

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 2023

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2023 compliant with the IFRS, approved by the European Union
(in PLN million)

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2023	Year ended 31 December 2022
Sales revenue	14	42 657	36 311
Recompensation revenue	15	8 058	484
Cost of sales	16	(45 627)	(34 854)
Profit on sale		5 088	1 941
Selling and distribution expenses	16	(766)	(528)
Administrative expenses	16	(701)	(558)
Other operating income and expenses	17	260	86
Share in profit/(loss) of joint ventures	28	(487)	128
Operating profit		3 394	1 069
Interest expense on debt	18	(797)	(591)
Finance income and other finance costs	18	(295)	(368)
Profit before tax		2 302	110
Income tax expense	20	(624)	(319)
Net profit (loss) on continuing operations		1 678	(209)
Net profit (loss) on discontinued operations	21	-	75
Net profit (loss)		1 678	(134)
Measurement of hedging instruments	38.4	(287)	187
Foreign exchange differences from translation of foreign entity		2	17
Income tax	20	55	(36)
Other comprehensive income on continued operations to be reclassified in the financial result		(230)	168
Actuarial gains (losses)	41	(133)	68
Income tax	20	25	(12)
Share in other comprehensive income of joint ventures		(1)	-
Other comprehensive income on continued operations not to be reclassified in the financial result		(109)	56
Other comprehensive income on discontinued operations	21	-	18
Other comprehensive income, net of tax		(339)	242
Total comprehensive income		1 339	108
Net profit (loss):			
Attributable to equity holders of the Parent		1 673	(134)
Attributable to non-controlling interests		5	-
Total comprehensive income:			
Attributable to equity holders of the Parent		1 334	108
Attributable to non-controlling interests		5	-
Profit (loss) per share (in PLN) from:			
net profit (loss) for the period attributable to shareholders of the parent company	22	0.95	(0.08)
net profit (loss) from continuing operations for the period attributable to shareholders of the parent company		0.95	(0.12)
Diluted profit (loss) per share (in PLN) from:			
net profit (loss) for the period attributable to shareholders of the parent company	22	0.95	(0.08)
net profit (loss) from continuing operations for the period attributable to shareholders of the parent company		0.95	(0.12)

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2023	As at 31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	23	31 872	29 731
Right-of-use assets	24	2 164	1 996
Goodwill	25	26	26
Energy certificates and CO ₂ emission allowances for surrender	26.1	24	55
Other intangible assets	27	848	726
Investments in joint ventures	28	169	682
Loans granted to joint ventures	29	357	206
Derivative instruments	30	149	390
Other financial assets	31	278	301
Other non-financial assets	32.1	707	268
Deferred tax assets	33	759	672
		37 353	35 053
Current assets			
Energy certificates and CO ₂ emission allowances for surrender	26.2	702	597
Inventories	34	1 483	1 118
Receivables from buyers	35	5 341	3 819
Income tax receivables	48	105	518
Receivables arising from other taxes and charges	36	794	803
Derivative instruments	30	275	459
Other financial assets	31	2 449	478
Other non-financial assets	32.2	207	790
Cash and cash equivalents	37	1 084	1 678
Assets classified as held for sale		5	7
		12 445	10 267
TOTAL ASSETS		49 798	45 320

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CONTINUED

	Note	As at 31 December 2023	As at 31 December 2022
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	38.1	8 763	8 763
Supplementary capital	38.3	3 076	3 009
Revaluation reserve from valuation of hedging instruments	38.4	218	450
Foreign exchange differences from translation of foreign entities		62	60
Retained earnings/(Accumulated losses)	38.5	5 796	4 299
		17 915	16 581
Non-controlling interests	38.6	38	33
Total equity		17 953	16 614
Non-current liabilities			
Debt	40	14 544	15 959
Provisions for employee benefits	41	650	494
Provisions for disassembly of fixed assets and land restoration	42	209	157
Accruals, deferred income and government grants	45	607	571
Deferred tax liabilities	33	1 212	1 200
Derivative instruments	30	169	10
Capital commitments	47	152	60
Other financial liabilities	50	32	59
Other non-financial liabilities		1	1
		17 576	18 511
Current liabilities			
Debt	40	2 871	528
Liabilities to suppliers	46	2 088	2 246
Capital commitments	47	555	707
Provisions for employee benefits	41	104	92
Provisions for liabilities due to energy certificates and CO ₂ emission allowances	43	3 744	3 692
Other provisions	44	843	387
Accruals, deferred income and government grants	45	351	513
Income tax liabilities	48	19	17
Liabilities arising from other taxes and charges	49	1 030	324
Derivative instruments	30	644	331
Other financial liabilities	50	640	514
Other non-financial liabilities	51	1 379	843
Liabilities directly related to assets classified as held for sale		1	1
		14 269	10 195
Total liabilities		31 845	28 706
TOTAL EQUITY AND LIABILITIES		49 798	45 320

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent					Total	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)			
As at 1 January 2022		8 763	2 749	299	43	4 637	16 491	33	16 524
Distribution of prior years profits		-	260	-	-	(260)	-	-	-
Dividends		-	-	-	-	-	-	(3)	(3)
Acquisition of subsidiary		-	-	-	-	-	-	(15)	(15)
Acquisition of non-controlling interests		-	-	-	-	(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
Distribution of prior years profits	38.3	-	67	-	-	(67)	-	-	-
Transactions with shareholders		-	67	-	-	(67)	-	-	-
Net profit		-	-	-	-	1 673	1 673	5	1 678
Other comprehensive income		-	-	(232)	2	(109)	(339)	-	(339)
Total comprehensive income		-	-	(232)	2	1 564	1 334	5	1 339
As at 31 December 2023		8 763	3 076	218	62	5 796	17 915	38	17 953

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2023	Year ended 31 December 2022
Cash flows from operating activities			
Profit before tax from continuing and discontinued operations	52.1	2 302	133
Share in (profit)/loss of joint ventures		487	(128)
Depreciation and amortization	52.1	2 226	2 216
Impairment losses on non-financial non-current assets	52.1	26	214
Write-down of disposable group due to revaluation to fair value		-	460
Revaluation of loans granted		(151)	14
Exchange differences		(330)	102
Interest and commissions		800	591
Valuation of derivatives		604	229
Other adjustments of profit before tax		38	(30)
Change in working capital	52.1	(1 180)	(486)
Income tax paid	52.1	(206)	(540)
Net cash from operating activities		4 616	2 775
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	52.2	(4 841)	(3 879)
Purchase of financial assets		(16)	(28)
Loans granted		-	(120)
Loss of control over a subsidiary		-	(216)
Other payments		-	(14)
Total payments		(4 857)	(4 257)
Proceeds from sale of property, plant and equipment and intangible assets		63	28
Disposal of financial assets		-	180
Dividends received		-	72
Other proceeds		-	1
Total proceeds		63	281
Net cash used in investing activities		(4 794)	(3 976)
Cash flows from financing activities			
Redemption of debt securities		(170)	(170)
Repayment of loans and borrowings	52.3	(6 758)	(6 067)
Purchase of non-controlling shares		-	(1 061)
Interest paid	52.3	(697)	(500)
Repayment of lease liabilities		(105)	(126)
Other payments		(8)	(36)
Total payments		(7 738)	(7 960)
Proceeds from contracted loans and borrowings	52.3	7 982	9 440
Subsidies received		36	38
Other		6	-
Total proceeds		8 024	9 478
Net cash from financing activities		286	1 518
Net increase/(decrease) in cash and cash equivalents		108	317
Net foreign exchange difference		25	(24)
Cash at the beginning of the period	37	940	623
Cash at the end of the period, of which:	37	1 048	940
restricted cash	37	372	322

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

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 2023.

The Parent Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court for Katowice-Wschód, 8th 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 activity is carried out based on the appropriate licences granted to individual entities belonging to 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, Distribution, Sales and other operations, including customer service, as discussed in more detail in Note 12 to these consolidated financial statements.

These consolidated financial statements of the Group cover the year ended 31 December 2023 and contain comparative information for the year ended 31 December 2022.

These consolidated financial statements were approved for publication by the Management Board on 16 April 2024.

Composition of the Management Board

As at 1 January 2023 and as at 31 December 2023, the composition of the Management Board was as follows:

- 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.

After the balance sheet date, as of 13 February 2024 the Supervisory Board dismissed:

- Paweł Szczeszek from the position of the President of the Management Board,
- Patryk Demski from the position of the Vice President of the Management Board,
- Bogusław Rybacki from the position of the Vice President of the Management Board,
- Tomasz Szczegielniak from the position of the Vice President of the Management Board,
- Artur Warzocha from the position of the Vice President of the Management Board.

At the same time, the Supervisory Board assigned, as of 14 February 2024, a member of the Supervisory Board, Ms Karolina Mucha-Kuś, to temporarily perform the activities of the President of the Management Board of the Company in the period until the date of appointment of the new President of the Management Board, but no longer than three months from the date of the assignment.

On 29 February 2024, the Supervisory Board of the Company appointed the following members of the Management Board for the 7th joint term of office, with effect as of 7 March 2024:

- Grzegorz Lot for the position of the President of the Management Board,
- Piotr Gołębiowski for the position of the Vice President of the Management Board for Trade,
- Michał Orłowski for the position of the Vice President of the Management Board for Asset Management and Development,
- Krzysztof Surma for the position of Vice President of the Management Board for Finance.

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In connection with the termination of the 6th joint term of office of the Management Board of the Company on 31 December 2023, the Supervisory Board adopted a resolution to dismiss Krzysztof Surma, Vice President of the Management Board for Finance from the Management Board of TAURON Polska Energia S.A. as of 6 March 2024.

In connection with the appointment of the aforementioned persons to the Management Board of the Company, the Supervisory Board adopted a resolution on termination, as of 6 March 2024, the temporary performance of the activities of the President of the Management Board of the Company by the delegated member of the Supervisory Board, Karolina Mucha-Kuś.

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

- Grzegorz Lot – President of the Management Board,
- Piotr Gołębiowski – Vice President of the Management Board,
- Michał Orłowski – Vice President of the Management Board,
- Krzysztof Surma – Vice President of the Management Board.

2. Composition of TAURON Group and joint ventures

As at 31 December 2023, TAURON Polska Energia S.A. held, directly and indirectly, shares in the following key subsidiaries:

	Company name	Registered office	Share of TAURON Polska Energia S.A. in the company share capital	Company holding direct shareholding in the share capital/ General partner
GENERATION				
1	TAURON Wytwarzanie S.A.	Jaworzno	100.00%	TAURON Polska Energia S.A.
2	TAURON Ciepło Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
3	TAURON Serwis Sp. z o.o.	Jaworzno	95.61%	TAURON Wytwarzanie S.A.
4	Łagisza Grupa TAURON Sp. z o.o.	Katowice	100.00%	TAURON Wytwarzanie S.A.
5	TAURON Inwestycje Sp. z o.o. ¹	Będzin	100.00%	TAURON Polska Energia S.A.
6	Energetyka Cieszyńska Sp. z o.o. ²	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 T2 Sp. z o.o.	Postomino	100.00%	TAURON Zielona Energia Sp. z o.o.
21	"MEGAWATT S.C." Sp. z o.o.	Katowice	100.00%	TAURON Zielona Energia Sp. z o.o.
22	TAURON Inwestycje Sp. z o.o. ¹	Będzin	100.00%	TAURON Polska Energia S.A.
23	Wind T4 Sp. z o.o.	Katowice	100.00%	TAURON Zielona Energia Sp. z o.o.
24	WIND T30MW Sp. z o.o.	Katowice	100.00%	TAURON Zielona Energia Sp. z o.o.
25	FF Park PV 1 Sp. z o.o.	Katowice	100.00%	TAURON Zielona Energia Sp. z o.o.
26	Windpower Gamów Sp. z o.o.	Katowice	100.00%	TAURON Zielona Energia Sp. z o.o.
27	AE ENERGY 7 Sp. z o.o.	Kępice	100.00%	TAURON Zielona Energia Sp. z o.o.
DISTRIBUTION				
28	TAURON Dystrybucja S.A.	Kraków	99.77%	TAURON Polska Energia S.A.
29	TAURON Dystrybucja Pomiary Sp. z o.o.	Tarnów	99.77%	TAURON Dystrybucja S.A.

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SALES				
30	TAURON Sprzedaż Sp. z o.o.	Cracow	100.00%	TAURON Polska Energia S.A.
31	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	100.00%	TAURON Polska Energia S.A.
32	TAURON Czech Energy s.r.o.	Ostrava, Czech Republic	100.00%	TAURON Polska Energia S.A.
33	TAURON Nowe Technologie S.A.	Wrocław	100.00%	TAURON Polska Energia S.A.
OTHER				
34	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	100.00%	TAURON Polska Energia S.A.
35	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	100.00%	TAURON Polska Energia S.A.
36	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warsaw	100.00%	TAURON Polska Energia S.A.
37	Finanse Grupa TAURON Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
38	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	100.00%	TAURON Wytwarzanie S.A.
39	Usługi Grupa TAURON Sp. z o.o.	Tarnów	99.77%	TAURON Dystrybucja S.A.
40	TAURON Ubezpieczenia Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.

¹The activities of TAURON Inwestycje Sp. z o.o. are classified in two segments: the Renewable Energy Sources and the Generation segment.

²After the balance sheet date, the incorporation of Energetyka Cieszyńska Sp. z o.o. by TAURON Ciepło Sp. z o.o. was registered on 3 January 2024.

Changes in the composition of the Group in the year ended 31 December 2023

The Group implements, in the framework of TAURON Green Turn announced in 2019 and the TAURON Group Strategy for the years 2022-2030 with an outlook until 2050 adopted in 2022, investment projects aimed at the sustainable transformation of the Group towards climate neutrality. One of the Group's activities under the adopted Strategy is the acquisition of shares in companies where the aforementioned projects will be implemented.

	Description of changes	Impact on TAURON Group
Acquisition of control over the company WIND T2 Sp. z o.o.	On 5 December 2023, the subsidiary, TAURON Zielona Energia Sp. z o.o. acquired 100% of the shares in WIND T2 Sp. z o.o. The acquisition of the company is aimed at implementation of the investment project by TAURON Zielona Energia Sp. z o.o. involving the construction of a wind farm with the capacity of 24 MW.	Recognition of the transaction as the acquisition of assets
Acquisition of control over the company AE ENERGY 7 Sp. z o.o.	On 21 December 2023, the subsidiary, TAURON Zielona Energia Sp. z o.o. acquired 100% of the shares in AE ENERGY 7 Sp. z o.o. The acquisition of the company is aimed at implementation of the investment project by TAURON Zielona Energia Sp. z o.o. involving the construction of a photovoltaic farm with the capacity of 90 MW.	Recognition of the transaction as the acquisition of assets
Incorporation of companies: AVAL-1 Sp. z o.o., Polpower Sp. z o.o and WIND T1 Sp. z o.o. by TAURON Ekoenergia Sp. z o.o.	On 11 April 2023, the incorporation of AVAL-1 Sp. z o.o. and Polpower Sp. z o.o. by TAURON Ekoenergia Sp. z o.o. was registered. On 2 October 2023, the incorporation of WIND T1 Sp. z o.o. by TAURON Ekoenergia Sp. z o.o. was registered.	No impact

As at 31 December 2023, 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 2022.

As at 31 December 2023, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled companies in the Generation segment:

No.	Company name	Registered office	Share of TAURON Polska Energia S.A. in the company capital and governing body	Company holding direct shareholding in equity
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. 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 Standards Interpretations 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., Energetyka Cieszyńska Sp. z o.o., TEC1 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., WIND T2 Sp. z o.o., AE Energy 7 Sp. z o.o. and TAURON Ubezpieczenia 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.

4. Going concern

These consolidated financial statements have been prepared with the assumption of continuation of activities by the Group 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's companies 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 date, the Group has available financing under financing agreements concluded, which is described in Note 54.2 to these consolidated financial statements. As part of capital and financial management, the Group monitors in particular the Group's debt ratio, which is described in more detail in Note 59 of these consolidated financial statements.

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

5. Functional currency and presentation currency

The functional currency of the parent company and its subsidiaries, except for TAURON Czech Energy s.r.o. covered by these consolidated financial statements and the presentation currency of these consolidated financial statements is the Polish zloty. 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 ("PLN M"), unless indicated otherwise.

6. Accounting principles (policy)

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

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

Consolidation

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

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

Business acquisitions

Business acquisitions are accounted for using the acquisition method. As at the acquisition date, the acquiring entity recognises identifiable assets acquired and liabilities assumed 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 recognises in the statement of comprehensive income any surplus remaining after the reassessment (gain from a bargain purchase).

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

Acquisition of businesses under common control of the State Treasury

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

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

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

7. Material values based on professional judgement and estimates

In the process of applying the accounting policy, professional judgement of the management, along with accounting estimates, has been of key importance which 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.

Climate issues are an integral part of the models used in the estimation process, in particular in the scope of impairment tests performed on non-financial assets, economic useful lives of non-financial assets and estimates of provisions for liabilities resulting from the obligations imposed on the Group related to environmental protection and counteracting climate change. The impact of climate issues on these consolidated financial statements is presented in Note 10.

Uncertainty in estimates carries the risk of significant adjustment to the carrying amounts of assets and liabilities. Items of the consolidated financial statements that involve a significant risk of material adjustment to the carrying amounts of assets and liabilities, information on the estimates and judgements made by management, including the key assumptions made and sensitivity analyses for changes in these assumptions are described in the individual notes to these consolidated financial statements. Significant estimates relate to write-downs on non-financial assets recognised as a result of impairment tests (Note 13), write-offs on inventories (Note 34) and provisions created (Notes 41-44).

Besides the foregoing, the Group makes significant estimates as regards the contingent liabilities recognised, in particular in the scope of legal proceedings where the Group companies are parties (Note 56).

8. Standards published and amendments to standards which have not yet entered into force until 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 2023.

• Amendments to standards issued by the International Accounting Standards Board which have been endorsed by the European Union and have not entered into force until the balance sheet date

The Company has identified and analysed EU-approved amendments to the standards that have not entered into force by the balance sheet date. As at the date of approval of these consolidated financial statements for publication, the Company has not yet completed its work on assessing the impact of introducing the amendments to standards on the accounting policy applied by the Group. On the basis of the analyses carried out to date, the pre-estimated impact on the accounting policy applied is described in the table below.

Standard	Description of the amendments to the standards and their impact on the Group's accounting policy	Date of entry into force in the EU (annual periods starting on or after that date)
Amendments to IAS 1 <i>Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, and Classification of Liabilities as Current or Non-current – Deferral of Effective Date and Non-current Liabilities with Covenants</i>	<p>As at the balance sheet date, the Company holds borrowings under revolving financing agreements with bank syndicates with the carrying amount of PLN 2 567 million. As at 31 December 2023, all tranches drawn under the revolving credit agreements are classified as non-current liabilities, based on the Company's expectation in relation to their repayment term. Starting from 1 January 2024, the classification will be based on the term of availability of funding, i.e. the effective term of the agreements, which falls in the years 2026-2027, consequently, in accordance with the amendments to IAS 1, the above liabilities will continue to be classified as a non-current liability.</p> <p>In addition, as at the balance sheet date, the Company has liabilities due to hybrid bonds covering two financing periods. As at 31 December 2023, the liability due to issued hybrid bonds subscribed by the European Investment Bank with a carrying amount of PLN 775 million is classified as short-term due to the redemption intention after the first financing period, i.e. in December 2024. The redemption after the first financing period is also included in the liability measurement models as the best estimate of flows in accordance with the financing terms, also taking into account the possibility of early repayment. The Company believes that the amendments to IAS 1 will affect the classification of the above liabilities, as the classification will depend on the maturity term of the bonds in accordance with the terms of issue, regardless of their scheduled redemption in December 2024. Starting from 1 January 2024, the Company will classify the aforementioned bonds as long-term.</p>	1 January 2024
Amendments to IFRS 16 <i>Leases: Liability in a Sale and Leaseback</i>	<p>The amendments to IFRS 16 relate to the measurement method applied to the liability due to sale and leaseback transactions. The amendments implemented require the seller-lessee to measure the lease liability arising from a sale-leaseback so that the seller-lessee does not recognise any amount of gain or loss related to the right of use retained by the seller-lessee. In particular, this means recognising that, in the case of a sale-leaseback, the obligation to contribute variable lease payments meets the definition of a lease liability.</p> <p>As at the balance sheet date, the Group is not a party to any sale-leaseback agreements and does not identify any material impact of the amendments to IFRS 16 on the accounting policy applied to date.</p>	1 January 2024

• Amendments to standards issued by the International Accounting Standards Board which have not yet been endorsed by the European Union and have not entered into force until the balance sheet date

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 a standard on regulated activities. The standard is aimed to determine a model for the accounting treatment of assets and liabilities associated with regulated activities. The new standard, if issued, will replace IFRS 14 *Regulatory Deferral Accounts*. According to the draft standard, the standard is intended to apply to entities that are party to a contract specifying regulated rates that the entity charges to its customers for goods and services provided, and when part of the total consideration for goods and services provided in a given period is charged to customers through regulated rates in another period (so-called time differences arise). 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

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segment. As at the date of authorisation 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.

As at the date of approval of these consolidated financial statements for publication, the Company has not yet completed its work on assessing the impact of introducing the amendments to standards on the accounting policy applied by the Group. The analyses conducted to date indicate that the following amendments to the standards will not materially affect the accounting policy applied so far:

Standard	Date of entry into force by standard, not approved by the EU (annual periods starting on or after that date)
Amendments to IAS 7 <i>Statement of Cash Flows</i> and IFRS 7 <i>Financial Instruments: Disclosures: Additional disclosures on financial agreements with suppliers</i>	1 January 2024
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture as amended</i>	the date of entry into force of the amendments has been postponed
Amendments to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates: No possibility of Currency Exchange</i>	1 January 2025
IFRS 18 <i>Presentation and disclosure in financial statements</i>	1 January 2027

The dates of entry into force are the dates resulting from the content of the standards promulgated by the International Financial Reporting Council. The application dates of the standards in the European Union may differ from the application dates implied by the content of the standards and are announced at the time of the approval for application by the European Union.

9. Changes in the accounting principles applied

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 2022, except for the application of the new standards and the amendments to the standards specified below.

Standard	Amendments	Date of entry into force in the EU (annual periods starting on or after that date)
IFRS 17 <i>Insurance Contracts</i> ; Amendments to IFRS 17 <i>Insurance Contracts: Initial Application of IFRS 17 Insurance Contracts</i>	IFRS 17 defines insurance contracts as contracts under which one party (the insurer) assumes significant insurance risk from another party (the insured) by accepting the compensation of the insured for the adverse effect of a specified uncertain future event. The standard applies to all types of insurance contracts, irrespective of the nature of the business of the entity that concludes them, as well as to certain guarantees and financial instruments with discretionary profit sharing. At the same time, the standard provides for a number of exemptions from the application of IFRS 17 in relation to, among other things, insurance contracts under which the entity acts as the policyholder and financial guarantee contracts.	1 January 2023
Amendments to IFRS 9 <i>Financial Instruments - Comparative Information</i>	The amendments to IFRS 17 and the amendments to IFRS 9 were introduced to enhance the usefulness of the comparative information presented on first-time adoption of IFRS 17 and IFRS 9. The scope of this amendment covers financial assets related to insurance liabilities that have not yet been restated in accordance with IFRS 9. The Group has carried out an analysis, as a result of which it has assessed that the agreements it concluded do not meet the definition of insurance contracts under IFRS 17 or are subject to exemptions provided for in the standard.	
Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IFRS Practice Statement 2: <i>Disclosure of Accounting Policies</i>	The amendments to IAS 1 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). The Group performed an analysis of its accounting principles (policy) disclosures, based on which it adjusted the disclosures to the extent necessary to comply with the revised requirements of IAS 1, in particular with regard to expanding the disclosures concerning the Group's most significant transactions in the reporting period and eliminating information that is not material to the decisions of users of the consolidated financial statements.	1 January 2023

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Amendments to IAS 8 <i>Accounting policies, changes in accounting estimates and errors: Change in accounting estimates</i>	<p>The amendments to IAS 8 clarify the distinction between changes in estimates and changes in accounting principles (policy) and corrections of errors and clarify how entities apply the measurement techniques and use input data to determine estimates.</p> <p>The amendment introduced is aimed at clarification and has no material impact on the accounting policy of the Group and these consolidated financial statements.</p>	1 January 2023
Amendments to IAS 12 <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	<p>The amendments to IAS 12 limited the scope of the exception concerning the initial recognition of assets and liabilities foreseen in IAS 12 <i>Income Taxes</i>, so that it no longer applies to transactions that give rise to equal positive and negative temporary differences.</p> <p>The amendment has no impact on the Group's accounting policy and these consolidated financial statements. The Group recognised a deferred tax asset and liability on a case by case basis whenever a temporary difference was generated (in particular in respect of temporary differences arising from the initial recognition of a lease liability and the right to use assets) and did not make use of the exception for initial recognition.</p>	1 January 2023
Amendments to IAS 12 <i>Income Taxes: International Tax Reform - Pillar Two Model Rules</i>	<p>Among other things, the amendments to IAS 12 require disclosure of information on current income tax burdens arising from Pillar II of the BEPS 2.0 Directive (on global minimum taxation).</p> <p>A draft act on equalisation taxation of entities included in international and domestic groups has appeared in the list of legislative works, which assumes the introduction of a global minimum tax. The act is likely to be adopted by the Council of Ministers in the third quarter of 2024. The global minimum tax is a solution to prevent the largest multinationals (annual turnover of EUR 750 million) from avoiding tax by transferring income to jurisdictions with low tax rates. In accordance with the draft, the largest corporate groups, both multinational and domestic, will have to verify on an annual basis that their effective income tax rate in each jurisdiction is not lower than 15%. As at the date of approval of these financial statements for publication, the Pillar II Model Rules have not been implemented in Poland.</p> <p>The Group will analyse the impact of the amendments to IAS 12 <i>Income Taxes: International Tax Reform - Pillar II Model Rules</i> following the introduction of the Pillar II Model Rules in Poland.</p>	1 January 2023

10. 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 and introducing restrictions on fossil fuels. 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 CO₂ 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. The impact of climate change on the Group's operations also includes the occurrence of atmospheric phenomena and changing weather conditions and their impact on the ability to generate revenues and the ability to generate economic benefits through the assets owned by the Group. Customer attitudes and expectations are also changing, which has an impact on the products and services offered by the Group.

Bearing in mind the challenges and risks generated for the Group by the changing market environment, in 2022, the *TAURON Group Strategy for the years 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 activities are focused on increasing the installed capacity in renewable energy as well as maintaining capacity volumes and improving hydroelectric power efficiency as well as withdrawal from coal-fired power generation and transforming district heating towards low- and zero-emission sources. The currently implemented Strategy and business model of the TAURON Group are consistent with the provisions of the Paris Agreement, which assumes limiting the average global temperature to below 2°C compared to the level in pre-industrial times and striving to not exceed the temperature by more than 1.5°C.

Impact of climate issues on values based on professional judgement and estimates

The climate issues affect the estimates and assumptions adopted in the Group's estimation process and the professional judgement of the management, translating into the figures reported in these consolidated financial statements. The climate

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issues represent an integral component of the models used in the estimation process and the assumptions made about the future. The impact of climate issues on values based on professional judgement and estimates is described in Note 7 and in the individual notes to these consolidated financial statements.

The Group believes that climate issues had the most significant impact on the consolidated financial statements for the year ended 31 December 2023 in the following scope.

Issue	Note	Description of impact
Impact of climate protection issues on the impairment tests performed on non-financial non-current assets	13	<p>The Group took into account, as part of the assumptions underlying the estimation of future cash flows in the impairment tests performed, current as well as planned regulatory changes aimed at achieving the climate targets set by the European Union, including in particular the "REPowerEU" package and those included in the "FIT for 55" package: the reform of the EU ETS allowance trading market and the reform of the market stability reserve. Moreover, Directive (EU) 2023/2413 of the European Parliament and of the Council on the promotion of energy from renewable sources, assuming a gradual increase in the share of renewable energy in the European Union in the heating and cooling sector by 2030, and Directive (EU) 2023/1791 of the European Parliament and of the Council on energy efficiency, obliging member states to achieve certain levels of energy savings by 2030, entered into force in 2023.</p> <p>The regulatory changes aimed at climate protection taken into account as part of the testing assumptions translated, in particular, into the estimated levels of electricity prices, CO₂ emission allowances and coal, as well as the assumptions adopted regarding the volumes and structure of energy production by the Group's generating units. The assumptions adopted in the scope of impairment testing, including those relating to climate issues, are described in detail in Note 13 of these consolidated financial statements.</p>
Impact of climate issues on the economic lives of non-financial assets	13 23 27	<p>The economic life and residual value of tangible and intangible assets are reviewed at least at the end of each financial year. The revision takes into account, among other things, the impact of climate issues, particularly in the Generation segments, which are exposed to the risks of increased regulatory obligations, curtailment of conventional generation assets and the risk of higher operating costs, and renewable energy sources, which are affected by the support mechanisms in place and the technologies used.</p> <p>As at 31 December 2023, all conventional generation assets based on coal fuel have, in line with the Group's Strategy, economic useful lives ending before 2050. The results of the verification of economic useful lives indicated, among others: on the validity of shortening the operational period of the 910 MW unit in Jaworzno by 2040, which results from unfavorable changes for the coal-based electricity sector resulting from the European Union's Climate Policy. Assumptions regarding the adopted economic useful lives of the generating units are described in detail in Note 13 of these consolidated financial statements.</p>
Implementation of investments in the RES Area and change in the mix of generation sources	2 23 61	<p>The Group's goals in striving to achieve climate neutrality by 2050 are implemented primarily through an investment plan increasing the installed capacity of renewable energy sources. The Group 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 the year ended 31 December 2023, the Group commissioned the first phase of the Mysłowice-Dzieńkowice photovoltaic farm with a capacity of 37 MW, completed by the subsidiary, TAURON Inwestycje Sp. z o.o. Moreover, the Group was constructing wind farms during the year ended 31 December 2023:</p> <ul style="list-style-type: none"> • Mierzyn with a capacity of 58.5 MW (within MEGAWATT S.C. Sp. z o.o.), • Warblewo with a capacity of 30 MW (within WIND T30MW Sp. z o.o.), • Nowa Brzeźnica with a capacity of 19.6 MW (within Wind T4 Sp. z o.o.), • Gamów with a capacity of 33 MW (within Windpower Gamów Sp. z o.o.), <p>and the construction of the Proszówek photovoltaic farm (within FF PARK PV 1 Sp. z o.o.) with a capacity of 55 MW. In December 2023, TAURON Zielona Energia Sp. z o.o. acquired 100% of shares in Wind T2 Sp. z o.o., under which construction of the Sieradz wind farm with a capacity of 23.8 MW will be carried out, and 100% of shares in AE Energy 7 Sp. z o.o., under which the construction of the Postomino photovoltaic farm with a capacity of 90 MW will be carried out. The second stage of the construction of the 65 MW Mysłowice-Dzieńkowice photovoltaic farm and the construction of the Bałków photovoltaic farm with capacity of 54 MW were also launched.</p> <p>The Group aims to reduce greenhouse gas emissions as one of the intermediate targets in combating climate change, by investing in low- and zero-carbon energy sources, but also by permanently shutting down depleted conventional units or spinning them off from the TAURON Group. At the end of 2022, the Group divested the assets of the Mining segment, discontinuing its coal mining operations. In 2023, work was performed at TAURON Group to implement the governmental programme of transformation of the Polish energy sector (the "NABE Programme"), which aimed to spin off coal assets from state-owned power companies and reduce the share of conventional power generation capacity in the Group's fuel mix. By the balance sheet date, the conditions precedent for the conclusion of a preliminary agreement for the sale of TAURON Wytwarzanie S.A. shares to the State Treasury had not been met. On 20 February 2024, the Management Board of the Company adopted a resolution on the closure of the Company's programme to spin off the TAURON Group's coal generation assets to NABE.</p>

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The Group's adaptation to climate change, the impact of climate change and weather events on the Group's revenues and capital expenditure	12.1 47	<p>The TAURON Group's Climate Policy defines basic priorities in the scope of adaptation to climate change. The gradual adaptation of the production assets to the consequences of extreme weather events and the changeability of weather conditions, particularly for business areas sensitive to the fluctuations of temperature, precipitation and wind force, is carried out as part of the systemic approach to asset management. Climate change risks are also taken into account when deciding on new activities or investments.</p> <p>The consequences of extreme weather events are experienced most strongly in companies of the RES and Distribution segments. The level of production and sales of electricity generated in renewable energy sources is affected by seasons of the years and meteorological conditions. Hydrological drought and prolonged periods without rain periodically materialise as a lack of electricity generation in hydroelectric power plants, however, due to the fact that the Group has reservoir power plants and not just run-of-river plants, the Group assesses that it is not critically exposed to water risks and they do not have a material impact on the impairment test results for the Water CGU.</p> <p>In the Distribution segment, an increase in the frequency and intensity of hurricanes and strong winds accompanied incidentally by tornadoes and lightning can result, in extreme cases, in mass failures and consequent downed power lines, as well as intermittent and spot flooding. The overhead infrastructure is also adversely affected by more frequent occurrence of temperatures oscillating around zero degrees Celsius, which raises the risk of an increase in the frequency of failures due to the deposition of wet snow or ice and the weakening of tree stands. This is mitigated by measures being taken, among others, in order to increase the share of cable lines to overhead lines. Given the role of infrastructure, the Group aims to increase the flexibility and resilience of its network infrastructure, including through investment in digitalisation and in improving the quality and efficiency of the services provided, which has also been factored into future cash flows for impairment testing purposes. Capital expenditure in the Distribution segment represents the most significant percentage of the Group's capital expenditure, whereas expenditure of PLN 2 762 million in 2023 accounts for 63% of the Group's capital expenditure. Similarly, Distribution generates the most significant capital expenditure commitments for the construction of new connections as well as the modernisation and restoration of the network (PLN 2 609 million and PLN 2 649 million as at 31 December 2023 and 31 December 2022, respectively).</p> <p>The consequences of climate warming are experienced most strongly by companies that produce and sell heat (Generation segment), which translates into a reduction in the demand for heat supply for heating purposes.</p>
Funding for investment aimed at minimising the negative impact of the Group's activities on the climate	40	<p>The Group raises finance with the aim of investing funds to mitigate the negative impact of the TAURON Group's activities on the climate. Under the terms of some of the agreements, the Company is obliged to carry out the types of investment indicated (including the construction of new renewable energy sources), or to meet certain sustainability indicators depicting an increase in the level of energy generation from renewable sources or reduction in the Group's carbon footprint, the performance of which it confirms through the relevant reports submitted to financial institutions, and the accuracy of the calculations of the sustainability indicators is confirmed by an independent external auditor. In addition, in some financing agreements, the Group has undertaken that it will not use the funds to finance coal-fired generation activities. Notwithstanding other provisions, the Group carries out its activities in accordance with environmental, climate and social policies.</p> <p>In the Group's view, the sustainability-linked financing held by the Group does not contain embedded derivatives.</p>
Recognition of the provisions for the effects of legal requirements related to the need to redeem CO ₂ emission allowances and energy certificates of origin	43	<p>On the basis of the applicable legal regulations, the Group has recognised the provisions for requirements relating to the cancellation of CO₂ emission allowances and energy certificates of origin in the consolidated financial statements.</p> <p>With regard to the obligation to surrender CO₂ emission allowances, the Group achieved lower CO₂ emissions in 2023 compared to the previous year by 2 942 991 Mg of EUAs, which was due in particular to lower production and an increase in the share of production by the most cost-effective production units. At the same time, due to an increase in the price of purchased allowances for redemption, the cost of the provision increased by PLN 365 million in relation to the comparable year.</p> <p>With regard to provisions related to the need to redeem energy certificates of origin, the Group's costs decreased by PLN 338 million in relation to the comparable period, which is mainly due to legal changes resulting in a reduction in the obligation to redeem certificates of origin of energy from renewable sources in 2023.</p>
Recognition of the provisions in relation to the obligation to restore, dismantle and decommission fixed assets	42	<p>In view of the legal requirements and contractual obligations incumbent on Group companies, the Group creates a provision for the estimated costs of dismantling, including in relation to wind farms and photovoltaic farms, as well as for the decommissioning of fixed assets and the costs of restoring the site on which the fixed assets were located, where a liability arising from the acquisition or use of tangible fixed assets exists.</p> <p>In the year ended 31 December 2023, there was an increase in the provision for the dismantling of wind farms and photovoltaic farms related to the recognition of provisions for the ongoing construction of the Mierzyn wind farm and the Proszówek photovoltaic farm in the total amount of PLN 21 million and an increase in the provision for the decommissioning of fixed assets related to the creation of a provision in a company in the Generation segment in the amount of PLN 34 million.</p>

11. Significant amendments to legal regulations

In 2022 and in 2023, legislation came into force to cap electricity prices and protect electricity consumers from price increases, which significantly affected the TAURON Group's operations in the year ended 31 December 2023.

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Legal act and key assumptions

The Act of 7 October 2022 on special solutions for the protection of electricity consumers in 2023 (the "Act on Consumer Protection")

Freezing of electricity price in 2023 at a 2022 level for households up to the electricity consumption level defined in the Act on Consumer Protection at a basic level of 3000 kWh.

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.

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")

Introduction of a fixed price for electricity trading applicable until 31 December 2023, the so-called maximum price, at a defined level of PLN 785/MWh (PLN 693 PLN/MWh in the fourth quarter of 2023) for local government units, small and medium-sized enterprises and public utilities and PLN 693/MWh in the case of household customers.

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 is the responsibility of the 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.

Setting the maximum overall limit on expenditure from the Fund and a limit in individual years covered by the Act.

Regulation of the Minister of Climate and Environment of 9 September 2023 amending the Regulation on the method of shaping and calculation tariffs and the settlement method in electricity trade (the "Regulation")

Introducing a mechanism to reduce the amount of households' liabilities to energy enterprises conducting the economic activity in the scope of electricity trading in the 2023 settlements. Pursuant to the Regulation, the amount of annual payments of a customer from the G tariff group who meets one of the conditions set out in the Regulation will be reduced by PLN 125.34.

On 31 December 2023, the Act of 7 December 2023 *amending the Act to protect consumers of electricity, gas fuel and heat* entered into force. In accordance with the provisions of the aforementioned Act, the solutions for eligible customers, maximum prices and compensation under the Act on Customer Protection and the Act on Extraordinary Measures have been extended unchanged until the end of June 2024. At the same time, new consumption limits have been introduced for the first half of 2024, for household customers with the consumption of 1500 kWh. Compensations for energy companies for frozen prices in the first half of 2024 will be calculated taking into account the current electricity tariff approved by the President of the ERO for 2024.

The main assumptions and effects of the aforementioned acts of law on these consolidated financial statements are presented in the table below.

**Impact of selected legal acts on the consolidated financial statements
for the year ended 31 December 2023**

Note

Revenue from contracts with customers

In accordance with the regulations of the *Act on Customer Protection* and the *Act on Extraordinary Measures*, in the year ended 31 December 2023 the companies of the Sales segment and the company of the Distribution segment applied prices for the sale of electricity and distribution services that do not exceed the maximum prices set out in the aforementioned Acts to the groups of customers indicated in the aforementioned Acts.

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In accordance with the Regulation, the companies of the Sales segment, on the basis of the conducted analysis of the estimated number of customers who will benefit from the mechanism of reducing the amount of liabilities, recognised an estimated reduction in the amount of revenue from contracts with customers totalling PLN 574 million.

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Revenue and receivables due to compensations

The companies of the Sales segment recognised compensations related to electricity supply in the amount of PLN 6 910 million in the year ended 31 December 2023, pursuant to the Act on Extraordinary Measures and the Act on Customer Protection Act. As part of the aforementioned compensation payments, the companies received the amount of PLN 3 820 million by the balance sheet date while the amount of PLN 1 484 million was settled against the compensation advance payments received.

The company of the Distribution segment recognised compensations related to sales of distribution services in the amount of PLN 1 038 million in the year ended 31 December 2023 pursuant to the Act on Customer Protection. As part of the aforementioned compensation payments, the company received the amount of PLN 652 million by the balance sheet date and the amount of PLN 198 million was settled against the compensation advance payments received.

As at 31 December 2023, the Group had compensation receivables arising from the Act on Extraordinary Measures and the Act on Consumer Protection in the amount of PLN 1 863 million, presented in the statement of financial position under Other financial assets, including:

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- the amount of PLN 1 675 million refers to the companies of the Sales segment, of which the amount of PLN 69 million relates to compensation recognised as part of revenues in 2022 and the amount of PLN 1 606 million relates to compensation recognised as part of revenues of 2023. After the balance sheet date, the Sales segment companies received the amount of PLN 1 399 million and the amount of PLN 141 million was settled with the received compensation advances. The deadline for realizing the remaining part of the receivable in the amount of PLN 135 million falls after the date of approval of these consolidated financial statements for publication.
- the amount of PLN 188 million relates to compensations recognised as part of revenue in the year ended 31 December 2023 by a company in the Distribution segment. After the balance sheet date, the Distribution segment company received the amount of PLN 126 million. The deadline for realizing the remaining part of the receivable in the amount of PLN 62 million falls after the date of approval of these consolidated financial statements for publication.

Advance payments for compensations

In the year ended 31 December 2023, advance payments in the total amount of PLN 1 647 million were received by the companies in the Sales segment under the provisions of the *Act on Customer Protection* and the *Act on Extraordinary Measures*. In addition, the companies in the Sales segment received advance payments of PLN 337 million in 2022. The companies in the Sales segment settled advance payments in the amount of PLN 1 619 million by the balance sheet date (including the amount of PLN 1 484 mln in compensation constituting income for 2023). Advance payments of PLN 224 million are subject to repayment and as at the balance sheet date were presented in the statement of financial position under *Other financial liabilities*. The above liabilities were repaid after the balance sheet date. The remaining part of the advance payments received, amounting to PLN 141 million, which are due to be settled after the balance sheet date, are presented in the consolidated statement of financial position under *Accruals and government grants*.

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In the year ended 31 December 2023, based on the provisions of the Act on Consumer Protection, the Distribution segment company received advances for compensations in the scope of sale of distribution services in the total amount of PLN 252 million. Until the balance sheet date, the company settled advance payments in the amount of PLN 198 million. The remaining part of the advance payments in the amount of PLN 54 million are subject to repayment and as at the balance sheet date was presented under Other financial liabilities. The above liabilities were repaid after the balance sheet date.

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 recognised costs of write-downs to the Fund in the year ended 31 December 2023 in the total amount of PLN 832 million (of which within the segments: Sales - PLN 753 million, Generation - PLN 55 million, RES - PLN 8 million and other operations - PLN 16 million). The cost of the write-down to the Fund has been recognised within the cost of Taxes and charges in the Group's operating activities.

Write-downs to the Fund subject to the contribution, with the due transfer date after the balance sheet date, amounting to PLN 330 million, are presented under *Other non-financial liabilities* in the consolidated statement of financial position.

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In October and December 2023, the Announcements of the President of the Energy Regulatory Authority ("ERO President") were published with clarifications regarding the provisions of the Act on Extraordinary Measures, in connection with the planned commencement of the control of the write-down of the Fund. The above communications imply that, in the interpretation of the President of the ERO, the calculation of the allowance for the Fund should take into account the "hypothetical" revenues that the companies of the Sales segment would obtain as a result of applying the prices resulting from the applicable tariffs, price lists and contracts in their settlements with customers, despite the fact that, in accordance with the provisions of the Act on Extraordinary Measures for Eligible Customers, the companies apply maximum prices. This position, in the Group's view, is not correct. The Group has not recognised a provision for a potential dispute with the President of the ERO, considering that the probability of a dispute in this respect with the President of the ERO and the probability of losing such a dispute is lower than the probability of its resolving for the benefit of the Group.

Provisions

As at the balance sheet date, the Group recognised a provision of PLN 574 million in the Sales segment for the effects of the Regulation, which introduced a mechanism to reduce households' liabilities to energy companies in settlements for 2023 by PLN 125.34, once one of the conditions set out in the Regulation have been met.

44.3

BUSINESS SEGMENTS

12. 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 organisation 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, amortisation and write-offs for non-financial assets. TAURON Group recognises 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).

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Operating segments	Core business	Subsidiaries/ Companies accounted for using the equity method
<p style="color: #e91e63; font-weight: bold;">Generation</p>  	<p><i>Electricity generation in conventional sources, including cogeneration.</i></p> <p><i>Production, distribution and sales of heat</i></p>	<p>TAURON Wytwarzanie S.A. TAURON Ciepło Sp. z o.o. TAURON Serwis Sp. z o.o. Łągisza Grupa TAURON Sp. z o.o. Energetyka Cieszyńska Sp. z o.o.¹ TAURON Inwestycje Sp. z o.o.²</p> <p>TAMEH HOLDING Sp. z o.o.³ TAMEH POLSKA Sp. z o.o.³ TAMEH Czech s.r.o.³ Elektrociepłownia Stalowa Wola S.A.³</p>
<p style="color: #e91e63; font-weight: bold;">Renewable Energy Sources</p> 	<p><i>Generation of electricity in renewable sources</i></p>	<p>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 T2 Sp. z o.o. AE ENERGY 7 Sp. z o.o. "MEGAWATT S.C." Sp. z o.o. WIND T4 Sp. z o.o. WIND T30MW Sp. z o.o. FF Park PV 1 Sp. z o.o. Windpower Gamów Sp. z o.o. TAURON Inwestycje Sp. z o.o.²</p>
<p style="color: #e91e63; font-weight: bold;">Distribution</p> 	<p><i>Distribution of electricity</i></p>	<p>TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiaru Sp. z o.o.</p>
<p style="color: #e91e63; font-weight: bold;">Sales</p> 	<p><i>Wholesale of electricity as well as trading in emission allowances and CO₂ certificates of origin and sales of electricity to domestic end consumers or entities re-selling electricity</i></p>	<p>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.</p>

¹ After the balance sheet date, the incorporation of Energetyka Cieszyńska Sp. z o.o. by TAURON Ciepło Sp. z o.o. was registered on 3 January 2024.

² TAURON Inwestycje Sp. z o.o. classifies activities related to photovoltaic power generation in the Renewable Energy Sources segment, while activities related to investment projects and research and development in the field of power generation from sources other than renewable sources are classified in the Generation segment.

³ Companies accounted for using the equity method.

In addition to the key operating segments listed above, TAURON Group also conducts operations in the scope of quarrying limestone for the power industry, metallurgy, construction and road building 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. and TAURON Ubezpieczenia Sp. z o.o. are also treated as other operations of the Group.

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12.1. Operating segments
Year ended 31 December 2023

	Operating segments				Other	Unallocated items / Eliminations	Total
	Generation	Renewable Energy Sources	Distribution	Sales			
Revenue							
Sales to external customers	9 217	126	5 731	27 240	343	-	42 657
Inter-segment sales	4 108	624	6 003	8 563	1 199	(20 497)	-
Total segment revenue	13 325	750	11 734	35 803	1 542	(20 497)	42 657
Recompensation revenue	83	-	1 038	6 937	-	-	8 058
EBIT, of which:	347	261	2 197	522	96	(29)	3 394
Share in profit/(loss) of joint ventures	(487)	-	-	-	-	-	(487)
Depreciation/amortization	(510)	(170)	(1 326)	(51)	(178)	3	(2 232)
Impairments¹	(520)	-	(5)	5	1	-	(519)
EBITDA	1 377	431	3 528	568	273	(32)	6 145
EBIT							3 394
Finance income (costs)						(1 092)	(1 092)
Profit/(loss) before income tax							2 302
Income tax expense						(624)	(624)
Net profit/(loss) for the period							1 678
Assets and liabilities							
Segment assets, of which:	10 023	3 971	24 189	8 550	1 317	-	48 050
Investments in joint ventures	169	-	-	-	-	-	169
Unallocated assets						1 748	1 748
Total assets							49 798
Segment liabilities	5 024	272	2 522	3 473	795	-	12 086
Unallocated liabilities						19 759	19 759
Total liabilities							31 845
Other segment information							
Capital expenditures ²	568	593	2 762	109	332	-	4 364

¹ Write-downs include the Group's share in write-downs of non-financial assets of joint ventures in the amount of PLN 308 million.

² Capital expenditures include expenditures on property, plant and equipment, intangible assets and rights to use assets excluding the acquisition of CO₂ emission allowances and property rights of energy origin.

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					
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	(357)	-
Total segment revenue	11 126	909	7 611	35 491	1 428	(20 254)	36 311	1 030	37 341
Recompensation revenue	2	-	-	482	-	-	484	-	484
EBIT, of which:	(1 307)	292	1 679	550	163	(308)	1 069	50	1 119
Share in profit/(loss) of joint ventures	128	-	-	-	-	-	128	-	128
Depreciation/amortization	(446)	(182)	(1 257)	(46)	(134)	5	(2 060)	(156)	(2 216)
Impairments	(82)	(2)	(3)	2	(1)	-	(86)	(595)	(681)
EBITDA	(779)	476	2 939	594	298	(313)	3 215	801	4 016
EBIT							1 069	50	1 119
Finance income (costs)						(959)	(959)	(27)	(986)
Profit/(loss) before income tax							110	23	133
Income tax expense						(319)	(319)	52	(267)
Net profit/(loss) for the period							(209)	75	(134)
Assets and liabilities									
Segment assets, of which:	10 157	2 910	22 174	6 701	1 156	-	43 098	-	43 098
Investments in joint ventures	682	-	-	-	-	-	682	-	682
Unallocated assets						2 222	2 222	-	2 222
Total assets							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							28 706	-	28 706
Other segment information									
Capital expenditures ¹	383	459	2 137	75	391	-	3 445	517	3 962

¹ Capital expenditures include expenditures on property, plant and equipment, intangible assets and rights to use assets excluding the acquisition of CO₂ emission allowances and property rights of energy origin.

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The following table provides information in the scope of discontinued operations for the year ended 31 December 2022.

	Year ended 31 December 2022		
	Discontinued operations		
	Mining	Unallocated items / Eliminations	Total, discontinued operations
Revenue			
Sales to external customers	1 387	-	1 387
Sales to/from discontinued operations	1 293	(1 650)	(357)
Total segment revenue	2 680	(1 650)	1 030
EBIT	490	(440)	50
Depreciation/amortization	(156)	-	(156)
Impairment	(135)	(460)	(595)
EBITDA	781	20	801
			-
EBIT			50
Finance income (costs)		(27)	(27)
Profit/(loss) before income tax			23
Income tax expense		52	52
Net profit/(loss) for the period			75
Other segment information			
Capital expenditures *	517	-	517

* Capital expenditures include expenditures on property, plant and equipment, intangible assets and rights to use assets excluding the acquisition of CO₂ emission allowances and property rights of energy origin.

In the year ended 31 December 2023, revenues from sales on the Polish Power Exchange earned in the Sales and Generation segment by Izba Rozliczeniowa Giełd Towarowych S.A., accounted for 20% of the Group's total revenues and amounted to PLN 8 523 million. In the comparable period, this revenue, earned in the Sales and Generation segment, accounted for 16% of the Group's total revenue from continuing operations and amounted to PLN 5 958 million.

12.2. Geographical areas of operations

	Year ended 31 December 2023	Year ended 31 December 2022
Sales revenue from continuing operations, including:	42 657	36 311
Poland	41 904	34 510
Czech Republic	748	1 213
Great Britain	5	11
Germany	-	509
Belgium	-	68
Sales revenue from discontinued operations, including:	-	1 030
Poland	-	955
Czech Republic	-	73
Other countries	-	2
Total	42 657	37 341

The Group's operations are predominantly conducted in the territory of Poland. In the year ended 31 December 2023, revenue generated in the country accounted for 98% and in the comparable period, revenue generated in the country from continuing operations was 95%.

Revenues on sales from overseas entities in the year ended 31 December 2023 mainly related to the sales of electricity which accounted for 99% of revenue from operations performed to overseas customers. Revenues from sales from overseas customers in the year ended 31 December 2022 mainly related to the sales of electricity and the sales of CO₂ emission allowances which accounted, respectively, for 67% and 33% of revenue from continuing operations for overseas customers.

IMPAIRMENT IN VALUE OF NON-FINANCIAL ASSETS**13. 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 or groups of cash-generating units upon recognition. Information concerning identification of the CGU to which goodwill is allocated is presented in Note 25.

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 periods 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.

As at 31 December 2023, an analysis of the premises which might indicate the impairment of non-financial assets was carried out. The analysis identified the following market events that may change the assumptions used in the impairment tests compared to the assumptions used in the impairment tests performed as at 31 December 2022, which may therefore affect the impairment assessment:

- a decrease in demand for electricity in 2023 compared to 2022 by 3.4%;
- lower generation of electricity from hard coal-fired sources in 2023 compared to 2022 by 12.7%;
- a decrease in the average price of electricity for the BASE futures contract (Y+1) from PLN 1 111.69/MWh in 2022 to PLN 641.95/MWh in 2023 (-42.3%);
- a decrease in the average price of electricity on the SPOT market from PLN 785.25/MWh in 2022 to PLN 512.09/MWh in 2023 (-34.8%);
- a decrease in the average coal price in ARA ports in 2022 from the average of USD 223.40/Mg to USD 126.44/Mg in 2023 (-43.4%);
- a decrease in the average gas price for the BASE futures contract (Y+1) from PLN 605.66/MWh in 2022 to PLN 266.49/MWh in 2023 (-56%);
- increase in the average price of CO₂ emission allowances from EUR 81.31/Mg in 2022 to EUR 85.26/Mg in 2023 (+4.9%);
- persistence of negative economic sentiment, low PMI readings in Europe and NBP projections assuming lower GDP dynamics in 2024-2025 than the long-term average for the Polish economy.

In connection with the above changes and the price decline levels, an adjustment in the forecasts occurred in relation to the assumptions made in the impairment tests carried out as at 31 December 2023 in the following scope:

- a decline in forecast average BASE electricity prices in the period 2024-2026 by an average of 25.2% relative to the assumptions adopted in the impairment tests at 31 December 2022;
- a decline in forecast average coal prices for delivery in the period 2024-2026 by an average of 29.2% relative to the assumptions adopted in the impairment tests at 31 December 2022;
- a decline in projected average BASE gas prices in the period 2024-2026 by an average of 48.5% relative to the assumptions adopted in the impairment tests at 31 December 2022;

- a decline in projected CO₂ prices for 2024-2026 by an average of 3.4% for EU ETS market contracts compared to the assumptions adopted in the impairment tests at 31 December 2022.

The correction of the above forecasts translated into a decrease in the projected model margins for the years 2024-2026 by an average of 52.6% for the model 1000 MW class unit and by 134.6% for 200 MW class units compared to the assumptions adopted in the impairment tests for on 31 December 2022.

The identified above indications of impairment relate mainly to the Group's generation assets in the Generation from conventional energy sources segment: CGU Generation-Coal, CGU ZW Katowice, CGU ZW Tychy, CGU ZW Bielsko-Biała, CGU ZW Local Heat Plants Area, CGU ECI Generation and the Renewable Energy Sources (RES) Generation segment: CGU Generation-Biomass, CGU Hydroelectric power plants, CGU Wind power plants, CGU Photovoltaic power plants.

The identified impairment indicators do not apply to the Group's assets from the Generation from conventional sources segment in the scope of CGU Transmission and assets from the Distribution segment due to the tariff model in place and the concomitant lack of changes to the regulations of the Energy Regulatory Office (ERO) in relation to the impairment tests carried out as at 31 December 2022. There are no significant non-current assets in the Sales segment that would be covered by the test. The impairment indicators identified and described above do not apply to the Other segment.

The tests conducted as at 31 December 2023 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.

Impairment tests for the identified CGUs from the Generation from Conventional Energy Sources segment and the Renewable Energy Sources (RES) Generation segment were carried out on the basis of estimated cash flows covering the entire period of their operation.

The use of forecasts longer than 5 years results in particular from long-term investment processes in the energy industry. Macroeconomic and sectoral assumptions used in forecasts are updated as often as there are grounds for their change observed on the market. The forecasts also take into account changes in the legal environment known as at the date of the test.

Key assumptions in the scope of tests performed as at 31 December 2023

The assumptions of prices, power balance and the level of electricity demand have been developed taking into account current market conditions updated in the scope of years 2024-2026. Long-term market assumptions are directionally consistent with applicable government strategic documents: the National Energy and Climate Plan and the Energy Policy of Poland until 2040. The projected electricity prices result from long-term modelling using a 24-hour electricity market model. External sources and benchmarks were taken into account when updating the forecasts, mainly in terms of fuel and CO₂ prices.

Category	Description
Coal	In the years 2024-2026, the forecast assumes a 45.5% decline in coal prices compared to the average PSCM11 index price calculated for 2023. For this period, an assumption was made of a stabilising demand-supply situation in global coal markets, particularly at ARA ports supported by falling natural gas and LNG prices. In connection with a falling demand 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), the occurrence of a fixed coal price at a level nearly 5.4% lower than the projected average price in 2024-2026 was assumed after 2026.
Electricity	The BASE electricity price forecast assumes a decrease of 25.4% for 2024 compared to the average price of the reference BASE contract (Y+1) achieved in 2023. In the period 2025-2030, the average BASE price is also 5.3% lower than the average reference price achieved in 2023. The observed change in the structure of electricity generation and the increase in the share of renewable energy sources is reducing the level of electricity prices on the wholesale market, in particular on the SPOT market. In the forward market, projected BASE price levels take into account the costs of generation from conventional sources.
CO ₂	An upward trajectory for the price of CO ₂ allowances has been adopted, but for 2024, due to the observed economic downturn and short-term decrease in CO ₂ demand, the forecast assumes a price 8.8% lower than the average price recorded in 2023. In the period 2025-2030, CO ₂ prices increase by an average of 5.7% due to the maintenance of ambitious climate targets and the extended operation of the Market Stability Reserve mechanism by 2030. 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 free allowances.
Natural gas	In view of the observed stabilisation of the demand-supply situation on the global gas markets, a decrease of around 22.2% was assumed for the price in 2024 compared to the average price of the reference BASE contract (Y+1) obtained in 2023. A further decline in gas prices by an average of 1% was assumed in the years 2025-2040. For the period concerned, assumptions were made about the long-term filling of the demand gap for the raw material in question in Europe through stable gas flows from the Norwegian Continental Shelf and LNG supplies. Poland will import gas through the Baltic Pipe and two LNG terminals (the FSRU terminal in Gdańsk is scheduled for

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commissioning in the 2027/2028 timeframe), resulting in a high correlation of gas prices in Poland with the European indices. The price drop in the long term will be affected by the projected decline in demand, resulting from the forecast substitution of natural gas by hydrogen and further increases share of RES in the energy mix of Union European countries.

Capacity market

It is assumed that payments for capacity will be maintained until 2028 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.

In line with the agreement reached by the European Council of 17 October 2023 regarding the reform of the energy market model, it was assumed that a derogation would be introduced regarding the validity of CO₂ emission limits for units seeking support from the Capacity Market and consequently that the period of possible support for such units would be extended from June 2025 to the end of 2028.

The forecasts assume revenues from the Capacity Market after 2025 as a consequence of extending support until the end of 2028. Revenues from this relate to 8 units of the 200 MW class in the Jaworzno III and Łaziska Branches and units in the Siersza and Łagisza Branches in the years 2025-2028. Additionally, in 2026, revenues from the Capacity Market were assumed for 2 units in the Jaworzno II Branch. The assumed average price in the extended period is PLN 322.65/kWh, with prices assumed to decline in the following years, starting from 2027, by an average of 22% y/y.

For the extended period of operation, it was assumed that the operation of the units would be determined by the demand in the National Power System.

Economic lifetime of generating units

In the CGU Generation-Coal, the planned operating periods of the generating units have changed. With regard to the CGU tests developed for 31 December 2022, the operation of the 200 MW class units at the Jaworzno III, Łaziska and fluidised-bed units at the Siersza Power Plant has been extended. However, the service life of unit 7 at the Nowe Jaworzno Power Plant and the units that are not Centrally Dispatched Generation Units at Jaworzno II Branch was reduced. A list of the assumptions in the scope of the economic lives adopted for the CGU tests for the following generation units is presented below:

- Jaworzno II Power Plant – units 1, 2 and 3 by the end of 2026;
- Jaworzno III Power Plant – units 1, 2, 3, 4, 5 and 6 by the end of 2028;
- Nowe Jaworzno Power Plant – unit 7 by 2040;
- Łagisza Power Plant – unit 10 by 2035;
- Łaziska Power Plant – units 9, 10, 11 and 12 by the end of 2028;
- Siersza Power Plant – units 1 and 2 by the end of 2028.

The reduced lifetime of the 910 MW unit is due to the adverse changes for the coal-based electricity sector resulting from the European Union's Climate Policy. In a communication published on 6 February 2024, the European Commission proposed an EU-wide climate target for 2040 at a level of a 90% of reduction in net CO₂ emissions (relative to 1990).

The reduction in the operating hours of the Jaworzno II Branch was determined by the unfavourable results generated at the variable cost margin level due to the heat supplies currently made from this Branch for the needs of municipal customers. The decommissioning at the end of 2026 results from the need to supply process steam for the 910 MW unit. According to the current schedule for the investment involving the construction of a new dedicated process steam source for the designated unit, the source can start production at the beginning of 2027.

For other generating units, there are no changes compared to the assumptions adopted as at 31 December 2022:

- CGU ZW Katowice, CGU ZW Tychy, CGU ZW Bielsko-Biała, CGU ZW Local Heat Plants Area, CGU ECI Generation: generation plants until 2049;
- CGU Hydroelectric power plants until 2072;
- CGU Wind power plants until 2047;
- CGU Photovoltaic power plants until 2048.

Certificates of energy origin (MWh)

The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the provisions of the RES Act and the system balance forecast. The price forecast for green certificates assumes a decline of 49.1% for 2024 compared to the average price of the TGEozza index reached in 2023. Over the period 2025-2030, the price of green certificates is forecast to grow at an average annual rate of 14.8%. For blue certificates, a slight price increase of 0.1% was assumed for 2024 relative to the TGEozebio index price created in 2023. Over the period 2025-2030, the price of blue certificates is forecast to decline by an average of 2.7% per year. The price of white certificates is forecast to increase by 5.6% in 2024 compared to 2023. Over the period 2025-2030, the price of white certificates is forecast to grow at an average annual rate of 2.1%.

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.

Remuneration

An increase in wages was assumed, based on an increase in the minimum wage and the assumed inflation rate with effect for the following years of the financial forecast.

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WACC

A weighted average cost of capital (WACC) at a level of 7.57%-11.47% in nominal after-tax terms over the projection period for individual CGUs was assumed. The methodology for calculating the discount rate remained unchanged compared to the impairment test carried out as at 31 December 2022.

Regulatory WACC

WACC adopted to calculate regulated income in 2024 amounts to 10.475% (gross), in the period of 2025-2033 and in the residual period 8.478% (gross).

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

Results of impairment tests

In the year ended 31 December 2023, the Group recognized impairment losses on non-financial fixed assets as a result of asset impairment tests conducted as at 31 December 2023, as part of the result on continuing operations.

The recoverable value of this group of assets corresponds to their value in use. Write-offs were charged mainly to cost of sales.

The impairment loss recognized as a result of tests conducted in the year ended 31 December 2023 applies to the following cash flow generating units:

CGU	Company	Discount rate (after tax) assumed in tests as at:		Recoverable amount	Impairment loss recognized
		31 December 2023	31 December 2022	As at 31 December 2023	Year ended 31 December 2023
CGU Generation-Coal	TAURON Wytwarzanie S.A.	11.47%	12.24%	2 620	(23)
Total					(23)

The tests performed as at 31 December 2023 did not indicate the need to recognize impairment losses on non-financial assets due to the identified higher value in use of the CGUs in relation to their carrying value, with the exception of the Generation-Coal CGU.

The need to recognize impairment losses on non-financial assets in the Generation-Coal CGU results from the decline in the planned margin on the sale of electricity.

In addition, as part of the analysis of the prerequisites for asset impairment, the possibility of impairment of the shares in TAMEH HOLDING Sp. z o.o. was identified due to the ruling issued by the Ostrava Regional Court on 19 December 2023 declaring TAMEH Czech s.r.o. insolvent. The object of activity of TAMEH Czech s.r.o. is the production of energy media for the Liberty Ostrava a.s. smelter, which is the company's only customer. The declaration of insolvency is related to the failure of Liberty Ostrava a.s. to settle its liabilities to the company. The owner of 100% of the shares in TAMEH Czech s.r.o. is TAMEH HOLDING Sp. z o.o. - a joint venture of the Company in which the Company holds a 50% interest. Before carrying out impairment tests for shares in TAMEH HOLDING Sp. z o.o. recognized its share in the loss of the joint venture using the equity method, which is described in more detail in Note 28 of these consolidated financial statements.

The shareholders' Agreement provides for the operation of the special purpose vehicle TAMEH HOLDING Sp. z o.o. until 2029 with the possibility of extending its operation for subsequent years. Pursuant to the provisions of the contract, TAMEH HOLDING Sp. z o.o. pays dividends to shareholders based on the dividend plan approved by the parties to the agreement.

With regard to the impairment test of the shares in TAMEH HOLDING Sp. z o.o., a scenario analysis was carried out based on expected future dividend flows, which did not include the flows from TAMEH Czech s.r.o. due to the declaration of insolvency of the company by the Ostrava District Court. The Group recognizes that TAMEH HOLDING Sp. z o.o. has and will have the ability to pay dividends. The following scenarios were adopted in the analysis:

- shareholders' approved dividend plan in scope of activities of TAMEH POLSKA Sp. z o.o. for the years 2024-2029 and disposal of assets in 2030,
- adjusted dividend plan resulting from the gradual reduction of the company's expenditure and operations leading to the liquidation of the assets in 2030,
- shareholders' approved dividend plan in scope of activities of TAMEH POLSKA Sp. z o.o. for the years 2024-2029 and the continuation of the company's operations after this period.

All of the above-mentioned three scenarios, in the Company's judgement at this point in time, have the same probability of materialisation and thus the weighting assigned to them is equal to each other.

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Company	Discount rate (after tax) assumed in tests as at:		Carrying amount	Recoverable amount	Impairment loss recognized
	31 December 2023	31 December 2022	As at 31 December 2023		Year ended 31 December 2023
TAMEH HOLDING Sp. z o.o.	10.53%	11.74%	169*	231	-
					-

*As at the balance sheet date of 31 December 2023, the Group has dividend receivables from TAMEH HOLDING Sp. z o. o. in the amount of PLN 32 million. The recoverable value exceeds the carrying value of the shares together with the dividend receivable.

Sensitivity analysis

The tables below present the estimated impact of the change in key factors on the recoverable amount of the CGUs tested. For assets generating electricity from conventional sources, the key factor analysed is the Clean Dark Spread (“CDS”) due to the fact that a change in electricity prices generally results from the changes in the price of coal and CO₂ emission allowances.

The CDS is the amount of the first-step margin achieved by the coal-fired power plants or CHP plants, calculated as a difference between the price of electricity and the model variable costs (fuel cost, CO₂ cost) associated with coal-fired electricity generation.

The sensitivity analysis took into account the change in CDS structure due to the planned phased decommissioning of the 200 MW class units over the period up to 2028 as assumed in the tests.

Parameter	A change in the assumption equalizing the recoverable amount with the carrying amount					
	CGU Generation Coal	CGU ZW Katowice	CGU ZW Tychy	CGU ZW Bielsko-Biała	CGU OCL	CGU ECI
Change in CDS over the forecast period	0.7%	-15.3%	-63.2%	-18.5%	n.a.	n.a.
Change of heat prices in the forecast period	n.a.	-6.1%	-14.9%	-5.4%	-2%	-0.9%
Change of WACC (net)	-0.46 p.p	4.34 p.p	9.36 p.p.	5.59 p.p	734.58 p.p.	3.76 p.p.

For assets generating electricity from renewable sources, the key factor analyzed is the price of electricity due to its direct impact on the cash flows of a given CGU.

Parameter	A change in the assumption equalizing the recoverable amount with the carrying amount		
	CGU Hydroelectric power plants	CGU Wind power plants	CGU Photovoltaic power plants
Change of electricity prices in the forecast period		-22.4%	-49.1%
Change of WACC (net)		6.21 p.p.	21.48 p.p.
			0.55 p.p.

In terms of sensitivity analysis for CGU Biomass, the change in the above-mentioned parameters does not affect the test result due to the lack of electricity production planned in the projections and the fact that in previous years the entire property, plant and equipment assigned to CGU Biomasa was covered by an impairment loss.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**14. Sales revenue****SELECTED ACCOUNTING PRINCIPLES**

Revenue is recognised when (or as) the performance obligation is fulfilled in the form of transferring the promised goods, products, materials (i.e. assets) or providing a service to a client. The asset transfer takes place when a client acquires control over such an asset whereas in the case of sales of electricity and gaseous fuel, revenue is recognized when electricity is sold with physical delivery on the wholesale market or energy is consumed by the final recipient (customer) at the point of consumption.

At the same time, revenue from contracts with customers is not recognized in the case of sale of energy to another energy company and simultaneous repurchase of the sold volume of energy from this company in the same settlement period (exchange), and the result of such a transaction is recognized in the statement of comprehensive income in the net amount.

Revenue is recognised in the amount expected by the Group, less the value added tax (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 value added tax do not constitute economic benefits for the entity 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 fees, the RES fee, the capacity charge and the cogeneration fee collected from the end user of electricity and transferred to the Transmission System Operator;
- revenue from maintenance services under contracts for the sales of products and services combined with additional services.

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

Revenue from the sale of products manufactured in the course of adapting an asset to the location and conditions necessary for it to commence operation as intended by the management (e.g. trial production manufactured during testing) is recognised in revenue from the sale of goods, products and materials.

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 and heat 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 for the amounts of revenues from the sale of electricity, gaseous fuel and distribution services performed in the companies of the Group belonging to the Sales segment are presented below.

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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, appropriate estimates of electricity sales and distribution services are determined as at the balance sheet date. The estimate is determined in the billing system based on the average 24-hour electricity consumption between the date of the last actual reading and the balance sheet date.
Estimation for customers billed using forecast payments	As at each balance sheet date, a revaluation of sales of electricity and distribution services 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 estimate is determined in the billing system on the basis of the average 24-hour electricity consumption in the period from the date of the last reading to the balance sheet date and, at the same time, a re-estimation is made of the forecasts issued, ensuring that they are distributed proportionately to the balance period concerned.
Revenue revaluation for customers for whom sales are performed at the prices of the Power Exchange or/and the balancing market prices	The revaluation covers customers for whom, in accordance with the concluded contracts, electricity is sold at the prices of the Power Exchange or/and the balancing market. At each balance sheet date, for customers for whom an overestimation of non-invoiced electricity sales has been accrued in the billing system, a revaluation is determined which is the difference between the prices accepted for revaluation accrual and the prices which 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, appropriate estimates of gaseous fuel sales and distribution services are determined as at the balance sheet date. The revaluation of gaseous 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.
Revenue revaluation for customers for whom sales are performed at the prices of the Power Exchange or/and the balancing market prices	The revaluation covers customers for whom, in accordance with the concluded contracts, gaseous fuel is sold at the prices of the Power Exchange or/and the balancing market. As at each balance sheet date, for those customers for whom the revaluation of non-invoiced sales of gaseous fuel 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 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	
<p>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. For each balance sheet date, an estimate is made of the amount of revenue from the sale of distribution services for a given financial year, which, due to the settlement cycle longer than one month established in the agreements with customers, will be invoiced in the following year.</p>	
Revenue from wholesale of electricity in the Generation segment	
<p>Wholesale sale and purchase of electricity to contractors is carried out through the following routes:</p> <ul style="list-style-type: none"> • Futures Market (FM), Day-Ahead Market (DAM) and Intraday Market (IM), • Balancing Market (BM). <p>The contracts concluded within the FM and DAM are reported to the Transmission System Operator (TSO) one day before the delivery day as the declared amount of electricity that the company is obliged to deliver. The contracts concluded on the Intraday Market are reported on the delivery date. The Transmission System Operator ultimately decides on the actual volume of energy produced, taking into account the current demand of the National Power System (NPS). Where the Operator's electricity demand is higher than the generator's declared electricity production volume, the TSO increases the generation of centrally dispatched units (CDUs) (increments - additional energy sales to the TSO within the BM), in case the electricity demand is lower than the declared energy volume, the TSO reduces the generation of CDUs (additional energy purchase from the TSO). Settlements resulting from the Operator's decision are carried out within the Balancing Market.</p> <p>The wholesale of electricity from non-centrally dispatched generating units (generating units below 100 MW) takes place under similar principles. Since 15 December 2022, in accordance with the electricity distribution services agreement, TAURON Wytwarzanie S.A. took over responsibility for trade balancing of non-centrally dispatched units from the DSO area.</p> <p>Invoices for the sale and purchase of electricity from the Balancing Market are issued based on reports from the centralised sales balancing system in the National Power System. These settlements are performed every decade.</p>	

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Revenue from sale of heat in the Generation segment

Revenues are measured on the basis of the current heat tariffs, the invoiced volumes of ordered heat capacity, heat, heat carrier, receivables for the seller's costs of providing access to the premises, the volume of overruns, other actual consumption of products at the tariff rates and prices contained in the current tariffs.

Sales of heat are carried out on the basis of readings of metering and billing systems taken on the indicated working days of each calendar month, therefore, for reporting purposes, an estimation of sales from the date of the reading to the end of the month is made. The sales of revaluation for each reading point are calculated based on the algorithm:

- the re-estimation for central heating consumption depends directly on the heat consumption in the reference period, the outside temperature and the number of re-estimation days until the end of the month;
- the re-estimation for domestic hot water consumption depends directly on the heat consumption in the reference period and the number of re-estimation days until the end of the month;
- the re-estimation for the heat carrier depends directly on the heat consumption in the reference period and the number of re-estimation days until the end of the month.

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 2023, additionally estimated revenue from sales of electricity and distribution services in the Sales segment amounted to PLN 2 005 million and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2023 amounted to PLN 1 181 million. As at 31 December 2023, the additional assessment of revenue from sales of gas fuel and distribution services in the Sales segment amounted to PLN 62 million and, whereas when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2023 amounted to PLN (10) million.

	Year ended 31 December 2023	Year ended 31 December 2022
Sale of goods for resale, finished goods and materials without elimination of excise	31 736	28 280
Excise	(102)	(49)
Sale of goods for resale, finished goods and materials	31 634	28 231
Electricity	28 596	25 134
Heat energy	1 298	860
Gas	1 286	1 092
CO ₂ emission allowances	64	635
Energy certificates and similar	149	258
Other goods for resale, finished goods and materials	241	252
Rendering of services	10 945	8 013
Distribution and trade services	9 736	6 933
Capacity Market	692	646
Maintenance of road lighting	159	130
Connection fees	105	111
Other services	253	193
Other revenue	78	67
Total sales revenue	42 657	36 311

In the year ended 31 December 2023, sales revenues increased in relation to the comparable period, and the main changes concerned sales revenues of the following finished goods, goods for resale and materials:

- Electricity – an increase resulting from higher prices and lower volumes of electricity sold. An increase of the average price is, on the one hand, the effect of the rise in market electricity prices in the contracting period and, on the other hand, of the regulation of the price level in 2023 for selected customer groups at a higher level than the prices applied in the comparable period. The lower volume is mainly due to lower demand from the Group's customers, including in the retail segment;
- Heat – an increase mainly due to a significant increase in the prices of heat tariffs approved by the President of the ERO, resulting from a significant increase in the prices of CO₂ emission allowances and coal;
- Gas – an increase mainly due to a significant rise in prices in relation to the comparable period, as a result of an increase in prices contracted during 2022 on account of deliveries in 2023, while sales volumes decreased;
- Distribution and trading services – increase as a consequence of an increase in the rate of the distribution and transmission service with a simultaneous decrease in the volume of the distribution service.

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In the scope of revenue from the sale of CO₂ emission allowances, there was a decrease due to a non-recurring event in the comparable period in the form of the failure of the 910 MW unit in Jaworzno. With the aim of using the surplus of allowances created by the failure for redemption purposes of another Group installation and matching the delivery date of the allowances and the cash expenditure, in the first quarter of 2022 the Group sold 1 717 000 EUAs with a simultaneous repurchase of this volume in the EUA MAR'23 futures product. Revenues from sale of the aforementioned allowances amounted to PLN 604 million.

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

Year ended 31 December 2023

	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	8 318	117	2	22 968	229	31 634
Electricity	6 995	-	-	21 539	62	28 596
Heat energy	1 298	-	-	-	-	1 298
Gas	-	-	-	1 286	-	1 286
CO ₂ emission allowances	-	-	-	64	-	64
Energy certificates and similar	22	117	-	2	8	149
Other goods for resale, finished goods and materials	3	-	2	77	159	241
Rendering of services	880	9	5 690	4 265	101	10 945
Distribution and trade services	336	-	5 484	3 916	-	9 736
Capacity Market	525	7	-	160	-	692
Maintenance of road lighting	-	-	-	159	-	159
Connection fees	-	-	105	-	-	105
Other services	19	2	101	30	101	253
Other revenue	19	-	39	7	13	78
Total sales revenue	9 217	126	5 731	27 240	343	42 657

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
CO ₂ 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 sales revenue	5 596	166	3 696	26 531	322	36 311

Revenue from sales of electricity broken down by customer groups is presented in the table below.

	Year ended 31 December 2023	Year ended 31 December 2022
Revenue from sales of electricity	28 596	25 134
Retail sale	18 214	14 733
Strategic clients	4 477	2 237
Business clients	7 956	7 062
Mass clients - Group G	4 072	3 646
Mass clients - SME	1 651	1 520
Other	156	317
Excise duty	(98)	(49)
Wholesale	9 522	9 738
Other	860	663

15. Compensations

	Year ended 31 December 2023	Year ended 31 December 2022
Compensation electricity	6 910	465
Recompensation distribution electricity services	1 038	-
Compensation gas	27	17
Recompensation heat energy and distribution heat services	83	2
Total	8 058	484

The aforementioned compensations are described in detail in Note 11 to these consolidated financial statements.

16. 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 (recognised separately in the statement of comprehensive income).

Costs 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 that can only be indirectly assigned to revenues or other benefits obtained by the Group affect the profit or loss of the Group in the portion pertaining to a given reporting period, ensuring that they are commensurate with revenue or other economic benefits.

16.1. Costs by type

	Year ended 31 December 2023	Year ended 31 December 2022
Depreciation and amortization	(2 232)	(2 060)
Impairment of non-financial assets	(26)	(79)
Materials and energy	(5 119)	(4 636)
Distribution services	(2 917)	(1 527)
Maintenance and repair services	(316)	(239)
Other external services	(942)	(686)
Cost of obligation to remit the CO ₂ emission allowances	(3 461)	(3 096)
Write-down for the Price Difference Payment Fund	(832)	–
Other taxes and charges	(798)	(815)
Employee benefits expense	(3 194)	(2 630)
Allowance for inventories	(185)	(7)
Allowance for trade receivables expected credit losses	(79)	8
Costs of provision for onerous contracts	91	(91)
Other	(162)	(121)
Total costs by type	(20 172)	(15 979)
Change in inventories, prepayments, accruals and deferred income	–	3
Cost of goods produced for internal purposes	841	764
Selling expenses	766	528
Administrative expenses	701	558
Cost of goods for resale and materials sold	(27 763)	(20 728)
Cost of sales	(45 627)	(34 854)

In the year ended 31 December 2023 compared to the comparative period, the main changes in the cost of goods, products, materials and services sold involved:

- an increase in the cost of materials and energy consumption, mainly as a result of higher costs of coal fuel consumed for electricity and heat generation purposes, which is primarily related to the change in the prices of coal contracted throughout 2022 for deliveries in 2023;
- an increase in the cost of distribution services, resulting, among others, from an increase in the average rate for transmission services purchased from PSE S.A.;
- an increase in the cost of maintenance and repair services and other third-party services, which is due to the increased scope of maintenance and repair and service work in the companies of the Generation segment and an increase in the cost of unit services, among others, in the scope of tree felling, external hotline. In addition, in 2023, the Group acquired construction services for the construction of a photovoltaic farm recognised in the Group's assets through the cost of services for the entity's own needs;
- an increase in the cost of the obligation to redeem CO₂ emission allowances, which mainly results from the increase in the price of CO₂ emission allowances included in the calculation of the provision at a simultaneous decrease in CO₂

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emission of the Group's generation units and, as a consequence, a lower electricity production and an increase in the share of production through most cost effective production units;

- incurring by TAURON Group in the current period of the costs of write-downs to the Price Difference Payment Fund in the amount of PLN 832 million as a consequence of the entry into force of the Act of 27 October 2022 on *Extraordinary Measures to Limit the Level of Electricity Prices and Support Certain Consumers in 2023*;
- an increase in employee benefit costs the main reason for which is the recognition of the effects of the collective wage agreements signed with the social party;
- recognition of an impairment loss on the value of coal fuel stocks held at TAURON Wytwarzanie S.A. (Generation segment) of PLN 176 million, as further described in Note 34 of these 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 with a simultaneous decline in volume.

16.2. Employee benefit expenses

	Year ended 31 December 2023	Year ended 31 December 2022
Wages and salaries	(2 385)	(2 041)
Social security costs	(466)	(398)
Post-employment benefit expenses, of which:	(107)	(99)
<i>Provision for retirement, disability and similar benefits</i>	(11)	(16)
<i>Company Social Benefits Fund</i>	(2)	(3)
<i>Contributions to employee retirement plans</i>	(94)	(80)
Contributions to the Company Social Benefits Fund	(65)	(59)
Jubilee bonuses	(59)	54
Other employee benefit expenses	(112)	(87)
Total	(3 194)	(2 630)
Items included in cost of sales	(1 959)	(1 620)
Items included in selling expenses	(383)	(290)
Items included in administrative expenses	(466)	(363)
Items included in cost of goods produced for internal purposes	(386)	(357)

16.3. Depreciation and amortisation charges and impairment losses

	Year ended 31 December 2023	Year ended 31 December 2022
Depreciation and amortisation, included in item:	(2 232)	(2 060)
Cost of sales	(2 055)	(1 922)
Selling expenses	(97)	(67)
Administrative expenses	(53)	(44)
Cost of goods produced for internal purposes	(27)	(27)
Impairment allowance, included in item:	(26)	(79)
Cost of sales	(31)	(79)
Selling expenses	7	2
Administrative expenses	(2)	(2)
Total	(2 258)	(2 139)

In the year ended 31 December 2023, as a result of impairment tests performed as at 31 December 2023, the Group recognised impairment losses in the Generation segment in the total amount of PLN 23 million. The impairment tests are further described in detail in Note 13 to these consolidated financial statements.

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17. Other operating income and costs

	Year ended 31 December 2023	Year ended 31 December 2022
Penalties, fines, compensations received or receivable	286	30
Other subsidies/ Income from settlement of subsidies and gratuitous receipt of fixed assets parallel to depreciation	65	38
Result on the disposal of non-financial fixed assets and costs of damages to non-current assets	16	(12)
Surplus of other provisions (recognized)/derecognized	(57)	1
Costs of court proceedings, fines and damages	(10)	(10)
Write-off for abandoned investments and production	(4)	(2)
Result on the loss of control over Wsparcie Grupa TAURON Sp. z o.o. company	-	67
Other operating income	28	32
Other operating expenses	(64)	(58)
Total	260	86

The value of received fines, penalties and compensations is mainly due to the recognition within other operating income of a performance bond received by TAURON Wytwarzanie S.A. in the amount of PLN 240 million as part of the settlement concluded with the contractor for the construction of the 910 MW unit in Jaworzno, which is described in more detail in Note 61 of these consolidated financial statements. Given the lack of assignment of amounts in the settlement agreement to individual indemnity titles, the guarantee was recognised within the Group's other operating income.

18. Financial revenues and costs

SELECTED ACCOUNTING PRINCIPLES

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

- interest and settlement of discount and revenues due to participation in the profits of other entities,
- revaluation of financial instruments, excluding:
 - the revaluation of financial instruments recognised in other comprehensive income and credited 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 in operating activities where gains/losses on the related trading in goods are also recognised;
- foreign exchange differences, except for differences recognized in the initial value of a fixed asset, to the extent they are classified as adjustment to interest expenses;
- 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 (for entities whose functional currency is PLN, the average exchange rate determined for a given currency by the National Bank of Poland on that day is deemed the closing exchange rate),

Currency	Status as at 31 December 2023	Status as at 31 December 2022
EUR	4.3480	4.6899
USD	3.9350	4.4018
CZK	0.1759	0.1942

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

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	Year ended 31 December 2023	Year ended 31 December 2022
Income and costs from financial instruments	(1 034)	(931)
Interest costs	(797)	(591)
Loss on derivative instruments	(800)	(219)
Exchange differences	299	(124)
Commission relating to borrowings and debt securities	(18)	(24)
Remeasurement of loans granted	151	(14)
Interest income	111	75
Dividend income	1	14
Other	19	(48)
Other finance income and costs	(58)	(28)
Interest on employee benefits	(36)	(31)
Interest on discount of other provisions	(9)	(8)
Other finance income	12	22
Other finance costs	(25)	(11)
Total, including recognized in the statement of comprehensive income:	(1 092)	(959)
Interest expense on debt	(797)	(591)
Finance income and other finance costs	(295)	(368)

The increase in interest expenses results from a higher level of the average annual use of external funding and the generally higher level of base rates in the year ended 31 December 2023 in relation to the comparable period. The growth in the level of the base rates is partially offset by the concluded IRS hedging instruments. The amount of interest expenses shown in the table takes into account the above hedging effect.

The loss on derivatives in the year ended 31 December 2023 is mainly associated with the appreciation of the Polish zloty exchange rate, which translated into a decrease in the valuation and the result on current settlement of FX derivatives. The strengthening of the zloty exchange rate in 2023 also affected the occurrence of exchange rate gains in the current period, which are mainly related to the valuation of external financing in EUR. In the comparable period, a negative change in the valuation of the aforementioned financing occurred, which was the main reason of exchange rate losses.

The revaluation of loans granted relates to loans granted to the joint venture, Elektrociepłownia Stalowa Wola S.A. As at 31 December 2023, as a result of the analyses performed taking into account the joint venture's future cash flow projections, the Group estimated that the fair value of these loans had increased. The increase in measurement in the year ended 31 December 2023 amounted to PLN 151 million.

19. Costs arising from leases

The table below presents the total charge to profit or loss due to lease agreements where Group companies are the lessee.

	Year ended 31 December 2023	Year ended 31 December 2022
Cost arising from leases recognized in accordance with MSSF 16 Leases, including:	(177)	(180)
Depreciation of right-of-use assets	(111)	(124)
Cost of interest on lease liabilities	(66)	(56)
Cost arising from leases for which practical exclusion from MSSF 16 Leases has been applied, including:	(10)	(11)
Cost of short-term leases	(4)	(6)
Variable lease charges not included in the measurement of lease liabilities	(6)	(5)
Total	(187)	(191)

20. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

Income tax recognised in the financial result of the period comprises real tax burden for a given reporting period of individual companies determined in accordance with the applicable provisions of the Act on corporate income tax and any potential adjustments of tax settlements for previous years.

Deferred Tax

The Group recognises a deferred tax liabilities and deferred tax 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.

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

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

The deferred tax assets and deferred tax liabilities of the companies forming the Tax Capital Group 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 unrecognised deferred tax assets at each balance sheet date.

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

20.1. Tax burden in the statement of comprehensive income

	Year ended 31 December 2023	Year ended 31 December 2022
Current income tax	(621)	(434)
Current income tax expense	(611)	(447)
Adjustments to current income tax from previous years	(10)	13
Deferred tax	(3)	115
Income tax expense in profit/(loss)	(624)	(319)
Income tax expense relating to other comprehensive income, including:	80	(48)
reclassified to profit or loss	55	(36)
not reclassified to profit or loss	25	(12)

In the year ended 31 December 2023, TAURON Polska Energia S.A. and selected subsidiaries settled income tax for 2023 within the Tax Capital Group registered on 28 December 2022 (the "PGK").

The Tax Capital Group Agreement for 2023-2025 was registered on 28 December 2022 by the Head of the First Tax Office for the Mazowieckie Province in Warsaw. The Tax Capital Group consists of the Company and selected subsidiaries. Main companies forming the Tax Capital Group as of 1 January 2023 include: TAURON Polska Energia S.A., TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Ciepło Sp. z o.o., TAURON Zielona Energia Sp. z o.o., TAURON Nowe Technologie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

The Group's current income tax charge of PLN 611 million mainly relates to PGK in the amount of PLN 338 million and the non-PGK company, TAURON Wytwarzanie S.A. in the amount of PLN 176 million.

In the comparable period, TAURON Polska Energia S.A. and the subsidiaries accounted for income tax individually.

20.2. Reconciliation of the effective tax rate

	Year ended 31 December 2023	Year ended 31 December 2022
Profit/(loss) before taxation on continuing operations	2 302	110
Profit/(loss) before taxation on discontinued operations	-	23
Tax at Poland's statutory tax rate of 19%	(437)	(25)
Adjustments to income tax from previous years	(10)	13
Different tax rate in TAURON Czech Energy s.r.o.	(48)	-
Share in the result of joint ventures	(93)	24
Tax effect of TAURON Group reorganization transactions	-	(12)
Write-off to fair value of disposal group classified as held for sale	-	(87)
Permanently non-taxable income and expenses	(92)	(81)
Changes in deferred tax estimates	63	(101)
Other	(7)	2
Tax at the effective rate of 27% (2022: 201%)	(624)	(267)
Income tax (expense) in the financial result, including:	(624)	(267)
relating to continuing operations	(624)	(319)
relating to discontinued operations	-	52

21. Discontinued operations

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 recognises the impairment loss upon initial or subsequent revaluation of assets (or a disposable group) to the fair value less disposal costs. The Group estimates the fair value of the disposable group. As at 31 December 2023, the Group had no material assets (or disposable groups) classified as held for sale. In 2022, as at the date of classification of the net assets of TAURON Wydobycie S.A. to the disposable group classified as held for sale, the Group measured the disposable group at a fair value. The fair value, bearing in mind the share purchase offer at a level of PLN 1 received from the State Treasury, 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.

The Group estimated 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 were presented under the result from continuing operations, with an adequate consolidation adjustment recognised 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.

In the year ended on 31 December 2023, the Group did not discontinue any activity. In the comparative period, discontinued operations comprised the operations of a company classified within the Mining segment, over which the Group lost control on 31 December 2022 as a result of the disposal by the Company of 100% of its shares.

Due to the fact that the fair value of the disposable group was lower than its existing carrying amount, the Group recognised the impairment loss due to revaluation of the disposable group classified as held for sale to the fair value in the total amount of PLN 460 million. The write-down 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 as at the date of loss of control, i.e. 31 December 2022 amounted to PLN 0 after the application of the write-down.

The table below shows the results of discontinued operations for the year ended 31 December 2022.

	Year ended 31 December 2022		
	Mining Segment	Consolidation adjustments/ Write-down to fair value	Discontinued operations
Sales revenue	2 680	(1 650)	1 030
Cost of sales	(1 867)	1 630	(237)
Profit on sale on discontinued operations	813	(20)	793
Selling and distribution expenses	(110)	13	(97)
Administrative expenses	(206)	25	(181)
Other operating income and expenses	(7)	2	(5)
Write-down on revaluation to fair value less costs to sell	-	(460)	(460)
Operating profit on discontinued operations	490	(440)	50
Finance income and finance costs	(347)	320	(27)
Profit before tax on discontinued operations	143	(120)	23
Income tax expense	52	-	52
Net profit on discontinued operations	195	(120)	75
Actuarial gains	22	-	22
Income tax	(4)	-	(4)
Other comprehensive income not to be reclassified in the financial result on discontinued operations	18	-	18
Total comprehensive income on discontinued operations	213	(120)	93
Net profit on discontinued operations:			
Attributable to equity holders of the Parent	195	(120)	75
Total comprehensive income:			
Attributable to equity holders of the Parent	213	(120)	93
Basic and diluted net profit per share (in PLN):			
from net profit on discontinued operations for the period attributable to shareholders of the parent company			0.04

22. 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 ordinary shareholders of the parent company for a given reporting period by the weighted average number of ordinary shares existing in a given reporting period.

The calculation of diluted earnings per share is consistent with the calculation of earnings per share, however, the calculation must also take into account the existence of dilutive potential ordinary shares.

	Year ended 31 December 2023	Year ended 31 December 2022
Net profit (loss) for the year attributable to equity holders of the Parent	1 673	(134)
Net profit on continuing operations for the year attributable to equity holders of the Parent	1 673	(209)
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)	0.95	(0.08)
Profit (loss) per share - basic and diluted on continued operations attributable to shareholders of the parent company (in PLN)	0.95	(0.12)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

23. Tangible fixed assets

SELECTED ACCOUNTING PRINCIPLES

The Group's key fixed assets by segment include:

- in the Generation area:
 - 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, desulphurisation installations and water treatment stations, steam generators, switchboards, landfills, warehouses and other buildings, switchgears for the highest voltages;
- 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 area:
 - power lines with a total length of approximately 248 thousand km;
 - electrical substations (approximately 63 thousand units);
 - transformers (approximately 60 thousand units).

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

- acquisition price or manufacturing cost,
- costs directly attributable to the purchase and bringing the asset to a usable condition,
- the expected cost of disassembly and removal of items of property, plant and equipment and restoration of their current location to its original condition (the accounting policy in the scope of creating provisions for these costs are presented in Note 42 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 which is not subject depreciation. Specialised spare parts and service equipment are depreciated over the useful life of the fixed asset to which they relate.

Borrowing costs activated within assets

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.

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The amount of general borrowing costs subject to capitalisation 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 recognised as deferred income in the statement of financial position and 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

neric group	Average remaining depreciation period in years
Buildings, premises, civil and water engineering structures	20 years
Technical equipment and machines	11 years
Other tangible fixed assets	4 years

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. This review takes into account the impact of climate issues, including risks related to regulatory changes or restrictions on the useful life of assets.

The review of the economic useful lives of property, plant and equipment and intangible assets carried out in 2023 resulted in a decrease in depreciation and amortisation costs by PLN 26 million in the Distribution segment and a increase of PLN 24 million in the Generation segment.

Year ended 31 December 2023

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	146	31 457	24 968	930	1 820	59 321
Direct purchase	-	-	-	3	3 622	3 625
Borrowing costs	-	-	-	-	54	54
Transfer of assets under construction	3	1 986	1 337	63	(3 389)	-
Sale	-	(6)	(100)	(11)	(8)	(125)
Liquidation	-	(65)	(231)	(14)	-	(310)
Received free of charge	4	48	44	-	-	96
Overhaul expenses	-	-	-	-	313	313
Items generated internally	-	-	-	-	46	46
Cost of disassembly of wind and photovoltaic farms	-	11	12	-	21	44
Other movements	-	(1)	(23)	-	(13)	(37)
Closing balance	153	33 430	26 007	971	2 466	63 027
ACCUMULATED DEPRECIATION						
Opening balance	-	(13 790)	(15 020)	(692)	(88)	(29 590)
Depreciation for the period	-	(977)	(927)	(58)	-	(1 962)
Impairment	-	(8)	(17)	-	(7)	(32)
Sale	-	2	89	11	-	102
Liquidation	-	58	228	14	-	300
Other movements	-	(2)	(18)	1	46	27
Closing balance	-	(14 717)	(15 665)	(724)	(49)	(31 155)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	146	17 667	9 948	238	1 732	29 731
NET CARRYING AMOUNT AT THE END OF THE PERIOD	153	18 713	10 342	247	2 417	31 872
<i>of which operating segments:</i>						
Generation	46	2 372	3 523	24	408	6 373
Renewable Energy Sources	1	905	1 261	2	549	2 718
Distribution	90	14 569	5 328	166	1 422	21 575
Other segments and other operations	16	867	230	55	38	1 206

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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
<i>of which operating segments:</i>							
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

In the year ended 31 December 2023, the Group purchased property, plant and equipment (including capitalised borrowing costs) in the amount of PLN 3 679 million. The major purchases were performed in connection with investment in the following operating segments:

Operating segment	Year ended 31 December 2023	Year ended 31 December 2022
Distribution	2 696	2 082
Renewable Energy Sources	547	367
Generation	206	166

The average capitalisation rate of borrowing costs was 5.1% for the year ended 31 December 2023 and 4.7% for the year ended 31 December 2022.

The increase in property, plant and equipment in the Renewable Energy Sources segment is related to the increase in RES capacity as part of the implementation of the Strategy adopted by the Group. The increase in property, plant and equipment in the Distribution segment is mainly related to the construction of new connections and the modernisation of existing networks. The main investment tasks implemented by the Group in the financial year 2023 are described in section 1.7. of the *Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2023*.

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

Year ended 31 December 2023

	Generation	Distribution	Total
Net increase of impairment	(28)	(4)	(32)
Total impact on the profit (loss) for the period	(28)	(4)	(32)

Year ended 31 December 2022

	Continuing operations		Discontinued operations	Total
	Generation	Distribution	Mining	
Net increase of impairment	(59)	(3)	(128)	(190)
Total impact on the profit (loss) for the period, including	(59)	(3)	(128)	(190)
Continuing operations	(59)	(3)	-	(62)
Discontinued operations	-	-	(128)	(128)

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In addition, in the comparable period, 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 write-down of PLN 460 million, which reduced the value of non-financial non-current assets within the disposable group classified as held for sale.

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

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

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, among others, 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 methodology adopted for application.

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 Group 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.

Year ended 31 December 2023

	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	796	1 136	249	16	12	175	5	2 389
Purchase	72	-	-	-	-	27	13	112
Transfer of right-of-use assets in progress	-	-	-	-	-	11	(11)	-
Increase due to a new lease contract	116	-	9	-	8	-	-	133
Increase(decrease) due to lease changes	12	(7)	26	3	-	-	-	34
Liquidation	(9)	-	(5)	-	(6)	-	-	(20)
Other movements	6	-	-	-	-	7	1	14
Closing balance	993	1 129	279	19	14	220	8	2 662
ACCUMULATED DEPRECIATION								
Opening balance	(102)	(167)	(71)	(4)	(5)	(44)	-	(393)
Depreciation for the period	(41)	(34)	(22)	(2)	(4)	(8)	-	(111)
Impairment	-	(1)	-	-	-	-	-	(1)
Liquidation	2	-	2	-	5	-	-	9
Other movements	(2)	-	-	-	-	-	-	(2)
Closing balance	(143)	(202)	(91)	(6)	(4)	(52)	-	(498)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	694	969	178	12	7	131	5	1 996
NET CARRYING AMOUNT AT THE END OF THE PERIOD	850	927	188	13	10	168	8	2 164

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	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
Purchase	124	-	18	-	-	5	11	158
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	-	4	-	-	-	-	-	4
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

25. Goodwill

SELECTED ACCOUNTING PRINCIPLES

Goodwill is measured at an initial value (determined in accordance with the accounting policy presented in Note 6) less accumulated impairment losses. Goodwill is not amortised but is tested for impairment.

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 13.

Operating segment	As at 31 December 2023	As at 31 December 2022
Distribution	26	26
Total	26	26

Impairment of the carrying amount of goodwill

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

As part of the test performed as at 31 December 2023, no risk of impairment of goodwill attributable to the Distribution CGU was identified due to flows based on the regulatory WACC, which covers costs in accordance with the regulations. In the scope of sensitivity analysis, no realistically possible change in the assumptions adopted to perform the test affects the impairment of goodwill.

26. Energy certificates and CO₂ 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;
- CO₂ emission allowances received or acquired for the purpose of meeting an obligation resulting from CO₂ emission.

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The Group classifies energy certificates of origin and CO₂ 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 CO₂ 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 CO₂ emissions are presented in Note 43.

26.1. Long-term energy origin certificates and CO₂ emission allowances

	Year ended 31 December 2023			Year ended 31 December 2022		
	Energy certificates	CO ₂ emission allowances	Total	Energy certificates	CO ₂ emission allowances	Total
Opening balance	42	13	55	200	244	444
Direct purchase	4	8	12	19	11	30
Reclassification	(30)	(13)	(43)	(177)	(242)	(419)
Closing balance	16	8	24	42	13	55

26.2. Short-term energy origin certificates and CO₂ emission allowances

	Year ended 31 December 2023			Year ended 31 December 2022		
	Energy certificates	CO ₂ emission allowances	Total	Energy certificates	CO ₂ emission allowances	Total
Opening balance	245	352	597	151	6	157
Direct purchase	423	3 380	3 803	372	1 797	2 169
Generated internally	143	–	143	227	–	227
Surrendered	(734)	(3 150)	(3 884)	(635)	(1 494)	(2 129)
Reclassification	30	13	43	130	43	173
Closing balance	107	595	702	245	352	597

26.3. Balance of CO₂ emission allowances in the European Union Registry

Balance of emission allowances	Year ended	Year ended
	31 December 2023	31 December 2022
	Mg EUA	Mg EUA
Allowances in the register at the beginning of the financial year	2 392 840	2 188 000
Allowances surrendered:		
previous year's emissions	(12 968 941)	(7 141 170)
current year's emissions	(167 653)	–
Allocation of free-of-charge allowances	137 243	138 010
Allowances purchased on the secondary market	14 100 000	12 999 000
Allowances sold on the secondary market	(1 659 000)	(5 791 000)
Allowances in the register at the end of the financial year	1 834 489	2 392 840

The volume of CO₂ emission allowances purchased presented in the table above relates to CO₂ 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 CO₂ emission allowances originally acquired for the TAURON Group's redemption needs and sold in connection with restructuring measures.

27. 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 either at purchase price or 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. Amortisation is calculated by reference to the initial value less the residual value. Residual value is included in determining the basis for calculation of amortisation 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 13.

The period and method of amortisation 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 amortisation charges is performed with the effectiveness as of the beginning of the reporting period, in which the verification was completed.

Useful life periods

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

Generic group	Average remaining amortisation period in years
Software, concessions, patents, licences and similar values	4 years
Other	12 years

Year ended 31 December 2023

	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	18	1 207	259	167	1 651
Direct purchase	-	-	-	283	283
Transfer of intangible assets not made available for use	1	348	24	(373)	-
Sale/Liquidation	(1)	(56)	(1)	-	(58)
Other changes	-	-	1	(2)	(1)
Closing balance	18	1 499	283	75	1 875
ACCUMULATED AMORTIZATION					
Opening balance	(8)	(785)	(132)	-	(925)
Amortization for the period	(3)	(144)	(12)	-	(159)
Sale/Liquidation	-	56	1	-	57
Closing balance	(11)	(873)	(143)	-	(1 027)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	10	422	127	167	726
NET CARRYING AMOUNT AT THE END OF THE PERIOD	7	626	140	75	848

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

28. 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 of non-current assets. 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.

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

After applying the equity method, including recognition of joint venture losses, 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 the balance sheet date, the Company assessed that there were indications of the need to perform impairment tests of the shares in TAMEH Holding Sp. z o.o. Impairment tests for shares in joint ventures are carried out in line with the accounting policy defined in Note 13.

	As at 31 December 2023 or for the year ended 31 December 2023			As at 31 December 2022 or for the year ended 31 December 2022		
	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. ¹	Total	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. ¹	Total
Non-current assets	1 657	1 209	2 866	1 714	1 909	3 628
Current assets, including:	287	874	1 161	488	1 982	2 494
<i>cash and cash equivalents</i>	88	182	270	81	113	194
Non-current liabilities (-), including:	(1 972)	(271)	(2 243)	(2 055)	(543)	(2 558)
<i>debt</i>	(1 966)	(32)	(1 998)	(2 015)	(408)	(2 418)
Current liabilities (-), including:	(565)	(1 392)	(1 957)	(688)	(1 903)	(2 630)
<i>debt</i>	(108)	(368)	(476)	(109)	(190)	(299)
Total net assets	(593)	420	(173)	(541)	1 445	934
Share in net assets (50%)	(297)	210	(87)	(271)	723	467
Investment in joint ventures	-	169	169	-	682	682
Sales revenue	1 409	3 970	5 379	2 507	4 823	7 376
Net profit (loss), including:	(50)	(975)	(1 025)	28	255	315
<i>Depreciation</i>	(62)	(157)	(219)	(65)	(201)	(266)
<i>Write-downs on non-financial fixed assets</i>	-	(616)	(616)	-	-	-
<i>Allowance/write-down receivables</i>	-	(447)	(447)	-	-	-
<i>Interest income</i>	3	8	11	1	8	9
<i>Interest expenses</i>	(161)	(48)	(209)	(154)	(61)	(215)
<i>Income tax</i>	-	(28)	(28)	-	(59)	(59)
Share in profit/(loss) of joint ventures	-	(487)	(487)	-	128	128

¹ The information presented relate to the TAMEH HOLDING Sp. z o.o. capital group. The value of the interest held in TAMEH HOLDING Sp. z o.o. differs from the value of net assets attributable to the Group, because the cost of shares in TAMEH HOLDING Sp. z o.o. was calculated taking into account the fair value of the share contributed to the joint venture by companies from the ArcelorMittal Group.

28.1. Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 at the initiative of TAURON Polska Energia S.A. and PGNiG S.A., through which the partners implemented an investment consisting in the construction of CCGT unit in Stalowa Wola fired with natural gas with the gross electrical capacity of 450 MWe and the net heat capacity of 240 MWt. 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. (the company's equity capital was created by taking up 50% of the shares by the partners for a total amount of PLN 48 million). Due to the fact that in 2015 the accumulated share of

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losses of the joint venture and the adjustment to “top-down” transactions between the Group companies and the joint venture exceeded the value of the interest in the joint venture, the Company discontinued to recognise its share of any further losses of the joint venture.

In addition, the Company has receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. in the carrying amount of PLN 357 million, as further discussed in Note 29 to these consolidated financial statements.

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

On 25 July 2023, an agreement (the “Memorandum of Understanding”) was signed to the Letter of Intent concluded in August 2021 regarding Elektrociepłownia Stalowa Wola S.A. The Memorandum of Understanding was concluded between the Company, the subsidiaries, TAURON Wytwarzanie S.A. and TAURON Inwestycje Sp. z o.o. (current owner of 50% of shares in Elektrociepłownia Stalowa Wola S.A.), Orlen S.A. (legal successor of the previous party to the Letter of Intent, i.e. Polskie Górnictwo Naftowe i Gazownictwo S.A.) and PGNiG TERMIKA S.A. (an entity now part of Orlen Group). The intention of the parties to the Memorandum of Understanding is to confirm the intention to continue (after the ownership changes) the talks planned in the Letter of Intent concerning a potential transaction of the sale by TAURON Group to Orlen Group of its equity exposure in Elektrociepłownia Stalowa Wola S.A. and receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. by the Company, including a potential development of a method of carrying out the potential transaction and its settlement acceptable to the parties. The Memorandum of Understanding excluded TAURON Wytwarzanie S.A. from the talks, included TAURON Inwestycje Sp. z o.o. and adjusted the principles of cooperation to the new legal and actual situation. The Memorandum of Understanding further indicated that the method of settlement of the potential transaction to be worked out by the parties may take into account, for example, the potential sale of 100% of the shares in PGNiG TERMIKA Energetyka Przemysłowa S.A. with its registered office in Jastrzębie Zdrój belonging to PGNiG TERMIKA S.A. to the Company or companies in the TAURON Group.

28.2. TAMEH HOLDING Sp. z o.o. and its subsidiaries

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

TAMEH HOLDING Sp. z o.o. is the owner of 100% of the shares in TAMEH POLSKA Sp. z o.o., formed by a contribution in kind by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Błachownia 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 5 October 2023, the Shareholders' Meeting of TAMEH Holding Sp. z o.o. decided to allocate the amount of PLN 64 million for the payment of dividends 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 32 million.

On 14 December 2023, an insolvency petition was filed by TAMEH Czech s.r.o. with the competent Court in Ostrava. On 22 December 2023, the Company became aware that the Ostrava District Court had issued a decision on 19 December 2023 declaring TAMEH Czech s.r.o. insolvent. The filing of the insolvency petition by TAMEH Czech s.r.o. is due to the failure of Liberty Ostrava a.s., which is the sole customer of TAMEH Czech s.r.o., to pay its debts to the company.

After the balance sheet date, legal steps were taken by the Company with regard to the submission, on the basis of the shareholders' agreement, of a declaration of acceptance by the Company of an offer by a shareholder (ArcelorMittal Group) to purchase the shares in TAMEH Holding Sp. z o.o. held by the Company, as further described in Note 62 of these consolidated financial statements.

In the Group's opinion, as at the balance sheet date, the criteria of IFRS 5 for the classification of the Group's shares in TAMEH Holding Sp. z o.o. as disposable assets classified as held for sale have not been met.

As at the balance sheet date, the Group measured its shares in TAMEH Holding Sp. z o.o. using the equity method, at a level of PLN 169 million. Recognition of the share in the result of TAMEH HOLDING Sp. z o.o. translated into a charge of PLN 487 million to the Group's operating result. The reduction in the valuation of the shares held in TAMEH Holding Sp. z o.o. results mainly from the need to recognise, due to the insolvency of TAMEH Czech s.r.o., the Group's share of impairment losses on receivables of TAMEH Czech s.r.o. from Liberty Ostrava a.s. and its share of impairment losses on non-financial fixed assets of TAMEH Czech s.r.o., recognised on the basis consistent with the TAURON Group's Accounting Policy, which in total charged the Group's result in the amount of PLN 532 million.

Given that, in the Group's opinion, there were indications of impairment, the Group carried out impairment tests of its involvement in TAMEH Holding Sp. z o.o. as at the balance sheet date, as further described in Note 13 of these consolidated financial statements. As a result of the tests, the Group did not identify the need to make impairment losses

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due to the fact that the recoverable amount of the involvement in TAMEH HOLDING Sp. z o. o., estimated as part of the impairment tests, exceeds its carrying amount.

In terms of dividend receivables from TAMEH HOLDING Sp. z o. o. in the amount of PLN 32 million, based on the analyzes performed, the Group assessed that as at the balance sheet date it was of a long-term nature.

29. Loans granted 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 fair value through profit or loss.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group estimates the fair value of loans classified as measured at a fair value. The measurement methodology is described in Note 53.1 to these consolidated financial statements.

	As at 31 December 2023		As at 31 December 2022		Maturity date	Interest rate
	Repayable principal amount and interest contractually accrued	Carrying amount	Repayable principal amount and interest contractually accrued	Carrying amount		
Loans granted to EC Stalowa Wola S.A.	726	357	685	206	30.06.2033	fixed
Total, of which:	726	357	685	206		
Non-current		357		206		

As at the balance sheet date, as a result of analyses taking into account the projection of future cash flows of the joint venture, the Group estimated that the fair value of the loans granted to the joint venture, Elektrociepłownia Stalowa Wola S.A. increased to PLN 357 million.

30. Derivatives and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative instruments

Derivative financial instruments within the scope of IFRS 9 *Financial Instruments* are classified as financial assets/liabilities measured at a fair value through profit or loss, except for derivatives designated as hedging instruments and covered by hedge accounting. Agreements for the purchase or sale of non-financial items that can be settled on a net basis, concluded and held for the purpose of receiving or delivering non-financial items in accordance with the entity's expected needs as excluded from the scope of IFRS 9 *Financial Instruments*, are not subject to measurement as at the balance sheet day.

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

Hedge accounting

The Company applies the accounting principles in relation to hedging instruments subject to hedge accounting in accordance with IAS 39 *Financial Instruments: recognition and measurement*.

In order to hedge the interest rate risk, the Group uses IRS (Interest Rate Swap) contracts. These instruments hedge cash flows related to the Group's indebtedness. 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.

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Instrument	Methodology for determining the fair value	Status as at 31 December 2023
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.	<p>IRS (Interest Rate Swap) instruments are used to hedge a portion of the interest rate risk on the cash flows associated with the exposure to WIBOR 6M designated under the dynamic risk management strategy, i.e:</p> <ul style="list-style-type: none"> • interest on a loan with a nominal value of PLN 750 million, for periods commencing, respectively, from July 2020 and expiring in December 2024; • interest on bonds and a loan with a total nominal value of PLN 2 920 million, for periods beginning in December 2019 expiring successively until 2029. <p>In accordance with the terms of the transaction, the Company pays interest accrued based on a fixed interest rate in PLN, while receiving payments at a floating interest rate in PLN.</p>
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 notional amount of EUR 500 million. The transaction matures in July 2027. 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 fixed interest rate in EUR. CCIRS derivatives aimed at securing the currency flows generated by interest payments on Eurobonds issued.
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 data 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 comprise forward transactions aimed 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 2023				As at 31 December 2022			
	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	299	-	28	271	592	-	34	558
Derivatives measured at fair value through profit or loss								
CCIRS	-	(9)	(9)	-	21	-	21	-
Commodity forwards/futures	125	(125)	-	-	236	(232)	4	-
Currency forwards	-	(679)	(679)	-	-	(109)	(109)	-
Total	424	(813)			849	(341)		
Non-current	149	(169)			390	(10)		
Current	275	(644)			459	(331)		

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.

31. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

The Group's other financial assets include, among other things, compensation receivables, shares and stocks, deposits, bonds, security deposits and collaterals provided, including deposits from settlements on foreign stock exchanges and funds contributed under the Guarantee Fund to the Izba Rozliczeniowa Giełda Towarowych S.A. in connection with transactions concluded by the Company on the Polish Power Exchange.

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 53 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 53 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.

	As at 31 December 2023	As at 31 December 2022
Receivables due to compensations	1 919	465
Shares	225	211
Deposits and term deposits for Mining Decommissioning Fund	3	3
Other financial receivables, including:	580	100
Bid bonds, deposits and collateral transferred	531	94
Dividends due	32	-
Other	17	6
Total	2 727	779
Non-current	278	301
Current	2 449	478

Compensation receivables mainly relate to:

- compensation of companies of the Sales segment in the scope of sale of electricity for 2022 and 2023 in the total amount of PLN 1 675 million,
- compensations of the companies of the Distribution segment with regard to the sale of the distribution service for the year ended 31 December 2023 in the amount of PLN 188 million,

vested in the above companies under the regulations that established the compensation scheme, as further described in Note 11 of these consolidated financial statements.

The increase in security deposits, bonds and collaterals transferred is mainly related to the transfer by the Company to Bank Gospodarstwa Krajowego ("BGK") of a cash deposit to secure BGK's receivables, in place of the bank guarantee previously in force, under the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK, and ORLEN S.A. (formerly: PGNiG S.A.), as discussed in more detail in Note 57 of these consolidated financial statements. As at 31 December 2023, the amount of the deposit paid reached PLN 346 million. As at the balance sheet date, the Company recognised the allowance for expected credit losses on the deposit paid in the amount of PLN 14 million.

32. 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 and 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 or amortisation 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 or amortization should include both current and projected contracts.

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32.1. Other non-current non-financial assets

	As at 31 December 2023	As at 31 December 2022
Prepayments for assets under construction and intangible assets, including:	615	229
<i>related to the construction of wind and photovoltaic farms</i>	587	211
Receivable due to the Write-off for the Price Difference Payment Fund	35	–
Contract acquisition costs and costs of discounts	32	7
Prepayments for debt charges	8	12
Property and tort insurance	2	10
Other	15	10
Total	707	268

32.2. Other current non-financial assets

	As at 31 December 2023	As at 31 December 2022
Advances for deliveries, including:	127	723
<i>related to coal supplies</i>	123	716
Costs settled over time, including:	67	62
<i>Contract acquisition costs and costs of discounts</i>	31	14
<i>Property and tort insurance</i>	18	32
<i>IT and telecom services</i>	12	11
Other	13	5
Total	207	790

The decrease in the balance of advance payments for coal deliveries is related to the settlement of coal deliveries contracted by the Company on the domestic and foreign markets for the needs of the Group's generating companies by the balance sheet date and the partial refund of the advance payments made.

33. Deferred income tax

	As at 31 December 2023	As at 31 December 2022
Deferred tax liabilities		
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	2 019	1 918
different timing of recognition of sales revenue and cost of sales for tax purposes	964	760
difference between tax base and carrying amount of financial assets	139	220
difference between tax base and carrying amount of energy origin certificates	7	15
other	37	38
Total	3 166	2 951
Deferred tax assets		
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	493	673
difference between tax base and carrying amount of financial assets and financial liabilities	608	505
provisions and accruals	945	742
different timing of recognition of sales revenue and cost of sales for tax purposes	863	667
tax losses	54	104
power infrastructure received free of charge and received connection fees	6	6
other	58	63
Total	3 027	2 760
Deferred tax assets not recognized	(314)	(337)
Recognized deferred tax assets	2 713	2 423
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	759	672
Deferred tax liability	(1 212)	(1 200)

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As at 31 December 2023, the deferred tax assets and deferred tax liabilities of the companies that constitute the Tax Capital Group from 2023 onwards have been offset, due to the fact that these companies file a joint tax return from 2023 onwards.

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 314 million were not recognised, mainly with regard to the company in the Generation segment.

Change in deferred tax liability and assets

	Year ended 31 December 2023		Year ended 31 December 2022	
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	2 951	2 423	2 659	2 041
<i>Change in the balance:</i>				
corresponding to profit/(loss)	261	258	249	418
corresponding to other comprehensive income	(54)	26	36	(16)
acquisition/(disposal) of subsidiaries and other changes	8	6	7	(20)
Closing balance	3 166	2 713	2 951	2 423

34. Inventory

SELECTED ACCOUNTING PRINCIPLES

The Group's inventories mainly comprise coal stocks for production purposes.

Inventory is measured at a lower of two values: purchase price or manufacturing cost and attainable net realizable value. 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 CO₂ emission allowances whose releases are measured using the "first in first out" (FIFO) method.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Measurement of inventories requires an estimate of net realizable value. It is the estimated price of sales performed in the course of ordinary business, less costs of production finishing and estimated costs required to make the sales effective.

Materials and other raw materials intended for use in the production process, including in particular coal reserves, are not written down to an amount lower than the purchase price or manufacturing cost if it is expected that the finished products for the production of which they will be used will be sold at the price purchase or manufacturing cost or above the purchase or manufacturing cost. If a decrease in the price of materials indicates that the purchase price or manufacturing cost of finished goods will be higher than the net realisable value, the value of materials is written down to the net realisable value, which is estimated at their replacement cost.

Valuation of the inventory of CO₂ emission allowances at a fair value is based on prices quoted in an active market.

	As at 31 December 2023	As at 31 December 2022
Gross value		
Coal	1 375	841
CO ₂ emission allowances	11	2
Other inventories	298	292
Total	1 684	1 135
Measurement to net realisable value		
Coal	(176)	-
Other inventories	(25)	(17)
Total	(201)	(17)
Fair value		
CO ₂ emission allowances	-	2
Net realisable value		
Coal	1 199	841
CO ₂ emission allowances	11	-
Other inventories	273	275
Total	1 483	1 118

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The analyses conducted as at the balance sheet date indicated the legitimacy of recognition of an impairment loss on the value of coal fuel stocks held at TAURON Wytwarzanie S.A. (Generation Segment) in the amount of PLN 176 million.

The recognition of the write-down is derived from the market situation, i.e. a significant decrease in the market price of coal fuel at the turn of 2023 and 2024. In the context of the above-mentioned price drop, the Group assessed that, in the case of some of TAURON Wytwarzanie S.A. generating units, the value of coal fuel stocks exceeded the sale prices possible to be obtained for electricity generated from these stocks, which translated into the need to make an impairment write-down as at 31 December 2023 on the value of coal stocks purchased by the Group as part of the contracting process carried out in 2022-2023. With respect to the generating unit for which the Group assumes the production of electricity only at the operator's request, bearing in mind that, in accordance with applicable regulations, such production assumes covering the costs of coal fuel, the Group does not make an impairment loss on coal, except in the event of deviations from the assumed production plan.

The write-down was calculated in the amount of the difference between the current carrying amount of the coal fuel stocks held by TAURON Wytwarzanie S.A. and their replacement cost, based on current market prices for coal. The allowance was calculated taking into account the allocation of coal stocks to the individual locations of TAURON Wytwarzanie S.A.'s generating units.

35. 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 14.

Receivables from customers are measured at the amounts originally invoiced or estimated, including in accordance with the methodology described in Note 54 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 in particular should any of the following events occur:

- there will be a delay in payment of more than 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 receivables 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 customers as at 31 December 2023 is shown in the table below.

Not overdue	Overdue				
	<30 days	30-90 days	90-180 days	180-360 days	>360 days
99.91%	98.53%	91.64%	33.51%	14.6%	4.6%

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.

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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.

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	As at 31 December 2023	As at 31 December 2022
Value of items before allowance/write-down		
Receivables from buyers, of which:	5 324	3 795
<i>Additional assessment of revenue from sales of electricity and distribution services</i>	2 120	925
Receivables claimed at court	265	232
Total	5 589	4 027
Allowance/write-down		
Receivables from buyers	(82)	(62)
Receivables claimed at court	(166)	(146)
Total	(248)	(208)
Value of item net of allowance (carrying amount)		
Receivables from buyers	5 242	3 733
Receivables claimed at court	99	86
Total, of which:	5 341	3 819
Current	5 341	3 819

Ageing of receivables from customers as at 31 December 2023

	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	4 841	326	96	42	84	200	5 589
Strategical clients	1 338	48	7	3	28	66	1 490
Other clients	3 503	278	89	39	56	134	4 099
Allowance/write-down	(17)	(6)	(9)	(28)	(58)	(130)	(248)
Strategical clients	(14)	(1)	-	(3)	(18)	(32)	(68)
Other clients	(3)	(5)	(9)	(25)	(40)	(98)	(180)
Net Value	4 824	320	87	14	26	70	5 341
Strategical clients	1 324	47	7	-	10	34	1 422
Other clients	3 500	273	80	14	16	36	3 919

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
Strategical clients	1 389	13	7	2	10	68	1 489
Other clients	2 121	182	49	23	34	129	2 538
Allowance/write-down	(17)	(5)	(9)	(17)	(31)	(129)	(208)
Strategical clients	(8)	(1)	-	(2)	(7)	(33)	(51)
Other clients	(9)	(4)	(9)	(15)	(24)	(96)	(157)
Net Value	3 493	190	47	8	13	68	3 819
Strategical clients	1 381	12	7	-	3	35	1 438
Other clients	2 112	178	40	8	10	33	2 381

Change in allowances on receivables from customers

	Year ended 31 December 2023	Year ended 31 December 2022
Opening balance	(208)	(258)
Recognised	(56)	(3)
Utilized	12	5
Reversed	4	48
Closing balance	(248)	(208)

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Breakdown of impairment losses by counterparty portfolio as at 31 December 2023

	Receivables from buyers	Receivables claimed at court		Total
		Court and enforcement proceedings	Bankruptcy proceedings	
Other counterparties	(62)	(74)	(44)	(180)
Strategic counterparties	(20)	(28)	(20)	(68)
Total counterparties	(82)	(102)	(64)	(248)

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

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

36. 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 2023	As at 31 December 2022
VAT receivables	793	791
Excise duty receivables	–	1
Other	1	11
Total	794	803

37. 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 and deposits transferred to Izba Rozliczeniowa Gield Towarowych S.A. in connection with transactions concluded by the Company on the Polish Power Exchange.

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.

The balance of cash and cash equivalents recognised in the cash flow statement consists of cash and cash equivalents set out above, adjusted by the balance of the valuation of cash in foreign currencies as at the balance sheet date and by the funds which, in the Company's opinion, do not constitute cash and cash equivalents in the cash flow statement.

	As at 31 December 2023	As at 31 December 2022
Cash and cash equivalents presented in the statement of financial position, of which:	1 084	1 678
restricted cash, including:	392	1 047
collateral of settlements with Izba Rozliczeniowa Gield Towarowych S.A.	217	725
cash on VAT bank accounts (split payment)	172	318
bank accounts related to subsidies received	2	1
Collateral of settlements with Izba Rozliczeniowa Gield Towarowych S.A.	(20)	(725)
Cash pool	(15)	(37)
Foreign exchange	(1)	24
Cash and cash equivalents presented in the statement of cash flows	1 048	940

38. Equity

SELECTED ACCOUNTING PRINCIPLES

Issued capital

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

Supplementary capital

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

Revaluation reserve from valuation of hedging instruments

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

Foreign exchange differences due to translation of foreign entities

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

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

The resulting translation differences were recognised in other comprehensive income.

Retained earnings/(accumulated losses)

Retained earnings/(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 Financial 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.

38.1. Issued capital

Issued capital as at 31 December 2023

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	

Shareholding structure as at 31 December 2023 and as at 31 December 2022 (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 Otworthy Fundusz Emerytalny	88 742 929	444	5.06%	5.06%
Other shareholders	954 847 515	4 774	54.49%	54.49%
Total	1 752 549 394	8 763	100%	100%

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As at 31 December 2023, to the best of the Company knowledge, the value of issued 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 2022.

38.2. 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 2023*.

38.3. Supplementary capital

	As at 31 December 2023	As at 31 December 2022
Amounts from distribution of prior years profits	3 076	3 009
Total supplementary capital	3 076	3 009

The increase in the value of supplementary capital in the year ended 31 December 2023 results from the distribution of net profit of the Company for the financial year 2022 in the amount of PLN 67 million. On 28 March 2023, the Management Board of the Company decided to recommend that the entire net profit for 2022 in the amount of PLN 67 million should be allocated to the supplementary capital of the Company. On 10 May 2023 the Ordinary General Meeting of Shareholders of the Company adopted the resolution in compliance with the recommendation of the Management Board.

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

38.4. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2023	Year ended 31 December 2022
Opening balance	450	299
Remeasurement of hedging instruments	(287)	187
Deferred income tax	55	(36)
Closing balance	218	450

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

As at 31 December 2023, the Group recognised the amount of PLN 218 million of the revaluation reserve from valuation of hedging instruments. This amount represents an asset on account of the measurement of IRS instruments as at the balance sheet day in the amount of PLN 299 million, adjusted by the portion of the measurement relating to debt interest accrued at the balance sheet day, including the deferred tax.

38.5. 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 2023 and as at the date these consolidated financial statements were authorised for issue, there are no other restrictions on the payment of dividends.

38.6. Non-controlling interests

	Year ended 31 December 2023	Year ended 31 December 2022
Opening balance	33	33
Share in subsidiaries' net profit or loss	5	-
Acquisition of subsidiary	-	(15)
Acquisition of non-controlling interests	-	18
Dividends for non-controlling interests	-	(3)
Closing balance	38	33

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

39. Dividends paid and declared

	Year ended 31 December 2023	Year ended 31 December 2022
Dividends paid to non-controlling shareholders by subsidiaries	-	(3)

In the year ended 31 December 2023 and the comparative period, the Company did not propose to pay or paid any dividends to the shareholders of the Company.

40. Debt liabilities**SELECTED ACCOUNTING PRINCIPLES**

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

- Bank loans, borrowings, bonds issued

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

- Lease

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

When measuring liabilities at amortised cost using the effective interest rate method, the Group estimates future cash flows considering all contractual terms of a given financial instrument, including the early repayment option. As at the reporting period end, early buy-back of bonds was included in the measurement of liabilities arising from issue of hybrid bonds under agreements concluded with the European Investment Bank and Bank Gospodarstwa Krajowego, in relation to the intention to buy back the bonds after the end of the first financing period. In the case of the hybrid bonds with a nominal value of EUR 190 million as at the balance sheet date, the term of availability of the financing after two financing periods exceeds 12 months from the balance sheet date, but the Company classifies the liability as short-term in accordance with its intention to repay the liability, i.e. after the first financing period falling in December 2024.

In the case of a loan agreement where the drawing period of the loan tranches may be under or above 12 months, 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. As at the balance sheet date, the drawdowns under these contracts were classified as non-current liabilities.

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

	As at 31 December 2023	As at 31 December 2022
Loans and borrowings	9 203	8 010
Unsubordinated bonds	4 854	5 256
Subordinated bonds	1 918	1 966
Lease liabilities	1 440	1 255
Total	17 415	16 487
Non-current	14 544	15 959
Current	2 871	528

TAURON Group raises finance with the aim of investing funds to mitigate the negative impact of the TAURON Group's activities on the climate. A summary of the commitment acquired by the Group in terms of pro-climate investment is presented in section E 3.2.1. *Reports on non-financial information of the TAURON Capital Group for 2023.*

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40.1. Loans and borrowings

Loans and borrowings as at 31 December 2023

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	7 972	7 972	15	1 600	167	914	2 908	2 368
	fixed	1 134	1 134	39	60	579	79	81	296
Total PLN		9 106	9 106	54	1 660	746	993	2 989	2 664
Total			9 106	54	1 660	746	993	2 989	2 664
Interest increasing carrying amount			97						
Total			9 203						

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						

Specification of loans and borrowings drawn as at 31 December 2023 and 31 December 2022

Borrowing institution	Interest rate	Currency	Maturity date	As at 31 December 2023	As at 31 December 2022
Consortiums of banks	floating	PLN	2024 ¹	2 567	3 271
Bank Gospodarstwa Krajowego	floating	PLN	2024	749	-
			2024-2033	1 001	1 001
European Investment Bank	fixed	PLN	2024	61	141
			2024-2027	103	133
			2025-2040	404	405
			2025-2040	1 222	1 222
			2026-2041	1 226	-
Intesa Sanpaolo S.p.A.	floating	PLN	2024	772	775
SMBC BANK EU AG	fixed	PLN	2025	500	499
Erste Group Bank AG	floating	PLN	2026	506	507
Regional Fund for Environmental Protection and Water Management	floating	PLN	2024-2025	5	8
	fixed		2024-2027	5	6
National Fund for Environmental Protection and Water Management	fixed	PLN	2024-2029	67	-
Other loans and borrowings				15	42
Total				9 203	8 010

¹ Tranches classified as non-current liability.

As at the balance sheet date, the Company has available loan agreements entered into in 2020 and 2022 with consortiums of banks, where the drawdown period of individual loan tranches may be less than 12 months, however, the financing is revolving and the term of availability exceeds 12 months from the balance sheet date. Due to the intention and ability to maintain financing under the aforementioned agreements over a period exceeding 12 months from the balance sheet date as at 31 December 2023 and 31 December 2022, the drawdowns were classified as non-current liabilities.

In the year ended 31 December 2023, the Group carried out the following transactions relating to loans and borrowings (at a nominal value), excluding overdraft facilities:

Lender	Year ended 31 December 2023	
	Drawdown	Repayment
Consortiums of banks	7 410	(8 100)
European Investment Bank	1 200	(111)
Bank Gospodarstwa Krajowego	1 500	(750)
Other borrowings	82	(7)
Total, including:	10 192	(8 968)
Cash flows	7 982	(6 758)
Net settlement (without cash flow)	2 210	(2 210)

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After the balance sheet date the Company performed drawdowns under available loans in the total amount of PLN 150 million and repaid tranches in the total amount of PLN 1 050 million.

Signing loans agreements

On 16 February 2023, the Company concluded the working capital loan agreement with Bank Gospodarstwa Krajowego in the revolving credit line for the amount of PLN 750 million. On 24 February 2023, the Company drew down all available financing, which was repaid on 2 October 2023 and the agreement expired. On 3 October 2023, the Company concluded a new working capital loan agreement with Bank Gospodarstwa Krajowego in the revolving loan facility for the amount of PLN 750 million with a repayment term of 3 October 2024. On 25 October 2023, the Company drew down all available funding.

After the balance sheet date, on 10 January 2024, the Company concluded a loan agreement with Bank Gospodarstwa Krajowego for the amount of PLN 750 million, to be repaid in the years 2027-2032. Under the agreement, the Company will be able to make drawdowns in a 2-year availability period and the loan can be disbursed in tranches over the availability period until 10 January 2026.

Overdrafts

In the year ended 31 December 2023, under annexes to the overdraft agreement, the amount of the overdraft limit was increased from PLN 250 million to PLN 500 million and the repayment term was extended to 2 October 2024. The Company also has available financing limit under the concluded overdraft agreements up to the amount of EUR 4 million, with the maturity date by 31 December 2024. As at 31 December 2023 and as at 31 December 2022, the Company did not have any debt under overdraft agreements.

40.2. Bonds issued

Issuer	Investor	Interest rate	Currency	Nominal value of bonds issued in currency	Redemption date	Carrying amount	
						As at 31 December 2023	As at 31 December 2022
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	500	2024-2028	501	602
				420	2024-2029	421	491
	A series bonds (TPE 1025)	floating, based on WIBOR 6M	PLN	1 000	2025	1 011	1 014
	Eurobonds	fixed	EUR	500	2027	2 192	2 362
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168	2029	729	787
Unsubordinated bonds						4 854	5 256
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400	2031 ²	401	401
				190	2034 ²	775	851
	European Investment Bank	fixed ¹	PLN	400	2030 ²	396	381
			PLN	350	2030 ²	346	333
Subordinated bonds						1 918	1 966
Total bonds issued						6 772	7 222

¹ In the case of hybrid (subordinated) bonds covered 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 a 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. Measurement and classification of bonds as at the balance sheet day includes earlier redemption, in connection with the intended redemption of bonds after the termination of first period of financing (in 2024, 2025 and 2026).

Non-subordinated bonds

The Eurobonds with the nominal value of EUR 500 million have been admitted to trading on the regulated market of the London Stock Exchange, while the TPE1025 bonds with the nominal value of PLN 1 000 million 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 since the bonds are excluded from the calculation of this ratio which is a covenant in some financing agreements concluded by the Company. Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

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The Company additionally holds financing available under the subordinated bond emission scheme which was concluded in 2021 with Bank Gospodarstwa Krajowego up to the amount of PLN 450 million, which was not used by the Company.

40.3. Debt agreement covenants

The agreements signed with banks impose the legal and financial covenants on the Company, standard for this type of transactions. The key covenant is the *net debt/EBITDA* ratio (for long-term loans agreements and domestic bond issue schemes), which determines the debt less cash in relation to generated EBITDA. The net debt/EBITDA covenant for banks is examined on the basis of consolidated data as at 30 June and 31 December while its permissible limit value, depending on the provisions of financing agreements, is 3.5 or 4.0.

As at 31 December 2023, the net *debt/EBITDA* ratio amounted to 2.11, therefore the covenant was maintained. At the end of the comparative period, the covenant was also met.

40.4. Lease liability

The lease liability of the Group 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 as well as premises for energy or heat infrastructure.

Ageing of the lease liability

	As at 31 December 2023	As at 31 December 2022
Within 1 year	122	106
Within 1 to 5 years	434	363
Within 5 to 10 years	472	401
Within 10 to 20 years	813	711
More than 20 years	831	775
Gross lease liabilities	2 672	2 356
Discount	(1 232)	(1 101)
Present value of lease payments	1 440	1 255
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	1 440	1 255

41. 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 the end of each financial year 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:

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	Balance as at 31 December 2023	Balance as at 31 December 2022
Discount rate (%)	5.2%	6.73%
Projected long-term inflation rate (%)	3.50%	2.50%
Employee turnover ratio (%)	0.5% - 9.2%	0.5% - 11.0%
Expected rate of remuneration growth (%)	6.5% in 2024, 4.0% in 2025, 2.5% in subsequent years	12.5% in 2023, 4.2% in 2024, 2.5% in subsequent years
Expected rate of increase in the value of the allowance for the Company Social Benefits Fund (ZFSS) (%)	6.3%	4.80%
Remaining average period of employment	8.05 – 14.58	7.71-20.21

	As at 31 December 2023	As at 31 December 2022
Provision for post-employment benefits and jubilee bonuses	743	572
Provision for employment termination benefits and other provisions for employee benefits	11	14
Total	754	586
Non-current	650	494
Current	104	92

Provisions for post-employment benefits and jubilee bonuses

	Year ended 31 December 2023				Year ended 31 December 2022			
	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	252	88	232	572	352	118	404	874
Current service costs	11	2	13	26	22	3	28	53
Actuarial gains and losses, including:	59	74	46	179	(52)	(30)	(76)	(158)
arising from changes in financial assumptions	29	57	22	108	(45)	(23)	(41)	(109)
arising from changes in demographic assumptions	–	7	1	8	(1)	(11)	6	(6)
arising from other changes	30	10	23	63	(6)	4	(41)	(43)
Benefits paid	(24)	(4)	(42)	(70)	(25)	(6)	(46)	(77)
Interest expense	15	6	15	36	15	5	17	37
Reclassification to liabilities related to disposable assets	–	–	–	–	(60)	(2)	(95)	(157)
Closing balance	313	166	264	743	252	88	232	572
Non-current	261	160	228	649	208	83	198	489
Current	52	6	36	94	44	5	34	83

Sensitivity analysis

As at 31 December 2023, 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 balances of individual reserve titles and the deviation from the carrying value under the revised assumptions.

Provision title	Carrying amount as at 31 December 2023	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	313	335	22	293	(20)	292	(21)	336	23
Costs of appropriation to Social Benefits Fund	166	195	29	143	(23)	142	(24)	196	30
Jubilee bonuses	264	281	17	250	(14)	252	(12)	279	15
Total	743	811	68	686	(57)	686	(57)	811	68
effect on profit/loss			(17)		14		12		(15)
effect on other comprehensive income			(51)		43		45		(53)

The Group classifies provisions as current and non-current based on estimates regarding the 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
2024	52		36	94
2025	23		29	58
2026	23		27	56
2027	23		25	54
2028	21		22	49
Other years	171		125	432
Total	313	166	264	743

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42. Provisions for the costs of dismantling fixed assets and reclaiming land

SELECTED ACCOUNTING PRINCIPLES

Provision for mine decommissioning costs

The provision for mine decommissioning costs relates to mines for which there is an obligation to decommission and restore mining plant areas to a condition consistent with the recultivation decision after the end of exploitation.

The provision is determined based on future decommissioning costs and costs of restoring the mining plant areas to a state consistent with the recultivation decision after the end of mining, prepared by independent experts, taking into account the discount and the balance created in accordance 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.

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 and photovoltaic 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.

The provision is recognized on the other hand in accordance with IAS 16 *Property, Plant and Equipment* as a component of the value of fixed assets, and changes in estimates are recognized in accordance with the interpretation of IFRIC 1 *Changes in existing decommissioning, restoration, and similar liabilities*, i.e. as adjustments to the balance of the provision and capitalized future liquidation costs. The adjusted value of an asset is depreciated over its useful life. However, if changes in the value of the liability occur after the end of the useful life of the asset to which they relate, all subsequent changes in the value of the provision are recognized in profit or loss as they arise.

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%.

When estimating the level of provisions as at 31 December 2023, the Group adopted an estimate of the discount rate of 5.2% and a projected inflation rate of 6.5% in 2024, 4% in 2025 and from 2026 onwards at a projected long-term inflation rate of 2.5%.

	Year ended 31 December 2023			Year ended 31 December 2022		
	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	4	139	143	257	145	402
Unwinding of the discount	–	8	8	8	6	14
Discount rate adjustment	4	26	30	(114)	(34)	(148)
Recognition/(reversal), net	1	55	56	–	26	26
Utilisation	–	(7)	(7)	–	(4)	(4)
Reclassification to liabilities related to disposable assets	–	–	–	(147)	–	(147)
Other	–	(11)	(11)	–	–	–
Closing balance	9	210	219	4	139	143
Non-current	9	185	194	4	123	127
Current	–	25	25	–	16	16

In the consolidated statement of financial position, under the item *Provisions for restoration of land and dismantling and removal of fixed assets*, the Group discloses the long-term part of the provisions for the costs of dismantling fixed assets and land restoration, together with the long-term part of other provisions.

	As at 31 December 2023	As at 31 December 2022
Provisions for disassembly of fixed assets, land restoration	194	127
Other provisions	15	30
Total in statement in financial position	209	157

42.1. Provision for mine decommissioning costs

The provision as at the balance sheet date is created in relation to the open-pit mining plant in Kopalnia Wapienia Czatkowice Sp. z o.o based on estimated costs of liquidating facilities and restoring the mining plant areas to a condition consistent with the recultivation decision after the end of operation.

The decrease in the provision in the comparable period is mainly related to the Group's loss of control over TAURON Wydobycie S.A. (currently Południowy Koncern Węglowy S.A.)

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

Within the provision for reclamation and dismantling costs and decommissioning of fixed assets, the Group recognises the following provisions created by companies in the Generation and Renewable energy sources segment:

	Year ended 31 December 2023				Year ended 31 December 2022			
	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	103	18	139	18	105	22	145
Unwinding of the discount	1	6	1	8	1	4	1	6
Discount rate adjustment	3	23	-	26	(4)	(29)	(1)	(34)
Recognition/(reversal), net	-	21	34	55	3	23	-	26
Utilisation	-	-	(7)	(7)	-	-	(4)	(4)
Other	-	(11)	-	(11)	-	-	-	-
Closing balance	22	142	46	210	18	103	18	139
Non-current	21	139	25	185	18	103	2	123
Current	1	3	21	25	-	-	16	16

43. Provisions for liabilities due to energy certificates of origin and CO₂ emission allowances

SELECTED ACCOUNTING PRINCIPLES

Provision for CO₂ emission liabilities

The Group creates a provision for the cost of redemption of CO₂ 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 companies of Generation segment. In 2023, a new emission settlement deadline was introduced under legislative changes for a given year, i.e. 30th September of the following year. Previously, Group companies covered by the EU ETS were required to redeem an allowance for each tonne of carbon dioxide emitted in a given year by 30 April of the following year. The changes apply from 2024 onwards, also with regard to the 2023 emissions settlement obligation.

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 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 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.

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	Year ended 31 December 2023			Year ended 31 December 2022		
	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	3 128	564	3 692	1 493	397	1 890
Acquisition of a subsidiary	-	-	-	33	1	34
Recognition	3 461	588	4 049	3 135	924	4 059
Reversal	-	(12)	(12)	(39)	(10)	(49)
Utilisation	(3 150)	(835)	(3 985)	(1 494)	(748)	(2 242)
Closing balance	3 439	305	3 744	3 128	564	3 692

The costs relating to the creation of the provision for liabilities on account of the CO₂ emission in connection with the obligation arising from the CO₂ emission for the financial year are shown in the table:

	Year ended 31 December 2023		Year ended 31 December 2022	
	volumen	value	volumen	value
Emission (Mg CO₂)	10 052 787		12 995 778	
CO₂ emission allowances (EUA):				
received free of charge	137 243	-	138 010	-
acquired, contracted and missing	9 915 544	3 456	12 857 768	3 114
The cost of creation/(releasing) the provision for liabilities on account of the CO₂ emission for the current year	10 052 787	3 456	12 995 778	3 114

The total net cost of creating the provision for liabilities on account of the CO₂ emission for 2023 and 2022 also includes the revision of the prior year provision.

The increase in the cost of creating the provision for CO₂ emission liabilities in the year ended 31 December 2023 in relation to the comparable period results mainly from the growth in prices of CO₂ emission allowances with a simultaneous decrease in CO₂ emission of the Group's generation, as a consequence of lower production and an increase in the share of production by the most cost-effective production units.

The decrease in the cost of creating the provision on account of the obligation to present energy certificates of origin in the year ended 31 December 2023 in relation to the comparable period results mainly from the regulatory changes. In July 2022, the *Regulation on the change in the volume of the quantitative share of the sum of electricity resulting from redeemed certificates of origin confirming the generation of electricity from renewable energy sources in 2023* was published, according to which the volume share for green certificates for 2023, compared to 2022, was reduced from 18.5% to 12%.

44. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Other provisions comprise:

- The provision for use of real estate without a contract
The Group creates provisions for all claims filed by owners of real estate on which power or technology facilities, distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period (including accrued interest, if it can be reliably estimated). The Group does not create provisions for potential claims of land owners with unregulated status which have not been lodged, including for transmission and land easement. Creation and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to financial income or financial expenses.
- Provision for onerous contracts
If the Group is a party to the contract pursuant to which unavoidable costs of fulfilling the contractual obligations exceed the expected contractual benefits, the present contractual obligation arising from the contract is recognised and measured by the Group as a provision. The unavoidable costs arising from the contract comprise, at least, net costs of contract termination, corresponding to the costs of fulfilment of the contract or costs of any damages or penalties arising for the failure to fulfil it, whichever is lower. The costs of fulfilling the agreement comprise both the incremental costs of fulfilling the agreement, e.g. labour and materials, as well as the allocation of other costs that relate directly to fulfilling the agreements (for example, the allocation of depreciation charges to an item of property, plant and equipment used, inter alia, to fulfil this agreement). In the case of energy sales contracts, the costs of fulfilling the contract include the costs of producing or purchasing the energy required to fulfil the contract. As part of the costs of producing energy, the Group takes into account in particular the costs of coal consumption and the redemption of CO₂ emission allowances required to produce energy.
- Provision for reducing payments to consumers resulting from the entry into force of the *Regulation of the Minister of Climate and Environment of 9 September 2023 amending the regulation on the method of shaping and calculating tariffs and the method of*

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settlement in electricity trade, which introduced a mechanism for reducing household liabilities towards energy companies in the settlements for 2023 by the amount of PLN 125.34, after meeting one of the conditions specified in this Regulation.

- 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. The provisions are created by the Group if the probability of spending funds that incorporate economic benefits is higher than 50%.

	Year ended 31 December 2023					Year ended 31 December 2022				
	Provision for use of real estate without contract	Provision for onerous contracts	Provision for payment reducing for customers	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	75	200	–	126	401	74	416	163	653	
Recognition/(reversal), net	1	3	574	44	622	2	1 158	(6)	1 154	
Utilisation	(1)	(168)	–	(15)	(184)	(1)	(1 374)	(24)	(1 399)	
Reclassification to liabilities related to disposable assets	–	–	–	–	–	–	–	(7)	(7)	
Other	–	–	–	(6)	(6)	–	–	–	–	
Closing balance	75	35	574	149	833	75	200	126	401	
Non-current	–	–	–	15	15	–	4	26	30	
Current	75	35	574	134	818	75	196	100	371	

In the consolidated statement of financial position, under *Other provisions*, the Group reports the short-term portion of other provisions, including the short-term portion of provisions for the costs of dismantling fixed assets and land reclamation.

	As at 31 December 2023	As at 31 December 2022
Other provisions	818	371
Provisions for disassembly of fixed assets, land restoration	25	16
Total in statement of financial position	843	387

44.1. The provision for 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 2023, the provision on this account amounted to PLN 75 million and was related to the segments:

- Generation – PLN 38 million;
- Distribution – PLN 37 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*.

44.2. Provisions for onerous contracts

	Year ended 31 December 2023			Year ended 31 December 2022			
	Generation Segment	Sales Segment	Provisions for onerous contracts, total	Generation Segment		Sales Segment	
	Provision for contracts for the sale of electricity on the forward market	Provision for contracts for the sale of electricity to selected group of clients		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
Opening balance	91	109	200	-	289	127	416
Recognition	-	38	38	1 097	-	113	1 210
Reversal	(29)	(6)	(35)	-	(43)	(9)	(52)
Utilisation	(62)	(106)	(168)	(1 006)	(246)	(122)	(1 374)
Closing balance	-	35	35	91	-	109	200
Non-current	-	-	-	-	-	4	4
Current	-	35	35	91	-	105	196

As at the balance sheet date of 31 December 2023, the Group recognises the provision for onerous contracts in the amount of PLN 35 million in the Sales segment. The provisions were created for electricity 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 created provision applies mainly to customers who are prosumers under the net-metering system, i.e. settled according to the obligatory model a so-called seller obliged to cover the costs of distribution fees for energy consumed by the prosumer from the so-called virtual warehouse. The need to create a provision for the above customers in the amount of PLN 34 million results from the failure of the Sales segment companies to cover the costs of the above distribution fees with the value of electricity received free of charge from prosumers in connection with the regulations introduced under this system.

In addition, in the year ended 31 December 2023, in connection with the performance of the contracts, the Group used a provision created as at 31 December 2022 in the amount of PLN 109 million for contracts for the sale of electricity and gas, where the sales revenue achieved did not fully cover the costs incurred in connection with the need to produce or purchase the electricity required to perform these contracts. The provision created relates only to customers with GD (Household) 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.

In addition, within the Generation segment, in the year ended 31 December 2023, the Group recognised the effects of the utilisation and partial reversal of the provision created as at 31 December 2022 in the amount of PLN 91 million in relation to contracts for the sale of electricity on the forward market. 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. The original 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. The reversal of the provision results from a lower cost of energy generation than the estimates included in the report as at 31 December 2022. As at 31 December 2023 the Group did not identify any contracts for the sale of electricity on the forward market that would meet the definition of onerous contracts.

44.3. Provision for reducing payments to customers

As at 31 December 2023, in the Sales segment, the Group recognised a provision in the total amount of PLN 574 million for the effects of a reduction in customers' liabilities to energy companies, due to the entry into force of the Regulation of the Minister of Climate and Environment of 9 September 2023 *amending the Regulation on the method of shaping and calculating tariffs and the method of settlements in electricity trading* (the "Regulation"). The Regulation introduces a mechanism to reduce the amount of households' liabilities to energy enterprises conducting the economic activity in the scope of electricity trading in the 2023 settlements. Pursuant to the Regulation, the amount of annual payments of households that met one of the conditions set out in the Regulation will be reduced by PLN 125.34 on account of the purchase of electricity in 2023. As at the balance sheet date, the method adopted to settle the obligation under the Regulation with customers was to issue, starting from January 2024, together with the last settlement invoice for 2023, credit notes in the amount of PLN 125.34 to eligible customers.

At the same time, the companies of the Sales segment applied to the National Revenue Information Office for an interpretation of the tax regulations with regard to determining how the amount of PLN 125.34 should affect the VAT tax base for the sale of electricity by the companies and, consequently, the amount of VAT due. On 27 February 2024, individual interpretations of tax law provisions were issued, according to which the amount of PLN 125.34 is a gross amount, and therefore includes the amount of VAT, and therefore any settlement of the amount of PLN 125.34 should result in the companies calculating a reduction in the tax base and, consequently, the amount of VAT due on the electricity sales transactions performed.

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In the Group's view, the receipt by the companies of the above interpretations represents a post-balance sheet event indicating a condition occurring after the end of 2023, which does not require adjustment in these consolidated financial statements. The Group estimates that the right to deduct output VAT in accordance with the above interpretations will translate into a reduction in the Group's costs under the Regulation in the year ended 31 December 2024 by the total amount of PLN 107 million.

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

Material provisions recognised within other provisions are described below:

Operating segment	Description	Balance as at 31 December 2023	Balance as at 31 December 2022
Provision for real estate tax			
Generation	Provision for the economic risk in the scope of real estate tax relating to assets constituting the railway infrastructure.	14	12
Distribution	Provision for the economic risk in the scope of real estate tax relating to power grid assets.	30	31
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 in connection with a change in the character of land from forest land to land associated with business activities. In the year ended 31 December 2023, the company from the Distribution segment used and reversed the provision in the amount of PLN 6 million and PLN 5 million, respectively.	10	21
Provision for reimbursement of undue benefit			
Distribution	The provision relates to the risk arising from the judgement of the Regional Court in Wrocław of 19 June 2023 in a case for the reimbursement by a company in the Distribution segment of an undue benefit resulting from distribution service fees incurred by the counterparty.	21	-

45. 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 borrowings and loans and the settlement of the valuation of preferential loans.

Accrued expenses

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

45.1. Deferred income and government grants

	As at 31 December 2023	As at 31 December 2022
Deferred income	229	390
Advance payments for compensations	141	337
Donations, subsidies received and fixed assets received free-of-charge	78	47
Other	10	6
Government grants	566	556
Subsidies obtained from EU funds	492	493
Settlement of the valuation of preferential loans and borrowings	41	27
Forgiven loans from environmental funds	22	24
Other	11	12
Total	795	946
Non-current	606	571
Current	189	375

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Advances for compensation in the amount of PLN 141 million relate to compensation received by the companies in the Sales segment on the basis of legal provisions, the settlement date of which falls after the balance sheet date. The aforementioned events are described more comprehensively in Note 11 of these consolidated financial statements.

The Group assesses that it meets the conditions set out in the grant agreements and does not identify any risk of reimbursement.

45.2. Accrued expenses

	As at 31 December 2023	As at 31 December 2022
Bonuses	81	66
Unused holidays	43	32
Environmental protection charges	13	17
Other accrued expenses	26	23
Total	163	138
Non-current	1	–
Current	162	138

46. 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 and selected other financial liabilities (Note 50) are therefore measured at the amount payable, due to the immaterial impact of discounting.

Operating segment	As at 31 December 2023	As at 31 December 2022
Generation	790	728
Renewable Energy Sources	23	26
Distribution, including:	621	419
<i>liability to Polskie Sieci Elektroenergetyczne S.A.</i>	491	343
Sales	544	983
Other	110	90
Total	2 088	2 246

47. Investment liabilities

Operating segment	As at 31 December 2023	As at 31 December 2022
Generation	99	107
Renewable Energy Sources	45	31
Distribution	265	389
Sales	25	3
Other	273	237
Total	707	767
Non-current	152	60
Current	555	707

Commitments to incur capital expenditure

As at 31 December 2023 and as at 31 December 2022, the Group committed to incur expenditure of PLN 4 239 million and PLN 4 551 million, respectively, on property, plant and equipment and intangible assets, the key items of which are shown in the table below.

Operating segment	Subject of agreement/name of the investment project	As at 31 December 2023	As at 31 December 2022
Distribution	Construction of new electrical connections	1 867	2 039
	Modernization and reconstruction of existing networks	742	610
Renewable Energy Sources	Construction of wind farms	663	947
	Construction of the photovoltaic farms	241	233
Generation	Expansion of heat sources in new capacities	74	88
	Construction of 910 MW Unit in Jaworzno and additional work	–	44

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48. Settlements due to income tax

Income tax receivables in the amount of PLN 105 million relate to:

- The Tax Capital Group ("PGK") which, as at 31 December 2023 had income tax receivables of PLN 94 million, representing the surplus of advances paid in the amount of PLN 432 million over the tax burden of the PGK in the amount of PLN 338 million,
- companies which are not part of the PGK, in the amount of PLN 11 million.

Income tax liabilities in the amount of PLN 19 million relate to companies outside the PGK, of which the most significant item in the amount of PLN 15 million is the liability of TAURON Czech Energy s.r.o.

In the period ended 31 December 2022, TAURON Group companies included in the PGK in 2023 accounted for income tax individually.

49. Liabilities arising from other taxes and charges

	As at 31 December 2023	As at 31 December 2022
VAT	743	105
Social security	207	164
Personal Income Tax	58	41
Other	22	14
Total	1 030	324

The increase in VAT liabilities is related to:

- the reinstatement as of 1 January 2023 of the 23% VAT rate on electricity, heat and gas (until 31 December 2022 the reduced rate was 5%),
- the entry into force on 1 April 2023 of legislation introducing the reverse charge of VAT on transactions in the scope of, among others, trading in electricity and CO₂ emission allowances comprising, in particular, transactions of electricity purchase by the companies of the Group on the exchange.

50. 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 53 hereto.

	As at 31 December 2023	As at 31 December 2022
Compensation liabilities	278	116
Wages, salaries	225	183
Bid bonds, deposits and collateral received	83	81
Exchange settlements variation margins	-	41
Other	86	152
Total	672	573
Non-current	32	59
Current	640	514

Compensation liabilities of PLN 278 million result from the need to partially reimburse compensation advances received in 2022 and 2023 on the basis of legislation and relate to:

- the companies in the Sales segment, which had the obligation to reimburse PLN 224 million as at the balance sheet date,
- the companies in the Distribution segment, which had the obligation to reimburse PLN 54 million as at the balance sheet date.

The aforementioned liabilities are described more comprehensively in Note 11 of these consolidated financial statements.
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51. 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 property, plant and equipment. Other non-financial liabilities are recognised in the amount requiring payment.

	As at 31 December 2023	As at 31 December 2022
Payments from customers relating to future periods	1 049	821
Amounts overpaid by customers	603	484
Prepayments for connection fees	334	226
Other	112	111
Other current non-financial liabilities, of which:	330	22
Allowance for Price Difference Payment Fund	330	21
Total	1 379	843

The liabilities due to the allowance for the Price Difference Payment Fund relate 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 write-downs to the Fund, as further described in Note 11 of these consolidated financial statements.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

52. Significant items of the consolidated statement of cash flows

SELECTED ACCOUNTING PRINCIPLES

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

52.1. Cash flows from operating activities

Profit before tax

	Year ended 31 December 2023	Year ended 31 December 2022
Profit before tax on continuing operations	2 302	110
Profit before tax on discontinued operations	–	23
Total	2 302	133

Depreciation and amortisation

	Year ended 31 December 2023	Year ended 31 December 2022
Amortisation and depreciation regarding continuing operations	2 226	2 060
Amortisation and depreciation regarding discontinued operations	–	156
Total	2 226	2 216

For the purposes of presentation in the consolidated statement of cash flows, depreciation and amortisation included in costs by type in the amount of PLN 2 232 million is adjusted by the depreciation and amortisation costs related to the value of capital expenditure in the amount of PLN 6 million.

Impairment losses of non-financial tangible fixed assets

	Year ended 31 December 2023	Year ended 31 December 2022
Impairment losses in continuing operations	26	79
Impairment losses in discontinued operations	–	135
Total	26	214

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Change in working capital

	Year ended 31 December 2023	Year ended 31 December 2022
Change in receivables	(3 422)	(1 286)
Change in receivables from buyers in statement of financial position	(1 522)	(497)
Change in receivables due to recompensation	(1 454)	(465)
Change in other financial receivables	(448)	7
Derecognition of subsidiaries	-	(336)
Other adjustments	2	5
Change in inventories	(389)	(707)
Change in inventories in statement of financial position	(365)	(575)
Derecognition of subsidiaries	-	(94)
Adjustment related to transfer of inventories to/from property, plant and equipment	(24)	(38)
Change in payables excluding loans and borrowings	1 186	1 561
Change in liabilities to suppliers in statement of financial position	(154)	1 004
Change in payroll, social security and other financial liabilities	95	57
Change in non-financial liabilities in statement of financial position	536	270
Change in liabilities arising from taxes excluding income tax	706	(305)
Adjustment of VAT change related to capital commitments	(4)	62
Adjustment of other financial liabilities for guarantee valuation	24	(27)
Acquisition of subsidiary	-	(14)
Derecognition of subsidiaries	-	546
Other adjustments	(17)	(32)
Change in other non-current and current assets	464	(1 258)
Change in other current and non-current non-financial assets in statement of financial position	144	(787)
Change in receivables arising from taxes excluding income tax	9	(511)
Change in non-current and current CO ₂ emission allowances	(238)	(115)
Change in non-current and current energy certificates	164	64
Change in advance payments for property, plant and equipment and intangible assets	386	115
Derecognition of subsidiaries	-	(28)
Other adjustments	(1)	4
Change in deferred income, government grants and accruals	(276)	293
Change in deferred income, government grants and accruals in statement of financial position	(126)	339
Adjustment related to property, plant and equipment, intangible assets and right-of-use assets received free of charge	(102)	(36)
Adjustment related to subsidies received and refunded	(44)	(37)
Acquisition of subsidiary	-	(15)
Derecognition of subsidiaries	-	43
Other adjustments	(4)	(1)
Change in provisions	552	1 468
Change of short term and long term provisions in statement of financial position	728	984
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	(133)	96
Adjustment related to provisions recognized in correspondence with property, plant and equipment and other non-financial assets	(44)	97
Acquisition of subsidiary	-	(36)
Derecognition of subsidiaries	-	331
Other adjustments	1	(4)
Change of collaterals transferred to IRGIT	705	(557)
Total	(1 180)	(486)

Income tax paid

In the year ended 31 December 2023, income tax paid, recognised in the consolidated statement of cash flows amounted to PLN 206 million. Group companies paid PLN 694 million on account of income tax settlements for the year ended 31 December 2023, of which the most significant amount of PLN 432 million was paid by the Tax Capital Group. At the same time, the Group companies received a tax refund of PLN 573 million and paid a tax surcharge for the 2022 income tax settlement in the amount of PLN 85 million.

The companies belonging to the Tax Capital Group in 2023 settled income tax for 2022 individually.

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 settlements 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.

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52.2. Cash flows from investment activities

Purchase of tangible fixed assets and intangible assets

	Year ended 31 December 2023	Year ended 31 December 2022
Purchase of property, plant and equipment	(3 743)	(2 982)
Purchase of intangible assets	(283)	(359)
Change in the balance of capital commitments (VAT-adjusted)	(57)	86
Change in the balance of advance payments	(386)	(115)
Costs of overhaul and internal manufacturing	(363)	(498)
Other	(9)	(11)
Total	(4 841)	(3 879)

52.3. Cash flows from financial activities

Repayment of loans/borrowings

	Year ended 31 December 2023	Year ended 31 December 2022
Repayment of loans tranches to:		
Consortiums of banks	(5 890)	(5 950)
European Investment Bank	(111)	(111)
Bank Gospodarstwa Krajowego	(750)	-
Other	(7)	(6)
Total	(6 758)	(6 067)

Interest paid

	Year ended 31 December 2023	Year ended 31 December 2022
Interest paid in relation to debt securities	(231)	(274)
Interest paid in relation to loans	(513)	(240)
Interest paid in relation to the lease	(5)	(10)
Total	(749)	(524)
constituting investing expense	(52)	(24)
constituting financing expense	(697)	(500)

The Group presents costs of external financing incurred capitalised 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 2023, paid interest representing external financing costs subject to capitalisation in the value of property, plant and equipment and intangible assets amounted to PLN 52 million, whereas in the comparative period, it amounted to PLN 24 million.

Borrowings

	Year ended 31 December 2023	Year ended 31 December 2022
The launch of financing by the Company under loan agreements:		
Consortiums of banks	5 200	7 340
European Investment Bank	1 200	1 600
Bank Gospodarstwa Krajowego	1 500	-
Erste Group Bank AG	-	500
Other	82	-
Total	7 982	9 440

52.4. 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.

There were no discontinued operations in the current financial year. Net cash flows in the comparable period attributable to operating, investment and financial activities of discontinued operations are shown in the table below.

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	Year ended 31 December 2023	Year ended 31 December 2022
Net cash flow from operating activities	–	651
Net cash flow from investing activities	–	(509)
Net cash flow from financing activities	–	(41)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	–	101

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

53. 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 at amortised cost.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group makes judgements regarding classification of financial instruments.

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

The Group recognises an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting day. The Group recognises the allowance for expected credit losses on financial assets measured at amortised cost includes mostly receivables from customers. The measurement methodology is presented in Note 35 hereto.

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

Categories and classes of financial assets	As at 31 December 2023		As at 31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	7 820		4 352	
Receivables from buyers	5 341	5 341	3 819	3 819
Deposits	3	3	3	3
Receivables due to recompensation	1 919	1 919	465	465
Other financial receivables	557	557	65	65
2 Financial assets measured at fair value through profit or loss (FVTPL)	1 814		2 387	
Derivative instruments	125	125	257	257
Shares	225	225	211	211
Loans granted	357	357	206	206
Other financial receivables	23	23	35	35
Cash and cash equivalents	1 084	1 084	1 678	1 678
3 Derivative hedging instruments	299	299	592	592
4 Financial assets excluded from the scope of IFRS 9 Financial Instruments	169		682	
Investments in joint ventures	169		682	
Total financial assets, of which in the statement of financial position:	10 102		8 013	
Non-current assets	953		1 579	
Investments in joint ventures	169		682	
Loans granted to joint ventures	357		206	
Derivative instruments	149		390	
Other financial assets	278		301	
Current assets	9 149		6 434	
Receivables from buyers	5 341		3 819	
Derivative instruments	275		459	
Other financial assets	2 449		478	
Cash and cash equivalents	1 084		1 678	

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Categories and classes of financial liabilities	As at 31 December 2023		As at 31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	19 442		18 818	
Preferential loans and borrowings	73	73	8	8
Arm's length loans and borrowings	9 130	9 142	8 001	7 928
Bank overdrafts	–	–	1	1
Bonds issued	6 772	6 590	7 222	6 828
Liabilities to suppliers	2 092	2 092	2 246	2 246
Other financial liabilities	424	424	348	348
Capital commitments	707	707	767	767
Salaries and wages	225	225	183	183
Insurance contracts	19	19	42	42
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	813		341	
Derivative instruments	813	813	341	341
3 Financial liabilities excluded from the scope of IFRS 9	1 441		1 256	
Financial Instruments				
Liabilities under leases	1 441		1 256	
Total financial liabilities, of which in the statement of financial position:	21 696		20 415	
Non-current liabilities	14 897		16 088	
Debt	14 544		15 959	
Derivative instruments	169		10	
Capital commitments	152		60	
Other financial liabilities	32		59	
Current liabilities	6 799		4 327	
Debt	2 871		528	
Liabilities to suppliers	2 088		2 246	
Capital commitments	555		707	
Derivative instruments	644		331	
Other financial liabilities	640		514	
Liabilities associated with assets classified as held for sale	1		1	

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

Classes of financial assets/liabilities	Level of the fair value hierarchy	Methodology for determining the fair value
Financial assets/liabilities measured at a fair value		
Derivatives, including:		
IRS and CCIRS	2	Financial derivatives were measured in accordance with the methodology described in Note 30 to these consolidated financial statements.
Forward FX contracts	2	
Commodity contracts (forward, futures)	1	
Stocks and shares	3	As a general rule, the Group estimates the fair value of its shareholdings in companies not quoted in active markets using the adjusted net asset method, taking into account its share of net assets and adjusting the value for material valuation factors such as discounts for lack of control and discounts for limited liquidity of the above instruments. The Group may reasonably accept historical cost as an acceptable approximation of the fair value of shares where, in the Group's opinion, the key factors affecting the value of the shares have not changed at the balance sheet date from the time of initial recognition.
Loans granted	3	The measurement of the fair value of the loans granted to the joint venture was performed as the present value of future cash flows, which take into account an estimate of the cash flows that will be generated by the borrower in the future. The discount rate is based on the cost of equity expected for the borrower's business profile.
Financial liabilities for which the fair value is disclosed		
Credits, loans and bonds issued	2	Fixed interest rate debt liabilities were measured at a fair value. The fair value measurement was made as the present value of future cash flows discounted by the currently applicable interest rate for the bonds or loans concerned, i.e. using market interest rates.

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The fair value of other financial instruments as at 31 December 2023 and 31 December 2022 (except from those excluded from the scope of IFRS 9 *Financial Instruments*) did not differ considerably from the amounts presented in the financial statements for the following reasons:

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

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 2023		Year ended 31 December 2022	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	211	206	141	99
Gains/(losses) for the period recognized in financial revenue/expenses	-	151	(25)	(13)
Purchased/in-kind contribution/loan granted	14	-	101	120
Other changes	-	-	(6)	-
Closing balance	225	357	211	206

There were no transfers between levels of the fair value hierarchy in the year ended 31 December 2023 or the year ended 31 December 2022.

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

Year ended 31 December 2023

	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	1	-	-	-	-	1
Interest income / (expense)	57	54	(958)	227	(66)	(686)
Currency translation differences	24	(2)	277	-	-	299
Impairment / revaluation ¹	(448)	(16)	38	-	-	(426)
Commission relating to loans and debt securities	-	-	(18)	-	-	(18)
Gain/(loss) on disposal of investments	-	(3)	-	-	-	(3)
Gain/(loss) on exercised derivative instruments ²	(201)	-	-	-	-	(201)
Net financial income (revenues/costs)	(567)	33	(661)	227	(66)	(1 034)
Revaluation	(5)	(79)	-	-	-	(84)
Gain/(loss) on exercised derivative instruments ²	(7)	-	-	-	-	(7)
Net operating income/(revenues/costs)	(12)	(79)	-	-	-	(91)
Remeasurement of IRS	-	-	-	(287)	-	(287)
Other comprehensive income	-	-	-	(287)	-	(287)

¹ Financial liabilities measured at amortized cost include liabilities related to the recognition of expected credit losses on issued guarantees

² The Group recognises income and expense from commodity derivatives in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.

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	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 ¹	(266)	2	(24)	-	-	(288)
Commission relating to borrowings and debt securities	-	-	(24)	-	-	(24)
Gain/(loss) on disposal of investments	1	(4)	-	-	-	(3)
Gain/(loss) on exercised derivative instruments ²	10	-	-	-	-	10
Net financial income (costs)	(229)	41	(834)	145	(54)	(931)
Revaluation	13	8	-	-	-	21
Gain/(loss) on exercised derivative instruments ²	(18)	-	-	-	-	(18)
Net operating income/(costs)	(5)	8	-	-	-	3
Remeasurement of IRS	-	-	-	187	-	187
Other comprehensive income	-	-	-	187	-	187

¹ Financial liabilities measured at amortized cost include liabilities related to the recognition of expected credit losses on issued guarantees

² The Group recognises income and expense from commodity derivatives in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.

54. 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) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).	<p>Credit risk management is aimed at limiting losses resulting from the deterioration of the financial situation of the TAURON Group's counterparties and mitigating the risk of credit exposures at risk of impairment.</p> <p>Commercial transactions of significant value are preceded by an assessment of the counterparty's creditworthiness, including an economic and financial analysis of the entity. Based on the assessment, the counterparty is granted a credit limit, which is a limit on the maximum credit exposure understood as the amount that may be lost if the counterparty fails to meet its contractual obligations within a specified period of time (taking into account the value of the collateral provided). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement.</p> <p>The TAURON Group has a decentralised credit risk management system, which means that each risk owner is actively responsible for managing the credit risks that arise within their business scope, but control, monitoring and reporting is performed at the Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures for the entire Group with the view to reduce the impact of the risk on the Group's strategic objectives.</p> <p>Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.</p>	Credit risk management policy 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.	<p>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.</p> <p>To this end, the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies (cash-pooling mechanism) as well as using external financing.</p> <p>The Company also manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To mitigate the financing risk, the Company's policy assumes obtaining funding for the TAURON Group in advance of the planned time of use, i.e. up to 12 months prior to the planned demand. The key objective of 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.</p>	Liquidity management policy for the TAURON Group

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Risk exposure	Risk management	Regulation
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.	The financial risk management policy of the TAURON Group has introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. TAURON Group 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 cost 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.	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

54.1. 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 2023	As at 31 December 2022
Receivables from buyers	5 341	3 819
Cash and cash equivalents	1 084	1 678
Derivative instruments	424	849
Loans granted	357	206
Deposits	3	3
Other financial receivables	580	100

Moreover, the Group bears credit risk from guarantees and sureties granted, which are described in Note 57 of these consolidated financial statements.

54.1.1 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 2023	As at 31 December 2022
Institutional clients	52.03%	74.01%
Individual clients	47.97%	25.99%
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 3.16% as at 31 December 2023 and 4.92% as at 31 December 2022, 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 35 to these consolidated financial statements.

54.1.2 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 87% as at 31 December 2023.

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*.

54.1.3 Credit risk related to loans granted

Loans classified as measured at fair value are measured using the discounted cash flow method, taking into account credit risk. The loans granted by the Company to the joint venture Elektrociepłownia Stalowa Wola S.A. are secured by blank promissory notes including promissory note declarations.

54.1.4 Credit risk related to other financial receivables

The Group's other financial receivables at 31 December 2023 and as at 31 December 2022 mainly relate to institutional customers (share of 98.06% and 96.84%, respectively).

As at 31 December 2023, the main item of other financial receivables is a cash deposit with a carrying amount of PLN 332 million to secure BGK's receivables, discussed in more detail in Note 31 of these consolidated financial statements and the collateral transferred by the subsidiary, TAURON Wytwarzanie S.A. to PSE S.A. in the amount of PLN 134 million.

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 2023

	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	543	3	34	2	52	174	808
Allowance/write-down	(18)	(3)	(2)	(2)	(52)	(174)	(251)
Net Value	525	-	32	-	-	-	557

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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	68	4	2	3	6	169	252
Allowance/write-down	(3)	(4)	(2)	(3)	(6)	(169)	(187)
Net Value	65	-	-	-	-	-	65

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

	Year ended 31 December 2023	Year ended 31 December 2022
Opening balance		(175)
Recognised		(13)
Reversed		1
Closing balance	(251)	(187)

54.2. 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 pursue a policy of diversification of financing instruments but first of all it seeks to secure financing and maintain the ability of the TAURON Group companies to meet current and future liabilities in the short and long term. Liquidity risk management is connected with planning and monitoring cash flows in the short and long term and taking actions to ensure funds for the operations of the Group companies.

The TAURON Group carries out a centralized finance management policy, allowing effective management in this respect on the Group level. Among others, the TAURON Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management at the TAURON Group, reduces the risk of liquidity loss, as well as financial expenses in the Group and in each company from the TAURON Group. Having implemented appropriate projection standards, 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 margin.

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.

In the Group's opinion, the occurrence of negative net working capital as at the balance sheet date does not generate a liquidity risk, bearing in mind, that 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.

Type of financing	Type of expenses financed	Funds availability termination year	Currency	As at 31 December 2023	
				Available limit in currency (PLN/EUR)	Carrying amount
subordinated bond issuance scheme	current and investment	2024	PLN	450	-
loan	current and investment (excluding coal assets)	2027	PLN	4 000	2 400
		2026	PLN	500	160
overdraft facility	current	2024	PLN	500	-
			EUR	4	-

Funds available under financing agreements indicated in the table above can be used for investment and corporate-wide purposes, including securing the Group's current liquidity position.

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After the balance sheet date:

- on 10 January 2024, the Company concluded the loan agreement with Bank Gospodarstwa Krajowego for the amount of PLN 750 million. Under the loan agreement, the Company will be able to make drawdowns over a 2-year availability period. The funds made available under the loan agreement will be used to cover the TAURON Group's expenses related to the financing or refinancing of expenses in the area of renewable energy sources and the development of distribution networks (Notes 40.1 and 62);
- On 6 March 2024, the Company also concluded an annex to the documentation of the programme for the issue of subordinated bonds up to PLN 450 million concluded in 2021 with Bank Gospodarstwa Krajowego. The annex extends the period allowing for performing the issue of subordinated bonds to 39 months from the date of signing of the documentation, i.e. from 11 March 2021.

The policy pursued with regard to the acquisition of financing sources enables, above all, an increase in the possibility of obtaining financing for general corporate purposes and capital expenditure, a reduction in the cost of external capital, a reduction in the amount and forms of collateral established on TAURON Group assets and covenants required by financial institutions, and a reduction in administrative costs. The corporate finance model also makes it possible to acquire sources of financing that are not available to individual companies.

In 2023, 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 2023

	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	15 975	(18 719)	(189)	(3 368)	(3 209)	(1 890)	(5 930)	(4 133)
Liabilities to suppliers	2 092	(2 092)	(2 087)	(2)	(2)	(1)	-	-
Capital commitments	707	(725)	(504)	(50)	(68)	(70)	(33)	-
Other financial liabilities	668	(668)	(617)	(22)	(16)	(7)	(2)	(4)
Obligations under leases	1 441	(2 673)	(87)	(35)	(114)	(110)	(210)	(2 117)
Derivative financial liabilities								
Derivate instruments - commodity *	125	-	-	-	-	-	-	-
Derivative instruments - currency	679	(679)	(368)	(162)	(135)	(14)	-	-
Derivative instruments - CCIRS	9	(20)	-	(5)	(5)	(5)	(5)	-
Total	21 696	(25 576)	(3 852)	(3 644)	(3 549)	(2 097)	(6 180)	(6 254)

*The valuation of commodity derivatives on foreign exchanges is reflected on an ongoing basis in the amount of additional deposits made, which limits the value of contractual future payments.

Financial liabilities as at 31 December 2022

	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)

*The valuation of commodity derivatives on foreign exchanges is reflected on an ongoing basis in the amount of additional deposits made, which limits the value of contractual future payments.

54.3. 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.

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54.3.1 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 loan granted to Elektrociepłownia Stalowa Wola S.A. The Group is also exposed to the risk of lost benefits related to a decrease in interest rates in the case of fixed-rate debt or to an increase in interest rates in the case of fixed-rate assets, although the changes are not disclosed in the financial statements.

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize finance costs. 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 related to floating interest rate debt for a portion of interest cash flows has been reduced by the hedging IRS transactions, described in detail in Note 30 hereto. IRS transactions concluded in order to hedge interest rate risk are subject to hedge accounting.

Financial instruments by interest rate type

Financial instruments	As at 31 December 2023			As at 31 December 2022		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Deposits	-	3	3	3	-	3
Loans granted measured at fair value	357	-	357	206	-	206
Cash and cash equivalents	-	893	893	-	1 619	1 619
Derivative instruments-IRS	-	299	299	-	592	592
Derivative instruments-CCIRS	-	-	-	-	21	21
Financial liabilities						
Bank overdrafts	-	-	-	1	-	1
Preferential loans and borrowings	68	5	73	-	8	8
Arm's length loans and borrowings	1 073	8 057	9 130	1 187	6 814	8 001
Bonds issued	4 438	2 334	6 772	4 715	2 507	7 222
Obligations under finance leases	1 441	-	1 441	1 256	-	1 256
Derivative instruments-CCIRS	-	9	9	-	-	-

Financial liabilities bearing floating interest rates include floating-rate loans and bonds with a total nominal value of PLN 3 670 million, the changes in cash flows due to interest payments were secured by entering into an interest rate swap transaction. Accordingly, hedging transactions were also presented as floating rate instruments.

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

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

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR, ESTRON and LIBOR USD interest rate, whereas as at 31 December 2023 and 31 December 2022, its exposure to changes in EURIBOR, ESTRON and LIBOR USD rates was insignificant.

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

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Financial instruments	As at 31 December 2023		Sensitivity analysis for interest rate risk as at 31 December 2023		As at 31 December 2022		Sensitivity analysis for interest rate risk as at 31 December 2022	
	Carrying amount	Value at risk	Profit/(Loss)/Other comprehensive income*		Carrying amount	Value at risk	Profit/(Loss)/Other comprehensive income*	
			WIBOR +651 bp	WIBOR -651 bp			WIBOR +630 bp	WIBOR -630 bp
Financial assets								
Loans granted measured at fair value	357	357	(149)	277	206	206	(78)	146
Cash and cash equivalents	1 084	830	54	(54)	1 678	1 509	95	(95)
Derivative instruments	424	299	1	(1)	849	613	1	(1)
Financial liabilities								
Preferential loans and borrowings	73	5	-	-	8	8	(1)	1
Arm's length loans and borrowings	9 130	8 057	(525)	525	8 001	6 814	(429)	429
Bonds issued	6 772	2 334	(152)	152	7 222	2 507	(158)	158
Derivative instruments	813	9	-	-	341	-	-	-
Total			(771)	899			(570)	638

*The sensitivity of other comprehensive income refers to Interest Rate Swap financial derivatives covered by hedge accounting, as further discussed in Note 30 to these consolidated financial statements.

The risk exposure as at 31 December 2023 and as at 31 December 2022 is representative of the Group's risk exposure during the annual periods preceding these dates.

Reform of benchmarks

Pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices to be used as reference indices in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the "BMR Regulation"), which imposes new legal requirements related to the development and use of reference indices, banks have been obliged to add a fallback clause to their contracts in the event of a temporary or permanent cessation of the determination of the base rate or a change in its calculation method. The provisions of the fallback clause set out an alternative base rate or method of setting it, while ensuring the continued enforceability of the contract based on the variable rate formula.

In connection with the reform of reference indices in Poland, including the introduction on the Polish market of an alternative reference interest rate index, whose input is information representing overnight transactions, the National Working Group for Reference Index Reform (NGR) was established. The NGR's work aims to ensure that the development and application of the new benchmark interest rate is credible, transparent and reliable in accordance with the BMR Regulation. In September 2022, the NGR Steering Committee decided to select the WIRON (Warsaw Interest Rate Overnight) index based on the parameters of overnight deposit transactions as an alternative interest rate benchmark for the PLN market. In February 2023, the Polish Financial Supervision Authority announced that the WIRON index had become an interest rate benchmark within the meaning of the BMR Regulation. In October 2023, the NGR Steering Committee decided to postpone the completion of the transition from WIBOR to WIRON to the end of 2027.

As at 31 December 2023, the Group has no concluded financial instruments based on WIRON.

With regard to the interest rates affected by the reform of the interest rate benchmarks, the transition to the revised benchmarks will take place at the end of 2027 at the latest, the Group identifies as at 31 December 2023 an exposure to risks associated with the planned replacement of the WIBOR reference rate. As of 31 December 2023, TAURON Group had debt agreements bearing floating interest rates using the relevant WIBOR reference rates, for which the financing period exceeds the cut-off date for WIBOR eligibility, i.e. the end of 2027, as presented in Notes 40.1 and 40.2 of these consolidated financial statements. With regard to the financing agreements that will be in force at the cut-off date for the possibility to use the WIBOR rate, these have appropriate provisions for the use of reference rates, or the Company is currently working on the appropriate implementation of such provisions in the relevant agreements.

In addition, as at the balance sheet date, the Group has entered into IRS derivatives covered by hedge accounting, as described in more detail in Note 30 of these consolidated financial statements, whose maturity partially exceeds the cut-off date for WIBOR eligibility, i.e. the end of 2027. In the Group's assessment of the above IRS derivatives, the reform of the benchmarks will not have a significant impact on the Group's costs and hedge effectiveness, given the symmetrical change in the benchmark in the hedging and hedged instruments.

The majority of the TAURON Group's liabilities under borrowings and bonds issued have maturities falling before the reference rate replacement date (in the case of hybrid bonds, taking into account redemption after the first financing period) until the end of 2027, i.e. before the final date of transition to the new reference rates. Similarly, the majority of the IRS instruments concluded at 31 December 2023 will be settled by the end of 2027. Information on the Group's liabilities as at 31 December 2023 based on WIBOR 6M and interest rate hedging contracts in relation to WIBOR 6M, maturing after 2027, is presented in the table below.

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Financial instruments	Investor / lender	Benchmark	Currency	Repayment/ maturity date after the transition date	Nominal value of liability
					As at 31 December 2023
bonds issued	Bank Gospodarstwa Krajowego	WIBOR 6M	PLN	2028	100
				2028-2029	140
loans and borrowings	Bank Gospodarstwa Krajowego	WIBOR 6M	PLN	2028-2033	600
	European Investment Bank	WIBOR 6M	PLN	2028-2041	2 023
Total nominal value of loans, borrowings and bonds maturing after year 2027					2 863
Interest Rate Swaps (IRS)*	Financial institutions	WIBOR 6M	PLN	2028-2029	22

*IRS instruments that will be realised after 2027 and whose fair value measurement (in the part relating to the period after 2027) amounted to PLN 22 million as at 31 December 2023 relate to the exchange of interest payments on the total nominal value of the liability of PLN 740 million.

The Group does not hold any significant financial assets bearing a floating interest rate based on the benchmark rate covered by the benchmark reform.

Given the timing of the transition to the new reference rate (end of 2027) and the ongoing work on the appropriate implementation of contingency clauses in the relevant contracts, the risk of not being able to continue the operation of the aforementioned contracts, or the risk of additional costs affecting, among other things, liquidity risk and the risk of significant adverse changes in cash flows as a result of changes in reference rates, is assessed by the Group as low. The Group monitors the extent of the potential changes, but due to the timing of the mandatory transition will estimate the total impact on the TAURON Group's consolidated financial statements at a later stage of progress.

54.3.2 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 class of financial instrument. Significant exposure relates to EUR/PLN and CZK/PLN exchange rate movements. The Group's exposure to other currencies is immaterial.

Classes of financial instruments	As at 31 December 2023					As at 31 December 2022				
	Carrying amount	EUR		CZK		Carrying amount	EUR		CZK	
		in currency	in PLN	in currency	in PLN		in currency	in PLN	in currency	in PLN
Financial assets										
Receivables from buyers	5 341	4	15	46	8	3 819	11	52	104	20
Derivatives	424	29	125	-	-	849	50	236	-	-
Other financial receivables	580	-	1	51	9	100	-	1	41	8
Cash and cash equivalents	1 084	11	47	53	9	1 678	20	92	77	15
Total		44	188	150	26		81	381	222	43
Financial liabilities										
Issued bonds	6 772	850	3 696	-	-	7 222	853	4 000	-	-
Liabilities to suppliers	2 092	12	53	10	2	2 246	9	42	8	2
Capital commitments	707	27	119	-	-	767	-	1	-	-
Derivatives	813	29	125	-	-	341	49	232	-	-
Other financial liabilities	424	2	9	1	-	348	11	49	2	-
Total		920	4 002	11	2		922	4 324	10	2
Net currency position		(876)	(3 814)	139	24		(841)	(3 943)	212	41

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 CO₂ 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.

CO₂ emission allowances are purchased to fulfil the redemption obligation by the Group's installations. In connection with the CO₂ emissions for the reporting period, the Group creates a provision for liabilities due to the obligation to redeem CO₂ emission allowances in the amount of CO₂ 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 CO₂ emission allowances hedge the Group's flows arising from the purchase of allowances.

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.

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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 and concluded currency futures contracts. Other currencies do not generate material risk for the Group.

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

Classes of financial instruments	As at 31 December 2023		Sensitivity analysis for currency risk as at 31 December 2023		As at 31 December 2022		Sensitivity analysis for currency risk as at 31 December 2022	
	Carrying amount	Value at risk	exchange rate	exchange rate	Carrying amount	Value at risk	exchange rate	exchange rate
			EUR/PLN +7.35%	EUR/PLN -7.35%			EUR/PLN +8.45%	EUR/PLN -8.45%
Financial assets								
Receivables from buyers	5 341	15	1	(1)	3 819	52	4	(4)
Derivatives	424	125	9	(9)	849	257	42	(42)
Other financial receivables	580	1	-	-	100	1	-	-
Cash and cash equivalents	1 084	47	3	(3)	1 678	92	8	(8)
Financial liabilities								
Bonds issued	6 772	3 696	(272)	272	7 222	4 000	(338)	338
Liabilities to suppliers	2 092	53	(4)	4	2 246	42	(4)	4
Capital commitments	707	119	(9)	9	767	1	-	-
Derivatives	813	813	495	(495)	341	341	480	(480)
Other financial liabilities	424	9	(1)	1	348	49	(4)	4
Total			222	(222)			188	(188)

The risk exposure as at 31 December 2023 and as at 31 December 2022 is representative of the Group's risk exposure during the annual periods preceding these dates.

54.3.3 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 2023, the portfolio of concluded contracts is fully balanced. This minimises market risk in the commodity derivatives portfolio.

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55. Operational risk

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

Companies of the Group are exposed to the operation and adverse effects of risks related to volatility of cash flows and financial performance in the domestic currency due to changes in prices of goods.

The table below presents a sensitivity analysis of the impact of a 10% change in the cost of purchasing the Group's basic raw materials and commodities, which include electricity, coal and CO₂ emission allowances, on the Group's EBITDA.

Towar	Impact on the level of EBITDA					
	Year ended 31 December 2023			Year ended 31 December 2022		
	Cost of purchase	+10%	-10%	Cost of purchase	+10%	-10%
Electricity	25 937	(2 594)	2 594	18 817	(1 882)	1 882
Coal	4 276	(428)	428	3 232	(323)	323
CO ₂ emission allowances	3 461	(346)	346	3 089	(309)	309

OTHER INFORMATION

56. 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.

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 533 million.

In the case filed by Amon Sp. z o.o. and Talia Sp. z o.o., partial and preliminary judgements were issued (judgement of 25 July 2019 in the Amon Sp. z o.o. lawsuit and judgement of 6 March 2020, supplemented by the court on 8 September 2020 in the Talia Sp. o.o. lawsuit), in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term agreements concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and those concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Talia Sp. z o.o. for the purchase of electricity and property rights resulting from certificates of origin are ineffective and do not produce legal effect in the form of termination of both agreements, as a result of which the agreements after the notice period, i.e. after 30 April 2015, remain in force in respect of all provisions and are binding on the parties. Moreover, the courts also recognised the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages justified as to the merits, without, however, prejudging the amount of potential damages. Polska Energia Pierwsza Kompania Handlowa sp. z o.o. filed a complaint against the judgments. In both the Amon Sp. z o.o. and Talia Sp. z o.o. actions, the Courts of Appeals dismissed the appeals of the company Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The judgements of the Courts of Appeals, and consequently the judgements issued by the courts of first instance, are final. These judgements do not award any damages from Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to the claimants. Disagreeing with the judgements of the Courts of Appeals, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. filed cassation complaints in both cases. In the case brought by Talia Sp. z o.o., the Supreme Court accepted the cassation appeal for hearing on 28 February 2023. On 29 September 2023, a three-judge Supreme Court hearing was held, but no ruling was issued and the proceedings were adjourned without indicating a date. In the case brought by Amon Sp. z o.o., The Supreme Court accepted the case for hearing on 26 September 2023.

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.

On 31 March 2023, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. filed a lawsuit for payment against Amon Sp. z o.o. with the Regional Court in Gdańsk. The subject matter of the claim is the payment by Amon Sp. z o.o. to Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. the total amount of PLN 62 million, including statutory interest for delay and legal costs, consisting of a demand for payment of contractual penalties in the amount of PLN 56 million, calculated on the basis of an agreement for the sale of property rights resulting from certificates of origin which confirm the generation of electricity in a renewable energy source - Wind Farm in Łukaszów, and a demand for payment of compensation in the amount of PLN 6 million for failure to perform the agreement for the sale of electricity generated in a renewable energy source - Wind Farm in Łukaszów, concluded between Amon Sp. z o.o. and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on 23 December 2009. The filing of the lawsuit by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. Results from the fact that after the date of the judgement of the Court of Appeals in Gdańsk, i.e. after 17 November 2022 dismissing the appeal of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., Amon Sp. z o.o., despite being summoned by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., has not fulfilled the obligation resulting from the final

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judgement by entering into the above-mentioned contracts with Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. Pursuant to the decision of 2 May 2023, the Regional Court in Gdańsk decided to leave the claim of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. without further proceedings. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. has taken and plans to take further legal action against this court decision, which the company believes was issued without legal basis. None of the rules of civil procedure provides for leaving a properly filed and paid claim, from which a demand for the resolution of a dispute of a civil nature is expressly made, without any further action being taken. Pending proceedings.

On 28 December 2023, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. filed a lawsuit against Talia Sp. z o.o. before the Regional Court in Warsaw for payment of a total amount of PLN 75 million with statutory interest for delay. This amount includes contractual penalties in relation to the contract for the sale of so-called green certificates, in the total amount of PLN 42 million for Talia Sp. z o.o.'s failure to transfer property rights obtained in connection with the production of electricity from June 2019 to April 2023. The amount claimed also includes contractual indemnity in respect of the electricity sales contract, in the total amount of PLN 33 million for the damage suffered due to the failure to sell electricity to Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. in the period from 21 December 2021 to 30 April 2023. The claims of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are related to the non-performance of contracts by Talia Sp. z o.o. despite the final judgement of the Court of Appeals of 20 December 2021. A copy of the lawsuit has not yet been served on Talia Sp. z o.o.

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

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

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

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

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

As at the date of approval of these consolidated financial statements for publication, the damages claimed in the lawsuits amount to: Polenergia Group companies - PLN 180 million, Wind Invest group companies - PLN 351 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 Miedz 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 ERO President.

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

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. By judgement of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the defendant for the costs of the proceedings. 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 by the Court of Appeals i 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%.

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

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

With regard to proceedings initiated for the imposition of fines against a company in the Sales segment concerning the fulfilment of obligations to redeem certificates of origin of energy from RES and cogeneration for 2014, for which the ERO President issued decisions imposing fines, the company created the 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 created the provisions 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. As at 31 December 2023, the balance of the provisions amounted to PLN 1 million.

Apart from the above-mentioned proceedings, the companies do not create any 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

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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 44.1).

Communication of the President of the Energy Regulatory Office concerning the provisions of the Act on extraordinary measures to limit the level of electricity prices and support certain consumers in 2023

On 27 October 2023, the President of the Energy Regulatory Office (the "ERO President") published a communication with clarifications regarding 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 (the "Act on Extraordinary Measures")* in connection with the planned commencement of the control of the write-down of the Price Difference Payment Fund (the "Write-down"). In the communication, the ERO President referred in particular to the manner of determining the weighted average market price of electricity sales in the calculation of the Write-down, indicating that it should be calculated on the basis of the price from the sales contract or from the approved tariff as regards prices and rates relating to 2023, despite the application of maximum prices under the Act on Extraordinary Measures in settlements with eligible customers.

At the same time, in a subsequent announcement published on 14 December 2023, the ERO President amended the content of the previous announcement with regard to information on planned inspections, informing that inspections concerning the verification of Write-down reports submitted by obliged entities will be preceded by explanatory proceedings pursuant to Article 28 of the *Energy Law*.

The above communications imply that, in the interpretation of the President of the ERO, the calculation of the allowance for the Fund should take into account the "hypothetical" revenues that the companies of the Sales segment would obtain as a result of applying the prices resulting from the applicable tariffs, price lists and contracts in their settlements with customers, despite the fact that, in accordance with the provisions of the Act on Extraordinary Measures for eligible customers, the companies apply maximum prices. This position, in the Group's view, is not correct, as indicated by the legal analyses in the Group's possession.

In view of the foregoing, the Group has not recognised a provision for a potential dispute with the President of the ERO, considering that the probability of a dispute in this respect with the President of the ERO and the probability of losing such a dispute is lower than the probability of its resolving for the benefit of the Group.

57. 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.

Collateral	As at 31 December 2023	As at 31 December 2022
Declarations of submission to enforcement ¹	18 506	16 095
Bank account mandates	1 990	600
Corporate guarantees	1 169	1 605
Blank promissory notes	622	597
Bank guarantees	293	512
Sureties granted	270	618
Pledges on shares ²	169	682
Other	32	35

¹As at 31 December 2023, 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 2 285 million.

²Pledges on shares relate to registered pledges and financial pledge established by the Company on shares in the joint venture TAMEH HOLDING Sp. z o.o.

As at 31 December 2023, the major hedging items are:

- the declaration of submission to enforcement up to the maximum amount of PLN 4 800 million with the effective date to 30 November 2030, signed by the Company in connection with the conclusion of the syndicated loan agreement in the amount of PLN 4 000 million on 15 July 2022;
- corporate guarantees and sureties granted to secure the liabilities arising from contracts concluded in connection with the implementation of RES projects. As at the balance sheet date, the total value of collaterals in corporate guarantees amounts to EUR 98 million (PLN 426 million) and in sureties granted amounts to PLN 217 million;
- the corporate guarantee granted by the Company in 2014 to secure the bonds of Finanse Grupa TAURON Sp. z o.o. (the so-called NSV). The guarantee shall be effective until 3 December 2029, i.e. the redemption date of the bonds and amounts to EUR 168 million (PLN 730 million), while the beneficiaries of the guarantee are the private placement investors who purchased the bonds issued;

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- a bank guarantee of up to PLN 50 million issued following the request of the Company to secure the receivables of BGK under the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and ORLEN S.A. (formerly: PGNiG S.A.), effective from 18 December 2023 to 11 March 2024.

On 11 December 2023, the bank guarantee of up to PLN 457 million expired, in lieu of which, in order to secure BGK's receivables under the above loan agreement, pursuant to the deposit agreement of 8 December 2023 between the Company and BGK, the Company provided a cash deposit of PLN 426 million on 11 December 2023. Due to the repayment of a loan instalment by Elektrociepłownia Stalowa Wola S.A. and the acceptance by BGK of a bank guarantee of up to PLN 50 million, the deposit had been partially returned by the balance sheet date. As at 31 December 2023, the amount of the deposit paid reached PLN 346 million. The above deposit is disclosed in note 31 to these consolidated financial statements among other financial assets.

After the balance sheet date, as a part of the collateral of BGK receivables arising from the loan agreement described above, the events took including in particular: the issuance of a bank guarantee for the amount of PLN 300 million with a validity period until 11 March 2025, as a result of which there was a further partial refund of the deposit paid in the amount PLN 325 million, conclusion of a new surety agreement with BGK up to a maximum amount of PLN 54 million valid until 11 March 2025 and transfer of an additional cash deposit to BGK in the amount of PLN 21 million.

As at the date of approval of these consolidated financial statements for publication, BGK's receivables under the loan agreement entered into on 8 March 2018 are secured by: a bank guarantee of up to PLN 300 million, a surety of up to a maximum amount of PLN 54 million and a deposit paid in the amount of PLN 42 million (collaterals to PLN 396 million in total).

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	<p>On 15 June 2023, a declaration of submission to enforcement was signed to secure the obligations of the Company to Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT") up to the amount of PLN 6 000 million, with the effective term until 30 June 2027.</p> <p>The liabilities of the subsidiary, TAURON Wytwarzanie S.A. to the IRGiT were secured by a declaration of submission to enforcement signed by TAURON Wytwarzanie S.A. up to the amount of PLN 2 000 million, with the effective term by 30 June 2025.</p>
Bank guarantees	<p>As at 31 December 2023 and 31 December 2022, bank guarantees totalling PLN 280 million and PLN 176 million, respectively, were in force.</p> <p>After the balance sheet date, annexes to bank guarantees and new bank guarantees were issued in favour of the IRGiT as the security for the Company liabilities. As at the date of approval of these consolidated financial statements for publication, bank guarantees in the total amount of PLN 95 million are in force, with the validity dates falling maximum until 12 May 2024.</p>
Agreement for setting off the margins	<p>Pursuant to the Agreement defining the principles for the establishment of financial collateral 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.</p>
Transfer of CO₂ emission allowances	<p>The transfer of CO₂ emission allowances to the IRGiT is established in order to cover the Company's liabilities on account of the security deposit payments due. As at 31 December 2023, the Group had no CO₂ emission allowances deposited in the IRGiT account.</p> <p>After the balance sheet day, the following events took place:</p> <ul style="list-style-type: none">• on 4 January and 28 February 2024, the Company deposited the CO₂ emission allowances in the total amount of 28 000 and 340 000 tons on the IRGiT account;• on 1 February 2024, pursuant to the above-described agreement defining the principles of establishing financial security for the Group and the agreement concluded between the Company and the subsidiary TAURON Wytwarzanie S.A., TAURON Wytwarzanie S.A. transferred the rights owned by it in the total amount of 1 105 000 tons to the IRGiT to secure the Company's liabilities for the due security deposit payments. <p>As at the date of approval of these consolidated financial statements for publication, the total amount of CO₂ emission allowances deposited by the Group in the IRGiT account is 1 473 000 tons.</p>

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

The carrying amount of assets pledged as security for the repayment of the Group's liabilities at 31 December 2023 was PLN 5 million, and at 31 December 2022 - PLN 345 million, of which the main item was other non-financial assets - funds paid in advance for coal deliveries of PLN 342 million.

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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.

58. Related party disclosures**58.1. 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 28 to these consolidated financial statements.

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

	Year ended 31 December 2023	Year ended 31 December 2022
Revenue	223	966
Costs	(563)	(557)

The main item of settlements with jointly-controlled companies are the loans granted to Elektrociepłownia Stalowa Wola S.A. (Note 29).

The Company also provided security for the joint ventures through a pledge over the shares of TAMEH HOLDING Sp. z o.o. as well as a bank guarantee issued at the Company's request and a cash deposit provided by the Company to secure the liability of Elektrociepłownia Stalowa Wola S.A. for the loan (Notes 31 and 57).

58.2. 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 2023	Year ended 31 December 2022
Revenue	5 257	3 830
Costs	(8 897)	(5 646)

Receivables and liabilities

	As at 31 December 2023	As at 31 December 2022
Receivables*	665	519
Payables	1 042	982

*As at 31 December 2023, the receivables item in the table above includes advance payments for the purchase of fixed assets in the amount of PLN 5 million.

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the year ended 31 December 2023 included ENERGA-OPERATOR S.A., PSE S.A., Polska Grupa Górnicza S.A., TAURON Wydobycie S.A. (currently: Południowy Koncern Węglowy S.A.). The largest purchase transactions were performed by the Group with PSE S.A., TAURON Wydobycie S.A. (currently: Południowy Koncern Węglowy S.A.) and Polska Grupa Górnicza S.A.

In the year ended 31 December 2022, the largest customers of the TAURON Polska Energia S.A. Group included: KGHM Polska Miedź S.A., PSE S.A. and Polska Grupa Górnicza S.A. The largest purchase transactions were performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. In the year ended 31 December 2022, transactions of purchase from TAURON Wydobycie S.A. (currently: Południowy Koncern Węglowy S.A.) constituted intra-group transactions.

The Capital Group conducts material 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.

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58.3. Remuneration of the executives

The amount of compensation and other benefits to the Management Board, Supervisory Boards and other key management personnel of the parent company and the subsidiaries paid and due to be paid in the year ended 31 December 2023 and in the comparative period has been presented in the table below.

	Year ended 31 December 2023		Year ended 31 December 2022	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	10	31	7	24
Short-term benefits (with surcharges)	9	30	6	24
Employment termination benefits	1	1	1	-
Supervisory Board	1	2	1	2
Short-term employee benefits (salaries and surcharges)	1	2	1	2
Other key management personnel	15	60	13	52
Short-term employee benefits (salaries and surcharges)	14	57	12	51
Other	1	3	1	1
Total	26	93	21	78

In addition, 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 2023.

In case of termination of the management contract, Members of the Company's Management Board are entitled, under the conditions specified therein, to severance pay, provided that they have held the position for at least twelve months before the termination of the management contract. Moreover, after ceasing to serve on the Company's Management Board, Members of the Management Board who served for at least six months are entitled to compensation for compliance with the non-competition clause.

59. 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.

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 2023.

In 2023, 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, cash and cash equivalents 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. In addition, 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 of the relevant special purpose vehicle. In addition, sustainability indicators in the form of a RES capacity growth indicator and the CO₂ 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 2.11, which falls within the terms of the funding agreements.

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2023 compliant with the IFRS, approved by the European Union
(in PLN million)

	Year ended 31 December 2023	Year ended 31 December 2022
Loans and borrowings	7 392	7 765
Unsubordinated bonds	4 645	5 041
Non-current debt liabilities	12 037	12 806
Loans and borrowings	1 811	245
Unsubordinated bonds	209	215
Short-term debt liabilities	2 020	460
Total debt	14 057	13 266
Contingent liabilities treated as equivalent to debt in the financing documentation	-	187
Cash and cash equivalents	1 084	1 678
Net debt	12 973	11 775
EBITDA	6 145	4 016
Operating profit (loss)	3 394	1 119
Depreciation/amortization	(2 232)	(2 216)
Impairment	(519)	(681)
Net debt / EBITDA	2.11	2.93

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

Debt liabilities	Year ended 31 December 2023	Year ended 31 December 2022
Opening balance	16 487	14 151
subordinated bonds	(1 966)	(1 972)
lease indebtedness (except for those meeting the conditions of IAS 17 Leases)	(1 255)	(1 235)
Opening balance - debt in the calculation of debt ratio	13 266	10 944
Proceeds arising from debt taken out	7 982	9 440
financing received	7 982	9 440
Interest accrued	801	622
charged to profit or loss	749	598
capitalized to property, plant and equipment and intangible assets	52	24
Debt related payments	(7 782)	(6 887)
debt securities redemption	(170)	(170)
principal repaid	(6 758)	(6 067)
lease instalments paid	(105)	(126)
interest paid	(697)	(500)
interest paid, capitalized to investment projects	(52)	(24)
Recognition/(repayment) of liabilities due to the acquisition of non-controlling interests	-	(1 061)
Change in the balance of overdraft facility and cash pool	22	13
Recognition of new lease agreements and change of lease agreements	170	103
Change in debt measurement	(332)	76
Derecognition of subsidiaries	-	(83)
Acquisition of subsidiaries	69	94
Other non-monetary changes	(2)	19
Closing balance	17 415	16 487
subordinated bonds	(1 918)	(1 966)
lease debt (except for debt meeting the conditions of IAS 17 Leases)	(1 440)	(1 255)
Closing balance - debt in the calculation of debt ratio	14 057	13 266

60. 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 2023.

61. Other material information

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

In the year ended 31 December 2023, the work has been carried out in TAURON Group with the aim to implement the government programme for the transformation of the Polish electricity sector (the "NABE Programme") launched in April 2021 by the Ministry of State Assets (MAP). The programme aimed to separate coal assets from energy companies with the State Treasury shareholding, 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*".

The NABE Programme stipulated 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. In order to implement the transaction, an internal reorganisation was carried out in TAURON Group to integrate the assets to be separated into a single entity, i.e. TAURON Wytwarzanie S.A.

The overall set of reorganisation activities was carried out in the TAURON Group, ensuring full operational capability for the companies that were earmarked for separation from the TAURON Group structures, in line with the NABE Programme.

On 14 July 2023, as part of the implementation of the NABE Programme the Company received from the State Treasury, represented by the Minister of State Assets, a proposal for a non-binding document (the "Document") summarising the terms of the transaction for the acquisition by the State Treasury of all the shares held by the Company in TAURON Wytwarzanie S.A.

In particular, the document included a proposal for the purchase price of TAURON Wytwarzanie S.A. shares, the key economic and legal terms and conditions of conducting the transaction, including the key provisions of the preliminary sale agreement and the promised sale agreement, as well as the proposed mechanism for the settlement of TAURON Wytwarzanie S.A. debt to the Company. The value of the enterprise of TAURON Wytwarzanie S.A. (Enterprise Value) was determined according to a locked-box mechanism as at 30 September 2022. The Document received did not constitute an offer or commitment to enter into any contract. The value of the transaction defined in the Document consisted of two elements: the price for TAURON Wytwarzanie S.A. shares ("Sale Price") at a level of PLN 1 and the value of TAURON Wytwarzanie S.A. debt towards the Company as at the date of acquisition of the shares by the State Treasury ("Closing Date"), which was subject to repayment.

Due to the fact that the Document received by the Company provided for the reduction of TAURON Wytwarzanie S.A. debt to the level assumed in the transaction, an increase in the share capital of TAURON Wytwarzanie S.A. by PLN 7 million was registered on 18 August 2023, carried out through the issue of 652 000 shares of PLN 10 value and an issue price of PLN 1 000 per share. Coverage of the increase in TAURON Wytwarzanie S.A. share capital was performed by setting off (converting) a part of TAURON Wytwarzanie S.A. existing debt towards the Company in the amount of PLN 652 million.

On 10 August 2023, the Company and the State Treasury signed a document (the "Term Sheet") summarising the key terms and conditions of the transaction of acquisition by the State Treasury of all the shares held by the Company in TAURON Wytwarzanie S.A. in order to establish the NABE. The key boundary conditions contained in the signed Term Sheet coincided with the terms of the Document, as described above. The Term Sheet also set out the conditions determining the conclusion of the preliminary agreement for the sale of TAURON Wytwarzanie S.A. shares to the State Treasury.

By the balance sheet date, the conditions precedent to the conclusion of the preliminary agreement have not been met. On 16 February 2024, the Government Legislation Centre announced the completion and withdrawal of the draft *Act on the principles of granting guarantees by the State Treasury for NABE liabilities*, which is of key importance in terms of ensuring the future financing of NABE and constitutes one of the conditions precedent for the signing of the promissory agreement for the sale of TAURON Wytwarzanie S.A. shares. On 20 February 2024, the Management Board of the Company adopted a resolution on the closure of the Company's programme to spin off the TAURON Group's coal generation assets to NABE.

As at 31 December 2023 and as at the date of approval of these financial statements for publication, the Company believes that the criteria of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* have not been met in the scope of classification of the shares of TAURON Wytwarzanie S.A. held by the Company as disposable assets classified as held for sale.

Impact of the COVID-19 pandemic on the operations of the Group

In the year ended 31 December 2023, no significant impact of the COVID-19 pandemic on TAURON Group was observed, including on the level of demand for electricity, the developments in prices on the markets of electricity and related products and trends in the level of overdue receivables of the Group's customers.

The situation related to the COVID-19 pandemic in the year ended 31 December 2023 did not affect the operations of individual Business Areas of TAURON Group.

The epidemiological emergency state caused by SARS-CoV-2 virus infections was lifted in Poland on 1 July 2023.

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

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.

TAURON Group did not have assets located in Ukraine, Russia and Belarus, therefore, TAURON Group did not identify any direct effects of the war on its own business operations. In the scope of financial and liquidity risks, as at the date of approval of these consolidated financial statements for publication, the Group held sufficient financial resources enabling it to settle its current liabilities as well as to carry out the investment activities it had started.

According to the TAURON Group's assessment, the indirect consequences of the war that affected or could have affected TAURON Group in the year ended 31 December 2023 are as follows:

- implementation of national regulations in 2022 for 2023 and also in 2023 for 2024, with the aim of limiting electricity demand, introducing mechanisms to limit increases in electricity prices for end users, introducing margin restrictions for electricity generators and trading companies, including further regulatory interventions in the scope of support for electricity consumers proceeded in 2023. Mitigating activities in the scope of shaping draft regulations were carried out through consultations, among others within industry organisations. Actions were also taken to adapt the TAURON Group's commercial strategy to changes in the regulatory environment and to implement the technical and operational solutions imposed by these regulations, The impact of the most significant changes in legislation on the Group's financial position and results is described in more detail in Note 11 of these consolidated financial statements,
- a decrease in the volume of energy sales and distribution as a result of reduced economic activity of Polish entrepreneurs in its part resulting from the occurrence of the war on the Ukrainian territory. In the scope of risk mitigation, TAURON Group took measures in commercial terms (balancing the sales position and product changes aimed at reducing the impact of changes in demand on the TAURON Group),
- an increase in trade receivables resulting mainly from a nominal rise in electricity selling prices relative to the situation observed in 2022,
- a change in the costs incurred and revenues generated from the production and sale of electricity in TAURON Group, among others, as a result of the crisis observed in the energy fuel market in 2022 partly due to the occurrence of the war in the Ukrainian territory, and in particular resulting from the volatility of fuel prices and, consequently, the volatility of electricity prices.

The above consequences and the follow-up market changes have been translated and included in the assumptions as part of the Group's most recent impairment tests as at 31 December 2023. The increase in receivable balances and risks in terms of customer solvency were taken into account in the measurement of receivables. The volatility of prices of energy fuels, in particular coal (an increase in prices in 2022 and then a significant drop in prices at the turn of 2023 and 2024) and the purchase of imported coal by the Group in 2022 and 2023 resulted in the need to create a write-off updating the coal stock, which was described in Note 34 of these consolidated financial statements.

The situation associated with the war on the territory of 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 war, further developments including the potential escalation of hostilities as well as their impact on the condition of the economy in Poland and worldwide. In connection with the war in Ukraine, the impact of the risks identified may also depend on further regulatory actions at the European Union level and at the national level in terms of implementing intervention measures as well as shaping the future energy market.

Entry into force of the settlement with the contractor of the 910 MW unit construction in Jaworzno

On 25 April 2023, the last condition precedent was fulfilled, therefore, the settlement agreement entered into force, as concluded on 31 March 2023 between TAURON Wytwarzanie S.A. (the "Contracting Entity") and the consortium consisting of: RAFAKO S.A. and MOSTOSTAL Warszawa S.A. and E003B7 Sp. z o.o. (jointly referred to as: the "Contractor", the

Contracting Entity and the Contractor jointly referred to as the “Parties”) in mediation before the Court of Arbitration at the Polish Attorney General's Office (the “Settlement”), which establishes the procedure under which the contract for the construction of the 910 MW unit in Jaworzno will be completed and mutual settlements will be made in respect thereof, as well as an annex to the contract for the construction of unit 910 MW.

According to the key provisions of the Settlement, which in total increased the Group's result by PLN 251 million, are as follows:

- TAURON Wytwarzanie S.A. limited its claims against RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 Sp. z o.o. to the amount of PLN 240 million; this amount was satisfied by drawing on the performance bond granted on request of E003B7 Sp. z o.o. and paid by the guarantors on 25 April 2023;
- The Parties, upon signing the Settlement, accepted and settled the works as indicated in the Annex to the Settlement. The Contracting Entity paid the amount of PLN 18 million net to the Contractor as a remuneration for the aforementioned works, which was set at a total net amount of PLN 33 million and which, for the purposes of payment, was reduced by the settlement of advance payments and the amount of paid invoices in the total net amount of PLN 15 million net. The settlement of the amount indicated above, together with the Contractor's remuneration already paid from the contract to date - means the settlement of all work completed by the Contractor under the contract and the Contractor will not carry out any further work under the contract;
- The Contracting Entity undertook and acquired the assets specified in the Settlement from the Contractor and paid the Contractor the total net amount of PLN 12 million on account of the acquisition of the aforementioned assets;
- The Contracting Entity paid to E003B7 Sp. z o.o., after the entry into force of the Settlement, a lump sum remuneration of PLN 10 million net, which E003B7 Sp. z o.o. will use to lead to the termination of the subcontractors' claims;
- The Parties limited the subject matter of the contract to the work completed to date and agreed that, upon signing of the Settlement, the contract was terminated in its part which has not been completed. Upon entry into force of the Settlement, all Contractor's liability pertaining to the contract, in particular the guarantee and warranty in relation to the subject matter of the contract, ceased and all Contractor's liability for all faults, damage and defects in the 910 MW unit ceased, including those occurring after the date of concluding the Settlement. Pursuant to the annex to the contract, the Parties agreed on the final price of the contract in the amount of PLN 4 659 million net. The termination of the contract resulted in cancellation of all obligations of the Parties under the contract;
- in accordance with the provisions of § 4 of the Settlement, TAURON Wytwarzanie S.A. and RAFAKO S.A. concluded a settlement agreement on 4 December 2023 with UNIQA Towarzystwo Ubezpieczeń S.A. and InterRisk Towarzystwo Ubezpieczeń S.A. Vienna Insurance Group regarding the payment of compensation by the insurers under the insurance contract related to the occurrence of property damage resulting from the failure of the 910 MW unit, which took place on 9 February 2020. In accordance with the settlement with the insurers, a compensation amount of PLN 30 million was agreed and paid into the account of TAURON Wytwarzanie S.A. on 6 December 2023. Under the terms of the Settlement, RAFAKO S.A. was entitled to receive an amount of PLN 9 million, which was to be paid by TAURON Wytwarzanie S.A. upon payment of compensation by the insurers under the settlement agreement with the insurers. However, as a result of the agreement between TAURON Wytwarzanie S.A. and RAFAKO S.A. on contractual set-off of mutual receivables, the receivable due to RAFAKO S.A. was reduced by the receivable of TAURON Wytwarzanie S.A. in the amount of PLN 3 million in total for the claim of TAURON Wytwarzanie S.A. arising from the payment by TAURON Wytwarzanie S.A. of receivables of further subcontractors of RAFAKO S.A. participating in the performance of the contract entered in the Settlement as legitimate and unmatured receivables;
- as soon as the Settlement enters into force, the settlements provided for in the Settlement shall satisfy all mutual claims of the Parties in connection with the performance of the contract. The parties mutually waived all claims arising in connection with the circumstances up to the date of concluding the Settlement, including mutual claims as well as claims of RAFAKO S.A. and E003B7 Sp. z o.o. towards TAURON Polska Energia S.A., issued in January 2023. The Parties undertook that they would not assert waivable claims in the future irrespective of title or factual and legal basis.

On 19 June 2023, the Settlement was approved by the Regional Court in Katowice, 14th Commercial Division.

62. Events after the balance sheet date

Signing of the loan agreement

After the balance sheet date, on 10 January 2024, the Company concluded a loan agreement with Bank Gospodarstwa Krajowego for the amount of PLN 750 million, to be repaid in the years 2027-2032. Under the loan agreement, the Company will be able to make drawdowns over a 2-year availability period. The Company will be able to utilise the funds once the standard conditions precedent for this type of financing have been met, and all of the funds made available under the loan agreement will be used to cover the TAURON Group's expenses related to the financing or refinancing of expenses in the area of renewable energy sources and the development of distribution networks.

As at the date of approval of these consolidated financial statements for publication, the Company has not drawn down available financing under the loan Agreement.

Information on the acceptance of the offer by the leading shareholder of the ArcelorMittal Group (AM Global Holding S.à r.l.) to acquire the shares in TAMEH HOLDING Sp. z o.o.

Subsequent to the balance sheet date, on 2 January 2024, the Company's representative, in the presence of the bailiff recording the act of service, left at the registered office of the ArcelorMittal Group's leading shareholder, i.e. AM Global Holding S.à r.l. with its registered office in the Grand Duchy of Luxembourg (the "Lead Shareholder") a declaration that the Company had accepted the Lead Shareholder's offer to purchase 3 293 403 shares in TAMEH HOLDING Sp. z o.o, which is a joint venture between the Company and the ArcelorMittal Group, for the amount of PLN 598 million (the "Sale Price"), pursuant to the shareholders' agreement between TAURON Group companies and ArcelorMittal Group companies concluded on 11 August 2014 (the "Shareholders' Agreement"). In the Shareholders' Agreement, the parties submitted irrevocable offers to each other to buy and sell shares in TAMEH HOLDING Sp. z o.o. and each party had the right to accept the irrevocable purchase offer made by the other party in the situations and under the conditions set out in the Shareholders' Agreement. The declaration was submitted in connection with the materialisation on 31 December 2023 of one of the prerequisites indicated in the Shareholders' Agreement, which authorises the Company to take advantage of the purchase offer made to it in the Shareholders' Agreement. Pursuant to the Shareholders' Agreement, the transfer of ownership of the shares shall take place when the bank account designated by the Company is credited with an amount equal to the Sale Price, which shall take place no later than the 30th business day following the acceptance of the offer by the Company, i.e. from the date of submission of the Declaration to the Lead Shareholder.

On 4 January 2024, the Company received a message sent on behalf of the Lead Shareholder indicating that the Lead Shareholder challenges the effectiveness of the delivery of the Company's statement accepting the Lead Shareholder's offer to purchase the shares in TAMEH HOLDING Sp. z o.o.

On 9 January 2024, the Company received a letter from the Lead Shareholder, which the Lead Shareholder believes is intended to be a statement of acceptance of the Company's offer to purchase all of the shares in TAMEH HOLDING Sp. z o.o. owned by the ArcelorMittal capital group companies for the amount of PLN 598 million.

On 12 January 2024, the Company sent a letter to the Lead Shareholder accepting the entry into negotiations as set out in the Shareholders' Agreement.

Management Board

Katowice, 16 April 2024

Grzegorz Lot – President of the Management Board

Piotr Gołębiowski – Vice President of the Management Board

Michał Orłowski – Vice President of the Management Board

Krzysztof Surma – Vice President of the Management Board

Oliwia Tokarczyk – Executive Director for Accounting and Taxes