by the TAURON Group over TAURON Wydobycie S.A., as described in more detail in Note 3 of these consolidated financial statements.

(in PLN million)

	Year ended 31 December 2022			Year ended 31 December 2021 *(restated figures)*		
	Mining Segment	Consolidation adjustments	Discontinued operations	Mining Segment	Consolidation adjustments	Discontinued operations
Sales revenue	2 680	(1 650)	**1 030**	1 467	(1 017)	**450**
Cost of sales	(1 867)	1 630	**(237)**	(1 686)	991	**(695)**
Profit (loss) on sale on discontinued operations	**813**	**(20)**	**793**	**(219)**	**(26)**	**(245)**
Selling and distribution expenses	(110)	13	**(97)**	(86)	9	**(77)**
Administrative expenses	(206)	25	**(181)**	(177)	32	**(145)**
Other operating income and expenses	(7)	2	**(5)**	24	(1)	**23**
Write-down on revaluation to fair value less costs to sell	–	(460)	**(460)**	–	–	**–**
Operating profit (loss) on discontinued operations	**490**	**(440)**	**50**	**(458)**	**14**	**(444)**
Finance income and finance costs	(347)	320	**(27)**	(375)	369	**(6)**
Profit (loss) before tax on discontinued operations	**143**	**(120)**	**23**	**(833)**	**383**	**(450)**
Income tax expense	52	–	**52**	3	–	**3**
Net profit (loss) on discontinued operations	**195**	**(120)**	**75**	**(830)**	**383**	**(447)**
	–	**–**	**–**	**–**	**–**	**–**
Actuarial gains	22	–	**22**	14	–	**14**
Income tax	(4)	–	**(4)**	(3)	–	**(3)**
Other comprehensive income not to be reclassified in the financial result on discontinued operations	**18**	**–**	**18**	**11**	**–**	**11**
	–	–	**–**	–	–	**–**
Total comprehensive income on discontinued operations	**213**	**(120)**	**93**	**(819)**	**383**	**(436)**
	–	**–**	**–**	**–**	**–**	**–**
Net profit (loss) on discontinued operations:	–	–	**–**	–	–	**–**
Attributable to equity holders of the Parent	195	(120)	**75**	(830)	383	**(447)**
Total comprehensive income:	**–**	**–**	**–**	**–**	**–**	**–**
Attributable to equity holders of the Parent	213	(120)	**93**	(819)	383	**(436)**
	–	**–**	**–**	**–**	**–**	**–**
Basic and diluted net profit (loss) per shares (in PLN):	–	–	**–**	–	–	**–**
from net profit (loss) on discontinued operations for the period attributable to shareholders of the parent company	–	–	**0.04**	–	–	**(0.26)**

Following the fulfilment on 4 November 2022 of the condition precedent contained in the contingent agreement on the sale of shares in TAURON Wydobycie S.A. concerning the execution of an increase in the share capital of TAURON Wydobycie S.A, in order to repay the indebtedness of TAURON Wydobycie S.A. to the Company, the Company assessed that the conditions under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* have been fulfilled in the scope of the classification of its activity as discontinued and the assets and liabilities of TAURON Wydobycie S.A. as a disposal group classified as held for sale.

Moreover, as at the date of recognition of the net assets of TAURON Wydobycie S.A. to the disposable group classified as held for sale, the Group measured it at fair value. The fair value was estimated at PLN 0. The transaction price of PLN 1 was determined following a valuation of TAURON Wydobycie S.A. shares carried out using the discounted cash flow method based on long-term financial projections covering the years 2022-2049 by an external, independent advisor. Due to the fact that the fair value of the disposable group was lower than its existing carrying amount, the Group recognized the impairment loss due to revaluation of the group classified as held for sale to the fair value. The total cost of writing down the net assets of the disposable group classified as held for sale to fair value amounted to PLN 460 million and reduced the value of non-financial fixed assets within the disposable group classified as held for sale.

The result on the loss of control of TAURON Wydobycie S.A. amounted to PLN 1 and was equal to the selling price. The net assets of the divested company, including the recognition of a write-down of non-financial fixed assets in the amount of PLN 460 million, as at the date of loss of control, i.e. 31 December 2022, amounted to PLN 0 are presented in the table below.

(in PLN million)

	AS at 31 December 2022
Property, plant and equipment	391
Receivables from buyers	336
Cash and cash equivalents	216
Inventories	94
Right-of-use assets	67
Deferred tax assets	55
Other assets	107
Total assets	**1 266**
Liabilities to suppliers	259
Accruals, deferred income and government grants	220
Liabilities arising from taxes and charges	196
Provisions for employee benefits	155
Provisions for disassembly of fixed assets, land restoration and other provisions	176
Capital commitments	92
Lease liabilities	78
Other liabilities	90
Total liabilities	**1 266**
Net assets	**–**

23. Earnings/(loss) per share

SELECTED ACCOUNTING PRINCIPLES

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

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Net profit (loss) for the year attributable to equity holders of the Parent	(134)	338
Net profit on continuing operations for the year attributable to equity holders of the Parent	(209)	785
Number of ordinary shares	1 752 549 394	1 752 549 394
Profit (loss) per share - basic and diluted attributable to shareholders of the parent company (in PLN)	**(0.08)**	**0.19**
Profit (loss) per share - basic and diluted on continued operations attributable to shareholders of the parent company (in PLN)	**(0.12)**	**0.45**

EXPLANATORY NOTE TO THE STATEMENT OF FINANCIAL POSITION

24. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

The Group's key fixed assets by segment include:

- in the Generation Segment:
  - boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading, storage and transportation, pumping stations and desulphurisation installations, steam generators, landfills, warehouses and other buildings, switchgears for the highest voltages;
  - heating stations, fuel unloading and transportation facilities, as well as pumping stations and water treatment plants
- in the area of Renewable Energy Sources:
  - wind turbines, photovoltaic farms, hydroelectric power stations, hydroelectric power station buildings and weirs, dams and hydroelectric equipment.
- in the Distribution Segment:
  - power lines with a total length of approximately 246 thousand km;
  - electrical substations (approximately 62 thousand units);
  - transformers (approximately 60 thousand units).

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

- acquisition price or manufacturing cost,
- costs directly attributable to the purchase and bringing the asset to a usable condition,
- the expected cost of disassembly and removal of items of property, plant and equipment and restoration of their current location to its original condition (the accounting policy in the scope of creating provisions for these costs are presented in Note 43 to these consolidated financial statements),
- external financing costs.

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

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

External financing costs activated as assets component

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

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

Impairment

As at every balance sheet date the Group assesses whether objective indication of impairment occurs in relation to property, plant and equipment. Impairment tests for property, plant and equipment are carried out in line with the accounting policy presented in Note 13 hereto.

Average remaining useful lives of individual groups of fixed assets

Generic group	Average remaining depreciation and amortisation period in years
Buildings, premises, civil and water engineering structures	20 years
Technical equipment and machines	12 years
Other tangible fixed assets	4 years

(in PLN million)

The depreciation method, the period of use and the residual value of fixed assets are reviewed at least at each financial year-end and any adjustments to depreciation charges are applied with effect from the beginning of the reporting period in which the review is completed. The review of the economic useful lives of property, plant and equipment and intangible assets carried out in 2022 resulted in a decrease in depreciation and amortisation costs by PLN 18 million in the Distribution segment and a decrease of PLN 11 million in the Generation segment.

Year ended 31 December 2022

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**144**	**31 221**	**25 948**	**280**	**978**	**1 773**	**60 344**
Direct purchase	–	5	5	2	–	2 862	**2 874**
Borrowing costs	–	–	–	–	–	28	**28**
Transfer of assets under construction	2	1 741	964	–	45	(2 752)	**–**
Sale	–	1	(115)	–	(14)	(2)	**(130)**
Transfer to/from assets held for sale	(3)	(1 487)	(1 691)	(408)	(71)	(304)	**(3 964)**
Liquidation	–	(57)	(107)	(138)	(14)	–	**(316)**
Received free of charge	–	27	1	–	–	–	**28**
Acquisition of a subsidiary	3	30	2	–	–	–	**35**
Overhaul expenses	–	–	–	–	–	152	**152**
Items generated internally	–	–	–	270	–	76	**346**
Cost of disassembly of wind farms and decommissioning of mines	–	(100)	(15)	–	–	–	**(115)**
Other movements	–	76	(24)	–	–	(13)	**39**
Closing balance	**146**	**31 457**	**24 968**	**6**	**924**	**1 820**	**59 321**
ACCUMULATED DEPRECIATION							
Opening balance	**–**	**(14 276)**	**(15 840)**	**(105)**	**(728)**	**(221)**	**(31 170)**
Depreciation for the period	–	(896)	(892)	(110)	(59)	–	**(1 957)**
Impairment	–	(47)	(30)	(52)	(1)	(60)	**(190)**
Sale	–	(1)	114	–	14	–	**127**
Liquidation	–	50	98	138	14	–	**300**
Transfer to/from assets held for sale	–	1 395	1 531	129	66	179	**3 300**
Other movements	–	(15)	(1)	–	2	14	**–**
Closing balance	**–**	**(13 790)**	**(15 020)**	**–**	**(692)**	**(88)**	**(29 590)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**144**	**16 945**	**10 108**	**175**	**250**	**1 552**	**29 174**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**146**	**17 667**	**9 948**	**6**	**232**	**1 732**	**29 731**
of which operating segments:							
Generation	**46**	**2 460**	**3 503**	**–**	**20**	**352**	**6 381**
Renewable Energy Sources	**1**	**903**	**1 191**	**–**	**2**	**74**	**2 171**
Distribution	**83**	**13 559**	**5 065**	**–**	**177**	**1 193**	**20 077**
Other segments and other operations	**16**	**745**	**189**	**6**	**33**	**113**	**1 102**

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Year ended 31 December 2021

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**143**	**29 748**	**25 206**	**258**	**976**	**1 888**	**58 219**
Direct purchase	-	-	-	2	-	2 487	**2 489**
Borrowing costs	-	-	-	-	-	14	**14**
Transfer of assets under construction	2	1 702	994	-	38	(2 736)	**–**
Sale	(1)	(38)	(137)	-	(6)	(4)	**(186)**
Liquidation	-	(46)	(140)	(149)	(17)	-	**(352)**
Received free of charge	-	43	-	-	-	-	**43**
Overhaul expenses	-	-	-	-	-	94	**94**
Items generated internally	-	-	-	169	-	48	**217**
Cost of disassembly of wind farms and decommissioning of mines	-	(159)	(14)	-	-	-	**(173)**
Other movements	-	(29)	39	-	(13)	(18)	**(21)**
Closing balance	**144**	**31 221**	**25 948**	**280**	**978**	**1 773**	**60 344**
ACCUMULATED DEPRECIATION							
Opening balance	**-**	**(13 010)**	**(14 570)**	**(138)**	**(704)**	**(292)**	**(28 714)**
Depreciation for the period	-	(887)	(850)	(83)	(59)	-	**(1 879)**
Impairment	-	(484)	(674)	(33)	(1)	71	**(1 121)**
Sale	-	36	135	-	6	3	**180**
Liquidation	-	41	136	149	17	-	**343**
Other movements	-	28	(17)	-	13	(3)	**21**
Closing balance	**–**	**(14 276)**	**(15 840)**	**(105)**	**(728)**	**(221)**	**(31 170)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**143**	**16 738**	**10 636**	**120**	**272**	**1 596**	**29 505**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**144**	**16 945**	**10 108**	**175**	**250**	**1 552**	**29 174**
of which operating segments:							
Mining	**3**	**201**	**176**	**169**	**3**	**117**	**669**
Generation	**42**	**2 513**	**3 651**	**-**	**24**	**114**	**6 344**
Renewable Energy Sources	**-**	**791**	**1 172**	**-**	**3**	**93**	**2 059**
Distribution	**81**	**12 851**	**4 939**	**-**	**196**	**1 065**	**19 132**
Other segments and other operations	**18**	**589**	**170**	**6**	**24**	**163**	**970**

In the year ended 31 December 2022, the Group purchased property, plant and equipment (including capitalised borrowing costs) in the amount of PLN 2 902 million. The major purchases were performed in connection with investment in the following operating segments:

Operating segment	Year ended 31 December 2022	Year ended 31 December 2021
Distribution	2 082	1 988
Renewable Energy Sources	367	81
Generation	166	116

The average capitalisation rate of borrowing costs was 4.7% for the year ended 31 December 2022 and 2.8% for the year ended 31 December 2021.

The main investment tasks implemented by the Group in the financial year 2022 are described in section 1.5. of the Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

The impairment losses on property, plant and equipment had an impact on the results of continued and discontinued operations in the following operating segments:

Year ended 31 December 2022

	Continuing operations		Discontinued operations	Total
	Generation	Distribution	Mining	
Increase of impairment	(59)	(3)	(128)	**(190)**
Total impact on the profit (loss) for the period	**(59)**	**(3)**	**(128)**	**(190)**
Continuing operations	(59)	(3)	–	**(62)**
Discontinued operations	–	–	(128)	**(128)**

Year ended 31 December 2021

	Continuing operations			Discontinued operations	Total
	Generation	Distribution	Other	Mining	
Increase of impairment	(942)	(1)	(1)	(181)	**(1 125)**
Decrease of impairrment	1	3	–	-	**4**
Total impact on the profit (loss) for the period	**(941)**	**2**	**(1)**	**(181)**	**(1 121)**
Continuing operations	(941)	2	(1)	–	**(940)**
Discontinued operations	–	–	–	(181)	**(181)**

In addition, the Group measured the net assets of TAURON Wydobycie S.A. to the fair value due to its classification as a disposable group held for sale, resulting in the recognition of an impairment allowance of PLN 460 million, which reduced the value of non-financial non-current assets within the disposable group classified as held for sale.

25. 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.

The Company classifies as leases rights of perpetual usufruct of land and easements for the use of energy and heat transmission facilities (transmission easement).

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

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

The Company does not apply the requirements of IFRS 16 *Leases* to the asset class to short-term leases that have a lease term of 12 months or less at inception. The Group applies the exemption from the application of IFRS 16 *Leases* in relation to leases where the underlying asset has a value not exceeding PLN 20 thousand. The Group may select the exemption for leases where the underlying asset is of low value on a lease by lease basis, in particular the Group does not apply the exemption for low value assets in the case of perpetual usufruct of land.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

The Group applies the portfolio approach to similar leases regarding unified assets with similar use. When accounting for leases under the portfolio approach, the Group applies estimates and assumptions corresponding to the size and composition of the portfolio, including estimates of the weighted average lease term. The Company applies the portfolio approach in particular to leases, tenancies and other contracts that meet the criteria for recognition as leases relating to premises and land for the purpose of installation of thermal and electrical infrastructure.

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

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Year ended 31 December 2022

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Transmission easements	Right-of-use assets in progress	Right-of-use assets total
COST								
Opening balance	**618**	**1 200**	**212**	**112**	**11**	**150**	**6**	**2 309**
Direct purchase	**–**	**–**	**–**	**–**	**–**	**–**	**11**	**11**
Transfer of right-of-use assets in progress	**–**	**–**	**–**	**–**	**–**	**12**	**(12)**	**–**
Increase due to a new lease contract	48	–	14	23	4	–	–	**89**
Increase(decrease) due to lease changes	11	(7)	6	3	1	–	–	**14**
Liquidation	(4)	(1)	(2)	(43)	(3)	–	–	**(53)**
Transfer to/from assets held for sale	(1)	(58)	(6)	(79)	(3)	–	–	**(147)**
Acquisition of a subsidiary	124	4	18	–	–	5	–	**151**
Other movements	–	(2)	7	–	2	8	–	**15**
Closing balance	**796**	**1 136**	**249**	**16**	**12**	**175**	**5**	**2 389**
ACCUMULATED DEPRECIATION								
Opening balance	**(71)**	**(134)**	**(51)**	**(66)**	**(4)**	**(37)**	**–**	**(363)**
Depreciation for the period	(33)	(38)	(20)	(23)	(3)	(7)	–	**(124)**
Impairment	–	–	(1)	(7)	–	–	–	**(8)**
Liquidation	2	–	–	42	2	–	–	**46**
Transfer to/from assets held for sale	–	5	1	50	1	–	–	**57**
Other movements	–	–	–	–	(1)	–	–	**(1)**
Closing balance	**(102)**	**(167)**	**(71)**	**(4)**	**(5)**	**(44)**	**–**	**(393)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**547**	**1 066**	**161**	**46**	**7**	**113**	**6**	**1 946**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**694**	**969**	**178**	**12**	**7**	**131**	**5**	**1 996**

Year ended 31 December 2021

	Land	Perpetual usufruct right	Buildings, premises and civil engineering structures	Plant and machinery	Motor vehicles	Transmission easements	Right-of-use assets in progress	Right-of-use assets, total
COST								
Opening balance	**548**	**1 162**	**196**	**89**	**8**	**133**	**6**	**2 142**
Increase due to a new lease contract	66	1	13	34	5	-	-	**119**
Increase/(decrease) due to lease changes	4	27	4	9	-	-	-	**44**
Liquidation	(5)	(1)	(1)	(20)	(2)	-	-	**(29)**
Other movements	5	11	-	-	-	17	-	**33**
Closing balance	**618**	**1 200**	**212**	**112**	**11**	**150**	**6**	**2 309**
ACCUMULATED DEPRECIATION								
Opening balance	**(45)**	**(92)**	**(32)**	**(62)**	**(5)**	**(30)**	**–**	**(266)**
Depreciation for the period	(27)	(33)	(19)	(20)	(1)	(6)	-	**(106)**
Impairment	-	(1)	-	(4)	-	(1)	-	**(6)**
Liquidation	1	-	-	20	2	-	-	**23**
Other movements	-	(8)	-	-	-	-	-	**(8)**
Closing balance	**(71)**	**(134)**	**(51)**	**(66)**	**(4)**	**(37)**	**–**	**(363)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**503**	**1 070**	**164**	**27**	**3**	**103**	**6**	**1 876**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**547**	**1 066**	**161**	**46**	**7**	**113**	**6**	**1 946**

26. Goodwill

SELECTED ACCOUNTING PRINCIPLES

Goodwill is measured at initial value (determined in accordance with the accounting policy presented in Note 7) less accumulated impairment losses. Goodwill is not amortised but is tested for impairment.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the merger. Each centre, or set of centres, to which goodwill has been allocated corresponds to the lowest level in TAURON Group at which goodwill is monitored for internal management purposes and is no higher than one operating segment of TAURON Group.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Goodwill is tested for impairment annually and as at each balance sheet date for which relevant indications occur. The impairment test in respect of goodwill is carried out in accordance with the accounting policies presented in Note 14.

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Operating segment	As at 31 December 2022	As at 31 December 2021
Distribution	26	26
Total	**26**	**26**

As a result of the settlement of the acquisition of control of Energetyka Cieszyńska Sp. z .o.o., the Group recognised goodwill in the Generation segment in the amount of PLN 18 million as at the date of taking control of the company. As a result of the impairment tests performed as at 31 December 2022, the Group has written down the recognised goodwill in the full amount, as further described in Note 14 of these consolidated financial statements.

27. Energy certificates and CO_2 emission allowances

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

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

	Purchased	Allocated/received free of charge	Disposal
Certificates of origin	Purchase price	The fair value on the last day of the month in which the eligible energy was produced or on the last day of the month in which the energy efficiency certificates were granted and, in the case of concluded contracts or sales agreements, the fair value resulting from these documents	FIFO "first in, first out"
CO_2 emission allowances	Purchase price	Nominal value (i.e. zero)	First received free of charge and then acquired (according to FIFO "first in, first out")

The energy certificates and the CO_2 emission allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their redemption. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from CO_2 emissions are presented in Note 44.

27.1. Long-term energy certificates and CO_2 emission allowances

	Year ended 31 December 2022			Year ended 31 December 2021		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**200**	**244**	**444**	**234**	**267**	**501**
Direct purchase	19	11	**30**	113	-	**113**
Reclassification	(177)	(242)	**(419)**	(147)	(23)	**(170)**
Closing balance	**42**	**13**	**55**	**200**	**244**	**444**

(in PLN million)

27.2. Short-term energy certificates and CO_2 emission rights

	Year ended 31 December 2022			Year ended 31 December 2021		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**151**	**6**	**157**	**705**	**334**	**1 039**
Direct purchase	372	1 797	**2 169**	281	1 360	**1 641**
Generated internally	227	–	**227**	239	-	**239**
Surrendered	(635)	(1 494)	**(2 129)**	(1 221)	(1 635)	**(2 856)**
Reclassification	130	43	**173**	147	(53)	**94**
Closing balance	**245**	**352**	**597**	**151**	**6**	**157**

The reclassification of CO_2 allowances mainly comprises the reclassification of allowances acquired in previous years and intended for redemption in 2022 from long-term to short-term CO_2 allowances. In addition, in 2022, part of the above-mentioned allowances with the value of PLN 199 million was reclassified from short-term CO_2 emission allowances to inventories. The reclassification relates to allowances disposed of by the Group in connection with the surplus of allowances for 2021 in the portfolio of Nowe Jaworzno Grupa TAURON Sp. z o.o. as a result of the failure of the 910 MW Unit in Jaworzno, as further described in Note 15 to these consolidated financial statements.

27.3. Balance of CO_2 emission allowances in the Union Registry

Balance of emission allowances	Year ended 31 December 2022	Year ended 31 December 2021
	Mg EUA	Mg EUA
Allowances recorded at the beginning of the financial year	**2 188 000**	**6 732 596**
Allowances surrendered:		
previous year's emissions	(7 141 170)	(10 047 653)
current year's emissions	–	(5 871 051)
Allocation of free-of-charge allowances	138 010	131 815
Allowances purchased on the secondary market	12 999 000	17 673 672
Allowances sold on the secondary market	(5 791 000)	(6 431 379)
Allowances recorded at the end of the financial year	**2 392 840**	**2 188 000**

The volume of CO_2 emission allowances purchased presented in the table above relates to CO_2 emission allowances purchased for the TAURON Group's redemption needs and within the trading portfolio. In principle, the sale relates to the trading portfolio and the potential sale of CO_2 emission allowances originally acquired for the TAURON Group's redemption needs and sold in connection with restructuring measures.

28. Other intangible assets

SELECTED ACCOUNTING PRINCIPLES

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

Impairment

As at each balance sheet date the Group assesses whether objective indication of impairment occurs in relation to intangible assets. Impairment tests for intangible assets are carried out in line with the accounting policy presented in Note 14.

The period and method of depreciation and the residual value are subject to verification, at least at the end of each financial year. Any changes arising from the conducted verification are captured as the change in estimates, while the potential adjustment of depreciation charges is performed with the effectiveness as of the beginning of the reporting period, not shorter than the year in which the verification was completed.

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Useful life periods

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

Generic group	Average remaining depreciation and amortisation period in years
Software, concessions, patents, licences and similar values	4 years
Other	11 years

Year ended 31 December 2022

	Development expenses	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST					
Opening balance	**17**	**1 045**	**223**	**71**	**1 356**
Direct purchase	–	–	–	329	**329**
Transfer of intangible assets not made available for use	3	191	30	(224)	**–**
Sale/Liquidation	(2)	(12)	(1)	(10)	**(25)**
Transfer to/from assets held for sale	–	(17)	–	–	**(17)**
Other changes	–	–	7	1	**8**
Closing balance	**18**	**1 207**	**259**	**167**	**1 651**
ACCUMULATED AMORTIZATION					
Opening balance	**(8)**	**(686)**	**(122)**	**–**	**(816)**
Amortization for the period	(2)	(122)	(11)	–	**(135)**
Sale/Liquidation	2	12	1	–	**15**
Transfer to/from assets held for sale	–	11	–	–	**11**
Closing balance	**(8)**	**(785)**	**(132)**	**–**	**(925)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**9**	**359**	**101**	**71**	**540**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**10**	**422**	**127**	**167**	**726**

Year ended 31 December 2021

	Development expenses	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST					
Opening balance	**12**	**945**	**219**	**120**	**1 296**
Direct purchase	-	-	-	106	**106**
Transfer of intangible assets not made available for use	5	143	7	(155)	**–**
Sale/Liquidation	-	(43)	(3)	-	**(46)**
Closing balance	**17**	**1 045**	**223**	**71**	**1 356**
ACCUMULATED AMORTIZATION					
Opening balance	**(7)**	**(624)**	**(113)**	**–**	**(744)**
Amortization for the period	(1)	(105)	(10)	–	**(116)**
Impairment	-	-	(2)	–	**(2)**
Sale/Liquidation	-	43	3	–	**46**
Closing balance	**(8)**	**(686)**	**(122)**	**–**	**(816)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**5**	**321**	**106**	**120**	**552**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**9**	**359**	**101**	**71**	**540**

29. Shares and stocks in joint ventures

SELECTED ACCOUNTING PRINCIPLES

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

Using the equity method the initial value of the investment carried at cost is increased or reduced by a share in profits/losses and in other comprehensive income of the joint venture as from the acquisition date (recognised in profit or loss or in other comprehensive income of the Group, as appropriate). Payments due to sharing of profit generated by the joint venture reduce the carrying amount of the investment. When the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group ceases to recognise its share in further losses.

If the Group contributes or sells assets to the joint venture which retains such assets, the Group recognises only such part of the profit or loss which is attributable to shares of other investors in the joint venture, unless the contribution or sales of assets indicates a decline in the achievable net value of current assets or occurrence of the impairment. If the Group acquires assets from the joint venture, it does not recognise the part of profits attributable to it due to this transaction, until such assets are resold to an independent third party.

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PROFESSIONAL JUDGEMENT AND ESTIMATES

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

Impairment

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

	As at 31 December 2022 or for the year ended 31 December 2022			As at 31 December 2021 or for the year ended 31 December 2021		
	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. [2]	Total	Elektrociepłownia Stalowa Wola S.A.[1]	TAMEH HOLDING Sp. z o.o. [2]	Total
Non-current assets	1 719	1 909	**3 628**	1 772	2 033	**3 805**
Current assets, including:	512	1 982	**2 494**	571	1 428	**1 999**
cash and cash equivalents	*81*	*113*	***194***	*24*	*251*	***275***
Non-current liabilities (-), including:	(2 015)	(543)	**(2 558)**	(1 866)	(672)	**(2 538)**
debt	*(2 010)*	*(408)*	***(2 418)***	*(1 797)*	*(577)*	***(2 374)***
Current liabilities (-), including:	(727)	(1 903)	**(2 630)**	(1 047)	(1 514)	**(2 561)**
debt	*(109)*	*(190)*	***(299)***	*(108)*	*(185)*	***(293)***
Total net assets	**(511)**	**1 445**	**934**	**(570)**	**1 275**	**705**
Share in net assets (50%)	**(256)**	**723**	**467**	(285)	638	**353**
Investment in joint ventures	**–**	**682**	**682**	**–**	**597**	**597**
Sales revenue	2 553	4 823	**7 376**	1 004	2 779	**3 783**
Net profit (loss), including:	60	255	**315**	951	64	**1 015**
Depreciation	*(65)*	*(201)*	***(266)***	*(32)*	*(194)*	***(226)***
Interest income	*1*	*8*	***9***	–	*3*	***3***
Interest expenses	*(154)*	*(61)*	***(215)***	*(105)*	*(21)*	***(126)***
Income tax	–	*(59)*	***(59)***	–	*(14)*	***(14)***
Share in profit/(loss) of joint ventures	–	128	**128**	–	32	**32**

[1] The consolidated financial statements for the year ended 31 December 2021 presents unapproved data of Elektrociepłownia Stalowa Wola S.A., available as at the date the consolidated financial statements were authorised for publication.
[2] The information presented relate to the TAMEH HOLDING Sp. z o.o. The value of the interest held in TAMEH HOLDING Sp. z o.o. differs from the value of net assets attributable to the Group, because the cost of shares in TAMEH HOLDING Sp. z o.o. was calculated taking into account the fair value of the share contributed to the joint venture by companies from the ArcelorMittal Group.

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 at the initiative of TAURON Polska Energia S.A. and PGNiG S.A., through which the partners implemented an investment consisting in the construction of CCGT unit in Stalowa Wola with the gross electrical capacity of 450 MWe and the net heat capacity of 240 MWt. On 30 September 2020, Elektrociepłownia Stalowa Wola was commissioned.

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

In addition, the Company has receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. in the carrying amount of PLN 206 million, as further discussed in Note 30 to these consolidated financial statements.

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.

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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.

TAMEH HOLDING Sp. z o.o. and subsidiaries

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

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

On 18 July 2022, the General Meeting of Shareholders of TAMEH HOLDING Sp. z o.o. decided to allocate the amount of PLN 69 million for the payment of dividends to shareholders. On 22 December 2022, the Extraordinary General Meeting of Shareholders of TAMEH HOLDING Sp. z o.o. decided to pay an additional dividend of PLN 45 million from retained earnings to shareholders. The Group's share in the TAMEH HOLDING Sp. z o.o. joint venture was reduced by the value of the dividend attributable to the Group in the amount of PLN 57 million.

30. Loans to joint ventures

SELECTED ACCOUNTING PRINCIPLES

Loans granted to a joint venture do not satisfy the criteria to be recognised as a net investment in a joint venture. Loans are classified as financial assets measured at amortized cost or at fair value through profit or loss.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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 56.1.4 of these consolidated financial statements. The Company estimates the fair value of loans classified as measured at a fair value. The measurement methodology is described in Note 55.1 to these consolidated financial statements.

As at balance sheet date the Group granted loans to Elektrociepłownia Stalowa Wola S.A., a joint venture.

	As at 31 December 2022				As at 31 December 2021				Maturity date	Interest rate
	Repayable principal amount and interest contractually accrued	Gross value	Impairment loss	Carrying amount	Repayable principal amount and interest contractually 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. A loan was classified as measured at fair value, and its fair value as at balance sheet date amounted to PLN 107 milllion.

(in PLN million)

31. 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. Contracts to buy or sell a non-financial item that can be settled net, that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's requirements, as excluded from the scope of IFRS 9 *Financial instruments* are not subject to valuation as 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 recognized 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 Group uses IRS (Interest Rate Swap) contracts. These instruments hedge cash flows related to the debt. Such transactions are subject to hedge accounting.

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

Cash flow hedges are accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss for the period.

The gains/losses on the revaluation of a hedging instrument recognised in other comprehensive income are recognised directly as 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 acquisition of the assets (capitalisation of external financing costs). For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group measures fair value at each balance sheet date. The methodology is presented in the table below. The Group tests the effectiveness of the hedge at each balance sheet date.

Instrument	Methodology for determining the fair value	As at 31 December 2022
Derivatives subject to hedge accounting		
IRS	The difference in discounted interest cash flows based on a floating interest rate and a fixed interest rate. The data input is the interest rate curve from the Refinitiv service.	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 on a loan with a total nominal value of PLN 3 090 million, for periods beginning 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.
Derivatives measured at a fair value through the profit and loss other than subject to hedge accounting		
CCIRS	The difference in the discounted interest cash flows of the stream paid and the stream received, in two different currencies, expressed in the valuation currency. The input data are interest rate curves, basis spreads and the NBP fixing for the relevant currencies from the Refinitiv service.	CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivatives involve an exchange of interest payments on the total nominal amount of EUR 500 million. The transaction matures in July 2027. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a fixed interest rate in EUR. CCIRS derivatives aimed at securing the currency flows generated by interest payments on Eurobonds issued.

(in PLN million)

Commodity forward/futures	The fair value of forward transactions for the purchase and sale of CO_2 emission allowances, electricity and other commodities is determined based on prices quoted in an active market or based on cash flows representing the difference between the price reference index (forward curve) and the contract price.	Commodity derivatives (futures, forward) comprise forward transactions for the purchase and sale of CO_2 emission allowances and other commodities.
Currency forward	The difference in discounted future cash flows between the forward price as at the valuation date and the transaction price, multiplied by the nominal value of the contract in foreign currency. The input date comprise the NBP fixing and the interest rate curve implied from the FX swap transaction for the relevant currency from the Refinitiv service.	FX forward derivatives to hedge currency flows generated from operations.

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

	As at 31 December 2022				As at 31 December 2021			
	Total		Charged to profit or loss	Charged to revaluation reserve from valuation of hedging instruments	Total		Charged to profit or loss	Charged to revaluation reserve from valuation of hedging instruments
	Assets	Liabilities			Assets	Liabilities		
Derivatives subject to hedge accounting								
IRS	**592**	**–**	34	558	**371**	**–**	–	371
Derivatives measured at fair value through profit or loss								
CCIRS	**21**	**–**	21	–	**26**	**(1)**	25	–
Commodity forwards/futures	**236**	**(232)**	4	–	**485**	**(494)**	(9)	–
Currency forwards	**–**	**(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.

32. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

Other financial assets of the Group include, among others, shares and stocks, deposits, investments, bid bonds, security deposits and collaterals provided, receivables due to recompensations and loans granted to unrelated entities.

Upon initial recognition, financial assets are classified to the appropriate category of financial assets and measured accordingly. The principles of classification and measurement of financial assets in accordance with IFRS 9 *Financial Instruments* are described in Note 55 to these consolidated financial statements.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The measurement of financial assets at a fair value requires the Group to estimate the fair value at each balance sheet date. The methodology for calculating fair value is presented in Note 55 to these consolidated financial statements.

The measurement of financial assets measured at amortised cost requires the Group to estimate expected credit losses at each balance sheet date. The methodology for estimating expected credit losses for loans granted is presented in Note 56.1.4 to these consolidated financial statements.

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	As at 31 December 2022	As at 31 December 2021
Shares	211	141
Deposits and term deposits for Mining Decommissioning Fund	3	56
Other financial receivables, including:	565	107
Receivables due to financial compensation for trading companies	465	–
Bid bonds, deposits and collateral transferred	94	65
Initial and variation margin deposits arising from stock exchange transactions	–	32
Other	6	10
Total	**779**	**304**
Non-current	301	215
Current	478	89

The decrease in investments and deposits of the Mining Decommissioning Fund results mainly from the loss of control and the cessation of consolidation of the subsidiary, TAURON Wydobycie S.A. as at the balance sheet date, as further described in Note 3 of these consolidated financial statements.

Receivables due to financial compensation for trading companies relate to estimated by the companies in the Sales segment compensation for electricity supplies for 2022, which trading companies are entitled to, under the provisions of the *Act of 27 October 2022 on extraordinary measures to limit the level of electricity prices and support certain consumers in 2023,* as further described in Note 12 of these consolidated financial statements.

33. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

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

33.1. Other non-current non-financial assets

	As at 31 December 2022	As at 31 December 2021
Prepayments for assets under construction and intangible assets, including:	229	115
related to the construction of wind farms	*210*	*102*
Contract acquisition costs and costs of discounts	7	8
Prepayments for debt charges	12	5
Property and tort insurance	10	3
Other	10	28
Total	**268**	**159**

33.2. Other current non-financial assets

	As at 31 December 2022	As at 31 December 2021
Advances for deliveries,	723	5
related to coal supplies	*716*	–
Costs settled over time, including:	62	101
Contract acquisition costs and costs of discounts	*14*	*15*
IT and telecom services	*11*	*22*
Property and tort insurance	*32*	*54*
Other	5	6
Total	**790**	**112**

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 fourth quarter 2022, as further described in Note 63 of these consolidated financial statements, in order to mitigate the risks arising from the above restrictions, the Group contracted coal deliveries on the domestic and foreign markets, which will be completed in the subsequent months. Some of the contracted deliveries required advance payments.

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34. Deferred income tax

	As at 31 December 2022	As at 31 December 2021
Deferred tax liabilities		
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	1 918	1 858
different timing of recognition of sales revenue for tax purposes	684	432
difference between tax base and carrying amount of financial assets	220	297
difference between tax base and carrying amount of energy certificates	15	25
other	114	47
Total	**2 951**	**2 659**
Deferred tax assets		
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	673	892
difference between tax base and carrying amount of financial assets and financial liabilities	505	547
provisions and accruals	742	537
different timing of recognition of sales revenue and cost of sales for tax purposes	667	367
tax losses	104	16
power infrastructure received free of charge and received connection fees	6	6
other	63	28
Total	**2 760**	**2 393**
Deferred tax assets not recognized	(337)	(352)
Deferred tax assets after impairment	**2 423**	**2 041**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**672**	**123**
Deferred tax liability	**(1 200)**	**(741)**

As at 31 December 2022, the deferred tax assets and deferred tax liabilities of the companies, which starting from year 2023 are forming the Tax Capital Group have been offset, since these companies will file a joint tax return starting from 2023.

The Group assesses the enforceability of deferred tax assets at each balance sheet date. As a result of the assessment performed as at the balance sheet date, deferred tax assets in the amount of PLN 337 million were not recognised, mainly with regard to the companies in the Generation segment. Unrecognizable asset as at 31 December 2021 was related to a company in the Mining segment, for which the Group lost control on 31 December 2022.

Change in deferred tax liability and assets

	Year ended 31 December 2022		Year ended 31 December 2021	
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	**2 659**	**2 041**	**2 293**	**1 992**
Change in the balance:				
corresponding to profit/(loss)	249	418	295	87
corresponding to other comprehensive income	36	(16)	71	(38)
acquisition/(disposal) of subsidiaries and otther changes	7	(20)	–	–
Closing balance	**2 951**	**2 423**	**2 659**	**2 041**

35. Inventories

SELECTED ACCOUNTING PRINCIPLES

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

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

The Group's inventories comprise mainly fuel stocks.

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PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	As at 31 December 2022	As at 31 December 2021
Gross value		
Coal	841	338
CO_2 emission allowances	2	–
Other inventories	292	216
Total	**1 135**	**554**
Measurement to net realisable value		
Other inventories	(17)	(11)
Total	**(17)**	**(11)**
Fair value		
CO_2 emission allowances	75	–
Net realisable value		
Coal	841	338
Other inventories	275	205
Total	**1 118**	**543**

36. Receivables from customers

SELECTED ACCOUNTING PRINCIPLES

Receivables from customers include amounts invoiced and receivables classified as revenue, including revenues subject to revaluation, which have not been measured and invoiced due to the customer settlement system used. The accounting policy in the scope of accrued revenue is described in Note 15.

Receivables from customers are measured at the amounts originally invoiced or estimated, including in accordance with the methodology described in Note 55 to these consolidated financial statements (taking into account the effect of discounting, if material), taking into account the revaluation allowance.

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 over 90 days,
- 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 process of estimating the allowance for receivables is divided into the following stages:

- verification of counterparty balances,
- updating ratings for strategic counterparties,
- updating the parameters of the write-down calculation model,
- including the impact of collaterals on the level of the allowance,
- verification of the parameters of the write-down calculation model,
- final calculation of the write-down.

For receivables from customers, the Group separated a portfolio of strategic counterparties (a counterparty with credit exposure exceeding PLN 2 million) and a portfolio of the remaining counterparties.

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

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

The recovery rate adopted for trade receivables from other counterparties as at 31 December 2022 is shown in the table below.

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Receivables from customers					
Not overdue	Overdue				
	<30 days	30-90 days	90-180 days	180-360 days	>360 days
99.72%	97.63%	85.84%	27.36%	11.71%	3.71%

In order to take into account the impact of future factors (in relation to strategic and other counterparties), the Group adjusts the parameters related to the probability of default using the quotations of Credit Default Swap instruments for individual ratings. The Probability of Default is implied from the quotations of Credit Default Swap instruments over a two-year horizon and a six-month horizon, averaged for counterparties rated within a particular rating.

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	As at 31 December 2022	As at 31 December 2021
Value of items before allowance/write-down		
Receivables from buyers, of which:	3 795	3 363
Additional assessment of revenue from sales of electricity and distribution services	*925*	*1 094*
Receivables claimed at court	232	217
Total	**4 027**	**3 580**
Allowance/write-down		
Receivables from buyers	(62)	(65)
Receivables claimed at court	(146)	(193)
Total	**(208)**	**(258)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	3 733	3 298
Receivables claimed at court	86	24
Total, of which:	**3 819**	**3 322**
Current	3 819	3 322

Ageing of receivables from customers as at 31 December 2022

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	3 510	195	56	25	44	197	**4 027**
Allowance/write-down	(17)	(5)	(9)	(17)	(31)	(129)	**(208)**
Net Value	**3 493**	**190**	**47**	**8**	**13**	**68**	**3 819**

Ageing of receivables from customers as at 31 December 2021

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	3 012	286	38	20	32	192	**3 580**
Allowance/write-down	(28)	(4)	(6)	(20)	(32)	(168)	**(258)**
Net Value	**2 984**	**282**	**32**	**–**	**–**	**24**	**3 322**

Change in allowances on receivables from customers

	Year ended 31 December 2022	Year ended 31 December 2021
Opening balance	**(258)**	**(261)**
Recognised	(3)	(6)
Utilized	5	7
Reversed	48	2
Closing balance	**(208)**	**(258)**

Breakdown of impairment losses by counterparty portfolio as at 31 December 2022

(in PLN million)

	Receiveables from buyers	Receiveables claimed at court		Total
		Court and enforcement proceedings	Bankruptcy proceedings	
Mass counterparties	(46)	(68)	(43)	**(157)**
Strategic counterparties	(16)	(17)	(18)	**(51)**
Total counterparties	**(62)**	**(85)**	**(61)**	**(208)**

Breakdown of impairment losses by counterparty portfolio as at 31 December 2021

	Receiveables from buyers	Receiveables claimed at court		Total
		Court and enforcement proceedings	Bankruptcy proceedings	
Mass counterparties	(38)	(103)	(32)	**(173)**
Strategic counterparties	(27)	(18)	(40)	**(85)**
Total counterparties	**(65)**	**(121)**	**(72)**	**(258)**

37. Receivables arising from other taxes and charges

SELECTED ACCOUNTING PRINCIPLES

Settlements due to other taxes and charges presented in the statement of financial position include:

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

As at 31 December 2022 and 31 December 2021, receivables from other taxes and charges mainly relate to VAT receivables and amount to PLN 791 million and PLN 285 million, respectively. The increase in VAT receivables is mainly related to the reduction of the VAT rate on electricity from 23% to 5% from 1 January 2022 to 31 December 2022.

38. Cash and cash equivalents

SELECTED ACCOUNTING PRINCIPLES

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

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

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

	As at 31 December 2022	As at 31 December 2021 *(restated figures)*
Cash at bank and in hand	1 676	811
Other	2	4
Total cash and cash equivalents presented in the statement of financial position, of which:	**1 678**	**815**
restricted cash, including:	1 047	314
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*725*	*168*
cash on VAT bank accounts (split payment)	*318*	*102*
bank accounts related to subsidies received	*1*	*43*
Collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	(725)	(168)
Cash pool	(37)	(24)
Foreign exchange	24	–
Total cash and cash equivalents presented in the statement of cash flows	**940**	**623**

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 Group companies on Towarowa Giełda Energii, which in the Group's opinion do not constitute cash and cash equivalents in the consolidated statement of cash flows.

(in PLN million)

39. Equity

SELECTED ACCOUNTING PRINCIPLES

Share capital

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

Supplementary capital

Reserve capital is created, to which at least 8% of profit for each financial year is appropriated in order to offset the loss of the joint stock company, until its amount equals at least one-third of the issued capital.

Hedging instruments revaluation reserve

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

Currency exchange differences due to translation of a foreign unit

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

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

The resulting translation differences were recognised in other comprehensive income.

Retained profits / (accumulated losses)

Retained profits/ (accumulated losses) comprise:

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

Non-controlling interests

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

39.1. Share 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**	

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Shareholding structure as at 31 December 2022 and as at 31 December 2021 *(to the best of the Company knowledge)*

Shareholder	Number of shares	Nominal value of shares	Percentage of share capital	Percentage 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%**

As at 31 December 2022, to the best of the Company knowledge, the value of share capital, the number of shares, the nominal value of shares and the shareholding structure, have not changed as compared to the status as at 31 December 2021.

39.2. Shareholder rights

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

For further details on restrictions on the exercise of voting rights, see Section 9.6. of the Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

39.3. Supplementary capital

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

The increase in the value of supplementary capital in the period ended 31 December 2022 results from the distribution of net profit of the Company for the financial year 2021 in the amount of PLN 260 million.

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

39.4. Revaluation reserve from the measurement of hedging instruments

	Year ended 31 December 2022	Year ended 31 December 2021
Opening balance	**299**	**(68)**
Remeasurement of hedging instruments	187	455
Deferred income tax	(36)	(88)
Closing balance	**450**	**299**

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, which has been discussed in more detail in Note 30 to these consolidated financial statements. For the transactions concluded, the Group applies hedge accounting.

As at 31 December 2022, the Group recognised the amount of PLN 450 million of the revaluation reserve from the measurement of hedging instruments. This amount represents an asset on account of the measurement of IRS instruments as at the balance sheet day in the amount of PLN 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 hedging instruments revaluation reserve 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)

39.5. Retained earnings and restrictions on dividends

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

As at 31 December 2022 and as at the date these consolidated financial statements were authorised for issue, there are no other restrictions on the payment of dividends.

39.6. Non-controlling interests

	Year ended 31 December 2022	Year ended 31 December 2021
Opening balance	**33**	**893**
Acquisition of non-controlling interests by the Group	18	(903)
Acquisition of subsidiary	(15)	–
Share in subsidiaries' net profit or loss	–	47
Dividends for non-controlling interests	(3)	(3)
Other transactions with non-controlling shareholders	–	(1)
Closing balance	**33**	**33**

The non-controlling interests as at the balance sheet day refer mainly to the TAURON Dystrybucja S.A. company.

40. Dividends paid and proposed for disbursement

	Year ended 31 December 2022	Year ended 31 December 2021
Dividends paid to non-controllling shareholders by subsidiaries	(3)	(3)

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.

41. Debt liabilities

SELECTED ACCOUNTING PRINCIPLES

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

- • bank credits, loans, bonds issued

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

- Lease

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

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

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PROFESSIONAL JUDGEMENT AND ESTIMATES

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

In the case of a loan agreement 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 Group 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 individual rating of the companies, taking into account a breakdown by lease term.

	As at 31 December 2022	As at 31 December 2021
Unsubordinated bonds	5 256	5 348
Subordinated bonds	1 966	1 972
Loans and borrowings	8 010	4 535
Lease liabilities	1 255	1 235
Total	**16 487**	**13 090**
Non-current	15 959	10 947
Current	528	2 143

41.1. Bonds issued

Issuer	Investor	Interest rate	Currency	Nominal value of bonds issued in currency	Redemption date\	Carrying amount	
						As at 31 December 2022	As at 31 December 2021
TAURON Polska Energia S.A.	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
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168	2029	787	770
Unsubordinated bonds						**5 256**	**5 348**
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400	2031[2]	401	401
	European Investment Bank	fixed1	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						**7 222**	**7 320**

[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 the net debt / EBITDA ratio calculation, since the bonds are excluded from the calculation of this ratio, a covenant in a part of 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)

41.2. Credits and loans

Loans and borrowings as at 31 December 2022

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	6 738	6 738	38	2	854	177	4 102	1 565
	fixed	1 180	1 180	35	78	94	556	95	322
Total PLN		**7 918**	**7 918**	**73**	**80**	**948**	**733**	**4 197**	**1 887**
Total			**7 918**	**73**	**80**	**948**	**733**	**4 197**	**1 887**
Interest increasing carrying amount			92						
Total			**8 010**						

Loans and borrowings as at 31 December 2021

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (after the balance sheet date):					
		currency	PLN	less than 3 months	3-12 months	1-2 years	2-3 years	3-5 years	over 5 years
PLN	floating	3 646	3 646	1 726	5	3	850	363	699
	fixed	880	880	35	75	109	89	557	15
Total PLN		**4 526**	**4 526**	**1 761**	**80**	**112**	**939**	**920**	**714**
Total			**4 526**	**1 761**	**80**	**112**	**939**	**920**	**714**
Interest increasing carrying amount			9						
Total			**4 535**						

Specification of credits and loans drawn as at 31 December 2022 and 31 December 2021

Borrowing institution	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	–
Regional Fund for Environmental Protection and Water Management	floating	PLN	2022	–	4
			2025	8	12
	fixed		2017	6	–
Other loans and borrowings				42	24
Total				**8 010**	**4 535**

** Tranches classified as non-current liability.*

The company has loan agreements concluded in 2020 and 2022 with bank consortiums. 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, as at 31 December 2022, drawdowns in the total amount of PLN 3 271 million are classified as long-term liabilities.

(in PLN million)

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

Lender	Description	Year ended 31 December 2022	
		Drawdown	Repayment
Erste Group Bank AG	Drawdown 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 agreement deadline	17 300	(15 910)
Other borrowings		–	(6)
Total, including:		**19 400**	**(16 027)**
Cash flows		9 440	(6 067)
Net settlement (without cash flow)		9 960	(9 960)

After the balance sheet date the Company performed drawdowns under 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 a PLN 750 million loan under a loan agreement concluded after the balance sheet date with Bank Gospodarstwa Krajowego, which is discussed in more detail in Note 64 to these consolidated 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 in 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.

41.3. Debt agreement covenants

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

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

41.4. Lease liability

The lease liability primarily relates to the perpetual usufruct of land, contracts for occupation of the road lane, land lease and rental agreements, transmission easements and the lease of office and warehouse premises.

(in PLN million)

Ageing of the lease liability

	As at 31 December 2022	As at 31 December 2021
Within 1 year	106	136
Within 1 to 5 years	363	355
Within 5 to 10 years	401	367
Within 10 to 20 years	711	650
More than 20 years	775	907
Gross lease liabilities	**2 356**	**2 415**
Discount	(1 101)	(1 180)
Present value of lease payments	**1 255**	**1 235**
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	1 255	1 235

42. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

Provisions for post-employment benefits and for jubilee awards have been estimated using actuarial methods. Key actuarial assumptions made as at the end of the reporting period for provision calculation purposes:

	31 December 2022	31 December 2021
Discount rate (%)	6.73%	3.60%
Projected long-term inflation rate (%)	2.50%	2.50%
Employee turnover ratio (%)	0.5% - 11.0%	0.99% - 8.60%
Expected rate of remuneration growth (%)	12.5% in 2023, 4.2% in 2024, 2.5% in subsequent years	5.8% in 2022, 3.6% in 2023, 2.5% in subsequent years
Expected rate of increase in the value of the allowance for the Company Social Benefits Fund (ZFŚS) (%)	4.80%	3.50%
Remaining average period of employment	7.71 - 20.21	11.93 - 20.92

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	As at 31 December 2022	As at 31 December 2021
Provision for post-employment benefits and jubilee bonuses	572	874
Provision for employment termination benefits and other provisions for employee benefits	14	19
Total	**586**	**893**
Non-current	494	789
Current	92	104

Provisions for post-employment benefits and jubilee bonuses

	Year ended 31 December 2022				Year ended 31 December 2021			
	Provision for retirement, disability and similar benefits	Social Fund	Jubilee bonuses	Provisions total	Provision for retirement, disability and similar benefits	Social Fund	Jubilee bonuses	Provisions total
Opening balance	**352**	**118**	**404**	**874**	**403**	**172**	**459**	**1 034**
Current service costs	22	3	28	**53**	28	7	34	**69**
Actuarial gains and losses	(52)	(30)	(76)	**(158)**	(59)	(59)	(47)	**(165)**
arising from changes in financial assumptions	(45)	(23)	(41)	**(109)**	(67)	(55)	(59)	**(181)**
arising from changes in demographic assumptions	(1)	(11)	6	**(6)**	–	1	4	**5**
arising from other changes	(6)	4	(41)	**(43)**	8	(5)	8	**11**
Benefits paid	(25)	(6)	(46)	**(77)**	(24)	(4)	(47)	**(75)**
Interest expense	15	5	17	**37**	4	2	5	**11**
Reclassification to liabilities related to disposable assets	(60)	(2)	(95)	**(157)**	–	–	–	**–**
Closing balance	**252**	**88**	**232**	**572**	**352**	**118**	**404**	**874**
Non-current	208	83	198	**489**	309	114	358	**781**
Current	44	5	34	**83**	43	4	46	**93**

Sensitivity analysis

As at 31 December 2022, a sensitivity analysis of the measurement results to a change in the financial discount rate and to changes in planned base amount increases in the range -1.0 p.p./+1.0 p.p. was carried out. The table below shows the the carrying amount of individual provisions and deviations from the carrying amount and the value of provisions calculated with changed assumptions:

Provision title	Carrying amount as at 31 December 2022	Financial discount rate				Planned base increases			
		-1.0 p.p.		+1.0 p.p.		-1.0 p.p.		+1.0 p.p.	
		balance	deviation	balance	deviation	balance	deviation	balance	deviation
Provision for retirement, disability and post-death benefits	252	268	16	236	(16)	239	(13)	265	13
Costs of appropriation to Social Benefits Fund	88	100	12	78	(10)	77	(11)	101	13
Jubilee bonuses	232	244	12	219	(13)	220	(12)	243	11
Total	**572**	**612**	**40**	**533**	**(39)**	**536**	**(36)**	**609**	**37**
effect on profit/loss	–	–	(12)	–	13	–	12	–	(11)
effect on other comprehensive income	–	–	(28)	–	26	–	24	–	(26)

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

Provisions for employee benefits by maturity

Year	Retirement, disability and similar benefits	Social Fund	Jubilee bonuses	Provisions, total
2022	44	5	34	**83**
2023	19	5	27	**51**
2024	19	5	24	**48**
2025	19	4	21	**44**
2026	18	4	19	**41**
Other years	133	65	107	**305**
Total	**252**	**88**	**232**	**572**

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

SELECTED ACCOUNTING PRINCIPLES

Provision for mine decommissioning costs

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

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

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

While estimating the level of provisions as at 31 December 2022, the Group adopted an estimate of the discount rate at a level of 6.73% and the expected inflation rate of 12.5% in 2023, 4.2% in 2024 and from 2025 at the level of the expected long-term inflation rate of 2.5%.

	Year ended 31 December 2022			Year ended 31 December 2021		
	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total	Provision for mine decommissioning costs	Provision for land restoration and dismantling and removal of fixed assets	Provisions total
Opening balance	**257**	**145**	**402**	**375**	**208**	**583**
Unwinding of the discount	8	6	**14**	5	2	**7**
Discount rate adjustment	(114)	(34)	**(148)**	(123)	(42)	**(165)**
Recognition/(reversal), net	−	26	**26**	−	(17)	**(17)**
Utilisation	−	(4)	**(4)**	−	(6)	**(6)**
Reclassification to liabilities related to disposable assets	(147)	−	**(147)**	−	−	**−**
Closing balance	**4**	**139**	**143**	**257**	**145**	**402**
Non-current	4	123	**127**	257	129	**386**
Current	−	16	**16**	−	16	**16**
Other provisions, long-term portion			**30**			**50**
Total			**157**			**436**

43.1. Provision for mine decommissioning costs

The provision as at the balance sheet date is created in relation to the opencast mining plant in Kopalnia Wapienia Czatkowice Sp. z o.o based on estimated costs of liquidating facilities and reclaiming land to the original condition after the completion of the exploitation process. The balance of the Mine Liquidation Fund (“FLZG”) which is created by Kopalnia Wapienia Czatkowice Sp. z o.o. at a certain percentage rate in relation to the mining fee, by transferring cash in the amount of the equivalent of the write-downs to a separate bank account, is recognised within the provision for mining plant decommissioning costs. As at 31 December 2022, the balance of the provision was PLN 4 million and referred solely to Kopalnia Wapienia Czatkowice Sp. z o.o.

On 31 December 2022, TAURON Group lost control over its subsidiary, TAURON Wydobycie S.A., as a result of the disposal transaction of 100% of the shares in TAURON Wydobycie S.A., as further described in Note 3 of these consolidated financial statements. Therefore, bearing in mind that as a result of the sale of shares in TAURON Wydobycie S.A., the Group is no longer obliged to decommission the mining plants owned by TAURON Wydobycie S.A. The Group does not recognise provisions at the balance sheet date for the obligation to decommission the above mining plants. After meeting the conditions under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* the Group reclassified the financial assets of the Mine Liquidation Fund in the amount of PLN 57 million and the provision for mining plants liquidation costs of PLN 147 million to the disposable group classified as held for sale.

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

Financial assets of the Mine Decommissioning Fund

	Year ended 31 December 2022	Year ended 31 December 2021
Assets as at 1 January	**56**	**53**
Contributions made	5	6
Intrest	2	–
Use	(2)	(3)
Reclassification to liabilities related to disposable assets	(58)	–
Assets as at 31 December	**3**	**56**
Transfers made to the MDF in the period	–	(5)

Provision for mine decommissioning costs

	As at 31 December 2022	As at 31 December 2021
Mine Decommissioning Fund	3	60
Surplus of discounted estimated decommissioning costs	1	197
Total	**4**	**257**

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

	Year ended 31 December 2022				Year ended 31 December 2021			
	Provision for restoration of ash landfill	Provisions for dismantling of wind and photovoltaic farms	Provisions for removal of fixed assets	Provisions total	Provision for restoration of ash landfill	Provisions for dismantling of wind and photovoltaic farms	Provisions for removal of fixed assets	Provisions total
Opening balance	**18**	**105**	**22**	**145**	**20**	**158**	**30**	**208**
Interest cost (discounting)	1	4	1	**6**	-	2	-	**2**
Discount rate adjustment	(4)	(29)	(1)	**(34)**	(3)	(38)	(1)	**(42)**
Recognition/(reversal), net	3	23	–	**26**	1	(17)	(1)	**(17)**
Utilisation	–	–	(4)	**(4)**	–	–	(6)	**(6)**
Closing balance	**18**	**103**	**18**	**139**	**18**	**105**	**22**	**145**
Non-current	18	103	2	**123**	14	105	10	**129**
Current	–	–	16	**16**	4	–	12	**16**

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

SELECTED ACCOUNTING PRINCIPLES

Provision for CO_2 emission liabilities

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

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

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

(in PLN million)

taking into account the Group's intention to allocate allowances for redemption purposes for the financial year at the time of purchase.

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

Provision for the obligation to present energy certificates of origin

Energy enterprises trading in electricity and reselling it to the final consumer shall be obliged to purchase and present for redemption certificates of origin for electricity and energy efficiency certificates or to pay a substitution fee. In order to meet the obligation to present the rights for redemption or to pay a substitution fee, the Group creates a provision at the end of the reporting periods for the costs of meeting this obligation.

The provision due to the obligation to present certificates of origin of electricity generated in renewable sources for redemption and certificates of energy efficiency is recognised:

- in the part covered by certificates of origin and certificates of energy efficiency held as at the balance sheet day - at the value of the certificates held,
- in the part not covered by certificates of origin and certificates of energy efficiency held as at the balance sheet day – in the first instance, at values arising from concluded forward transactions, for the purchase of certificates allocated for the fulfilment of the obligation for the current year, and subsequently - at a market value of certificates required to fulfil the obligation as at the balance sheet day, or at a level of the substitution fee – in accordance with the intention of the entity concerning the method of fulfilment of the obligation.

taking into account the Group's intention to allocate certificates of origin and energy efficiency certificates for redemption purposes for the financial year in question at the time they are produced or purchased.

The provision is charged to operating costs.

The settlement of the amount of the provision and the redemption of the property rights shall take place on the basis of the decision issued by the President of the Energy Regulatory Office on redemption of certificates of origin of electricity submitted by the company or in connection with the payment of the substitute fee.

	Year ended 31 December 2022			Year ended 31 December 2021		
	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total	Provisions for liabilities due to CO_2 emission allowances	Provision for obligation to submit energy certificates	Provisions total
Opening balance	**1 493**	**397**	**1 890**	**981**	**769**	**1 750**
Acquisition of a subsidiary	33	1	**34**	–	–	**–**
Recognition	3 135	924	**4 059**	2 148	859	**3 007**
Reversal	(39)	(10)	**(49)**	(1)	(10)	**(11)**
Utilisation	(1 494)	(748)	**(2 242)**	(1 635)	(1 221)	**(2 856)**
Closing balance	**3 128**	**564**	**3 692**	**1 493**	**397**	**1 890**

The increase in the cost of creating the provision for CO_2 emission liabilities in the year ended 31 December 2022 compared to the comparative period mainly results from the increase of prices of CO_2 emission allowances.

For the year ended 31 December 2022, the Group's entire redemption of CO_2 emission allowances related to the 2021 obligation. In the comparative period, the Group redeemed the obligation for 2020 and partially redeemed the obligation for 2021.

(in PLN million)

45. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Other provisions comprise:

- The provision for use of real estate without a contract
  The Group creates provisions for all claims filed by owners of real estate on which power or technology facilities, distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period (including accrued interest, if it can be reliably estimated). The Group does not create provisions for potential claims of land owners with unregulated status which have not been lodged, including for transmission and land easement. Creation and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to financial income or financial expenses.

- Provision for onerous contracts
  If the Group is a party to the contract pursuant to which unavoidable costs of fulfilling the contractual obligations exceed the expected contractual benefits, the present contractual obligation arising from the contract is recognised and measured the Group as a provision. The unavoidable costs arising from the contract comprise, at least, net costs of contract termination, corresponding to the costs of fulfilment of the contract or costs of any damages or penalties arising for the failure to fulfil it, whichever is lower. Contract fulfillment costs include both incremental contract fulfillment costs, e.g. labor and materials, as well as attribution of other costs that relate directly to contract performance (for example, attribution of depreciation to an item of property, plant and equipment used i.a. to fulfill the contract).The unavoidable costs of meeting the obligation shall be increased by the value of the interest due if it can be estimated reliably.

- Other provisions relate to court cases, counterparty claims or other claims, potential penalties resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	Year ended 31 December 2022				Year ended 31 December 2021			
	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions total	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions total
Opening balance	**74**	**416**	**163**	**653**	**77**	**85**	**228**	**390**
Recognition/(reversal), net	2	1 158	(6)	**1 154**	-	385	(33)	**352**
Utilisation	(1)	(1 374)	(24)	**(1 399)**	(3)	(54)	(32)	**(89)**
Reclassification to liabilities related to disposable assets	–	–	(7)	**(7)**	–	–	–	**–**
Closing balance	**75**	**200**	**126**	**401**	**74**	**416**	**163**	**653**
Non-current	–	4	26	**30**	–	8	42	**50**
Current	75	196	100	**371**	74	408	121	**603**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**16**				**16**
Total				**387**				**619**

45.1. Provision for the non-contractual use of real estate

The Group companies create provisions for all claims filed by owners of properties on which distribution networks and heat installations are located. As at 31 December 2022, the provision on this account amounted to PLN 75 million and was related to the segments:

- Generation - PLN 37 million;
- Distribution - PLN 34 million;
- Renewable energy sources - PLN 4 million.

In 2012, the third party applied to TAURON Ciepło S.A. (currently TAURON Ciepło Sp. z o.o.) demanding the settlement of the legal status of the transmission equipment located on its property. The company has questioned both the legitimacy of the claims and of the grounds for offsetting their amounts against the current liabilities to the company arising from heat supplies. Consequently, the company took legal action to enforce its current claims against the debtor. The amount of the potential claims of the aforementioned entity in respect of clarification of the legal status of the company transmission equipment will be reviewed in the course of the proceedings. With regard to the pending dispute, in light of the adopted accounting policy, a provision has been recognised for the estimated cost of the above claim. Bearing in mind the pending litigation, having regard to the provisions of IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

(in PLN million)

45.2. Provisions for onerous contracts

	Year ended 31 December 2022				Year ended 31 December 2021			
	Generation Segment		Sales Segment		Generation Segment	Sales Segment	Other	
	Provision for contracts for the sale of electricity on the forward market	Provision for contracts for the sale of electricity in connection with the shutdown of the 910 MW unit	Provision for contracts for the sale of electricity to selected group of clients	Provisions for onerous contracts, total	Provision for contracts for the sale of electricity in connection with the shutdown of the 910 MW unit	Provision for contracts for the sale of electricity to selected group of clients	Other provisions for onerous contracts	Provisions for onerous contracts, total
Opening balance	**–**	**289**	**127**	**416**	**–**	**77**	**8**	**85**
Recognition	1 097	–	113	**1 210**	289	139	–	**428**
Reversal	–	(43)	(9)	**(52)**	–	(37)	(6)	**(43)**
Utilisation	(1 006)	(246)	(122)	**(1 374)**	–	(52)	(2)	**(54)**
Closing balance	**91**	**–**	**109**	**200**	**289**	**127**	**–**	**416**
Non-current	–	–	4	**4**	–	8	–	**8**
Current	91	–	105	**196**	289	119	–	**408**

TAURON Capital Group carried out an analysis of the contracts concluded within the Generation segment as at 31 December 2022 and for individual contracts in relation to which it was identified that the contractual sales price did not exceed the estimated unavoidable costs of fulfilling these contracts, a provision was created for the onerous contract in the amount of PLN 91 million. The calculation of the provision was based on the price difference between the contracted sales price under the concluded forward market transactions and the unavoidable cost of generating energy from the Group's generation sources. Energy generation costs comprised the unit cost of fuel used to produce electricity, CO2 emission allowances in accordance with the contracts concluded for their purchase and other costs incurred in connection with the production of electricity by the Group's generating units used to perform the contracts, including depreciation of property, plant and equipment. The calculation takes into account revenues from the capacity market attributable to the generating units executing the contracts in question in relation to the total volume of energy contracted for sale. The provision created relates to the sale by the company in the Generation segment of a volume of 1.1 TWh of electricity on the forward market in 2023.

During the year ended 31 December 2022, in the Generation segment, the Group recognised the effects of the recognition and utilisation of a provision in the total amount of PLN 1006 million, in connection with contracts for the sale of electricity on the forward market, which matured in the period up to 31 December 2022. The provision referred to the sale of the volume of 3.04 TWh of electricity by the company of the Generation segment on the forward market during the second half of 2022.

Moreover, in the period ended 31 December 2022, in the Generation Segment, the Group recognised the effects of utilisation and reversal of the provision created in connection with the shutdown of the 910 MW unit in Jaworzno. The provision created as at 31 December 2021 was calculated based on the assumption that in the period of the estimated shutdown of the unit, i.e. by 29 April 2022, the Group will purchase the volume of 1.7 TWh of electricity which was not produced within own production due to the shutdown of the 910 MW unit. Due to the shutdown of the 910 MW unit and the need to fulfil contracted deliveriess to customers, the Group purchased electricity on the wholesale market at current prices and subsequently resold it through the companies of the Sales segment to the end customer. In the year ended 31 December 2022, the Group utilised the majority of the provision created and released the remaining part of the provision.

As at the balance sheet date of 31 December 2022, the Group recognises the provision for onerous contracts in the amount of PLN 109 million in the Sales segment. A provision was set up for electricity and gas sales contracts, where the sales revenues generated do not fully cover the costs incurred for either producing or purchasing the electricity required to fulfil these contracts. The provision created relates only to customers with GD (Households) price lists while the need for its creation resulted mainly from an increase in the cost of purchasing electricity to secure sales volumes for customers with fixed price lists. As at the balance sheet date, the Group carried out an analysis of the impact of changes in legislation, including in particular the entry into force of the *Act of 7 October 2022 on special measures to protect electricity consumers in 2023* and the *Act of 27 October 2022 on extraordinary measures to reduce electricity prices and support certain consumers in 2023*, described in more detail in note 12 of these consolidated financial statements, on its agreements concluded with customers. The analysis performed, taking into account both, the sale price of electricity to the customer and the Group's receipt of compensation under the aforementioned legislation, did not indicate the need to recognise provisions for onerous contracts in respect of agreements other than the GD-priced agreements with customers described above. The Group estimates that it will receive the full amount of the estimated compensation included in the above analysis.

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

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

Material provisions recognised within other provisions are described below:

Operating segment	Description	Status as at 31 December 2022	Status as at 31 December 2021
Provision for real estate tax			
Generating	The provision relates to the risk of the effects of unfavorable decisions regarding the exemption from real estate tax of assets constituting railway infrastructure.	12	-
Renewable Energy Sources	The provision relates to the risk of the effects of the Constitutional Court judgement of 22 July 2020 on imposing the real estate tax on wind power plants in 2018. In the year ended 31 December 2022, the company from the Renewable Energy Sources segment released the provision in full amount.	-	17
Distribution	Provision for the economic risk in the scope of real estate tax relating to power grid assets. In the year ended 31 December 2022, the company from the Distribution segment released the provision of PLN 8 million.	31	39
Provision for the increase in remuneration for transmission easements			
Distribution	The provision relates to the risk of increased periodic charges for transmission easements for energy infrastructure located in the territory of forest districts subordinated to the Regional Directorate of State Forests in Wrocław, Katowice and Cracow in connection with a change in the nature of land from forest land to land associated with business activities.	21	33

46. Accruals and governmental subsidies

SELECTED ACCOUNTING PRINCIPLES

Accrued revenues and government grants

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

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

Accrued expenses

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

46.1. Deferred income and government grants

	As at 31 December 2022	As at 31 December 2021
Deferred income	**390**	**41**
Received advance payments for compensations to trading companies	337	–
Donations, subsidies received for the purchase or fixed assets received free-of-charge	47	36
Other	6	5
Government grants	**556**	**561**
Subsidies obtained from EU funds	493	485
Measurement of preferential loans	27	29
Forgiven loans from environmental funds	24	24
Other	12	23
Total	**946**	**602**
Non-current	571	567
Current	375	35

Received advance payments for compensations to trading companies in the amount of PLN 337 million result mainly from the applications submitted in December 2022 by the companies of the Sales segment for the advance payments for compensations in the scope of electricity trading, submitted by the companies under the *Act of date 27 October 2022 on extraordinary measures to limit the level of electricity prices and support certain consumers in 2023,* as further described in Note 12 of these consolidated financial statements.

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

46.2. Accrued expenses

	As at 31 December 2022	As at 31 December 2021
Bonuses	66	60
Unused holidays	32	35
Environmental protection charges	17	26
Other accrued expenses	23	22
Total	**138**	**143**
Non-current	–	1
Current	138	142

47. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

The Group uses simplified methods of measurement of other financial liabilities which are usually measured at amortised cost, if it does not result in the deformation of information contained in the financial statements, in particular, in case if the period from the moment of settlement of the liability is not long. The liabilities in relation to which simplifications are applied, are measured upon initial recognition and later, including, at the end of the reporting period, in the amount requiring payment. Liabilities to suppliers, investment liabilities (Note 49) and selected other financial liabilities (Note 52) are therefore measured at the amount payable, due to the immaterial impact of discounting.

Operating segment	As at 31 December 2022	As at 31 December 2021
Mining	–	164
Generation	728	168
Renewable Energy Sources	26	14
Distribution, including:	419	409
liability to Polskie Sieci Elektroenergetyczne S.A.	*343*	*331*
Sales	983	389
Other	90	98
Total	**2 246**	**1 242**

48. Liabilities due to acquisition of non-controlling shares

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 held 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.

49. Investment liabilities

Operating segment	As at 31 December 2022	As at 31 December 2021
Mining	–	30
Generation	107	110
Renewable Energy Sources	31	19
Distribution	389	345
Sales and Other	180	112
Total	**707**	**616**

(in PLN million)

Long-term investment liabilities are presented in the consolidated statements of financial position under other financial liabilities. As at 31 December 2022, the related liability amounted to PLN 60 million (as at 31 December 2021, the liability on this account did not occur).

Commitments to incur capital expenditure

As at 31 December 2022 and as at 31 December 2021, the Group committed to incur expenditure of PLN 4 551 million and PLN 2 844 million, respectively, on property, plant and equipment and intangible assets, the key items of which are shown in the table below.

Operating segment	Agreement/investment project	As at 31 December 2022	As at 31 December 2021
Distribution	Construction of new electrical connections	2 039	1 342
	Modernization and reconstruction of existing networks	610	556
Renewable Energy Sources	Construction of wind farms	947	82
	Construction of the photovoltaic farms	233	–
Generation	Expansion of heat sources in new capacities	88	141
	Construction of 910 MW Power Unit in Jaworzno and additional work	44	166

50. Settlements due to income tax

The income tax receivables in the amount of PLN 518 million relate to income tax settlements of the Group companies for the period of the year ended 31 December 2022, including mainly the following companies: TAURON Wytwarzanie S.A., TAURON Polska Energia S.A. and TAURON Ciepło Sp. z o.o.

The income tax liabilities in the amount of PLN 17 million relate to income tax settlements of the Group companies for the period of the year ended 31 December 2022, including mainly TAURON Czech Energy s.r.o.

In the year ended 31 December 2022, TAURON Group companies settled income tax individually, while in the comparative period TAURON Polska Energia S.A. and selected subsidiaries settled income tax for 2021 within the Tax Capital Group, which is described in more detail in note 21.1. these consolidated financial statements.

51. Liabilities arising from other taxes and charges

	As at 31 December 2022	As at 31 December 2021
Social security	164	231
VAT	105	263
Personal Income Tax	41	69
Other	14	66
Total	**324**	**629**

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

(in PLN million)

52. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

As at each balance sheet date, the Group estimates the fair value of liabilities measured at a fair value. The fair value calculation methodology is presented in Note 55 hereto.

	As at 31 December 2022	As at 31 December 2021
Wages, salaries	183	220
Liability due to return of recompensation by trading companies	116	–
Bid bonds, deposits and collateral received	81	64
Exchange settlements variation margins	41	102
Other	212	130
Total	**633**	**516**
Non-current	119	33
Current	514	483

The value of 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.

53. Other current non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

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

	As at 31 December 2022	As at 31 December 2021
Payments from customers relating to future periods	**821**	**568**
Amounts overpaid by customers	484	392
Prepayments for connection fees	226	107
Other	111	69
Other current non-financial liabilities, of which:	**22**	**2**
Allowance for Price Difference Payment Fund	21	–
Total	**843**	**570**

The accrual of expenses for the allowance for the Price Difference Payment Fund (the "Fund") relates to the recognition by Group companies, pursuant to the provisions of the Act of 27 October 2022 *on extraordinary measures to limit the level of electricity prices and support certain consumers in 2023*, of the costs of transferring funds to the Fund for 2022, as further described in Note 12 of these consolidated financial statements.

(in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

54. Significant items of the consolidated statement of cash flows

SELECTED ACCOUNTING PRINCIPLES

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

54.1. Cash flows from operating activities

Profit before tax

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Profit before tax on continuing operations	110	1 125
Profit before tax on dicontinued operations	23	(450)
Total	**133**	**675**

Amortisation and depreciation

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Amortisation and depreciation regarding continuing operations	2 060	1 958
Amortisation and depreciation regarding discontinued operations	156	143
Total	**2 216**	**2 101**

Other adjustments to profit before tax

As part of other adjustments to profit before tax, the main item is an adjustment to the valuation of derivative financial instruments amounting to PLN 215 million in the current period and PLN (58) million in the comparable period.

Impairment losses of non-financial tangible fixed assets

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Impairment losses in continuing operations	79	944
Impairment losses in discontinued operations	135	185
Total	**214**	**1 129**

(in PLN million)

Changes in working capital

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Change in receivables	**(1 286)**	**(786)**
Change in receivables from buyers in statement of financial position	(497)	(849)
Change in other financial receivables	(458)	71
Derecognition of subsidiaries	(336)	–
Other adjustments	5	–
Change in inventories	**(707)**	**313**
Change in inventories in statement of financial position	(575)	331
Derecognition of subsidiaries	(94)	–
Adjustment related to transfer of invetories to/from property, plant and equipment	(38)	(18)
Change in payables excluding loans and borrowings	**1 561**	**543**
Change in liabilities to suppliers in statement of financial position	1 004	221
Change in payroll, social security and other financial liabilities	57	17
Change in non-financial liabilities in statement of financial position	270	143
Change in liabilities arising from taxes excluding income tax	(305)	219
Adjustment of VAT change related to capital commitments	62	(45)
Adjustment of other financial liabilities for guarantee valuation	(27)	12
Acquisition of subsidiaries	(14)	–
Derecognition of subsidiaries	546	–
Other adjustments	(32)	(24)
Change in other non-current and current assets	**(1 258)**	**915**
Change in other current and non-current non-financial assets in statement of financial position	(787)	(125)
Change in receivables arising from taxes excluding income tax	(511)	3
Change in non-current and current CO2 emission allowances	(115)	351
Change in non-current and current energy certificates	64	588
Change in advance payments for property, plant and equipment and intangible assets	115	99
Derecognition of subsidiaries	(28)	–
Other adjustments	4	(1)
Change in deferred income, government grants and accruals	**293**	**(87)**
Change in deferred income, government grants and accruals in statement of financial position	339	69
Adjustmet related to property, plant and equipment, intangible assets and right-of-use assets received free of charge	(36)	(47)
Adjustment related to subsidies received and refunded	(37)	(111)
Acquisition of subsidiaries	(15)	–
Derecognition of subsidiaries	43	–
Other adjustments	(1)	2
Change in provisions	**1 468**	**358**
Change of short term and long term provisions in statement of financial position	984	59
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	96	118
Adjustement related to provisions recognized in correspondence with property, plant and equipment and other non-financial assets	97	170
Acquisition of subsidiaries	(36)	–
Derecognition of subsidiaries	331	–
Other adjustments	(4)	11
Change of collaterals transfered to IRGiT	(557)	(47)
Total	**(486)**	**1 209**

Income tax paid

In the year ended 31 December 2022, income tax paid amounted to PLN 540 million. Group companies paid PLN 914 million due to income tax advance payments for the year ended 31 December 2022. At the same time, the Group received a tax refund from the Tax Capital Group settlement for 2021 in the amount of PLN 374 million.

In the year ended 31 December 2021, income tax paid amounted to PLN 392 million, of which the amount of PLN 329 million related to the Tax Capital Group. The Tax Capital Group paid income tax in the amount of PLN 433 million on account of advance income tax payments and received a refund of the surplus of income tax for 2020 in the amount of PLN 104 million.

The companies belonging to the Tax Capital Group in 2021 settle income tax for 2022 individually, as further described in Note 50 to these consolidated financial statements.

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

54.2. Cash flows from investment activities

Purchase of tangible fixed assets and intangible assets

	Year ended 31 December 2022	Year ended 31 December 2021
Purchase of property, plant and equipment	(3 029)	(2 514)
Purchase of intangible assets	(359)	(106)
Change in the balance of capital commitments (VAT-adjusted)	86	(221)
Change in the balance of advance payments	(115)	(99)
Costs of overhaul and internal manufacturing	(498)	(305)
Other	(11)	(10)
Total	**(3 879)**	**(3 255)**

Loans granted

The expenses related to granting the loan to the joint venture arise from the loan agreement concluded by the Company on 2 March 2022 with Elektrociepłownia Stalowa Wola S.A. up to PLN 120 million, as further described in Note 30 to these consolidated financial statements. On 8 March 2022, the Company paid the full amount of the loan to the borrower.

Loss of control over a subsidiary

The amount of the cash outflow related to the loss of control of the subsidiary is the cash of TAURON Wydobycie S.A. at the date of loss of control in the amount of PLN 216 million.

Disposal of financial assets

Proceeds from the disposal of financial assets mainly relate to the disposal by the subsidiary TAURON Wydobycie S.A. of treasury bonds received from the State Treasury as part of capacity reduction subsidies granted to the company in the amount of PLN 178 million.

54.3. Cash flows from financial activities

Repayment of credits/loans

	Year ended 31 December 2022	Year ended 31 December 2021
Repayment by the Company of tranches of loans to the Consortium of banks	(5 950)	(3 300)
The repayment of the loan installments by the Company to the European Investment Bank	(111)	(162)
Other	(6)	(4)
Total	**(6 067)**	**(3 466)**

Purchase of non-controlling shares

Expenses for the acquisition of non-controlling shares in the amount of PLN 1 061 million result from the timely repayment on 22 March 2022 of liabilities to Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN for the acquisition of shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 48 to these consolidated financial statements.

Interest paid

	Year ended 31 December 2022	Year ended 31 December 2021
Interest paid in relation to debt securities	(274)	(249)
Interest paid in relation to loans and borrowings	(240)	(101)
Interest paid in relation to the lease	(10)	(7)
Total	**(524)**	**(357)**
constituting investing expense	(24)	(14)
constituting financing expense	(500)	(343)

The Group presents costs of external financing incurred activated in the current period on assets as expenditures for acquisition of property, plant and equipment and intangible assets in cash flows from investment activities. In the year ended 31 December 2022, paid interest representing external financing costs subject to capitalisation in the value of fixed assets and intangible assets amounted to PLN 24 million, whereas in the comparative period, it amounted to PLN 14 million.

(in PLN million)

Borrowings

	Year ended 31 December 2022	Year ended 31 December 2021
The launch of financing by the Company under loan agreements:		
Banks Consortiums	7 340	2 000
European Investment Bank	1 600	–
Erste Group Bank AG	500	–
Other	–	3
Total	**9 440**	**2 003**

54.4. Cash flows from discontinued operations

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

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

	Year ended 31 December 2022	Year ended 31 December 2021 *(restated figures)*
Net cash flow from operating activities	651	(591)
Net cash flow from investing activities	(509)	(333)
Net cash flow from financing activities	(41)	(38)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**101**	**(962)**

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

55. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

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

TAURON Group divides the financial liabilities into the following classes:

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group makes judgements regarding classification of financial instruments.

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

The Group recognises an impairment loss upon initial recognition of a financial asset and then remeasures the impairment loss amount as at each reporting day. The Group recognises the allowance for expected credit losses on financial assets measured at amortised cost including mostly receivables from customers and loans granted. The measurement methodology is presented in Notes 36 and 56.1.4. hereto.

(in PLN million)

55.1. 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	**4 377**		**3 440**	
Receivables from buyers	3 819	3 819	3 322	3 322
Deposits	3	3	56	56
Loans granted	25	25	25	25
Other financial receivables	530	530	37	37
2 Financial assets measured at fair value through profit or loss (FVTPL)	**2 362**		**1 726**	
Derivative instruments	257	257	626	626
Shares	211	211	141	141
Loans granted	181	181	74	74
Other financial receivables	35	35	70	70
Cash and cash equivalents	1 678	1 678	815	815
3 Derivative hedging instruments	**592**	**592**	**371**	**371**
4 Financial assets excluded from the scope of IFRS 9 *Financial Instruments*	**682**		**597**	
Investments in joint ventures	682		597	
Total financial assets, of which in the statement of financial position:	**8 013**		**6 134**	
Non-current assets	**1 579**		**1 443**	
Investments in joint ventures	682		597	
Loans granted to joint ventures	206		99	
Derivative instruments	390		532	
Other financial assets	301		215	
Current assets	**6 434**		**4 691**	
Receivables from buyers	3 819		3 322	
Derivative instruments	459		465	
Other financial assets	478		89	
Cash and cash equivalents	1 678		815	

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	**18 818**		**15 290**	
Preferential loans and borrowings	8	8	15	15
Arm's length loans and borrowings	8 001	7 928	4 520	4 471
Bank overdrafts	1	1	–	–
Bonds issued	7 222	6 828	7 320	7 500
Liabilities to suppliers	2 246	2 246	1 242	1 242
Other financial liabilities	348	348	250	250
Liabilities due to the acquisition of non-controlling interests	–	–	1 061	1 061
Capital commitments	767	767	616	616
Salaries and wages	183	183	220	220
Insurance contracts	42	42	46	46
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**341**		**495**	
Derivative instruments	341	341	495	495
3 Financial liabilities excluded from the scope of IFRS 9 Finanical Instruments	**1 256**		**1 235**	
Liabilities under leases	1 256		1 235	
Total financial liabilities, of which in the statement of financial position:	**20 415**		**17 020**	
Non-current liabilities	**16 088**		**11 096**	
Debt	15 959		10 947	
Derivative instruments	10		116	
Other financial liabilities	119		33	
Current liabilities	**4 327**		**5 924**	
Debt	528		2 143	
Liabilities to suppliers	2 246		1 242	
Liabilities due to the acquisition of non-controlling interests	–		1 061	
Capital commitments	707		616	
Derivative instruments	331		379	
Other financial liabilities	514		483	
Liabilities associated with assets classified as held for sale	1		–	

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

Financial asset/liability classes	Fair value hierarchy 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 31 hereto.
IRS and CCIRS	2	
Currency forwards	2	
Commodity forwards and futures	1	
Shares	3	The Group estimated the fair value of shares held in not listed companies using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments or using a mixed approach. As the key factors affecting the value of shares held had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Group assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	2	The fair value was measured as the present value of future cash flows discounted with the current interest rate.
	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates.

The fair value of other financial instruments as at 31 December 2022 and 31 December 2021 (except from those excluded from the scope of IFRS 9 *Financial Instruments*) did not differ considerably from the amounts presented in the financial statements for individual 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 jointly controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured using the equity method.

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

	Year ended 31 December 2022		Year ended 31 December 2021	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	**141**	**74**	**175**	**73**
Gains/(losses) for the period recognized in financial revenue/expenses	(25)	–	(4)	1
Purchased/in-kind contribution	101	–	20	–
Sold (liquidation)/repaid	–	–	(53)	–
Other changes	(6)	–	3	–
Closing balance	**211**	**74**	**141**	**74**

In the year ended 31 December 2022 and 31 December 2021, no reclassification occurred between the levels of the fair value hierarchy.

(in PLN million)

55.2. 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 at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends	14	–	–	–	–	**14**
Interest income / (expense)	33	42	(682)	145	(54)	**(516)**
Currency translation differences	(21)	1	(104)	–	–	**(124)**
Impairment / revaluation	(266)	2	(24)	–	–	**(288)**
Commission relating to loans and debt securities	–	–	(24)	–	–	**(24)**
Gain/(loss) on disposal of investments	1	(4)	–	–	–	**(3)**
Gain/(loss) on exercised derivative instruments*	10	–	–	–	–	**10**
Net financial income (revenues/costs)	**(229)**	**41**	**(834)**	**145**	**(54)**	**(931)**
Revaluation	13	8	–	–	–	**21**
Gain/(loss) on exercised derivative instruments*	(18)	–	–	–	–	**(18)**
Net operating income/(revenues/costs)	**(5)**	**8**	**–**	**–**	**–**	**3**
Remeasurement of IRS	–	–	–	187	–	**187**
Other comprehensive income	**–**	**–**	**–**	**187**	**–**	**187**

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

Year ended 31 December 2021 *(restated data)*

	Assets/ liabilities at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends	10	–	-	-	-	**10**
Interest income / (expense)	-	23	(290)	(25)	(48)	**(340)**
Currency translation differences	(5)	1	19	-	-	**15**
Impairment / revaluation	65	(2)	12	-	-	**75**
Commission relating to borrowings and debt securities	-	-	(25)	-	-	**(25)**
Gain/(loss) on disposal of investments	(1)	(2)	-	-	-	**(3)**
Gain/(loss) on exercised derivative instruments*	47	-	-	-	-	**47**
Net financial income (costs)	**116**	**20**	**(284)**	**(25)**	**(48)**	**(221)**
Revaluation	(11)	(33)	-	-	-	**(44)**
Gain/(loss) on exercised derivative instruments*	114	-	-	-	-	**114**
Net operating income/(costs)	**103**	**(33)**	**–**	**–**	**–**	**70**
Remeasurement of IRS	-	-	-	455	-	**455**
Other comprehensive income	**-**	**-**	**-**	**455**	**-**	**455**

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

56. Objectives and principles of financial risk management

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

Risk exposure	Risk management	Regulation
	Credit risk	
Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on its obligations 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.	Policy of credit risk management in TAURON Group
	Liquidity risk	
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The liquidity situation of TAURON Capital Group is monitored on an on-going basis in terms of potential deviations against the assumed plans and the availability of external sources of financing whose amount significantly exceeds the expected demand in a short term mitigates the risk of losing liquidity. To this end, the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies cash-pooling) as well as using external financing. The Company also manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To mitigate the financing risk, the Company's policy assumes obtaining funding for the TAURON Group in advance of the planned time of use, i.e. up to 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 for the TAURON Group
	Market risk - interest rate and currency risks	
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	TAURON Group manages 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 such risk management is to minimise the cash flow sensitivity of the TAURON Group to financial risks and to minimize financial costs and costs of hedging with the use of derivative instruments. For interest rate risk hedging transactions and 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)

56.1. Credit risk

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

Classes of financial instruments	As at 31 December 2022	As at 31 December 2021
Receivables from buyers	3 819	3 322
Derivative instruments	849	997
Cash and cash equivalents	1 678	815
Loans granted	206	99
Deposits	3	56
Other financial receivables	565	107

56.1.1 Credit risk related to receivables from customers

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

	As at 31 December 2022	As at 31 December 2021
Institutional clients	74.01%	68.96%
Individual clients	25.99%	31.04%
Total	**100%**	**100%**

The Group has no significant concentrations of credit risk related to its core business. Amounts due from PSE S.A. constitute the largest item of receivables from consumers with a share of 4.92% as at 31 December 2022 and 12.61% as at 31 December 2021, respectively.

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

The ageing of receivables from customers and information on impairment losses on receivables from customers is presented in Note 36 to these consolidated financial statements.

56.1.2 Credit risk related to other financial receivables

The Group's other financial receivables at 31 December 2022 and as at 31 December 2021 mainly relate to institutional customers (share of 99.44% and 94.34%, respectively).

As at 31 December 2022, a significant item of other financial receivables are receivables for compensation for trading companies in the amount of PLN 465 million, due under *the Act of 27 October 2022 on emergency measures aimed at limiting the amount of electricity prices and supporting certain consumers in 2023*, which is discussed in more detail in Note 12 to these consolidated financial statements.

Within other financial receivables the Group presents initial and variation margin deposits resulting as well as other collaterals resulting from transactions entered into on stock exchange markets. In the opinion of the Group, the mechanisms of functioning of the stock exchange and the collateral used eliminate the credit risk. In addition to stock exchange collaterals, there is no significant concentration of credit risk associated with other financial receivables.

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

Ageing of other financial receivables measured at amortised cost as at 31 December 2022

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	533	4	2	3	6	169	**717**
Allowance/write-down	(3)	(4)	(2)	(3)	(6)	(169)	**(187)**
Net Value	**530**	**–**	**–**	**–**	**–**	**–**	**530**

(in PLN million)

Ageing of other financial receivables measured at amortised cost as at 31 December 2021

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	41	1	76	2	2	90	**212**
Allowance/write-down	(4)	(1)	(76)	(2)	(2)	(90)	**(175)**
Net Value	**37**	**–**	**–**	**–**	**–**	**–**	**37**

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

	Year ended 31 December 2022	Year ended 31 December 2021
Opening balance	**(175)**	**(112)**
Recognised	(13)	(73)
Utilized	–	3
Reversed	1	7
Closing balance	**(187)**	**(175)**

56.1.3 Credit risk related to cash and cash equivalents and derivatives

Cash and cash equivalents

The Group manages its cash credit risk by diversifying the banks where surplus cash can be deposited while reducing the cost of holding cash in accounts. These banks receive investment rating. The share of the three banks where the Group holds its largest cash balances was 79% as at 31 December 2022.

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*.

56.1.4 Credit risk related to loans granted

Loans measured at amortised cost

As far as granted loans measured at amortized cost are concerned, the Group assesses the risk of insolvency on the part of the borrowers based on the ratings assigned to the counterparties using an internal scoring model, 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 period end having deteriorated by more than two rating levels compared to its rating upon initial recognition;
- the counterparty's probability of insolvency projected within one-year horizon as at the reporting period end being at least twice higher than as at the initial recognition date;

(in PLN million)

- receivables related to a given asset being overdue by more than 30 days.

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty. The loans granted by the Group as at 31 December 2022 and 31 December 2021 were not overdue.

Loans measured at a fair value

The measurement 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 accompanied by a promissory note agreement.

56.2. Liquidity risk

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

The Company carries out a centralized finance management policy, allowing effective management in this respect on the Group level. Among others, the TAURON Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management at the TAURON Group, reduces the risk of liquidity loss in the Group, and in each company from the TAURON Group as well as financial expenses. 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 Group has financing available under concluded financing agreements. Agreements of the parent company 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	The year of the end of the period of availability of funds	Year ended 31 December 2022	
				Available llimit according to the agreement	Carrying amount
Subordinated bond issuance scheme	Bank Gospodarstwa Krajowego	current and investment	2023	450	–
loan	Consortium of banks	current and investment, excluding mining asstes	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.

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In 2022, the Group demonstrated full capacity to settle its liabilities on their maturity date.

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

Financial liabilities as at 31 December 2022

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within (after the balance sheet date)					
			less than 3 months	3 - 12 months	1 - 2 years	2 - 3 years	3 - 5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**15 232**	**(18 317)**	(165)	(1 017)	(2 728)	(3 158)	(7 802)	(3 447)
Liabilities to suppliers	**2 246**	**(2 246)**	(2 246)	–	–	–	–	–
Capital commitments	**767**	**(767)**	(636)	(71)	(17)	(17)	(26)	–
Other financial liabilities	**573**	**(573)**	(485)	(30)	(35)	(6)	(6)	(11)
Obligations under leases	**1 256**	**(2 357)**	(76)	(30)	(95)	(91)	(177)	(1 888)
Derivative financial liabilities								
Derivate instruments - commodity	**232**	**(92)**	(69)	(23)	–	–	–	–
Derivative instruments - currency	**109**	**(109)**	(39)	(67)	(3)	–	–	–
Total	**20 415**	**(24 461)**	**(3 716)**	**(1 238)**	**(2 878)**	**(3 272)**	**(8 011)**	**(5 346)**

Financial liabilities as at 31 December 2021

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within (after the balance sheet date)					
			less than 3 months	3 - 12 months	1 - 2 years	2 - 3 years	3 - 5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**11 855**	**(13 777)**	(1 780)	(613)	(680)	(2 381)	(3 844)	(4 479)
Liabilities to suppliers	**1 242**	**(1 242)**	(1 241)	(1)	-	-	-	-
Liabilities due to the acquisition of non-controlling interests	**1 061**	**(1 061)**	(1 061)	-	-	-	-	-
Capital commitments	**616**	**(616)**	(595)	(21)	-	-	-	-
Other financial liabilities	**516**	**(516)**	(450)	(37)	(10)	(7)	(7)	(5)
Obligations under leases	**1 235**	**(2 415)**	(88)	(48)	(107)	(92)	(156)	(1 924)
Derivative financial liabilities								
Derivate instruments - commodity	**494**	**(185)**	(84)	(26)	(75)	-	-	-
Derivate instruments - CCIRS	**1**	**(13)**	-	(2)	(2)	(2)	(4)	(3)
Total	**17 020**	**(19 825)**	**(5 299)**	**(748)**	**(874)**	**(2 482)**	**(4 011)**	**(6 411)**

56.3. Market risk

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

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

56.3.1 Interest rate risk

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

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate debt, the Group concluded interest rate swap (IRS) transactions, described in detail in Note 31 of these consolidated financial statements. IRS transactions concluded in order to hedge interest rate risk are subject to hedge accounting.

(in PLN million)

The following tables present the carrying amounts of the Group's financial instruments exposed to interest rate risk. As the Group has adopted a dynamic financial risk management strategy where the hedged item is represented by 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.

Financial instruments by interest rate type

Financial instruments	As at 31 December 2022			As at 31 December 2021		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Deposits	3	–	**3**	26	30	**56**
Loans granted	206	–	**206**	99	–	**99**
Cash and cash equivalents	–	1 619	**1 619**	–	766	**766**
Derivative instruments-IRS	592	–	**592**	371	–	**371**
Derivative instruments-CCIRS	21	–	**21**	26	–	**26**
Financial liabilities						
Bank overdrafts	1	–	**1**	–	–	**–**
Preferential loans and borrowings	–	8	**8**	–	15	**15**
Arm's length loans and borrowings	2 961	5 040	**8 001**	2 634	1 886	**4 520**
Bonds issued	6 821	401	**7 222**	6 750	570	**7 320**
Obligations under finance leases	1 256	–	**1 256**	1 235	–	**1 235**
Derivative instruments-CCIRS	–	–	**–**	1	–	**1**

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

Sensitivity analysis

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

As at 31 December 2022, in its sensitivity analysis of derivatives, the Group 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 Group 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 Group 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. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year.

The Group 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) of the Group 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.

(in PLN million)

Financial 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	
			Profit/(Loss) /Other comprehensive income[1]				*Profit/(Loss) /Other comprehensive income*[1]	
	Carrying amount	Value at risk	WIBOR +630 bp	WIBOR -630 bp	Carrying amount	Value at risk	WIBOR +64 bp	WIBOR -64 bp
Financial assets								
Derivative instruments[2]	849	613	1	(1)	997	397	82	(82)
Cash and cash equivalents	1 678	1 619	95	(95)	815	766	4	(4)
Loans granted	206	181	(78)	146	99	74	(4)	5
Financial liabilities								
Arm's length loans and borrowings	8 001	6 814	(429)	429	4 520	3 638	(23)	23
Bonds issued	7 222	2 507	(158)	158	7 320	2 663	(17)	17
Preferential loans and borrowings	8	8	(1)	1	15	15	–	–
Derivative instruments[2]	341	–	–	–	495	1	–	–
Total			**(570)**	**638**			**42**	**(41)**

[1] Refers to Interest Rate Swap financial derivatives covered by hedge accounting, as further discussed in Note 31 to these consolidated 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 Group's risk exposure during the preceding one-year period.

The Group monitors changes in the market environment related to the planned replacement of WIBOR with WIRON (Warsaw Interest Rate Overnight) based on the parameters of overnight deposit transactions and conducts analyzes to determine the effects of the planned changes for the Group.

56.3.2 Currency risk

TAURON Group companies are exposed to transaction and translation currency risk. The Group companies are exposed to exchange rate fluctuations in connection with their operational and financial activities. The following tables show the Group's exposure to currency risk by classes of financial instruments. Significant exposure relates to EUR/PLN and CZK/PLN exchange rate movements. The Group's exposure to other currencies is immaterial.

Classes of financial instruments	As at 31 December 2022					As at 31 December 2021				
	Total carrying amount in PLN	EUR		CZK		Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN		in currency	in PLN	in currency	in PLN
Financial assets										
Receivables from buyers	3 819	11	52	104	20	3 322	5	22	49	9
Derivatives	849	50	236	–	–	997	100	460	–	–
Other financial receivables	565	–	1	41	8	107	7	32	25	5
Cash and cash equivalents	1 678	20	92	77	15	815	22	101	24	5
Total		**81**	**381**	**222**	**43**		**134**	**615**	**98**	**19**
Financial liabilities										
Issued bonds	7 222	853	4 000	–	–	7 320	855	3 933	–	–
Liabilities to suppliers	2 246	9	42	8	2	1 242	4	21	7	1
Capital commitments	767	–	1	–	–	616	5	22	–	–
Derivatives	341	49	232	–	–	495	102	469	–	–
Other financial liabilities	348	11	49	2	–	250	22	102	–	–
Total		**922**	**4 324**	**10**	**2**		**988**	**4 547**	**7**	**1**
Net currency position		**(841)**	**(3 943)**	**212**	**41**		**(854)**	**(3 932)**	**91**	**18**

As part of its currency risk management, the TAURON Group uses forward contracts. The purpose of the transactions concluded was to hedge the Group 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.

CO_2 emission allowances are purchased to fulfil the redemption obligation by the Group's installations. In connection with the CO_2 emissions for the reporting period, the Group creates a provision for liabilities due to the obligation to redeem CO_2 emission allowances in the amount of CO_2 emission allowances held and contracted to be purchased in EUR. Consequently, the value of the provision is exposed to the risk of volatility in the EUR/PLN exchange rate. FX contracts related to the purchase of CO_2 emission allowances hedge the Group's flows arising from the purchase of allowances.

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

Sensitivity analysis

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

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

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

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

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	
	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								
Receivables from buyers	3 819	52	4	(4)	3 322	22	1	(1)
Derivatives	849	257	42	(42)	997	601	285	(285)
Other financial receivables	565	1	–	–	107	32	2	(2)
Cash and cash equivalents	1 678	92	8	(8)	815	101	6	(6)
Financial liabilities								
Bonds issued	7 222	4 000	(338)	338	7 320	3 933	(231)	231
Liabilities to suppliers	2 246	42	(4)	4	1 242	21	(1)	1
Capital commitments	767	1	–	–	616	22	(1)	1
Derivatives	341	341	480	(480)	495	470	(24)	24
Other financial liabilities	348	49	(4)	4	250	102	(6)	6
Total			**188**	**(188)**			**31**	**(31)**

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

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

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

At 31 December 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 Group.

(in PLN million)

57. Operational risk

The commercial operational risk is managed at the level of the TAURON Group. The Group manages its commercial risk following the developed and adopted for use *Commercial risk management policy in the TAURON Group*, which has introduced an early warning system in addition to a system of limiting the exposure to risk in various commercial areas.

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

The volume and costs of purchases of basic raw materials from suppliers outside the Group are shown in the table below.

Fuel type	Unit	2022		2021	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	2 896 201	2 234	2 414 222	559
Gas	MWh	4 123 303	1 217	4 720 343	572
Electricity	MWh	31 023 498	18 127	32 316 552	9 640
Heat energy	GJ	5 185 178	327	5 193 627	249
Total			**21 905**		**11 020**

OTHER INFORMATION

58. Contingent liabilities

Claims related to termination of long-term contracts

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

In 2015, companies 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 consolidated 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 judgments.

In the case brought by Talia Sp. z o.o., on 20 December 2021, the Court of Appeals in Gdańsk announced a judgement dismissing the appeals of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The judgement of the Court of Appeals and consequently the preliminary and partial judgements and the supplementary judgement indicated above are final. 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 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 the subsidiary Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. regarding long-term contracts for the purchase of power and property rights related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims.

As at the date of approval of these consolidated financial statements for publication, the damages claimed in the lawsuits amount 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 consolidated financial statements for publication, the Group'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 Group'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 Group 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 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 its 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 consolidated 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 Group 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.

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 consolidated 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 recognise 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 the 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.

Proceedings initiated by the President of the Office of Competition and Consumer Protection and the President of the Energy Regulatory Office

Administrative and explanatory proceedings are pending against companies in the Sales segment. The companies provide clarifications in the respective cases on an ongoing basis and undertake remedying actions.

In the scope of proceedings concerning the imposition of fines initiated against a company in the Sales segment for which the ERO President issued decisions imposing fines, the company established provisions for pending proceedings in the total amount of PLN 3 million.

With regard to the proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the companies in the Sales segment for declaring the provisions of the standard agreement as prohibited in connection with the mechanism used by the companies for automatically extending the period of settlement of charges for the sale of electricity according to the price list, the companies established the provisions in the total amount of PLN 8 million for the potential refund of one-off fees charged to customers for early termination of price lists and for potential costs of servicing the implementation of the provisions within the framework of binding decisions.

Apart from the above-mentioned proceedings, the companies do not create provisions for potential penalties related to initiated proceedings, since in the opinion of the Management Boards of the companies the risk of unfavourable resolution of cases and imposition of a penalty is low.

Non-contractual use of real estate

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

As at the balance sheet date, provisions in the amount of PLN 75 million were created for reported court disputes, which are recognised in the statement of financial position under other provisions (Note 45.1).

59. Collaterals for repayment of liabilities

As part of its operations, the Group uses a number of instruments to hedge its own liabilities and liabilities of joint ventures 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.

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Collateral	Collateral amount as at	
	31 December 2022	31 December 2021
Declarations of submission to enforcement*	16 095	19 189
Corporate and bank guarantees	2 117	1 456
Surety agreements	618	62
Bank account mandates	600	600
Blank promissory notes	597	499
Pledges on shares	416	1 796
Other	35	–

**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 48 of these consolidated 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 41.2 of these consolidated 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 41.2 of these consolidated 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.

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, the declaration of submission to enforcement up to PLN 300 million originally constituting the security for the bank overdraft was returned;
- 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, the declaration of submission to enforcement up to PLN 300 million constituting the original security was returned;
- 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 64 of these consolidated financial statements;
- on 27 February 2023, a bank guarantee of up to PLN 457 million was issued to secure the receivables of Bank Gospodarstwa Krajowego ("BGK") under 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 is valid from 12 March 2023 to 11 March 2024. The guarantor's claim against the Company is secured by a statement of submission to enforcement up to PLN 548 million signed on 7 March 2023. In connection with the issuance of the above guarantee, the existing security in the form of a bank guarantee of up to PLN 300 million and a surety of up to PLN 187 million expired on 11 March 2023;

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- on 21 March 2023, the Company signed two statements on submission to enforcement: up to PLN 300 million as collateral for a guarantee facility agreement up to PLN 250 million and up to PLN 675 million as collateral for a subordinated bond issue program up to PLN 450 million, as further described in Note 56.2 of these consolidated 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 consolidated 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 of 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 to IRGiT. 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 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 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 consolidated 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 414 000 tonnes and the blocking order of property rights owned by TAURON Wytwarzanie S.A. in the total amount of 81 000 MWh.

(in PLN million)

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

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

	As at 31 December 2022	As at 31 December 2021
Other non-financial assets	342	–
Other financial receivables	–	29
Real estate	2	4
Cash	1	1
Total	**345**	**34**

As at 31 December 2022, the main item comprises other non-financial assets – funds paid in advance for coal deliveries in the amount of PLN 342 million.

Provision of funds to cover future decommissioning costs

As at the balance sheet date, the Mine Liquidation Fund created to secure funds to cover future decommissioning costs relates to the subsidiary, Kopalnia Wapienia Czatkowice Sp. z o.o., as further discussed in Note 43.1 of these consolidated financial statements.

On 31 December 2022, TAURON Group lost control over its subsidiary, TAURON Wydobycie S.A., as a result of the disposal transaction of 100% of the shares in TAURON Wydobycie S.A., therefore the Group is no longer under the obligation to decommission mining plants owned by TAURON Wydobycie S.A.

60. Related party disclosures

60.1. Transactions with joint ventures

The group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A. and the TAMEH HOLDING Sp. z o.o. capital group, which are further described in Note 29 of these consolidated financial statements.

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

	Year ended 31 December 2022	Year ended 31 December 2021
Revenue	966	412
Costs	(557)	(488)

The main item of settlements with jointly-controlled entities are the loans granted to Elektrociepłownia Stalowa Wola S.A., which is discussed in more detail in Note 30 to these consolidated financial statements.

The Company provided collaterals to joint ventures in the form of pledges on shares in TAMEH HOLDING Sp. z o.o. and a bank guarantee issued at the request of the Company and the surety to secure loan liabilities of Elektrociepłownia Stalowa Wola S.A.

60.2. Transactions with the participation of State Treasury companies

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

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

Revenues and costs

	Year ended 31 December 2022	Year ended 31 December 2021
Revenue	3 830	3 344
Costs	(5 646)	(4 457)

Receivables and liabilities

	As at 31 December 2022	As at 31 December 2021
Receivables*	519	573
Payables	982	506

**As at 31 December 2021, the receivables item in the table above includes advance payments for the purchase of fixed assets in the amount of PLN 2 million.*

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Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Capital Group in the year ended 31 December 2022 and in the comparable period included KGHM Polska Miedź S.A., PSE S.A. and Polska Grupa Górnicza S.A. The largest purchase transaction was performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A.

The Capital Group conducts significant transactions on the energy markets 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.

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

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 contingency 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 3 to these consolidated 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.

60.3. Remuneration of the executives

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key management personnel of the parent company and the subsidiaries in the year ended 31 December 2022 and in the comparative period has been presented in the table below.

	Year ended 31 December 2022		Year ended 31 December 2021	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	**7**	**24**	**4**	**22**
Short-term benefits (with surcharges)	6	24	4	22
Employment termination benefits	1	–	–	–
Supervisory Board	**1**	**2**	**1**	**–**
Short-term employee benefits (salaries and surcharges)	1	2	1	–
Other key management personnel	**13**	**52**	**16**	**47**
Short-term employee benefits (salaries and surcharges)	12	51	14	47
Employment termination benefits	–	–	1	–
Other	1	1	1	–
Total	**21**	**78**	**21**	**69**

In accordance with the accounting policy adopted, the Group creates provisions for benefits due to members of the Management Board on account of termination of their management contracts and to other key executives on account of termination of their employment, which may be paid or payable in subsequent reporting periods. The table above takes into account the amounts paid and due to be paid until 31 December 2022.

61. Finance and capital management

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

(in PLN million)

Detailed information concerning finance management is described in section 7.3. of the Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

In 2022, the Company and TAURON Group demonstrated full capacity to settle their liabilities on their maturity date.

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

The Company primarily monitors the debt ratio of the Group, defined as the ratio of net financial debt to EBITDA. The TAURON Group's net financial debt is defined in individual financing agreements and generally represents the obligation to pay or reimburse the money on account of loans, borrowings and debt securities and on account of financial leases (within the meaning of the provisions of the IAS 17 standard), excluding subordinated bond liabilities, less cash and short-term investments with a maturity of up to 1 year. EBITDA means the TAURON Group's operating profit or loss plus depreciation and amortisation and write-downs on non-financial assets. The Company has the option, at its own discretion, to resign from including in the calculation the debt ratio the financing contracted by special purpose vehicles implementing RES projects under the project finance formula (as long as such debt has no recourse to the Company), while excluding the EBITDA value and cash of the relevant special purpose vehicle. In addition, sustainability indicators in the form of a RES capacity growth indicator and the CO_2 emission reduction indicator are monitored for some financing agreements.

The value of the indicators is monitored by the institutions financing the Group and rating agencies and affects the possibility and cost of fund-raising as well as the Company credit rating.

As at the balance sheet date, the debt ratio stood at 2.93, what is included in the terms of the financing agreements..

	Year ended 31 December 2022	Year ended 31 December 2021
Loans and borrowings	7 765	2 685
Unsubordinated bonds	5 041	5 145
Non-current debt liabilities	**12 806**	**7 830**
Loans and borrowings	245	1 850
Unsubordinated bonds	215	203
Liabilities due to the acquisition of non-controlling interests	–	1 061
Short-term debt liabilities	**460**	**3 114**
Total debt	**13 266**	**10 944**
Contingent liabilities treated as equivalent to debt in the financing documentation	187	–
Cash and cash equivalents	1 678	815
Net debt	**11 775**	**10 129**
EBITDA	**4 016**	**4 152**
Operating profit (loss)	1 119	916
Depreciation/amortization	(2 216)	(2 101)
Impairment	(681)	(1 135)
Net debt / EBITDA	**2.93**	**2.44**

(in PLN million)

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

Debt liabilities	Year ended 31 December 2022	Year ended 31 December 2021
Opening balance	**14 151**	**14 652**
subordinated bonds	(1 972)	(1 998)
lease indebtedness (except for those meeting the conditions of IAS 17 Leases)	(1 235)	(1 138)
Opening balance - debt in the calculation of debt ratio	**10 944**	**11 516**
Proceeds arising from debt taken out	**9 440**	**2 003**
financing received	9 440	2 003
Interest accrued	**622**	**409**
charged to profit or loss	598	395
capitalized to property, plant and equipment and intangible assets	24	14
Debt related payments	**(6 887)**	**(4 110)**
debt securities redemption	(170)	(170)
principal repaid	(6 067)	(3 466)
lease instalments paid	(126)	(117)
interest paid	(500)	(343)
interest paid, capitalized to investment projects	(24)	(14)
Recognition/(repayment) of liabilities due to the acquisition of non-controlling interests	**(1 061)**	**1 061**
Change in the balance of overdraft facility and cash pool	**13**	**1**
Recognition of new lease agreements and change of lease agreements	**103**	**163**
Change in debt measurement	**76**	**(25)**
Derecognition of subsidiaries	**(83)**	**–**
Acquisition of subsidiaries	**94**	**–**
Other non-monetary changes	**19**	**(3)**
Closing balance	**16 487**	**14 151**
subordinated bonds	(1 966)	(1 972)
lease debt (except for debt meeting the conditions of IAS 17 Leases)	(1 255)	(1 235)
Closing balance - debt in the calculation of debt ratio	**13 266**	**10 944**

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

Information on the 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.

63. Other material information

Restructuring of the hard coal mining sector in Poland

On 3 February 2022, the *Act of 17 December 2021 amending the Act on the functioning of the hard coal mining industry* (the “Act”) entered into force, establishing a system of public aid for hard coal mining. The Act stipulates the value of subsidies in the amount of over PLN 28.8 billion for the years 2022-2031, while values of subsidies for subsequent years have not been specified. The Act clarifies, among others, the rules for granting public aid in the form of subsidies to reduce the production capacity of coal mines, stipulates the suspension of the repayment and ultimate redemption of a part of the mining companies' liabilities towards the Social Insurance Institution (ZUS) and defines the possibility of increasing their capital by issuing treasury securities. On 4 February 2022, the Regulation of the Minister of State Assets on capacity reduction subsidies for mining companies entered into force, setting out the detailed conditions of the support system regarding capacity reduction subsidies. The support system adopted in the Act constitutes state aid and is subject to notification to the European Commission. As at the date of approval of these consolidated financial statements for publication, the aid scheme has not been notified.

On 8 April 2022, TAURON Wydobycie S.A. received information on the acceptance by the Minister of State Assets of the application for granting public aid in the form of subsidies to TAURON Wydobycie S.A. to reduce its production capacity for 2022.

On 20 December 2022, TAURON Wydobycie S.A. concluded the following agreements:

- with the Minister of State Assets - the agreement to increase the share capital of the company,
- with the State Treasury - represented by the Minister of State Assets - an agreement to take up shares in the increased share capital of TAURON Wydobycie S.A.

The above agreements were concluded in the framework of the public support approved by the Minister of State Assets for TAURON Wydobycie S.A. in the form of subsidies for production capacity reduction. The subsidy to the reduction of the production capacity of the company occurred in the form of an increase in the share capital of TAURON Wydobycie S.A. in exchange for a non-cash contribution made by the State Treasury in the form of treasury securities - treasury bonds worth PLN 178 million. TAURON Wydobycie S.A. sold the treasury bonds received at a price of PLN 178 million.

On 31 December 2022, the Group lost control over TAURON Wydobycie S.A. as a result of the sale of 100% of the company shares to the State Treasury, as described in more detail in Note 3 of these consolidated financial statements.

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 period of 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 and shares in the joint venture Elektrociepłownia Stalowa Wola S.A., 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 transaction did not have any impact on the consolidated financial statements. 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.

The above transactions had no impact on the consolidated financial statements.

As at 31 December 2022, the Group 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 Group's assets and liabilities of the manufacturing and service companies included in the NABE Programme as a disposable group classified as held for sale.

Impact of the COVID-19 pandemic on the operations of the 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 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 of 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 Group's generating units, which may result in a decrease in their availability 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 connection with the existing situation in companies of TAURON Group, 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.

64. 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 in 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 all available financing.

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 referred to as: "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. ("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 of the parties to the agreements, related to breaking of the agreements and delays in their implementation. RAFAKO S.A further stipulated, 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 agreement from the common court. The conditions precedent to the entry into force of the Settlement Agreement 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 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 the contract performance security instruments, 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

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