TAURON

CONSOLIDATED ANNUAL REPORT

of TAURON Polska Energia S.A
Capital Group for the year 2019

April 1, 2020

Letter of the President of the Management Board of TAURON Polska Energia S.A.

Ladies and Gentlemen,

on behalf of TAURON Group I have the pleasure to present to you the Consolidated Annual Report of TAURON Polska Energia S.A. Capital Group for 2019, that provides our financial and operating results, as well as the highlights of last year.

TAURON Group was operating in a favorable macroeconomic environment in 2019. The Polish economy stood out positively against the background of most European Union countries, and the main factor behind the growth of the Polish economy was a relatively rapid rise of the domestic demand. Unfavorable trends grew stronger in the second half of the year.

The change of Poland's GDP growth rate had an impact on the volume of electricity consumption. Last year was the first in a number of years when domestic electricity consumption declined. As a consequence, electricity production fell 3.9 percent, mainly due to the fast growing net electricity imports coming in at more than 10 TWh. Electricity imports, combined with a significant increase in electricity production from wind farms and gas, caused a drop in electricity production from conventional generating units.

The macroeconomic situation and the above mentioned market trends had a significant impact on the operations of electric utilities last year. TAURON Group continued to maintain its stable financial position under such external conditions, while taking a number of actions aimed at increasing profitability in the following years.

TAURON Group posted good financial results in 2019. Sales revenue and recompensations came in at PLN 20.5 billion, which meant a 13 percent rise, as compared to 2018. Higher revenues are primarily the result of the situation on the power market, i.e. an increase of wholesale electricity prices. EBITDA stood at PLN 3.6 billion, i.e. up 3 percent year on year. The net result achieved was significantly affected by the impairment charges related to the Mining and Generation segments' assets.

I would like to highlight that last year we intensified activities that would lead to a significant increase in the production of electricity from zero-emission sources, such as wind and solar, in the coming years. We define our efforts aimed at implementing the Group's transition as the Green Turn of TAURON, as outlined in TAURON Group's strategic directions updated last year. We are planning to invest in on-shore wind farms and solar farms as well as get involved in the construction of off-shore wind farms by 2025. These investment projects and the commissioning of the 910 MW unit in Jaworzno, that meets stringent environment protection standards, will allow the Group to reduce its emissions by more than 20 percent by 2025, and by more than 50 percent by 2030.

The acquisition of five wind farms with the total capacity of 180 MW was a confirmation of the efficient implementation of the strategic goals set. As a result of this investment, TAURON Group almost doubled its installed capacity in wind technology and came in second among

Polish energy groups in terms of the generation capacity in wind sources. What is particularly important – the new assets will be generating EBITDA of more than PLN 100 million per annum.

In addition, in December last year TAURON Group signed a contract for the purchase of a photovoltaic farm construction project in Choszczno, with a planned capacity of 6 MW. I would also like to assure you that we are analyzing, on an ongoing basis, opportunities to acquire wind and solar projects offered on the market, as well as developing our own green projects, in particular on TAURON Group's land.

It is worth noting that TAURON Group is actively participating in the transition of the domestic energy sector towards the development of zero emission sources. The Group connected a record number of more than 30 000 micro-installations to its distribution grid, with the total capacity of 206 MW, in 2019. Almost four times more than in 2018.

In addition to the investment outlays related to the implementation of the Green Turn of TAURON, we were also working on improving the reliability of our distribution grid and developing modern energy sources. TAURON Group's total capital expenditures clocked in at PLN 4.1 billion in 2019.

We commenced the process of optimizing our investment portfolio related to the mining and heat assets in 2019. As part of these activities, bidders interested in the acquisition of these assets conducted a due diligence process at TAURON Ciepło sp. z o.o.

Traditionally, TAURON Group was very active with respect to research, development and innovations. 18 projects were launched in all lines of business. As of the end of last year, 67 projects were underway, as part of four research and innovation portfolios. TAURON Group obtained funding from external sources to implement some of these projects. It is worth emphasizing that these efforts are already bringing measurable effects - thanks to the introduction of new sorbents into the electricity generation process, the Group will reduce its capital expenditures related to the adaptation of the 460 MW unit at Łagisza Power Plant to the so-called BAT conclusions, by more than PLN 100 million.

Similar as in the previous years, also in 2019 TAURON Group undertook a number of initiatives aimed at guaranteeing the funds required for the sustainable growth. At this point, I would like, first and foremost, to mention the successful capacity market auctions. As a result, TAURON Group will receive a total of PLN 5.5 billion in additional funds in 2021-2037.

Secondly - we concluded a loan agreement worth PLN 750 million with Intesa Sanpaolo to finance expenditures in renewable energy and distribution grid related investment projects as well refinance the existing debt.

Thirdly - under the 2014-2020 financial plan, we obtained EU funds in the amount of PLN 195 million for the construction and modernization of the medium and low voltage distribution grids. The above mentioned steps guarantee ensuring the Group's financial stability, as confirmed by the "BBB" rating with a stable outlook, granted by the Fitch rating agency.

I am also pleased to see that our activities with respect to the relations with the stakeholders have once again been appreciated by the experts' communities. In the "The Best Annual Report" competition, we were awarded, for the third time, "The Best of the Best" prize, a special award for the best integrated report and an honorable mention for the best statement on the application of corporate governance.

Ladies and Gentlemen,

in spite of numerous challenges facing the Polish energy sector, I am convinced that the comprehensive transition and steadfast implementation of the projects related to the Green Turn of TAURON will have a positive impact on TAURON Group's further development. I believe that high competence and extensive experience of the Group's employees will be skillfully used to shore up the key segments of the business operations. We are the leader of change in the Polish energy sector. On the other hand, our initiatives with respect to social dialogue contribute to building long term, partnership based relations with all stakeholder groups.

On behalf of the Management Board of TAURON Polska Energia S.A. I would like to thank all stakeholders, especially Members of the Supervisory Board and the entire Group's personnel, for effective and professional performance of their responsibilities, that allows us to build TAURON Group's value together.

Yours respectfully,

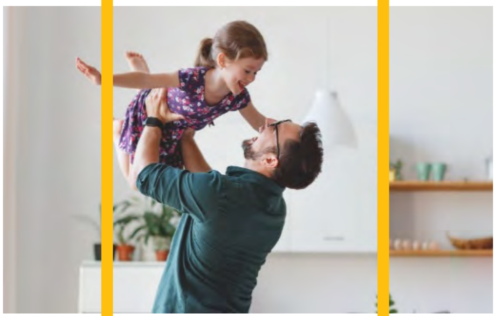
Filip Grzegorczyk

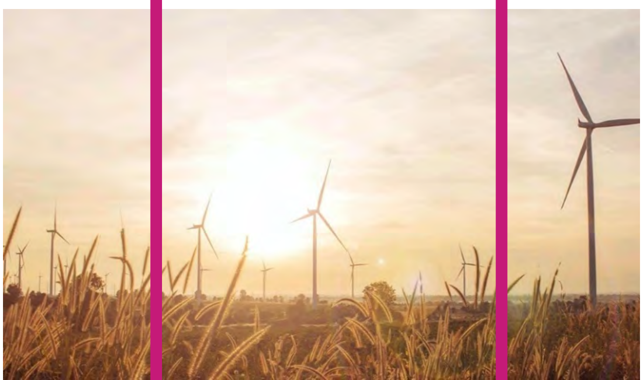
President of the Management Board of TAURON Polska Energia S.A.

SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	2019 from 01.01.2019 to 31.12.2019	2018 from 01.01.2018 to 31.12.2018 (adjusted data)	2019 from 01.01.2019 to 31.12.2019	2018 from 01.01.2018 to 31.12.2018 (adjusted data)
Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group				
Sales revenue	19 558 292	18 121 748	4 546 537	4 247 052
Compensations	952 650	-	221 454	-
Operating profit (EBIT)	295 454	790 729	68 681	185 317
Pre-tax profit (loss)	(15 368)	504 647	(3 572)	118 270
Net profit (loss)	(11 683)	207 045	(2 716)	48 524
Net profit (loss) attributable to shareholders of the parent entity	(10 908)	204 880	(2 536)	48 016
Net profit (loss) attributable to non-controlling stakes	(775)	2 165	(180)	508
Other net comprehensive income	(101 853)	(24 522)	(23 677)	(5 747)
Total comprehensive income	(113 536)	182 523	(26 393)	42 776
Total comprehensive income attributable to shareholders of the parent entity	(112 530)	180 398	(26 159)	42 278
Total comprehensive income attributable to non-controlling stakes	(1 006)	2 125	(234)	498
Profit (loss) per share (in PLN / EUR) (basic and diluted)	(0.01)	0.12	(0.00)	0.03
Weighted average number of shares (pcs.) (basic and diluted)	1 752 549 394	1 752 549 394	1 752 549 394	1 752 549 394
Cash flows from operating activities	2 035 575	2 222 621	473 191	520 898
Cash flows from investing activities	(4 534 738)	(3 387 402)	(1 054 149)	(793 879)
Cash flows from financing activities	2 894 792	1 171 400	672 926	274 532
Increase/(decrease) in net cash and equivalents	395 629	6 619	91 968	1 551
	As of 31.12.2019	**As of 31.12.2018** (adjusted data)	**As of 31.12.2019**	**As of 31.12.2018** (adjusted data)
Fixed assets	35 052 287	32 596 304	8 231 135	7 580 536
Current assets	6 865 478	4 501 173	1 612 182	1 046 784
Total assets	41 917 765	37 097 477	9 843 317	8 627 320
Share capital	8 762 747	8 762 747	2 057 707	2 037 848
Equity attributable to shareholders of the parent entity	18 192 226	18 295 824	4 271 980	4 254 843
Equity attributable to non-controlling stakes	900 434	132 657	211 444	30 850
Total equity	19 092 660	18 428 481	4 483 424	4 285 693
Long term liabilities	14 963 274	11 382 254	3 513 743	2 647 036
Short term liabilities	7 861 831	7 286 742	1 846 150	1 694 591
Total liabilities	22 825 105	18 668 996	5 359 893	4 341 627

The above financial data was converted to EUR according to the following principles:

- individual items of the statement of financial position – at the average exchange rate of NBP announced as of December 31, 2019 – 4.2585 PLN/EUR (as of December 31, 2018 – 4.3 PLN/EUR),
- individual items of the statement of comprehensive income and the statement of cash flows - at the exchange rate that is an arithmetic mean of the average exchange rates of NBP announced as of the last day of each month of the financial year running from January 1, 2019 to December 31, 2019 – 4.3018 PLN/EUR (for the period from January 1, 2018, to December 31, 2018 – 4.2669 PLN/EUR).





INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

of the annual consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year 2019

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Meeting and Supervisory Board of TAURON Polska Energia S.A.

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of TAURON Polska Energia S.A. Group (the 'Group'), for which the holding company is TAURON Polska Energia S.A. (the 'Company') located in Katowice at Ks. Piotra Skargi 3 street, containing: the consolidated statement of comprehensive income for the period from 1 January 2019 to 31 December 2019, the consolidated statement of financial position as at 31 December 2019, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2019 to 31 December 2019 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2019 to 31 December 2019 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 31 March 2020.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014').

Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Impairment of assets analysis	
Why the issue is a key audit matter	Audit approach
As at December 31, 2019, the Group, in the consolidated financial statements, presented within significant asset items: • fixed assets including property, plant and equipment with a carrying amount of approximately PLN 31 099 million; • right of use assets with a carrying amount of approximately PLN 1 773 million; • goodwill with a carrying amount approximately PLN 26 million; • other intangible assets with a carrying amount of approximately PLN 478 million; • investments in joint ventures with a carrying amount of approximately PLN 559 million; • loans receivable from joint ventures with a carrying amount of approximately PLN 243 million; constituting in total approximately 82% of the Group's consolidated balance sheet.	Our procedures, in relation to the key audit matter described, included, among others: • Overview of the process and identification of control mechanisms operating in the Group related to impairment tests of assets, as well as an understanding of the applied accounting policies and procedures, including internal control environment related to the process of assessing impairment indicators and performing of impairment tests, • Assessment of the assumptions made with regard to the grouping of assets into cash-generating units (CGU), • Assessment (with the assistance of valuation specialists) of estimates and assumptions made by the Group in order to determine the assets recoverable amount, including: - the key macroeconomic assumptions adopted by the Group for future years (including: discount rates, projected growth rate) by comparing them to market data and available external data; - arithmetical correctness of the discounted cash flows model, and - assumptions made to determine cash flows and residual values after the period covered by a detailed strategy; • Inquiries to employees of the financial department and the Management Board of the Parent Company referring to the status of implementation of the adopted assumptions, including the validity of key estimates,

According to International Financial Reporting Standards the Management of the entity is obliged to determine the appropriate valuation method of loans receivable from joint ventures and, depending on the valuation method, to determine the fair value of these loans or determine the value of expected credit losses that may occur in the period of 12 months or remaining period of existence of loans depending on classification of assets to the brackets and for fixed assets, right of use assets, goodwill, other intangible assets and investments in joint ventures as a result of the identified assets impairment premise for performing the impairment test. The issue was identified as key audit matter in the audit of the consolidated financial statements due to the value of the assets listed above, which is significant for the consolidated financial statements, as well as due to the element of professional judgment of the Group management regarding the valuation of loans receivable from joint ventures and a complex element of the professional judgment of the Management Board of Parent Company regarding identifying cash-generating units and the estimation of the recoverable amount of fixed assets, right of use assets, goodwill, other intangible assets and investments in joint ventures. The valuation of loans receivable from joint ventures requires the application of appropriate valuation model, depending on the classification of assets, in accordance with International Financial Reporting Standard 9 Financial Instruments.	• Analysis of external sources of information such as industry press and evaluation of potential risk related to the implementation of the assumptions with the support of valuation specialists; • Analysis of impairments indicators and reconciliation of source data used in impairment test models and assessment of impairment triggers for financial forecasts approved by the Management Board of the Parent Company; • Obtaining detailed statements of Parent Company Management's regarding the completeness and correctness of the data and significant assumptions provided to us; • Assessment of the classification of the loans receivable from joint ventures; • Assessment of the Parent Company's Management Board's judgment regarding the valuation models used for loan receivables to joint ventures and the existence of objective events affecting the impairment of loans; • Assessment of the correctness of recognition of results of impairment tests of assets and the valuation of loans receivable from joint venture in the books; • Assessment of the valuation models of loans receivable from joint venture adopted by the Group, including reconciliation of source data being the basis for valuation of loans;

Estimation of the recoverable amount of fixed assets, right of use assets, goodwill, other intangible assets and investments in joint ventures require the Management Board of Parent Company to adopt a number of assumptions regarding future market and economic conditions, such as, future changes in the prices of raw materials, electricity, property rights arising from certificates of origin of energy, CO2 emission rights and future revenues, costs and cash flows, weighted average cost of capital ("WACC"), as well as the impact of potential and already approved Polish and European regulatory changes, including environmental protection and the anticipated macroeconomic situation. A reference to disclosure in the consolidated financial statements The Group disclosed information regarding impairment indicators, estimates of the impairment test, as well as impairment losses on intangible assets in note 10 of the explanatory the notes to the consolidated financial statements for the year ended December 31, 2019. The disclosure regarding the valuation of loans receivables from joint ventures and investments in join venture was included by the Group respectively in note 25 and 24 of the explanatory notes to the consolidated financial statements for the year ended 31 December 2019.	• Assessment of the completeness of disclosures, in accordance with the International Accounting Standard 36 Impairment of assets, the International Accounting Standard 1 Presentation of Financial Statements and the International Financial Reporting Standard 7 Financial Instruments - disclosure of information in the Group's consolidated financial statements regarding impairment and valuation of assets.

Claims, lawsuits and contingent liabilities	
Why the issue is a key audit matter	Audit approach
The Group is a party to many significant claims and court cases which, depending on the Parent Company Management's assessment, are recognized as provisions or contingent liabilities. Significant in terms of value are potential and submitted claims identified by the Group related to the termination of long-term contracts for the purchase of electricity and property rights arising from certificates of origin of energy generated in renewable energy sources. The basis for recognizing provisions and contingent liabilities in the consolidated financial statements are the Parent Company Management's judgments regarding the likelihood of adverse effects of the claims and court cases that may cause an outflow of economic benefits from the Group. The results of these claims and lawsuits are beyond the Group's control. The issue was identified as key audit matter in the audit of the consolidated financial statements due to the significance of the claims and lawsuits, as well as due to the complex element of the professional judgment of the Management regarding their impact on the consolidated financial statements.	Our procedures, in relation to the key audit matter described, included, among others: • Obtaining an understanding of the process of making judgments by the Parent Company Management's regarding claims and lawsuits; • Monitoring of public information to identify a violation or potential violation of laws and regulations by the Group and to assess the completeness of the effects of identified violations, as well as to assess the completeness of disclosures in the consolidated financial statements; • Analysis of the documentation regarding court cases presented for the audit purposes and discussion of significant court cases with the Legal Project Management Team of the Group and external lawyers significant claims and lawsuits; • Analysis of the costs of legal services incurred during the year including the identification of entities providing legal services to the Group; • Obtaining written explanations from the lawyers serving the Group with regard to the court and dispute cases conducted by them, and the analysis of the provided explanations; • Analysis and assessment of the level and completeness of provisions for litigation in the context of the existing legal documentation;

A reference to disclosure in the consolidated financial statements The Group disclosed information regarding claims and court cases in note 50 of the explanatory notes to the consolidated financial statements for the year ended December 31, 2019.	• Analysis and assessment of disclosures in the consolidated financial statements regarding contingent liabilities and changes in the value of provisions for claims and lawsuits; • Discussion of the selected claims and court cases with internal specialists in the field of law; • Obtaining detailed statements of the Parent Company Management Board regarding the completeness and correctness of the data and significant assumptions provided to us; • Review of minutes of meetings of the legal bodies of the Parent Company Management Board as well as control reports of supervisory authorities and correspondence with these authorities. • Analysis of the adequacy of disclosures in relation to court and out-of-court proceedings, related provisions and contingent liabilities in the consolidated financial statements.

First application of IFRS 16 “Leasing”	
Why the issue is a key audit matter	Audit approach
International Financial Reporting Standard 16 Leasing ("IFRS 16") requires an analysis of contracts and business relationships, as well as a number of judgments and estimates related to determining, whether the contract is within a scope if IFRS 16 and how it should be covered in accordance with that standard (i.a. determine the scope of application new standard, lease periods, minimum leasing payments or discount rates). The issue was identified as key audit matter in the audit of the consolidated financial statements due to quantity and variety of contracts and the fact that the Group applied IFRS 16 to prepare the attached consolidated financial statements for the first time. The Parent Company’s Management Board decided to implement IFRS 16 using a modified retrospective approach. As a result of the recognition of right-of-use assets and lease liabilities recognized by the Group as part of debt liabilities, in connection with the first adoption of IFRS 16, there was an increase in the Group’s assets reported in the statement of financial position by PLN 918 million as at 1st January 2019 compared to data presented in consolidated financial statements for the previous financial year.	Our procedures, in relation to the key audit matter described, included, among others: • Analysis of the accounting policies regarding the recognition of contracts and business relationships falling within the scope of IFRS 16 and related significant judgments and estimates in particular regarding: - determination of the scope of contracts and business relationships subject to recognition in accordance with IFRS 16; - determination of minimum lease payments; - determination of term of leasing periods; - determination of discount rates; • Obtaining an understanding of the process and the control environment implementing IFRS 16, including understanding of the procedures to ensure the completeness of the review of contracts and business relationships; • Performing tests of controls for selected control mechanisms in relation to the recognition of contracts and business relationships in accordance with IFRS 16; • Performing test of details for a sample of contracts and business relations to verify the accuracy of the parameters used to calculate the leasing liability and the right-of-use assets;

A reference to disclosure in the consolidated financial statements Disclosures regarding the right of use assets and lease liabilities related to the application of IFRS 16 are presented in note 8.1 of the explanatory notes to the consolidated financial statements for the year ended December 31, 2019. Disclosures regarding accounting policies for leasing, including key judgments and estimates, were included in notes 8.1 and 20 of the explanatory notes to the consolidated financial statements for the year ended December 31, 2019.	• Analysis of the completeness and correctness of the recognition of contracts and business relationships identified by the Group as falling within the scope of IFRS 16; • Analysis and assessment of the arithmetical correctness of the lease liabilities valuation model and the right-of-use assets used by the Group; • Obtaining detailed statements of the Parent Company Management Board regarding the completeness and correctness of the data and significant assumptions provided to us; • Assessment the adequacy of disclosures in consolidated financial statements with regard to the guidelines contained in IFRS 16, as well as on key judgments in the recognition of lease contracts, business relationships and the impact of the implementation of the new standard on the consolidated financial statements.

Significant one-off transaction - the acquisition of wind farms from in.ventus Group	
Why the issue is a key audit matter	Audit approach
On September 3, 2019 through a specially created for this purpose subsidiaries the Group acquired: • five wind farms belonging to the in.ventus Group and • financial claims due to Hamburg Commercial Bank AG against companies managing these wind farms. Transaction was executed through the acquisition of Polish private companies owning these wind farms and German partnerships being their limited partners. The total value of funds transferred in connection with the transaction was PLN 580 million, which represents 1% of the Group's balance sheet total.	Our procedures, in relation to the key audit matter described, included, among others: • Analysis of the accounting policies regarding the recognition of business combination; • Obtaining an understanding of the process and the control environment in the area of identifying significant one-off transactions, including understanding procedures to ensure completeness in identifying key aspects of such transactions; • Assessment, with the support of valuation specialists, of the assumptions and estimates adopted by the Group to determine the fair value of the acquired assets and assumed liabilities, as well as the assessment of the accounting for the acquisition, including: - key assumptions and methodologies of fair value adopted by the Group's external specialists; - the arithmetical correctness of the models used to value the acquired assets, and • Assessment of the analysis of contractual provisions made by the Parent's Company Management Board regarding a significant one-off transaction, as well as independent analysis of this contract and assessment of the completeness and correctness of the analysis performed by the Parent's Company Management Board;

The issue was identified as key audit matter in the audit of the consolidated financial statements due to the value of the transaction, which is significant for the consolidated financial statements, as well as due to the complex element of the Parent Company's Management Board's professional judgment regarding: • determining the acquisition date; • identification and measurement of the acquired identifiable assets, liabilities assumed; • valuation of the payment transferred; • recognition and measurement of the profit from a bargain purchase; • recognition of the transaction and its effects in the consolidated financial statements of the Group. As a result of the transaction, the Group recognized a profit on a bargain purchase of PLN 120 million, which was presented in the consolidated statements of comprehensive income under other operating income, in accordance with the International Financial Reporting Standard 3 Business combinations.	• Discussing with the Parent's Company Management Board the assessment of the correctness of identification and completeness of acquired assets and assumed liabilities; • Obtaining written explanations from lawyers serving the Group regarding their litigation and disputes, evaluation of completeness and analysis Management's estimates related to recognizing the impact of litigation and claims for the settlement of the transaction; • Assessment of key judgments and estimates of the Parent's Company Management Board regarding the implementation of contractual provisions that affect the determination of the purchase price in relation to the significant one-off transaction; • Performing test of details on the sample of acquired assets and assumed liabilities acquired as part of the transaction in order to assess the completeness and correctness of recognition of these assets as part of the transaction settlement; • Assessment of impairment triggers with respect to assets acquired as part of the one-off transaction and reconciliation of source data used in impairment tests to the financial forecasts adopted by the Parent Company;

A reference to disclosure in the consolidated financial statements Disclosures regarding the settlement of the transaction and adopted judgments of the Parent's Management Board regarding the transaction were presented in Note 2.1 to the explanatory notes to the consolidated financial statements for the year ended December 31, 2019.	• Obtaining detailed statements of the Parent Company Management Board regarding the completeness and correctness of the data and significant assumptions provided to us; • Analysis and assessment of the adequacy of disclosures in the consolidated financial statements in relation to the guidelines contained in the International Financial Reporting Standard 3 Business combinations, International Financial Reporting Standard 13 Determination of fair value, as well as disclosures regarding key judgments of the Parent's Company Management Board regarding the settlement of acquisitions.

Legislative and regulatory changes regarding electricity sales prices in 2019 and in subsequent years	
Why the issue is a key audit matter	Audit approach
On December 31, 2018, the Act of December 28, 2018 amending the Act on excise duty and certain other acts came into force (the "Act"). The Act was amended twice: • on March 20, 2019, the Act of February 21, 2019 amending the Act amending the Act on excise tax and certain other acts, the Act - Environmental Protection Law, the act on the system of managing greenhouse gas emissions and other substances, the Act amending the Act on biocomponents and liquid biofuels and some other acts and the Act on the promotion of electricity from high-efficiency cogeneration; • on June 29, 2019, the Act of June 13, 2019 amending the Act amending the Act on excise duty and certain other acts, the Act on energy efficiency and the Act on biocomponents and liquid biofuels. (hereinafter together as: "Electricity Act"). The Electricity Act imposed on electricity trading companies, and therefore companies belonging to the Group, the obligation to use the prices of June 30, 2018 during 2019 in the scope and in a manner that is described in detail by the Group in Note 12 of explanatory notes to consolidated financial statements for the year ended December 31, 2019.	Our procedures, in relation to the key audit matter described, included, among others: • Analysis of the accounting policies relating to the identification, recognition and measurement of provisions for onerous contracts and accounting policies relating to recognition and measurement of Compensation; • Obtaining the understanding of the process and the control environment of identifying legal and regulatory changes as well as business relationships that may create encumbrances or give rights to contingent assets; • Assessment of the correctness and completeness of the analysis of the provisions of the Electricity Act made by the Management Board of the Parent Company and comparison of the results of the analysis of the Management Board of the Parent Company to our analysis of this Act; • Assessment of key judgments and estimates of the Parent Company's Management Board in the scope of assessing the likelihood of receiving Compensation; • Assessment of key judgments and estimates of the Parent's Company Management Board in the scope of valuation and recognition of onerous contracts provisions;

At the same time, the Electricity Act provides ~~for~~ two forms of compensation for trading enterprises in the form of a price difference amount for the period from January 1, 2019 to June 30, 2019 for all customer groups, and in the form of financial compensation for the period from July 1, 2019 to December 31, 2019. with respect to final recipients specified in the Electricity Act and described by the Group in Note 12 to the explanatory notes to the consolidated financial statements for the year ended December 31, 2019 ("Compensation"). As a result of the entry into force of the Electricity Act, the Group recognized the received and due compensation regarding sales in 2019 in the amount of PLN 953 million. Compensations were presented in the Compensation line of the consolidated statement of comprehensive income. On December 17, 2019, the President of the Energy Regulatory Office approved the electricity tariff for consumers in G tariff groups ("G tariff") for the Group's subsidiary applicable in 2020. The amount of electricity sales prices approved under the G tariff caused the necessity to create and recognize in the consolidated statements of financial position a provision for onerous contracts in the amount of PLN 237 million.	• Performing test of details in relation to onerous contracts provisions to assess the correctness of the measurement of recognition and presentation of these provisions in the consolidated financial statements; • Performing test of details in respect of compensation received and due; • Assessment of the arithmetical correctness of the models used by the Group for the valuation of Compensation due and an assessment of the input parameters, which are part of the professional judgment, used in these models; • Obtaining detailed statements of the Parent Company Management Board regarding the completeness and correctness of the data and significant assumptions provided to us;

The issue was identified as key audit matter in the audit of the consolidated financial statements due to the significant impact of the Electricity Act and approved for the year 2020 tariff G for the consolidated financial statements, as well as due to a complex element of professional judgment of the Management of the Group and adopted significant assumptions in regard to recognition and measurement of provisions for onerous contracts and compensation in accordance with the International Accounting Standard 37 Provisions, contingent liabilities and contingent assets in the consolidated financial statements of the Group. A reference to disclosure in the consolidated financial statements Disclosures regarding the entry into force of the Electricity Act and its impact on the consolidated financial statements were presented in Note 12 of the explanatory notes to the consolidated financial statements for the year ended December 31, 2019. Disclosure regarding the provision for onerous contracts in relation to the G tariff in force in 2020 was presented in note 39.2 of the explanatory notes to the consolidated financial statements for the year ended December 31, 2019.	• Analysis and assessment of the adequacy of disclosures in the consolidated financial statements in relation to the guidelines contained in the International Accounting Standard 37 Provisions, contingent liabilities and contingent assets, as well as disclosures regarding the key judgments of the Parent's Company Management Board in recognizing the impact of the entry into force of the Electricity Act.

Responsibilities of the Company’s Management and members of the Supervisory Board for the financial statements

The Company’s Management is responsible for the preparation the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company’s Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Company’s Management is responsible for assessing the Group’s (the holding company and significant components’) ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company’s Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company’s Management and the members of the Company’s Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the ‘Accounting Act’). The members of the Company’s Supervisory Board are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor’s report. Hence all auditor’s assertions and statements contained in the auditor’s report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor’s professional judgment.

The scope of the audit does not include assurance on the future profitability of the Group nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,

- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,

- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2019 to 31 December 2019, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the

Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),

- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 55 par. 2c of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any attestation procedures in respect to the separate report on non-financial information and do not express any assurance in its respect.

Building a better working world

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of Supervisory Board from 15 March 2017 and reappointed based on the resolution from 28 November 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2017, i.e. for the past three consecutive years.

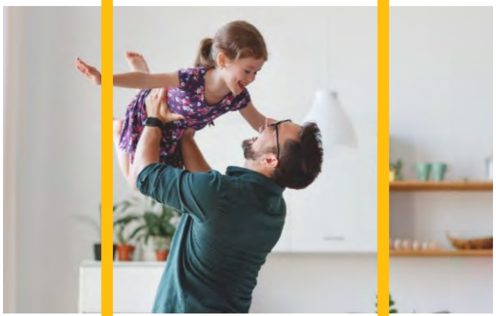
Warsaw, 31 March 2020

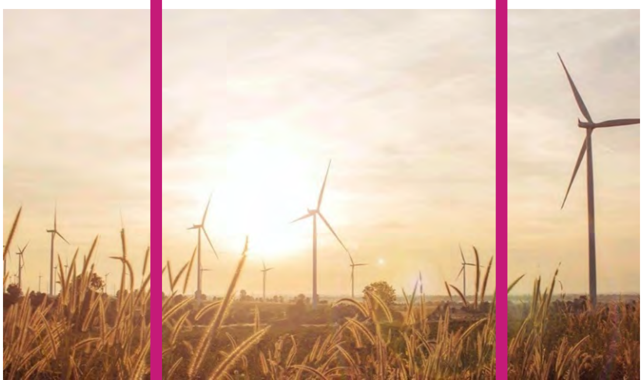
Key Certified Auditor

Leszek Lerch
Certified auditor
no in the register: 9886

on behalf of:
Ernst & Young Audyt Polska
spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1,
00-124 Warsaw
no on the audit firms list: 130

TAURON





CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the International Financial Reporting Standards, as endorsed by the European Union for the year ended 31 December 2019

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements
in accordance with the International Financial Reporting Standards,
as endorsed by the European Union
for the year ended 31 December 2019

(in PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Sales revenue	**11**	19 558 292	18 121 748
Recompensation revenue	**12**	952 650	-
Cost of sales, *of which:*	**13**	(19 264 536)	(16 437 147)
Impairment of non-financial non-current assets	***13.3***	*(1 275 480)*	*(815 410)*
Profit on sale		**1 246 406**	**1 684 601**
Selling and distribution expenses	**13**	(499 171)	(477 794)
Administrative expenses	**13**	(658 664)	(631 487)
Other operating income and expenses	**14**	158 936	160 519
Share in profit/(loss) of joint ventures	**24**	47 947	54 890
Operating profit		**295 454**	**790 729**
Interest expense on debt	**15**	(250 800)	(147 372)
Finance income and other finance costs	**15**	(60 022)	(138 710)
Profit (loss) before tax		**(15 368)**	**504 647**
Income tax expense	**17.1**	3 685	(297 602)
Net profit (loss)		**(11 683)**	**207 045**
Measurement of hedging instruments	**33.5**	15 179	(24 297)
Foreign exchange differences from translation of foreign entity		505	7 240
Income tax	**17.1**	(2 884)	4 617
Other comprehensive income subject to reclassification to profit or loss		**12 800**	**(12 440)**
Actuarial gains/(losses)	**36.1**	(140 320)	(14 830)
Income tax	**17.1**	26 654	2 819
Share in other comprehensive income of joint ventures	**24**	(987)	(71)
Other comprehensive income not subject to reclassification to profit or loss		**(114 653)**	**(12 082)**
Other comprehensive income, net of tax		**(101 853)**	**(24 522)**
Total comprehensive income		**(113 536)**	**182 523**
Net profit (loss):			
Attributable to equity holders of the Parent		(10 908)	204 880
Attributable to non-controlling interests		(775)	2 165
Total comprehensive income:			
Attributable to equity holders of the Parent		(112 530)	180 398
Attributable to non-controlling interests		(1 006)	2 125
Basic and diluted earnings (loss) per share (in PLN):	**18**	(0.01)	0.12

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

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

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 2018 *(restated figures)*	As at 1 January 2018 *(restated figures)*
ASSETS				
Non-current assets				
Property, plant and equipment	**19**	31 099 071	29 406 667	28 276 071
Right-of-use assets	**20**	1 773 498	-	-
Goodwill	**21**	26 183	26 183	40 156
Energy certificates and CO_2 emission allowances for surrender	**22.1**	468 197	661 603	303 130
Other intangible assets	**23**	478 261	1 287 703	1 254 077
Investments in joint ventures	**24**	559 144	543 913	499 204
Loans granted to joint ventures	**25**	238 035	217 402	240 767
Other financial assets	**26**	235 522	254 677	238 354
Other non-financial assets	**27.1**	152 288	168 051	202 785
Deferred tax assets	**17.3**	22 088	30 105	46 122
		35 052 287	**32 596 304**	**31 100 666**
				-
Current assets				-
Energy certificates and CO_2 emission allowances for surrender	**22.2**	1 285 193	201 663	652 260
Inventories	**28**	684 152	509 801	295 463
Receivables from buyers	**29**	2 290 746	2 229 363	2 032 813
Income tax receivables	**30**	255 702	14 497	2 128
Receivables arising from other taxes and charges	**31**	384 714	209 746	241 998
Loans granted to joint ventures	**25**	4 999	5	329 665
Other financial assets	**26**	599 035	443 033	219 933
Other non-financial assets	**27.2**	100 275	55 629	34 931
Cash and cash equivalents	**32**	1 237 952	823 724	909 249
Non-current assets classified as held for sale		22 710	13 712	15 910
		6 865 478	**4 501 173**	**4 734 350**
				-
TOTAL ASSETS		**41 917 765**	**37 097 477**	**35 835 016**

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued

	Note	As at 31 December 2019	As at 31 December 2018 *(restated figures)*	As at 1 January 2018 *(restated figures)*
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Parent				
Issued capital	**33.1**	8 762 747	8 762 747	8 762 747
Reserve capital	**33.3**	6 801 584	8 511 437	7 657 086
Revaluation reserve from valuation of hedging instruments	**33.5**	15 666	3 371	23 051
Foreign exchange differences from translation of foreign entities		14 521	14 016	6 776
Retained earnings/(Accumulated losses)	**33.4**	2 597 708	1 004 253	1 586 786
		18 192 226	**18 295 824**	**18 036 446**
Non-controlling interests	**33.6**	**900 434**	**132 657**	**31 367**
Total equity		**19 092 660**	**18 428 481**	**18 067 813**
Non-current liabilities				-
Debt	**35**	11 830 183	8 488 210	9 501 414
Provisions for employee benefits	**36**	1 313 480	1 114 191	1 380 650
Provisions for dismantling of fixed assets, land restoration and other provisions	**37**	663 130	396 513	351 138
Accruals, deferred income and government grants	**40**	460 003	440 309	541 318
Deferred tax liabilities	**17.3**	605 285	823 754	871 865
Other financial liabilities	**44**	79 417	107 770	91 879
Other non-financial liabilities		11 776	11 507	1 588
		14 963 274	**11 382 254**	**12 739 852**
Current liabilities				-
Debt	**35**	2 484 093	2 475 167	351 382
Liabilities to suppliers	**41**	847 226	1 127 738	1 042 427
Capital commitments	**42**	757 943	794 917	797 304
Provisions for employee benefits	**36**	118 418	117 287	134 273
Provisions for liabilities due to energy certificates and CO_2 emission allowances	**38**	1 378 233	495 472	948 946
Other provisions	**39**	563 753	559 365	353 271
Accruals, deferred income and government grants	**40**	185 544	200 097	296 576
Income tax liabilities		3 853	426	38 446
Liabilities arising from other taxes and charges	**43**	589 001	405 654	411 714
Other financial liabilities	**44**	560 455	773 571	342 162
Other non-financial liabilities	**45**	364 376	337 048	310 850
Liabilities directly related to non-current assets classified as held for sale		8 936	-	-
		7 861 831	**7 286 742**	**5 027 351**
Total liabilities		**22 825 105**	**18 668 996**	**17 767 203**
TOTAL EQUITY AND LIABILITIES		**41 917 765**	**37 097 477**	**35 835 016**

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

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)	Total		
31 December 2017		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 586 786**	**18 036 446**	**31 367**	**18 067 813**
Impact of IFRS 9		**-**	**-**	**-**	**-**	**(100 422)**	**(100 422)**	**(14)**	**(100 436)**
Impact of IFRS 15		**-**	**-**	**-**	**-**	**179 426**	**179 426**	**411**	**179 837**
As at 1 January 2018		**8 762 747**	**7 657 086**	**23 051**	**6 776**	**1 665 790**	**18 115 450**	**31 764**	**18 147 214**
Dividends	**33.6**	-	-	-	-	-	**-**	(879)	**(879)**
Other transactions with non-controlling shareholders	**33.6**	-	-	-	-	(24)	**(24)**	99 647	**99 623**
Distribution of prior years profits		-	854 351	-	-	(854 351)	**-**	-	**-**
Transactions with shareholders		**-**	**854 351**	**-**	**-**	**(854 375)**	**(24)**	**98 768**	**98 744**
Net profit		-	-	-	-	204 880	**204 880**	2 165	**207 045**
Other comprehensive income		-	-	(19 680)	7 240	(12 042)	**(24 482)**	(40)	**(24 522)**
Total comprehensive income		**-**	**-**	**(19 680)**	**7 240**	**192 838**	**180 398**	**2 125**	**182 523**
As at 31 December 2018		**8 762 747**	**8 511 437**	**3 371**	**14 016**	**1 004 253**	**18 295 824**	**132 657**	**18 428 481**
Dividends	**33.6**	-	-	-	-	-	**-**	(1 932)	**(1 932)**
	33.6	-	-	-	-	8 843	8 843	771 157	**780 000**
Other transactions with non-controlling shareholders	**33.6**	-	-	-	-	89	**89**	(442)	**(353)**
Coverage of prior years loss	**33.3**	-	(1 709 853)	-	-	1 709 853	**-**	-	**-**
Transactions with shareholders		**-**	**(1 709 853)**	**-**	**-**	**1 718 785**	**8 932**	**768 783**	**777 715**
Net loss		-	-	-	-	(10 908)	**(10 908)**	(775)	**(11 683)**
Other comprehensive income		-	-	12 295	505	(114 422)	**(101 622)**	(231)	**(101 853)**
Total comprehensive income		**-**	**-**	**12 295**	**505**	**(125 330)**	**(112 530)**	**(1 006)**	**(113 536)**
As at 31 December 2018		**8 762 747**	**6 801 584**	**15 666**	**14 521**	**2 597 708**	**18 192 226**	**900 434**	**19 092 660**

(in PLN thousand)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Cash flows from operating activities			
Profit (loss) before taxation		**(15 368)**	**504 647**
Share in (profit)/loss of joint ventures		(47 947)	(54 890)
Depreciation and amortization		1 991 733	1 838 941
Impairment losses on non-financial non-current assets		1 310 000	862 209
Exchange differences		(35 614)	78 542
Interest and commissions		250 571	145 136
Profit on bargain purchase of wind farms		(119 515)	-
Other adjustments of profit before tax		49 052	24 065
Change in working capital	**46.1**	(923 601)	(783 845)
Income tax paid	**46.1**	(423 736)	(392 184)
Net cash from operating activities		**2 035 575**	**2 222 621**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**46.2**	(4 035 132)	(3 741 566)
Cash transfer related to the acquisition of wind farms (after deduction of the acquired cash balance)	**46.2**	(543 079)	-
Loans granted	**46.2**	(23 225)	(52 110)
Purchase of financial assets		(17 455)	(29 965)
Total payments		**(4 618 891)**	**(3 823 641)**
Proceeds from sale of property, plant and equipment and intangible assets		28 696	29 000
Repayment of loans granted		15 600	301 225
Dividends received		36 442	23 608
Redemption of investment fund units		-	77 742
Other proceeds		3 415	4 664
Total proceeds		**84 153**	**436 239**
Net cash used in investing activities		**(4 534 738)**	**(3 387 402)**
Cash flows from financing activities			
Redemption of debt securities	**46.3**	(2 420 000)	-
Repayment of loans and borrowings	**46.3**	(867 360)	(168 874)
Interest paid	**46.3**	(212 556)	(160 170)
Repayment of lease libilities	**46.3**	(75 047)	(23 521)
Grants returned		-	(10 000)
Other payments		(20 914)	(18 687)
Total payments		**(3 595 877)**	**(381 252)**
Issue of debt securities	**46.3**	500 000	1 350 000
Proceeds from contracted loans	**43.3**	5 150 000	293
Proceeds from non-controlling interests	**43.3**	780 000	100 000
Subsidies received		60 669	102 359
Total proceeds		**6 490 669**	**1 552 652**
Net cash from financing activities		**2 894 792**	**1 171 400**
Net increase / (decrease) in cash and cash equivalents		**395 629**	**6 619**
Net foreign exchange difference		(256)	(422)
Cash and cash equivalents at the beginning of the period	**32**	**807 972**	**801 353**
Cash and cash equivalents at the end of the period, *of which*:	**32**	**1 203 601**	**807 972**
restricted cash	**32**	729 450	231 987

INFORMATION ABOUT THE CAPITAL GROUP AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", the "TAURON Group") is composed of TAURON Polska Energia S.A. (the "Parent", the "Company") and its subsidiaries. TAURON Polska Energia S.A., is located in Katowice at ul. ks. Piotra Ściegiennego 3. The Company operates as a joint-stock company incorporated by a notarized deed on 6 December 2006. Until 16 November 2007 it had operated under the name Energetyka Południe S.A.

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, under number KRS 0000271562.

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

The core business of the TAURON Group includes the following segments: Mining, Generation (encompassing generation of electricity from conventional and renewable sources and generation of heat), Distribution, Sales and other operations, including customer service, which has been discussed in more detail in Note 9 to these consolidated financial statements.

These consolidated financial statements have been prepared for the financial year ended 31 December 2019 and contain comparative information for the year ended 31 December 2018. Due to a retrospective change in accounting policy, as presented in note 8.2 of these consolidated financial statements, the opening balance sheet of the earliest period disclosed is also presented, i.e. as at 1 January 2018.

These consolidated financial statements were approved for publication by the Management Board on 30 March 2020.

Composition of the Management Board

As at 31 December 2019, the composition of the Management Board was as follows:

- Filip Grzegorczyk - President of the Management Board;
- Jarosław Broda - Vice President of the Management Board;
- Marek Wadowski - Vice President of the Management Board.

On 21 September 2019, the Supervisory Board of the Company dismissed Kamil Kamiński, Vice President of the Management Board from the composition of the Management Board and from his function.

After the reporting period there were no changes in the composition of the Company's Management Board.

2. Composition of the TAURON Capital Group and joint ventures

As at 31 December 2019, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN thousand)

Item	Company name	Registered office	Operating segment	Interest in the share capital by TAURON Polska Energia S.A.	Interest in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%	100.00%
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	Generation	84.76%	84.76%
4	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%	100.00%
5	Marselwind Sp. z o.o.	Katowice	Generation	100.00%	100.00%
6	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%	100.00%
7	TAURON Serwis Sp. z o.o.	Katowice	Generation	95.61%	95.61%
8	TAURON Dystrybucja S.A.	Kraków	Distribution	99.75%	99.75%
9	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Distribution	99.75%	99.75%
10	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%	100.00%
11	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%	100.00%
12	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%	100.00%
13	TAURON Dystrybucja Serwis S.A.	Wrocław	Sales	100.00%	100.00%
14	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%	100.00%
15	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%	100.00%
16	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	Other	100.00%	100.00%
17	Finanse Grupa TAURON Sp. z o.o.[2]	Katowice	Other	100.00%	100.00%
18	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	Other	100.00%	100.00%
19	Wsparcie Grupa TAURON Sp. z o.o.[1]	Tarnów	Other	99.75%	99.75%
20	TEC1 Sp. z o.o.	Katowice	Generation	100.00%	100.00%
21	TEC2 Sp. z o.o.	Katowice	Generation	100.00%	100.00%
22	TEC3 Sp. z o.o.	Katowice	Generation	100.00%	100.00%
23	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.[3]	Katowice	Generation	n/a	100.00%
24	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.[3]	Katowice	Generation	n/a	100.00%
25	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.[3]	Katowice	Generation	n/a	100.00%
26	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.[3]	Katowice	Generation	n/a	100.00%
27	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.[3]	Katowice	Generation	n/a	100.00%
28	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.[3]	Katowice	Generation	n/a	100.00%
29	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.[3]	Katowice	Generation	n/a	100.00%
30	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.[3]	Katowice	Generation	n/a	100.00%
31	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.[3]	Katowice	Generation	n/a	100.00%
32	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.[3]	Katowice	Generation	n/a	100.00%

[1] TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. uses shares of TAURON Dystrybucja Pomiary Sp. z o.o.
[2] On 23 August 2019, a cross-border business-combination of Finanse Grupa TAURON Sp. z o.o. (the acquirer) with TAURON Sweden Energy AB (publ) (the acquiree) was registered as described in detail in Note 2.2 hereto.
[3] The rights and obligations in limited partnerships are held by TAURON Polska Energia S.A. indirectly through its subsidiaries TEC1 Sp. z o.o. and TEC3 Sp. z o.o. and German partnerships, as described in detail in Note 2.1 hereto.

As at 31 December 2019, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

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

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

(in PLN thousand)

2.1. Assuming control over companies operating wind farms owned by the in.ventus group

On 3 September 2019, the transaction documentation regarding TEC1 Sp. z o.o., TEC2 Sp. z o.o. and TEC3 Sp. z o.o. (subsidiaries of TAURON Polska Energia S.A.) purchasing five wind farms owned by the in.ventus group and amounts owed to Hamburg Commercial Bank AG (formerly HSH Nordbank AG) by wind farm operators was signed. The transaction involved the following acquisitions:

- TEC1 Sp. z o.o. - rights and obligations of the general partner of the Polish partnerships owning the wind farms;
- TEC2 Sp. z o.o. - rights and obligations of the general partner of the German partnerships which are limited partners of the Polish partnerships,
- TEC3 Sp. z o.o. - the rights and obligations of the limited partner of the Polish and German partnerships, at the same time acquiring their debt contracted from Hamburg Commercial Bank AG and amounts owed to their former shareholders as a result of loans granted to the Polish partnerships.

In order to perform the intended transaction, on 2 September 2019, Extraordinary General Shareholders' Meeting of TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. decided to increase their issued capital. The Company assumed the new shares for the total amount of PLN 600 900 thousand. The surplus of the above amount received as part of the capital increase over the value of cash transferred under the transaction in the amount of PLN 579 661 thousand is allocated to the companies' operating activities.

The total value of the transferred cash was determined based on the locked box mechanism as at 31 December 2018 and as at the transaction date amounted to PLN 579 661 thousand, including PLN 21 590 thousand of the acquisition price and PLN 558 071 thousand of the debt repaid to Hamburg Commercial Bank AG. The entire amount was transferred in cash.

In the Company's opinion, the fair value of the payment made does not differ from its nominal value.

	As at 3 September 2019 ***(unaudited)***
Business acquisition price, including:	21 590
Consideration paid for rights and obligations acquired in partnerships	*8 490*
Consideration paid for amounts owed to former shareholders, arising from contracted loans	*13 100*
Repayment of debt contracted with Hamburg Commercial Bank AG	558 071
Total value of cash transferred in the transaction	**579 661**

The Group carried out an analysis, as a result of which it concluded that the transaction is a business combination as defined in IFRS 3 *Business Combinations.* The acquired wind farms are fully operational. The transaction included the acquisition of all business processes and operations of the wind farms (except for management-related processes to be replaced by processes already adopted by the Group), including rent and lease of land on which the generating assets are located, maintenance and service agreements regarding these assets and power sales contracts. Taking into account the above, the conditions to qualify the subject of the transaction as a business under IFRS 3 *Business Combinations* are met.

In line with IFRS 3 *Business Combinations,* the transaction was settled using the acquisition method. The day of taking over control the business was assumed on 3 September 2019. As at 30 September 2019, bearing in mind the short period that passed after the control assuming date, the Group was unable to obtain all the information necessary to complete the identification and fair value measurement of the acquired assets and liabilities and made a provisional settlement of the transaction. As at 31 December 2019, the Group has completed the process of valuation to fair value of property, plant and equipment, and valuation of provisions for cost of disassembly of non-current wind farm assets, which are the most significant elements of the net assets of the acquired business combination, performed by an independent experts. The Company also has identified and valued the remaining acquired net assets to fair value. Therefore, in these consolidated financial statements, the Group presents the fair values of the acquired assets and liabilities and finally settles the transaction using the acquisition method.

Fair values of assets and liabilities acquired as at the date of taking over control are presented in the following table:

(in PLN thousand)

	As at 3 September 2019 *(unaudited)*		As at 3 September 2019 *(unaudited)*
ASSETS		**EQUITY AND LIABILITIES**	
Non-current assets		**Non-current liabilities**	
Property, plant and equipment	712 193	Liabilities due to loans granted by Hamburg Commercial Bank AG	558 071
Right-of-use assets	36 163	Lease liabilities	32 964
Other non-financial assets	484	Provisions for costs of disassembly of non-current assets and land reclamation	60 817
		Deferred tax liability	3 122
	748 840		**654 974**
Current assets		**Current liabilities**	
Inventories	10 579	Lease liabilities	2 251
Receivables from buyers	3 802	Liabilities to suppliers and other financial liabilities	3 459
Other non-financial assets	6 605	Accruals and government grants	606
Cash and cash equivalents	36 582	Liabilities arising from other taxes and charges	4 013
	57 568		**10 329**
TOTAL ASSETS	**806 408**	**TOTAL EQUITY AND LIABILITIES**	**665 303**
		ACQUIRED NET ASSETS	**141 105**

Liabilities due to loans granted by Hamburg Commercial Bank AG, acquired with assets in the net amount of PLN 558 071 thousand were repaid when the transaction was concluded. As a result, the portfolio of the acquired companies does not include financial debt arising from loans contracted from entities outside the TAURON Capital Group.

In relation to the value of net assets presented as provisional settlement of the transaction in the condensed interim consolidated financial statements for the 9- months ended 30 September 2019 (unaudited), has significantly changed the value of:

- property, plant and equipment, whose provisional value amounted to PLN 857 797 thousand,
- provisions for costs of disassembly of non-current assets, whose temporary value amounted to PLN 51 258 thousand.

As a result of the above changes, related to the fair value measurement, the amount of the deferred tax liability, whose provisional value amounted to PLN 31 055 thousand, also changed significantly. The fair value of other net assets does not differ significantly from their provisional values.

As at the acquisition date, the determined amount of identifiable assets and acquired liabilities exceeds the consideration transferred by the Group. Therefore, according to the Group, the transaction is a bargain purchase.

	As at 3 September 2019 *(unaudited)*
Acquisition price	21 590
Acquired identifiable net assets	141 105
Gains on bargain purchase	**119 515**

Considering the specific requirements of IFRS 3 *Business Combinations* regarding the possibility of recognizing a possible gains on bargain purchase, the Group reassessed the completeness of identification of the acquired assets and liabilities and the procedures used to determine their value. As a consequence of the procedures performed, the Group decided that it is justified to recognized gains on bargain purchase in the above amount as operating activities in the consolidated statement of comprehensive income.

According to the Group, the bargain purchase gains resulted from a series of circumstances, the key of which were related to the financial standing of entities disposing of the assets and changes in the market standing of renewable energy sources that were favorable for the Company. In particular, following the privatization effected in 2018, Hamburg Commercial Bank AG commenced activities aimed at improvement of its financial standing, among others in the form of restructuring its loan debt portfolio. It should also be noted, the entities in which the TAURON Group acquired rights and obligations were in a bad financial standing, among others due to the need to repay their debt, in conditions of falling prices of green energy certificates, experienced in prior years. A market change involving an increase in the prices of electricity and of green certificates in the period from the seller's approval of the binding tender to the transaction closure date was another aspect contributing to the profitability of the transaction.

Revenue from the sale of the acquired wind farms from the acquisition to 31 December 2019 amounted to PLN 68 869 thousand and operating profit reached to PLN 37 324 thousand. The Group estimates the revenue from sales of the acquired wind farms for the year ended 31 December 2019 at PLN 174 862 thousand, and the related operating profit at PLN 41 958 thousand.

Acquiring control over wind farms formerly owned by the in.ventus group complies with the updated strategic directions published on 27 May 2019 and supplementing the TAURON Group Strategy for 2016-2025, which provides for an increase in low- and zero-emission generation installed capacity as described in detail in Note 55 hereto.

In relation to the purchase of the wind farms, on 4 September 2019, in relation to the case filed by Hamburg Commercial Bank AG against TAURON Sprzedaż Sp. z o.o. regarding the payment of damages due to the failure to deliver under contracts on sales of property rights arising from green certificates and liquidated damages charged in relation to the termination of the above contracts in the total amount of PLN 232 879 thousand with statutory interest for delay, calculated from the date of filing the case (i.e. 7 March 2019) to the date of payment, the Bank and TAURON Sprzedaż Sp. z o.o. (a subsidiary) filed a letter to the District Court in Kraków in which the Bank withdrew the case and resigned from the claim. Both parties motioned for dismissing the case and for a decision that each party would cover its own litigation costs. In a decision of 5 September 2019, the Regional Court in Kraków dismissed the above proceedings and mutually canceled the litigation costs incurred by the parties. The decision is binding.

On 24 September 2019 parties to all cases filed by in.ventus group companies against Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. and TAURON Polska Energia S.A. motioned for suspension of the cases. The above cases were suspended by the court.

2.2. Other changes in the TAURON Group

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

During the year ended 31 December 2019, the issued capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. was increased. In total, issued capital increase by PLN 11 300 thousand was registered. The new shares were subscribed for by Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych for the total amount of PLN 440 000 thousand, PFR Inwestycje Fundusz Inwestycji Zamkniętych for the total amount of PLN 440 000 thousand and the Company for the total amount of PLN 250 000 thousand (of which the payment for the acquisition of shares in the amount of PLN 100 000 thousand was made in the year ended 31 December 2018). The surplus of the issue price of the shares over their nominal value in the total amount of PLN 1 118 700 thousand was transferred to the supplementary capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. As a result of the transaction, the Company's interest in the issued capital and in the decision-making body went down from 97.89% to 84.76%

After the reporting period end, on 2 March 2020, the Extraordinary General Shareholders' Meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. adopted a resolution to increase the company's issued capital by PLN 4 551 thousand. All shares were subscribed for by the Company for the total amount of PLN 455 100 thousand. On 5 March 2020, the Company provided funds for capital increase. The Company's interest in the issued capital and in votes at the General Meeting after this transaction will change and will amount to 85.88%

Cross-border business combination of Finanse Grupa TAURON Sp. z o.o. and TAURON Sweden Energy AB (publ)

On 6 May 2019 Extraordinary General Meeting of Finanse Grupa TAURON Sp. z o.o. with the registered office in Katowice and on 17 May 2019 Extraordinary General Meeting of TAURON Sweden Energy AB (publ) with the registered office in Stockholm passed a resolution on cross-border business combination of Finanse Grupa TAURON Sp. z o.o. (the acquirer) with TAURON Sweden Energy AB (publ) (the acquiree).

On 23 August 2019 the business combination was registered in the National Court Register kept by the District Court in Katowice. On 26 August 2019 a Swedish court deleted TAURON Sweden Energy AB (publ) from its register.

Changes in TAURON Polska Energia S.A. share in the capital of TAURON Dystrybucja S.A.

As a result of the redemption of the shares acquired by TAURON Dystrybucja S.A. from minority shareholders under the squeeze-out procedure, the company's issued capital was reduced, and as a result, TAURON Polska Energia S.A.'s interest in TAURON Dystrybucja S.A.'s issued capital increased from 99.74% to 99.75%

As at 31 December 2019, there were no changes in the interest of TAURON Polska Energia S.A. in the issued capital and decision-making bodies of other material subsidiaries and jointly-controlled entities as compared to 31 December 2018.

3. Statement of compliance

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

The IFRS consist of standards and interpretations approved by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee.

The Group companies and the Parent keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards ("IFRS") as endorsed by the EU, except for TAURON Czech Energy s.r.o., which keeps its accounting records and prepares its financial statements in line with accounting policies applicable in the Czech Republic, limited liability companies TEC1 sp. z o.o., TEC2 sp. z o.o., TEC 3 sp. z o.o. and limited partnerships, which keep their accounting books and prepare financial statements in line with the Polish Accounting Act.

During the year 2019, business combination of Finanse Grupa TAURON Sp. z o.o. (the acquirer) with TAURON Sweden Energy AB (publ) (the acquiree) was registered. Until the date of the business combination, TAURON Sweden Energy AB (publ) kept its accounts and prepared financial statements in accordance with the accounting principles applicable in Sweden.

The consolidated financial statements contain adjustments which have not been recognized in the accounting records of the Group companies, introduced in order to achieve compliance of the consolidated financial statements with EU-IFRS.

4. Going Concern

The consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies. As at the date of approving these consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

The Group identifies and actively manages liquidity risk understood as a possible loss or restriction of its ability to cover current expenses. Despite negative working capital recognized as at the reporting period end, the Group has retained full ability to timely pay its liabilities. As at the reporting period end, the Group has available financing under loan agreements, including overdraft facilities. After the reporting period end, the Company concluded further financing agreements. The above agreements have been described in detail in Note 48.2 hereto.

After the reporting period end, an epidemic of COVID-19 disease has occurred in the Group's area of operations, causing disturbances in the economic and administrative system in Poland and causing significant changes in the market environment that may affect the financial position of the Group, which is described in detail in Note 56 hereto. The Management Board analyzed the situation in the context of COVID-19 and at this time in the area of liquidity, financing and hedging of continuing operations, based on the considered scenarios, does not identify any risk for going concern in the foreseeable future, including the events described in Note 56 hereto.

5. Functional and Presentation Currency

The Polish zloty has been used as the presentation currency of these consolidated financial statements and the functional currency of the Parent and the subsidiaries included in these consolidated financial statements, except TAURON Czech Energy s.r.o. The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna (“CZK”). Individual items of the financial statements of TAURON Czech Energy s.r.o. are translated to the presentation currency of the TAURON Group using applicable exchange rates.

The functional currency of TAURON Sweden Energy AB (publ) until the date of the business combination with Finanse Grupa TAURON Sp. z o.o. was the euro ("EUR").

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

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

Accounting principles (policy)

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

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

Consolidation

Subsidiaries are entities controlled by the Parent directly or indirectly through its 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, using consistent accounting principles. Balances and transactions between the Group entities, including unrealized gains and losses (if not indicating impairment) which result from transactions within the Group, are eliminated.

Business acquisitions

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

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

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 control of the State Treasury before and after the transaction) are accounted for using the pooling of interest method in accordance with the principles described below.

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

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

Material values based on professional judgment and estimates

When applying the accounting policy, professional judgment of the management, along with accounting estimates, have been of key importance; they have impacted the figures disclosed in these consolidated financial statements. The assumptions underlying the estimates have been based on the Management Board's best knowledge of current and future actions and events in individual areas. In the period covered by these consolidated financial statements, there were no significant changes in estimates or estimation methods applied, which would affect the current or future periods, other than described further in these consolidated financial statements.

The items of the consolidated financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in notes to these consolidated financial statements. Material estimates include allowances for non-financial assets, recognized as a result of impairment tests, as described in detail in Note 10 to these consolidated financial statements.

Additionally, the Group's material estimates include contingent liabilities recognized, in particular, in relation to legal proceedings to which the Group companies are parties. Contingent liabilities have been presented in detail in Note 50 hereto.

(in PLN thousand)

7. Standards, amendments to standards and interpretations which have been published but are not yet effective

The Group did not choose an early application of any standards, amendments to standards or interpretations, which were published, but are not yet mandatorily effective.

- **Amendments to standards issued by the International Accounting Standards Board which have been endorsed by the European Union but are not yet effective**

According to the Management Board, the following revised standards will not materially impact the accounting policies applied thus far:

Standard	Effective date in the EU *(annual periods beginning on or after the date provided)*
Revised IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*	1 January 2020
Amendments to References to the Conceptual Framework in IFRS	1 January 2020
Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures: Interest Rate Benchmark Reform	1 January 2020

- **Standards and revised standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and are not yet effective**

On 1 January 2020, amendments to IFRS 3 *Business Combinations* came into force (the amendments to the standard have not yet been approved by the European Union). The most important changes introduced to the above mentioned standard include the clarification of the definition of an undertaking. The amendments shall be applied prospectively for reporting periods beginning on or after 1 January 2020. The transaction of acquiring of the companies operating the wind farms belonging to the in.ventus group, carried out by the Group in 2019, described in more detail in Note 2.1 hetero, was finally settled as an bussines acquisition in accordance with the wording of IFRS 3 *Business Combinations* binding until 31 December 2019. The Group did not perform analyzes in terms of determining the effects of the settlement of the above transaction in accordance with IFRS 3 *Business Combinations* effective from 1 January 2020, therefore the Group does not exclude that the settlement of transactions in accordance with the amended wording of the standard could have different effects than presented in these consolidated financial statements.

According to the Management Board, the following standards and revised standards will not materially impact the accounting policies applied thus far:

Standard	Effective date specified in the Standard, not endorsed by the EU *(annual periods beginning on or after the date provided)*
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016*
IFRS 17 *Insurance contracts*	1 January 2021
Revised IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture* with subsequent amendments	the effective date has been postponed
Amendments to IAS 1 P*resentation of Financial Statements: Classification of Liabilities as Current or Non-current*	1 January 2022

**The European Commission decided not to launch the process of endorsement of the interim standard for use in the EU until the publication of the final version of IFRS 14 Regulatory Deferral Accountss.*

8. Changes in the accounting policies

The accounting principles (policy) adopted for the preparation of these consolidated financial statements are consistent with those adopted for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2018, except for the application of the following new standards, amendments to standards, interpretation and changes to the accounting principles applied by the Group and discussed below.

8.1. Application of new standards, amendments to standards and interpretation

According to the Management Board, IFRS 16 *Leases* materially impacts the accounting policies applied thus far:

IFRS 16 *Leases*

Effective date in the EU: annual periods beginning on or after 1 January 2019.

Under IFRS 16 *Leases*, the lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted using the rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the incremental borrowing rate. Determination of the lease term under IFRS 16 *Leases* requires an assessment which was not needed before for operating leases as it did not affect the recognition of expenditure in the financial statements. Variable lease payments should be considered when lease payments are being determined, if they depend on an index or a rate or in substance are fixed payments.

Lessors classify leases as either operating lease or finance leases, i.e. in line with IAS 17 *Leases*.

Impact on the consolidated financial statements

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this standard recognized at 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. The data as at 31 December 2018 have been prepared based on IAS 17 *Leases*, IFRIC 4 *Determining whether an Agreement Contains a Lease* and SIC 15 *Operating Leases - Incentives*.

As at 1 January 2019, the Group recognized the right-of-use assets at an amount equal to the lease liability at the present value of the remaining lease payments, discounted using the incremental borrowing rate adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The Group applies the portfolio approach to leases with similar characteristics (same assets used in a similar way). When accounting for leases under the portfolio approach, the Group applies estimates and assumptions that reflect the size and composition of the portfolio, including estimates of the weighted average lease term. The Group applies the portfolio approach specifically to rental and other contracts regarding premises and land to be used for the purpose of assembling heat and power infrastructure, that qualify as a lease. In the scope of contracts and business relations identified as contracts that meet the requirements of IFRS 16 *Leases*, the Group adopts for contracts concluded for an indefinite period the duration of the lease coinciding with the period of economic use related to the right-of-use assets.

The analysis of the impact of IFRS 16 *Leases* on the accounting principles (policy) has shown a change material for the Group, i.e. the need to recognize the right-of-use assets and lease liabilities for leases previously (i.e. until 31 December 2018) classified as operating leases. The key items are the rights of perpetual usufruct to land and contracts to rent premises to be used for the purposes of heat distribution centers and transformer stations, as well as other innominate contracts regarding parts of land occupied by linear infrastructure, decisions regarding the location of power devices in the public right-of-way. The analysis included in particular a review of contracts concluded by the Group for identification of leases, in particular identification of assets, verification of control over its use, determining the lease term and the methodology to determine the incremental rate of interest.

The Group decided to recognize the right-of-use assets in the statement of financial position separately from other assets. Lease liabilities are presented in the statement of financial position under debt liabilities, summed up with other titles previously recognized in this item. On the day of the first-time adoption of IFRS 16 *Leases*, the Group recognised the right-of-use asset related to the perpetual usufruct of land, lease and rental agreements for the development of heating nodes and for transformer stations, easement and outlays on easements not put into use as well as other lease and rental agreements, innominate contracts regarding parts of land occupied by linear infrastructure, decisions regarding the location of power devices in the public right-of-way that met the terms of IFRS 16 *Leases,* in the amount equal to the corresponding liability, adjusted by figures related to these assets, recognised in the statement of financial position prepared directly before the first-time application date. Therefore, the Group reclassified the amount of PLN 825 307 thousand from other intangible assets to right-of-use assets.

(in PLN thousand)

Impact of the application of IFRS 16 *Leases* as at 1 January 2019

	As at 31 December 2018 *(restated figures)*	Reclassification from other intangible assets to right-of-use assets	Recognition of right-of-use assets and lease liabilities	As at 1 January 2019
ASSETS				
Non-current assets	**32 596 304**	**-**	**905 833**	**33 502 137**
Other intangible assets	-	825 307	905 833	1 731 140
Right-of-use assets	1 287 703	(825 307)	-	462 396
Current assets	**4 501 173**	**-**	**12 282**	**4 513 455**
Non-current assets classified as held for sale	13 712	-	12 282	25 994
TOTAL ASSETS	**37 097 477**	**-**	**918 115**	**38 015 592**
EQUITY AND LIABILITIES				
Total equity	**18 428 481**	**-**	**-**	**18 428 481**
Non-current liabilities	**11 382 254**	**-**	**865 880**	**12 248 134**
Debt	8 488 210	-	865 880	9 354 090
Current liabilities	**7 286 742**	**-**	**52 235**	**7 338 977**
Debt	2 475 167	-	39 953	2 515 120
Liabilities directly related to non-current assets classified as held for sale	-	-	12 282	12 282
TOTAL EQUITY AND LIABILITIES	**37 097 477**	**-**	**918 115**	**38 015 592**

The group specification of right-of-use assets is presented in detail in Note 20 hereto.

The components of right-of-use assets and lease liabilities recognized by the Group in these consolidated financial statements as at the date of first-time adoption of the standard in the amount of PLN 918 115 thousand increased by PLN 304 721 thousand compared to the amounts reported by the Group in the condensed interim financial statements for the 9-months period ended 30 September 2019. The above is related to the fact that in June 2019, the IFRS Interpretation Committee issued a summary of decisions taken during public meetings, which were devoted to, inter alia, on the interpretation of titles to underground parts of land. Following the IFRS Interpretation Committee's decision, the TAURON Group decided to perform additional analyses of selected contract groups to determine whether they fall within the scope of IFRS 16 Leases, in the context of the conclusions adopted by the IFRS Interpretation Committee. These contracts include in particular, leases, rent, usufruct, easement, other innominate contracts regarding parts of land occupied by linear infrastructure, decisions regarding the location of power devices in the public right-of-way, contracts for placing power devices in the lane of an internal road and easement and other agreements with the State Forests having the same economic content. As a result of the works carried out, the Group concluded that the above agreements are leases in line with IFRS 16 *Leases*.

Reconciliation of future minimum operating lease payments calculated in line with IAS 17 *Leases* as at 31 December 2018 to lease liabilities in line with IFRS 16 *Leases* as at 1 January 2019:

Reconciliation IAS 17 *Leases* to IFRS 16 *Leases*	
Future minimum operating lease payments as at 31 December 2018 in line with IAS 17 *Leases*	1 364 263
Additional disclosure of agreements based on IFRS 16 *Leases* in 2019	526 532
Discount using the incremental borrowing rate	(949 321)
Commitments relating to short-term leases	(23 284)
Commitments relating to leases of low-value assets	(100)
Commitments relating to finance leases in line with IAS 17 *Leases*	25
Lease liabilities under IFRS 16 *Leases* as at 1 January 2019	**918 115**

(in PLN thousand)

Lease liabilities as at 1 January 2019 by maturity

		Mature in the period *(after 1 January 2019):*			
		up to 5 years	5-10 years	10-20 years	over 20 years
Value as at 1 January 2019	**918 115**	170 999	116 686	243 950	386 480

The Group applied incremental borrowing rates, ranging from 4.18% to 10.22%, to calculate the lease liabilities recognized in the consolidated statement of financial position as at the date of first-time adoption of IFRS 16 *Leases.*

Weighted average interest rates used for individual operating segments are presented in the table below:

Operating segment	Weighted average interest rates used for operating segment
Mining	8,35%
Generation	4,72%
Distribution	4,39%
Sales	4,47%

The Group applied the following practical expedients as at the date of first-time adoption of IFRS 16 *Leases*, i.e. as at 1 January 2019:

- IFRS 16 *Leases* was applied only to contracts which were in force as at the date of its initial application;
- a single discount rate was applied to a portfolio of leases with reasonably similar characteristics;
- the requirements of IFRS 16 *Leases* were not applied to leases for which the lease term ends within 12 months of the date of initial application;
- initial direct costs were not included in the measurement of right-of-use assets;
- hindsight was used as regards valid leases, specifically with respect to exercising an option to extend or terminate the lease;
- if a non-lease component cannot be separated for a class of underlying asset, both the lease and non-lease components were recognized as a single lease component;
- the requirements of IFRS 16 *Leases* would be applied to the leases of intangible assets other than those arising from licensing agreements within the scope of IAS 38 *Intangible Assets*;
- IFRS 16 *Leases* would not be applied to leases for which the value of the underlying asset does not exceed PLN 20 thousand and does not apply to the right of perpetual usufruct of land.

According to the Management Board, the introduction of the following amendments to standards and interpretations had no material impact on the accounting principles (policy) applied thus far:

Standard/Interpretation	Effective in the EU as of *(annual periods beginning on or after the date provided)*
Revised IAS 9 *Financial Instruments*	1 January 2019
Revised IAS 28 *Investments in Associates and Joint Ventures*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Revised IAS 19 *Employee Benefits*	1 January 2019
Annual Improvements to IFRS (Cycle 2015-2017):	
IAS 12 *Income Taxes*	1 January 2019
IAS 23 *Borrowing Costs*	1 January 2019
IFRS 3 *Business Combinations*	1 January 2019
IFRS 11 *Joint Arrangements*	1 January 2019

8.2. Other changes in accounting and presentation principles applied by the Group

The Group analyzed the permitted manners of presenting mining assets in financial statements, applied by its competitors and including:

- assets used in the mining of production roadway workings and wall reinforcement in hard coal mines including the expenditures incurred on the works to mine the production roadway workings, less the value of the marketable coal extracted during the mining and the expenditures incurred on the works to reinforce the walls,

(in PLN thousand)

- stripping activity assets in surface mines including the expenditures incurred on the works to remove the overburden so as to access an identified part of calcareous stone, increased by general costs directly related to such works.

Following an analysis, the Group changed its accounting principles (policy) with respect to the recognition of the mining assets.

Mining assets used in the mining of production roadway workings and wall reinforcement

Under the changed accounting principles (policy), the cumulative cost of works to mine the production roadway workings and cumulative cost of works to reinforce the walls, entered into the deferrals account, are recognized under property, plant and equipment. The expenditures on such assets are recognized in monthly instalments over the period of the useful life of walls included in the workings and in the proportions in which the marketable coal is produced, and are included under depreciation in profit or loss. The period of exploitation of walls in a given deposit exceeds 12 months. Generally, upon recognition, the mine workings are in fact liquidated. Before the change in the accounting principles (policy), the cost of mining of production roadway workings and the cumulative cost of wall reinforcement were presented under other non-financial assets.

Overburden removal assets

Under the changed accounting principles (policy), the cumulative cost of overburden removal in surface mines, entered into the deferrals account, is recognized under property, plant and equipment. The expenditures incurred on such assets are accounted for using the method based on the expected period of exploitation of the deposit, which exceeds 12 months, and recognized as depreciation in profit or loss. Before the change in the accounting principles (policy), the cost of overburden removed at the production stage in surface mines was presented under other non-financial assets.

In the Group's opinion, the altered presentation better reflects the nature of the assets originated and maintained for use in the production process. The expenditures are deferred and allocated over the period of use. This way the accounting for the expenditures under depreciation reflects the specifics and the use of the assets. Furthermore, the analysis has revealed that the changed method of presentation is the method most commonly used by competitive stock exchange-listed coal mining companies.

The change has not had any effect on the Group's profit or loss. Charging the expenditure to the depreciation cost had an impact on EBITDA, i.e. operating profit/(loss) before depreciation and the write-downs on non-financial assets. The positive effect of the above change on EBITDA during the year ended 31 December 2019 amounted to PLN 95 837 thousand.

The Group has restated comparative information accordingly. The table below presents the impact of the above change of the consolidated statement of financial position as at 31 December 2018 and as at 1 January 2018 is presented in the table below.

	As at 31 December 2018			As at 1 January 2018		
	Authorised figures	Changed presentation of mining assets	Restated figures	Authorised figures	Changed presentation of mining assets	Restated figures
ASSETS						
Non-current assets	**32 541 865**	**54 439**	**32 596 304**	**31 048 542**	**52 124**	**31 100 666**
Property, plant and equipment	29 238 051	168 616	29 406 667	28 079 886	196 185	28 276 071
Other non-financial assets	282 228	(114 177)	168 051	346 846	(144 061)	202 785
Current assets	**4 555 612**	**(54 439)**	**4 501 173**	**4 786 474**	**(52 124)**	**4 734 350**
Other non-financial assets	110 068	(54 439)	55 629	87 055	(52 124)	34 931
TOTAL ASSETS	**37 097 477**	**-**	**37 097 477**	**35 835 016**	**-**	**35 835 016**

Effect on EBITDA for the year ended 31 December 2018:

	Year ended 31 December 2018 *(authorised figures)*	Changed presentation of mining assets	Year ended 31 December 2018 *(restated figures)*
Operating profit	790 729	-	**790 729**
Depreciation/amortization	(1 721 783)	(117 158)	**(1 838 941)**
Impairment	(862 414)	-	**(862 414)**
EBITDA	**3 374 926**	**(117 158)**	**3 492 084**

BUSINESS SEGMENTS

9. Information on operating segments

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

The Group is organized and managed by segment, in accordance with 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 were made between 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 are presented under unallocated expenses. General and administrative expenses of the Parent are incurred for the benefit of the entire Group and cannot be directly attributed to a 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 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 finance income 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 to take decisions on how to allocate the resources, to assess the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is defined as EBIT increased by amortization/depreciation and write-downs on non-financial assets. EBIT is the profit/loss on continuing operations before tax, finance income and finance costs, i.e. operating profit (loss).

The Group's reporting format for the period from 1 January 2019 to 31 December 2019 was based on the operating segments presented in the table below. As of 1 January 2019 TAURON Dystrybucja Serwis S.A. has been assigned to the Sales segment (before: the Distribution segment). The change of assignment results from the organizational changes and restructuring within the company which led to the change in its business profile. At present the company’s main business is to deliver lighting and power products and services and therefore its profile is aligned with the operations of the Group’s sales companies. Comparative information, i.e. information for the yaer ended 30 September 2018 and as of 31 December 2018, was restated accordingly.

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

** Entities recognized with the equity method*

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

(in PLN thousand)

9.1. Operating segments

Year ended 31 December 2019

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	345 274	3 725 886	3 202 234	12 173 480	111 418	-	**19 558 292**
Inter-segment sales	599 159	1 197 395	3 392 630	2 734 457	868 493	(8 792 134)	**-**
Segment revenue	**944 433**	**4 923 281**	**6 594 864**	**14 907 937**	**979 911**	**(8 792 134)**	**19 558 292**
Recompensation revenue	**-**	**-**	**-**	**952 650**	**-**	**-**	**952 650**
Profit/(loss) of the segment	**(1 391 949)**	**(177 044)**	**1 443 741**	**382 185**	**46 152**	**51 691**	**354 776**
Share in profit/(loss) of joint ventures	-	47 947	-	-	-	-	**47 947**
Unallocated expenses	-	-	-	-	-	(107 269)	**(107 269)**
EBIT	**(1 391 949)**	**(129 097)**	**1 443 741**	**382 185**	**46 152**	**(55 578)**	**295 454**
Net finance income (costs)	-	-	-	-	-	(310 822)	**(310 822)**
Profit/(loss) before income tax	**(1 391 949)**	**(129 097)**	**1 443 741**	**382 185**	**46 152**	**(366 400)**	**(15 368)**
Income tax expense	-	-	-	-	-	3 685	**3 685**
Net profit/(loss) for the year	**(1 391 949)**	**(129 097)**	**1 443 741**	**382 185**	**46 152**	**(362 715)**	**(11 683)**
Assets and liabilities							
Segment assets	1 294 329	14 653 139	19 176 164	4 730 135	648 705	-	**40 502 472**
Investments in joint ventures	-	559 144	-	-	-	-	**559 144**
Unallocated assets	-	-	-	-	-	856 149	**856 149**
Total assets	**1 294 329**	**15 212 283**	**19 176 164**	**4 730 135**	**648 705**	**856 149**	**41 917 765**
Segment liabilities	928 077	2 275 426	2 011 950	1 855 630	511 992	-	**7 583 075**
Unallocated liabilities	-	-	-	-	-	15 242 030	**15 242 030**
Total liabilities	**928 077**	**2 275 426**	**2 011 950**	**1 855 630**	**511 992**	**15 242 030**	**22 825 105**
EBIT	**(1 391 949)**	**(129 097)**	**1 443 741**	**382 185**	**46 152**	**(55 578)**	**295 454**
Depreciation/amortization	**(197 617)**	**(502 875)**	**(1 161 247)**	**(40 801)**	**(89 193)**	**-**	**(1 991 733)**
Impairment	**(694 467)**	**(610 461)**	**(820)**	**(5 591)**	**(841)**	**-**	**(1 312 180)**
EBITDA	**(499 865)**	**984 239**	**2 605 808**	**428 577**	**136 186**	**(55 578)**	**3 599 367**
Other segment information							
Capital expenditure *	479 519	1 683 070	1 784 941	47 460	132 901	-	**4 127 891**

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

Year ended 31 December 2018 *(restated)*

	Mining	Generation	Distribution	Sales	Other	Unallocated items / Eliminations	Total
Revenue							
Sales to external customers	548 247	2 812 080	3 041 907	11 622 172	97 342	-	**18 121 748**
Inter-segment sales	717 777	1 826 414	3 018 294	2 597 505	760 120	(8 920 110)	**-**
Segment revenue	**1 266 024**	**4 638 494**	**6 060 201**	**14 219 677**	**857 462**	**(8 920 110)**	**18 121 748**
Profit/(loss) of the segment	**(1 053 469)**	**141 768**	**1 391 155**	**332 428**	**46 023**	**(34 489)**	**823 416**
Share in profit/(loss) of joint ventures	-	54 890	-	-	-	-	**54 890**
Unallocated expenses	-	-	-	-	-	(87 577)	**(87 577)**
EBIT	**(1 053 469)**	**196 658**	**1 391 155**	**332 428**	**46 023**	**(122 066)**	**790 729**
Net finance income (costs)	-	-	-	-	-	(286 082)	**(286 082)**
Profit/(loss) before income tax	**(1 053 469)**	**196 658**	**1 391 155**	**332 428**	**46 023**	**(408 148)**	**504 647**
Income tax expense	-	-	-	-	-	(297 602)	**(297 602)**
Net profit/(loss) for the year	**(1 053 469)**	**196 658**	**1 391 155**	**332 428**	**46 023**	**(705 750)**	**207 045**
Assets and liabilities							
Segment assets	1 589 823	12 168 948	17 923 661	3 801 630	581 497	-	**36 065 559**
Investments in joint ventures	-	543 913	-	-	-	-	**543 913**
Unallocated assets	-	-	-	-	-	488 005	**488 005**
Total assets	**1 589 823**	**12 712 861**	**17 923 661**	**3 801 630**	**581 497**	**488 005**	**37 097 477**
Segment liabilities	851 497	1 299 850	2 133 237	1 772 534	410 567	-	**6 467 685**
Unallocated liabilities	-	-	-	-	-	12 201 311	**12 201 311**
Total liabilities	**851 497**	**1 299 850**	**2 133 237**	**1 772 534**	**410 567**	**12 201 311**	**18 668 996**
EBIT	**(1 053 469)**	**196 658**	**1 391 155**	**332 428**	**46 023**	**(122 066)**	**790 729**
Depreciation/amortization	**(230 397)**	**(415 810)**	**(1 071 278)**	**(33 196)**	**(88 260)**	**-**	**(1 838 941)**
Impairment	**(732 810)**	**(118 904)**	**(3 104)**	**(6 847)**	**(749)**	**-**	**(862 414)**
EBITDA	**(90 262)**	**731 372**	**2 465 537**	**372 471**	**135 032**	**(122 066)**	**3 492 084**
Other segment information							
Capital expenditure *	412 028	1 299 817	2 014 507	36 947	74 561	-	**3 837 860**

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

(in PLN thousand)

In the years ended 31 December 2019 and 31 December 2018 the Group did not identify individual customers that would generate sales revenue in excess of 10% of total sales revenue of the TAURON Group.

9.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. The table below presents export sales classified by countries.

	Year ended 31 December 2019	Year ended 31 December 2018
Czech Republic	198 792	220 397
Slovakia	3 088	16 650
Luxembourg	517	2 058
Austria	896	2 042
Hungary	852	896
Other	241	48
Total	**204 386**	**242 091**

Sales to foreign buyers include mostly power, which accounted for 93% and 92%, respectively, of revenue generated by foreign buyers as at 31 December 2019 and 31 December 2018.

IMPAIRMENT OF NON-FINANCIAL ASSETS

10. Impairment 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 there are indications that they may have been impaired.

Impairment tests include estimation of the recoverable amount of an asset or the cash-generating unit (CGU) to which the asset belongs. In order to carry out an impairment test, goodwill acquired under a business combination or M&A transaction is assigned to CGU or CGU groups upon acquisition. Information concerning identification of CGU which goodwill is allocated to has been presented in Note 21.

The recoverable amount of an asset or CGU is the higher of the fair value less costs to sell and the value in use. If the carrying amount of an asset or CGU exceeds 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, with the proviso that as a result of such allocation the carrying amount of the asset may not be lower than the highest of the fair value less costs to sell, the value in use and zero.

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

The impairment tests performed as at 31 December 2019 and 30 June 2019 included changes resulting from the come into force of IFRS 16 *Leases.* The value of the assets tested was increased by the value of the right-of-use assets. At the same time, the projected cash flows were adjusted by the value of the liabilities due to right-of-use assets, which was transferred from operating costs to financial costs. As regards WACC, the change in the level of indebtedness of comparable companies in particular areas of activity in 2019 compared to 2018 was verified. The analyses performed showed that the level of debt change is neutral for the calculation of the discount rate.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group assesses whether objective indication of impairment occurs in relation to non-financial non-current assets. The analysis includes both internal and external indication.

In the course of impairment tests, 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 the year ended 31 December 2019, the Group recognized and reversed recognized before impairment losses on property, plant and equipment and intangible assets as a result of impairment tests performed as at 31 December 2019 and 30 June 2019.

The recoverable amount of the above group of assets corresponds to their value in use.

(in PLN thousand)

The impairment loss and its reversal resulting from the tests performed in the year ended 31 December 2019 are related to the following cash-generating units:

CGU	Company	Discount rate (before tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized	Impairment loss derecognized
		31 December 2019	30 June 2019 *(unaudited)*	31 December 2018	As at 31 December 2019	Year ended 31 December 2019	
Mining	TAURON Wydobycie S.A.	14.01%	11.40%	11.58%	371 215	(694 498)	-
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON Sp. z o.o.	8.60%	8.61%	8.59%	6 784 195	(680 363)	-
Generation - Biomass		8.60%	8.61%	8.59%	-	-	-
ZW Bielsko EC1	TAURON Ciepło Sp. z o.o.	8.57%	7.65%	7.51%	372 007	(12 314)	-
ZW Bielsko EC2					-	(2 292)	-
ZW Katowice					864 007	-	-
ZW Tychy					656 832	-	58 958
Local generators					69 196	-	-
Transmission		7.51%	7.24%	6.91%	725 726	-	-
Hydropower plants	TAURON Ekoenergia Sp. z o.o. / TEC	8.90%	9.16%	9.31%	945 111	-	-
Wind farms		8.94%	9.63%	10.00%	2 168 673	-	25 962
Total						**(1 389 467)**	**84 920**

Impairment allowances were charged to cost of sales.

As at 31 December 2019, impairment tests were performed for property, plant and equipment based on the following indications:

- the market value of the Company's net assets remaining below the net asset carrying amount for a long period;
- changes in global prices of energy resources, electricity and dynamic increases in the prices of CO_2 emission allowances;
- significant fluctuations of energy prices on the future/forward market and continuing liquidity problems;
- regulatory activities aimed at the limiting of end user price increases;
- increased risks in commercial coal production;
- the effects of the results of the RES auctions to date and the very dynamic development of the prosumer and microinstallation sub-sector in connection with the support programmes launched;
- results of proceeding winter package provisions (including emission standards) that adversely impact the capability of coal-based units to participate in the power market after 1 July 2025;
- tightening of emission standards persisting unfavourable market conditions for the conventional power industry;
- a decrease in the risk-free rate.

The tests conducted as at 31 December 2019 and 30 June 2019 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The impairment tests for property, plant and equipment and intangible assets (non-current assets) were carried out at the level of individual companies, except for:

- TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., where the identification of cash-generating units ("CGU") was recognized at a different level by identifying two centres generating economic benefits in the area of activity of the companies TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o: CGU Generation Coal and CGU Generation Biomass. Key indications included: the publication of provisions regarding new Power Market mechanism in 2018, launching a new product: net disposable capacity; the strategy of joining the Power Market consisting in the portfolio approach, where maximizing the total Power Market revenue matters; allocating power to suppliers; determining the reserve sources level for the other power contracted at the power market and high dependence of cash proceeds among generators. The settlement of the first three Capacity Market auctions in 2018 allows for additional cash inflows from 2021 onwards;
- TAURON Ciepło Sp. z o.o. - where separated generation of heat and electricity and transmission and distribution of heat. Additional tests were carried out for individual “generation" units for individual generation plants: CGU ZW Katowice, CGU ZW Tychy, CGU ZW Bielsko EC1, CGU ZW Bielsko EC2, CGU Local Generators;
- TAURON Ekoenergia Sp. z o.o., TEC 1 Sp. z o.o. Mogilno I Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno II Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno III Sp. Komandytowa, TEC1 Sp. z o.o. Mogilno IV Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno V Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno VI Sp. Komandytowa, TEC 1 Sp. z o.o. EW Śniatowo Sp. Komandytowa, TEC 1 Sp. z o.o. EW Dobrzyń Sp. Komandytowa, TEC 1 Sp. z o.o. EW Gołdap

(in PLN thousand)

Sp. Komandytowa, TEC 1 Sp. z o.o. Ino 1 Sp. Komandytowa, where the test was carried out separately for hydropower generation units - CGU Hydropower plants and for total windfarms power generation unit - CGU Windfarms. Consolidation of windfarms in one CGU resulted mainly from the specificity and nature of the basic service contracts and technical management of individual windfarms allowing for optimisation of the production process aimed at improving economic indicators of the operated windfarms. Moreover, from the point of view of management analysis, the notion of a group of assets producing power in wind technology is important, not a single operation of windfarms. This is also important for the integrated management of the portfolio of produced volume from windfarms and the sale of power and property rights within the TAURON Group.

Key assumptions made for purposes of tests performed as at 31 December 2019:

Category	Description
Coal	Coal prices in the coming years were adopted at a slightly declining level. In the long term, coal prices will fall more sharply as a result of the implementation of climate policy and the shift away from coal to other countries, as well as the growing production of energy from RES sources. The prices forecasted until 2030 show a constant downward trend. It has been assumed that in the years 2021–2040 the prices of power coal will decrease by 14%.
Electricity	The adopted forecast of wholesale electricity prices in 2020-2029 with an outlook until 2040 assumes, among other things, the impact of the demand and supply balance on electricity, fuel purchase costs and CO2 emission allowances. Compared to the average SPOT price in 2019, a price increase of 19% for 2020 was assumed, mainly due to an price increase of CO_2 emission allowance prices. In the following 2021, energy prices were assumed to increase by 3% compared to 2020, which results, among other things, from predictions of further increase in prices o CO_2 emission allowances and exclusion of conventional units in Germany - which should reduce the volume of energy exports to Poland. Then, in the period up to 2029, an increase in prices by 8% in relation to 2021 was assumed, mainly due to significant unit exclusions after 2025; in the years 2030-2040, a drop in prices by 14% (in constant prices) in relation to 2029 was assumed. The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an expected level of margin.
CO_2	CO_2 emission limits for heat generation have been set in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat. The CO_2 emission allowance price growth path for the years 2020-2029 with the perspective by 2040 has been adopted. In 2021 the price of CO_2 emission allowances was assumed to be 25% higher than the average price in 2019. It has been assumed that the market price will increase by ca. 33% comparing to the average price observed in 2019, with slight CO_2 emission allowance price decreases in 2029-2040 versus 2028 (fixed prices), totaling 11%. This results from the assumed increase in decarbonization of the economy and the resultant drop in demand for emission allowances after 2030. The long-term projections of CGU Coal assume the purchase of CO_2 emission allowances at the level of the total planned deficit in the year to which the emissions relate. It was thus assumed that the provision for CO_2 deficiency will be dissolved at the end of the year to which the provision applies.
Energy certificates	The price path assumed for emission certificates and the obligatory redemption in the subsequent years are based on the current Act on Renewable Energy Sources;
Power Market	The operating reserve capacity mechanism is to be excluded from the beginning of 2021, i.e. from the time the Capacity Market has been implemented. The Power Market mechanism implementation has been taken into account (in line with the adopted and notified Act on the Power Market and the draft Power Market Regulations). It is assumed that payments for capacity will be launched from 2021 and maintained until 2025 for existing coal units which do not meet the EPS 550 criterion (for which the unit emission capacity exceeds 550 kg/MWh). For entities that won or will win long-term contracts by 31 December 2019 and do not meet the EPS 550 criterion, payments have been assumed to be continued until the contract expiration date;
RES	Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the network;
WACC	The weighted average cost of capital (WACC) during the projection period, for particular CGUs, as used in the calculations, ranges from 6.52% to 14.01% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (2.81%) and the risk premium for operations appropriate for the power industry (6.25%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. The level of WACC as at 31 December 2019 increased compared to the level as at 31 December 2018 mainly due to the increase in the cost of debt and market risk premium.
Regulated and tariff revenue	Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed. The return on capital is conditional on the Regulatory Asset Value. Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital has been assumed;
Sales volume and production capacity	End-user sales volumes taking into account GDP growth and increased market competition have been applied. Maintaining the production capacity of the existing non-current assets as a result of replacement investments was considered.

The assumptions were also used to estimate the value in use of other intangible assets.

The impairment loss on CGU Mining assets (in the first and second half of the year 2019) and CGU Generation-Coal assets, CGU ZW Bielsko EC1 assets and CGU ZW Bielsko EC2 assets (in the second half of the year 2019) resulted from:

- CGU Mining - in the first half of the year 2019 in particular from updating the technical and economic assumptions, mainly in terms of exploitation plans and availability of deposits. The update of assumptions concerned the period before obtaining significant effects from strategic investments, that is before 2024. In the second half of the year 2019 resulted in particular from updating market assumptions regarding the cost of capital;
- CGU Generation - Coal assets - in particular from the European Union's climate policy affecting the projected level of margins on sales of power from conventional sources and the shift of commissioning of the 910 MW unit in Jaworzno;
- CGU ZW BB EC1 assets and CGU ZW BB EC2 assets - in particular from updating market assumptions regarding the cost of capital.

The possibility of reversing the impairment loss on individual CGUs assets in the second half of the year 2019 resulted from:

- CGU ZW Tychy assets - in particular from the permanent reorganisation of the operation of the biomass unit in order to make maximum use of the production potential from a renewable source;
- CGU Windfarms assets – mainly from the changes regarding renewable energy sources (regarding the method of determining the substitution fee) that positively affect financial results generated by assets based on renewable energy sources and a fundamental change in market factors related to energy generation from renewable sources, and thus increasing competitiveness in relation to the conventional generation.

Sensitivity analysis for the Mining and Generation units

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the forecast electricity prices, CO_2 emission allowances prices, discount rates and hard coal prices. The estimated changes in impairment losses on Mining and Generation assets as at 31 December 2019 as a result of changes in the key assumptions, have been presented below.

Parameter	Change	Impact on impairment loss *(in PLN million)*	
		Increase of impairment loss (net)	Decrease of impairment loss (net)
Change of electricity prices in the forecast period	+1%	-	385
	-1%	385	-
Change of CO_2 emission allowances prices in the forecast period	+1%	153	-
	-1%	-	153
Change of WACC (net)	+0,1 p.p.	130	-
	-0,1 p.p.	-	132
Change of coal prices in the forecast period	+1%	60	-
	-1%	-	60

Sensitivity analysis for the Distribution unit

The sensitivity analysis was performed for a change in the discount rate and a change in the WACC level adopted for the calculation of regulated income in the years 2025-2029 and in the residual period. The table below presents the estimated inflows to the impairment loss on assets of the Distribution assets as at 31 December 2019.

Parameter	Change	Impact on increase of impairment loss *(in PLN million)*
Change of WACC (net)	+0,1 p.p.	527
	-0,1 p.p.	-
Change of WACC adopted for calculation of regulated income in years 2025-2019 and in the residual period	+0,1 p.p.	-
	-0,1 p.p.	347

(in PLN thousand)

Impairment of goodwill

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

The test was performed based on the present value of projected cash flows from operations. The calculations were based on detailed projections for the period from 2019 to 2028 and the estimated residual value. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the regulatory environment known as at the date of the test.

The weighted average cost of capital (WACC) during the projection period for particular CGUs, as used in the calculations, ranges from 7.02% to 7.80% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year treasury bonds (2.81%) and the risk premium for operations appropriate for the power industry (6.25%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is 2.5% and it corresponds to the estimated long-term inflation rate. The level of WACC as at 31 December 2019 has decreased compared to the level as at 31 December 2018 due to a decrease in the risk-free rate.

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

Operating segment	Key assumptions	Discount rate (before tax) assumed in tests as at:		
		31 December 2019	30 June 2019 *(unaudited)*	31 December 2018
Distribution	Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets. Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	7.02%	7.78%	7.61%

The impairment test performed as at 31 December 2019 did not reveal impairment of the carrying amount of goodwill in particular segments.

NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

The Group has introduced five steps of revenue recognition: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to each performance obligation; and recognize revenue when (or as) the entity satisfies a performance obligation.

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

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

Revenue includes only economic proceeds received or due on the entity's bank account. Amounts obtained on behalf of third parties, with the Group acting as an agent, such as taxes on sales or VAT do not constitute economic benefits of the Company and do not result in equity increases. Therefore, they are not recognized in revenue. Similarly, the transitional fee and renewable energy sources fee charged by the Group from the end users of power and then transferred to the Transmission System Operator is recognized in the net amount of consideration.

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

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

The most significant revenues the Group achieves from the sale of power and distribution services in the Sales segment, distribution services in the Distribution segment and power in the Generation segment.

Revenue from sales of electricity and distribution services in the Sales segment

The Group companies operating in the Sales segment generate revenue from sales of electricity and distribution services to retail and wholesale clients (balancing market sales). This segment also generates revenues from road lighting maintenance services. Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

Four types of additional assessment of revenue from sales of electricity and distribution services are made in this segment:

(in PLN thousand)

Additional assessment type	Description
Additional assessment of sales to buyers, unbilled as at the end of the reporting period	Measurement and billing systems showing the electricity volume sold to retail buyers are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales of electricity and distribution services at the end of each reporting period. For clients that are party to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the end of the reporting period.
Additional assessment regarding buyers with projection-based settlement	As at each reporting period end, buyers with six and 12-month periods of projection-based settlement are subject to additional assessment during periods between meter system readings. The additional assessment of sales of electricity and distribution services is based on data regarding sales of electricity obtained from the billing system and on the additional assessment ratio. The additional assessment ratio is based on the number of days passing between the reading date (for settlement invoices) or the payment date (for projection invoices) and the month end compared to the actual number of days in a given calendar month.
Additional assessment of revenue regarding buyers charged based on the balancing market prices	The additional assessment includes buyers whose sales of the electricity are priced in line with the balancing market according to the concluded agrrements. As at each reporting period end, buyers with additional assessment charged on unbilled sales of power in the billing system are charged with amounts equal to the difference between prices adopted for additional assessment calculation purposes and those to be used for billing purposes.
Additional assessment of sales resulting from reconciliation of the energy balance	The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at the end of each reporting period. Under the additional assessment, an amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing sales and the weighted average purchase price of electricity on the balancing market is also accounted for.

Revenue from sales of electricity distribution services in the Distribution segment

The Group's revenue from sales of services includes in particular revenue related to distribution operations. Electricity distribution services are considered sold upon service provision to the client, as registered by the electricity meter, including the projected use and assessed additional revenue, not measured and charged yet due to specifics of the applied buyer settlement system.

Revenue from wholesale of electricity in the Generation segment

Wholesale of electricity from the generation units managed centrally and as part of trading operations requires the client and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator, which volume a Generation segment company is obliged to provide a supplier or ensure its provision and the client is obliged to accept. Both the price and volume per each hour is determined on the basis of transactions signed in advance or (in the case of the Polish Power Exchange) recorded electronically. The Transmission System Operator, which somewhat guarantees volume settlements, ensures reliability of data concerning the supplied volume of energy. As billing is based on reports generated by the Transmission System Operator.

Sales invoices relating to electricity supplied to the Balancing Market are raised on the basis of reports from the centralized system balancing sales in the Polish National Power System. Such settlements are made every decade.

Wholesale of electricity from generation units which are not managed centrally (local market generation units of less than 100MW) is subject to similar rules. However, it is the local market operator (DSO) that is responsible for the settlements.

PROFESSIONAL JUDGMENT AND ESTIMATES

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

As at 31 December 2019, additionally assessed revenue from sale of electricity and distribution services in the Sales segment totaled PLN 631 795 thousand and, when reversed estimations from the prior year have been accounted for, the impact on the profit or loss for the 2019 year was PLN 22 503 thousand.

	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Sale of goods for resale, finished goods, materials without elimination of excise	**13 062 166**	**12 194 728**
Excise	(138 962)	(409 243)
Sale of goods for resale, finished goods and materials	**12 923 204**	**11 785 485**
Electricity	11 329 312	10 138 636
Heat energy	620 002	628 178
Gas	335 833	261 604
Coal	302 926	485 366
Energy certificates	143 177	89 378
Other goods for resale, finished goods and materials	191 954	182 323
Rendering of services	**6 569 022**	**6 274 345**
Distribution and trade services	6 250 923	5 941 258
Maintenance of road lighting	120 527	121 650
Connection fees	81 079	82 070
Other services	116 493	129 367
Other revenue	**66 066**	**61 918**
Total	**19 558 292**	**18 121 748**

(in PLN thousand)

In the year ended 31 December 2019, sales revenues increased in relation to the comparable period, and the main changes concerned sales revenues of the following finished goods and materials:

electricity - the increase in revenue from sales of electricity versus comparative period results mostly from an increase in electricity prices in the current reporting period, as well as to the higher electricity sales volume. At the same time, in the year ended 31 December 2019, as compared to the comparable period , there was a decrease in revenue from the sale of electricity due to the entry into force of the amended Excise Duty Act and certain other acts, which is discussed in detail in Note 12 hereto,

- gas - the increase in revenue from sales of gas versus comparative period results mostly from an increase in the current reporting period in gas sales price and higher volume of sales,
- coal - the decrease in revenue from sales of coal results from lower volume of sales outside the Group related to lower production of the Group's mining plants,
- distribution services - the increase in revenue from sales of distribution services results mainly from the increase in the average rate of sales of distribution services.

The decrease in excise tax in 2019 versus comparable period is mainly related to the come into force of the Act of 28 December 2018 amending the Excise Duty Act and certain other acts, under which the excise tax rate on electricity was changed from 20 PLN to 5 PLN per megawatt hour (MWh).

The Group's sales revenue by operating segment has been presented below.

Year ended 31 December 2019

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**325 098**	**3 495 394**	**6 201**	**9 004 753**	**91 758**	**12 923 204**
Electricity	**-**	**2 729 038**	**-**	**8 600 274**	**-**	**11 329 312**
Heat energy	**33**	**619 969**	**-**	**-**	**-**	**620 002**
Gas	**-**	**-**	**-**	**335 833**	**-**	**335 833**
Coal	**302 926**	**-**	**-**	**-**	**-**	**302 926**
Energy certificates and similar	**-**	**141 295**	**-**	**1 882**	**-**	**143 177**
Other goods for resale, finished goods and materials	**22 139**	**5 092**	**6 201**	**66 764**	**91 758**	**191 954**
Rendering of services	**18 714**	**214 275**	**3 162 970**	**3 165 082**	**7 981**	**6 569 022**
Distribution and trade services	**-**	**206 018**	**3 019 253**	**3 025 652**	**-**	**6 250 923**
Maintenance of road lighting	**-**	**-**	**11**	**120 516**	**-**	**120 527**
Connection fees	**-**	**325**	**80 754**	**-**	**-**	**81 079**
Other services	18 714	7 932	62 952	18 914	7 981	**116 493**
Other revenue	**1 462**	**16 217**	**33 063**	**3 645**	**11 679**	**66 066**
Total	**345 274**	**3 725 886**	**3 202 234**	**12 173 480**	**111 418**	**19 558 292**

For the year ended 31 December 2018 *(restated)*

	Mining	Generation	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	**519 862**	**2 580 352**	**4 996**	**8 601 609**	**78 666**	**11 785 485**
Electricity	242	1 861 379	-	8 277 015	-	**10 138 636**
Heat energy	-	628 178	-	-	-	**628 178**
Gas	-	-	-	261 604	-	**261 604**
Coal	485 366	-	-	-	-	**485 366**
Energy certificates and similar	2 882	84 797	792	907	-	**89 378**
Other goods for resale, finished goods and materials	31 372	5 998	4 204	62 083	78 666	**182 323**
Rendering of services	**26 724**	**217 182**	**3 003 875**	**3 019 493**	**7 071**	**6 274 345**
Distribution and trade services	63	204 595	2 854 068	2 882 532	-	**5 941 258**
Maintenance of road lighting	-	-	405	121 245	-	**121 650**
Connection fees	-	953	81 117	-	-	**82 070**
Other services	26 661	11 634	68 285	15 716	7 071	**129 367**
Other revenue	**1 661**	**14 546**	**33 036**	**1 070**	**11 605**	**61 918**
Total	**548 247**	**2 812 080**	**3 041 907**	**11 622 172**	**97 342**	**18 121 748**

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

(in PLN thousand)

	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Revenue from sales of electricity	**11 329 312**	**10 138 636**
Retail sale	**7 486 181**	**6 907 841**
Strategic clients	1 336 635	1 367 676
Business clients	3 192 695	3 035 259
Mass clients, including:	3 026 110	2 871 328
G group	2 337 247	2 329 686
Other	69 703	42 821
Excise duty	(138 962)	(409 243)
Wholesale	**3 157 432**	**2 533 584**
Operational capacity reserve	**216 994**	**212 473**
Other	**468 705**	**484 738**

12. Recompensation revenue

	Year ended 31 December 2019
Price difference amount	637 595
Financial compensation	315 055
Total	**952 650**

The *Act on the amendment to the act on the excise tax and some other acts* ("Act") came into force on 28 December 2018. In accordance with the Act, in its version applicable as of 31 December 2018, energy companies (electric utilities) dealing with electricity trading were obligated to apply in 2019 gross prices and fee rates not higher than the gross prices and fee rates included in the tariff or electricity price list in force on 30 June 2018, taking into account the reduction of the excise tax rate for electricity.

The Act, amended during the year 2019, imposed an obligation on trading companies to apply the price of 30 June 2018 to the following groups of end users:

- final customers from the G-tariff, for whom in the first and second half of the year 2019 the price as of 30 June 2018 shall always apply, determined in accordance with the rules set out in the acts implementing the Act;
- end users belonging to the following groups: micro-entrepreneurs, small entrepreneurs, hospitals, public finance sector entities or other state organizational units without legal personality, for whom the price as of 30 June 2018 always applies in the first half of 2019, while in the second half of 2019, provided that a declaration of the end user is submitted, in accordance with the specimen constituting Annex 1 to the Act;
- other end users for whom the price of 30 June 2018 applies only in the first half of 2019.

At the same time, the Act, as amended, provides for two formulas of recompensation for trading enterprises:

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

In the consolidated statement of comprehensive income for the year ended 31 December 2019, the Group recognised the effects of the amended Act and its implementing acts in the form of the amended Act:

- the amount of due recompensation for trading companies in the form of the Price Difference Amount and Financial Compensation in the total amount of PLN 952 650 thousand.

  Considering the submitted as at 31 December 2019 in the case of the TAURON Group's trading companies, applications to Zarządca Rozliczeń S.A. for payment of the Price Difference Amount and Financial Compensation for the period from January to November 2019, as well as the application for Financial Compensation for December 2019 submitted after the reporting period on 12 January 2020, the Group recognised revenue from the Price Difference Amount of PLN 637 595 thousand and revenue from Financial Compensation for the period of the second half of the year 2019 in the amount of PLN 315 055 thousand. The above revenues were calculated as the difference between the amount of revenues for trading in electricity for the benefit of end users, determined on the basis of the volume-weighted average price of electricity on the wholesale market increased by other unit costs (including, among others, own costs of conducting business activities, costs of balancing electricity demand characteristics, costs of obtaining and redeeming certificates of origin or incurring a substitute fee and a margin) and the amount of revenues resulting from the application of electricity prices applied on 30 June 2018.

As at the balance sheet date, the trading companies of the TAURON Group received cash on account of Price Difference Ammount and Financial Compensation for the period from January to September 2019 in amount of PLN 801 536 thousand. Cash from Financial Compensation for the fourth quarter of 2019 in the amount of PLN 151 114 thousand was received by the trading companies after the period end date, to 27 February 2020. As at 31 December 2019, the receivable as recompensation for trading companies in the amount of PLN 151 114 thousand was presented in the consolidated statement of financial position under other financial assets.

- adjustments reducing revenues from customers in 2019, resulting from the need to adjust prices in that period to the provisions of the amended Act.

  The adjustments apply to all customers for whom the price of 30 June 2018 applies in the first half of the year 2019 and for whom the prices in contracts have not been reduced from 1 January 2019 and, in case for the second half of the year 2019, micro, small businesses, hospitals, public finance sector units or other state organizational units without legal personality, who have submitted declarations of the final recipient, according to the statutory template. The amount of recognised adjustments was PLN 569 572 thousand. As at the balance sheet date, the liability to return overpaid amounts to customers presented in the consolidated statement of financial position under other short-term financial liabilities amounted to PLN 41 720 thousand.

Apart from the above adjustments, the Group reduced the price for eligible customers in invoices issued for the period from September to December 2019, which according to the Group's estimates, reduced revenues from the sale of electricity in the amount of PLN 85 171 thousand.

13. Cost of goods, products, materials and services sold (cost of sales)

SELECTED ACCOUNTING PRINCIPLES

The Group presents costs by function.

Operating expenses include:

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

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

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

(in PLN thousand)

13.1. Expenses by type

	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets	(1 991 733)	(1 838 941)
Impairment of property, plant and equipment, right-of-use assets and intangible assets	(1 310 000)	(862 209)
Materials and energy	(1 702 735)	(1 672 650)
Maitenance and repair services	(239 679)	(240 231)
Distribution services	(1 550 246)	(1 432 389)
Other external services	(762 121)	(857 798)
Cost of obligation to remit the CO_2 emission allowances	(774 539)	(611 586)
Other taxes and charges	(675 861)	(715 820)
Employee benefits expense	(3 033 560)	(2 706 145)
Allowance for trade receivables expected credit losses	(27 818)	(20 079)
Other	(108 450)	(117 217)
Total costs by type	**(12 176 742)**	**(11 075 065)**
Change in inventories, prepayments, accruals and deferred income	119 593	32 295
Cost of goods produced for internal purposes	858 219	728 154
Selling and distribution expenses	499 171	477 794
Administrative expenses	658 664	631 487
Cost of goods for resale and materials sold	(9 223 441)	(7 231 812)
Cost of sales	**(19 264 536)**	**(16 437 147)**

In the year ended 31 December 2019, the cost of goods, products, materials and services sold increased versus comparable period, including the main changes therein:

- increase in depreciation costs, impairment losses on property, plant and equipment, intangible assets and right-of-use assets, and increase in employee benefits costs described in Notes 13.2 and 13.3 hereto;
- increase in materials and energy consumption relates mainly higher costs of fuels used for production as a result of higher volume consumption of biomass as a result of higher production of electricity from units used with this fuel.
- increase in distribution services costs due to higher network and quality charge components due to the tariff change;
- decrease in other external services costs, which is influenced by lower costs of construction and assembly services in the current year due to intensified work in 2018 related to the implementation of the project - construction of the 910 MW unit in Jaworzno, partial reversal of the provision for reclamation of furnace waste landfill, lower costs of mining services and machine rental due to lower production of mining plants and lower costs of rent and lease due to IFRS 16 *Leases* coming into force from 1 January 2019;
- increase in the cost of the obligation to surrender the CO_2 emission allowances, which is mainly due to the increase in allowance prices. At the same time, the cost of fulfilling the obligation to surrender the CO_2 emission allowances and thus the calculation of the provision includes units of certified emission reductions (CER) in the amount of 883 000, whose purchase price is lower than EUA;
- increase in the value of goods and materials sold, which is mainly due to the increase in the current reporting period in the prices of electricity, as well as to a greater amount of purchased energy from contractors outside the TAURON Group, which is related to the increase by the legislator of the obligation of electricity generators to sell electricity through the exchange from 1 January 2019 to the level of 100% (compared to 30% in the comparable period).

  In the value of goods and materials sold in connection with the come into force of the amended *Act on the amendment to the act on the excise tax and some other acts* and in connection with the approval by the President of the Energy Regulatory Office of the tariff for the sale of electricity, the Group recognised in 2019 the net cost of creating provisions for onerous contracts in the amount of PLN 293 946 thousand, which is discussed in detail in Note 39.2 hereto.

(in PLN thousand)

13.2. Employee benefits expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Wages and salaries	(2 258 550)	(2 099 057)
Social security costs	(440 661)	(407 808)
Jubilee bonuses	(89 507)	80 449
Social Fund	(54 321)	(53 087)
Post-employment benefit expenses, *of which:*	(91 308)	(30 926)
Provision for retirement, disability and similar benefits	(16 557)	(16 490)
Coal allowances and special electricity rates and charges	(9 066)	40 063
Social Benefits Fund	(2 736)	2 246
Contributions to employee retirement plans	(62 949)	(56 745)
Voluntary termination scheme	13 459	(4 350)
Other employee benefit expenses	(112 672)	(191 366)
Total	**(3 033 560)**	**(2 706 145)**
Items included in cost of sales	(2 000 866)	(1 785 447)
Items included in selling and distribution expenses	(228 434)	(199 535)
Movement in stock of finished goods	-	(44)
Items included in administrative expenses	(405 633)	(370 031)
Items included in cost of goods produced for internal purposes	(398 627)	(351 088)

The increase in the costs of salaries and social insurance in the year ended 31 December 2019 versus comparative period resulted mainly from the following:

- an increase in the level of employment in the Group's companies in connection with a change in the mining operating model by supporting its own preparatory work departments, limiting temporary work as a consequence of the change in the applicable legal regulations and developing real estate protection and management activities;
- implementation of provisions resulting from agreements signed with the community representatives;
- increase in the minimum wage.

The increase in the cost of provisions for jubilee bonuses and special electricity rates in the current period versus comparable period results mainly from the following:

- changes in the assumptions (including mainly the discount rate) of the actuarial valuation as at the balance sheet date - in the financial result the Group recognised actuarial losses related to provisions for jubilee bonuses in the amount of PLN 66 773 thousand (in 2018 PLN 19 068 thousand);
- events that took place in the comparable period, i.e. recognition of the effects of the release of actuarial provisions for the employee tariff in the segment Generation of actuarial provisions for the current employees as future pensioners in amount of PLN 49 270 thousand and release of provisions for jubilee bonuses in the amount of PLN 121 172 thousand.

At the same time, in connection with the release of provisions for jubilee bonuses, compensation in the amount of PLN 79 316 thousand was paid to the employees, which was charged to the costs of employee benefits (in the table above, recognized as other employee benefit expenses).

13.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2019	Year ended 31 December 2018
Amortization, *included in item:*	**(1 991 733)**	**(1 838 941)**
Selling and distribution expenses	(1 876 048)	(1 745 333)
Cost of sales	(40 964)	(39 559)
Administrative expenses	(46 333)	(34 927)
Cost of goods produced for internal purposes	(28 388)	(19 122)
Impairment allowance, *included in item:*	**(1 310 000)**	**(862 209)**
Selling and distribution expenses	(1 275 480)	(815 410)
Cost of sales	(9 151)	(9 757)
Administrative expenses	(25 311)	(37 042)
Cost of goods produced for internal purposes	(58)	-
Total	**(3 301 733)**	**(2 701 150)**

(in PLN thousand)

The increase in depreciation and amortization costs results mainly from the recognition in the current period of amortization on the right-of-use assets in the amount of PLN 93 049 thousand in connection with the come into force of IFRS 16 *Leases* from 1 January 2019.

In the year ended 31 December 2019, the Group recognized impairment losses in the Generation and Mining segments, in addition to reversing in part the impairment losses recognized before in the Generation segment, which was due to impairment tests performed as at 31 December 2019 and 30 June 2019. The total effect on the Group's gross profit for 2019 was PLN 1 304 547 thousand (excess of recognition over reversal). The tests and their results have been discussed in more detail in Note 10 hereto.

Additionally, in the year ended 31 December 2019 the Group's companies recognized and reversed impairment losses on individual assets, customer contract assets and non-current assets classified as held for sale which resulted in the Group's operating expenses being charged with PLN 5 453 thousand.

The total impairment loss on property, plant and equipment, intangible assets and rights-of-use assets in the year ended December 31, 2019 amounted to PLN 1 310 000 thousand.

14. Other operating revenue and expenses

	Year ended 31 December 2019	Year ended 31 December 2018
Bargain purchase	119 515	-
Penalties, fines, compensations received or receivable	53 611	35 851
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges	41 405	33 011
Surplus of other provisions (recognized)/derecognized	10 945	(19 594)
Costs of court proceedings, fines and damages	(8 598)	(8 749)
Loss on the disposal or liquidation of property, plant and equipment / intangible assets and costs of damages to non-current assets	(8 869)	(7 704)
Write-off for abandoned investments and production as well as liquidated materials	(45 631)	(342)
Surplus of (recognition)/reversal of actuarial provisions for the existing pensioners and disability pensioners	-	139 402
Other operating income	25 419	19 401
Other operating expenses	(28 861)	(30 757)
Total	**158 936**	**160 519**

The result from the bargain purchase is related to the acquisition of wind farms, as described in detail in Note 2.1 hereto. The increase in the costs of write-offs of abandoned investments and production versus comparable period is related to the withdrawal by the company of Mining segment from the mining exploatations of bed 405/1 East lot at the Brzeszcze Mining Plant and the withdrawal from the exploatation of longwall no. 302 at the Sobieski Mining Plant and longwall no. 727a at the Janina Mining Plant, which burdened the costs with the total amount of PLN 42 600 thousand.

In the comparative period, the company from the Generation segment released provisions for the employee tariff and the Company Social Benefits Fund in part for pensioners, and therefore recognised other operating income of PLN 139 470 thousand.

15. Finance income and costs

SELECTED ACCOUNTING PRINCIPLES

Finance income and costs include mainly items relating to:

- interest and discount unwinding effect and revenue from profit sharing in other entities;
- revaluation of financial instruments, except for revaluation of financial instruments recognised in other comprehensive income and charged to revaluation capital and derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognized;
- foreign exchange differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for differences recognized in the initial value of a fixed asset, to the extent they are classified as adjustment to interest expenses;
- disposal/liquidation of financial assets;
- other items related to financing activities.

Foreign currency transactions (i.e. those not made in the functional currency) are translated into the functional currency at initial recognition at the exchange rate applicable as at the transaction date. As at the end of the reporting period monetary items are translated at the closing rate (for entities whose functional currency is PLN the closing rate is the average exchange rate published for the currency by the National Bank of Poland as at the date).

Exchange rates applied for the purpose of balance sheet measurement:

(in PLN thousand)

Currency	31 December 2019	31 December 2018
USD	3.7977	3.7597
EUR	4.2585	4.3000
CZK	0.1676	0.1673

Exchange differences from measurement as at the end of the reporting period and from settlement are recognized through profit or loss within finance income (or cost), except for those capitalized in assets.

	Year ended 31 December 2019	Year ended 31 December 2018
Income and costs from financial instruments	**(257 320)**	**(238 323)**
Dividend income	4 264	7 348
Interest income	31 273	28 086
Interest costs	(250 800)	(147 372)
Commission relating to borrowings and debt securities	(20 338)	(22 945)
Gain/loss on derivative instruments	(53 233)	(4 052)
Foreign exchange gains/losses	30 083	(83 455)
Remeasurement of loans granted	15 936	(4 309)
Other	(14 505)	(11 624)
Other finance income and costs	**(53 502)**	**(47 759)**
Interest on employee benefits	(32 692)	(33 394)
Interest on discount of other provisions	(12 154)	(12 683)
Other	(8 656)	(1 682)
Total, *including recognized in the statement of comprehensive income:*	**(310 822)**	**(286 082)**
Interest expense on debt	(250 800)	(147 372)
Finance income and other finance costs	(60 022)	(138 710)

The change in the amount of interest expenses in the year ended 31 December 2019 versus comparable period results mainly from recognition in the current period of interest expenses under lease agreements recognised as at 1 January 2019 in accordance with IFRS 16 *Leases* in amount of PLN 44 800 thousand and recognition in the financial result of costs related to new financing, taking into account capitalisation of interest expenses for investment tasks.

In the year ended 31 December 2019 there was a surplus of positive exchange differences over negative ones in the amount of PLN 30 083 thousand, in the comparative period there was a surplus of negative exchange differences over positive ones - PLN 83 455 thousand. The exchange rate differences relate mainly to exchange rate differences related to the Company's debt obligations in EUR. In 2019, the Group recognised revenue of PLN 36 252 thousand and in 2018 cost of PLN 113 013 thousand, of which negative exchange rate differences of PLN 35 577 thousand were activated for investment tasks.

16. Costs arising from leases

The note below presents the total financial result due to lease contracts in which the Group companies are the lessee.

	Year ended 31 December 2019
Cost arising from leases recognized in accordance with MSSF 16 *Leases, including:*	(137 849)
Depreciation of right-of-use assets	(93 049)
Cost of interest on lease liabilities	(44 800)
Cost arising from leases for which practical exclusion from MSSF 16 Leases has been applied, including:	(20 240)
Cost of short--term leases	(19 877)
Cost of low-value asset leases	(111)
Variable lease charges not included in the measurement of lease liabilities	(252)
Razem	**(158 089)**

17. Income tax

SELECTED ACCOUNTING PRINCIPLES

Current tax

Income tax recognized in profit or loss for the period includes actual tax charge for the given reporting period for each company from the Tax Capital Group ("TCG") as well as other non-TCG companies, determined in line with the provisions of the CIT Act, as well as any previous year tax adjustments.

(in PLN thousand)

Deferred income tax

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

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

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

The deferred tax asset and deferred tax liability of companies from the Tax Capital Group are netted off due to the fact that the companies file combined tax returns.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each balance sheet date, the Group analyzes realizability of deferred tax asset and assesses its unrecognized items.

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

17.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2019	Year ended 31 December 2018 *(restated figures)*
Current income tax	**(186 426)**	**(341 630)**
Current income tax expense	(192 668)	(331 740)
Adjustments to current income tax from previous years	6 242	(9 890)
Deferred tax	**190 111**	**44 028**
Income tax expense in profit/(loss)	**3 685**	**(297 602)**
Income tax expense relating to other comprehensive income	**23 770**	**7 436**
subject to reclassification to profit or loss	(2 884)	4 617
not subject to reclassification to profit or loss	26 654	2 819

The decrease of current income tax expense in relation to the comparable period is connected with taking into account in the settlement of Tax Capital Group for the year ended 31 December 2019 a higher tax loss of the company in the Mining segment.

17.2. Reconciliation of the effective tax rate

	Year ended 31 December 2019	Year ended 31 December 2018
Profit (loss) before taxation	**(15 368)**	**504 647**
Tax at Poland's statutory tax rate of 19%	**2 920**	**(95 883)**
Adjustments to income tax from previous years	6 242	(9 890)
Tax effects of the following items:	(18 664)	(173 382)
Recognition of non-deductible provisions and write-downs/allowances	(29 607)	(1 460)
National Disabled Persons Rehabilitation Fund (PFRON)	(5 673)	(5 141)
Permanent differences on costs related to tangible assets	(3 643)	(4 459)
Impairment of goodwill	-	(2 655)
Other tax non-deductible costs	(31 634)	(7 430)
Share in profit/loss of joint ventures	9 110	10 429
Changes in deferred tax estimates caused by revenue and cost with a different tax point	27 511	(181 845)
Other income not included in taxable base	15 272	19 179
Bargain purchase	22 708	-
Other	(9 521)	(18 447)
Tax at the effective rate of 24.0% (2018 - 59.0%)	**3 685**	**(297 602)**
Income tax (expense) in profit/(loss)	3 685	(297 602)

A decrease in the effective tax rate in the year ended 31 December 2019 versus the comparative period is related mostly to the recognized change in deferred tax estimates, arising from a difference in the tax point and the recognition of the estimated revenue from supplies of electricity and gas documented with advance payment invoices.

(in PLN thousand)

In the year ended 31 December 2019, certain IT solutions were implemented to support the determination of revenue with regard to settlement periods to be closed in the subsequent accounting period. Effects of estimate changes were charged to profit or loss for the year ended 31 December 2019.

17.3. Deferred income tax

	As at 31 December 2019	As at 31 December 2018
difference between tax base and carrying amount of fixed and intangible assets	1 880 816	1 503 445
difference between tax base and carrying amount of financial assets	48 137	65 366
different timing of recognition of sales revenue for tax purposes	327 914	360 507
difference between tax base and carrying amount of energy certificates	17 623	10 227
other	66 780	52 929
Deferred tax liabilities	**2 341 270**	**1 992 474**
provisions and accruals	665 886	490 191
difference between tax base and carrying amount of fixed and intangible assets	495 875	194 224
power infrastructure received free of charge and received connection fees	7 859	12 039
difference between tax base and carrying amount of financial assets and financial liabilities	292 771	145 497
different timing of recognition of cost of sales for tax purposes	277 964	312 824
tax losses	6 533	15 358
other	11 185	28 692
Deferred tax assets	**1 758 073**	**1 198 825**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**22 088**	**30 105**
Deferred tax liability	**(605 285)**	**(823 754)**

In connection with the come into force of IFRS 16 *Leases* as at 1 January 2019, the Group recognised the right-of-use assets and the lease liability, which is discussed in detail in Note 8.1 hereto, which resulted in an increase in the deferred income tax liability on the difference between the tax and balance sheet value of tangible fixed assets, intangible assets and right-of-use assets, and an increase in the deferred income tax asset on the difference between the tax and carrying amount of financial assets and liabilities of PLN 174 442 thousand.

Change in deferred tax liability and assets

	Year ended 31 December 2019		Year ended 31 December 2018	
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	**1 992 474**	**1 198 825**	**1 756 752**	**931 009**
Effects of implementing new IFRS	174 442	174 442	9 634	(10 525)
Restated opening balance	**2 166 916**	**1 373 267**	**1 766 386**	**920 484**
Change in the balance:				
corresponding to profit/(loss)	138 478	328 589	230 635	274 663
corresponding to other comprehensive income	2 884	26 654	(4 617)	2 819
business acquisition	28 950	25 828	-	-
other changes	4 042	3 735	70	859
Closing balance	**2 341 270**	**1 758 073**	**1 992 474**	**1 198 825**

18. Earnings (loss) per share

SELECTED ACCOUNTING PRINCIPLES

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

	Year ended 31 December 2019	Year ended 31 December 2018
Net profit (loss) for the year attributable to equity holders of the Parent	(10 908)	204 880
Number of ordinary shares	1 752 549 394	1 752 549 394
Earnings per share (in PLN), basic and diluted	**(0.01)**	**0.12**

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

19. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

Key fixed assets by segment:

- Generation:

- boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading, storage and transportation, pumping stations and sulfur-recovery facilities, steam generators, landfills, storage and other buildings;
- thermal stations, equipment used for purposes of fuel unloading and transportation as well as pumping stations and water treatment facilities;
- wind farms, water turbine, hydro power plant buildings, sets as well as weirs and dams and hydrotechnical devices.

- Distribution:

- power lines and stations. Power lines are located on the area of 57 thousand square meters, with the total length of ca. 237 thousand km;
- electrical substations (approximately 61 thousand items);

- Mining:

- mechanized lining, pit shafts and dip-headings and fixed assets located in the mine walls and the coal processing plant;
- costs of work related to the cutting of production drifts and accumulated costs of work related to the reinforcement of longwalls

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 on provisioning for these costs has been presented in Note 37 hereto);
- borrowing 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 their key parts. The Group recognizes specialized spare parts and service equipment as separate items of property, plant and equipment if their useful life exceeds one year.

Depreciation is calculated by reference to the cost of the asset less its residual value. Depreciation is based on a 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 estimated useful lives, except for land and fixed assets under construction, which are not depreciated. Specialized spare parts and service equipment are depreciated over the useful life of the fixed asset they relate to.

Borrowing costs

Borrowing costs are capitalized as part of the cost of qualifying non-current assets.

Borrowing costs include mainly interest on specific and general borrowings calculated using the effective interest rate method and forex differences related to foreign currency financing to the extent of being classified as interest cost adjustments. The effective portion of the hedge for contracts that satisfy the hedge accounting criteria and are entered into in connection with financing the development of non-current assets is also capitalized. After the completion of a qualifying asset that has been financed using specific borrowings, specific borrowings and the related costs are not taken into account when determining borrowing costs eligible for capitalization.

General borrowing costs eligible for capitalization are determined by applying the capitalization rate to expenditure incurred for qualifying assets. The capitalization rate is the weighted average rate of all borrowing costs related to borrowings classified as liabilities in a given period, other than specific borrowings.

Fixed assets received free of charge, connection fees and subsidies to assets

Fixed assets received free of charge and connection fees are initially recognized at cost, corresponding to the estimated fair value or the amount of cash received in the form of subsidies to assets.

Revenue from fixed assets received free of charge, funded with subsidies, are reported in the statement of financial position as deferred income and recognized as other operating revenue in correspondence to depreciation of the received or acquired property, plant and equipment.

PROFESSIONAL JUDGMENT AND ESTIMATES

Impairment

As at each reporting period end, 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 10 hereto.

Useful lives

Average residual useful lives by fixed asset group:

(in PLN thousand)

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	18 years
Plant and machinery	11 years
Mining excavations	2 years
Other tangible fixed assets	4 years

The depreciation method and rate, as well as the residual value of fixed assets are reviewed at least at the end of each financial year with possible adjustments to depreciation charges recognized as at the beginning of the reporting period when the review was completed.

A review of the estimated useful lives of fixed assets and intangible assets, conducted in 2019, had the most material effect on the amortization and depreciation expense in the Generation segment – a decrease of amortisation and depreciation costs of PLN 17 602 thousand and Distribution segment - a decrease of amortization and depreciation costs of PLN 19 600 thousand. The effect on other segments was not material.

Year ended 31 December 2019

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**125 869**	**23 775 062**	**19 133 480**	**221 074**	**943 340**	**6 376 491**	**50 575 316**
Direct purchase	-	-	-	1 714	-	3 251 159	**3 252 873**
Borrowing costs	-	-	-	-	-	183 439	**183 439**
Transfer of assets under construction	14 006	1 395 272	924 748	-	53 706	(2 387 732)	**-**
Business acquisition	592	270 463	441 138	-	-	-	**712 193**
Sale	(39)	(3 264)	(94 428)	-	(26 460)	(47)	**(124 238)**
Liquidation	(10)	(62 965)	(101 672)	(124 816)	(11 285)	-	**(300 748)**
Received free of charge	-	17 107	232	-	-	-	**17 339**
Transfers to/from assets held for sale	(64)	(13 636)	(46)	-	(175)	-	**(13 921)**
Overhaul expenses	-	-	-	-	-	193 955	**193 955**
Items generated internally	-	-	-	184 542	-	99 509	**284 051**
Cost of disassembly of wind farms and decommissioning of mines	-	101 182	2 102	-	-	-	**103 284**
Other movements	200	1 285	(8 256)	(17 513)	(1 168)	60 319	**34 867**
Foreign exchange differences from translation of foreign entities	-	-	-	-	1	-	**1**
Closing balance	**140 554**	**25 480 506**	**20 297 298**	**265 001**	**957 959**	**7 777 093**	**54 918 411**
ACCUMULATED DEPRECIATION							
Opening balance	**(404)**	**(9 599 896)**	**(10 765 131)**	**(52 458)**	**(611 258)**	**(139 502)**	**(21 168 649)**
Depreciation for the period	-	(829 750)	(797 235)	(95 837)	(74 362)	(915)	**(1 798 099)**
Increase of impairment	-	(426 283)	(698 406)	(92 759)	(6 592)	(148 752)	**(1 372 792)**
Decrease of impairment	65	35 438	53 208	-	102	522	**89 335**
Sale	-	2 143	91 800	-	24 963	-	**118 906**
Liquidation	-	55 449	95 937	124 816	11 249	-	**287 451**
Transfers to/from assets held for sale	-	9 666	38	-	163	-	**9 867**
Other movements	(2)	(3 366)	11 597	-	676	5 737	**14 642**
Foreign exchange differences from translation of foreign entities	-	-	-	-	(1)	-	**(1)**
Closing balance	**(341)**	**(10 756 599)**	**(12 008 192)**	**(116 238)**	**(655 060)**	**(282 910)**	**(23 819 340)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**125 465**	**14 175 166**	**8 368 349**	**168 616**	**332 082**	**6 236 989**	**29 406 667**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**140 213**	**14 723 907**	**8 289 106**	**148 763**	**302 899**	**7 494 183**	**31 099 071**
of which operating segments:							
Mining	**3 146**	**377 857**	**281 925**	**144 613**	**6 980**	**288 647**	**1 103 168**
Generation	**43 284**	**2 290 717**	**3 297 937**	**-**	**24 999**	**6 168 751**	**11 825 688**
Distribution	**76 924**	**11 558 666**	**4 590 377**	**-**	**252 469**	**1 002 867**	**17 481 303**
Other segments and other operations	**16 859**	**496 667**	**118 867**	**4 150**	**18 451**	**33 918**	**688 912**

(in PLN thousand)

For the year ended 31 December 2018 *(restated)*

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	**122 780**	**22 580 965**	**18 647 127**	**-**	**895 144**	**4 856 088**	**47 102 104**
Opening balance adjustments	**-**	**-**	**-**	**196 185**	**-**	**-**	**196 185**
Restated opening balance	**122 780**	**22 580 965**	**18 647 127**	**196 185**	**895 144**	**4 856 088**	**47 298 289**
Direct purchase	-	-	-	1 320	-	3 280 447	**3 281 767**
Borrowing costs	-	-	-	-	-	163 766	**163 766**
Transfer of assets under construction	4 012	1 235 535	691 115	-	92 894	(2 023 556)	**-**
Sale	(43)	(1 511)	(65 888)	-	(29 575)	-	**(97 017)**
Liquidation	(48)	(63 612)	(135 253)	(140 966)	(10 662)	(36)	**(350 577)**
Received free of charge	437	22 482	77	-	-	-	**22 996**
Transfers to/from assets held for sale	(987)	(2 204)	(7 650)	-	(2 087)	-	**(12 928)**
Overhaul expenses	-	-	-	-	-	65 920	**65 920**
Items generated internally	-	-	-	164 535	-	38 825	**203 360**
Cost of disassembly of wind farms and decommissioning of mines	-	5 093	106	-	-	-	5 199
Other movements	(282)	(1 686)	3 837	-	(2 388)	(4 963)	**(5 482)**
Foreign exchange differences from translation of foreign entities	-	-	9	-	14	-	**23**
Closing balance	**125 869**	**23 775 062**	**19 133 480**	**221 074**	**943 340**	**6 376 491**	**50 575 316**
ACCUMULATED DEPRECIATION							
Opening balance	**(407)**	**(8 553 035)**	**(9 866 322)**	**-**	**(565 315)**	**(37 139)**	**(19 022 218)**
Depreciation for the period	-	(804 815)	(742 385)	(117 158)	(81 249)	-	**(1 745 607)**
Increase of impairment	(16)	(705 630)	(1 150 860)	(76 266)	(8 628)	(102 383)	**(2 043 783)**
Decrease of impairment	19	406 718	795 176	-	1 397	20	**1 203 330**
Sale	-	1 038	62 855	-	28 699	-	**92 592**
Liquidation	-	54 121	130 336	140 966	10 607	-	**336 030**
Transfers to/from assets held for sale	-	1 479	7 215	-	1 699	-	**10 393**
Other movements	-	228	(1 140)	-	1 538	-	**626**
Foreign exchange differences from translation of foreign entities	-	-	(6)	-	(6)	-	**(12)**
Closing balance	**(404)**	**(9 599 896)**	**(10 765 131)**	**(52 458)**	**(611 258)**	**(139 502)**	**(21 168 649)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**122 373**	**14 027 930**	**8 780 805**	**-**	**329 829**	**4 818 949**	**28 079 886**
Opening balance adjustments	**-**	**-**	**-**	**196 185**	**-**	**-**	**196 185**
RESTATED NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**122 373**	**14 027 930**	**8 780 805**	**196 185**	**329 829**	**4 818 949**	**28 276 071**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**125 465**	**14 175 166**	**8 368 349**	**168 616**	**332 082**	**6 236 989**	**29 406 667**
of which operating segments:							
Mining	**3 118**	**501 042**	**408 867**	**165 801**	**11 654**	**336 587**	**1 427 069**
Generation	**42 721**	**2 213 878**	**3 436 115**	**-**	**30 644**	**4 787 752**	**10 511 110**
Distribution	**62 766**	**10 998 046**	**4 413 973**	**-**	**272 365**	**1 070 256**	**16 817 406**
Other segments and other operations	**16 860**	**462 200**	**109 394**	**2 815**	**17 419**	**42 394**	**651 082**

In the year ended 31 December 2019, the Group acquired property, plant and equipment of PLN 3 436 312 thousand (including capitalized borrowing costs). The major purchases were made in connection with investments in the following operating segments:

Operating segment	Year ended 31 December 2019	Year ended 31 December 2018
Distribution	1 744 031	1 955 756
Generation	1 300 827	1 202 401
Mining	285 257	237 515

The average capitalization rate of the borrowing costs in the year ended 31 December 2019 was 3.28% versus 3.57% in the year ended 31 December 2018.

Key investment projects carried out by the Group in the financial year 2019 have been described in item1.5.1. Management Board's reports on the activities of TAURON Polska Energia S.A. and of the TAURON Polska Energia S.A. Capital Group for the financial year 2019.

Recognition and reversal of impairment losses on property, plant and equipment had the following impact on operating segment performance:

Year ended 31 December 2019

	Generation	Mining	Distribution	Total
Increase of impairment	(694 044)	(676 610)	(2 138)	**(1 372 792)**
Decrease of impairrment	85 468	-	3 867	**89 335**
Total impact on the profit (loss) for the period	**(608 576)**	**(676 610)**	**1 729**	**(1 283 457)**

(in PLN thousand)

Year ended 31 December 2018

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(1 321 783)	(717 818)	(3 842)	(340)	(2 043 783)
Decrease of impairrment	1 203 095	-	235	-	1 203 330
Total impact on the profit (loss) for the period	**(118 688)**	**(717 818)**	**(3 607)**	**(340)**	**(840 453)**

20. Right-of-use assets

SELECTED ACCOUNTING PRINCIPLES

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

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

A right-of-use asset is measured at cost including:
- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the inception of the lease, less any amount received 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 impairment losses and adjusted for the revaluation of the lease liability. Depreciation and/or amortization principles applied to right-of-use assets are consistent with those applied to depreciation and/or amortization of assets owned by the Group. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset item is fully depreciated over the shorter of the lease term and its useful life.

PROFESSIONAL JUDGMENT AND ESTIMATES

At the date of commencement of the lease, the Group measures a rights-of-use asset, 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 interest rate, in accordance with the adopted methodology depending on the rating.

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

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

Year ended 31 December 2019

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

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this standard recognized at 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard.

(in PLN thousand)

21. Goodwill

SELECTED ACCOUNTING PRINCIPLES

Goodwill is carried at its initial amount (determined in line with the accounting policy presented in Note 6) less accumulated impairment losses. Goodwill is not amortized but it is tested for impairment on an annual basis or more frequently if any indications of impairment occur.

As at the acquisition date, goodwill acquired is allocated to each cash-generating unit that may derive benefits from synergy effects. An operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except the Generation segment).

PROFESSIONAL JUDGMENT AND ESTIMATES

Goodwill is tested for impairment on an annual basis and as at each reporting period end, if appropriate indications occur. Impairment tests for goodwill are performed in line with the accounting principles presented in Note 10.

Operating segment	As at 31 December 2019	As at 31 December 2018
Distribution	25 602	25 602
Other activity	581	581
Total	**26 183**	**26 183**

22. Energy certificates and CO_2 emission allowances

SELECTED ACCOUNTING PRINCIPLES

Energy certificates and CO_2 emission allowances classified as intangible assets include:

- certificates of energy generated using renewable sources and cogeneration, as well as energy efficiency certificates acquired or received for surrendering purposes due to the sale of electricity to end buyers;
- CO_2 emission allowances received or acquired with the intention to fulfil the obligation resulting from emission of CO_2.

Energy certificates and CO_2 emission allowances are classified considering the Group's intention to use them as at the acquisition date (possible subsequent reclassification) as:

- current intangible assets - energy certificates and CO_2 emission allowances designated for internal purposes, where the Group has the intention to surrender them so as to fulfil the obligation for the current year;
- non-current intangible assets - energy certificates and CO_2 emission allowances designated for internal purposes, where they are intended to be used for purposes of the fulfilment of the surrendering obligation for the following years.

At initial recognition, the said assets are measured in accordance with the following principles:

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

The energy certificates and the CO_2 emission allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their being redeemed. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from CO_2 emissions have been presented in Note 35.

22.1. Long-term energy certificates and CO_2 emission allowances

	Year ended 31 December 2019			Year ended 31 December 2018		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**208 585**	**453 018**	**661 603**	**95 795**	**207 335**	**303 130**
Direct purchase	234 252	100 949	**335 201**	194 948	381 116	**576 064**
Reclassification	(136 616)	(391 991)	**(528 607)**	(82 158)	(135 433)	**(217 591)**
Closing balance	**306 221**	**161 976**	**468 197**	**208 585**	**453 018**	**661 603**

(in PLN thousand)

22.2. Short-term energy certificates and CO_2 emission allowances

	Year ended 31 December 2019			Year ended 31 December 2018		
	Energy certificates	CO_2 emission allowances	Total	Energy certificates	CO_2 emission allowances	Total
Opening balance	**90 267**	**111 396**	**201 663**	**327 324**	**324 936**	**652 260**
Direct purchase	379 664	300 484	**680 148**	327 991	476 145	**804 136**
Generated internally	143 644	-	**143 644**	86 531	-	**86 531**
Business acquisition	10 579	-	**10 579**	-	-	**-**
Cancellation	(165 802)	(113 646)	**(279 448)**	(733 256)	(825 118)	**(1 558 374)**
Reclassification	136 616	391 991	**528 607**	81 677	135 433	**217 110**
Closing balance	**594 968**	**690 225**	**1 285 193**	**90 267**	**111 396**	**201 663**

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

Balance of emission allowances	Year ended 31 December 2019	Year ended 31 December 2018
Allowances recorded at the beginning of the financial year	**11 469 679**	**24 649 436**
Allowances surrendered:		
in the installations of TAURON Wytwarzanie S.A. (previous year's emissions)	(1 172 702)	(14 656 752)
in the installations of TAURON Ciepło Sp. z o.o. (previous year's emissions)	(1 914 237)	(1 878 114)
in the installations of TAURON Wytwarzanie S.A. (current year's emissions)	-	(11 494 000)
Allocation of free-of-charge allowances	302 651	379 609
Allowances purchased on the secondary market	11 047 500	17 547 000
Allowances sold on the secondary market	(5 948 000)	(3 077 500)
Allowances recorded at the end of the financial year, *of which:*	**13 784 891**	**11 469 679**
Allowances intended for surrender for a given year:	(11 413 633)	(3 048 547)
in the installations of TAURON Wytwarzanie S.A.	(9 815 035)	(1 132 025)
in the installations of TAURON Ciepło Sp. z o.o.	(1 598 598)	(1 916 522)

In 2019 the TAURON Group companies received free-of-charge emission allowances pursuant to Article 10a of Directive of the European Parliament and the Council 2009/29/EC of 23 April 2009, in the amount of 302 651 EUA for heat production. The other allowances, necessary to balance the emission needs in 2019, were purchased and contracted for purchase on the secondary market.

In order to secure the liabilities of TAURON Polska Energia S.A. resulting from the transactions concluded by the Company on the Polish Power Exchange S.A. agreements on transfer of CO_2 emission allowances to the Warsaw Commodity Clearing House have been concluded, what is more detailed in note 51 hereto.

23. Other Intangible Assets

SELECTED ACCOUNTING PRINCIPLES

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

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

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

PROFESSIONAL JUDGMENT AND ESTIMATES

Impairment

As at each reporting period end, 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 10.

Amortization method and rate, as well as the residual value are verified at least at the end of each financial year. Any changes arising from the verification are recognized as changes in estimates, with adjustments to amortization charges (if any) effective as of the beginning of the reporting period when the verification was completed.

(in PLN thousand)

Useful lives

Average residual useful lives by other intangible asset group:

Asset group	Average remaining amortization period (number of years)
Software, concessions, patents, licenses and similar items	3 years
Other	7 years

Year ended 31 December 2019

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**6 403**	**774 682**	**776 434**	**271 336**	**85 486**	**1 914 341**
Impact of IFRS 16 *Leases*	-	(758 941)	-	(94 809)	(12 931)	(866 681)
Restated opening balance	**6 403**	**15 741**	**776 434**	**176 527**	**72 555**	**1 047 660**
Direct purchase	-	-	-	-	120 034	**120 034**
Transfer of intangible assets not made available for use	2 543	-	65 962	9 041	(77 546)	**-**
Sale/ Liquidation	-	-	(19 938)	(562)	(469)	**(20 969)**
Other movements	-	(136)	(391)	(1 039)	(321)	**(1 887)**
Foreign exchange differences from translation of foreign entities	-	-	2	-	-	**2**
Closing balance	**8 946**	**15 605**	**822 069**	**183 967**	**114 253**	**1 144 840**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 744)**	**(25 387)**	**(493 665)**	**(101 835)**	**(7)**	**(626 638)**
Impact of IFRS 16 *Leases*	**-**	**25 387**	**-**	**15 987**	**-**	**41 374**
Restated opening balance	**(5 744)**	**-**	**(493 665)**	**(85 848)**	**(7)**	**(585 264)**
Amortization for the period	(349)	-	(87 833)	(12 403)	-	**(100 585)**
Increase of impairment	(157)	-	(1 000)	(59)	(23)	**(1 239)**
Decrease of impairment	-	-	30	-	-	**30**
Sale/ Liquidation	-	-	19 936	545	-	**20 481**
Foreign exchange differences from translation of foreign entities	-	-	(2)	-	-	**(2)**
Closing balance	**(6 250)**	**-**	**(562 534)**	**(97 765)**	**(30)**	**(666 579)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERI(	**659**	**749 295**	**282 769**	**169 501**	**85 479**	**1 287 703**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**2 696**	**15 605**	**259 535**	**86 202**	**114 223**	**478 261**

Year ended 31 December 2018

	Development expenses	Perpetual usufruct right	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**6 403**	**773 287**	**644 480**	**236 548**	**148 502**	**1 809 220**
Direct purchase	-	3 926	-	-	119 121	**123 047**
Transfer of intangible assets not made available for use	-	1 341	154 045	32 545	(187 931)	**-**
Sale/ Liquidation	-	(863)	(22 363)	(1 102)	(4)	**(24 332)**
Other movements	-	(3 009)	242	3 345	5 798	**6 376**
Foreign exchange differences from translation of foreign entities	-	-	30	-	-	**30**
Closing balance	**6 403**	**774 682**	**776 434**	**271 336**	**85 486**	**1 914 341**
ACCUMULATED AMORTIZATION						
Opening balance	**(5 265)**	**(25 371)**	**(439 639)**	**(84 861)**	**(7)**	**(555 143)**
Amortization for the period	(257)	-	(75 408)	(17 669)	-	**(93 334)**
Increase of impairment	(375)	(43)	(1 313)	(121)	(58)	**(1 910)**
Decrease of impairment	153	27	331	21	58	**590**
Sale/Liquidation	-	-	22 361	795	-	**23 156**
Other movements	-	-	32	-	-	**32**
Foreign exchange differences from translation of foreign entities	-	-	(29)	-	-	**(29)**
Closing balance	**(5 744)**	**(25 387)**	**(493 665)**	**(101 835)**	**(7)**	**(626 638)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERI(	**1 138**	**747 916**	**204 841**	**151 687**	**148 495**	**1 254 077**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**659**	**749 295**	**282 769**	**169 501**	**85 479**	**1 287 703**

(in PLN thousand)

The Group has decided to apply the modified retrospective approach and the practical expedients allowed by IFRS 16 *Leases*, i.e. with the cumulative effect of initially applying this Standard recognized at the date of 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. Therefore, the perpetual usufruct of land and easements in 2018 are classified as other intangible assets. As at 1 January 2019, the Group reclassified rights of perpetual usufruct of land, other intangible assets (easements) and expenditures on other intangible assets (easements) not put to use, whose total value as at 1 January 2019 amounts to PLN 825 307 thousand, within the scope of IFRS 16 *Leases* from other intangible assets to right-of-use assets.

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

24. Investments in joint ventures

SELECTED ACCOUNTING PRINCIPLES

Joint arrangements of the Group classified as joint ventures are recognized 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 (recognized in profit or loss or in other comprehensive income of the Group, as appropriate).

PROFESSIONAL JUDGMENT AND ESTIMATES

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

Impairment

Interests in joint ventures are tested for impairment if indications of impairment or reversal of impairment losses recognized before are identified.

	As at 31 December 2019 and for the year ended 31 December 2019			As at 31 December 2018 and for the year ended 31 December 2018 *(restated figures)*		
	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o. *	As at 31 December 2019	Elektrociepłownia Stalowa Wola S.A. *(restated figures)*	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2018 *(restated figures)*
Non-current assets	1 623 476	2 186 422	**3 809 898**	1 362 534	2 027 410	**3 389 944**
Current assets, *including:*	136 404	644 722	**781 126**	11 625	775 825	**787 450**
cash and cash equivalents	*90 830*	*284 503*	***375 333***	*3 376*	*336 462*	***339 838***
Non-current liabilities (-) *including:*	(1 719 704)	(922 262)	**(2 641 966)**	(1 399 226)	(849 842)	**(2 249 068)**
debt	*(1 716 142)*	*(827 878)*	***(2 544 020)***	*(1 343 897)*	*(768 011)*	***(2 111 908)***
Current liabilities (-) *including:*	(519 395)	(709 111)	**(1 228 506)**	(416 860)	(783 951)	**(1 200 811)**
debt	*(34 961)*	*(184 095)*	***(219 056)***	*(6 437)*	*(122 628)*	***(129 065)***
Total net assets	(479 219)	1 199 771	**720 552**	(441 927)	1 169 442	**727 515**
Share in net assets	(239 610)	599 886	**360 276**	(220 964)	584 721	**363 757**
Investment in joint ventures	**-**	**559 144**	**559 144**	**-**	**543 913**	**543 913**
Share in revenue of joint ventures	425	959 938	**960 363**	86	861 206	**861 292**
Share in profit/(loss) of joint ventures	**-**	**47 947**	**47 947**	**-**	**54 890**	**54 890**
Share in other comprehensive income of joint ventures	**-**	**(987)**	**(987)**	**-**	**(71)**	**(71)**

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

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. The entity was registered to carry out an investment project, i.e. construction of a gas and steam unit fuelled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 450 MWe and the net heat capability of 240 MWt.

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

In addition, the Company has receivables arising from loans granted to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 243 034 thousand, which has been discussed in more detail in Note 25 to these consolidated financial statements.

Judgment of the Court of Arbitration at the Polish Chamber of Commerce on the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019, a judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw was issued in the case filed by Abener Energia S.A. ("Abener") against Elektrociepłownia Stalowa Wola S.A. ("ECSW"), which is a joint venture of the TAURON Group, in which the Company holds, indirectly through its subsidiary TAURON Wytwarzanie S.A., 50% of shares in the issued capital.

The case pending at the Court of Arbitration concerned a claim for payment, for establishing the legal relationship and for the obligation to submit a declaration of intent in connection with the terminated contract concluded between Abener (general contractor) and ECSW (contracting authority) for the construction of a gas and steam unit in Stalowa Wola. Under the judgement of the Court of Arbitration, ECSW was obligated to pay to Abener the amount of PLN 333 793 thousand along with statutory interest for delay and costs of the arbitration proceedings. On 24 June 2019, ECSW filed a complaint with the Court of Appeal in Rzeszów against the judgement. The proceedings of complaint is pending.

On 15 July 2019, the ECSW received a request from Abener addressed to the Court of Appeal in Rzeszów to declare the judgement enforceable. By order of 5 August 2019, the Court of Appeal in Rzeszów postponed consideration of the case from the application for a declaration of enforceability until the end of the proceedings on the complaint.

On 20 December 2019, ECSW received a new case filed by Abener with the Court of Arbitration. The subject matter of the claim is the payment by the ECSW to Abener of the total amount of PLN 156 447 thousand and EUR 537 thousand together with statutory interest for delay on account of damages resulting from demanding and obtaining by the ECSW, at Abener's expense, payment from the performance bond or, alternatively, reimbursement of unjustified enrichment obtained by the ECSW at Abener's expense in connection with obtaining payment from the performance bond. The guarantee was granted to ECSW by Abener in accordance with the contract concluded between the parties for the construction of the CCGT unit in Stalowa Wola. The respond to it was filed by ECSW on 20 March 2020. Assessment of the claims and the grounds on which they are based indicates that they are unfounded. The arbitration case is pending.

On 30 December 2019, ECSW submitted a call for arbitration for Abener to pay the amount of PLN 177 853 thousand and EUR 461 thousand, plus interest, as compensation for the damage corresponding to the costs of rectifying defects, faults and inadequate works, supplies and services improperly performed by Abener under the contract for the construction of the CCGT unit in Stalowa Wola. The case is pending.

In connection with the above judgement Elektrociepłownia Stalowa Wola S.A. recognized in the statement of financial position for 2018 a provision in the amount of PLN 397 965 thousand, which reduced the share in net assets attributable to the TAURON Group. The Group presented comparable data on investments in joint ventures as at 31 December 2018, taking into account the impact of the above provision.

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

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014 a shareholders' agreement was concluded by and between the TAURON Group and the ArcelorMittal Group regarding TAMEH HOLDING Sp. z o.o., which is responsible for investment and operational projects related to the industrial power sector. The duration of the agreement is 15 years and may be extended. Each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o.

TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH POLSKA Sp. z o.o., incorporated by the following entities contributed by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Blachownia along with Kraków Heat and Power Plant contributed by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o., based on the Ostrava Heat and Power Plant..

On 28 June 2019, the General Shareholders' Meeting of TAMEH Holding Sp. z o.o. decided to allocate PLN 64 356 thousand to pay dividends to the shareholders. The Group's interest in the joint venture TAMEH Holding Sp. z o.o. was reduced by the value of the dividend payable to the Group in the amount of PLN 32 178 thousand.

(in PLN thousand)

25. Loans granted to joint ventures

SELECTED ACCOUNTING PRINCIPLES

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

PROFESSIONAL JUDGMENT AND ESTIMATES

Pursuant to IFRS 9 *Financial Instruments*, the Group classifies and measures loans, estimating allowances for expected credit losses for items classified as assets measured at amortized cost.

As at the reporting period end, the loan granted under a debt consolidation agreement of 28 February 2018 was classified as a financial asset measured at fair value through profit or loss, since its cash flows are not limited to principal and interest repayment. Fair value was estimated accordingly. The fair value calculation methodology is presented in Note 47 hereto.

Other loans are measured at amortized cost, with expected credit losses estimated as at each reporting period end. Calculation methodology and amounts of expected credit losses are presented below in Notes 48.1.4 hereto.

	Agreement date	Loan amount	As at 31 December 2019			As at 31 December 2018			Maturity date	Interest rate
			Gross value	Impairment allowance	Total	Gross value	Impairment allowance	Total		
Loans measured at fair value										
Debt consolidation agreement	28.02.2018	609 951	216 018		**216 018**	199 256		**199 256**	30.06.2033	fixed
Loans measured at amortized cost										
VAT loan	11.04.2018	15 000	5 109	(110)	**4 999**	2 655	(68)	**2 587**	30.09.2020	WIBOR 1M+mark-up
Other loans	30.03.2018	7 290	7 955	(218)	**7 737**	7 400	(182)	**7 218**	30.06.2033	fixed
	19.12.2018	9 500	9 197	(252)	**8 945**	8 556	(210)	**8 346**		
	12.03.2019	5 175	5 485	(150)	**5 335**	-	-	**-**		
Total			**243 764**	**(730)**	**243 034**	**217 867**	**(460)**	**217 407**		
Non-current			238 655	(620)	**238 035**	217 862	(460)	**217 402**		
Current			5 109	(110)	**4 999**	5	-	**5**		

The above loans regard the loans granted to a joint venture Elektrociepłownia Stalowa Wola S.A. The most significant item is the agreement consolidating the borrower's debt of 28 February 2018 for the total amount of PLN 609 951 thousand, under which all existing liabilities of Elektrociepłownia Stalowa Wola S.A. towards the Company resulting from loans granted and not repaid by 28 February 2018 were renewed. As at the balance sheet date, the par value of the loan, constituting subordinated debt owed to the Company, was PLN 310 851 thousand. The principal of PLN 299 100 thousand was repaid on 30 April 2018. The debt in question is subordinated debt, measured as at the balance sheet date at the fair value of PLN 216 018 thousand.

26. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

Other financial assets include e.g. shares, units in investment funds, bid bonds, deposits and collateral, derivatives and loans to unrelated entities.

Upon initial recognition, financial assets are classified to an appropriate class and measured accordingly. Financial assets classification and measurement principles under IFRS 9 *Financial Instruments* are presented in Note 47 hereto.

PROFESSIONAL JUDGMENT AND ESTIMATES

To measure financial assets at fair value, the Group must estimate their fair value at each reporting period end. The fair value calculation methodology is presented in Note 44 hereto.

To measure financial assets at amortized cost, the Group must estimate expected credit losses as at each reporting period end. Expected credit losses estimating methodology and amounts of expected credit losses for loans granted are presented in Note 48.1.4 hereto.

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Receivables due to financial compensation for traiding companies	151 114	-
Initial and variation margin deposits arising from stock exchange transactior	209 466	163 495
Derivative instruments	105 529	220 343
Shares	140 508	138 492
Bid bonds, deposits and collateral transferred	131 192	89 498
Deposits and term deposits for Mining Decommissioning Fund	50 228	47 126
Investment fund units	26 622	26 063
Loans granted	12 451	10 145
Other	7 447	2 548
Total	**834 557**	**697 710**
Non-current	235 522	254 677
Current	599 035	443 033

The receivables on account of compensation for trading companies relate to receivables on account of Financial Compensation for the fourth quarter of 2019, which is discussed in more detail in Note 12 hereto.

Initial and variation margins on account of exchange settlements is mainly related to futures transactions on the CO_2 emission allowances concluded on foreign exchange markets.

The asset resulting from a positive valuation of derivatives relates mainly to forward instruments on account of transactions for which the underlying commodity is CO_2 emission allowances.

Collaterals, deposits and transferred collaterals concern mainly the collaterals transferred within the framework of the clearing guarantee system with the Warsaw Commodity Clearing House. As at 31 December 2019 the collateral amounted to PLN 82 607 thousand and as at 31 December 2018 to PLN 44 538 thousand.

As at 31 December 2019 the shares held by the Group are mainly shares in the following entities:

- SCE Jaworzno III Sp. z o.o., in the amount of PLN 30 386 thousand;
- Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o., in the amount of PLN 23 801 thousand;
- PGE EJ 1 Sp. z o.o., in the amount of PLN 14 402 thousand;
- Energetyka Cieszyńska Sp. z o.o., in the amount of PLN 13 773 thousand;
- ElectroMobility Poland S.A., in the amount of PLN 11 847 thousand;
- ECC Magenta Sp. z o.o. 2 ASI SKA, in the amount of PLN 10 950 thousand;

27. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

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

27.1. Other non-current non-financial assets

	As at 31 December 2019	As at 31 December 2018 *(restated figures)*
Prepayments for assets under construction and intangible assets *including:*	79 296	101 755
related to project realization: Construction of 910 MW Power Unit in Jaworzno	*74 774*	*98 114*
Prepayments for debt charges	10 767	14 307
Contract acquisition costs and costs of discounts	3 365	9 641
Other prepayments	58 860	42 348
Total	**152 288**	**168 051**

(in PLN thousand)

27.2. Other current non-financial assets

	As at 31 December 2019	As at 31 December 2018 *(restated figures)*
Costs settled over time	**87 416**	**50 421**
IT, telecom and postal services	24 449	21 062
Property and tort insurance	45 222	8 012
Contract acquisition costs and costs of discounts	8 399	7 632
Prepayments for debt charges	3 796	3 414
Other prepayments	5 550	10 301
Other current non-financial assets	**12 859**	**5 208**
Advance payments for deliveries	3 521	3 218
Other current assets	9 338	1 990
Total	**100 275**	**55 629**

Social Benefit Fund

The Group entities offset the Fund assets with their liabilities to the Fund as the assets are not classified as separate assets of the Group. As at 31 December 2019, the surplus of assets over liabilities to the Social Benefits Fund was PLN 825 thousand (presented in the following table under other current assets). Presented below is an analysis of the fund.

	As at 31 December 2019	As at 31 December 2018
Loans granted to employees	25 251	28 181
Cash	20 861	17 364
Other Fund assets and liabilities	(3 511)	(3 209)
Social Fund liabilities	(41 776)	(42 333)
Net balance	**825**	**3**
Transfers made to the Social Fund during the period	(59 217)	(55 101)

28. Inventories

SELECTED ACCOUNTING PRINCIPLES

Inventories are measured at the lower of cost and net realizable value. CO_2 emission allowances purchased for resale and generation of profit in the short term due to volatility of market prices are measured at fair value at the end of each reporting period.

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

The Group's inventories include mainly the inventory of fuels.

PROFESSIONAL JUDGMENT AND ESTIMATES

Measurement of inventories requires estimation of net realizable value. Net realizable value is the difference between the estimated sale price in the ordinary course of business and the estimated costs of completion with the estimated costs necessary to make the sale. Fair value measurement of the CO_2 emission allowances held as described above is based on prices quoted on active markets.

(in PLN thousand)

	As at 31 December 2018	As at 31 December 2017
Gross value		
Coal, of which:	557 472	377 119
Raw materials	*253 514*	*188 876*
Semi-finished goods and work-in-progress	*295 471*	*184 833*
CO_2 emission allowances	-	2 762
Other inventories	137 906	138 920
Total	**695 378**	**518 801**
Measurement to fair value		
CO_2 emission allowances	-	46
Measurement to net realisable value		
Other inventories	(11 226)	(9 046)
Total	**(11 226)**	**(9 000)**
Fair value		
CO_2 emission allowances	-	2 808
Net realisable value		
Coal, of which:	557 472	377 119
Raw materials	*253 514*	*188 876*
Semi-finished goods and work-in-progress	*295 471*	*184 833*
Other inventories	126 680	129 874
Total	**684 152**	**509 801**

29. Receivables from buyers

SELECTED ACCOUNTING PRINCIPLES

Receivables from buyers include amounts due which have been billed and those which have been recognized on account of revenue but have not been measured and billed due to the buyer settlement system used. The accounting policy applicable to accrued revenue has been presented in Note 11.

Receivables from buyers are measured at the originally billed amounts (including the effect of discounting, if material), less allowances/write-downs.

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

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

Amounts receivable from buyers are divided into the portfolios of strategic and other counterparties.

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

It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this group of counterparties have been estimated through an analysis of ageing of receivables and percentage ratios assigned to individual ranges and groups (such as receivables claimed at court, receivables from counterparties in bankruptcy) which help estimate the value of receivables from buyers which are not expected to be paid.

In order to consider future factors, the Company adjusts the historical probability of default using the probability level implied by quotings of annual Credit Default Swap (CDS) instruments for each rating.

Impairment of receivables is recognized in classes of expenses corresponding to each asset's function, i.e. as operating or financial expenses, depending on the related type of amount receivable.

PROFESSIONAL JUDGMENT AND ESTIMATES

Under IFRS 9 *Financial Instruments*, the Group estimates impairment losses on receivables from buyers attributable to expected credit losses. The allowance calculation methodology is presented above.

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Value of items before allowance/write-down		
Receivables from buyers	1 616 813	1 586 686
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	689 395	657 352
Receivables claimed at court	213 900	207 121
Total	**2 520 108**	**2 451 159**
Allowance/write-down		
Receivables from buyers	(39 655)	(38 833)
Receivables claimed at court	(189 707)	(182 926)
Total	**(229 362)**	**(221 759)**
Value of item net of allowance (carrying amount)		
Receivables from buyers	1 577 158	1 547 853
Receivables from buyers – additional assessment of revenue from sales of electricity and distribution services	689 395	657 352
Receivables claimed at court	24 193	24 195
Total, *of which:*	**2 290 746**	**2 229 400**
Current	2 290 746	2 229 363

According to the described above model the Group estimates allowances for expected credit losses.

Aging of receivables from buyers as at 31 December 2019

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	2 039 689	216 273	33 588	18 031	31 981	180 546	**2 520 108**
Percentage of allowance/write-down	0%	3%	31%	85%	98%	87%	-
Allowance/write-down	(9 541)	(6 252)	(10 534)	(15 329)	(31 356)	(156 350)	**(229 362)**
Net Value	**2 030 148**	**210 021**	**23 054**	**2 702**	**625**	**24 196**	**2 290 746**

Aging of receivables from buyers as at 31 December 2018

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	2 016 850	174 830	34 120	17 093	24 989	183 277	**2 451 159**
Percentage of allowance/write-down	1%	3%	24%	76%	94%	87%	-
Allowance/write-down	(12 292)	(5 008)	(8 255)	(12 980)	(23 564)	(159 660)	**(221 759)**
Net Value	**2 004 558**	**169 822**	**25 865**	**4 113**	**1 425**	**23 617**	**2 229 400**

As at the end of the reporting period, the Group did not have any material non-collectible items not covered with an allowance.

Impairment allowances on receivables from buyers

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**(221 759)**	**(193 367)**
Effects of implementing IFRS 9	-	(31 471)
Restated opening balance	**(221 759)**	**(224 838)**
Recognised	(13 931)	(3 815)
Utilized	5 101	2 553
Reversed	1 221	2 539
Other movements	6	1 802
Closing balance	**(229 362)**	**(221 759)**

30. Income tax receivables

Income tax receivables of PLN 255 702 thousand include mostly receivables of the Tax Capital Group in the amount of PLN 255 459 thousand. The amount due relates entirely to 2019 and constitutes a surplus of advance income tax payments of PLN 442 514 thousand over the tax charge of the Tax Capital Group in the amount of PLN 187 055 thousand.

The articles of association of the Tax Capital Group for the years 2018–2020 were registered on 30 October 2017. Pursuant to the previous agreement, TGC was registered for the period of three fiscal years from 2015 to 2017.

(in PLN thousand)

Since 1 January 2018 the Tax Capital Group has comprised the following companies: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

31. Receivables arising from other taxes and charges

SELECTED ACCOUNTING PRINCIPLES

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

- VAT and excise duty settlements;
- PIT and social insurance;
- Environmental fees and other regulatory settlements.

	As at 31 December 2019	As at 31 December 2018
VAT receivables	362 745	165 310
Excise duty receivables	10 974	39 764
Other	10 995	4 672
Total	**384 714**	**209 746**

The increase in VAT amounts due relates mainly to companies in the Generation segment and results from the following:

- amendments to the rules on taxation of the acquisition of CO2 emission allowances. Under the amended regulations, as of November 2019, the purchase of CO_2 emission allowances was subject to a 23% VAT rate, which resulted in an increase in the tax payable in manufacturing companies,
- increased investment purchases and fuel purchases in connection with the test start-up of the 910 MW unit.

32. Cash and cash equivalents

SELECTED ACCOUNTING PRINCIPLES

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

Cash is recognized at face value. At the end of the reporting period, the face value of cash deposited in bank accounts includes also accrued bank interest or interest calculated by the entity itself.

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

	As at 31 December 2019	As at 31 December 2018
Cash at bank and in hand	1 231 112	602 592
Short-term deposits (up to 3 months)	4 898	178 132
Other	1 942	43 000
Total cash and cash equivalents presented in the statement of financial position, *of which*:	**1 237 952**	**823 724**
restricted cash, *including:*	729 450	231 987
collateral of settlements with Izba Rozliczeniowa Giełd Towarowych S.A.	*599 059*	*84 431*
bank accounts related to subsidies received	*71 606*	*80 060*
cash on VAT bank accounts (split payment)	*58 428*	*67 149*
Bank overdraft	(23 339)	(767)
Cash pool	(10 973)	(14 690)
Foreign exchange	(39)	(295)
Total cash and cash equivalents presented in the statement of cash flows	**1 203 601**	**807 972**

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

(in PLN thousand)

33. Equity

SELECTED ACCOUNTING PRINCIPLES

Issued capital

Issued capital is recognized at the amount determined in the articles of association of the Parent and recorded in the court register.

Reserve 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 joint stock company, until its amount equals at least one-third of the share capital.

Revaluation reserve from valuation of hedging instruments

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

Exchange differences from translation of a foreign entities

Individual items of the financial statements of foreign operations (TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ) - until the date of acquasition by the Company Finanse Grupa TAURON Sp. z o.o) have been translated to the presentation currency in the following manner:

- 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 reporting period;
- 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;

Exchange differences from translation have been recognized in other comprehensive income.

Retained earnings / (accumulated losses)

Retained earnings / (accumulated losses) include:

- prior years' retained earnings/uncovered losses;
- reserve and supplementary capital of subsidiaries that occurred after the control assuming date;
- acquisition/business combination of entities being under common control, accounted for using the pooling of interests method;
- actuarial gains and losses regarding provisions for post-employment benefits recognized 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 deemed cost at the date of adoption of IFRS or application of exemptions from IFRS 1 *Adoption of International Financial Reporting Standards* for the first time.

Non-controlling interest

Non-controlling interests are 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.

33.1. Issued capital

Issued capital as at 31 December 2019

Class/ issue	Type of shares	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
AA	bearer shares	1 589 438 762	5	7 947 194	cash/in-kind contribution
BB	registered shares	163 110 632	5	815 553	in-kind contribution
	Total	**1 752 549 394**		**8 762 747**	

Shareholding structure as at 31 December 2019 *(to the best of the Company's knowledge)*

Shareholder	Number of shares	Nominal value of shares	Percentage of share capital	Percentage of total vote
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden Otwarty Fundusz Emerytalny	88 742 929	443 715	5.06%	5.06%
Other shareholders	954 847 515	4 774 237	54.49%	54.49%
Total	**1 752 549 394**	**8 762 747**	**100%**	**100%**

(in PLN thousand)

As at 31 December 2019, the value of issued capital, the number of shares, the nominal value of shares and the shareholding structure, to the best of the Company's knowledge, had not changed since 31 December 2018.

33.2. Shareholder rights

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

Detailed information regarding the voting right limitations is presented in Note 9.6. Management Board's reports on the activities of TAURON Polska Energia S.A. and of the TAURON Polska Energia S.A. Capital Group for the financial year 2019.

33.3. Reserve capital

On 8 May 2019, the Ordinary General Meeting of Shareholders of the Company adopted a resolution on covering the Company's net loss for the financial year 2018 in the amount of PLN 1 709 853 thousand from the Company's reserve capital.

33.4. Retained earnings and accumulated losses and restrictions on dividend payment

Prior year profit/loss arising from settlement of business combinations with subsidiaries and actuarial gains and losses related to provisions for post-employment benefits recognized through other comprehensive income are not distributable.

As at 31 December 2019 and as at the date of approving these consolidated financial statements for publication no other dividend restriction occurred.

33.5. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**3 371**	**23 051**
Remeasurement of hedging instruments	15 074	(24 290)
Remeasurement of hedging instruments charged to profit or loss	105	(7)
Deferred income tax	(2 884)	4 617
Closing balance	**15 666**	**3 371**

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 47.3 hereto.

As at 31 December 2019 the Company recognized PLN 15 666 thousand of revaluation reserve from valuation of hedging instruments. It represents an asset arising from valuation of interest rate swaps (IRS) as at the end of the reporting period, totaling PLN 19 462 thousand, adjusted by a portion of valuation relating to interest accrued on debt as at the end of the reporting period, including deferred tax.

33.6. Non-controlling interest

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**132 657**	**31 367**
Effects of implementing IFRS 9 and IFRS 15	-	397
Restated opening balance	**132 657**	**31 764**
Shareholder contributions related to the assumption of shares	771 157	100 000
Share in subsidiaries' net profit or loss	(775)	2 165
Dividends for non-controlling interests	(1 932)	(879)
Acquisition of non-controlling interests by the Group and mandatory squeeze-out	(442)	(353)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	(231)	(40)
Closing balance	**900 434**	**132 657**

During the year ended 31 December 2019 the value of non-controlling interests increased as a result of the acquisition by Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and PFR Inwestycje Fundusz Inwestycji Zamkniętych of shares in the increased issued capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. for the total amount of PLN 780 000 thousand, which is described in detail in Note

(in PLN thousand)

2.2 hereto. Condensed financial information of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. is presented in the table below:

	Year ended 31 December 2019	Year ended 31 December 2018
Total assets	6 219 329	4 944 164
Total liabilities	525 173	257 198
Net loss	(22 670)	(11 655)
Net increase in cash and cash equivalents	149 993	207 584

34. Dividends paid

	Year ended 31 December 2019	Year ended 31 December 2018
Dividends paid by subsidiaries	(1 932)	(817)

In the year ended 31 December 2019 and in the year ended 31 December 2018 the Parent did not pay dividends.

35. Debt

SELECTED ACCOUNTING PRINCIPLES

Debt comprises bank loans, borrowings, debt securities and lease liabilities.

- Bank loans, borrowings, bonds issued

Initially, bank loans, borrowings, bonds issued are measured at fair value less transaction costs and discounts or premiums. After initial recognition it is measured at amortized cost using the effective interest method.

- Leases

An agreement or part of a lease agreement, or other agreement or part of an agreement of a similar nature, under which the right to control the use of an asset (an 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 at the lease interest rate specified in the agreement (if determinable) or the marginal interest rate. Lease payments included in the valuation of the lease liability include:

- fixed lease payments less any applicable lease incentives,

- variable lease payments that depend on an index or rate, valued initially using that index or rate at their starting date,

- the amounts expected to be paid by the lessee under the underlying asset's residual value guarantee,

- the exercise price of the call option, if it can be assumed that the lessee will exercise it,

- fines for termination of the lease.

PROFESSIONAL JUDGMENT AND ESTIMATES

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

In the case of a loan agreement defining the maximum term of individual credit tranches up to 1 year, where the financing available under the agreement is revolving and the term of availability exceeds 1 year, the Group classifies the tranches according to the intention and possibility of maintaining financing under the agreement, i.e. as long-term or short-term liabilities.

The marginal interest rate of lease is estimated as a weighted average cost of TAURON Group's debt adjusted for the individual rating of the companies taking into account the division into lease periods.

	As at 31 December 2019	As at 31 December 2018
Loans and borrowings	7 050 651	886 285
Bonds issued	6 257 022	10 077 067
Lease	1 006 603	25
Total	**14 314 276**	**10 963 377**
Non-current	11 830 183	8 488 210
Current	2 484 093	2 475 167

(in PLN thousand)

35.1. Loans and borrowings

Loans and borrowings taken out as at 31 December 2019

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

Loans and borrowings taken out as at 31 December 2018

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	34 832	34 832	19 159	3 183	4 243	4 135	4 112	-
	fixed	845 983	845 983	53 557	102 298	140 678	140 678	233 495	175 277
Total PLN		**880 815**	**880 815**	**72 716**	**105 481**	**144 921**	**144 813**	**237 607**	**175 277**
USD	floating	204	767	767	-	-	-	-	-
Total USD		**204**	**767**	**767**	**-**	**-**	**-**	**-**	**-**
Total			**881 582**	**73 483**	**105 481**	**144 921**	**144 813**	**237 607**	**175 277**
Interest increasing carrying amount			4 703						
Total			**886 285**						

The major liabilities due to loans and borrowings have been presented in the table below:

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2019	As at 31 December 2018
Loans	Consortium of banks	Redemption of bonds, investment expenditures and general expenses of the Group	Floating	28.06.2020 *	1 839 159	-
				02.09.2020 *	151 376	-
				10.09.2020 *	302 555	-
				01.10.2020 *	604 070	-
				14.10.2020 *	301 714	-
				31.01.2020	502 358	-
				30.04.2020	502 330	-
				28.02.2020	501 195	-
				13.01.2020	600 868	-
Loans	Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	Floating	20.12.2033	998 458	-
Loans	European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	15.12.2021	40 047	59 116
		Construction and start-up of a co-generation unit at EC Bielsko Biała	Fixed	15.12.2021	57 294	84 613
		Modernization and extension of power grid	Fixed	15.06.2024	175 298	212 219
			Fixed	15.09.2024	89 820	107 353
			Fixed	15.09.2024	112 661	134 738
		Modernization and extension of power grid and improvement of hydropower plants	Fixed	15.03.2027	219 415	252 637
Overdraft facility	Bank Gospodarstwa Krajowego	financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	Floating	31.12.2020	20 456	-
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	12 000	16 000
Other loans and borrowings					19 577	19 609
Total					**7 050 651**	**886 285**

* *Tranche classified as a long-term liability*

(in PLN thousand)

Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the bank consortium, the maximum period for drawing individual credit tranches is 12 months. However, the financing available under the agreement is renewable and the deadline for its availability is end 2022. Some of the tranches contracted as at 31 December 2019 have a 12-month maturity, falling in 2020. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date with respect to credit tranches with a 12-month repayment term, this liability is presented as a long-term liability. The remaining tranches with an original maturity of less than 1 year are classified as current liabilities, according to their contractual maturity.

Changes in the balance of bank loans and borrowings, excluding interest increasing their carrying amount, in the year ended 31 December 2019 and in the comparative period, have been presented below.

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**881 582**	**1 185 231**
Effects of implementing IFRS 9	-	(33 055)
Restated opening balance	**881 582**	**1 152 176**
Movement in bank overdrafts and cash pool loans received	**21 453**	**(96 683)**
Movement in other loans:	**6 124 740**	**(173 911)**
Repaid	(1 367 360)	(168 874)
Taken*	5 646 173	293
Replacing bond issue scheme with loan arrangement*	1 837 822	-
Forgiveness	-	(11 138)
Change in valuation	8 105	5 808
Closing balance	**7 027 775**	**881 582**

** Inclusive of the borrowing costs*

In the year ended 31 December 2019, the Group carried out the following transactions relating to bank loans and borrowings (in nominal value), excluding overdraft facilities:

Lender	Description	Year ended 31 December 2019	
		Drawdown	Repayment
Consortium of banks	Tranche 1 - replacement of bond issue scheme with credit agreement	1 839 600	
	Drawdown of tranches 2-12	4 650 000	(1 200 000)
Bank Gospodarstwa Krajowego	Drawdown of tranches 1-4 (all available funding)	1 000 000	
Europejski Bank Inwestycyjny	Repayment of capital instalments according to schedule		(162 318)
Other borrowings			(5 042)
Total, *including:*		**7 489 600**	**(1 367 360)**
Cash flows		5 150 000	(867 360)
Net settlement (without cash flow)		2 339 600	(500 000)

Loan agreement with a bank consortium (replacement of the bond issue scheme)

On 19 June 2019, a credit agreement was concluded for the amount of PLN 6 070 000 thousand, to which the Company as the borrower and Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (Joint Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A. as lenders.

The credit agreement essentially replaces the bond issue scheme up to PLN 6 270 000 thousand concluded on 24 November 2015, as amended, with banks that are parties to the credit agreement concluded on 19 June 2019 and with BNP Paribas Bank Polska S.A., which will continue to finance the Company under the bond issue scheme.

The key financing parameters specified in the loan agreement, including the level of margin, the duration of financing and the level of financial exposure of individual lenders do not change with respect to the bond issue scheme. The Company has available financing under the credit agreement:

- until 31 December 2021 in the amount of PLN 6 070 000 thousand,
- until 31 December 2022 in the amount of PLN 5 820 000 thousand.

According to the agreement, the funds in the first place, i.e. the funds from the first credit tranche disbursed on 28 June 2019 were allocated for the redemption of bonds with a nominal value of PLN 1 839 600 thousand issued so far under the bond issue scheme. The settlement was made in net amounts, i.e. without physical transfer of cash. Moreover, the financing is earmarked, among others, for the implementation of activities resulting from the update of strategic directions, which are complementary to the Strategy of the TAURON Group for the years 2016-2025, assuming an increased share of renewable sources in the generation assets of the TAURON Group.

By the end of 2019, the Company has released further tranches. As at 31 December 2019, the balance of liability at par value under the agreement in question outstanding totalled PLN 5 289 600 thousand.

After the reporting period end, TAURON Polska Energia S.A. took further tranches under the loan agreement with a consortium of banks dated 19 June 2019 and repaid part of the funds released. As at the date of approval for publication of these consolidated financial statements, the total debt of the Company under the agreement amounts to PLN 4 989 600 thousand.

Concluding a loan agreement with Intesa Sanpaolo S.P.A.

On 19 December 2019, TAURON Polska Energia S.A. concluded with the bank Intesa Sanpaolo S.P.A., acting through Intesa Sanpaolo S.P.A. S.A. Branch in Poland, a loan agreement for the amount of PLN 750 000 thousand, from which funds may be used to cover the Group's investment expenditure, including, in particular, for:

- broadly understood renewable energy,
- distribution of electricity, including extension and modernisation of the network,
- refinancing of the existing financial debt of the Company,

provided that the financing in question will not be used to finance or refinance coal asset projects.

The loan will be repaid after five years from the date of the agreement. The interest rate will be calculated on the basis of a variable interest rate (WIBOR) increased by the bank's margin.

As at 31 December 2019, the Company did not incur any debt under the said agreement.

After the reporting period, in January and February 2020, the Company launched all available financing.

Concluding a loan agreement with SMBC BANK EU AG and syndicated loan agreements

After the reporting period end, on 16 March 2020 TAURON Polska Energia S.A. concluded with SMC BANK EU AG loan agreement for the amount of PLN 500 000 thousand, and on 25 March 2020 syndicated loan agreements concluded with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland, which have been discussed in detail in Note 56 hereto.

Bank overdrafts

As at 31 December 2019 the balance of overdraft facilities amounted to 23 339 thousand (as at 31 December 2018 PLN 767 thouand). Available financing and the balance of bank overdrafts of TAURON Polska Energia S.A. as at individual loan agreements are presented in Note 48.2 hereto.

(in PLN thousand)

35.2. Bonds issued

Bonds issued as at 31 December 2019

Issuer	Tranche/ Bank	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within *(after the balance sheet date):*			
						Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
Unsubordinated bonds											
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	800 000	2021-2028	856	798 695	-	99 906	299 568	399 221
				630 000	2021-2029	657	629 711	-	69 980	209 914	349 817
	BNP Paribas Bank Polska S.A.[1]	floating, based on WIBOR 6M	PLN	3 100	25.03.2020	24	3 099	3 099	-	-	-
				6 300	9.11.2020	27	6 296	6 296	-	-	-
				51 000	29.12.2020	13	50 966	50 966	-	-	-
	Eurobonds	fixed	EUR	500 000	5.07.2027	24 870	2 115 830	-	-	-	2 115 830
Finanse Grupa TAURON Sp. z o.o.	German market investors	fixed	EUR	168 000	3.12.2029	2 127	710 424	-	-	-	710 424
Subordinated hybrid bonds											
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400 000	29.03.2031[3]	761	399 362	-	-	-	399 362
	European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	1 630	769 531	-	-	769 531	-
			PLN	400 000	17.12.2030[3]	1 243	394 658	-	-	-	394 658
			PLN	350 000	19.12.2030[3]	922	345 320	-	-	-	345 320
					-	**33 130**	**6 223 892**	**60 361**	**169 886**	**1 279 013**	**4 714 632**

[1]*Bond Issue Scheme dated 24 November 2015.*
[2]*In relation to hybrid (subordinate) financing - bonds taken over by European Investment Bank - two periods occur. In the first period the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.*
[3] *In the case of subordinated bonds, the maturity date shall take into account two financing periods, as referred to below. The maturity dates presented in the table above are the final maturity dates resulting from the contract, after two financing periods. The valuation of bonds as at the balance sheet date includes earlier redemption, due to the intention to redeem the bonds after the end of the first financing period. Aging includes an estimate of repayment after the first financing period.*

Bonds issued as at 31 December 2018

Issuer	Tranche/ Bank	Interest	Currency	Bonds at nominal value in currency	Maturity date	As at balance sheet date		of which maturing within *(after the balance sheet date):*			
						Interest accrued	Principal at amortised cost	up to 1 year	1-2 years	2-5 years	Over 5 years
Unsubordinated bonds											
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	1 000 000	2019-2028	1 070	998 281	99 935	99 891	299 519	498 936
				700 000	2020-2029	730	699 635	-	69 975	209 901	419 759
	Banks (issue scheme underwriters)[1]	floating, based on WIBOR 6M	PLN	400 000	14.03.2019	566	400 000	400 000	-	-	-
				200 000	9.11.2020	854	199 764	-	199 764	-	-
				1 600 000	29.12.2020	387	1 598 100	-	1 598 100	-	-
	Domestic investors TPEA1119	floating, based on WIBOR 6M	PLN	1 750 000	4.11.2019	7 555	1 749 400	1 749 400	-	-	-
	Eurobonds	fixed	EUR	500 000	5.07.2027	25 181	2 134 826	-	-	-	2 134 826
Finanse Grupa TAURON Sp. z o.o.	German market investors	fixed	EUR	168 000	3.12.2029	2 009	717 050	-	-	-	717 050
Subordinated hybrid bonds											
TAURON Polska Energia S.A.	European Investment Bank	fixed[2]	EUR	190 000	16.12.2034[3]	1 646	790 136	-	-	-	790 136
			PLN	400 000	17.12.2030[3]	1 243	398 781	-	-	-	398 781
			PLN	350 000	19.12.2030[3]	922	348 931	-	-	-	348 931
					-	**42 163**	**10 034 904**	**2 249 335**	**1 967 730**	**509 420**	**5 308 419**

[1]*Bond Issue Scheme dated 24 November 2015.*
[2]*In relation to hybrid (subordinate) financing - bonds taken over by European Investment Bank - two periods occur. In the first period the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.*
[3] *In the case of subordinated bonds, the maturity date shall take into account two financing periods, as referred to below. The maturity dates presented in the table above are the final maturity dates resulting from the contract, after two financing periods. The valuation of bonds as at the balance sheet date includes earlier redemption, due to the intention to redeem the bonds after the end of the first financing period. Aging includes an estimate of repayment after the first financing period.*

The bonds issued by the Company are unsecured, coupon bonds. They were issued at the nominal value, except for Eurobonds which were issued at the issue price accounting for 99.438% of the nominal value.

The Eurobonds have been admitted to trading on the London Stock Exchange. They were rated "BBB" by the Fitch rating agency.

Bonds subscribed for by the European Investment Bank are subordinated, which means that they have priority interest only over the liabilities to the Company's shareholders in the event of the issuer's bankruptcy or liquidation. This in turn has a positive effect on the Company's financial stability, since the bonds are excluded from the net debt / EBITDA calculation, a covenant underlying domestic funding arrangements 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 positive effect on the rating of the TAURON Group.

(in PLN thousand)

Two financing periods for bonds subscribed for by the European Investment Bank. In the first period early redemption of bonds by the Company (non-call) and early sales of bonds by EIB to third parties are not possible (in both cases, unless so provided in the subscription agreement). In this period, the interest rate is fixed, while after the non-call period, it is floating and is linked to the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed margin. The redemption date for bonds issued in PLN is 12 years of the issue date, i.e. 17 and 19 December 2030 and, pursuant to the rules of hybrid financing, the first financing period is 7 years and the next — 5 years. The redemption date for bonds issued in EUR is 18 years of the issue date, i.e. 16 December 2034 and, pursuant to the rules of hybrid financing, the first financing period is eight years and the next — 10 years.

Bonds issued under the arrangement of 6 September 2017 concluded with Bank Gospodarstwa Krajowego with the par value of PLN 400 000 thousand are also subordinated. In this case also two period are distinguished. In the first period of seven years early redemption of bonds by the Company (non-call) and early sales of bonds by BGK to third parties are not possible (in both cases, unless so provided in the documentation). The interest rate is floating and is linked to 6M WIBOR increased by an agreed margin and in the period following the 7 years the margin is additionally increased.

Changes in the balance of bonds, excluding interest which increase their carrying amount

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**10 034 904**	**8 599 655**
Issue*	499 312	1 347 943
Redemption	(2 420 000)	-
Replacing bond issue scheme with loan arrangement	(1 839 600)	-
Change in valuation	(50 724)	87 306
Closing balance	**6 223 892**	**10 034 904**

** Costs of issue have been included.*

In the year ended 31 December 2019, the Company carried out the following bond issue and redemption transactions:

Date of issue	Agreement/ Scheme	Description	Year ended 31 December 2019 Par value of issue	Year ended 31 December 2019 Redemption
14.03.2019	Bond Issue Scheme dated 24 November 2015	Redemption of bonds according to the maturity date	-	(400 000)
25.03.2019		Issue of bonds maturing on 25 March 2020	100 000	-
29.03.2019	Subordinated bonds, contract with BGK dated 6 September 2017	Issue of bonds maturing on 29 March 2031	400 000	-
21.06.2019	Agreement concluded with BGK on 31 July 2013	Premature redemption of bonds with the following par value: - PLN 100 000 thousand and initial maturity date of 20 December 2019; - PLN 100 000 thousand and initial maturity date of 20 December 2020; - PLN 70 000 thousand and initial maturity date of 20 December 2020. The redemption was financed with funds originating from the loan contracted on 21 June 2019 from Bank Gospodarstwa Krajowego pursuant to an arrangement of 19 December 2018.	-	(270 000)
28.06.2019	Bond Issue Scheme dated 24 November 2015	Redemption of bonds assumed by bondholders being a party to the loan agreement (offset).	-	(1 839 600)
04.11.2019	Market Scheme TPEA1119	Redemption of bonds according to the maturity date		(1 750 000)
		Total	**500 000**	**(4 259 600)**

Replacement of the bond issue scheme by credit agreement

On 19 June 2019, a loan arrangement was concluded for PLN 6 070 000 thousand, described in detail in Note 35.1 hereto.

This arrangement has replaced the bond issue scheme up to PLN 6 270 000 thousand, concluded on 24 November 2015 (with subsequent amendments) with banks being a party to a loan arrangement concluded on 19 June 2019 and with

BNP Paribas Bank Polska S.A., which shall continue the provision of funding for the Company under the bond scheme, maintaining its exposure arising from the bonds assumed to date, with the redemption date as set in the issue terms falling at the end of 2020 at the latest.

Under the arrangement, the first portion of the funds, i.e. the first loan tranche of 28 June 2019, was used to redeem the bonds with the par value of PLN 1 839 600 thousand, issued to date under the bond issue scheme and assumed by the banks acting as a party to the loan arrangement. The settlement was performed in net amounts, i.e. without actual cash transfer.

Following the conclusion of the loan arrangement, the obligation of the banks to assume the bonds issued by the Company was canceled. Thus, the Company shall not issue any new bonds under the scheme.

Establishment of bond issue scheme

After the reporting period end, on 6 February 2020, TAURON Polska Energia S.A. concluded a programme agreement with Santander Bank Polska S.A. under which a bond issue scheme was established (the “Scheme"), as described in detail in Note 56 hereto.

35.3. Debt agreement covenants

The agreements signed by the Company with the banks include legal and financial covenants which are commonly used in such transactions. The key covenant is the net debt to EBITDA ratio (for domestic long-term loans agreements and domestic bond issue schemes) which sets the debt less cash in relation to generated EBITDA. The maximum permissible value of the net debt/EBITDA ratio is 3.5 Net debt/EBITDA ratio is calculated on the basis of consolidated data.

As at 31 December 2019, the net debt/EBITDA ratio, being a covenant in the national long-term loan agreements and national bond issue schemes in force as at 31 December 2019, was 2.81 thus, the covenant was not exceeded.

In November 2019, the Company redeemed TPEA1119 bonds, whose terms of issue defined an acceptable net debt/EBITDA ratio of 3.0x with a slightly different definition of this covenant. The main difference compared to the definitions contained in the applicable financing agreements, the terms and conditions of issue of TPEA1119 included a definition of the ratio including in the Group's debt the liabilities resulting from subordinated bonds issued and the impact of IFRS 16 *Leases*.

In November 2019, the Company redeemed TPEA1119 bonds, whose terms of issue defined an acceptable net debt/EBITDA ratio of 3.0x with a slightly different definition of this covenant. The main difference compared to the definitions contained in the applicable financing agreements, the terms and conditions of issue of TPEA1119 included a definition of the ratio including in the Group's debt the liabilities resulting from subordinated bonds issued and the impact of IFRS 16 *Leases*.

As at 30 June 2019, the net debt/EBITDA ratio calculated in line with the definition included in the issue terms regarding TPEA1119 series bearer bonds issued on 4 November 2014 for the total amount of PLN 1 750 000 thousand reached the level of 3.04, thus exceeding the maximum permissible level of 3.0 as determined in the issue terms regarding TPEA1119 series. This event could provide the basis to demand early buyback of the TPEA1119 series bonds, provided the bondholders’ meeting approves such an action. Until the redemption date of TPEA1119 series bonds, which took place on 4 November 2019, there was no demand for early redemption of the bonds by the bondholders. The fact that the net debt/EBITDA ratio (calculated in line with the definition included in the TPEA1119 series issue terms) exceeded 3.0 did not resulted and does not result in a breach of other financing agreements concluded by the Company, nor does it bring any other adverse effects related to these agreements.

Other terms and conditions of financing agreements also does not result in breach.

35.4. Lease liabilities

In connection with the come into force of IFRS 16 *Leases*, as at 1 January 2019, the Company recognised a lease liability in the amount of PLN 918 115 thousand, as described in detail in Note 8.1 hereto.

As at 31 December 2019 the Company had a lease liability in the amount of PLN 1 006 603 thousand. The liability concerns primarily to the right of perpetual usufruct of land, agreements for the occupation of the road lane, agreements for the lease and tenancy of land, easement of transmission and lease of office and warehouse premises.

(in PLN thousand)

Ageing of the lease liability as at 31 December 2019

	As at 31 December 2019	As at 31 December 2018
Within 1 year	110 893	2
Within 1 to 5 years	309 789	8
Within 5 to 10 years	298 093	10
Within 10 to 20 years	500 368	8
More than 20 years	708 324	-
Gross lease liabilities	**1 927 467**	**28**
Discount	(920 864)	(3)
Present value of lease payments	**1 006 603**	**25**
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	1 006 603	-
Lease contracts included in the covenant calculation (as defined in financing contracts)	**-**	**25**

The undiscounted and present value of lease payments in the table above was presented as at 31 December 2019 in accordance with IFRS 16 *Leases* and as at 31 December 2018 in accordance with IAS 17 *Leases*.

The Group decided to apply IFRS 16 *Leases* with effect from 1 January 2019. The Group decided not to restate the comparative information, as permitted by the Standard. The data as at 31 December 2018 have been presented based on IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease* and SIC 15 *Operating Lease - Incentives*.

36. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

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

- retirement and disability benefits - paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits;
- death benefits;
- cash equivalent resulting from special tariff for energy sector employees;
- benefits from the Company's 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.

At the end of the reporting period the present value of provisions for post-employment benefits and provisions for jubilee benefits is calculated by an independent actuary using actuarial methods. The provisions are calculated on a case-by-case basis for each employee. The accrued liabilities are equal to discounted future payments, including employee turnover, and pertain to the time remaining until the end of the reporting period. Demographic and employee turnover data are based on historical information.

Actuarial gains and losses on measurement of liabilities arising from post-employment benefits are recognized in whole in other comprehensive income (with the accumulated amount recognized in retained earnings), while actuarial gains and losses on jubilee bonuses are recognized 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 recognizes provisions for termination benefits under 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 JUDGMENT AND ESTIMATES

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

	31 December 2019	31 December 2018
Discount rate (%)	2.10%	3.00%
Estimated inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	0.93% - 8.98%	1.13% - 8.69%
Estimated salary increase rate (%)	2.50%*	2.50%
Estimated electricity price increase rate (%)	3.50%	3.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	3.50%
Remaining average employment period	12.18 – 22.67	11.06 – 20.67

** Remuneration growth rate 2.5% since 2021. In 2020, the adopted remuneration growth rate for some companies differs from that adopted for the following years.*

(in PLN thousand)

	As at 31 December 2019	As at 31 December 2018
Provision for post-employment benefits and jubilee bonuses	1 397 489	1 188 829
Provision for employment termination benefits and other provisions for employee benefits	34 409	42 649
Total	**1 431 898**	**1 231 478**
Non-current	1 313 480	1 114 191
Current	118 418	117 287

36.1. Provisions for post-employment benefits and jubilee bonuses

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

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

Change in provisions for employee benefits for the year ended 31 December 2018

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
Opening balance	**321 894**	**530 215**	**106 321**	**510 678**	**1 469 108**
Current service costs	16 273	9 207	2 735	22 342	**50 557**
Actuarial gains and losses, *of which:*	5 961	8 297	572	19 068	**33 898**
arising from changes in financial assumptions	13	-	-	10	**23**
arising from other changes	5 948	8 297	572	19 058	**33 875**
Benefits paid	(21 867)	(12 242)	(3 237)	(45 486)	**(82 832)**
Past service costs	217	(176 322)	(17 332)	(121 859)	**(315 296)**
Interest expense	8 792	11 112	2 661	10 829	**33 394**
Closing balance	**331 270**	**370 267**	**91 720**	**395 572**	**1 188 829**
Non-current	297 363	357 052	88 587	349 732	**1 092 734**
Current	33 907	13 215	3 133	45 840	**96 095**

During the year ended 31 December 2019, the Group noted a significant increase in actuarial provisions due to a change in actuarial assumptions in the amount of PLN 207 093 thousand, mainly due to a decrease in the discount rate used in the calculation, of which PLN 66 773 thousand caused an increase in the Group's operating expenses, and PLN 140 320 thousand was presented in other comprehensive income.

The past service costs, which decreased provisions in the year ended 31 December 2018 in the amount of PLN 315 296 thousand, relate mainly to the release of provisions for employee tariffs and the Company Social Benefits Fund in the total amount of PLN 194 209 thousand and provisions for jubilee bonuses in the amount of PLN 121 172 thousand (at the same time, compensation of PLN 79 316 thousand was paid to employees, which increased the Group's operating costs).

Sensitivity analysis

As at 31 December 2019 the Group analyzed sensitivity of measurement results to changes in the financial discounting rates and changes in the planned increases in the base amounts in the range of -0.5 p.p./+0.5 p.p.

(in PLN thousand)

The table below presents the carrying amounts of individual provisions and provisions calculated based on the changed assumptions and how these carrying amounts would change with different assumptions applied:

Provision title	Carrying amount as at 31 December 2018	Financial discount rate				Planned base increases			
		-0.5 p.p.		+0.5 p.p.		-0.5 p.p.		+0.5 p.p.	
		balance	deviation	balance	deviation	balance	deviation	balance	deviation
Provision for retirement, disability and similar benefits	378 423	396 532	18 109	361 623	(16 800)	362 327	(16 096)	395 566	17 143
Employee electricity rates	450 154	489 805	39 651	415 200	(34 954)	415 453	(34 701)	489 069	38 915
Costs of appropriation to Social Benefits Fund	119 410	130 001	10 591	110 079	(9 331)	110 147	(9 263)	129 804	10 394
Jubilee bonuses	449 502	466 184	16 682	433 832	(15 670)	437 449	(12 053)	462 194	12 692
Total		**1 482 522**	**85 033**	**1 320 734**	**(76 755)**	**1 325 376**	**(72 113)**	**1 476 633**	**79 144**
effect on profit/loss			16 682		(15 670)		(12 053)		12 692
effect on other comprehensive income			68 351		(61 085)		(60 060)		66 452

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

Provisions for employee benefits by maturity

Year	Retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions, total
2019	40 013	13 385	3 482	46 065	**102 945**
2020	22 597	14 208	3 767	41 379	**81 951**
2021	25 823	14 355	3 828	37 349	**81 355**
2022	20 932	14 542	3 905	35 391	**74 770**
2023	20 675	14 742	3 979	33 278	**72 674**
Other years	248 383	378 922	100 449	256 040	**983 794**
Total	**378 423**	**450 154**	**119 410**	**449 502**	**1 397 489**

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

	Year ended 31 December 2019				Year ended 31 December 2018				
	Voluntary redundancy schemes		Other provisions	Total	Voluntary redundancy schemes			Other provisions	Total
	Segment Generation	Segment Distribution			Segment Generation	Segment Distribution	Other		
Opening balance	**26 891**	**5 100**	**10 658**	**42 649**	**29 567**	**10 542**	**5 706**	**-**	**45 815**
Recognition	23 044	-	10 877	**33 921**	10 198	5 100	-	18 619	**33 917**
Reversal	(9 602)	(4 087)	-	**(13 689)**	(2 245)	(7 917)	-	(338)	**(10 500)**
Utilization	(5 979)	(1 013)	(8 158)	**(15 150)**	(10 629)	(2 625)	(5 706)	(7 623)	**(26 583)**
Other changes	(13 322)	-	-	**(13 322)**	-	-	-	-	**-**
Closing balance	**21 032**	**-**	**13 377**	**34 409**	**26 891**	**5 100**	**-**	**10 658**	**42 649**
Non-current	13 128	-	5 808	**18 936**	21 457	-	-	-	**21 457**
Current	7 904	-	7 569	**15 473**	5 434	5 100	-	10 658	**21 192**

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

SELECTED ACCOUNTING PRINCIPLES

Provision for mine decommissioning costs

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

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

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

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

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

(in PLN thousand)

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group estimates the amount of provisions recognized based on 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 recognized if probability of spending funds that incorporate economic benefits is higher than 50%.

	Year ended 31 December 2019			Year ended 31 December 2018		
	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	**202 599**	**135 878**	**338 477**	**191 975**	**124 091**	**316 066**
Business acquisition	-	60 817	**60 817**	-	-	**-**
Interest cost (discounting)	6 078	3 651	**9 729**	5 759	3 711	**9 470**
Discount rate change	97 042	11 303	**108 345**	-	-	**-**
Recognition/(reversal), net	166	(25 522)	**(25 356)**	4 865	10 232	**15 097**
Utilisation	-	(5 367)	**(5 367)**	-	(2 156)	**(2 156)**
Other changes	-	13 322	**13 322**	-	-	**-**
Closing balance	**305 885**	**194 082**	**499 967**	**202 599**	**135 878**	**338 477**
Non-current	305 493	164 142	**469 635**	202 599	102 378	**304 977**
Current	392	29 940	**30 332**	-	33 500	**33 500**
Other provisions, long-term portion			**193 495**			**91 536**
Total			**663 130**			**396 513**

37.1. Provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of liquidating buildings and reclaiming land after completion of the exploitation process. The provision for mine decommissioning costs includes the balance of the Mine Decommissioning Fund ("MDF"), which is created under the Geological and Mining Law and the related implementing provisions, by the Group's mining companies as a pre-determined ratio of the tax depreciation charge on fixed assets or, for the exploitation fee, the equivalent of the charge transferred to a separate bank account. Financial assets of the Fund are presented in the statement of financial position under non-current and current financial assets, while the balance of the Fund is recognized under the provision for future costs of mine decommissioning.

The provision balance as at 31 December 2019 was PLN 305 885 thousand. As at 31 December 2019, as a result of a change in the discount rate, the provision was updated, increasing it by PLN 97 042 thousand.

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

Mine Decommissioning Fund financial assets

	Year ended 31 December 2019	Year ended 31 December 2018
Assets as at 1 January	**47 126**	**42 475**
Contributions made	4 046	4 150
Interest	888	2 133
Use	(1 832)	(1 632)
Assets as at 31 December	**50 228**	**47 126**
Transfers made to the MDF in the period	(4 193)	(4 037)

Provision for mine decommissioning costs

	Year ended 31 December 2019	Year ended 31 December 2018
Mine Decommissioning Fund	53 962	50 931
Surplus of discounted estimated decommissioning costs	251 923	151 668
Total	**305 885**	**202 599**

(in PLN thousand)

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

	Year ended 31 December 2019				Year ended 31 December 2018			
	Provision for restoration of ash landfill	Provisions for dismantling of wind farm assets	Provisions for removal of fixed assets	Total provision for restoration, disassembly and removal of fixed assets	Provision for restoration of ash landfill	Provisions for dismantling of wind farm assets	Provisions for removal of fixed assets	Total provision for restoration, disassembly and removal of fixed assets
Opening balance	**42 150**	**60 033**	**33 695**	**135 878**	**40 990**	**57 887**	**25 214**	**124 091**
Business acquisition	-	60 817	-	**60 817**	-	-	-	-
Interest cost (discounting)	942	1 801	908	**3 651**	1 228	1 736	747	**3 711**
Discount rate adjustment	-	10 209	1 094	**11 303**		-	-	-
Recognition/(reversal), net	(12 116)	-	(13 406)	**(25 522)**	(68)	410	9 890	**10 232**
Utilisation	-	-	(5 367)	**(5 367)**	-	-	(2 156)	**(2 156)**
Other changes	-	-	13 322	**13 322**	-	-	-	-
Closing balance	**30 976**	**132 860**	**30 246**	**194 082**	**42 150**	**60 033**	**33 695**	**135 878**
Non-current	14 209	132 860	17 073	**164 142**	29 208	60 033	13 137	**102 378**
Current	16 767	-	13 173	**29 940**	12 942	-	20 558	**33 500**

The provision for restoration of land and dismantling and removal of fixed assets comprises the costs of liquidation of a chimney in Elektrownia Jaworzno as well as cooling towers and a unit in Elektrownia Łagisza.

38. Provisions for liabilities due to CO_2 emission allowances and energy certificates

The table below presents the provision for liabilities due to CO_2 emission allowances, described in detail in Note 38.1 hereto and the provision for obligation to submit energy certyficates, described in detail in Note 38.2 hereto.

	Year ended 31 December 2019			Year ended 31 December 2018		
	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	**111 406**	**384 066**	**495 472**	**324 937**	**624 009**	**948 946**
Recognition	774 614	599 113	**1 373 727**	611 668	676 682	**1 288 350**
Reversal	(75)	(3 841)	**(3 916)**	(81)	(8 984)	**(9 065)**
Utilisation	(113 646)	(373 404)	**(487 050)**	(825 118)	(907 641)	**(1 732 759)**
Closing balance	**772 299**	**605 934**	**1 378 233**	**111 406**	**384 066**	**495 472**

38.1. Provision for CO_2 emission liabilities

SELECTED ACCOUNTING PRINCIPLES

The Group creates a provision for the cost of surrending the CO_2 emission allowances. The provision for liabilities arising from emission of CO_2 covered by the emissions system is recognized only when the actual emission level in a given year indicates a shortage of CO_2 emission allowances awarded to the Group free of charge, including allocation of free-of-charge CO_2 emission allowances to facilities belonging to individual Generation companies. The Group companies included in the EU ETS are obliged to surrender CO_2 emission allowances for each emitted ton of carbon dioxide by 30 April in the following year.

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

- in the portion covered by allowances held at the end of the reporting period:
  - nil - for allowances received free of charge;
  - at cost - for allowances acquired;
- in the portion not covered by allowances held at the end of the reporting period:
  - first, at the amount resulting from futures and forwards for the purchase of emission allowances with the intention to fulfil the obligation for the current year;
  - then at the market value of allowances necessary to fulfil the obligation at the end of the reporting period or in the amount of a possible fine - in accordance with the intention concerning the method of fulfilling the obligation.

The condition for granting free CO_2 emission allowances to plants generating electricity between 2013 and 2020 is that they bear the financial outlay for the implementation of the investment tasks submitted in the National Investment Plan (NIP).

At the surrendering date, CO_2 emission allowances classified as current intangible assets are derecognized in correspondence with the provision for CO_2 emission liabilities.

(in PLN thousand)

A change in provision for liability arising from gas emissions in the year ended 31 December 2019 allocated to obligations pertaining to 2019 and 2018 is presented in the following table.

	Fulfill the obligation to surrender for 2019	Fulfill the obligation to surrender for 2018	Total provision for 2019
Opening balance	**-**	**111 406**	**111 406**
Recognition	772 299	2 315	**774 614**
Reversal	-	(75)	**(75)**
Utilisation	-	(113 646)	**(113 646)**
Closing balance	**772 299**	**-**	**772 299**
TAURON Wytwarzanie S.A.'s systems	668 343	-	**668 343**
TAURON Ciepło Sp. z o.o.'s systems	103 956	-	**103 956**

The increase in the cost of creating a provision for CO_2 emission liabilities in the year ended 31 December 2019 versus comparable period is described in detail in Note 13 hereto.

38.2. Provision for the obligation to surrender energy certificates

SELECTED ACCOUNTING PRINCIPLES

Energy companies trading in and selling electricity to end buyers are obliged to acquire property rights resulting from energy certificates and to surrender them or to pay a substitution fee. If in a given financial year the volume share of electricity specified in the energy certificates in the total annual sales of electricity to end buyers complies with limits provided for in regulations of the Minister of Economy - it is considered that the obligation has been satisfied.

At the end of each reporting period the Group recognizes a provision for costs of surrendering energy certificates or paying the substitution fee so as to fulfil the obligation.

The provision for the obligation to surrender energy certificates is recognized:

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

The provision is charged to operating expenses.

The provision is settled and the certificates are surrendered when the President of the Energy Regulatory Office redeems the certificates or when the substitution fee has been paid.

As at 31 December 2019, the short-term provision for the obligation to surrender energy certificates for 2019 was estimated at PLN 605 934 thousand, including: PLN 594 968 thousand is covered by certificates held as at the end of the reporting period, PLN 10 966 thousand planned to be covered by the purchase of property rights.

In the year ended 31 December 2019, the Group fulfilled the obligation to surrender certificates of electricity generated using renewable sources, in CHP units and energy efficiency certificates for 2018. Therefore, a provision of PLN 373 404 thousand was used.

The decrease in the cost of recognition the provision for the obligation to surrender energy certificates in period ended on 31 December 2019 versus comparable period is mainly related to the fact that on the basis of the amended legal regulations there was no obligation to create provisions for certificates of origin of energy from cogeneration (red, yellow and violet certificates) in the current period. In the comparable period there was an obligation in this respect.

39. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Other provisions include:

- A provision for use of real estate without contract
  The Group recognizes 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 (with accrued interest, if it can be reliably estimated). The Group does not establish a provision for possible claims of owners of land with unregulated status, which have not been lodged, including real and transmission easement. Recognition and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to finance income or finance costs.

(in PLN thousand)

- Provision for onerous contracts
  If the Group is a party to a contract pursuant to which unavoidable costs of fulfilling the contractual obligations exceed the expected contractual benefits, the present contractual obligation is recognized and measured as a provision. Unavoidable contractual costs include at least the net cost of contract closing, corresponding to the lower of the contract performance cost and the cost of all damages arising from a failure to perform the contract. Unavoidable obligation fulfilling costs are increased by due interest if it can be reliably estimated.
- Other provisions relate to court cases, counterparty claims or other claims, possible fines resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group estimates the amount of provisions recognized based on 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 recognized if probability of spending funds that incorporate economic benefits is higher than 50%.

	Year ended 31 December 2019				Year ended 31 December 2018			
	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions, total	Provision for use of real estate without contract	Provision for onerous contracts	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**92 110**	**213 996**	**311 295**	**617 401**	**92 030**	**-**	**296 313**	**388 343**
Unwinding of discount	-	-	2 425	**2 425**	-	-	3 213	**3 213**
Recognition/(reversal), net	(3 611)	298 057	82 305	**376 751**	937	213 996	25 880	**240 813**
Utilisation	(429)	(270 257)	(11 608)	**(282 294)**	(857)	-	(14 111)	**(14 968)**
Other movements	-	-	12 633	**12 633**	-	-	-	-
Closing balance	**88 070**	**241 796**	**397 050**	**726 916**	**92 110**	**213 996**	**311 295**	**617 401**
Non-current	-	48 815	144 680	**193 495**	-	11 759	79 777	**91 536**
Current	88 070	192 981	252 370	**533 421**	92 110	202 237	231 518	**525 865**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				**30 332**				**33 500**
Total				**563 753**				**559 365**

39.1. Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 December 2019, the relevant provision amounted to PLN 88 070 thousand and was related to the following segments:

- Generation - PLN 50 702 thousand;
- Distribution - PLN 37 368 thousand.

In 2012, a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to clarification of the legal status of the transmission equipment located on its property. The company has questioned both the legitimacy of the claims and of the basis for offsetting their amounts against the current liabilities to the company arising from heat supplies. Consequently, the company went to court to recover its current receivables from the debtor. The amount of the potential claims of the aforesaid entity in respect of clarification of the legal status of the company's transmission equipment will be reviewed in the course of the proceedings. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, in accordance with 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*.

39.2. Provisions for onerous contracts

Provisions for onerous contracts related to the Act Amending the Excise Duty Act and Certain Other Acts coming into effect

The Act on the amendment to the act on the excise tax and some other acts ("Act") came into force on 28 December 2018. In accordance with the Act, in its version applicable as of 31 December 2018, energy companies (electric utilities) dealing with electricity trading were obligated to apply in 2019 gross prices and fee rates not higher than the gross prices and fee rates included in the tariff or electricity price list in force on 30 June 2018, taking into account the reduction of the excise tax rate for electricity.

Due to the Act coming into force the Group recognized a provision for onerous contracts in the consolidated financial statements prepared as at 31 December 2018 in the amount of PLN 213 756 thousand. In particular, the reserve was estimated with respect to the G tariff group customers, i.e. the difference between the sales price resulting from the tariff in force for 2019 and the estimated electricity purchase price based on the expected volume for 2019.

As a result of applying the tariff from the previous year, in 2019, the TAURON Group fully realised a loss in connection with energy supplies to the customers of tariff group G, therefore as at 31 December 2019 it fully used the provision for onerous contracts created as at 31 December 2018 for this customer segment.

In addition, in connection with the come into force of the amended Act, as more described in detail in Note 12 hereto, in 2019, the Group created a provision for onerous contracts in amount of PLN 68 260 thousand in relation to the expected volume of energy to be delivered in the period from July to December 2019 for end users belonging to the group: micro-enterprises, small entrepreneurs, hospitals, public finance sector entities or other state organisational units without legal personality, for which the price of 30 June 2018 applied in the second half of 2019, provided that a statement is made. As at 31 December 2019, as a result of the realisation of sales losses for this group of recipients, this provision was also fully utilized.

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

As at 31 December 2019 the Group created the provision for onerous contracts in amount of PLN 237 445 thousand (of which PLN 225 686 thousand was charged to the costs of 2019). This provision relates primarily to households, including customers using tariff prices approved by the President of the Energy Regulatory Office ("G ERO tariff") in the amount of PLN 130 287 thousand and individual customers who have used the product price lists offered by the Company ("GD price lists") in the amount of PLN 99 570 thousand.

The need to create the above reserve for the G URE tariff results from the adoption of the parameters specified in the invitation of the President of the ERO to calculate the sales price for these customers for 2020, the approval of which in December 2019 results in the impossibility of obtaining revenue from the sale of electricity in a value covering the costs of conducting business in this respect.

The price level approved by the President of the ERO for tariff group G for 2020 was also an important reason for the losses incurred on GD price lists for which the provision was created. Some product agreements in the household segment tie the electricity rates to the price of the ERO G tariff, thus making it impossible to obtain revenue from sales in an amount ensuring coverage of full variable costs of the business.

At the same time, on 7 January 2020, the subsidiary TAURON Sp. z o.o. Sprzedaż submitted an application for the approval of the change of the electricity tariff for the consumers of tariff G-groups for 2020, which is to transfer all justified costs that were not accepted in the application approved in December 2019. As at the date of approval of these consolidated financial statements for publication, the proceedings pending before the President of ERO in connection with this application have not been completed.

Other provisions for onerous contracts

As at 31 December 2019, a provision was created for onerous contracts in the amount of PLN 4 213 thousand in connection with the partial acceptance by the Court of Appeal in Warsaw of the request for security by ordering the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the contracts under the existing terms and conditions, in accordance with their contents, until the legal conclusion of the proceedings in the action brought by Pękanino Wind Invest Sp. z o.o. vs. Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o., as further described in Note 50 hereto.

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

Material provisions recognized as other provisions have been discussed below:

(in PLN thousand)

Item	Operating segment	Description	As at 31 December 2019	As at 31 December 2018
Provisions for penalties fixed by the contracts	Generation	The provision concerned the risk of ensuring the sustainability of projects required under the contracts for co-financing the construction of a biomass-fired boiler in Jaworzno III Power Plant and the construction of an electricity generation installation in the Renewable Energy Sources in Stalowa Wola. In the year ended 31 December 2019 the required shelf life for the installation expired and the final settlement and closing of co-financing agreements took place. As a consequence, the established collateral for due performance of contracts was released and the provision was fully released.	-	58 493
Provision for counterparty claims	Generation	The provision relates to claims raised by contractors relating to the construction of 910 MW Block in Jaworzno. For additional, increased costs related toongoing contracts, in the year ended 31 December 2019 the company from the Generation segment created a provision in the amount of PLN 93 539 thousand. The cost of creating the provision was recognized for capital expenditures.	93 539	-
Provision for increased transmission easement charges	Distribution	The provision relates to the risk of increased periodical fees for transmission easement for energy infrastructure located in the areas of forest districts of the Regional Directorate of State Forests in Wrocław in connection with the change in the nature of land from forest areas to land related to business activities.	67 323	68 900
Provision for a fine to the Energy Regulatory Office	Distribution	The provision was recognized due to the risk of violation of the Energy Law of 10 April 1997 by misleading the President of the Energy Regulatory Office, following his demand for information.	6 000	6 000
Provision for real estate tax	Distribution	Provision for the business risk regarding tax on real property classified as power grid assets.	39 356	39 356
Provision for VAT	Sales	The provision was created in connection with the ongoing control proceedings initiated by the Director of the Tax Control Office in Warsaw ("Director of UKS") with respect to value added tax. The duration of control proceedings was repeatedly extended by the Director of UKS, and then by the Head of the Mazovian Customs and Tax Office. The current new deadlines for completion of the proceedings were set for 24 and 28 April 2020 and 22 May 2020. In the year ended 31 December 2019 the provision was increased by accrued interest of PLN 4 200 thousand.	77 094	72 894

40. Accruals, deferred income and government grants

SELECTED ACCOUNTING PRINCIPLES

Deferred income and government grants

The Group's deferred income and government grants include mainly grants and subsidies received to acquire property, plant and equipment, as well as subsidies to R&D activities.

Grants and subsidies received to acquire property, plant and equipment are recognized at the value of cash received as other operating revenue matching the corresponding depreciation expense related to items of property, plant and equipment. This regards in particular partly canceled debt and accounting treatment of preferential loans measurement.

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 sometimes the amount or maturity of accruals must be estimated, usually the uncertainty level is much lower than that regarding provisions.

(in PLN thousand)

40.1. Deferred income and government grants

	As at 31 December 2019	As at 31 December 2018
Deferred income	**48 623**	**56 822**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	44 521	52 431
Other	4 102	4 391
Government grants	**443 433**	**415 162**
Subsidies obtained from EU funds	349 335	311 285
Forgiven loans from environmental funds	32 764	37 464
Measurement of preferential loans	32 567	34 053
Other	28 767	32 360
Total	**492 056**	**471 984**
Non-current	460 003	440 206
Current	32 053	31 778

40.2. Accrued expenses

	As at 31 December 2019	As at 31 December 2018
Bonuses	59 827	60 524
Unused holidays	46 612	51 445
Environmental protection charges	25 600	33 113
Other accrued expenses	21 452	23 340
Total	**153 491**	**168 422**
Non-current	-	103
Current	153 491	168 319

41. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

The Group measures financial liabilities with simplified methods, usually at amortized cost, if this does not result in a misstatement of data presented in the financial statements, in particular if the time remaining to the date of payment is short. Liabilities to which the simplified approach is applied are measured upon initial recognition and in subsequent periods, including at the end of the reporting period, at amount due. Liabilities to suppliers, investment liabilities (Note 42) and selected other financial liabilities (Note 44) are therefore measured at amount due since the effect of discount is insignificant.

Current liabilities to suppliers as at 31 December 2019 and 31 December 2018 are presented in the table below:

Operating segment	As at 31 December 2019	As at 31 December 2018 *(restated figures)*
Sales	287 827	432 321
Distribution, *including:*	223 173	309 233
Polskie Sieci Elektroenergetyczne S.A.	*172 790*	*227 095*
Mining	122 602	168 076
Generation	137 609	150 731
Other	76 015	67 377
Total	**847 226**	**1 127 738**

42. Capital commitments

Short-term capital commitments as at 31 December 2019 and 31 December 2018 are presented in the table below:

(in PLN thousand)

Operating segment	As at 31 December 2019	As at 31 December 2018 *(restated figures)*
Distribution	182 150	452 047
Generation	429 007	219 849
Mining	62 059	88 001
Sales and other	84 727	35 020
Total	**757 943**	**794 917**

Long-term capital commitments have been presented in the consolidated statement of financial position within other financial liabilities. As at 31 December 2019, the related liability was PLN 7 414 thousand. As at 31 December 2018, the related liability was PLN 59 thousand.

Commitments to incur capital expenditure

As at 31 December 2019 and 31 December 2018, the Group committed to incur expenditure on property, plant and equipment and intangible assets of PLN 3 981 923 thousand and PLN 3 403 880 thousand, respectively, with the key items presented below:

Operating segment	Agreement/investment project	As at 31 December 2019	As at 31 December 2018
Generation	Construction of 910 MW Power Unit in Jaworzno	598 758	1 593 273
	Project of adjusting generation units to the BAT (Best Available Techniques) conclusions	388 282	1 398
Distribution	Construction of new electrical connections	1 227 019	497 276
	Modernization and reconstruction of existing networks	918 317	671 960
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	146 380	210 314
	Construction of the 800 m drift at "Janina" Mining Plant	30 681	102 134
	Investment Program in "Brzeszcze" Mining Plant	51 606	32 781

43. Liabilities arising from other taxes and charges

	As at 31 December 2019	As at 31 December 2018
VAT	297 343	81 227
Personal Income Tax	53 974	58 898
Excise	12 063	44 693
Social security	215 340	210 940
Other	10 281	9 896
Total	**589 001**	**405 654**

Regulations concerning VAT, corporate income tax and social insurance charges are frequently amended. The applicable regulations may also contain ambiguous issues, which lead to differences in opinions concerning the legal interpretation of tax legislation both among the tax authorities and between such authorities and enterprises.

Tax reports and other matters (e.g. customs or foreign currency transactions) may be audited by authorities competent to impose substantial penalties and fines, whereas any additional tax liabilities assessed during such audits have to be paid together with interest.

Consequently, the figures presented and disclosed in these consolidated financial statements may change in the future if a final decision is issued by tax inspection authorities.

44. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities classified as measured at amortized cost are initially recognized at fair value adjusted by transaction costs. Following initial recognition, other financial liabilities are measured at amortized cost using an effective interest rate. If the discount effect is insignificant, they are measured at amount due.

(in PLN thousand)

Derivatives are financial liabilities measured at fair value.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group estimates fair value of liabilities measured at fair value. The fair value calculation methodology is presented in Note 47.1 hereto.

	As at 31 December 2019	As at 31 December 2018
Liabilities due to obligation to repay overpaid amounts to customers due to come into force of the amended Act*	41 720	-
Wages, salaries	124 527	240 922
Bid bonds, deposits and collateral received	104	248 480
Derivative instruments	223 679	225 829
Margin deposits arising from stock exchange transactions	94 340	81 492
Other	155 502	84 618
Total	**639 872**	**881 341**
Non-current	79 417	107 770
Current	560 455	773 571

**The Act on the amendment to the Excise Duty Act and some other acts of 28 December 2018.*

The obligation to return overpaid amounts to customers relates to adjustments recognised by the Group reducing revenues from customers relating to 2019, resulting from the need to adjust prices in that period to the provisions of the amended *Act of 28 December 2018 on the amendment of the Excise Duty Act and certain other acts*, which is discussed in detail in Note 12 of this consolidated financial statements.

The liability on account of negative valuation of derivatives relates mainly to forward instruments on account of transactions for which the underlying commodity is CO_2 emission allowances.

Margin deposits states as cash received by the Company arising from current stock exchange transitions, due to change in valuation of futures contracts, open as at the end of reported period. The decrease in the value of variation margins in the amount of PLN 248 376 thousand relates mainly to transactions concluded on foreign exchange markets for the delivery of CO_2 emission allowances and results mainly from the settlement of CO_2 emission allowances futures contracts in December 2019 and the decrease in allowance prices compared to the comparable period.

45. Other current non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other non-financial liabilities include in particular overpayments received from clients and liabilities arising from advance payments received, which shall be offset with deliveries of goods, services or tangible assets. Other non-financial liabilities are recognized at amount due.

	As at 31 December 2019	As at 31 December 2018
Payments from customers relating to future periods	**360 602**	**335 483**
Amounts overpaid by customers	299 558	279 205
Prepayments for connection fees	21 085	17 583
Other	39 959	38 695
Other current non-financial liabilities	**3 774**	**1 565**
Total	**364 376**	**337 048**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

46. Significant items of the consolidated statement of cash flows

SELECTED ACCOUNTING PRINCIPLES

The statement of cash flows is prepared in line with the indirect method.

(in PLN thousand)

46.1. Cash flows from operating activities

Changes in working capital

	Year ended 31 December 2019	Year ended 31 December 2018
Change in receivables	**(298 156)**	**(402 821)**
Change in receivables from buyers in statement of financial position	(61 346)	(196 587)
Change in other financial receivables	(243 715)	(174 993)
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	1 092	(3 153)
Adjustment accounting for impairment allowances recognized in correspondence with retained earnings following the endorsement of IFRS 9 *Finanical Instruments*	-	(31 471)
Adjustment by the opening balance of the acquired business	3 802	-
Other adjustments	2 011	3 383
Change in inventories	**(175 408)**	**(222 443)**
Change in inventories in statement of financial position	(174 351)	(214 338)
Adjustment by the opening balance of the acquired business	10 579	-
Adjustment related to transfer of invetories to/from property, plant and equipment	(11 636)	(8 105)
Change in payables excluding loans and borrowings	**(213 341)**	**387 953**
Change in liabilities to suppliers in statement of financial position	(277 110)	85 311
Change in payroll, social security and other financial liabilities	(135 831)	279 451
Change in non-financial liabilities in statement of financial position	27 597	36 117
Change in liabilities arising from taxes excluding income tax	183 347	(6 060)
Adjustment by the opening balance of the acquired business	7 472	-
Adjustment of VAT change related to capital commitments	(8 732)	(2 563)
Other adjustments	(10 084)	(4 303)
Change in other non-current and current assets	**(1 121 021)**	**95 920**
Change in other current and non-current non-financial assets in statement of financial position	(28 883)	14 036
Change in receivables arising from taxes excluding income tax	(174 968)	32 252
Change in non-current and current gas emission allowances	(287 787)	(32 143)
Change in non-current and current energy certificates	(602 337)	124 267
Change in advance payments for property, plant and equipment and intangible assets	(22 460)	(62 394)
Adjustment accounting for costs of acquiring new contracts and bonuses capitalized in correspondence with retained earnings as a result of endorsement of IFRS 15 *Revenue from Contracts with Customers*	-	26 355
Adjustment by impairment losses on other non-financial assets	(5 577)	(6 847)
Adjustment by the opening balance of the acquired business	7 089	-
Other adjustments	(6 098)	394
Change in deferred income, government grants and accruals	**(70 938)**	**(130 315)**
Change in deferred income, government grants and accruals in statement of financial position	5 141	(197 488)
Adjustmet related to property, plant and equipment and intangible assets received free of charge	(19 460)	(26 351)
Adjustment related to subsidies received	(56 069)	(91 003)
Adjustment accounting for recognizing deferred income from connection fees in retained earnings following the endorsement of IFRS 15 *Revenue from Contracts with Customers*	-	195 666
Other adjustments	(550)	(11 139)
Change in provisions	**955 263**	**(512 139)**
Change of short term and long term provisions in statement of financial position	1 354 186	(489 893)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	(140 320)	(14 830)
Adjustment for the change in provisions for land reclamation and dismantling recognized under property, plant and equipment	(196 823)	(5 199)
Adjustment by the opening balance of the acquired business	(60 875)	-
Other adjustments	(905)	(2 217)
Total	**(923 601)**	**(783 845)**

Income tax paid

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

In the year ended 31 December 2018, the income taxes paid totaled PLN 392 184 thousand and included PLN 389 078 thousand relating to the Tax Capital Group and resulting from payment by the Tax Capital Group income tax advance payments of PLN 342 734 thousand as well as the TGC's final settlement of income tax for 2017 in the amount of PLN 46 344 thousand.

(in PLN thousand)

The fact that in 2019 the Tax Capital Group has paid tax advances on a monthly basis, while in 2018 it had paid them on a quarterly basis resulted in a material increase of the income tax paid in the year 2019 versus the comparative period.

46.2. Cash from/used in investing activities

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2019	Year ended 31 December 2018
Purchase of property, plant and equipment	(3 436 312)	(3 409 956)
Purchase of intangible assets	(120 034)	(123 047)
Change in the balance of VAT-adjusted capital commitments	(20 887)	(10 431)
Change in the balance of advance payments	22 460	62 394
Costs of overhaul and internal manufacturing	(478 006)	(269 280)
Other	(2 353)	8 754
Total	**(4 035 132)**	**(3 741 566)**

Cash transfer as part of wind farm acquisition (net of cash acquired)

The transfer of cash related to the wind farms acquisition (after the deduction of the acquired cash balance) in the amount of PLN 543 079 thousand is related to the acquisition of five wind farms from the in.ventus group, along with the debt owed by their operators to Hamburg Commercial Bank AG, as described in detail in Note 2.1 hereto. The cash transferred by the Group in this transaction amounted to PLN 579 661 thousand, and cash balance acquired as part of net assets amounted to PLN 36 582 thousand.

Loans granted

Payments to grant loans result from the loan disbursed by the Company to Elektrociepłownia Stalowa Wola S.A., a jointly-controlled entity, in the total amount of PLN 23 225 thousand.

46.3. Cash from/used in financing activities

Redemption of debt securities

Expenses related to the redemption of bonds in the amount of PLN 2 420 000 thousand, as described in detail in Note 35.2 hereto, included:

- bonds with par value of PLN 1 750 000 thousand, redeemed within the deadline determined in the TPEA 1119 scheme bonds;
- bonds with a nominal value of PLN 400 000 thousand, redeemed within the deadline determined in the bond issue scheme of 24 November 2015;
- premature redemption of three series of bonds subscribed by BGK, with the total par value of PLN 270 000 thousand.

Repayment of borrowings and loans

Expenses related to the repayment of loans and borrowings, as presented in the consolidated statement of cash flows in the amount of PLN 867 360 thousand, result mainly from the Parent's repayment during the year ended 31 December 2019 of the following:

- two credit tranches under the agreement concluded with the Consortium of Banks in the amount of PLN 700 000 thousand;
- instalments of the loan to the European Investment Bank in the amount of PLN 162 318 thousand.

(in PLN thousand)

Interest paid

	Year ended 31 December 2019	Year ended 31 December 2018
Interest paid in relation to debt securities	(315 954)	(258 358)
Interest paid in relation to loans and borrowings	(75 685)	(30 355)
Interest paid in relation to the finance lease	(5 129)	(196)
Total	**(396 768)**	**(288 909)**
investment expenditure	(184 212)	(128 739)
financial expenditure	(212 556)	(160 170)

The Group's consolidated statement of cash flows presents incurred borrowing costs which were capitalized in the current period in the value of assets as payments to acquire property, plant and equipment and intangible assets in cash flows from investing activities. In the year ended 31 December 2019, interest representing borrowing costs capitalized in the value of property, plant and equipment and intangible assets amounted to PLN 184 212 thousand.

Repayment of lease liabilities

The repayment of lease liabilities recognized by the Group in line with IFRS 16 *Leases* amounted to PLN 75 047 thousand. The total total cash outflow from leases (including short-term leases and leases of low-value assets, to which the Group applied a practical solution without recognizing them as at 1 January 2019 in line with IFRS 16 *Leases*) amounted to PLN 96 601 thousand.

Issue of debt securities

Proceeds related to the issue of debt securities in the amount of PLN 500 000 thousand, which is described in detail in Note 35.2 hereto, included:

- issue of subordinated bonds subscribed by BGK in the amount of PLN 400 000 thousand;
- issue bonds in the amount of PLN 100 000 thousand under the bond issue scheme of 24 November 2015.

Loans taken

Proceeds arising from contracted loans totaling PLN 5 150 000 thousand, as described in detail in Note 35.1 hereto, concerned;

- providing loan tranches of PLN 1 000 000 thousand based on the arrangement concluded with Bank Gospodarstwa Krajowego;
- providing loan tranches of PLN 4 150 000 thousand based on the arrangement concluded with the consortium of banks.

Proceeds from non-controlling interests

Proceeds from non-controlling interests of PLN 780 000 thousand are related to cash contribution paid by Fundusz Inwestycji Infrastrukturalnych — Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and PFR Inwestycje Fundusz Inwestycji Zamkniętych to assume shares in the increased capital of Nowe Jaworzno Grupa TAURON Sp. z o.o.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

47. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

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

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

As at the reporting period end, the Group had no financial assets measured at fair value through other comprehensive income.

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

(in PLN thousand)

The equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

Classes of financial liabilities in the TAURON Group:

- financial liabilities measured at fair value through profit or loss;
- other financial liabilities measured as at each subsequent reporting period end at amortized cost.

PROFESSIONAL JUDGMENT AND ESTIMATES

The Group makes judgments regarding classification of financial instruments.

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

The Group recognizes an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting period end. The recognized allowance for expected credit losses on financial assets measured at amortized cost includes mostly receivables from buyers and originated loans. The measurement methodology is presented in Notes 29 and 48.1.4 hereof.

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

Categories and classes of financial assets	As at 31 December 2019		As at 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	**2 582 793**		**2 337 094**	
Receivables from buyers	2 290 746	2 290 746	2 229 400	2 229 400
Deposits	50 228	50 228	47 126	47 126
Loans granted	39 467	39 467	28 296	28 296
Other financial receivables	202 352	202 352	32 272	32 272
2 Financial assets measured at fair value through profit or loss (FVTPL)	**2 004 034**		**1 626 932**	
Derivative instruments	86 067	86 067	216 165	216 165
Shares (non-current)	140 508	140 508	138 492	138 492
Loans granted	216 018	216 018	199 256	199 256
Other financial receivables	296 867	296 867	223 232	223 232
Investment fund units	26 622	26 622	26 063	26 063
Cash and cash equivalents	1 237 952	1 237 952	823 724	823 724
3 Derivative hedging instruments	**19 462**	**19 462**	**4 178**	**4 178**
4 Financial assets excluded from the scope of IFRS 9	**559 144**		**543 913**	
Investments in joint ventures	559 144		543 913	
Total financial assets, ***of which in the statement of financial position:***	**5 165 433**		**4 512 117**	
Non-current assets	**1 032 701**		**1 015 992**	
Investments in joint ventures	559 144		543 913	
Loans granted to joint ventures	238 035		217 402	
Other financial assets	235 522		254 677	
Current assets	**4 132 732**		**3 496 125**	
Receivables from buyers	2 290 746		2 229 363	
Loans granted to joint ventures	4 999		5	
Other financial assets	599 035		443 033	
Cash and cash equivalents	1 237 952		823 724	

Following an analysis, transferred collateral, amounting to PLN 296 867 thousand as at 31 December 2019, was classified as other financial receivables measured at fair value through profit or loss, since the classification provides the best reflection of the nature of these financial assets. The remaining other financial receivables are classified as measured at amortized cost.

The Group classifies a loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2018 to assets measured at fair value though profit or loss, as discussed in detail in Note 25 to these consolidated financial statements.

(in PLN thousand)

Categories and classes of financial liabilities	As at 31 December 2019		As at 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	**15 428 187**		**13 526 426**	**-**
Preferential loans	12 488	12 488	17 521	17 521
Arm's length loans	7 014 824	7 030 597	867 997	892 832
Bank overdrafts	23 339	23 339	767	767
Bonds issued	6 257 022	6 537 537	10 077 067	10 204 721
Liabilities to suppliers	850 628	850 628	1 127 738	1 127 738
Other financial liabilities	223 920	223 920	406 151	406 151
Capital commitments	765 357	765 357	794 976	794 976
Salaries and wages	223 679	223 679	225 829	225 829
Insurance contracts	56 930	56 930	8 380	8 380
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	**124 527**		**240 922**	
Derivative instruments	124 527	124 527	240 922	240 922
3 Financial liabilities excluded from the scope of IFRS 9	**1 006 603**		**25**	
Leases liabilities	1 006 603		25	
Total financial liabilities, ***of which in the statement of financial position:***	**16 559 317**		**13 767 373**	
Non-current liabilities	**11 909 600**		**8 595 980**	
Debt	11 830 183		8 488 210	
Other financial liabilities	79 417		107 770	
Current liabilities	**4 649 717**		**5 171 393**	
Debt	2 484 093		2 475 167	
Liabilities to suppliers	847 226		1 127 738	
Capital commitments	757 943		794 917	
Other financial liabilities	560 455		773 571	

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

Financial asset/liability classes	Fair value measurement level	Fair value measurement methodology
Financial assets/liability measured at fair value		
Derivatives, *including:*		
IRS and CCIRS	2	Derivatives have been measured in line with the methodology presented in Note 47.3 hereto.
Currency forwards	2	
Commodity forwards and futures	1	
Shares	3	The Group estimated the fair value of shares held in not listed companies using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments or the discounted dividend method. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Group assumes that the historical cost is an acceptable approximation of the fair value.
Loans granted	3	Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk.
Units in investment funds	1	Fair value measurement of units is referred to current quotings of the units.
Financial liabilities whose fair value is disclosed		
Loans, borrowings and bonds issued	2	Liabilities arising from fixed interest debt, i.e. loans contracted from the European Investment Bank, issued subordinated bonds taken by the European Investment Bank and eurobonds, as well as bonds issued by a subsidiary are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates.

The fair value of other financial instruments as at 31 December 2019 and 31 December 2018 (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.

(in PLN thousand)

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

	Year ended 31 December 2019		Year ended 31 December 2018	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	**138 492**	**199 256**	**141 698**	**-**
Effects of implementing IFRS 9 *Financial instruments*	-	-	(26 031)	150 960
Restated opening balance	**138 492**	**199 256**	**115 667**	**150 960**
Gains/(losses) for the period recognized in financial revenue/expenses	(10 044)	16 762	1 754	(11 581)
Purchased/contracted	12 072	-	21 083	-
Sold/repaid	(12)	-	(12)	(299 100)
Settlement of the debt consolidation arrangement	-	-	-	358 977
Closing balance	**140 508**	**216 018**	**138 492**	**199 256**

In the year ended 31 December 2019 and 31 December 2018 no reclassification occurred between level 1 and 2 of the fair value hierarchy; nor did such reclassification occur from or to level 3 of that hierarchy.

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

Year ended 31 December 2019

	Assets/ liabilities at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends and shares in profits	4 264	-	-	-	-	**4 264**
Interest income / (expense)	7 444	21 880	(204 794)	743	(44 800)	**(219 527)**
Currency translation differences	4 007	(3 128)	29 204	-	-	**30 083**
Impairment / revaluation	(27 827)	(637)	(3 271)	34	-	**(31 701)**
Commission relating to borrowings and debt securities	-	-	(20 338)	-	-	**(20 338)**
Gain/(loss) on disposal of investments	17	(1 974)	-	-	-	**(1 957)**
Gain/(loss) on exercised derivative instruments*	(18 144)	-	-	-	-	**(18 144)**
Net financial income (costs)	**(30 239)**	**16 141**	**(199 199)**	**777**	**(44 800)**	**(257 320)**
Revaluation	21 386	(27 818)	-	-	-	**(6 432)**
Gain/(loss) on exercised derivative instruments*	(34 054)	-	-	-	-	**(34 054)**
Net operating income/(costs)	**(12 668)**	**(27 818)**	**-**	**-**	**-**	**(40 486)**
Remeasurement	-	-	-	15 179	-	**15 179**
Other comprehensive income	**-**	**-**	**-**	**15 179**	**-**	**15 179**

**The Group recognizes revenue and expenses related to commodity instruments in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.*

Year ended 31 December 2018

	Assets/ liabilities at fair value through profit or loss	Financial assets at amortized cost	Financial liabilities at amortized cost	Hedging instruments	Financial assets/liabilities excluded from the scope of IFRS 9	Total
Dividends and shares in profits	7 348	-	-	-	-	**7 348**
Interest income / (expense)	5 554	21 675	(147 521)	1 202	(196)	**(119 286)**
Currency translation differences	(7 416)	1 406	(77 445)	-	-	**(83 455)**
Impairment / revaluation	(7 815)	7 170	(11 994)	-	-	**(12 639)**
Commission relating to borrowings and debt securities	-	-	(22 945)	-	-	**(22 945)**
Gain/(loss) on disposal of investments	(25)	(1 243)	-	-	-	**(1 268)**
Gain/(loss) on exercised derivative instruments*	(6 078)	-	-	-	-	**(6 078)**
Net financial income (costs)	**(8 432)**	**29 008**	**(259 905)**	**1 202**	**(196)**	**(238 323)**
Revaluation	(17 534)	(20 079)	-	-	-	**(37 613)**
Gain/(loss) on exercised derivative instruments*	16 910	-	-	-	-	**16 910**
Net operating income/(costs)	**(624)**	**(20 079)**	**-**	**-**	**-**	**(20 703)**
Remeasurement	-	-	-	(24 297)	-	**(24 297)**
Other comprehensive income	**-**	**-**	**-**	**(24 297)**	**-**	**(24 297)**

The Group recognizes revenue and expenses related to commodity instruments in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.

(in PLN thousand)

47.3. Derivative instruments and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments within the scope of IFRS 9 *Financial Instruments* are classified as financial assets/financial liabilities measured at fair value through profit or loss, except derivatives constituting hedging which instruments and subject to hedge accounting. Derivative instruments for purchase and sales of non-financial assets acquired and held to secure own needs as excluded from IFRS 9 *Financial Instruments* are not measured at the end of the reporting period. Derivatives covered by the scope of IFRS 9 *Financial instruments* are classified as assets when their value is positive and as liabilities - when their value is negative.

At the end of the reporting period, the Group held the following derivative instruments included in IFRS 9 *Financial instruments*:

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

Hedge accounting

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

At the time of the hedge the hedging relationship is designated and the risk management objective and strategy for undertaking the hedge are documented formally.

A cash flow hedge is accounted for in the following manner:

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

Gain or loss from revaluation of the hedging instrument disclosed in other comprehensive income is recognized directly in profit or loss in the same period during which the hedged item affects profit or loss for the period. For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGMENT AND ESTIMATES

As at each reporting period end, the Group carries out fair value estimation. The methodology is presented below.

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

As at each reporting period end, the Group checks the hedge effectiveness.

Measurement of derivatives as at each reporting period end is presented in the following table.

	As at 31 December 2019				As at 31 December 2018			
	Charged to profit or loss	Charged to other comprehensive income	Total		Charged to profit or loss	Charged to other comprehensive income	Total	
			Assets	Liabilities			Assets	Liabilities
CCIRS	(12 885)	-	**-**	**(12 885)**	(5 140)	-	**-**	**(5 140)**
IRS	121	19 341	**19 462**	**-**	16	4 162	**4 178**	**-**
Commodity forwards/futures	4 248	-	**86 067**	**(81 819)**	(17 138)	-	**216 165**	**(233 303)**
Currency forwards	(29 823)	-	**-**	**(29 823)**	(2 479)	-	**-**	**(2 479)**
Total			**105 529**	**(124 527)**			**220 343**	**(240 922)**
Non-current			20 352	(16 848)			43 844	(37 930)
Current			85 177	(107 679)			176 499	(202 992)

(in PLN thousand)

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

	As at 31 December 2019		As at 31 December 2018	
	Level 1	Level 2	Level 1	Level 2
Assets				
Derivative instruments - commodity	86 067	-	216 165	-
Derivative instruments-IRS	-	19 462	-	4 178
Total	**86 067**	**19 462**	**216 165**	**4 178**
Liabilities				
Derivative instruments - commodity	81 819	-	233 303	-
Derivative instruments - currency	-	29 823	-	2 479
Derivative instruments-CCIRS	-	12 885	-	5 140
Total	**81 819**	**42 708**	**233 303**	**7 619**

Derivative instruments (subject to hedge accounting)

In the year ended 31 December 2019, the Company hedged a part of the interest rate risk in relation to the cash flows related to the exposure to WIBOR 6M determined under the dynamic risk management strategy, i.e:

- interest on bonds with a par value of PLN 490 000 thousand by concluding interest rate swap hedging transactions (IRS) for periods starting from 20 December 2019, expiring in turn from 2023 to 2028;
- interest on a loan with a nominal value of PLN 1 000 000 thousand by concluding interest rate swap hedging transactions (IRS) for periods starting from 20 December 2019, expiring on 20 June 2024 and until 20 June 2029.

The aforementioned transactions are subject to hedge accounting.

In 2016 the Company hedged a portion of its interest rate risk for cash flows relating to the exposure to WIBOR 6M, designated under the dynamic risk management strategy, i.e. interest on debt securities with the par value of PLN 2 100 000 thousand, through the entry into interest rate swap (IRS) transactions for a term of 4 to 5 years. The aforementioned transactions are subject to hedge accounting.

Effects of hedge accounting on revaluation reserve regarding hedging instruments are presented in Note 33.5 hereto.

In the year ended 31 December 2019, revaluation resulted in an increase by PLN 15 179 thousand in other comprehensive incomethe, and PLN 777 thousand was recognized in the current period's financial result.

Derivative instruments measured at fair value through profit or loss (FVTPL)

As at 31 December 2019, derivative instruments which did not fall within the scope of hedge accounting and were classified as financial assets or financial liabilities measured at fair value through profit or loss comprised:

- CCIRSs that hedge foreign currency cash flows resulting from the payment of interest on the issued eurobonds;
- commodity derivatives (futures, forward) including CO_2 emission allowances and other commodity purchase and sale transactions;
- FX forward transactions hedging foreign currency cash flows resulting from the Company's operations.

The CCIRSs have been used with respect to the Company's Coupon Only Cross Currency Swap fixed-fixed transactions concluded in 2017 and in January 2018 and involve an exchange of interest payments on the total par value of EUR 500 000 thousand. They mature in July 2027. In accordance with the terms and conditions, the Company pays interest at a fixed rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

48. Principles and objectives of financial risk management

Risks related to financial instruments which the TAURON Group is exposed to, including a description of the exposure and the risk management method:

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).	Credit risk is managed through the control of the credit exposure at the time when companies in the TAURON Group sign contracts. As a rule, before a contract is signed, every entity is examined in terms of their financial position and is assigned a limit which determines the maximum exposure allowed. The credit exposure in this case is understood as the amount which may be lost, if the counterparty defaults on their obligations at a given time (considering the value of security they have lodged). The credit exposure is calculated at a given day and comprises a default risk and replacement risk. The TAURON Group has a decentralized credit risk management system in place, however, the control, mitigation and reporting are managed centrally at a 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 objectives. Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.	Credit risk management policy for the TAURON Group
	Liquidity risk	
Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.	The TAURON Group's liquidity is reviewed on an ongoing basis to detect any deviation from plans and the availability of external sources of funds, in the case of which the amount materially exceeds the expected short-term demand, mitigates the liquidity risk. To this end the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies (cash-pooling) as well as using external financing, including overdraft facilities. The Company 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 minimize the financing risk, the Company's policy assumes obtaining funding for the Group in advance of the planned time of use, i.e. up to 24 months prior to the planned demand. The key objective of the policy is to ensure flexible selection of funding source, use favorable market conditions and reduce the risk related to the necessity to contract new debt on adverse terms.	Liquidity management policy for the TAURON Group
	Market risk - interest rate and currency risks	
The possibility of an adverse effect on the Group's performance through 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 TAURON Group manages the currency and interest rate risk based on the developed and approved Financial Risk Management Policy in the TAURON Group. The key objective of such risk management is to minimize the cash flow sensitivity of the TAURON Group to financial risks and to minimize finance cost and costs of hedging with the use of derivative instruments. Wherever possible and commercially viable, derivative instruments are used, whose nature allows for the application of hedge accounting. The financial risk management policy of the TAURON Group has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS.	Financial risk management policy for the TAURON Group
	Market risk - price risk	
Unplanned volatility of the operating profit/loss of the TAURON Group resulting from fluctuations of prices in the commodity markets in individual areas of commercial activities of the TAURON Group.	Effective management is ensured by a commercial risk management system linked in terms of organization 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 at 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

48.1. 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.

(in PLN thousand)

Classes of financial instruments	As at 31 December 2019	As at 31 December 2018
Receivables from buyers	2 290 746	2 229 400
Cash and cash equivalents	1 237 952	823 724
Loans granted	255 485	227 552
Derivative instruments	105 529	220 343
Deposits	50 228	47 126
Other financial receivables	499 219	255 504

48.1.1 Credit risk related to receivables from buyers

The Group has receivables from two groups of buyers: institutional and individual clients. The percentage share of individual groups in the total amount of receivables from buyers has been presented below:

	As at 31 December 2019	As at 31 December 2018
Institutional clients	76.65%	70.88%
Individual clients	23.35%	29.12%
Total	**100%**	**100%**

No material concentration of credit risk related to the core activity occurs in the Group. Amounts due from PSE S.A. constitute the largest item of receivables from buyers with a share of 6.69% and 6.55% as at 31 December 2019 and 31 December 2018, respectively.

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

The aging analysis of receivables from buyers as well as information on allowances/write-downs on receivables from buyers have been presented in Note 29 hereto.

48.1.2 Credit risk related to other financial receivables

Other financial receivables of the Group as at 31 December 2019 and as at 31 December 2018 relate mainly to institutional clients (share of 99.64% and 99.89%, respectively). As at 31 December 2019, the main item of other financial receivables are margin deposits resulting from collaterals provided in respect of transactions entered into on stock exchange markets. Stock exchange trading mechanisms and applied hedge in the assessment of the Company basically eliminate the credit risk. In addition to stock exchange collaterals, there is no significant concentration of credit risk associated with other financial receivables.

Regarding other financial receivables measured at amortized cost as at the balance sheet date, the Group estimates an impairment loss.

Aging analysis of other financial receivables measured at amortized cost as at 31 December 2019

	Not past due	Past due					Total
		< 30 days	30-90 days	90-180 days	180-360 days	> 360 days	
Value of item before allowance/write-down	206 721	5 526	5 055	1 428	2 124	97 633	**318 487**
Percentage of allowance/write-down	5%	60%	51%	97%	99%	100%	-
Allowance/write-down	(9 330)	(3 317)	(2 576)	(1 391)	(2 113)	(97 408)	**(116 135)**
Net Value	**197 391**	**2 209**	**2 479**	**37**	**11**	**225**	**202 352**

Aging analysis of other financial receivables measured at amortized cost as at 31 December 2018

	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	42 580	780	1 292	23 103	5 813	78 006	**151 574**
Percentage of allowance/write-down	25%	67%	98%	100%	100%	100%	-
Allowance/write-down	(10 668)	(522)	(1 262)	(23 064)	(5 808)	(77 978)	**(119 302)**
Net Value	**31 912**	**258**	**30**	**39**	**5**	**28**	**32 272**

(in PLN thousand)

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

	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**(119 302)**	**(114 786)**
Recognised	(3 143)	(8 705)
Utilized	560	511
Reversed	5 750	1 860
Other movements	-	1 818
Closing balance	**(116 135)**	**(119 302)**

48.1.3 Credit risk related to cash and cash equivalents and derivatives instruments

Credit risk management related to cash is carried out by the Group through the diversification of banks in which surpluses of cash are deposited. These banks receive investment rating. The share of three banks in which the Group has the largest cash balances as at 31 December 2019 amounted to 86%.

The entities the Company concludes derivative transactions with in order to hedge against interest rate and currency risk operate in the financial sector. These banks receive investment rating. The Company diversifies banks with whom derivative transactions are concluded.

Derivatives for which the basic assets are non-financial assets, which are in the scope of IFRS 9 *Financial Instruments*, apply to futures (exchage market) and forwards (OTC market). Exchange markets apply appropriate mechanisms to protect, in the form of margin and supplementary deposits. Under supplementary 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 contract. Therefore, commercial transactions of material value are preceded by the assessment of the counterparty's creditworthiness, 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.

48.1.4 Credit risk related to loans granted

Loans measured at amortised cost

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

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

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

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

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty. The loans granted by the Group as at 31 December 2019 and 31 December 2018 were not overdue.

The Group did not originate loans for which impairment losses are calculated over the entire life cycle of a financial instrument and which as at 31 December 2019 were impaired due to credit risk.

(in PLN thousand)

Loans measured at fair value

Measurement of the loan granted to Elektrociepłownia Stalowa Wola S.A., a joint venture classified as non-financial assets measured at fair value through profit or loss, with the carrying amount of PLN 216 018 thousand, includes credit risk effects. The loan is collateralized with a blank promissory note with a promissory note agreement.

48.2. Liquidity risk

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

The TAURON Group carries out a centralized finance management policy, allowing effective management in this respect on the Group level. Among others, the Group has adopted *Liquidity Management Policy for the TAURON Group*, which facilitates optimization of liquidity management in the Group, reduces the risk of liquidity loss in the Group and in each Group company as well as reduces financial expenses. Having implemented appropriate projection standards, the TAURON Group can precisely determine its liquidity position and optimize the time of obtaining funding, maturity and types of deposit instruments, as well as an appropriate level of the liquidity provision.

Additionally, in order to minimize the possibility of cash flow disruption and liquidity risk, the TAURON Group, uses the cash pooling mechanism. The cash pooling structure enables the Group companies that experience short-term shortage of funds to use cash provided by companies with cash surplus, without the need to obtain borrowings from third parties.

The Company also has available financing under the concluded overdraft agreements. The balance of use of overdratts by the Company as at each balance sheet date is presented in the table below.

Bank overdrafts

	Bank	Purpose	Currency	Currency financing available	Repayment date	As at 31 December 2019		As at 31 December 2018	
						currency	PLN	currency	PLN
intraday limit	PKO BP	intraday limit	PLN	300 000	17.12.2020		-		-
overdraft facility	PKO BP	financing of ongoing operations	PLN	300 000	29.12.2020		-		-
	BGK	financing of CO_2 emission allowance, electricity and gas transactions on EU stock exchanges	EUR	45 000	31.12.2020	4 804	20 456	-	-
	mBank	financing of security deposits and commodity transactions	USD	200	31.03.2020	198	754	204	767
Total							**21 210**		**767**

The use of foreign currency loans is to mitigate forex risk related to commercial transactions denominated in foreign currencies.

In addition to overdrafts, the Company has primarily available financing under the syndicated loan agreement, which is used for general corporate purposes, including securing the Group's current liquidity position and financing under the Intesa Credit Agreement.

After the period end date, the Company concluded new financing agreements (described in detail in Note 56 hereto).

- a credit agreement concluded with SMBC Bank EU AG;
- a programme agreement concluded with Santander Bank Polska S.A. enabling financing to be obtained through a bond issue on the domestic market;
- a syndicated loan agreements concluded with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland.

(in PLN thousand)

The adopted financing policy provides for increased access to funding sources, reduction of borrowing costs and collateral established on the Group's assets, covenants required by financial institutions and allows a decrease in administrative expenses. The centralized financing model allows access to funding sources inaccessible for individual companies.

As at 31 December 2019, TAURON Group had a significant number of forward contracts concluded on the exchange for the purchase of CO_2 emission allowances, mainly for surrender by the Group's generating units. A position within the scope of CO_2 emission allowances entered into on the exchange generates a risk related to the necessity to provide funds for variation margins, the volume of which is closely related to the volume maintained on the exchange market and current market prices of CO_2 emission allowances. The risk in this case is the reduction of market prices below the average portfolio price. Therefore, taking into account the significant price volatility in 2018 and 2019 and potential significant price changes in the future, the Group identifies the liquidity risk related to the necessity to deposit cash for variation margins. The change of price by 1 EUR/Mg is a change of the variation margin by about PLN 56 000 thousand with the volume of about 13 million Mg.

Due to the strong positive correlation between CO_2 emission allowances prices and electricity prices on the Polish market, a drop in CO_2 emission allowances prices may also cause a reduction in electricity prices. The Group naturally has a long position for electricity on the Polish Power Exchange, mainly for the purpose of securing sales to TAURON Group customers. A price change by PLN 1/MWh means a possible change of the variation margin depending on the position held by about PLN 23 000 - 50 000 thousand with a net annual position of about 23 TWh. The sharp drop in CO_2 emission allowances prices and, as a consequence, electricity prices may cause a significant increase in the required margins on ICE and POLPX exchanges, which, as a consequence, may require the engagement of cash and have a negative impact on the liquidity ratios of the TAURON Group.

In 2019, the Group was fully able to pay its liabilities at maturity.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2019 and 31 December 2018.

Financial laibilities as at 31 December 2019

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

(in PLN thousand)

Financial laibilities as at 31 December 2018

Classes of financial instruments	Carrying amount	Non-discounted contractual payments	of which non-discounted contractual payments maturing within *(after the balance sheet date)*					
			less than 3 months	3 - 12 months	1 - 2 years	2 - 3 years	3 - 5 years	more than 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings and issued bonds	**10 963 352**	**(13 829 604)**	(464 622)	(2 324 303)	(2 438 943)	(582 418)	(1 027 403)	(6 991 915)
Liabilities to suppliers	**1 127 738**	**(1 127 738)**	(1 122 894)	(4 844)	-	-	-	-
Capital commitments	**794 976**	**(794 976)**	(784 326)	(10 590)	(59)	(1)	-	-
Other financial liabilities	**640 360**	**(640 360)**	(557 019)	(13 562)	(45 268)	(4 973)	(10 502)	(9 036)
Obligations under finance leases	**25**	**(28)**	(1)	(1)	(2)	(2)	(4)	(18)
Derivative financial liabilities								
Derivate instruments - commodity	**233 303**	**(124 112)**	(76 640)	(16 490)	(30 982)	-	-	-
Derivative instruments - currency	**2 479**	**(2 479)**	86	(2 565)	-	-	-	-
Derivate instruments - CCIRS	**5 140**	**(50 950)**	-	(5 627)	(5 713)	(5 695)	(11 253)	(22 662)
Total	**13 767 373**	**(16 570 247)**	**(3 005 416)**	**(2 377 982)**	**(2 520 967)**	**(593 089)**	**(1 049 162)**	**(7 023 631)**

48.3. 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 and price risk related to units held by the Group.

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

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate debt, the Group entered into interest rate swap (IRS) contracts, described in detail in Note 47.3 hereto.

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

(in PLN thousand)

Financial instruments by type of interest rate

Financial instruments	As at 31 December 2019			As at 31 December 2018		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Deposits	50 228	-	**50 228**	47 126	-	**47 126**
Loans granted	246 243	9 242	**255 485**	222 756	4 796	**227 552**
Cash and cash equivalents	-	1 143 598	**1 143 598**	-	724 078	**724 078**
Derivative instruments-IRS	19 462	-	**19 462**	4 178	-	**4 178**
Financial liabilities						
Bank overdrafts	-	23 339	**23 339**	-	767	**767**
Preferential loans	-	12 488	**12 488**	-	17 521	**17 521**
Arm's length loans	2 892 708	4 122 116	**7 014 824**	850 675	17 322	**867 997**
Bonds issued	5 756 491	500 531	**6 257 022**	6 519 439	3 557 628	**10 077 067**
Obligations under finance leases	1 006 603	-	**1 006 603**	25	-	**25**
Derivative instruments-CCIRS	12 885	-	**12 885**	5 140	-	**5 140**

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

Sensitivity analysis

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

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

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR and LIBOR USD interest rates. As at 31 December 2019 and as at 31 December 2018, its exposure to the risk of changes in EURIBOR and LIBOR USD was immaterial.

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

Year ended 31 December 2019

Classes of finacial instruments	31 December 2019		Sensitivity analysis for interest rate risk as at 31 December 2019	
			WIBOR +38 bp	WIBOR -38 bp
	Carrying amount	Value at risk	*Profit or loss / other comprehensive income*	
Loans granted	255 485	225 260	(9 883)	10 398
Cash and cash equivalents	1 237 952	1 143 598	4 237	(4 237)
Derivatives (assets)	105 529	19 462	37 204	(37 204)
Preferential loans	12 488	12 488	(47)	47
Arm's length loans	7 014 824	6 320 285	(24 017)	24 017
Issued bonds	6 257 022	1 890 467	(7 184)	7 184
Derivatives (liabilities)	124 527	12 885	6 098	(6 098)
Total			**6 408**	**(5 893)**

The exposure to risk as at 31 December 2019 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

(in PLN thousand)

Year ended 31 December 2018

Classes of finacial instruments	31 December 2018		Sensitivity analysis for interest rate risk as at 31 December 2018	
			WIBOR +34 bp	WIBOR -34 bp
	Carrying amount	Value at risk	*Profit or loss / other comprehensive income*	
Loans granted	227 552	204 052	(8 788)	9 225
Cash and cash equivalents	823 724	724 078	1 728	(1 728)
Derivatives (assets)	220 343	4 178	10 315	(10 315)
Preferential loans	17 521	17 521	(60)	60
Arm's length loans	867 997	17 322	(59)	59
Issued bonds	10 077 067	5 656 342	(19 232)	19 232
Derivatives (liabilities)	240 922	5 140	6 618	(6 618)
Total			**(9 478)**	**9 915**

The exposure to risk as at 31 December 2018 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

48.3.2 Currency risk

The TAURON Group companies are exposed to transaction and translation currency risk. The Group companies are exposed mainly to the risk of EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rate changes in relation to their operating and financing activities. The Group's exposure to currency risk by financial instrument class in 2019 and in 2018 has been presented below. A material exposure involves changes in EUR/PLN and CZK/PLN exchange rates. Group's exposure to other currencies is immaterial.

Currency position as at 31 December 2019

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Receivables from buyers	2 290 746	2 170	9 251	50 029	8 384
Other financial receivables	499 219	49 784	212 005	20 346	3 410
Cash and cash equivalents	1 237 952	4 187	17 832	48 443	8 119
Derivatives (assets)	105 529	14 214	60 531	-	-
Total		**70 355**	**299 619**	**118 818**	**19 913**
Financial liabilities					
Bank overdrafts	23 339	5 304	22 585	-	-
Issued bonds	6 257 022	851 101	3 624 412	-	-
Liabilities to suppliers	850 628	5 770	24 572	8 884	1 489
Other financial liabilities	223 920	2 530	10 774	-	-
Derivatives (liabilities)	124 527	13 206	56 238	-	-
Total		**877 911**	**3 738 581**	**8 884**	**1 489**
Net currency position		**(807 556)**	**(3 438 962)**	**109 934**	**18 424**

Currency position as at 31 December 2018

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK	
		in currency	in PLN	in currency	in PLN
Financial assets					
Receivables from buyers	2 229 400	1 815	7 805	55 582	9 299
Other financial receivables	255 504	38 733	166 552	20 292	3 395
Cash and cash equivalents	823 724	51 173	220 044	31 544	5 277
Derivatives (assets)	220 343	35 511	152 697	-	-
Total		**127 232**	**547 098**	**107 418**	**17 971**
Financial liabilities					
Issued bonds	10 077 067	853 686	3 670 848	-	-
Liabilities to suppliers	1 127 738	2 436	10 475	4 579	766
Other financial liabilities	406 151	57 866	248 824	-	-
Derivatives (liabilities)	240 922	39 493	169 820	-	-
Total		**953 481**	**4 099 967**	**4 579**	**766**
Net currency position		**(826 249)**	**(3 552 869)**	**102 839**	**17 205**

(in PLN thousand)

TAURON Group uses forward contracts to manage its foreign exchange risk. Transactions concluded in 2019 were intended to protect the Group from forex risk, related to its commercial operations, mostly to purchases of CO_2 emission allowances and from currency exposure generated by interest payments on borrowings denominated in EUR.

Fair value measurement of forward foreign exchange contracts (as at 31 December 2019, a liability for a negative valuation of PLN 29 823 thousand) and CCIRS (as at 31 December 2019, a liability for a negative valuation of PLN 12 885 thousand) is exposed to the risk of changes in the EUR/PLN exchange rate. Transactions concluded to hedge against currency risk are not subject to hedge accounting.

Sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behavior 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 end of the reporting period.

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

Year ended 31 December 2019

Classes of finacial instruments	31 December 2019		Sensitivity analysis for currency risk as at 31 December 2019	
			EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +4.24%	exchange rate EUR/PLN -4.24%
Receivables from buyers	2 290 746	9 251	392	(392)
Other financial receivables	499 219	212 005	8 989	(8 989)
Cash and cash equivalents	1 237 952	17 832	756	(756)
Derivatives (assets)	105 529	60 531	2 567	(2 567)
Bank overdrafts	23 339	22 585	(958)	958
Bonds issued	6 257 022	3 624 412	(153 675)	153 675
Liabilities to suppliers	850 628	24 572	(1 042)	1 042
Other financial liabilities	223 920	10 774	(457)	457
Derivatives (liabilities)	124 527	98 946	79 408	(79 408)
Total			**(64 020)**	**64 020**

The exposure to risk as at 31 December 2019 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

Year ended 31 December 2018

Classes of finacial instruments	31 December 2018		Sensitivity analysis for currency risk as at 31 December 2018	
			EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +5.85%	exchange rate EUR/PLN -5.85%
Receivables from buyers	2 229 400	7 805	456	(456)
Other financial receivables	255 504	166 552	9 743	(9 743)
Cash and cash equivalents	823 724	220 044	12 872	(12 872)
Derivatives (assets)	220 343	152 697	8 933	(8 933)
Bonds issued	10 077 067	3 670 848	(214 745)	214 745
Liabilities to suppliers	1 127 738	10 475	(613)	613
Other financial liabilities	406 151	248 824	(14 556)	14 556
Derivatives (liabilities)	240 922	177 439	38 838	(38 838)
Total			**(159 072)**	**159 072**

The exposure to risk as at 31 December 2018 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

(in PLN thousand)

48.3.3 Raw material and commodity price risk related to commodity derivative instruments and price risk related to units

Commodity derivatives

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. an unbalanced position in the portfolio.

As at 31 December 2019, the portfolio of concluded contracts is fully balanced. This minimizes market risk related to the commodity derivatives portfolio, as confirmed by a sensitivity analysis, which indicated immaterial effects of potential changes in the prices of emission allowances on Group's gross profit/loss.

Participation units

As at 31 December 2019, the Group held units in investment funds with the carrying amount of PLN 26 622 thousand. As they are measured at fair value through profit or loss at the end of the reporting period, they are exposed to the price risk.

A performed analysis indicated immaterial effects of potential quotation changes on Group's gross profit/loss.

49. Operational risk

The commercial operational risk is managed at the level of the TAURON Group, as described in Note 3.3.4. Management Board's reports on the activities of TAURON Polska Energia S.A. and of TAURON Capital Group for the financial year 2019. The Group manages its commercial risk following the Commercial risk management policy developed and adopted in the TAURON Group, which has introduced an early warning system in addition to a system of limiting the exposure to risk in various commercial areas.

The TAURON Group companies are exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in commodity prices. The Group's exposure to commodity price risk is reflected by the volume of the key raw materials and commodities purchased, including coal, gas and electricity. The volume and cost of the key raw materials purchased from third-party suppliers have been presented in the table below.

Fuel type	Unit	2019		2018	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	3 809 329	1 002 443	4 452 901	1 115 294
Gas	MWh	3 498 481	345 742	3 075 513	290 574
Electricity	MWh	32 326 975	7 906 677	30 757 412	5 665 514
Heat energy	GJ	5 718 634	226 430	5 776 785	222 076
Total			**9 481 292**		**7 293 458**

OTHER INFORMATION

50. Contingent liabilities

Claims related to termination of long-term contracts

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

In 2015 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed a case against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination of agreements submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and property rights concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising new contract termination and contractual penalties related claims. On 2 September 2019, Amon Sp. z o.o. (the Polenergia Group company) filed a number of a new cases regarding claims in total amount of PLN 29 009 thousand. After the balance sheet day, on 24 February 2020, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. received changing letter of case filed by Dobiesław Wind Inwest Sp. z o.o. which except the primary demand, company also filed a case in total amount of PLN 34 464 thousand, which have been discussed in detail in Note 56 to these consolidated financial statements.

As of the date of approval of these consolidated financial statements for publication, the amount of damages claimed is: companies of the in.ventus group companies- EUR 20 397 thousand, the Polenergia group companies- PLN 115 566 thousand (including Amon Sp. z o.o. - PLN 69 488 thousand, Talia Sp. z o.o. - PLN 46 078 thousand, Wind Invest group companies - PLN 322 313 thousand.

In the case filed by Amon Sp. z o.o., on 25 July 2019, a partial and preliminary judgment was issued in the case, in which the court determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term contracts concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. for the purchase of electricity and property rights arising from certificates of origin are ineffective and do not have 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 for all provisions and are binding on the parties. Moreover, the Court recognized Amon Sp. z o.o.'s claim for payment of compensation as justified in principle, without prejudging the amount of possible compensation. The judgement is not final. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. disagrees with the judgement and on 25 October 2019, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. appealed against the judgement.

After the period end date, on 6 March 2020 District Court in Gdańsk issued a partial and preliminary judgment similar as in case filed by Taila Sp. z o.o., against a subsidiary – Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., which have been discussed in detail in Note 56 hereto.

Above partial ad preliminary judgments, have not changed Group's assessment, according to the claims for compensation is less than 50%.

In the case filed by Amon Sp. z o.o. of 2 September 2019, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on 4 November 2019 submitted a response to the claim, demanding that the claim be dismissed in its entirety. A preliminary assessment of the claims and the grounds on which they are based indicates that they are unfounded.

In the case biled by Pękanino Wind Invest Sp. z o.o. to secure the claims for establishing that the termination of long-term agreements submitted by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. is ineffective, the Court of Appeal in Warsaw on 6 November 2019 partially accepted the motion for collateral by ordering Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the agreements under existing terms and conditions, in accordance with their contents, until the final and binding conclusion of the proceedings in the case filed by Pękanino Wind Invest Sp. z o.o. against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the District Court in Warsaw. The decision regarding the security is binding. This decision does not prejudge the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings. Bearing in mind the need to implement the provision on collateral referred to above, as at the balance sheet date the company created a provision for onerous contracts in the amount of PLN 4 213 thousand.

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

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

In connection with the transaction of purchase on 3 September 2019 of companies belonging to the in.ventus group (described in more detail in Note 2.1 of these consolidated financial statements), the cases filed by the in.ventus group companies against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. were suspended by the court, at the unanimous request of the parties.

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

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

As at the date of approval of these consolidated financial statements for publication, the amount of compensation sought in the claims is: the in.ventus group companies- EUR 12 286 thousand, the Polenergia group companies - PLN 78 855 thousand, the Wind Invest group companies - PLN 129 947 thousand.

Moreover, in their claims, the plaintiffs indicate the following values of estimated damages that may arise in the future: companies of the in.ventus group - EUR 35 706 thousand, companies of the Polenergia group - PLN 265 227 thousand, companies of the Wind Invest group - PLN 1 119 363 thousand.

The court competent for hearing the claims is the Regional Court for Katowice. All cases are held before the first instance courts. Those filed by Wind Invest group companies are held in camera. As at the date of approval of these consolidated financial statements for publication, the Company's chances of obtaining a positive outcome in disputes should be assessed positively, i.e. the chances of losing are no higher than the chances of winning.

In connection with the transaction of purchase on 3 September 2019 of companies belonging to the in.ventus group (described in more detail in note 2.1 of these consolidated financial statements), the cases from actions filed by the in.ventus group companies against TAURON Polska Energia S.A. were suspended by the court, at the unanimous request of the parties.

Moreover, a case filed by Dobiesław Wind Invest Sp. z o.o. against TAURON Polska Energia S.A. was pending. It concerned a demand to make a court deposit of PLN 183 391 thousand to reverse the threat of a loss. The Company assessed the chances for a positive resolution of the dispute as positive. The case was closed (as a result of the withdrawal of the suit by Dobiesław Wind Invest Sp. z o.o., the proceedings were discontinued - court decision of 29 November 2019).

Claims relating to termination of long-term contracts against a subsidiary TAURON Sprzedaż Sp. z o.o.

On 28 February 2017, TAURON Sprzedaż Sp. z o.o., a subsidiary, submitted termination notices regarding long-term contracts for the purchase of property rights under green certificates by the subsidiary. The party to the contracts concluded in 2008 are companies from the in.ventus group. The contracts were terminated after the parties were unable to reach an agreement in renegotiation of the contracts in line with the terms and conditions provided for therein. Total net contractual liabilities of TAURON Sprzedaż Sp. z o.o. under the terminated contracts for the years 2017-2023, as at the date of the termination would be approx. net PLN 417 000 thousand.

On 7 March 2019, Hamburg Commercial Bank AG (former HSH Nordbank AG) filed a case against TAURON Sprzedaż Sp. z o.o. for compensation relating to its failure to exercise contracts on sales of property rights arising from green certificates and liquidated damages charged in relation to termination of the above contracts. The plaintiff demanded TAURON Sprzedaż Sp. z o.o. to pay the amount of PLN 232 879 thousand with statutory interest for the delay, calculated from the date of filing the action, i.e. from 7 March 2019 to the date of the payment, and including the compensation totalling PLN 36 252 thousand and liquidated damages totalling PLN 196 627 thousand.

In connection with the purchase of wind farms(more details in Note 2.1 to these consolidated financial statements), on 4 September 2019 Hamburg Commercial Bank AG and TAURON Sprzedaż Sp. z o.o. filed a letter of action with the District Court in Krakow in which the bank withdrew its case to waive the claim and the parties jointly applied for the discontinuation of the above proceedings in full. By order of 5 September 2019, the Regional Court in Kraków discontinued the proceedings and mutually cancelled the costs of the proceedings between the parties. The court order is final and binding.

In 2018, subsidiary TAURON Sprzedaż Sp. z o.o. was notified of cases filed against it by two Polenergia group companies with regard to settlement related to damages in the total amount of PLN 78 855 thousand for an alleged loss incurred by the Polenergia group companies as a result of groundless termination of the long-term agreement concluded between them and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The companies indicated in their motions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and the liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. have caused and continue to cause damage to the companies of the Polenergia Group, and TAURON Sprzedaż Sp. z o.o. has consciously taken advantage of this damage and - according to the Polenergia Group companies- is responsible for it. TAURON Sprzedaż Sp. z o.o. considered the claims of the Polenergia group companies groundless; thus, no settlement was reached. Based on the analysis of the legal situation, in the opinion of the Management Board of TAURON Sprzedaż Sp. z o.o., there are no grounds for creating a provision for the above case.

Claim against PGE EJ 1 Sp. z o.o.

On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as “the WorleyParsons consortium”), which is a research contractor in the framework of the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereinafter referred to as „the agreement”), lodged, in relation the the agreement - in the request for payment towards PGE EJ 1 Sp. z o.o. - claims for the total amount of PLN 92 315 thousand. As a result, on 15 April 2015 the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations related of the parties to the agreement as regards the claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

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

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

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

Claims filed by Huta Łaziska S.A.

In connection with the Company's merger with Górnośląskie Zakład Elektroenergetyczny S.A. ("GZE") - TAURON Polska Energia S.A. became a party to a court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of Energy Regulatory Office (“ERO”). At present, the case is pending at the Court of Appeal in Warsaw.

Based on a decision of 12 October 2001, the President of the Energy Regulatory Office ordered GZE to resume electricity supplies to Huta (suspended on 11 October 2001 since Huta had not paid its liabilities) on such terms as set out in the agreement of 30 July 2001, in particular at the price of PLN 67/MWh, until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw issued a final and binding decision ending the dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the ERO. Huta filed a cassation appeal against the judgment of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007. On 15 November 2001 (following the issue of the above decision by the President of the Energy Regulatory Office on 14 November 2001 and due to the growing indebtedness of Huta to GZE due to electricity supply) GZE again suspended electricity supply. Therefore, Huta has sued GZE for damages.

In a suit of 12 March 2007 against GZE and the State Treasury represented by the President of the ERO (jointly and severally) Huta claimed the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001.

In this case, the courts of the first and second instance passed judgments favourable for GZE; however, in its judgment of 29 November 2011 the Supreme Court overruled the judgment 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. Since 27 November 2012 the case was heard by the court of first instance. By judgment of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the respondents for the costs of the proceedings. The judgment is not final and binding. Huta appealed (dated 25 July 2019), challenging the above judgement in its entirety and requesting that it be amended by upholding the claim in its entirety and ordering the defendants to pay the costs of the proceedings in favour of Huta, or, in the alternative, that the contested judgement be set aside in its entirety and the case be referred back to the court of first instance. In response to the appeal of 9 August 2019, the Company requested that the appeal be dismissed in its entirety as manifestly unfounded and that the costs of the appeal proceedings be awarded against Huta in favour of the Company.

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

Case filed by ENEA S.A.

Case filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 31 March 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 aggregated measurement and settlement data by ENEA Operator Sp. z o.o. (as the Distribution System Operator, DSO), 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. During the proceedings, at the request of ENEA S.A. the court decided to extend the suit against seven sellers for which TAURON Polska Energia S.A. acted as an entity in charge of trade balances in the distribution area of ENEA Operator Sp. z o.o. in 2012. Among the entities sued were two subsidiaries of TAURON Polska Energia S.A., i.e: TAURON Sprzedaż Sp. z o.o. (with respect to which ENEA S.A. has applied for the award of the amount of PLN 4 934 thousand with statutory interest from the date of delivery of the copy of the application for supplementary payment to the date of payment), and TAURON Sprzedaż GZE Sp. z o.o. (with regard to which ENEA S.A. has applied for the award of the amount of PLN 3 480 thousand with statutory interest from the date of delivery of the copy of the supplementary application to the payment date). The demand for payment of the above amounts as well as the amounts claimed from the other five sellers was submitted by the petitioner in case the claim against TAURON Polska Energia S.A. is dismissed. The case is pending before the first-instance court.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 730 thousand (TAURON Sprzedaż Sp. z o.o.) and in the total amount of PLN 4 074 thousand (TAURON Sprzedaż GZE Sp. z o.o.). The said provisions cover the principal, interest reviewed as at 31 December 2019 and the cost of the proceedings.

As at 31 December 2019, the value of the claim against the Company is PLN 17 086 thousand, including statutory interest accrued between 31 March 2015 and the payment date. Should the claim filed against the Company be dismissed, the claim for payment by the Group companies totals PLN 8 414 thousand, including statutory interest accrued between the date of service of a copy of the request filed by ENEA S.A. to extend the suit by a specific Group company and the payment date. As new measurement data were presented by ENEA Operator sp. z o.o. during the proceedings, the values of the claims against the Company and the Group companies may be expected to change.

Administrative proceedings instigated by the President of the Energy Regulatory Office (“ERO”)

In 2016, administrative proceedings to impose a fine for a failure to maintain facilities, installations and equipment in a proper technical condition and for non-compliance with the terms of the electricity distribution licence were instigated against TAURON Dystrybucja S.A. By a decision of 10 July 2017, the company was fined with PLN 350 thousand. In July 2017 the company recognized a provision of PLN 351 thousand and filed an appeal against the decision to the Court of Competition and Consumer Protection (SOKiK). The case is pending.

In 2017 administrative proceedings regarding a fine to be imposed with respect to the alleged business activity consisting in generation of electricity in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz without the necessary permits for special use of water of the Vistula river for energy generation, as required under the Water Law of 20 July 2017, were instigated against TAURON Ekoenergia Sp. z o.o. The company provided the President of the Energy Regulatory Office with relevant explanations in writing. In the last one, dated 29 June 2018 indicated that the Supreme Administrative Court had passed judgements on 17 May 2018 and on 27 June 2018 overruling decisions of administrative authorities (which had been disadvantageous for the company) related to permits for special use of water of the Vistula river for energy generation in Elektrownia Wodna Dąbie and Elektrownia Wodna Przewóz. By a decision of 15 February 2019, the company was fined with PLN 2 thousand. The Company has filed an appeal against the decision with the District Court in Warsaw and is waiting for the date of the hearing to be set. According to the company, the facts underlying the procedure cannot provide the basis to a fine; therefore no provision has been recognized in relation to the case.

As at the end of the reporting period, the companies in the Sales segment have been subject to the following proceedings:

- On 18 July 2018 proceedings were instigated against TAURON Sprzedaż Sp. z o.o. regarding the adjustment of the terms of the electricity distribution licence to meet the requirements of the applicable law. In November 2018, the company received a decision of the President of the Energy Regulatory Office on the change of the concession, from which it appealed to the SOKiK.
- On 15 October 2018 proceedings were instigated against TAURON Sprzedaż GZE Sp. z o.o. in relation to discontinued supply of electricity to end users. The proceedings have been suspended.
- On 2 September 2019, a proceeding was instigated against TAURON Sprzedaż Sp. z o.o. concerning the suspension of electricity supply to the end user.
- On 31 December 2019, TAURON Sprzedaż GZE Sp. z o.o. was subject to administrative proceedings in respect of the imposition of fines in connection with the disclosure of the possibility of non-compliance with the obligations set forth in Article 9a (1), Article 9a (8) of the Energy Law Act and Article 12 (1) of the Energy Efficiency Act. As at the balance sheet date, the company created provisions for the aforementioned proceedings in the total amount of PLN 6 320 thousand.

The companies have been providing relevant explanations on an ongoing basis. The companies do not recognize provisions for potential fines that may be imposed in the above proceedings (except for proceedings instigated on 31 December 2019) as in the opinion of the Management Board of the companies the risk of adverse rulings and fines is low.

Administrative and explanatory proceedings instigated by the President of the Office for Competition and Consumer Protection („UOKiK”)

As at the end of the reporting period, the companies in the Sales segment were subject to the following proceedings instigated by the President of UOKiK:

- Explanatory proceedings instigated on 11 May 2017 against TAURON Sprzedaż Sp. z o.o. and on 29 June 2018 against TAURON Sprzedaż GZE Sp. z o.o. with respect to the mechanism of automatic extension of the period of settling fees for the sale of electricity in line with the pricing list if a consumer does not respond to the new offer presented (renewal offer).
- Proceedings instigated on 13 October 2017 against TAURON Sprzedaż GZE Sp. z o.o. in relation to alleged violation of collective interests of consumers, which consisted in hindering a change of the electricity supplier.
- Explanatory proceedings instigated on 31 December 2018 against TAURON Sprzedaż Sp. z o.o. in relation to alleged violation of collective interests of consumers through application of practices involving conclusion of electricity sales agreements on the phone.
- The investigation procedure instigated on 8 January 2019 against TAURON Sprzedaż Sp. z o.o. in relation with the suspicion of a practice by the company to alleged violation of collective interests of consumers by introducing changes in the scope of information made available to consumers in applications for conclusion or amendment of the terms and conditions of a comprehensive agreement concerning electricity.
- The investigation proceedings instigated on 26 August 2019 against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. calling on the companies to provide information on the reserve sale agreements concluded in 2018 and 2019 and to provide relevant explanations in the case.

The companies have been providing relevant explanations on an ongoing basis. The companies do not recognize provisions for potential fines that may be imposed in the above proceedings as in the opinion of the Management Board of the companies the risk of adverse rulings and fines is low.

Use of real estate without contract

The Group companies do not have legal titles to all lands on which distribution networks, heating installations and related equipment are located. In the future, the Group may be required to incur costs due to use of real estate without contract, but it should be noted that the risk of losing assets is negligible. The Group recognizes provisions for all court disputes reported in this respect. No provision has been recognized for potential, not submitted claims of owners of land with unregulated legal status, since there are no detailed records of such land. As a consequence, potential claim amounts cannot be reliably estimated. However, taking into account the previous history of lodged claims and costs incurred in this respect in previous years, the risk related to the need to incur significant costs on this account can be considered as low.

(in PLN thousand)

A provision in the amount of PLN 88 070 thousand was recognized for the court disputes filed as at the balance sheet date (Note 39.1).

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

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

With regard to the broadening of the scope of the claim to include other defendants, i.e. the legal successors of former Kompania Węglowa S.A. and doubts over the facts and legal uncertainties, which make it impossible to decide on the final outcome of the case heard by the Court or to estimate the amount that may be awarded by the Court no provision has been recognised for the above event.

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

The investment agreement signed by the Company with the Closed-End Investment Funds (“Funds”) managed by the Polish Development Fund provides for a number of situations whose occurrence constitutes a material breach of the agreement by the Company. The above situations, some of which are beyond the direct control of the Company, include, among others, the occurrence of events of a legal nature, events relating to the financial and property situation of the TAURON Group, decisions of an investment and operational nature taken by the Group with respect to the financing and construction of the 910 MW unit, as well as events relating to the future operation of the unit. A potential material breach of the agreement on the part of the Group's companies may lead to the potential launch of a procedure which may result in the Closed-End Investment Funds demanding (triggering of options) the repurchase of shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o., in the amount invested by the in the shares increased by the agreed return and a premium for material breach and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Funds. After the reporting period, on 6 March 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. received information from the Contractot concerning a change in the estimated date of commissioning of the 910 MW power unit. Also after the reporting period, on 27 March 2020, an annex to the investment agreement was concluded, removing from the catalogue of significant breaches of the agreement on the part of the Company the breaches referring to debt ratios combined with a simultaneous amendment to the shareholders' agreement, consisting in granting the Funds special rights in case of exceeding the agreed levels of these ratios. As at the date of approval of these consolidated financial statements for publication, the Company does not identify any risk of material breach of contract and is of the opinion that there is no real possibility, including in the future, of material breach of contract beyond the Company's direct control. Therefore, the Group, having regard to the provisions of IAS 32 *Financial Instruments: Presentation,* does not recognise the Funds' involvement as liabilities but as non-controlling interests.

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

51. Security for liabilities

Key items of collateral established and binding as at 31 December 2019 in the Group are presented in the following table and regard contracts concluded by the Parent.

Collateral	Collateral amount		Due date	Agreement/transaction
	Currency	PLN		
Declarations of submission to enforcement		2 550 000	20.12.2032	Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013
		240 000	31.12.2023	Bond Issue Scheme of 24 November 2015
		600 000	30.06.2034	Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017
		621 000	31.07.2020	Bank guarantee agreement dated 5 February 2019 with MUFG Bank, Ltd.
		600 000	17.12.2021	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017
		360 000	29.12.2021	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017
	EUR 24 000	102 204	31.12.2021	Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017
	EUR 50 000	212 925		
	USD 750	2 848	29.03.2020	Overdraft agreement with mBank S.A. of 26 March 2019
		1 500 000	31.12.2036	Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018
		96 000	27.05.2024	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
		24 000	27.05.2029	
		7 284 000	31.12.2025	Loan arrangement with a consortium of banks of 19 June 2019
Authorizations to debit bank accounts		80 000	26.05.2023	Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019
		20 000	26.05.2028	
		300 000	17.12.2020	Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017
		300 000	29.12.2020	Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017
	EUR 45 000	191 633	31.12.2020	Overdraft agreement with Bank Gospodarstwa Krajowego of 8 May 2017
Bank guarantees		61 000	31.01.2020	Bank guarantee issued by CaixaBank S.A. to Izba Rozliczeniowa Giełd Towarowych S.A. as a collateral of transactions concluded on Power Commodity Exchange

(in PLN thousand)

On 20 December 2019, an annex to the overdraft agreement with Bank Gospodarstwa Krajowego was concluded extending its term until 31 December 2020, under which a new power of attorney was granted to dispose of a bank account in the amount of EUR 45 000 thousand with the term of validity until 31 December 2020 (the existing power of attorney expired on 31 December 2019).

After the reporting period end:

- on 8 January 2020, the Company signed a statement on submission to enforcement under the loan agreement with Intesa Sanpaolo S.P.A. bank. (described in more detail in Note 35.1 of these consolidated financial statements), up to the amount of PLN 900 000 thousand with a maturity date of 31 December 2027;
- on 7 February 2020, the Company signed a statement of submission to enforcement under the guarantee limit agreement concluded on 28 January 2020 with MUFG Bank, Ltd. up to the amount of PLN 621 000 thousand, to be valid until 31 October 2021;
- on 22 January and 20 February 2020 Caixabank S.A. issued annexes to the bank guarantees in force, issued for the benefit of the Warsaw Commodity Clearing House, by virtue of which the guarantee validity period was extended until 29 February and 31 March 2020, respectively. Additionally, on 25 March 2020, Caixabank S.A. issued annexes to the guarantee in the total amount of PLN 50 000 thousand, under which the validity of these guarantees was extended until 30 April 2020, and the guarantee in the amount of PLN 1 000 thousand expired at the end of March 2020;
- on 16 March 2020, the Company signed a statement of submission to enforcement under the loan agreement with SMBC Bank EU AG concluded on 16 March 2020 (described in more detail in Note 56 hereto), up to the amount of PLN 600 000 thousand, with the term of validity until 31 December 2028;
- on 18 March 2020, Bank Gospodarstwa Krajowego, by virtue of the agreement concluded on 13 March 2020 for granting of guarantees within the line of credit with the available limit of PLN 500 000 thousand, issued - upon the Company's order - bank guarantees for the benefit of the Warsaw Commodity Clearing House in total amount of PLN 500 000 thousand, with the expiration dates from 18 March 2020 till 30 June 2020 (in amount of PLN 300 000 thousand), till 31 July 2020 (in amount of PLN 100 000 thousand) and till 31 August 2020 (in amount of PLN 100 000 thousand). The agreement is secured with a power of attorney to bank accounts and a statement of submission to enforcement up to the amount of PLN 600 000 thousand, valid until 14 March 2023.
- on 26 March 2020, the Company signed a statement of submission to enforcement under the syndicated loan agreement concluded on 25 March 2020 with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland (discussed in detail in Note 56 to these financial statements), up to the amount of PLN 600 000 thousand with maturity date of 31 December 2030.

Carrying amounts of assets pledged as collateral against liabilities of the Group

The carrying amounts of assets pledged as collateral for the payment of liabilities at the end of each reporting period have been presented in the table below.

	As at 31 December 2019	As at 31 December 2018
Other financial receivables	184 353	163 495
Real estate	10 482	38 809
Cash	45	45
Total	**194 880**	**202 349**

Collaterals of forwards and futures (derivative financial instruments) - concluded by the Company on foreign exchange markets is the key item. As at 31 December 2019 and 31 December 2018, the collateral amount was PLN 184 353 thousand and PLN 163 495 thousand, respectively.

(in PLN thousand)

Other forms of collateral against liabilities of the Group

As at 31 December 2019, other material forms of collateral regarding liabilities of TAURON Group included:

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

Under the agreement of 15 May 2015, annexed on 15 September 2016, the parent company established 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o, with the nominal value of PLN 100 and the total nominal value of PLN 329 340 thousand, constituting approximately 50% of the shares in the issued capital, a financial pledge and registered pledges, i.e. a registered pledge with the highest priority of satisfaction on the shares up to the maximum security amounting to CZK 3 950 000 thousand and a registered pledge with the highest priority of satisfaction on the shares up to the maximum security amounting to PLN 1 370 000 thousand in favour of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges on new shares acquired or taken up. Moreover, the Company assigned the rights to dividend and other payments.

The agreement to establish registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

As at 31 December 2019, the carrying amount of the investment in a joint venture measured using the equity method in the TAMEH HOLDING Sp. z o.o. Group was PLN 559 144 thousand.

- Blank promissory notes

Agreement/transaction secured by blank promissory notes	Issuer a blank promissory note	As at 31 December 2019	As at 31 December 2018
Agreements concerning loans granted to subsidiary TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question.	TAURON Polska Energia S.A.	70 000*	70 000*
Performance bonds under contracts and agreements concluded by the company, including co-funding of engagements being carried out.	TAURON Dystrybucja S.A.	212 284	245 957
Performance bonds under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw.	TAURON Ciepło Sp. z o.o.	87 251	228 606
Performance bonds under the co-funding agreements concluded with Centrum Projektów Polska Cyfrowa in Warsaw.	TAURON Obsługa Klienta Sp. z o.o.	187 841	187 841
An agreement with PSE S.A. to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management in Warsaw concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development in Warsaw for the funding of a project.	TAURON Wytwarzanie S.A.	63 708	49 570

* *As at 31 December 2019 the amount outstanding under the loans, secured by the promissory notes in question was PLN 12 000 thousand and in the comparable period it was PLN 17 000 thousand.*

(in PLN thousand)

- Guarantees and surety agreements

Company in respect of which contingent liability has been granted	Beneficiary	Due date	As at 31 December 2019			As at 31 December 2018		Transaction
			Currency		PLN	Currency	PLN	
Corporate and bank guarantees								
Finanse Grupa TAURON Sp. z o.o. (dawniej TAURON Sweden Energy AB (publ))	Bondholders	3.12.2029	EUR	168 000	715 428	168 000	722 400	Corporate guarantee granted by the Company to secure bonds issued by a subsidiary.
Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	11.04.2020			517 500		444 000	Bank guarantee issued at the Company's request by MUFG Bank, Ltd. to secure BGK's receivables under the loan agreement concluded on 8 March 2018 between the borrower Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A.
TAURON Czech Energy s.r.o.	ČEZ a. s.	31.01.2021	CZK	80 000	13 408	80 000	13 384	Payment guarantees issued at TAUORN Czech Energy s.r.o. request by PKO BP S.A. Czech Branch and UniCredit Bank Czech Republic and Slovakia, a.s. for securing contracts concluded with market operators and contracts for supply of electricity and natural gas.
	OTE a.s.	31.05.2020	CZK	15 000	2 514	15 000	2 510	
	OKTE a.s.	30.06.2020-31.01.2021	EUR	1 200	5 110	1 200	5 160	
Suerty agreements								
TAURON Sprzedaż Sp. z o.o.	Polska Spółka Gazownictwa Sp. z o.o.	30.11.2020			20 000		20 000	Surety by the Company of liabilities of the subsidiary under the concluded distribution agreement.
Nowe Jaworzno Grupa TAURON Sp. z o.o.	Polskie Sieci Elektroenergetyczne S.A.	31.12.2020			33 024		33 024	Surety by the Company of liabilities of a subsidiary resulting from the obligation of the subsidiary under the Capacity Market Act to establish and maintain a security.
Elektrociepłownia Stalowa Wola S.A.	Bank Gospodarstwa Krajowego	30.01.2021			9 959		9 959	Surety by the Company of liabilities of a jointly-controlled company under bank guarantee agreements and overdraft loan agreements concluded between BGK and ECSW S.A.
		30.07.2020-24.04.2021	USD	4 993	18 962		-	

On 7 February 2019, at the Company's request, an annex was cocluded to the bank guarantee issued forBank Gospodarstwa Krajowego, pursuant to which as of 12 April 2019 the guarantee amount was increased to the amount of PLN 517 500 thousand, and the validity period was extended to 11 April 2020. The annex was concluded based on the guarantee agreement of 5 February 2019 concluded with the MUFG Bank, Ltd. and the receivables of MUFG Bank, Ltd. towards the Company are secured with a declaration of submission to enforcement up to PLN 621 000 thousand valid until 31 July 2020.

After the reporting period, on 28 January 2020, the Company concluded a guarantee limit agreement with MUFG Bank, Ltd. under which, at the Company's request, an annex was issued to the bank guarantee issued to Bank Gospodarstwa Krajowego for the amount of 517 500 thousand PLN, extending the guarantee period until 11 April 2021. The exposure of MUFG Bank, Ltd. to the Company is secured with a declaration of submission to enforcement up to PLN 621 000 thousand, valid until 31 October 2021.

In relation to the guarantee issued, the Company recognized a liability equal to the projected credit losses, amounting to PLN 15 265 thousand as at 31 December 2019 (as at 31 December 2018 - PLN 11 994 thousand)

- Collateral for transactions on the Polish Power Exchange.

In order to secure the liabilities of the Company resulting from the transactions concluded by the Company on the Polish Power Exchange agreements on transfer of CO_2 emission allowances to the Izba Rozliczeniowa Giełg Towarowych S.A. have been concluded. („IRGiT”):

- the agreement of 5 November 2019 concluded between the Company and the IRGiT, by the power of which the Company has deposited on the account in the Union Register the amount of 1 000 000 tons of CO_2 emission allowances in possession;
- two agreements of 18 December 2019 concluded between the Company, a subsidiary of TAURON Wytwarzanie S.A. and the IRGiT, by virtue of which the subsidiary of TAURON Wytwarzanie S.A. transferred to the IRGiT allowances owned by TAURON Wytwarzanie S.A. in total amount of 9 795 035 tons.

As of 31 December 2019, the object of the collateral established is a total of 10 795 035 tonnes of CO_2 emission allowances. After the reporting period, in February 2020, new agreements on the transfer of CO_2 emission allowances were concluded and some of the allowances were returned to TAURON Wytwarzanie S.A. As at the date of approval of the consolidated financial statement for publication the balance of collaterals lodged in favour of the IRGiT amounts to 6 084 453 tons of CO_2emission allowances.

(in PLN thousand)

In case when the IRGiT sells the CO_2 emission allowances being subject of the transfer of ownership, which is possible only in the situations, strictly specified in the agreements, connected with the Company's failure to satisfy justified claims of other members of the House or WCCH, the Company shall be obliged to purchase and transfer to TAURON Wytwarzanie S.A. the CO_2 emission allowances within the period that makes possible fulfilling of the subsidiary's obligation to redeem the CO_2 emission allowances for 2019.

On 10 February 2020, two agreements of transfer of ownership as collateral concerning the property rights of the certificates of origin were concluded between the Company, subsidiary TAURON Sprzedaż Sp. z o.o. and the IRGiT as well as between the Company, subsidiary TAURON Sprzedaż GZE Sp. z o.o. and the WCCH. As at the date of approval of the consolidated financial statement for publication pursuant to the agreements entered into, the subsidiaries submitted an instruction to block the Property Rights held in a total number of 3 352 058.38 MWh in the Certificate of Origin Register maintained by the Polish Power Exchange.

In order to provide funds to cover future mine decommissioning costs, the subsidiaries TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. have established the Mine Decommissioning Fund.

52. Related-party disclosures

52.1. 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 has been discussed in more detail in Note 24 to these consolidated financial statements.

The total amount of transactions with jointly-controlled entities has been presented in the following table.

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	123 504	52 455
Costs	(63 354)	(37 053)

The key item of receivables from and liabilities to jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A., which has been discussed in more detail in Note 25 to these consolidated financial statements.

The Company provided collateral to joint ventures in the form of pledges on shares in TAMEH HOLDING Sp. z o.o. and a bank guarantee commissioned by the Company to secure loan liabilities of Elektrociepłownia Stalowa Wola S.A., as described in detail in Note 51 hereto.

52.2. Transactions with State Treasury companies

As the State Treasury of the Republic of Poland is the Company's major shareholder, State Treasury companies are treated as related parties.

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

Revenue and costs

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	2 354 188	2 079 293
Costs	(2 815 591)	(3 440 786)

Receivables and liabilities

	As at 31 December 2019	As at 31 December 2018
Receivables	277 032	284 443
Payables	290 373	432 097

As at 31 December 2019, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 2 439 thousand. As at 31 December 2018, receivables presented in the table above comprised advance payments for purchases of fixed assets of PLN 12 196 thousand.

(in PLN thousand)

Among of the State Treasury companies, the largest clients of the TAURON Polska Energia S.A. Capital Group in the year ended 31 December 2019 were KGHM Polska Miedź S.A., PSE S.A. and Polska Grupa Górnicza S.A. The total sales to the above contractors amounted to 82% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transactions were made by the Group from PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above contractors constituted 89% of the value of purchases from State Treasury companies in the year ended 31 December 2019.

Among the companies of the State Treasury, the largest clients of the TAURON Polska Energia S.A. Capital Group in the year ended 31 December 2018 were KGHM Polska Miedź S.A., PSE S.A. and Polska Grupa Górnicza S.A. and Jastrzębska Spółka Węglowa S.A. The total sales to the above contractors amounted to 88% of the volume of revenues generated in transactions with state-owned companies. The largest purchase transactions were made by the Group from PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above contractors accounted for 91% of the value of purchases from State Treasury companies in the year ended 31 December 2018.

The Capital Group concludes material transactions on the energy markets through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organization of commodities exchange trading, it has been decided not to classify purchase and sale transactions made through this entity as related-party transactions.

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

52.3. Compensation of the executives

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key management personel of the parent and the subsidiaries in the year ended 31 December 2019 and in the comparative period has been presented in the table below.

	Year ended 31 December 2019		Year ended 31 December 2018	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	**5 209**	**19 801**	**5 661**	**13 974**
Short-term benefits (with surcharges)	4 650	18 220	4 931	13 275
Employment termination benefits	541	1 577	695	357
Other	18	4	35	342
Supervisory Board	**898**	**1 062**	**833**	**865**
Short-term employee benefits (salaries and surcharges)	898	952	833	752
Other	-	110	-	113
Other key management personnel	**17 805**	**42 419**	**16 370**	**39 383**
Short-term employee benefits (salaries and surcharges)	15 707	40 762	14 330	35 505
Jubilee bonuses	-	94	-	2 468
Post-employment benefits	-	56	-	13
Employment termination benefits	933	110	898	856
Other	1 165	1 397	1 142	541
Total	**23 912**	**63 282**	**22 864**	**54 222**

In accordance with the adopted accounting policy, the Group recognizes provisions for termination benefits for members of the Management Board and other key management personel, which may be paid or due in future reporting periods. The amounts paid or payable until 31 December 2019 have been presented above.

53. Finance and capital management

The Company carries out a centralized finance management policy, allowing effective management in this respect on the TAURON Group level. Key tools allowing effective management include appropriate internal regulations, as well as the cash pooling service performed by the TAURON Group and the intercompany borrowings scheme. Additionally, the finance management system is supported by the centralized financial risk management policy of the TAURON Group and by the centralized insurance policy of the TAURON Group. In these respects, the Company acts as the manager and decision-maker with regard to measures undertaken to set appropriate risk exposure limits.

Detailed information on financial management described in Note 7.3 of the Management Board's report on the activities of TAURON Polska Energia S.A. and of the TAURON Capital Group for the financial year 2019.

In 2019, the Company and Group TAURON was fully able to pay its liabilities at maturity.

(in PLN thousand)

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value.

The Group focuses primarily on monitoring the debt ratio, which is defined as net financial debt relative to EBITDA.

Zadłużenie net financial liabilities of the TAURON Group is defined in individual financing agreements and in principle means a liability to pay or return money on account of credits, loans and debt securities and on account of financial leases, excluding: liabilities on account of subordinated bonds and liabilities on account of leases recognised in accordance with IFRS 16 *Leases*, which in the meaning of the provisions of IAS 17 *Leases* would not meet the conditions for classification as lease liabilities, decreased by cash and short-term investments with a maturity of up to 1 year. EBITDA is the operating profit or loss of the TAURON Group increased by amortization/depreciation and impairment of non-financial assets. The value of the ratio is also monitored by the institutions providing financing to the Group and rating agencies and has a measurable impact on the Company's ability to obtain funding and its cost, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 2.81, which is accepted by financial institutions.

	Year ended 31 December 2019	Year ended 31 December 2018
Loans and borrowings	4 727 633	702 618
Bonds*	4 254 660	6 247 721
Finance lease**	-	23
Non-current debt liabilities	**8 982 293**	**6 950 362**
Loans and borrowings	2 323 018	183 667
Bonds*	88 935	2 287 687
Finance lease	-	2
Short-term debt liabilities	**2 411 953**	**2 471 356**
Total debt	**11 394 246**	**9 421 718**
Cash and cash equivalents	1 237 952	823 724
Short-term investments maturing within one year	26 722	26 105
Net debt	**10 129 572**	**8 571 889**
EBITDA	**3 599 367**	**3 492 084**
Operating profit (loss)	295 454	790 729
Depreciation/amortization	(1 991 733)	(1 838 941)
Impairment	(1 312 180)	(862 414)
Net debt / EBITDA	**2.81**	**2.45**

** Debt does not include liabilities arising from subordinated bonds*
***Liabilities arising from lease in line with IAS 17 Lease*

Changes in the balance of debt have been presented below.

(in PLN thousand)

Debt	Year ended 31 December 2019	Year ended 31 December 2018
Opening balance	**10 963 377**	**9 852 796**
subordinated bonds	(1 541 659)	(792 952)
Opening balance - debt in the calculation of debt ratio	**9 421 718**	**9 059 844**
Effects of implementing new IFRS	**918 115**	**(33 055)**
Proceeds arising from debt taken out	**5 645 485**	**1 348 236**
financing received	5 650 000	1 350 293
transaction costs	(4 515)	(2 057)
Interest accrued	**450 716**	**291 838**
charged to profit or loss	266 504	163 099
capitalized to property, plant and equipment and intangible assets	184 212	128 739
Debt related payments	**(3 759 175)**	**(481 304)**
debt securities redemption	(2 420 000)	-
principal repaid	(867 360)	(168 874)
lease instalments paid	(75 047)	(23 521)
interest paid	(212 556)	(160 170)
interest paid, capitalized to investment projects	(184 212)	(128 739)
Change in the balance of overdraft facility and cash pool	**21 453**	**(96 683)**
Recognition of new lease agreements	**84 474**	**-**
Business acquisition - recognition of acquired lease liabilities	**35 215**	**-**
Change in debt measurement	**(42 619)**	**93 114**
Other non-monetary changes	**(2 765)**	**(11 565)**
Closing balance	**14 314 276**	**10 963 377**
subordinated bonds	(1 913 427)	(1 541 659)
lease debt (except for debt meeting the conditions of IAS 17 *Leases*)	(1 006 603)	-
Closing balance - debt in the calculation of debt ratio	**11 394 246**	**9 421 718**

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

Information concerning the fee of the certified auditor has been presented in Note 6 in the Management Board's report on the activities of the TAURON Polska Energia S.A. and TAURON Capital Group for the 2019 financial year.

55. Other material information

Adopting an update of the strategic directions of the TAURON Group Strategy

On 27 May 2019, the Company's Management Board accepted and the Supervisory Board gave a positive opinion on the update of strategic directions supplementing the Strategy of TAURON Group for 2016-2025. The updated strategic directions take into account changes in the market and regulatory environment in which the TAURON Polska Energia S.A. Capital Group operates. Taking into account the need for the Group's energy transformation, optimisation of the investment portfolio and maintenance of financial stability, it was decided to carry out market-based verification of, among others, the strategic option involving making the Group's asset portfolio more flexible by adjusting the mining assets to the Group's planned demand for fuel, reorganisation of the Generation segment and the capital investment portfolio. This option considers, among others, market verification of the disposal of Zakład Górniczy Janina belonging to the subsidiary TAURON Wydobycie S.A. and the shares of the subsidiary TAURON Ciepło Sp. z o.o.

As a result of the above mentioned events, the Company launched projects aimed at market verification of the possibility of selling the aforementioned assets and possible continuation of the sales process. On 10 December 2019, the Company decided to complete the search for a potential investor interested in acquiring Zakład Górniczy Janina due to the failure to receive purchase offers within the prescribed time frame. As at the balance sheet date, the Company assessed that in relation to the net assets of TAURON Ciepło Sp. z o.o., the conditions resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are not met, in particular the legal requirements to consider the sale of the above assets as highly probable are not met.

Key capacity market auction for 2024

On 6 December 2019, the main auction of the capacity market for the 2024 delivery period took place. These auction was held by PSE S.A. in line with the Capacity Market Act of 8 December 2017. The auction closing price, published by the President of the Energy Regulatory Office in the Public Information Bulletin, amounted to: PLN 259.87/kW/year and the TAURON Group companies concluded agreements for the total volume of capacity obligations amounting to 573.5 MW.

The auctions have been described in details in Note 2.6 of the Management Board's report on the activities of TAURON Polska Energia S.A. and of the TAURON Capital Group for the financial year 2019.

56. Events after the end of the reporting period

Establishment of bond issue scheme

On 6 February 2020, TAURON Polska Energia S.A. concluded a programme agreement with Santander Bank Polska S.A. under which a bond issue scheme was established (the “Scheme").

Under the Scheme, the Company may issue bonds up to a maximum of PLN 2 000 000 thousand, with the value of the issue being determined each time at the time of the decision to issue. The bonds will take the form of dematerialized, unsecured bearer securities denominated in PLN, with a maturity of 5 to 10 years (inclusive). The Company's intention is to introduce the bonds to trading and listing in the alternative trading system Catalyst operated by the Warsaw Stock Exchange.

The funds from the bond issue will support the implementation of the Group's energy transformation, including increasing the share of low- and zero-emission sources in its production structure.

The terms and conditions of the bond issue, including the maturity date and the amount and method of interest payment will be determined for each series of bonds issued. The terms and conditions of the bonds issued under the Scheme will include sustainable development indicators in the form of the CO_2 emission reduction index and the RES capacity increase index. The level of realization of certain threshold values of these indicators will influence the level of interest margin of the bonds.

The Company's intention is to carry out the first bond issue within 3- months from the date of the Scheme Agreement. Final decisions on individual bond issues under the Scheme will be approved by appropriate corporate approvals of the Company and will depend on market conditions.

Extension of the claim relating to termination of long-term contracts and the judgement of the District Court regarding the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o.

On 24 February 2020, the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. was delivered a letter constituting a change in the suit of Dobiesław Wind Invest Sp. z o.o., in which, in addition to the original claim, a request for award of:

- the total amount of PLN 6 233 thousand with statutory interest for delay, including contractual penalties calculated for non-acquisition by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. of property rights obtained by Dobiesław Wind Invest Sp. z o.o. for electricity produced in the period from April 2017 to June 2019 and compensation for non-performance of the energy sales agreement in the period from 1 June 2017 to 24 September 2017 and
- the total amount of PLN 28 231 thousand with statutory interest for delay, including contractual penalties calculated for non-acquisition by Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. of property rights obtained by Dobiesław Wind Invest Sp. z o.o. for electricity produced in the period from April 2017 to February 2019 and compensation for non-performance of the electricity sales agreement in the period from 25 September 2017 to 30 April 2019.

On 6 March 2020, the Regional Court in Gdańsk issued a partial and preliminary judgment in the proceedings brought in 2015 against the subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. by Talia Sp. z o.o, in which:

- the court determined that the statements of the company Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term contracts 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 arising from certificates of origin are ineffective and do not have legal effect in the form of termination of both agreements, as a result of which these agreements after the notice period, i.e. after 30 April 2015 remain in force for all provisions and are binding on the parties and
- considered the claim for compensation for non-performance of the contract for the sale of property rights arising from certificates of origin to be justified in principle, without in any way prejudging the amount of any compensation.

The sentence is not final and binding. Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. does not agree with the judgement and, on 12 March 2020, submitted an application to the court for delivery of the verdict and its justification, for its analysis and appeal.

Change of the commissioning date for a 910 MW power unit

On 6 March 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. received information from RAFAKO S.A. concerning a change in the estimated date of commissioning of the 910 MW power unit ("Unit") in Jaworzno.

In connection with the failure of one of the boiler elements during the last phase of the Unit tests, the Consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A., being the contractor of the Unit, the designer of the boiler and the entity responsible for the start-up of the boiler indicated that it was necessary to postpone the commissioning of the Unit. The General Contractor provided a schedule of activities related to burner repair, reassembly and adjustment and testing of the Unit. According to the updated schedule, which includes certain time reserves, the General Contractor estimates that the Unit should be commissioned by the end of July 2020. The technology used in the investment is a proven solution for high power pulverised coal-fired boilers (the units with similar technology have been operating correctly in Poland for many years). To the best of the Company's knowledge, resulting from assurances by the Unit contractor having the necessary knowledge, competence and experience of similar investments, the failure has occurred due to, among other things, abnormal operating conditions of the boiler during the start-up of the Unit after its construction during the regulatory and test operation, during which the optimisation of the Unit operating parameters is underway. Additionally, the Company has been assured by the Contractor's experts that the remaining main structural elements of the investment, the damage of which could cause further postponement of the investment's completion date, have not been violated (such failures occurred more than once on other objects, and after the causes have been diagnosed and remedial measures have been applied, these objects work correctly). Due to the impact of the COVID-19 epidemic on the Group's operations as further described below, the Group does not identify, as of the date of approval of these consolidated financial statements for publication, any difficulties in meeting the commissioning date described above due to the impact of the epidemic.

Signing a credit agreement with SMBC BANK EU AG

On 16 March 2020, TAURON Polska Energia S.A. concluded a credit agreement with SMBC BANK EU AG for the amount of PLN 500 000 thousand, from which funds may be used to finance the Group's general corporate objectives, excluding the construction, purchase, expansion of any coal-fired power plants and refinancing of any financial commitments or expenses incurred for such purposes.

On 23 March 2020, the Company drew down funds under the agreement in the amount of PLN 500 000 thousand. The credit shall be repaid within five years from the date of conclusion of the credit agreement. The interest rate will be calculated on the basis of a fixed interest rate.

Singing a syndicated loan agreements

On 25 March 2020, TAURON Polska Energia S.A. concluded a syndicated loan agreements for the amount of PLN 500 000 thousand with Banca IMI S.P.A., London Branch, Banca IMI S.A.P., Intesa Sanpaolo S.P.A. acting through intermediation of Intesa Sanpaolo S.P.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through intermediation of China Construction Bank (Europe) S.A. Branch in Poland.

Funds under the loan may be used to finance the Group's general corporate objectives, excluding financing of any new projects related to coal assets.

In accordance with the Loan Agreement, the financing period is 5 years from the date of concluding the Loan Agreement, with an option to extend it, twice, by a year, i.e. up to 7 years maximum (“Financing Period”). The Company will be able to use the funds throughout the entire Financing Period (after the suspending conditions that are standard for this type of financing have been met). The interest rate will be calculated based on the variable WIBOR interest rate, applicable to the given interest period, increased by a margin depending, among others on the degree of loan utilization and the fulfillment of the pro-ecological contractual conditions, i.e. the reduction of emissions and an increase of the share of renewable energy sources in the TAURON Group’s generation fleet structure.

Impact of the COVID-19 epidemic on the TAURON Group

In the first quarter of 2020, an increase in the incidence of COVID-19 disease was observed in Poland. As a result, a number of restrictions have been introduced in the country to stop the spread of SARS-CoV-2. This situation causes disorders in the work of particular economic and administrative units in Poland. Similar actions are taken by other countries which are the main economic partners of Poland. As a result, the epidemic may significantly limit economic activity, especially in the first half of 2020, affecting the work of industrial plants and companies from the segment of small and medium-sized enterprises, also causes disturb in the work of economic system of country. In the medium and long term, the epidemic may have an impact on the national, European and global economic situation, affecting the economic growth in Poland in 2020 and subsequent years.

In addition, as a result of the epidemic, changes in the market environment have been observed, in particular in the form of changes in the prices of financial and commodity instruments. In particular, prices of CO_2 emission allowances and, consequently, electricity prices on the wholesale market are reduced. As regards financial factors, a weakening of the Polish zloty and a drop in interest rates are observed, including an interventional reduction of the NBP reference interest rate by 50 b.p.

The situation will in particular affect the level of demand for electricity in the National Power System and the volumes of distribution and sales of electricity in the TAURON Group. At the same time, this situation may result in a reduction in production in the area of conventional production and a decrease in demand for hard coal. Price drops in the market for electricity and related products, taking into account the position held in individual markets, may result in an increase in variation margins and translate into the level of cash employed. Moreover, restrictions introduced in the country may cause possible disruptions in the implementation of projects carried out in the TAURON Group. It is also possible that the current situation may have an impact on the TAURON Group's customers i.e. privet customers, small and medium-sized enterprises, as well large enterprises, which may cause delays in the payment for electricity, heat and gas, which confirms an increase in the number of request for payments defer. Changes in interest rates will, in turn, affect costs resulting from the concluded financing agreements based on a variable interest rate, as well as, in subsequent years, the level of regulated revenue from return on capital employed in the distribution area.

The above events may affect the operations of the TAURON Group, including the level of revenues generated and costs incurred, and consequently the Group's financial liquidity and debt level. Nevertheless, it is difficult to assess the possible impacts at present. The duration of the pandemic, its severity and extent, as well as its impact on economic growth in Poland in the short, medium and long term will be important here. Regulatory action to implement COVID-19 mitigation mechanisms will also be important. The TAURON Group, aware of the risks associated with the epidemiological situation, takes active measures to minimize the impact of the current and expected economic situation as well as to protect itself against extreme events.

Regardless of the economic effects, the current situation affects the operating activities of individual business areas through increased employee absenteeism, increase in cost of operating in epidemic conditions (costs of material purchase, costs of organisation changing), as well as relations with the Group's key subcontractors and contractors. In this respect, the TAURON Group takes a number of preventive measures in organizational and material scope, to protect employees of the TAURON Group companies, as well of maintain the continuity of critical infrastructure. In particular, a dedicated crisis management team has been established to assess the situation in particular areas of activity and to prepare detailed reserve plans in case of disturbances in the continuity of key processes functioning in the Group. In respective Group companies a crisis management teams has been established, which are responsible for coordination and activities to prevent disturbances of operating activities caused by COVID19 risks. Necessary organizational changes has been made to provide safety in companies. As at the date of approval of these financial statements for publication, none of the companies of the TAURON Group has been disturbed.

It should be considered, that situation concerned COVID-19 is very interchangeable. The Management Board of the Company is monitoring and will be monitor a potential impact, as well take all steps to soften all negative effects of COVID-19 impact for the TAURON Group.

The COVID-19 epidemic is, in the Company’s opinion, a post-balance sheet event that does not require adjustments to be made as at the balance sheet date and was therefore not included in the Group's assessment of evidence of impairment of assets, assumptions made for asset impairment testing, estimation of expected credit losses or other significant estimates made by the Group as at the balance sheet date.

Management Board of the Company

Katowice, 30 March 2020

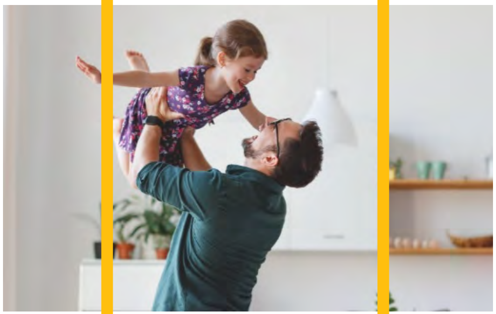
Filip Grzegorczyk - President of the Management Board

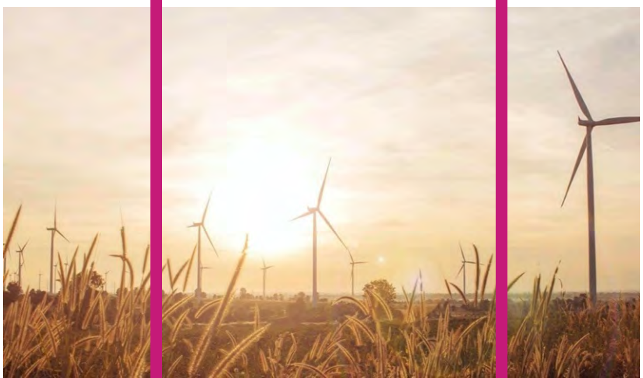
Jarosław Broda - Vice-President of the Management Board

Marek Wadowski - Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting

TAURON





REPORT OF THE MANAGEMENT BOARD

on the operations
of TAURON Polska Energia S.A.
and TAURON Capital Group
for the financial year 2019

TABLE OF CONTENTS

1. TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

Pursuant to art. 55 clause 2a *of the act of September 29, 1994, on accounting (Journal of Laws of 2019, item 351)* and § 71 clause 8 of the Regulation of the Minister of Finance of March 29, 2018 *on current and periodic information to be disclosed by securities issuers and conditions for recognizing as equivalent the information required by the legal regulations in force in a non-member state* (Journal of Laws of 2018, item 757), TAURON Polska Energia S.A. drew up the report of the Management Board on the operations of TAURON Polska Energia S.A. and the report of the Management Board on the operations of TAURON Capital Group in a form of a single document.

At the same time, the Company indicates that pursuant to art. 49b, clause 9 and art. 55, clause 2c of the *Act of September 29, 1994 on accounting* (Journal of Laws of 2019, item 351), the Company drew up a Non-financial Report of TAURON Capital Group in accordance with the requirements set out in art. 49b,clauses 2-8 of the above mentioned act, in the form of a separate document.

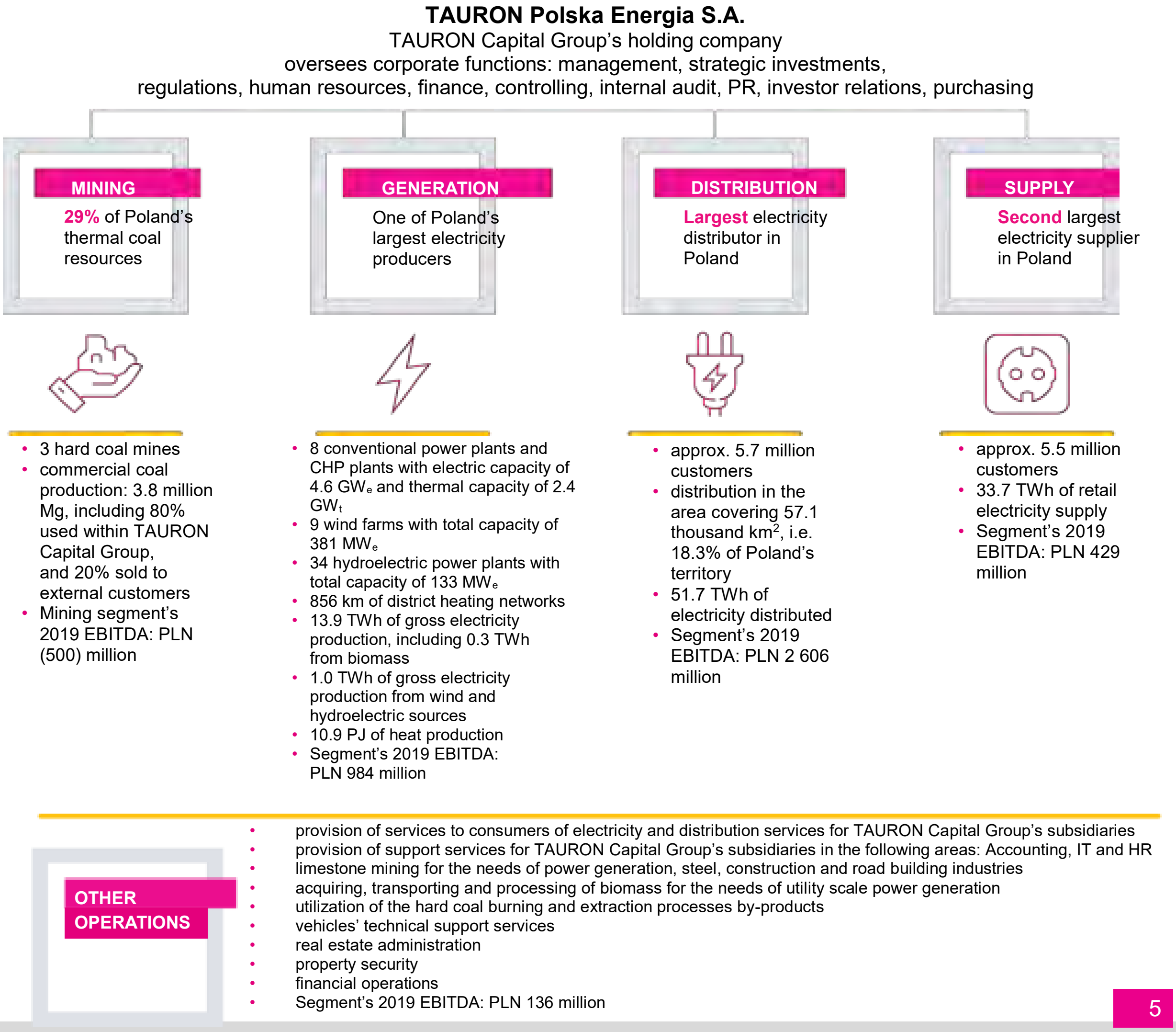
1.1. Basic information on TAURON Polska Energia S.A. and TAURON Capital Group

TAURON Capital Group's parent (holding) company is TAURON Polska Energia S.A. (hereinafter called the Company or TAURON), that was established on December 6, 2006 as part of the *Program for the Power Sector.* The Company was registered in the National Court Register on January 8, 2007 under the name: Energetyka Południe S.A. The change of the Company's name to its current name, i.e. TAURON Polska Energia S.A., was registered on November 16, 2007.

The Company does not have any branches (plants).

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the south of Poland. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator (TSO)), i.e. hard coal mining as well as electricity and heat generation, distribution and supply.

Figure no. 1. TAURON Capital Group



1.2. Business segments (lines of business)

Business operations, in accordance with *TAURON Group's Business and Operational Model* (Business Model) in force, are conducted by units defined as: Corporate Center, 7 Lines of Business: Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply as well as Shared Services Centers (CUW).

The detailed information on the Business Model is provided in section 1.6. of this report.

For the needs of reporting TAURON Capital Group's the operations of TAURON Capital Group are split into the following 5 Segments, hereinafter also referred to as Lines of Business:

Mining Segment comprising mainly hard coal mining, enrichment and sales in Poland with the operations conducted by TAURON Wydobycie S.A. (TAURON Wydobycie).

Generation Segment comprising mainly electricity generation using conventional sources, including co-generation, as well as electricity generation from renewable energy sources, including biomass burning and co-firing, and hydroelectric power plants and wind farms. The segment also includes heat generation, distribution and supply. This Segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). The Segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls and Nowe Jaworzno Grupa TAURON Sp. z o.o. (Nowe Jaworzno GT) company responsible for the construction of the new power generation unit at Jaworzno, Marselwind sp. z o.o. company, as well as TEC1 sp. z o.o. (TEC1), TEC2 sp. z o.o. (TEC2) and TEC3 sp. z o.o. (TEC3) companies that have taken over 5 wind farms owned by the in.ventus group, dealing with electricity generation from RES.

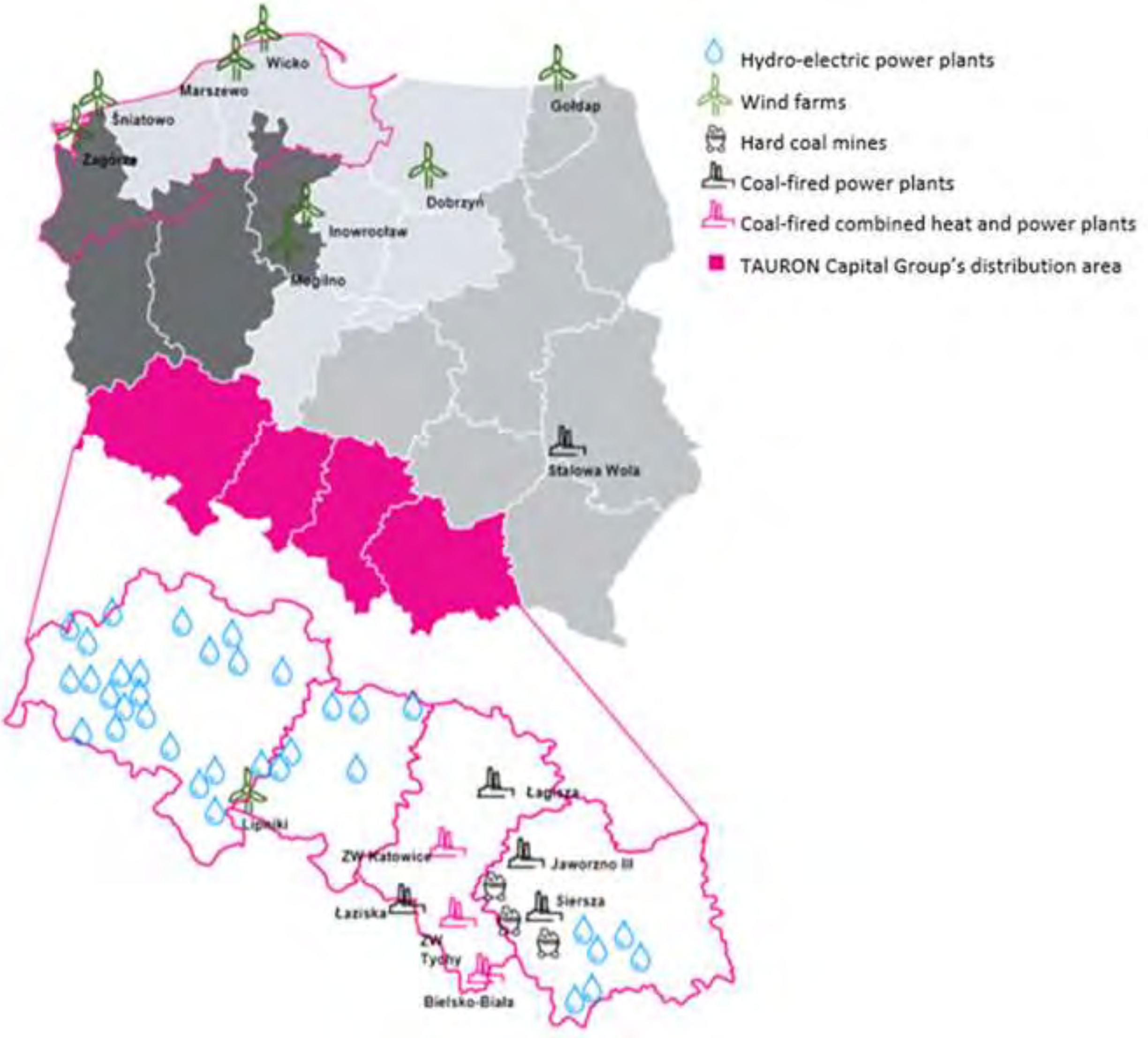
Distribution Segment comprising electricity distribution using the distribution grids located in the south of Poland. The operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This Segment also includes TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary) subsidiary, dealing mainly with technical support services related to electricity metering systems and metering data acquisition.

Supply Segment comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of CO_2 emission allowances, property rights arising from certificates of origin that confirm electricity generation from renewable sources, in cogeneration and property rights arising from energy efficiency certificates, as well as fuels, and, as of January 2019, also lighting services sales. The operations in this Segment are conducted by the following subsidiaries: TAURON Polska Energia S.A., TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy). As of January 2019, TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) subsidiary has been included in this Segment, while until the end of 2018 that subsidiary had been assigned to the Distribution Segment. The operations of that subsidiary comprise services provided for business and individual customers with respect to, among others, street lighting, operating the MV/LV grids, the construction of electric vehicle charging stations.

Other operations comprising, among others, customer service for TAURON Capital Group's customers, provision of support services for TAURON Capital Group's subsidiaries with respect to accounting, HR management and ICT, conducted by TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) subsidiary, as well as operations related to extraction of stone, including limestone, for the needs of power generation, steel, construction and road building industries, as well as the production of sorbing agents for wet flue gas desulphurization installations and for use in fluidized bed boilers, carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice) subsidiary. This Segment also includes the following subsidiaries: Finanse Grupa TAURON sp. z o.o. (that has taken over TAURON Sweden Energy AB publ), dealing with financial operations, Bioeko Grupa TAURON sp. z o. (Bioeko GT), dealing mainly with the utilization of the hard coal burning and extraction processes by-products, biomass acquisition, transportation and processing, Wsparcie Grupa TAURON sp. z o.o. (Wsparcie GT), dealing primarily with real estate administration, property security, as well as the technical support of vehicles and Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (PEPKH).

The below figure presents the location of TAURON Capital Group's key assets, as well as the distribution area where TAURON Dystrybucja conducts operations as the Distribution System Operator (DSO).

Figure no. 2. Location of TAURON Capital Group's key assets



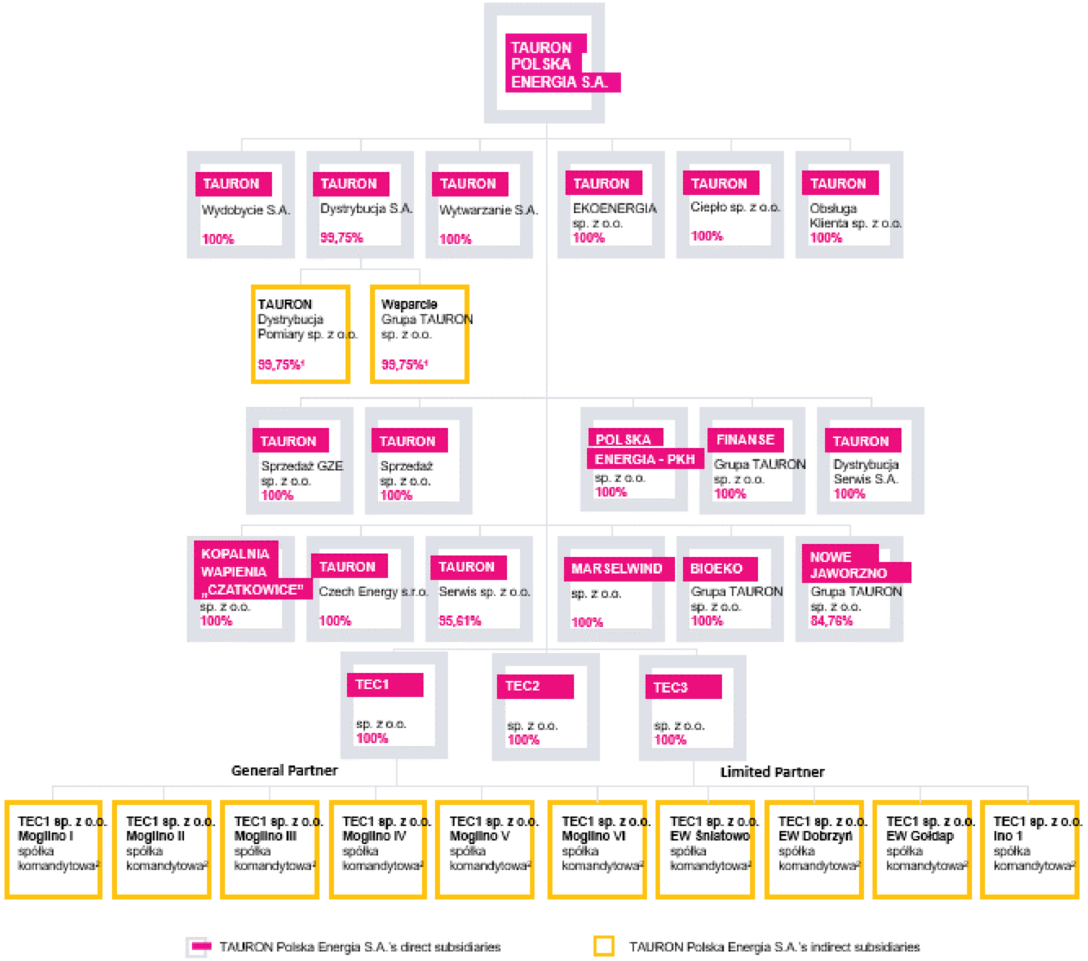
1.3. TAURON Capital Group's organization and structure

As of December 31, 2019, and as of the day of drawing up this report TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 32 subsidiaries subject to consolidation, listed in section 1.3.1. of this report. Furthermore, the Company held, directly or indirectly, shares in the other 49 companies.

1.3.1. Entities subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2019.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation as of December 31, 2019



[1]The shares in TAURON Dystrybucja Pomiary and Wsparcie Grupa TAURON are held by TAURON Polska Energia S.A. indirectly via TAURON Dystrybucja subsidiary, TAURON Polska Energia S.A. is a user of the shares of TAURON Dystrybucja Pomiary.
[2]In the limited partnership companies:TEC1 sp. z o.o. is the General Partner, TEC3 sp. z o.o. is the Limited Partner.

1.3.2. Changes to TAURON Capital Group's organization

The following changes to the organization of TAURON Capital Group had taken place in 2019 and by the date of drawing up this information:

Establishing of the company Finanse Grupa TAURON sp. z o.o. and its cross-border merger with the company TAURON Sweden Energy AB (publ)

On January 23, 2019, the company Finanse Grupa TAURON sp. z o.o. with its registered office in Katowice, was established, and the company's share capital, as of the day of the company's establishment, was PLN 100 000 and was split into 2 000 shares with the nominal value of PLN 50 per share, that were taken up in whole by TAURON.

On February 15, 2019, the District Court for Katowice - Wschód in Katowice, 8th Commercial Department of the National Court Register, registered the company Finanse Grupa TAURON sp. z o.o. with its registered office in Katowice, and subsequently, on August 23, 2019, it registered the above mentioned merger of Finanse Grupa TAURON sp. z o.o. (the acquiring company) and TAURON Sweden Energy AB (publ) (the acquired company). The above event was a consequence of the passing of the resolutions on the cross-border merger of the above mentioned companies by the Extraordinary General Meeting of the Shareholders (Partners) of Finanse Grupa TAURON on May 6, 2019, and by the Extraordinary General Meeting of the Shareholders of TAURON Sweden Energy on May 17, 2019.

As a result of the merger the share capital of Finanse Grupa TAURON was raised from the amount of PLN 100 000 to the amount of PLN 200 000, i.e. by the amount of PLN 100 000, by way of establishing (issuing) 2 000 new shares with the nominal value of PLN 50 each. TAURON received, in exchange for each 3 350 shares in the share capital of TAURON Sweden Energy AB, 1 share in the increased share capital of Finanse Grupa TAURON, i.e. in total for 6 700 000 shares in TAURON Sweden Energy, TAURON received 2 000 shares in the increased share capital of Finanse Grupa TAURON.

TAURON Sweden AB was deleted from the Swedish register of companies.

The purpose of the above actions was an internal restructuring aimed at simplifying (and thus streamlining) the structure of TAURON Capital Group, and thus achieving significant organizational and economic benefits by TAURON Capital Group.

Establishing of the companies TEC1 sp. z o.o., TEC2 sp. z o.o. and TEC3 sp. z o.o. and the acquisition of Polish and German partnerships

On March 4, 2019, the following companies were established: TEC1 sp. z o.o., TEC2 sp. z o.o. and TEC3 sp. z o.o., all with their seats in Katowice.

As of the day of the company's establishment the share capital of each of the above mentioned companies was PLN 25 000 and was split into 500 shares with the nominal value of PLN 50 per share that were taken up in whole by TAURON.

On April 12, 2019, the District Court for Katowice - Wschód in Katowice, 8th Commercial Department of the National Court Register, registered the company the companies TEC1 sp. z o.o. and TEC2 sp. z o.o., and subsequently, on April 29, 2019, it registered the company TEC3 sp. z o.o.

On September 3, 2019, the transaction documentation related to the acquisition by TAURON's 100% owned subsidiaries i.e.: TEC1, TEC2, TEC3 of 5 wind farms owned by in.ventus group. These entities acquired Polish partnerships that owned the wind farms and German partnerships that are their limited partners. Taking the above into account, the following 20 companies became a part of TAURON Capital Group as of September 3, 2019:

- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I spółka komandytowa (TEC1 limited liability company Mogilno I limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II spółka komandytowa (TEC1 limited liability company Mogilno II limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III spółka komandytowa (TEC1 limited liability company Mogilno III limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV spółka komandytowa (TEC1 limited liability company Mogilno IV limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V spółka komandytowa (TEC1 limited liability company Mogilno V limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI spółka komandytowa (TEC1 limited liability company Mogilno VI limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo spółka komandytowa (TEC1 limited liability company EW Śniatowo limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń spółka komandytowa (TEC1 limited liability company EW Dobrzyń limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap spółka komandytowa (TEC1 limited liability company EW Gołdap limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 spółka komandytowa (TEC1 limited liability company Ino 1 limited partnership),
- SCE Wind Mogilno 2008 I GmbH & Co. KG,
- SCE Wind Mogilno 2008 II GmbH & Co. KG,
- SCE Wind Mogilno 2008 III GmbH & Co. KG,
- SCE Wind Mogilno 2008 IV GmbH & Co. KG,
- SCE Wind Mogilno 2008 V GmbH & Co. KG,
- SCE Wind Mogilno 2008 VI GmbH & Co. KG,
- Windpark Sniatowo GmbH & Co. KG,
- Windpark Dobrzyn 2008 GmbH & Co. KG,
- Windpark Goldap GmbH & Co. KG,
- Windpark Ino 1 GmbH & Co. KG.

The above activities are in line with the update of the strategic directions that supplement *TAURON Group's Strategy for 2016-2025*, which provides for a significant increase in the share of low- and zero-emission sources in the structure of TAURON Capital Group's installed generation capacity.

Merger of TAURON Dystrybucja Serwis S.A. with Magenta Grupa TAURON sp. z o.o. (Magenta Grupa TAURON)

On January 2, 2020, the District Court for Wrocław – Fabryczna in Wrocław, 6th Commercial Department of the National Court Register registered the merger of the companies TAURON Dystrybucja Serwis S.A. (the acquiring company) with the company Magenta Grupa TAURON sp. z o.o. (the acquired company).

The above event was the result of adopting, on October 29, 2019, of the resolutions regarding the merger of the above mentioned companies, by the Extraordinary General Meeting (GM) of TAURON Dystrybucja Serwis and the Extraordinary GM of Magenta Grupa TAURON.

As a result of the merger the share capital of TAURON Dystrybucja Serwis was raised from the amount of PLN 9 494 173 to the amount of PLN 9 535 649, i.e. by the amount of PLN 41 476, by way of establishing (issuing) 41 476 ordinary shares with the nominal value of PLN 1 each. As a sole shareholder of Magenta Grupa TAURON, TAURON received, in exchange for 30 000 shares in the share capital of Magenta Grupa TAURON, 41 476 shares in the increased share capital of TAURON Dystrybucja Serwis.

The merger of TAURON Dystrybucja Serwis and Magenta Grupa TAURON was aimed at integrating resources and competences as well as optimizing operational efficiency at TAURON Capital Group by integrating the mutually complementary entities with respect to creating and implementing new solutions at TAURON Capital Group as well as selling them on the external market in the form of various types of products and services.

On March 3, 2020, the Extraordinary General Meeting of TAURON Dystrybucja Serwis adopted a resolution to change the company's name to: TAURON Nowe Technologie S.A. As of the date of drawing up this report, the change of the company's name has not yet been registered in the National Court Register.

Acquisition by TAURON EKOENERGIA sp. z o.o. of 100% of the shares in AVAL-1 sp. z o.o.

On January 2, 2020, TAURON EKOENERGIA acquired 100% shares in AVAL-1 sp. z o.o. (AVAL-1) with its registered office in Szczecin, i.e. 50 shares with a nominal value of PLN 100 each and the total value of PLN 5 000. AVAL-1 is implementing a 6 MW solar farm construction project in the municipality of Choszczno in the West Pomerania Region.

The investment project is in line with the assumptions of the updated strategic directions of TAURON Capital Group, assuming an increase of the share of low- and zero-emission sources in TAURON Capital Group's generation structure to more than 65% in 2030.

The detailed information on the solar farm construction project in the municipality of Choszczno is provided in section 1.4.6. of this report

1.3.3. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.3.1 of this report, the material joint subsidiaries in which the Company held, directly or indirectly, shares as of December 31, 2019 include the companies listed in the below table.

Table no. 1. List of material joint subsidiaries subject to consolidation as of December 31, 2020

#	Company name	Seat	Main subject of operations	TAURON's share in company's capital and in the parent company
1.	Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	Electricity generation	50.00%
2.	TAMEH HOLDING sp. z o.o.[2]	Dąbrowa Górnicza	Central (head office) companies and holding operations	50.00%
3.	TAMEH POLSKA sp. z o.o.[2]	Dąbrowa Górnicza	Electricity and heat generation, transmission, distribution and trading	50.00%
4.	TAMEH Czech s.r.o.[2]	Ostrava, Czech Republic	Production, trading and services	50.00%

[1] Shares in Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) are held by TAURON indirectly via TAURON Wytwarzanie subsidiary.
[2] Companies form a capital group. TAURON holds a direct stake in the share capital and in the parent company TAMEH HOLDING sp. z o.o. (TAMEH HOLDING), that holds a 100% stake in the share capital and in the parent company of TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) and TAMEH Czech s.r.o. (TAMEH Czech).

1.3.4. Major domestic and foreign investments as well as equity investments

Taking up or acquiring share securities in TAURON Capital Group companies

The below table presents a summary of equity increases in TAURON Capital Group subsidiaries in 2019 and by the date of drawing up this report..

Table no. 2. Summary of equity increases in TAURON Capital Group subsidiaries in 2019 and by the date of drawing up this report.

#	Subsidiary	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
1.	Łagisza Grupa TAURON sp. z o.o.	**PLN 100 000**	TAURON Wytwarzanie	PLN 1 000	11.01.2019	TAURON Wytwarzanie 100%
2.	Nowe Jaworzno Grupa TAURON	**PLN 256 925 000**	Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund –	PLN 2 569 250	25.02.2019	TAURON 92.86% FIIKFIZAN 7.14%

#	Subsidiary	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
			Private Equity Closed-end Investment Fund) (FIIKFIZAN)			
3.	Nowe Jaworzno Grupa TAURON	**PLN 83 075 000**	FIIKFIZAN	PLN 830 750	12.07.2019	FIIKFIZAN 7.62%
		PLN 440 000 000	Polski Fundusz Rozwoju Inwestycje Fundusz Inwestycyjny Zamknięty (Polish Development Fund Investments Closed-end Investment Fund) (PFR IFIZ)	PLN 4 400 000		PFR IFIZ 7.62%
		PLN 250 000 000	TAURON	PLN 2 500 000		TAURON 84.76%
4.	Finanse Grupa TAURON	**PLN 100 000**[1]	TAURON	PLN 2 000	06.05.2019	TAURON 100%
5.	TEC1	**PLN 700 000**	TAURON	PLN 7 000	02.09.2019	TAURON 100%
6.	TEC2	**PLN 200 000**	TAURON	PLN 2 000	02.09.2019	TAURON 100%
7.	TEC3	**PLN 600 000 000**	TAURON	PLN 6 000 000	02.09.2019	TAURON 100%
8.	TAURON Dystrybucja Serwis	**PLN 41 476**[2]	TAURON	PLN 41 476	29.10.2019	TAURON 100%
9.	AVAL-1	**PLN 4 500 000**	TAURON EKOENERGIA	PLN 450	27.02.2020	TAURON EKOENERGIA 100%
10.	Nowe Jaworzno Grupa TAURON	**PLN 455 100 000**	TAURON	PLN 91 020	02.03.2020	TAURON 85.88%
						FIIKFIZAN 7.06%
						PFR IFIZ 7.06%

[1] Value of the share capital raising of the company Finanse Grupa TAURON sp. z o.o. as a result of the cross-border merger of the companies Finanse Grupa TAURON sp. z o.o. (the acquiring company) and TAURON Sweden Energy AB (publ) (the acquired company),
[2] Value of the share capital raising of the company TAURON Dystrybucja Serwis S.A. as a result of the merger of TAURON Dystrybucja Serwis S.A. (the acquiring company) and Magenta Grupa TAURON sp. z o.o. (the acquired company).

Making additional contributions to the capital of Polska Energia - Pierwszy Kompania Handlowa sp. z o.o.

As part of the implementation of the resolution of the Extraordinary General Meeting of PEPKH of January 8, 2020, regarding the imposition on TAURON as the sole shareholder of the obligation to make additional payments, on January 10, 2020, TAURON made additional contributions to the share capital of the above company in the total amount of PLN 8 016 000.

The resolution of the Extraordinary General Meeting was adopted in connection with the pending licensing proceedings before the Energy Regulatory Office (URE) for granting PEPKH a new license for trading in electricity. The purpose of the additional contributions was to meet the requirements of the President of the Energy Regulatory Office with respect to PEPKH having certain financial resources.

Taking up or acquiring share securities in the other companies in which TAURON holds an equity stake

The below table presents a summary of equity increases in the other companies in which TAURON holds an equity stake in the first three quarters of 2019 and by the date of drawing up this report.

Table no. 3. Summary of equity increases in the other companies in which TAURON held an equity stake in 2019 and by the date of drawing up this report.

#	Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
1.	EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo - akcyjna (EEC Magenta limited liability company ASI limited joint stock partnership) (EEC Magenta ASI)	**PLN 107 200**	EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company limited partnership) (EEC Ventures)	PLN 1 072	15.01.2019	EEC Ventures 3%
		PLN 2 577 600	PFR Starter Fundusz Inwestycyjny Zamknięty (PFR Starter Closed-end Investment Fund (PFR Starter FIZ)	PLN 25 776		PFR Starter FIZ 72.1%
		PLN 890 200	TAURON	PLN 8 902		TAURON 24.9%
2.	EEC Magenta ASI	**PLN 18 800**	EEC Ventures	PLN 188	23.08.2019	EEC Ventures 3%
		PLN 450 600	PFR Starter FIZ	PLN 4 506		PFR Starter FIZ 72.1%

#	Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
		PLN 155 600	TAURON	PLN 1 556		TAURON 24.9%
3.	EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI spółka komandytowo - akcyjna EEC Magenta limited liability company 2 ASI limited joint stock partnership) (EEC Magenta 2 ASI)	**PLN 99 557**	EEC Ventures 2	PLN 2 933	25.01.2019	EEC Ventures 2 2.95%
		PLN 4 874 200	PFR NCBR CVC FIZAN	PLN 48 742		PFR NCBR CVC FIZAN 49.02%
		PLN 4 775 100	TAURON	PLN 47 751		TAURON 48.03%
4.	EEC Magenta 2 ASI	**PLN 128 118**	EEC Ventures 2	PLN 3 774	27.09.2019	EEC Ventures 2 2.95%
		PLN 6 279 000	PFR NCBR CVC FINAN	PLN 62 790		PFR NCBR CVC FIZAN 49.02%
		PLN 6 150 900	TAURON	PLN 61 509		TAURON 48.03%
5.	EEC Magenta ASI	**PLN 17 200**	EEC Ventures	PLN 172	02.03.2020	EEC Ventures 3%
		PLN 414 600	PFR Starter FIZ	PLN 4 146		PFR Starter FIZ 72.1%
		PLN 143 200	TAURON	PLN 1 432		TAURON 24.9%

The other most significant equity investments in the financial assets held by TAURON as of December 31, 2019, include stakes in the following entities:

1. Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (SCE Jaworzno III) with the balance sheet value of PLN 30 386 000,
2. Przedsiębiorstwo Energetyki Cieplnej Tychy sp. z o.o. (PEC Tychy) with the balance sheet value of PLN 23 801 000,
3. Energetyka Cieszyńska sp. z o.o. with the balance sheet value of PLN 13 773 000,
4. PGE EJ 1 sp. z o.o. (PGE EJ 1) with the balance sheet value of PLN 14 402 000,
5. ElectroMobility Poland S.A. (ElectroMobility Poland) with the balance sheet value of PLN 11 847 000,
6. EEC Magenta 2 ASI with the balance sheet value of PLN 10 950 000.

Major investments in financial assets

TAURON Capital Group's investments in financial assets carried out in the reporting period include granting by TAURON of the loan to the Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) joint subsidiary in the amount of PLN 5 175 000 with the repayment date by June 30, 2033.

TAURON Capital Group's major investments in financial assets continued in 2019 include:

- continuation by TAURON of investments in participation units in investment funds. As of the balance sheet day the value of the participation units in investment funds reached PLN 26 622 000.
- co-financing by TAURON of the EC Stalowa Wola joint subsidiary in the form of loans. As of the balance sheet day the total amount of loans granted to EC Stalowa Wola reached PLN 336 661 thousand.
- co-financing by TAURON of PGE EJ1 in the form of loans. As of the balance sheet day the amount of loans granted to PGE EJ1 reached PLN 7 740 000.

Investments in financial assets were financed using own funds and the funds obtained as part of the central financing model in place at TAURON Capital Group.

After the balance sheet date, on February 11, 2020, the Company retired all of its participation units in the investment funds.

1.4. Strategy and Strategic Priorities of TAURON Capital Group

2019 was the continuation of the implementation of *TAURON Group's 2016-2025 Strategy* (Strategy), adopted by the Management Board of TAURON on September 2, 2016

Since the date of adopting the Strategy some of its assumptions have changed, first of all the regulations that have a material impact on TAURON Capital Group's operations have become more specific, among others, *the act on the capacity market*, *the act on promoting high efficiency cogeneration electricity, the energy law act, the act on* *electromobility*, and the regulations related to quality requirements for solid fuels. At the same time, the works on the final version of *Poland's Energy Policy until 2040* are underway,

In view of the above, on May 27, 2019, the Company's Management Board adopted, and the Company's Supervisory Board issued a positive opinion on the *Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025* (Update of the Strategic Directions), which complemented the Strategy. The update of the strategic directions takes into account the impact of the above mentioned documents and the key regulatory changes on TAURON Capital Group and assumes the so-called *Green Turn of TAURON*, i.e. a sustainable transition of TAURON Capital Group towards becoming the leading low-emission energy group in Poland.

1.4.1. TAURON Capital Group's mission, vision and values

Strategy defines the Mission and Vision and defines the key values of TAURON Capital Group:

Mission and vision best describe the strategic intentions of TAURON Capital Group that sees a large growth potential in developing sales of products and services that are tailored to customer needs. TAURON Capital Group is adjusting its profile in order to ensure full focus on the customer, appreciating the potential of new products, compatible services, modern contact channels as a response to customer needs.

The key values that support the implementation of the Strategy include *Partnership, Development, Boldness (Partnerstwo, Rozwój, Odwaga - PRO)*, and these are values that reflect the way in which TAURON Capital Group wants to accomplish its goals. What is important as part of the *Partnership* is customer orientation, development of sustainable relationships and engagement. *Development* means focus on innovations, developing competences, skills and knowledge as well as seeking ever better solutions, meeting customer needs and improving the quality of services. *Boldness* means courage and openness, determination as well as engagement and passion in achieving common goals.

1.4.2. TAURON Capital Group's 2016-2025 Strategy

The 2016-2025 Strategy adopted ensures financial stability and a prospect for growth, while at the same time providing support for ensuring the stability of the power system. It is assumed that the long term growth will be driven by solutions based on customer relationships. The Mission and the Vision reflect such management philosophy and are in line with the customer-oriented growth concept.

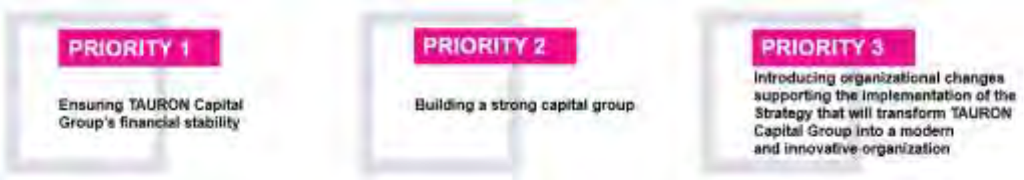
Strategy describes the approach to developing the individual Segments of TAURON Capital Group's operations, dividing them into those segments that TAURON Capital Group is planning to strongly expand, the segments that will constitute the foundation of the financial stability and the segments where strong emphasis on cost efficiency is required.

In the Update of the Strategic Directions, TAURON Capital Group emphasized the focus on the development of the low- and zero-emission sources while making TAURON Capital Group's portfolio of assets more flexible. The above reflects the need for the energy transition of TAURON Capital Group and for increasing the investment potential aimed at developing the renewable energy sources, which, combined with the changed management philosophy and the orientation towards the customer and his / her needs, allows for the development of an innovative, open to the new challenges TAURON Capital Group.

The below figure presents the foundations for the growth of TAURON Capital Group's value.

Figure no. 4. Foundations for the growth of TAURON Capital Group's value

Strategy sets three priorities that assume the transition of TAURON Capital Group into a growing energy company that is aligned to the market and customer needs, ultimately providing a return on invested capital for its shareholders:



The Update of the Strategic Directions confirmed the validity of TAURON Capital Group's priorities, emphasizing the need to build a strong capital group through:

- transformation of the energy mix, and a strategic pursuit of a more than 65% share of low- and zero-emission sources in the structure of TAURON Capital Group's generation assets in 2030,
- optimization of the coal assets and the capital expenditure (capex) portfolio.

The Strategy and the Update of the Strategic Directions indicate that the overarching goal with respect to the capital expenditures is to adapt the investment portfolio to the market needs. The update highlighted the need to increase the investment potential aimed at developing the renewable energy sources. It was assumed that the actions would be oriented towards:

- optimization of the asset structure in all lines of business operations and adaptation to the environmental requirements,
- investments in the development and modernization of the distribution grid as well as low and zero emission generation sources,
- implementation of investment projects that guarantee the expected rate of return on capital and are not burdened with material market risks,
- use of off-balance sheet financing, in particular by involving external partners,
- investing in projects in energy related sectors (in particular in services) to supplement the value chain that TAURON is operating in and in the so-called new energy sector, among others the prosumer energy, Smart Home solutions, Smart City solutions, electromobility and energy related services.

The below table below presents the strategic goals and growth prospects in the individual operating Segments.

Table no. 4. Strategic goals and growth prospects in the individual operating Segments

Strategic goals	Growth prospects
Mining Segment	
The main goal for the Mining Segment is to provide a stable supply of cost-competitive and adequate, in terms of quality, fuel and to align the output level to TAURON Capital Group's planned demand for fuel. The goals set in the Strategy are implemented through such actions as: • optimizing the costs and capital expenditures, • tri-product enrichment at Sobieski Coal Mine (ZG Sobieski) and Janina Coal Mine (ZG Janina), • expanding the line for packaging eco-pea coal, preparing dedicated fuel for the generating units. As part of the Update of the Strategic Directions, a strategic option was adopted consisting in conducting a market verification of the sale of ZG Janina.	The introduction of further restrictions with respect to environment protection, quality of solid fuels placed on the market, taxes and local government regulations (including the anti-smog ones) pose a challenge for the sector. The energy and climate regulations lead to a successive decline of the competitiveness of the coal fired electricity generation. The directions of the mining industry's development will also be strongly correlated with the guidelines outlined in the government documents: *Poland's Energy Policy until 2040* (draft) and the *National Plan for Energy and Climate for 2021-2030*. The above-mentioned documents show the growing importance of the renewable energy sources, including off-shore wind energy, new technologies and a gradual change in the country's generation mix at the expense of conventional energy.
Generation Segment	
The main goals for the Generation Segment include: • for TAURON Wytwarzanie: to develop an optimal, from the point of view of profitability and risk, generation assets portfolio and its effective operation, • for TAURON EKOENERGIA: to improve the profitability of its generation assets and prepare options for the profitable growth of this line of business, • for TAURON Ciepło: to achieve return on invested capital as a result of market growth and rising customer satisfaction. The goals set in the Strategy are to be accomplished by: • optimizing the costs and capital expenditures as well as streamlining employment,, • optimizing production assets, • selling redundant non-production assets, • investment projects that lead to upgrading of the generation fleet. The Update of the Strategic Directions indicated that the priority is to decommission all obsolete coal fired units (120 MW units - by the end of 2020 and 200 MW units - after 2025) and to maintain assets that receive the regulatory support. Ultimately, modern conventional units will remain a part of the production portfolio: Łagisza 460 MW and Jaworzno 910 MW In the RES line of business options for developing RES installations are being prepared by building own sources, acquiring existing installations and ready-made projects. The update of the strategic directions has strengthened the importance of clean energy development, which will be the basis for building the value of TAURON Capital Group. The involvement in the low and zero emission energy is implemented through: • investments in on-shore wind farms: additional 900 MW by 2025, • investments in solar farms: additional 300 MW by 2025, • readiness to participate in off-shore wind farm projects. In the heat generation, distribution and trading line of business significant actions include eliminating low emissions, looking for solutions in the co-generation area as well as improving the rate of utilizing the existing infrastructure. As part of the Update of the Strategic Directions, a market verification of TAURON Ciepło disposal (divestment) option was assumed. In addition, the sale of shares in EC Stalowa Wola and PGE EJ1 is planned.	The tightening energy and climate policy of the European Union (EU) combined with the increase in prices of CO_2 emission allowances set the direction of the development of the energy sector. The reduction of the support systems for conventional energy and the prospect of not being able to benefit from the ETS derogation means a permanent loss of profitability for these units. The reduction of the financing for both coal fired installations as well as the capital groups with coal assets and the narrowing base of coal property insurers reduces the financial sense of maintaining conventional assets. In December 2019, the European Commission presented the *European Green Deal* - an action plan to implement a strategy to achieve climate neutrality at the EU level by 2050. An increase of the domestic electricity production, including RES generation, is assumed. A strong growth of photovoltaics is observed, associated primarily with the launch of the support programs, including programs for the prosumers. According to SolarPower Europe, Poland was ranked fifth in the EU in 2019 in terms of new solar capacity growth. In 2020, another record increase in new PV capacity is estimated. An additional factor supporting such growth is the possibility of obtaining funds for investments from the dedicated funds planned for 2021-2030. The growth of investments in the renewable energy sources will also apply to on-shore wind farms and, in the long term, off-shore wind farms. The technological changes related to wind farms and the favorable regulations will translate into the repowering of the installations, thus increasing the capacity and improving the efficiency of their use. The key issue in the coming years will continue to be ensuring the security of the operation of the National Power System (Krajowy System Elektroenergetyczny - KSE). The capacity market has been introduced in Poland for that purpose, which is one of the elements supporting the transition of the Polish power sector. Obtaining derogations from the requirements to adapt the generating units to the BAT Conclusions represents an opportunity for the conventional power generation. On the heat market Poland's policy, aimed at providing support for the co-generation and improving air quality, may lead to an increase of investments and the growth of this area. An important factor is rising social awareness, the actively conducted battle against smog waged by the local governments and the national aid programs. On the other hand, the growth opportunities for the heating market are limited due to the improvement in the energy efficiency of buildings and the rising competition from the increasingly efficient individual heating devices. The reduction in the financing and insurance of coal investments should also be taken into account.
Distribution Segment	
The main goal for the Distribution Segment is to maintain its leadership position on the Polish market in terms of the security and efficiency of the grid operation. The level of annual capital expenditures in the Distribution Segment stands at PLN 2 billion. Mainly tasks related to connecting new	The activities aimed at ensuring the reliability of electricity supply and simplifying the procedures related to connecting the new consumers and micro-installations will be continued. The investment projects carried out will allow for adapting TAURON Capital Group's distribution assets to the growing volume of electricity generated by the distributed renewable sources, and also for preparing the grid to interoperate with the infrastructure to be used for charging electricity vehicles. The expansion

Strategic goals	Growth prospects
customers as well as upgrading and expanding of the grid are carried out. Activities aimed at ensuring the flexibility of the grid and simplifying the procedures related to connecting new customers are carried out. The investment projects underway are aimed at adapting the distribution assets to the growing volume of electricity generated by the renewable sources, and also at preparing the grids to interoperate with the infrastructure for charging electric vehicles. The *Single Distribution* Program, that was made up of projects aimed at optimizing the company's operational processes, including; actions leading to raising customer satisfaction and improving the company's image, was completed.	of TAURON Capital Group with respect to implementing smart grid and smart meter solutions will allow for introducing additional functionalities, both on the distributor's side, as well as on the customer's side. The Distribution Segment's growth will be significantly affected by the ability to obtain aid funds, both with respect to improving the grid security, as well as the research and development (R&D) activities. The Distribution Segment's operations are dependent on the new elements of the regulatory policy introduced by the President of ERO. Significant changes to the functioning of the segment may be a consequence of changes to the energy law.
Supply Segment	
The main goal for the Generation Segment is to achieve the leadership position in the relationships with the customers based on the high quality customer service as well as product leadership. A number of initiatives are implemented, i.e, among others: increasing the sales potential by transforming the customer service channels into integrated customer contact channels, increasing the value of the products and services sales to mass customers by developing the product offering and sales techniques, developing products and developing contact channels with respect to specialty products as well the partnership offering addressed to the mass customer segment. The update of the strategic directions confirmed the continuation of the development of new energy-related products and services, including: • for business customers: consulting and management of energy assets and infrastructure, energy audit and efficiency improvement services, • for institutional customers: products and services with respect to Smart City, electromobility, low emission reduction, multiutility.	The actions taken by the competition and growing customer expectations have an impact on developing the product offering and maintaining the highest customer service standards. Growing customer awareness has an impact on the rising requirements, both with respect to the products offered, as well as the speed and quality of the customer service. TAURON Capital Group is systematically expanding its product offering, tailoring it to the expectations of the individual and business customers, and developing the communications channels, both on the digital platforms level, as well as direct contacts. Competing companies are offering products on the market that are often very similar to the products offered by the Supply Segment. With similar price offerings the competition for a customer will take place on the level of innovative product and service proposals, in particular on the level of customer communications platforms and customer service quality.

1.4.3. Key challenges for TAURON Capital Group

The Strategy and the Update of the Strategic Directions are TAURON Capital Group's responses to the challenges posed by the business environment and the requirements of the energy sector's customers:

Regulations
The European Union's (EU) decarbonization policy and successive regulations aimed at reducing emissions, introduction of the quality based regulation model in the distribution segment, changes to the support for the RES installations and the EU's actions aimed at developing a common electricity market and achieving climate neutrality.

Market
Changing forecasts of electricity and hard coal prices, hard coal availability, demand for electricity, demand for capacity, growing competition on the retail market, rising level of RES generation, the reduction of the financing for the coal related investments as well as for the capital groups with coal assets.

Customer
Growing awareness of the customers and the requirements with respect to satisfying their needs as well as the comprehensiveness of the offering, increased expectations with respect to customer service quality and availability.

Technology
Falling prices of renewable and dispersed (distributed) technologies, rising competitiveness of such sources versus conventional sources, a change of the role of the distribution service due to the expansion of dispersed (distributed) power generation, advancement of smart technologies, microgeneration and energy storage.

A transformation of the utility scale (system) power generation sector towards decentralized generation, increased role of cross-border connections, energy storage and new energy services, such as for example "virtual power plants", demand side management or dispersed (distributed) generation, is foreseen. The above direction of the changes has an impact on both, the Distribution Segment that must deal with the smart technologies, electric vehicle charging infrastructure, distributed (dispersed) generation, including the prosumers and the bi-directional electricity flows, while at the same time increasing the quality and security of the supply of electricity, as well as the Generation

Segment, whose transformation will be oriented towards performing the function of regulating (adjusting) and stabilizing the power system.

1.4.4. Opportunities and threats

The below table presents opportunities and threats to TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2019.

Table no. 5. Opportunities and threats to TAURON Capital Group's operations

Opportunities	Threats
Regulations	
• Introduction of the dual-product market – additional revenue for maintaining generation capacity. • Support for electromobility (growing electricity consumption). • Introduction of legal solutions supporting the curtailment of low emissions (e.g. system district heating). • New regulations related to the support for the cogeneration. • Use of the aid funds for the expansion of TAURON Capital Group's operations.	• Tightening energy and climate policy of the European Union (EU). • Increase of the costs of generating electricity using the conventional sources due to, among others, the environmental costs and the decarbonization policy. • Lack of stability and predictability of the regulations for the RES sources as well as uncertain future of the RES sources based on the biomass burning and co-firing technology. • The need to incur additional expenses due to the changes to the energy law.
Market	
• Access to the largest, among Poland's energy companies, customer base. • Entry into the energy related services market segments based on the competences held. • Commercialization of innovative solutions developed as part of the research and development activities. • Own mining assets base, allowing for the stabilization and predictability of the fuel cost.	• Decline of the margins and lower utilization rate (load factor) of the conventional assets (deteriorating profitability, refurbishments or shutdowns of old generating units due to the new high efficiency units entering the system and due to the BAT Conclusions requirements). • Loss of volume and profitability of the Supply Segment. • Pressure on the electricity prices with the growing cross-border exchange volumes. • Reduction of the financing for the coal related investments as well as for the capital groups with coal assets • Increase of the prices of goods and services negatively impacting investment efficiency.
Customer	
• Competitive advantage with respect to the customer service quality. • Customer segmentation and offering the additional products in line with customer expectations. • Growing customer awareness and expectations towards comprehensive, personalized offering of additional services and products. • Expanding an offering of services for customers based on the competences held and trust in the TAURON brand. • Developing modern and integrated sales and customer service channels. • New competences and business models based on the research and development (R&D) activities. • Maintaining an upward trend in electricity consumption by the final consumers. • Developing competences and competitive advantages in the new areas of operations.	• Potential loss of customers due to an increase in the number of competitors offering customers similar products and due to low electricity supply market entry barriers. • Decrease of the customer loyalty – intense activities conducted by the competitors. • Greater customer awareness and requirements with respect to the customer service quality and product offering. • Power independence of the consumers (prosumers, energy (power) islands, energy storage facilities, clusters). • Energy intensive consumers building their own generation sources, as a result of the drive to reduce the electricity costs. • "Carbon leakage" – moving business operations to other countries due to the cost of energy. • Incurring of high expenditures required to implement the new customer service platforms and develop the contact channels.
Technologies	
• Continued and noticeable decline of the prices of the renewable technologies. • Advancement of the storage technologies, smart technologies and the technologies related to the dispersed (distributed) generation. • Additional services for the customers related to the new technologies (internet of things, dynamic tariffs, virtual power plants). • Developing and implementing (commercializing) of proprietary innovative solutions that provide a competitive advantage.	• The need to adapt the grid to the growth of dispersed (distributed) power generation (bi-directional electricity flows). • Arrival of the new, cost competitive electricity generation technologies in the countries neighboring with Poland. • Growing number of cyberthreats and the infrastructure susceptible to such attacks. • Multitude of the communications standards, problems with providing the expected goals for the projects implemented.

1.4.5. Long term financial goals and assumptions of the Strategy

At the stage of preparing the Strategy it was assumed that the activities outlined therein would allow for accomplishing the set key goals for TAURON Capital Group:

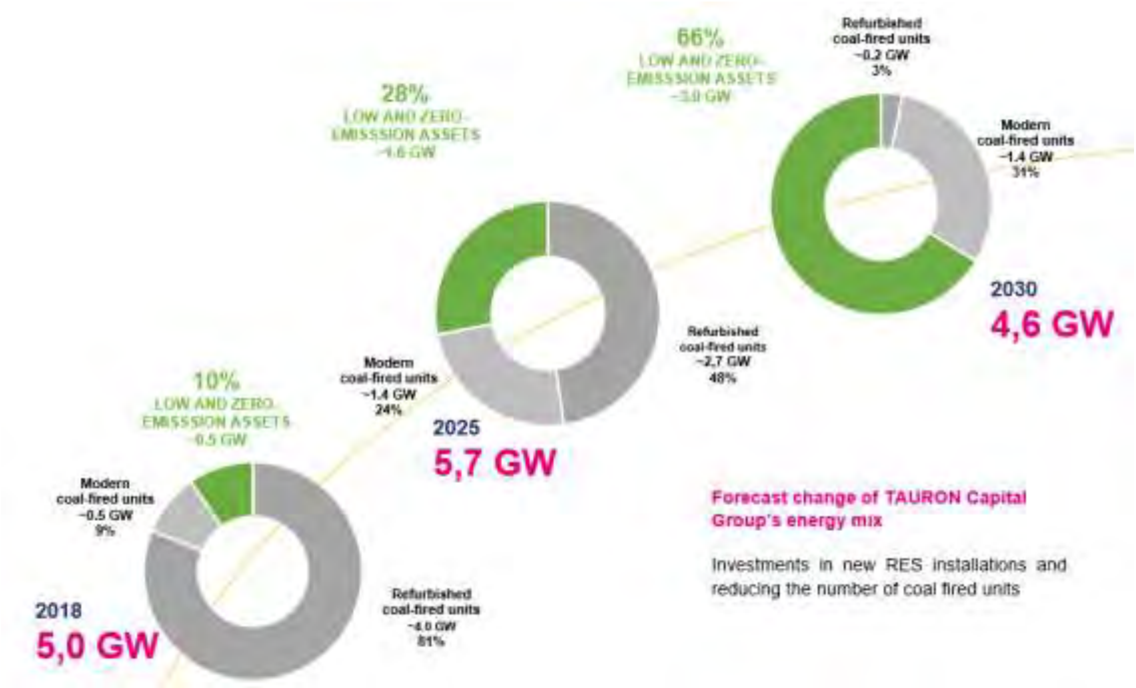
1. EBITDA above PLN 4 billion in 2020
2. Maintaining the net debt/EBITDA covenant below 3.5x
3. Maintaining a high Customer Satisfaction Index (CSI)
4. Power plants generating positive cash flows by 2020

5. Maintaining the customer base
6. Unit margin leadership among Poland's 4 largest electricity suppliers
7. New businesses are to represent at least 25% of the revenue/margin in 2025.

Actions planned for the coming years will allow for arresting the profitability decline. This will be achieved by optimizing the operations in the Mining and Generation Segments, while at the same time maintaining stability in the Distribution Segment.

The Update of the Strategic Directions indicated the target (ultimate) structure of the generating assets of TAURON Capital Group. The ultimately assumed energy mix of TAURON Capital Group is the consequence of investments in the low- and zero-emission assets and the reduction in the number of the coal fired units, as presented in the below figure.

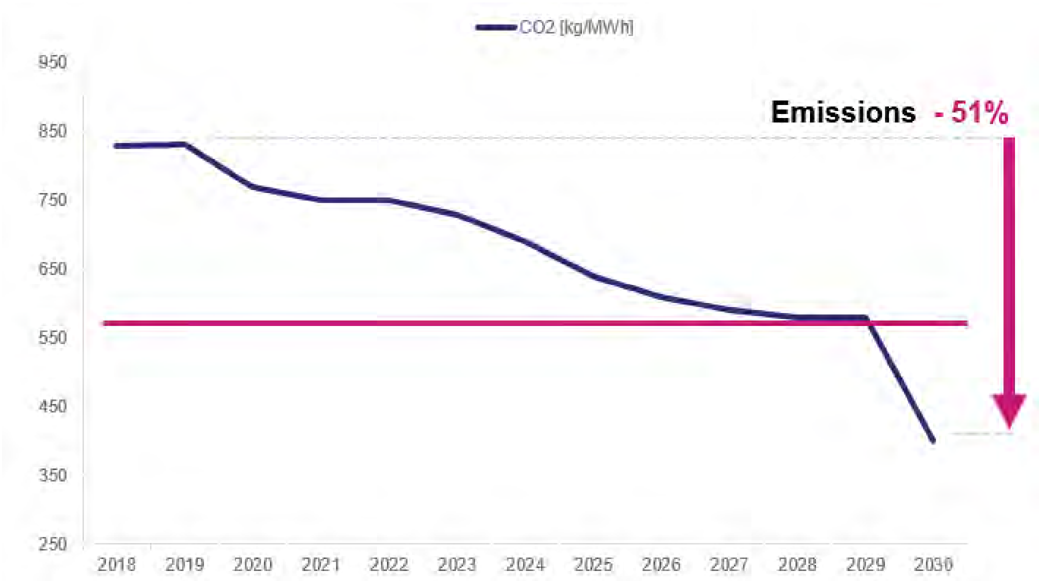
Figure no. 5. TAURON Capital Group's ultimate energy transition



A natural consequence of the change in the structure of TAURON Capital Group's capacity will be a significant reduction in CO_2 emissions, which will allow the Company to be ranked among the most environmentally responsible energy companies. Ultimately it is assumed to achieve CO_2 emissions well below 550 kg / MWh

The below figure shows TAURON Capital Group's assumed ultimate unit emission level.

Figure no. 6. TAURON Capital Group's ultimate unit emission level



1.4.6. The implementation of the Strategy and priorities of TAURON Capital Group in 2019

The activities undertaken and the achieved values of the strategic goals, the Efficiency Improvement Program and the Strategic Initiatives are the result of the implementation of the Strategy.

The below table presents TAURON Capital Group's strategic goals realized in 2019.

Table no. 6. TAURON Capital Group's strategic goals realized in 2019

#	Strategic goal	Realization in 2019
1.	EBITDA above PLN 4 billion in 2020	The goal is being realized through the core operations of TAURON Capital Group's business segments and the implementation of the Strategic Initiatives and the Efficiency Improvement Program. In 2019 EBITDA of PLN 3.6 billion was achieved.
2.	Net debt/EBITDA covenant below 3.5x	Maintaining the covenants is both the consequence of actions leading to the improved financial results as well as actions aimed at improving the investment efficiency. As part of the Strategy the investment portfolio was optimized and modern financing in the form of a hybrid bond issue was obtained. As of the end 2019 the net debt/EBITDA ratio reached 2.8x.
3.	Maintaining a high Customer Satisfaction Index (CSI)	TAURON Capital Group is an industry leader in customer service quality. Annual customer satisfaction surveys performed by an external company confirm a high satisfaction level of TAURON Capital Group's customers. The results of the December 2019 CSI survey were as follows: for households 83 points, for small and medium size enterprises 78 points, and for business customers 78 points.
4.	Power plants generating positive cash flows by 2020	Achievement of this goal will be the consequence of a number of actions undertaken within TAURON Capital Group, among others: optimizing the costs and outlays related to the generating units, TAURON Capital Group's trading (commercial) strategy, as well as the impact of the external environment, both the regulatory one, as well as the market one. The guaranteed revenue obtained as part of the won main auctions of the capacity market will have a significant, positive impact on achieving positive cash flows by TAURON Capital Group's generating units starting from 2021.
5.	Maintaining the customer base	TAURON Capital Group is Poland's largest electricity distributor and the second largest electricity supplier. Maintaining the customer base constitutes for TAURON Capital Group a long term growth platform and is implemented by both, actions improving the quality of the services provided, among others an expansion of the customer communications channels, as well as a broad product offering. As of the end of 2019, TAURON Capital Group provided services for approx. 5.5 million customers of the Supply Segment and 5.65 million customers of the Distribution Segment.
6.	Unit margin leadership among Poland's 4 largest electricity suppliers	Maintaining of the leadership position is based both on maintaining a high volume of electricity supplied, as well as the ability to generate a positive financial result. TAURON Capital Group, by focusing on the customer, is developing a broad, profitable base of products and services. Based on the data for the first three quarters of 2019 TAURON Capital Group maintained the leading position among Poland's 4 largest utilities in terms of the unit margin, calculated as the Supply Segment's EBITDA attributed to the electricity supplied to the final consumers.
7.	New businesses are to represent at least 25% of revenue / margin in 2025	TAURON is actively preparing to take part in the new markets and areas of operations. The activities focused on the new businesses are supported by the implementation of SAB and the cooperation with start-ups. TAURON got involved in the project with the goal to deploy broadband internet access in seven regions in the south of Poland as part of the Operational Program Digital Poland (Program Operacyjny Polska Cyfrowa - POPC). The attractiveness of the project is additionally enhanced by the amount of the subsidy worth PLN 187 million. In November 2018 TAURON commissioned a network of terminals for charging electric vehicles made up of four fast charging stations (DC) and 19 accelerated charging stations (AC). Additionally, the eCar from TAURON application that allows for renting an electric vehicle was launched. The largest project as part of the implementation of the goal is the broadband internet access deployment. This project is composed of the Digital Poland Operational Program (POPC) implemented in 7 regions of southern Poland and the construction of structures enabling taking advantage of the business potential of the infrastructure within the Business Services Center at TAURON Customer Service. The attractiveness of the project is additionally enhanced by the amount of the subsidy worth PLN 187 million. With respect to eMobility development, TAURON Capital Group provides a car sharing service and builds infrastructure for charging electric cars. 49 charging stations were completed at the end of 2019, at the end of the current development stage the network will be expanded to 150 stations. In 2019, projects related to the construction of the cogeneration engines were launched based on 2 models: ESCO for an external customer and a model assuming the optimization of the use of methane obtained from the mining headings at Brzeszcze Coal Mine (Zakład Górniczy Brzeszcze - ZG Brzeszcze).

Ensuring TAURON Capital Group's financial stability

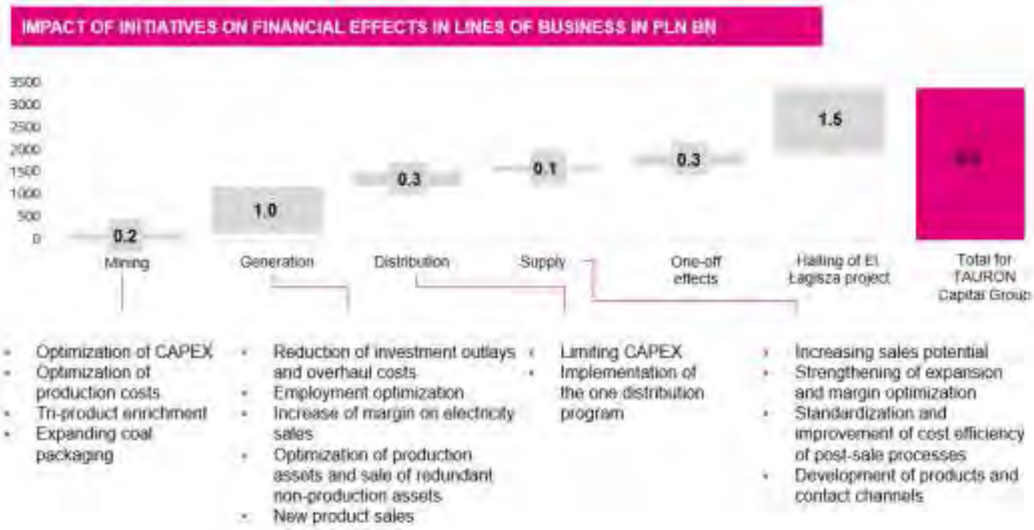
Ensuring TAURON Capital Group's financial stability is achieved through the Efficiency Improvement Program, the implementation of the Strategic Initiatives and the improvement of the investment efficiency.

The implementation of the 2016-2018 Efficiency Improvement Program was completed in 2018. The implementation of the program brought savings of PLN 1 719 million which represented 132% of the planned savings, with PLN 1 067 million impacting EBITDA and PLN 652 million having been due to the reduction of the capital expenditures.

As part of the implementation of the Strategic Initiatives and the rationalization of the investment outlays for 2017-2020, it was assumed that the financial effects at the level of PLN 3.4 billion would be achieved.

The below figure presents the assumptions of the Strategic Initiatives and the CAPEX rationalization in 2017-2020.

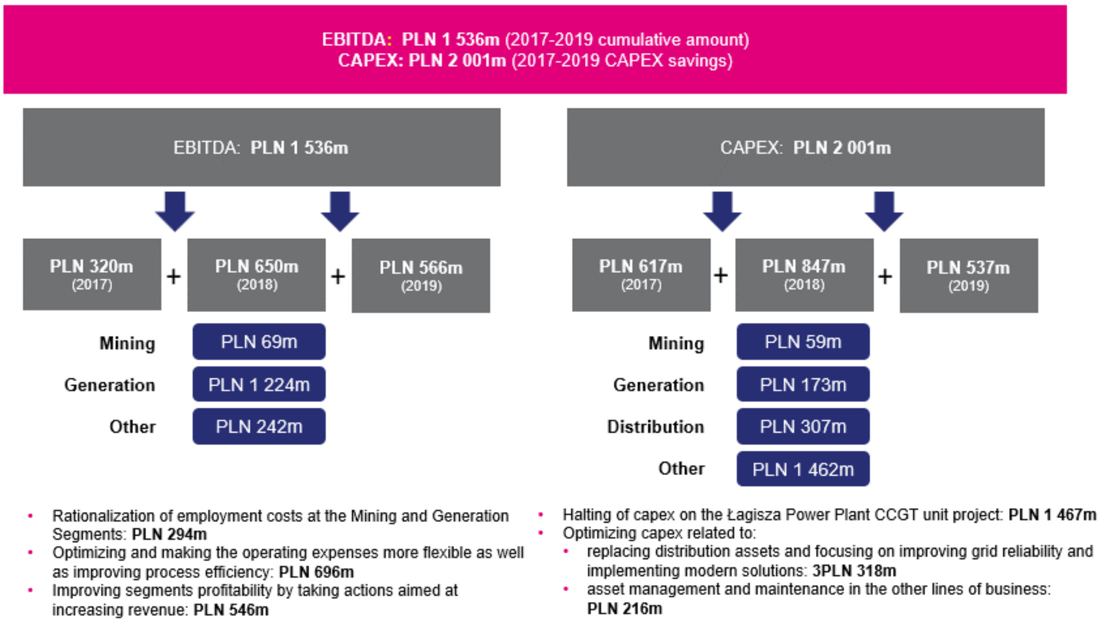
Figure no. 7. Assumptions of the Strategic Initiatives and the CAPEX rationalization in 2017-2020



In 2019, the Strategic Initiatives brought a financial effect of PLN 1 103 million, with PLN 566 million impacting EBITDA, and PLN 537 million having been due to the reduction of the capital expenditures (including PLN 426 million due to the halting of the construction of a 413 MWe CCGT unit with a heating unit at the Łagisza Power Plant in Będzin). The Generation Line of Business (PLN 395 million) and the Supply Line of Business (PLN 135 million) made the largest contributions to the savings achieved. The cumulative effects achieved as of the end of 2019 amounted to PLN 3 537 million, with PLN 1 536 million having a positive impact on EBITDA, and PLN 2 001 million coming from the reduction of the investment outlays.

The figure below shows the implementation of the Strategic Initiatives in 2017-2019.

Figure no. 8. Implementation of the Strategic Initiatives in 2017-2019 (cumulatively)



Pursuant to the Update of the Strategic Directions, maintaining financial stability is to be supported by a market verification of the strategic options: disinvestments in the Mining Line of Business and the Heat Line of Business. In 2019, a decision was made to carry out the market verification of the sale of the Janina Coal Mine (ZG Janina). The goal of this decision was to make TAURON's portfolio of assets more flexible by adapting the mining assets to the planned demand for fuel. On December 10, 2019, the process of searching for a potential investor interested in acquiring the Janina Coal Mine (ZG Janina) was completed due to the lack of purchase offers. The strategic option of adapting the level of fuel production to the future needs of the coal generating units that will continue to be operated within TAURON Capital Group remains valid and the conceptual and analytical works are underway, as a result of which alternative solutions should be developed. Additionally, the works are underway to prepare and implement a turnaround program for TAURON Wydobycie.

TAURON Ciepło assets divestment project is underway, with its completion planned for 2020.

Building a strong capital group

TAURON Capital Group is offering the most comprehensive product and service portfolio for the customers among Poland's electric utilities. The measures aimed at developing the Supply Segment are also supported by the dedicated projects as part of the *Strategic Research Agenda (Strategiczna Agenda Badawcza - SAB)* adopted by the Management Board in 2018. Works are underway on improving high customer service standards and developing modern and integrated sales and customer service channels.

The regulated assets that deal with the operations with respect to electricity and heat distribution are an important link in TAURON Capital Group's value chain. A significant portion of the capital expenditures is spent on the construction and refurbishment of the grid. TAURON Capital Group invested PLN 1 785 million in total in the Distribution Segment in 2019, while at the same time implementing initiatives aimed at improving the cost and organizational efficiency. The main activities involved unifying the processes and systems as well as implementing an optimal and coherent structure of TAURON Dystrybucja.

The steps aimed at improving the economic efficiency of the generation assets held were continued in the Mining and Generation Segments in 2019, thanks to the optimization of the costs and capital expenditures, employment, production assets and the sale of the redundant non-production assets as well as the implementation of the investment and refurbishment projects. The refurbishment investment projects are conducted as part of the undertakings aimed at adapting the generating units to the BAT Conclusions requirements. As a result of concluding agreements, as a consequence of taking part in the capacity market auctions conducted, TAURON Capital Group's generating units will be receiving additional revenue. As part of the Update of the Strategic Directions, the new delivery schedules for the 120 MW and 200 MW unit shutdowns were developed and adopted.

As part of the implementation of the assumptions of TAURON's new green policy, TAURON Capital Group acquired 5 wind farms in September 2019, with a total installed capacity of 180 MW, and as a result of the deal its installed capacity in wind based technology was doubled. Due to the takeover of the wind farms, TAURON was ranked second among Polish energy groups in terms of installed capacity in on-shore utility scale wind farms. In December 2019, TAURON EKOENERGIA signed a contract for the purchase of a photovoltaic farm project - Choszczno solar power plant with the planned installed capacity of 6 MW. The planned date of commissioning the power plant is Q4 2020. At the same time, the works are underway to prepare for the development of the photovoltaic installations on TAURON Capital Group's land (sites) that is not used commercially.

Introduction of the organizational changes supporting the implementation of the Strategy

The basis of the operational model is process based management and the split of tasks and responsibilities among the defined units: Corporate Center, Lines of Business and Shared Services Centers (CUW). TAURON Capital Group's cooperation with start-up companies has become important, apart from the traditionally understood research and development activities, as part of the innovative culture.

TAURON Capital Group's new proposal for startups is the *TAURON Progres* acceleration program enabling a quick presentation of the solution to experts, without waiting for the call for applications to be opened.

1.5. Description of TAURON Capital Group's expansion policy and directions

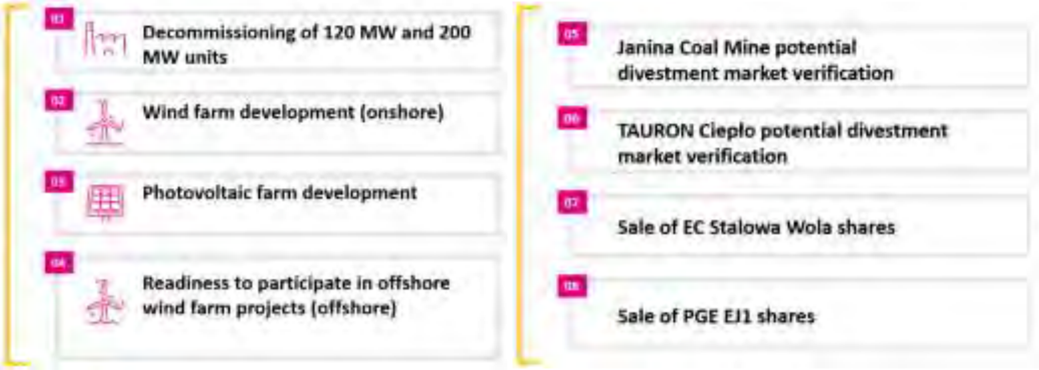
Strategy sets the directions of TAURON Capital Group's short and long term expansion. The priority is to maintain a stable financial position and lay down solid foundations for growth in a changing environment. The Update of the Strategic Directions additionally highlighted the importance of the transformation of the energy mix, including the development of low- and zero-emission sources as well as the optimization of the capital expenditures portfolio.

Strategy sets the priority directions for the innovations as well as research and development activities that will be the basis for developing new products and services in the longer term. In order to achieve this goal TAURON Capital Group adopted a new model for the innovations as well as research and development activities, setting up a dedicated central organization to manage and coordinate such operations.

In the longer term the Strategy assumes the full utilization of the potential of TAURON Capital Group's assets, which is to support innovations, organizational culture and, first of all, focusing on the customer needs. Taking into account the need for TAURON Capital Group's energy transition, the optimization of the investment portfolio and maintaining financial stability as part of the Update of the Strategic Directions, a decision was made to carry out the market verification of the strategic options.

The below figure presents TAURON Capital Group's adopted strategic options.

Figure no. 9. TAURON Capital Group's adopted strategic options



1.5.1. Implementation of the strategic investment (CAPEX) projects

Key strategic investment (CAPEX) projects underway

The below table presents the activities carried out by TAURON Capital Group in 2019 in connection with the implementation of the key strategic investment (CAPEX) projects.

Table no. 7. Key strategic investment (CAPEX) projects' work progress in 2019 and by the date of drawing up this report

#	Investment project	Investment project's work progress
1.	Construction of a new 910 MWe supercritical parameters power generation unit in Jaworzno **Contractor:** RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium **Planned project completion date**: Q3 2020 **Work progress:** 97 % **Expenditures incurred**: PLN 5 347.5 million	The 910 MW unit construction project is at the test (trial) run stage. In the first half of 2019, after the key technological process systems had been handed over, a number of trials and tests were completed, the system's readiness to supply the media was achieved which allowed for conducting of further start-up works. The carburization system and the railway tracks system were completed to the degree enabling storing of the coal at the storage (pre-picking) yard, as well as feeding of the coal to the unit. The works completed on the process systems enabled conducting, in May 2019, of the chemical cleaning of the unit's high pressure part. In July 2019 the boiler was fired with oil burners for the first time and the process of drying the refractory brick furnace linings, used in places particularly exposed to the ash and slag erosion. In October 2019, the process of steam purging of the boiler's high pressure part was completed, then the process systems were restored and the turbine shaft and the generator were intercoupled. In November 2019, the performance of the adjustment run trials and tests program for the balance of plant systems was completed. In December 2019 the first feeding of steam to the turbine set was carried out and the synchronization with the National Power System (KSE) was completed. The performance of the unit's adjustment run trials and tests program the was commenced. The amendment to the agreement was concluded with the General Contractor on December 19, 2019, which: • extended the scope of works under the agreement by adding the performance of additional tasks, including, among others: conducting the optimization efforts aimed at expanding the so-called fuel field (mix, range) of the unit (admission of a broader variety of coal types) in order to make the unit's operational conditions more flexible and guarantee the compliance with the future environmental requirements for the expanded fuel field (mix, range) of the unit, • assumed that the acceptance (takeover) of the unit for operation would take place by January 31, 2020, • introduced a definition of a transition period (until May 2020) during which the Contractor would carry out additional optimizations and tests on the operating unit in order to ensure that the unit should meet the changed and new Guaranteed Technical Parameters (Performance Tests), • increased the net price specified in the agreement by PLN 52.3 million to PLN 4 537.8 million. The change to the terms and conditions of the agreement with the Consortium did not cause an overrun of the assumed total budget envisaged for the implementation of the investment project, i.e. PLN 6.158 billion. On January 30, 2020, the General Contractor provided information on a change of the date of commissioning the unit to February 4, 2020. The indicated date was not kept, the General Contractor informed about it in the current report. On February 13, 2020, the General Contractor provided information that during the last phase of the unit's tests one of the boiler's elements had been damaged. In consequence on March 6, 2020, the Consortium provided information that it estimated that the unit should be commissioned by July 31, 2020.

#	Investment project	Investment project's work progress
		As of the date of drawing up this report, the General Contractor was in the process of analyzing the causes of the failure.
2.	Construction of a 449 MWe CCGT unit, including a 240 MWt heat generation unit at Stalowa Wola (Project implemented jointly with the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)). **Contractor:** the contract with Abener Energia S.A. was terminated. The project's completion is implemented under the EPCM formula (contract manager) – Energoprojekt Katowice – Energopomiar Gliwice consortium **Planned project completion date**: Q2 2020 **Work progress**: 86 % **Expenditures incurred**: PLN 1 260.4 million	As part of the tender proceedings aimed at selecting the contractors for the combined cycle power plant, announced by EC Stalowa Wola with the support of EPCM, the selection in all of the proceedings has been completed. All the contractors are conducting works at the construction site. The assembling of the steam piping, auxiliary installations and other steel structures has been completed. The minor construction and finishing works are also about to be completed. The unit's chemical cleaning was successfully completed and the preparations for the steam purging have been commenced. In 2019 the contractor responsible for the construction of the backup heat source completed the multi-disciplinary design works required to complete the investment project. The main civil construction works, required to place the boilers on the foundations, have been completed. The main civil construction works, required to place the boilers on the foundations, have been completed. The delivery of all boilers to the construction site was completed in July 2019 and the boilers were placed on the ultimate foundations. The other assembly works related to the technological process and the I&C systems are about to be completed. Preparations are underway for the hot commissioning and the adjustment operation (run) of a Backup Heat Source. On March 4, 2020, the first synchronization of the gas turbine with the electricity grid was carried out. The steam purging process was commenced. The startup (commissioning) group is systematically testing and commissioning the individual systems of the combined cycle power plant that were completed by the original contractor, Abener Energia S.A. As a result of the inventory taking carried out by EPCM the assembly (installation) errors were identified as a consequence of which it was necessary to dismantle the steam piping, and then complete it again and reassemble. As a result the project's schedule was revised and the new date for the commissioning of the unit was originally set as the first quarter of 2020, and subsequently, as a result of another verification (revision), it was shifted to the second quarter of 2020. The total budget of the project remains unchanged and amounts to PLN 1.4 billion.
3.	Construction of the "Grzegorz" shaft (TAURON Wydobycie) including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings). **Contractor:** KOPEX Przedsiębiorstwo Budowy Szybów S.A., FAMUR Pemug sp. z o.o. (main task – Stage I), LINTER S.A. Consortium **Planned project completion date:** 2023 **Work progress**: 47 % **Expenditures incurred**: PLN 258.6 million	The drilling of the headings on the 800 m level was continued in 2019. 327/2120 meters of headings and 107/238 meters of longwall ventilation have been drilled on the 800 m level by the end of March 2020. 967 m long headings to the "Grzegorz" shaft were drilled on the 540 m level in 2019. The works were halted due to the fault. The technology required to pass the fault including its dewatering (drainage) was prepared. A positive opinion of the State Mining Authority (Wyższy Urząd Górniczy) was obtained. The works related to passing the fault were commenced in the fourth quarter of 2019 and after it has been passed, the drilling towards the shaft will be resumed in order to merge the longwalls. The next step following the passing of the fault will be to complete the drilling towards the shaft. In the fourth quarter of 2019 and in January 2020 the deepening of the shaft in the freeze section was continued. In November 2019, the shaft foot was made at the level of -45 m together with the concrete final casing (enclosure). By March 2020, the shaft was deepened and the outer casing was completed down to the depth of -74.4 / -870 m.
4.	Construction of the 800 m level at the Janina Coal Mine in Libiąż (TAURON Wydobycie). **Contractor**: Mostostal Zabrze GPBP S.A. and SIEMAG TECBERG POLSKA S.A. Consortium (Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft mine shaft elevator), KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (task completed – shaft drilling) **Planned project completion date**: 2021 **Work progress**: 79 % **Expenditures incurred:** PLN 409.1 million	In the fourth quarter of 2019 the ultimate height of the shaft tower +62 m was reached. The tower facade was erected and a crane was installed in order to assemble the hoisting machine. The delivery of the equipment was begun, including delivery of the hoisting machine. The bridge (platform) enabling the staff to access the shaft, and connecting the new and the old infrastructure was completed. As part of the project the 20-2 mm class Coal Mechanical Processing Plant was upgraded with a new jig. Also the design and engineering of the main drainage of the 800 m level was completed. By March 2020, the motor of the hoisting machine had been installed. Installation works related to heating, ventilation, cabling, carpentry are conducted. In 2019, the refurbishment works on the main transformer station and the main power supply sub-station were completed. The power supply sub-station has been prepared for connecting 3 power supply lines. The drilling of the horizontal headings on the 800 m level by the coal mine in-house unit is continued. Additionally, the tender for the drilling of the horizontal headings on the 800 m level is being prepared, the announcement of which was delayed until 2020 due to the optimization of the scope thereof.

#	Investment project	Investment project's work progress
5.	Brzeszcze CAPEX Program **Contractors:** TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGiBSz Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn **Planned Program completion date**: 2025 **Work progress**: 61% **Expenditures incurred**: PLN 295.1 million	In the first three quarters of 2019 the extraction of the 510 deposit was conducted. Due to making the coal mine ventilation system independent of Spółka Restrukturyzacji Kopalń S.A. (SRK) in 2019, the works aimed at altering and improving the efficiency of the ventilation system are continued. The construction of the primary compressor station and the water and ash mixture dumping station has been completed. In June 2019 one of the key tasks - the construction of the brine water channel - was completed. The small sales facility and the brine water channel were completed and commissioned in 2019. The powered supports for coal faces 194 and 125 have been upgraded. As part of the program the total of 5 492 meters of headings had been drilled and altered by March 2020.
6.	Implementing heat generation at unit no. 10 and the construction of the peaking and backup boilers in Łagisza **Contractor:** • GE Power – steam turbine set refurbishment, • Mostostal Warszawa – implementing the heat generation unit including refurbishing the heat production part, • SBB Energy – construction of the peaking and backup boilers. **Planned project completion date**: Q4 2019 / Q2 2020 **Work progress**: 90 % **Expenditures incurred**: PLN 109.2 million	•The steam turbine set refurbishment and the implementation of the heat generation unit including the station's adaptation was completed. The systems were tested, commissioned and handed over for operation in the fourth quarter of 2019. With respect to the peaking and backup boilers the final assembly works and preparation for the start-up and carrying out of the adjustment run are underway. With respect to the oil storage tanks the works related to the assembly of the end caps and outer jacket (cladding), including the erection of the oil installation, are underway. A part of the task was commissioned in the fourth quarter of 2019. The commissioning of the boiler house is planned for the first quarter of 2020.
7.	Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation **Contractor**: Contractors are being selected to carry out specific work (project) stages. **Planned project completion date:** 2023 **Work progress**: 14 % **Expenditures incurred**: PLN 15.7 million	The PLNE program is carried out on the territory of the following metropolitan areas: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice. The PLNE Program underwent restructuring. Due to TAURON Ciepło's failure to comply with the terms included in the representations in the Agreement on the co-financing of the original PLNE Program and a sudden steep rise of the contractors' prices, TAURON Ciepło subsidiary terminated the funding agreements on March 22, 2019. After a detailed analysis of the experiences from the previous Program, on June 25, 2019, TAURON Ciepło submitted a new application to the Regional Fund for Environmental Protection and Water Management (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej - WFOŚiGW) for the co-financing of the PLNE Program. WFOŚiGW issued a positive opinion of the company's application and granted funding for a new scope of the program's implementation in the form of 22 MWt in the Silesian-Dąbrowa conurbation area in the amount of more than PLN 32 million. The new agreement with WFOŚiGW was concluded on January 31, 2020.
8.	TAURON Internet (POPC) – implementation of the project in the areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice-Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec) **Contractor:** Atem Polska sp. z o.o. (Katowice-Tychy), MZUM sp. z o.o. (Sosnowiec), Atem Polska sp. z o.o. (Wałbrzych A), Mediamo Sp. z o.o. (Oświęcim), MX3 sp. z o.o. (Rybnik), MZUM sp. z o.o. (Wałbrzych B), ZICOM sp. z o.o. (Kraków-Tarnów) **Planned project completion date:** 2021 **Work progress**: 5% Expenditures incurred: PLN 15.63 million	The POPC program involves implementing an infrastructure to enable high speed internet connections for households (min 30 MB/s). The final product of the project will be the provision of the wholesale services enabling connecting of the end users by the retail operators. In 2019 the contractors for all of the areas covered by the funding were selected. The inventory taking of the schools in all areas was completed and the update was provided to Centrum Projektów Polska Cyfrowa (Digital Poland Project Center). Each of the contractors presented the concept of the implementation of the works and proceeded to the implementation. In the fourth quarter of 2019, each of the contractors achieved a milestone in the form of 50% of completion with respect to the passive infrastructure construction for schools and 25% of completion with respect to the construction of the network infrastructure. In the fourth quarter of 2019, a market survey was conducted for the needs of the tender for the construction of the backbone network. In January 2020, a contractor for the construction of the backbone network was selected. In 2020, all contractors began the deployment of the fiber optic network. By March 2020, the contractors began actively connecting schools and installing the fiber optic terminal cabinets.
9.	Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021 **Contractor**: Contractors are being selected to carry out specific projects. **Planned project completion date**: 2021 **Work progress**: 19.1% **Expenditures incurred**: PLN 42.8 million	As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned: • Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installation. All foundations were erected and secured. All major deliveries were contracted. The agreement with the contractor was suspended due to the derogation from the *BAT Conclusions*, • Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installation. Project works were accepted for unit no. 3, the building permission was obtained for units No. 1 and 5, a heat exchanger and reactor were delivered, foundations were completed and the assembly of the main and auxiliary structure for unit no. 3 was completed, the construction

#	Investment project	Investment project's work progress
		works related the reagent feeding installation were completed. The contractor has contracted all of the major supplies and most subcontractors, • Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the selective catalytic reduction (SCR) installation. The installation of the catalysts (2 of 4) has been completed. The contractor has contracted all of the major supplies and most subcontractors, • Łaziska Power Plant, units no. 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installation. The adaptation works on the existing stack with respect to the landings have been completed. The production of the plastic flue gas piping is underway. The contractor has contracted all of the major supplies and most subcontractors. • Łaziska Power Plant – the refurbishment of the sewage treatment plant. The tests with respect to the selection of the chemicals were carried out in the field, optimizing the scope of work, the technical dialogue was conducted with the potential contractors, the decision was taken to carry out the refurbishment based on the optimized scope of works in 2021, • Siersza Power Plant – the adaptation of the existing selective catalytic reduction (SCR) installation. The repeated bidding procedure was declared null and void, a turnaround plan to meet the Capacity Market Operational Milestone was developed, • Łagisza Power Plant – the company withdrew from the construction of the flue gas desulfurization (FGD) installation in favor of the dry additives feeding installation. The tender procedure was carried out. The project implementation was halted due to the obtained derogations from the *BAT Conclusions*.
10.	Program aimed at adapting TAURON Ciepło's generating units to comply with the operational conditions in force beyond 2021 **Contractor:** Contractors are being selected to carry out specific projects. **Planned project completion date:** 2021 **Work progress:** 7.5 % **Expenditures incurred**: PLN 1.4 million	As part of the program the refurbishment of the following generating units, in accordance with the following scope of works, is planned: • Katowice Generation Plant (ZW Katowice) - the erection of the semi-dry flue gas cleaning installation, • Tychy Generation Plant (ZW Tychy) - the erection of the semi-dry flue gas cleaning installation. Derogations from the BAT conclusions were obtained, as a result of which the need to implement the flue gas cleaning installation became irrelevant. The agreements with the Contractors were terminated and the BAT Program closing procedure was initiated.

Other investment projects

Nuclear power plant construction project

PGE EJ 1 was carrying out the scope of works related to conducting environmental and siting studies at Żarnowiec and Lubiatowo-Kopalino sites in 2019.

The project is carried out under the Partners' (Shareholders') Agreement concluded in 2014 by TAURON, ENEA S.A. (ENEA) and KGHM Polska Miedź S.A. (KGHM Polska Miedź) (Business Partners) with Polska Grupa Energetyczna S.A. (PGE). In accordance with the above agreement each of the Business Partners holds 10% of shares in PGE EJ 1 – a special purpose vehicle responsible for preparing and implementing an investment project involving the construction and operation of a nuclear power plant. The Partners' (Shareholders') Agreement governs the principles of cooperation in the project implementation, including the parties' commitment to jointly, in proportion to the stakes held, finance the operations as part of a project development milestone (stage).

In November 2018 TAURON received a letter from PGE, in which PGE expressed preliminary interest in acquiring all of the shares in PGE EJ 1 owned by TAURON. In response to the letter TAURON expressed preliminary interest in selling all of its shares in PGE EJ 1. Talks and negotiations were conducted between the parties with respect to the said issue in the first quarter of 2019.

On April 17, 2019 TAURON received a letter from PGE, in which PGE informed that it had withdrawn from the process of acquiring the shares in PGE EJ 1 owned by the minority shareholders of PGE EJ 1.

In view of the above, as of the date of drawing up this report the activities that are a part of the project's preliminary stage are continued. The successive decisions related to the project, including the decision on the declaration to further continue participation in the subsequent project stage by the individual parties (including TAURON), will be taken following the completion of the preliminary stage.

Coal gasification project

The Coal2Gas project involves looking into the area of constructing a hard coal gasification installation, jointly with Grupa Azoty S.A. (Grupa Azoty), for the needs of the chemical industry – ammonia or methanol.

The works related the formal matters required for the implementation of the project by TAURON and Grupa Azoty, were continued in the first half of 2019. The Partners' Agreement was signed in January 2019, while the amendments changing the dates of setting up a special purpose vehicle were signed in May and August 2019.

In November 2019, by way of the decision of the President of the Office for Competition and Consumer Protection (UOKiK), the clearance for the concentration involving the creation of a joint venture by TAURON and Grupa Azoty to set up a joint venture was issued.

413 MWe CCGT unit construction project including an approx. 250 MWt, heat generation unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin

In September 2016, in accordance with the Strategy, as part of the priority of ensuring financial stability of TAURON Capital Group, the 413 MWe CCGT unit construction project including a heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin was halted due to the loss of its business justification.

TAURON Capital Group is currently conducting analyses, as well as works that would enable a potential resumption of the project. Taking of the investment decision will, on one hand, be based on the assessment of the project's profitability, and, on the other hand, on TAURON Capital Group's financial standing. The possibility of involving an equity partner to implement the project cannot be excluded. Due to the capacity auctions planned, TAURON Capital Group assumes that the final decision regarding the resumption of the project's implementation will be taken in 2020.

Capital expenditures

TAURON Capital Group's capital expenditures reached PLN 4 128 million in 2019 and they were 8% higher than the expenditures incurred in 2018 that stood at approx. PLN 3 838 million (excluding equity investments). This is primarily due to the higher outlays in the Distribution, Mining Segments and Other operations.

The below table presents the selected, highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2019.

Table no. 8. The highest by value capital expenditures incurred by TAURON Capital Group's Lines of Business in 2019.

#	Item	Capital expenditures (PLN m}
1.	**Distribution**	
	Existing grid assets' upgrades (refurbishments) and replacements	996
	Installation of new connections	667
2.	**Generation**	
	Construction of a 910 MWe super critical parameters generation unit in Jaworzno	1 020
	CAPEX on replacements and upgrades (refurbishments), as well as components at TAURON Wytwarzanie	215
	Implementing heat generation at the Łagisza Power Plant	104
	Adaptation of TAURON Wytwarzanie generation units to BAT conclusions	42
	Restoration of the SUW demineralized water preparation station	32
	Connecting of new facilities	27
	Investment projects related to the maintenance and development of district heating networks	25
	Connecting of the facilities heated using the low emission sources to the district heating networks	6
3.	**Mining**	
	Preparation of the future production	185
	Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	94
	Construction of the 800 m level at the Janina Coal Mine (ZG Janina)	81
	Brzeszcze Coal Mine's (ZG Brzeszcze) Investment Program	70
4.	**Other operations**	
	Wind farms acquisition – equity investment	601

The detailed information on the capital expenditures incurred in the individual segments of TAURON Capital Group's operations is provided in section 5.2 of this report.

1.5.2. Evaluation of the capability to complete the intended investment projects

TAURON Capital Group's strategic investment projects and the financing thereof are centrally managed at the Company level. Based on the analyses completed the Company's Management Board assesses that TAURON

Capital Group is able to finance the current and future intended investment projects included in the Strategy using funds generated from the operations and by obtaining debt financing.

The company pursues a policy of diversifying financing instruments and strives to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet both the current as well as the future obligations in the short and the long term, including capex plans. Steps are taken to acquire new sources of financing, resulting, among others, in a program agreement concluded with Santander Bank Polska S.A. on February 6, 2020, that enables issuing of bonds on the domestic market and the loan agreement concluded with SMBC BANK EU AG on March 16, 2020.

The detailed information on the conclusion of the above agreements is provided in section 2.6. of this report.

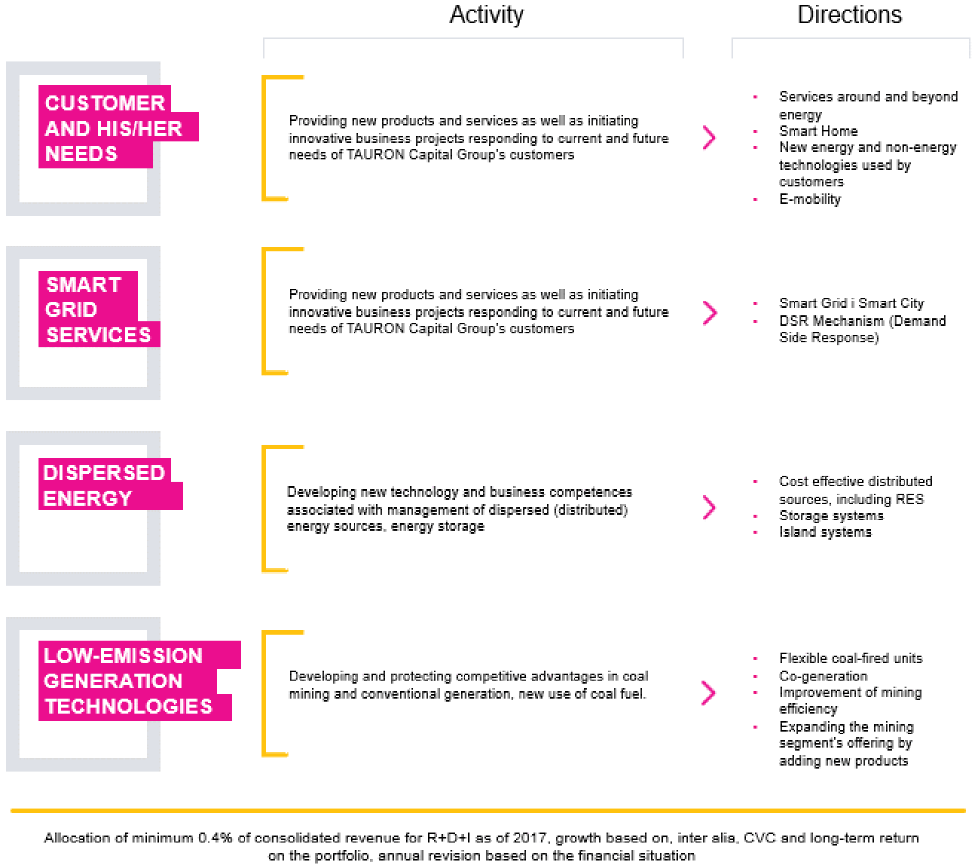
1.5.3. Directions for advancing innovations as well as research and development activities

The research and development as well as innovations related activities (R+D+I) are reflected in the *Strategic Research Agenda* adopted by the Company's Management Board in 2018. TAURON Capital Group introduced portfolio based management of research and development projects in accordance with the R+D+I priority directions.

Strategic Research Agenda is in line with 4 directions of the R+D+I activities assumed in the Strategy.

The below figure presents the priority directions of the R+D+I activities.

Figure no. 10. Directions of the R+D+I activities



Strategic Research Agenda is a document that describes in a precise manner the directions of innovations pursued and it is a detailed extension of the Strategy. For each direction a separate portfolio of projects is created and the key challenges, development goals and research areas are defined within such projects. Such a structure of the *Strategic Research Agenda* supports selecting specific projects and rejecting others, and it will also allow for an optimum allocation of the financial resources. *Strategic Research Agenda* includes the following portfolios: Customer and His / Her Needs, Smart Grid Services, Dispersed (Distributed) Power Generation and Low Emission Generation Technologies. This way TAURON Capital Group's R+D+I activities are carried out and developed based on complete and detailed assumptions of strategic nature – with clearly defined goals and results tied to a timeline.

Strategic Research Agenda is in line with and complementary to the other strategic documents, prepared or adopted by TAURON Capital Group.

1.5.4. Major achievements in the field of research and development

Approx. PLN 40 million was allocated to the R+D+I area in 2019. 18 projects (including 9 start-ups) were launched in all lines of business. As of the end of 2019 four portfolios of the Research and Innovations Area included 67 projects with the total value of more than PLN 178 million. For the implementation of some of these projects TAURON Capital Group obtained funding from the external sources in the total amount of almost PLN 48 million.

The below table presents selected R&D projects implemented in 2019 by TAURON Capital Group's subsidiaries, co-financed from the external sources.

Table no. 9. Selected R&D projects implemented in 2019 by TAURON Capital Group's subsidiaries, co-financed from the external sources

#	Projects / programs / tasks	Co-financing source
1.	**Project CO_2-SNG** - chemical accumulation of energy through the production of methane from captured CO_2.	Wspólnota Wiedzy i Innowacji (Community of Knowledge and Innovations) EIT InnoEnergy
	Project POLYGEN - use of the poly-generation processing system in the process of gasifying the locally available fuels (the project was discontinued in 2019).	
2.	Development and testing of an adaptive electricity storage system based on the second life of batteries from electric vehicles.	National Research and Development Center (Narodowe Centrum Badań i Rozwoju - NCBR)
	System for assessing propagation and improvement of the quality of electricity in the distribution grids.	
	Developing a platform allowing for aggregating the generation and regulating (adjustment) potential of the dispersed (distributed) renewable energy sources and energy storage devices as well as the selected categories of the controllable consumers.	
	Integrated Grid Diagnostics System	
	Development of the industrial design of the carbonate fuel cells and ceramic electrolyzers enabling integration with the power-to-gas installations	
	Flexibility of the existing power generation units with limited capital expenditures.	
	Platform for managing data from advanced metering infrastructure.	
	Dispersed (distributed) power solutions model 2.0 – self-balancing power grid areas model.	
	Development of an innovative system for effective monitoring and supporting of the protection devices compliant with the DMS assumptions.	
	Development and implementation of the technological process for processing waste from fluidized bed boilers with the use of CO_2 for the production of cement substitute.	
	Development of the hybrid system for reducing the emission of acid components and fly ash from flue gases.	
	Development of advanced technology for monitoring and predictive analysis of the technical condition of the boiler in order to increase the reliability of the boiler unit.	
3.	**Project TEXMIN** - impact of extreme weather conditions on the mining operations.	European Union's Coal and Steel Research Fund
	Project RECOVERY - assessment of the environmental management and the measures aimed to protect and repair it using tools to analyze the state of the ecosystem.	
4.	**Project MOBISTYLE** - technology solutions that will allow for positively influencing customer behavior by raising the consumers' awareness and feeling of ownership.	Horizon 2020 (Horyzont 2020): Framework Program with respect to scientific research and innovations
	Project UtilitEE - implementing a solution that will increase electricity consumption efficiency by actively engaging customers in their behaviors related to electricity consumption with the use of information and communications technologies and DSM mechanisms.	
	Project GEMINI+ - developing a design of a high temperature gas cooled nuclear reactor (HTGR) for electricity and heat production.	

The project that combines the research and development (R&D) activities of TAURON, TAURON Dystrybucja, TAURON EKOENERGIA and TAURON Sprzedaż is **Project M-GRID 2.0 - "Dispersed (distributed) energy model 2.0".** As part of the project a demonstration of the self-balancing power grid area is prepared. The project's goal is to develop the technology to be used to build local power grids with the main advantages being the reduction of transmission losses, improvement of the reliability and flexibility of the system. The gained knowledge and experience with respect to developing and operating microgrids will allow for offering a new type of TAURON services to external customers, and also for applying the solution within TAURON Capital Group. In 2019, the documentation required to launch the tender for the construction of micro-grids was prepared and the inter-disciplinary arrangements were made with the representatives of the individual consortium members. Rights to control the land at a selected location in Bytom were also acquired.

One of the more important research and development (R&D) projects implemented in 2019 by TAURON Capital Group was **Project CO_2-SNG**, related to converting CO_2 arising in the process of fuel combustion in industrial installations into synthetic natural gas (SNG). The project is carried out by an international consortium grouping Polish and French entities, with TAURON Wytwarzanie as the consortium leader. The process being developed involves CO_2 reacting with the hydrogen coming from the electrolysis process, powered using cheap surplus electricity coming from RES (during the power system's load valleys). The project assumes that this can be a method used to store electricity surplus from the renewable sources, and at the same time a future-proof solution for utilizing CO_2 produced by TAURON Capital Group's installations. In 2019, an intensive research campaign was carried out using the pilot installation built as part of the project located at the Łaziska Power Plant, using CO_2 captured from the flue gases from a 200 MW hard coal-fired unit. The above research was completed in the fourth quarter of 2019 and thus the last stage of the project was started, i.e. the analysis of the feasibility of a demonstration installation on a scale many times larger than that used in the pilot installation (the so-called up-scaling). The above project is the basis for the TENNESSEE project.

The goal of the **Project TENNESSEE** is to improve the energy storage process in the chemical form – natural gas substitute, aimed at improving the operating parameters of the ultimate installation, mainly based on the higher efficiency of the high temperature electrolysis and the use of carbonate fuel cells to capture CO_2 from the flue gases. As a result, it will be possible to substantially reduce the volume of electricity supplied from the power plant to the capture system. In particular the above project will contribute to the lowering of the energy intensity per a unit of SNG produced.

2019 was a period of intensive preparation of the generating units for the **BAT Conclusions**, also through the R&D activities. In order to reduce the financial outlays on adapting the coal fired units to the BAT Conclusions, a program of testing various types of sorbents was carried out to reduce the emission of harmful pollutants. The sorbent injection was tested on the units equipped with the fluidized bed boilers at the power plants Łagisza, Siersza, Jaworzno III - Power Plant II (TAURON Wytwarzanie) and at ZW Tychy (TAURON Ciepło). During the administration of the sorbents, a wide range of laboratory tests and flue gas emission measurements were carried out. Based on their results it was possible to confirm the effectiveness of the tested technology.

With respect to the new product development, **Program HEMS** was launched in 2019, addressed to the retail customers. The goal of the program is to prepare TAURON Capital Group to acquire a new revenue stream for TAURON Capital Group's subsidiaries, by developing a strategy, organization and model for the provision of services and selling products under HEMS based on the existing as well as the new products and services. As part of the program, the following 3 projects were started:

1. Web site and e-consulting,
2. Thermal Comfort Management,
3. Community of Experts.

TAURON continued the previously initiated work related to the **Internet of Things** in 2019. The actions aimed at developing and implementing services for the needs of a smart city were carried out with the use of the Internet of Things technology. The implementation of this type of solutions will be Poland's first undertaking that uses Internet of Things on the scale of a city with several hundred thousand inhabitants.

The implementation assumes a comprehensive optimization of the use of and developing the new services based on the city, municipal, power and telecommunications infrastructure, which will be possible due to the use of a network of sensors providing information facilitating the management of the individual functions of the metropolitan area. The existing distribution infrastructure of TAURON Capital Group is used to provide advanced technology solutions for the inhabitants and businesses. A platform collecting data from the sensor infrastructure was launched in 2019. Functionalities for measuring air quality along with the pollution prediction module are tested, as well as a smart parking service that helps residents find free parking spaces. The trash bins' filling level is also monitored, affecting the optimization of the waste collection process.

Project MDM was completed in 2019, implemented jointly by TAURON Dystrybucja and Future Processing sp. z o.o. The goal of the project was to develop a Platform for managing data collected from the advanced metering infrastructure, enabling advanced analyses of the large metering data sets based on the innovative mathematical and statistical models. As a result of the industrial research and project development, the System Prototype (MDM Platform) was built and tested. In the next step, it is planned that the prototype produced will be implemented into TAURON Dystrybucja's operations on the so-called completed AMI Smart City Wrocław Project area, after adapting the prototype to the production implementation needs, including, among others, the current security requirements for the information technology systems.

Apart from the traditionally understood research and development (R&D) activities, a number of efforts aimed at further developing the cooperation with startups were undertaken within TAURON Capital Group in 2019.

Continuing the cooperation model developed in the previous years as part of the **Pilot Maker Program,** TAURON conducted intensive activities as part of the Pilot Maker Elektro ScaleUp program launched in 2018, dedicated to the development of electromobility. The solutions developed are directly related to TAURON Capital Group's projects aimed at developing charging stations network, electric vehicle car sharing services, and are related to monitoring the operation of the power grid, as well as the key machines and devices at the power generating and consuming stations that are the main links of the e-car charging network system. During the recruitment process for the above program, more than 60 ideas were analyzed. 5 startups were invited to further cooperation and their pilot projects were implemented using the infrastructure of TAURON Capital Group's subsidiaries. As part of the above program, the subject of tests was, inter alia, the ELMODIS startup offering an advanced module for monitoring, diagnostics and fault prediction with the built-in circuits for the purpose of signaling the danger of damage to the electrical equipment and machines, with a particular emphasis on the electric motors. The solution has been tested on 15 selected devices at the Jaworzno III Power Plant.

On January 30, 2019, TAURON signed an agreement with the Krakow Technology Park (Krakowski Park Technologiczny) to participate in the **KPT ScaleUp Acceleration Program**. The program is the implementation of the assumptions of the ScaleUp program announced by the Polish Agency for Enterprise Development, with the goal to initiate and conduct implementation projects at the recipient of the technology (here: TAURON), focused on the use of the new, innovative technologies and solutions with respect to: Internet of Things, Smart Home, Smart City, Intelligent Network Services. During the recruitment process for the above program, more than 100 ideas were analyzed, with 34 in-depth interviews having been conducted with 34 startups. The works began on the development of 2 solutions in 2019. One of the prospective pilot projects carried out under the above program involved the works on developing the use of the smart plug functionality, carried out in cooperation with S-labs sp. z o.o. The solution developed is based on a Smart Plug device interworking with an analytical system aggregating the metering data, which enables, among others, the measurement of electricity consumption by the device connected thereto. In addition to the information on the current electricity consumption, the user also gets an option to control the connected device via a smartphone or create a shutdown calendar, which facilitates the efficient use of, for example, the heating devices.

TAURON PROGRES Acceleration Program was launched in 2019, which is a part of the *Open Innovation* system, to which the official recruitment began on May 21, 2019. The above program is addressed to the entities that have an innovative idea related to the areas indicated in the *Strategic Research Agenda* and are willing to cooperate in the development of innovative solutions that would allow for broadening the current offering of TAURON Capital Group's subsidiaries by adding the new products and services, but also ideas that would have an impact on improving the production processes and providing of the services already offered on the market. TAURON PROGRES is a platform open to the ideas of not only the young entrepreneurs, but also private individuals, research units with less and more business experience. The platform makes it possible to get the information directly to TAURON, as well as to the relevant experts of TAURON Capital Group, and enables a quick presentation of the solution, without waiting for the call for applications to be launched. In accordance with the assumptions of the program, the participants have an opportunity to test their solutions using the infrastructure of TAURON Capital Group.

In order to build the strategic position of TAURON Capital Group in the area of startups, TAURON carried out, in 2019, the first **investments under EEC Magenta** - a CVC type fund created in 2018. EEC Magenta invested PLN 13 million in Reliability Solutions sp. z o.o., a company specializing in predicting and minimizing the effects of failures. With regard to TAURON, the solutions offered by Reliability Solutions sp. z o.o. will improve the technical and economic efficiency of the key generating units. The above undertaking is the first investment of the EEC Magenta fund formed by TAURON, PFR Ventures, NCBR and EEC Ventures. The funds collected will be used by the company for development and expansion on the markets of Western Europe.

On May 26, 2019, during this year's IMPACT event, TAURON announced its **participation in the Govtech Program**. The goal of this program is to enable the cooperation among ministries, local governments, State Treasury companies, startups and small enterprises, which will be selected, by way of a competition, as the ultimate contractors performing the tasks (Challenges) prepared by the contracting parties (customers). TAURON announced the need to develop a system and application for assessing the ability to build and potential of photovoltaic installations. The result of the actions taken as part of the competition is to bring about an increase in the share of electricity generated from the renewable energy sources, in particular from the photovoltaic cells, in the total energy balance. This challenge also aims to increase public awareness of the renewable energy sources and the financial benefits of using this technology. The first stage of the competition ended in December 2019, with the selection of five winners qualified to the second stage of the competition. During the second stage, the finalist will be selected who will implement the application in its final form.

The **cooperation with the American Electric Power Research Institute** was continued in 2019 and, as part of that project, TAURON is participating in 2 research programs related to energy storage and identifying electricity consumers' needs. The selected areas of cooperation are of particular importance for TAURON Capital Group and stem directly from the technological challenges identified by TAURON Capital Group. Energy storage is one of the most important challenges for the electricity distribution and efficient dispersed power generation. On the other hand, understanding customer needs provides support for the customer relations that are of key importance from the point of view of TAURON Capital Group's Strategy.

The energy storage project uses modern tools that allow for estimating the costs of installing and operating energy storage facilities or software that enables verifying the benefits and requirements in specific energy storage cases. Such solutions will constitute the basis for implementing TAURON's research and development projects, i.e. the construction of an energy storage facility in order to provide uninterrupted power supply to electricity consumers, the second life for batteries, microgrids or demand side response (DSR) mechanisms.

Participation in the electricity consumers' needs identification program enables TAURON Capital Group's subsidiaries to identify customer needs faster and more precisely, and, what follows, to develop a portfolio of energy services and products aligned with the changing market trends. The program will also allow for tailoring, to a larger degree, products and services that are just being developed in the new lines of business, such as the electromobility or smart home, to the customer expectations.

TAURON Capital Group was also carrying out **works as part of EIT InnoEnergy** in 2019, in particular the Polish node of InnoEnergy Central Europe sp. z o.o. with its registered office in Cracow. Within the structures of EIT InnoEnergy TAURON holds the Associated Partner status. One of TAURON's areas of interests are the so-called clean coal technologies. At the same time, conducting of tests and coordinating of activities in this area are the main tasks of InnoEnergy Central Europe sp. z o.o., with TAURON as one of its shareholders. TAURON's representatives were also engaged, in 2018, in the works of EIT InnoEnergy related to evaluating projects / initiatives proposed to be implemented by other partners operating within the structures of EIT InnoEnergy, both on the national, as well as on the international level.

1.6. TAURON Group's Business and Operational Model

TAURON Capital Group is a fully integrated energy group with its business model covering all elements of the value chain: from mining, through generation, distribution and supply to the final consumers, supplemented with the innovations ecosystem and the development of new businesses, closely integrated with the operations in the energy sector.

TAURON Capital Group comprises selected companies managed jointly as a uniform economic body (organization), made up of independent commercial law companies, led by TAURON as the parent entity.

TAURON Group's Business and Operational Model adopted by the Management Board of the Company on January 23, 2018, was in force in 2019.

The Business Model defines TAURON Capital Group's management model, defines the high-level architecture of the processes and contains guidelines related to the key performance indicators of the units that make up TAURON Capital Group.

1.6.1. Assumptions of TAURON Group's Business and Operational Model

The key assumptions of the Business Model include building of TAURON Capital Group's value, focusing on the customers, transparent distribution of the duties and responsibilities, efficient information exchange, use of the employees' knowledge, volatility of the Business Model and the organizational integrity of TAURON Capital Group.

The Business Model is an element of the implementation of the Group's Strategy and through the structuring of the operations, organizing them into logical, interworking business processes, allows for optimizing the building of the value of TAURON Capital Group as a whole, taking advantage of the economies of scale of the business operations conducted and the synergies resulting from the interworking of the individual links of the value chain.

1.6.2. Principles of TAURON Polska Energia S.A.'s management

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice* (By-laws of the Management Board), the Management Board conducts the affairs of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by the legal regulations and the provisions of the *Articles of Association of TAURON Polska Energia S.A.* (the Company's Articles of Association) to the competence of the General Meeting (GM) or the Supervisory Board lie within the competence of the Company's Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company.

Issues lying within the competence of the Management Board, acting as a collective body. are described in detail in section 9.8.1. of this report.

In accordance with the *Organizational Regulations of TAURON Polska Energia S.A.* (Organizational Regulations), the Company is managed directly by the Management Board of the Company as well as through the proxies, Executive Directors, Managing Directors or the persons holding other positions reporting directly to the members of the Company's Management Board.

The Company carries out its tasks through:

1. separate organizational units (business units):
    - Business areas, comprising independent positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by members of the Company's Management Board directly or via the Managing Directors,

- Teams, constituting organizational units (business units) reporting directly to the Executive Directors or the Managing Directors. The works of the team are managed by the Team Leader (Manager),

2. independent work positions:

   - Managing Directors who manage and lead the work of the subordinate Executive Directors, Teams or independent work positions,
   - Executive Directors who manage and lead the work of the subordinate Teams or independent work positions constituting the given business area of the Company,
   - other independent positions that may be entrusted to, in particular, Power of Attorneys, Inspectors, Spokespersons, Coordinators or Specialists,

3. temporary organizations – Project Teams set up with the goal to implement tasks and projects of the Company.

1.6.3. Principles of TAURON Capital Group's management

The core regulatory act of TAURON Capital Group is the *Code of TAURON Group* adopted by the Management Board of the Company, which regulates its operations, ensuring the implementation of the goals through tailored solutions in the area of management of TAURON Capital Group's entities, including, in particular, setting the objectives of the subsidiaries' business operations, enabling achieving of the effects assumed in the Strategy.

The regulations implemented in 2016, along with the Business Model, updated in 2018, introduced the management by processes (process based management) within TAURON Capital Group, whose essence involves the constant search for and implementation of improvements and a clear and transparent split of the competences and responsibilities. Processes are subject to appropriate modifications to improve their efficiency and they constitute a superior organization in relation to the organizational structure of the individual subsidiaries and run horizontally across entire TAURON Group.

The goal of the process based management model implemented is to benefit from the operating synergies among TAURON Capital Group's various companies, share and use the best practices, standardize and automate processes, and also to ensure coherence of actions taken within TAURON Capital Group's companies to support the implementation of the Strategy.

Members of the Management Board are responsible for the management of the mega-processes allocated thereto. The owners of the mega-processes are TAURON's indicated managing and executive directors.

The process documentation (maps, diagrams and process sheets) defines and describes decision making powers (competences) and actions to be undertaken by the individual organizational units within TAURON Capital Group's various companies. The owners of the mega-processes decompose these into lower level processes and appoint their owners. Each process has its owner and process metrics defined by the higher level process owner. The process documentation also defines the course of action (interdependencies) and decision competences for the repeatable processes, the operational processes along with the descriptions of the products and services listed. The competences and process interdependencies described in the process documentation supplement the competences stemming from the organizational structure of the individual subsidiaries and support the operations of TAURON Capital Group's subsidiaries as a single entity.

TAURON Capital Group's standing Committees are operating within TAURON Capital Group, including:

1. Investment Committee,
2. Risk Committee,
3. New Businesses Committee,
4. Digitization Committee,
5. Sponsoring Committee,
6. TAURON Group's Liquidity Committee.

The above mentioned Committees were established in order to enable performing of the operations in accordance with the principles of operating consistency, in compliance with the law and interests of TAURON Capital Group and its stakeholders.

The Business Model identifies 23 mega-processes cutting across all units of TAURON Capital Group.

The below figure presents the structure of TAURON Capital Group's processes (mega-processes).

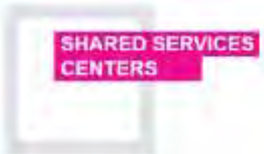
Figure no. 11. Structure of TAURON Capital Group’s processes (mega-processes).

1.6.4. TAURON Capital Group’s Lines of Business

In accordance with the Business Model in force the split of roles and responsibilities was implemented, based on assigning the process competences to:

superior business unit responsible for the management of TAURON Capital Group’s operations and taking the most important decisions affecting TAURON Capital Group, Lines of Business, Shared Services Centers and TAURON Capital Group’s subsidiaries,

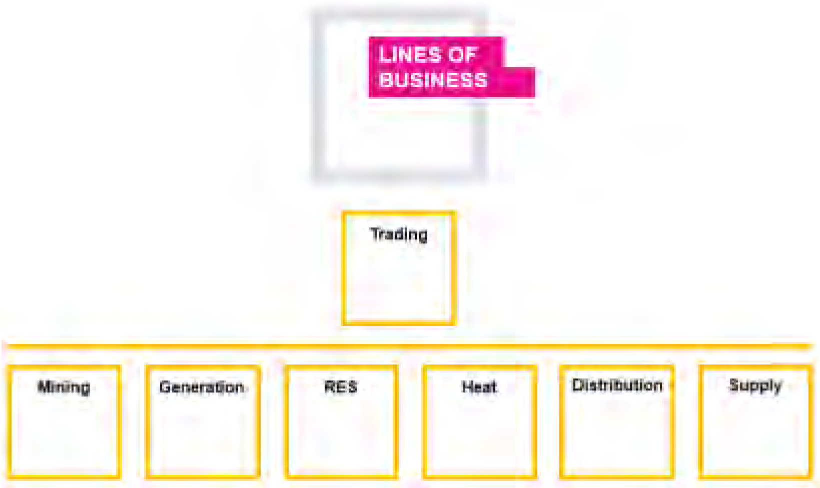
7 lines of TAURON Capital Group’s core business operations, defined in accordance with the links of the electricity and heat production value chain: Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply,



units responsible for the provision of specific support services (e.g. accounting, IT, human resources and payroll, insurance, customer service, security) for the other units of TAURON Capital Group .

The below figure presents the structure of TAURON Capital Group’s Lines of Business.

Figure no. 12. Structure of TAURON Capital Group’s Lines of Business



TAURON Capital Group’s Shared Services Centers (CUW)

Centralizing of the support services is aimed at relieving the Corporate Centre and the Lines of Business from performing the processes that are not directly associated with their core business operations (the so-called support processes) as well as at reducing the costs of the implementation of such processes due to the economies of scale and increased operational efficiency. Within the structure of TAURON Capital Group CUWs are placed in: TAURON Obsługa Klienta, TAURON Ubezpieczenia sp. z o.o. (TAURON Ubezpieczenia) and Wsparcie Grupa TAURON subsidiaries.

1.6.5. Changes to the principles of TAURON Polska Energia S.A.'s and TAURON Capital Group's management

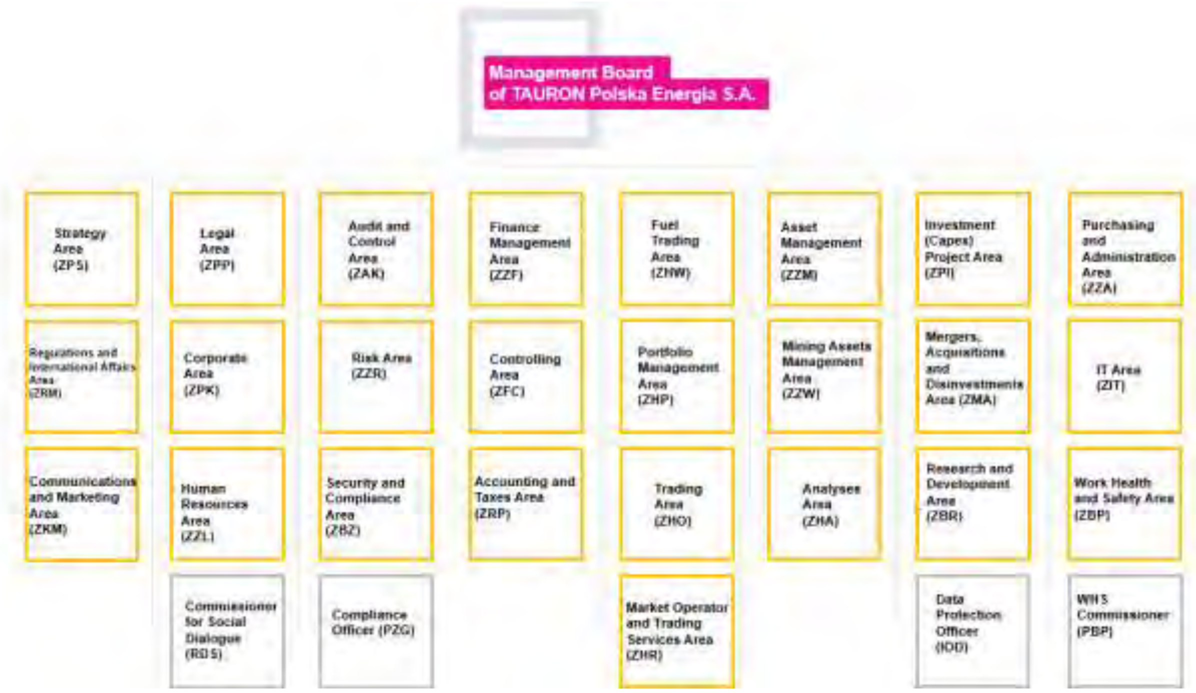
Changes to the principles of the Company's management

On October 25, 2019, as a result of changes taking place in the Company's business environment, seeking to optimize, streamline and strengthen the management processes as well as make the processes of composing independent work places and organizational units reporting to members of the Company's Management Board more flexible, the Management Board adopted and the Company's Supervisory Board approved the new Organizational Regulations.

In the above Organizational Regulations, that came into force on November 15, 2019, the existing "Divisions" were replaced by the "Business Areas" managed by the Executive Directors, the possibility of appointing, in justified cases, one of the Executive Directors to the position of a Managing Director in order to manage subject matter related Business Areas was introduced and it was established that the assignment of Business Areas to the specific members of the Company's Management Board would be made by the Company's Supervisory Board or, in the absence thereof, the assignment would be made pursuant to a resolution of the Company's Management Board.

The below figure presents the organizational diagram of TAURON, as of December 31, 2019 and as of the date of drawing up this report.

Figure no. 13. Organizational diagram of TAURON as of December 31, 2019 and as of the date of drawing up this report.



In connection with the new Organizational Regulations, the required modifications to the scope of functions of the individual Business Areas in the Company's organizational structure were also introduced.

As of November 15, 2019, by way of a resolution of the Company's Management Board, the members of the Company's Management Board were assigned, directly and via the Managing Directors appointed on the same day, the individual Business Areas and independent work positions directly reporting to the members of the Company's Management Board.

The below figure presents the split of responsibilities of members of the Company's Management Board as of the date of drawing up this report.

Figure no. 14. Split of responsibilities of members of the Company's Management Board as of the date of the drawing up of the report

PRESIDENT OF THE MANAGEMENT BOARD (CEO)

Oversight of the business areas:

- Legal Area,
- Corporate Area,
- Strategy Area,
- Communications and Marketing Area
- Regulations and International Affairs Area,
- Audit and Control Area,
- Human Resources Area,
- Security and Compliance Area,
- Compliance Officer,
- Commissioner for Social Dialogue

VICE-PRESIDENT OF THE MANAGEMENT BOARD FOR FINANCE (CFO)

Oversight of the business areas:

- Finance Management Area,
- Controlling Area,
- Accounting and Taxes Area,
- Analyses Area,
- Purchasing and Administration Area,
- IT Area,
- Market Operator and Trading Services Area,
- Trading Area,
- Fuel Trading Area,
- Portfolio Management Area
- Data Protection Officer

VICE-PRESIDENT OF THE MANAGEMENT BOARD FOR ASSET MANAGEMENT AND DEVELOPMENT

Oversight of the business areas:

- Investment (Capex) Project Area,
- Mergers, Acquisitions and Disinvestments Area
- Asset Management Area,
- Mining Assets Management Area,
- Research and Development Area,
- Work Health and Safety Area,
- Risk Area,
- WHS (Work Health and Safety) Officer

Areas reporting to the members of the Company's Management Board via the Managing Directors include:

- Corporate Area, Strategy Area and Communication and Marketing Area assigned to the President of the Management Board via the Executive Director for Legal Affairs acting as the Managing Director,
- Trading Area, Fuel Trading Area and Portfolio Management Area assigned to the Vice President of the Management Board for Finance via the Executive Director for Market Operator and Trading Services acting as the Managing Director,
- Mergers, Acquisitions and Divestment Area as well as Research and Development Area assigned to the Vice President of the Management Board for Asset Management and Development via the Executive Director for Investment Projects acting as the Managing Director.

Changes to the principles of TAURON Capital Group's management

As part of the works related to the implementation of the Business Model, the activities related to designing and implementing the key processes at TAURON Capital Group's subsidiaries that conduct business operations, i.e. TAURON Dystrybucja Serwis, TAURON Dystrybucja Pomiary, TAURON Serwis, TAURON Ekoserwis, TAURON Sprzedaż GZE, TAURON Ubezpieczenia, Wsparcie Grupa TAURON, Bioeko Grupa TAURON, SCE Jaworzno III and Spółka Usług Górniczych sp. z o.o. (SUG), were completed in 2019.

Maps and diagrams, as well as interface points for the processes taking place at TAURON and at other TAURON Capital Group subsidiaries, were agreed. The Company verified the processes throughout TAURON Capital Group in order to ensure high quality and consistency of the processes developed.

The robotic automation process and the path for initiating improvements by process participants were also implemented in 2019, which intensified the optimization process at TAURON Capital Group's subsidiaries. The works related to the implementation of the process maturity assessment were commenced at TAURON Capital Group, with TAURON Capital Group's Process Maturity Model tool having been designed and a pilot assessment of selected TAURON Capital Group subsidiaries' processes having been carried out. All of these activities were aimed at identifying areas for further improvement, in particular taking into account the issues related to business optimization and the response to physical and transition risks.

The implemented documentation and process tools, as well as the competences acquired by TAURON Capital Group with respect to process management and process optimization at TAURON Capital Group's subsidiaries set up conditions for further seeking of improvements and increasing the efficiency of the operations.

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

2.1. Factors and non-typical events that have a significant impact on the financial result achieved

2.1.1. Internal factors and the assessment thereof

The operations and earnings of the Company and TAURON Capital Group in 2019 were impacted, among others, by the following internal factors:

1. update of the strategic directions and steadfast implementation of the Strategy as well as achieving of the assumed the financial and non-financial effects,
2. actions with respect to optimizing processes taken by all of TAURON Capital Group's subsidiaries,
3. decisions with respect to the implementation of the key investment projects,
4. implementing the *2018-2025 Strategic Asset Management Plan* – one of the fundamental documents constituting the core of the integrated asset management system at TAURON Capital Group,
5. implementation of the investment projects with respect to adapting TAURON Capital Group's power plants to the BAT Conclusions by reducing, starting from 2021, the emissions of sulphur and nitrogen compounds as well as chlorine and mercury or obtaining of the derogations,
6. loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
7. centralized TAURON Capital Group's financial management area, supported by the use of such tools as: central model of financing, cash flow (financial liquidity) management policy using the cash pooling mechanism, risk management policy in the financial area, insurance policy,
8. ability to obtain debt financing on the international markets,
9. Tax Capital Group's operations, primarily aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
10. TAURON's purchasing processes management, in particular, the management of fuel purchases for the needs of TAURON Capital Group's generation entities,
11. geological and mining conditions of hard coal extraction,
12. failures of TAURON Capital Group's equipment, installations and grids.
13. acquisition of 5 wind farms from the in.ventus group.

The impact of the above mentioned factors on the financial result achieved in 2019 is described in sections 4 and 5 of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

No material, non-typical (one-off) internal events that would have a significant impact on the financial result achieved occurred in 2019.

In 2019, TAURON Wydobycie's Coal Mines, due to the mining and geological problems, supplied TAURON Capital Group's subsidiaries with the coal volume smaller by approx. 371 000 Mg than the contracted quantity (including the acceptable tolerance), which represented approx. 11% of the contracted volume.

2.1.2. External factors and the assessment thereof

The operations and earnings of TAURON and TAURON Capital Group in 2019 were impacted by the following external factors:

1. macroeconomic environment,
2. market environment,
3. regulatory environment,
4. competitive environment (landscape).

2.1.2.1. Macroeconomic environment

TAURON Capital Group's core business operations are conducted on the Polish market and TAURON Capital Group takes advantage of the positive trends occurring thereupon as well as it is affected by the changes thereof. The macroeconomic situation, both in the individual sectors of the economy as well as on the financial markets, is a significant factor impacting the earnings generated by TAURON Capital Group.

2019 was a positive year for the world economy, although the slowdown of some of the world economies was visible. The economic growth rate in the euro zone is stabilizing at a relatively low level. A slowdown in economic growth was recorded, among others, in the United States (USA), mainly as a result of weakening manufacturing industry and uncertainty regarding the trade policy, and in China due to the trade tensions and the weak global demand, as well as in Germany and Italy.

Poland reported strong economic growth, although signs of its weakening are intensifying. According to the data of the Central Statistics Office (GUS), Poland's Gross Domestic Product (GDP) growth rate in 2019 stood at 4.1%, but a gradual weakening of the growth rate is expected in the following quarters, due to the continuing decline in economic activity in the euro zone.

The main factors supporting Poland's economic growth will be private consumption, favorable situation of employees on the labor market, including: strong wage growth (in the region of approx. 7% year on year), hike of the minimum wage or continued low unemployment rate (5.2% in 2019). The purchasing power of the households will be curtailed by the higher inflation. The consumer price index (CPI index) for 2019 came in at 2.3% (year on year).

Factors that have a negative impact on the domestic GDP growth rate include the slowdown in the growth rate of the central and local government institutions sector's investments as well as that of the private sector's investments, and also the expected slightly negative contribution of net exports.

According to the data of the National Bank of Poland (NBP), the energy commodity prices are assumed to remain flat. In December 2019 and January 2020, the President of the Energy Regulatory Office approved electricity tariffs for the households. Increases in the total electricity supply and distribution prices stand at approx. 10%. It is forecast that this price hike will not affect the level of electricity consumption in this sector.

According to the data of Polskie Sieci Elektroenergetyczne S.A. (PSE - TSO) 2019 was the first year since 2012 when a decrease in gross domestic electricity consumption was recorded. In 2019, the electricity consumption came in at 169.39 TWh and it was 1.54 TWh lower than in 2018 (-0.9% year on year). The demand for electricity was covered by the production of the domestic power plants, that reached 158.77 TWh (-3.9% year on year), the record breaking high imports from the neighboring countries coming in at 10.62 TWh (+ 85.7%) and the increased generation from RES. The wind farms alone, due to the good wind conditions, produced 2.23 TWh more electricity in 2019 than in 2018 (+ 19.1% year on year). In addition, the rapid growth of capacity in photovoltaic sources increases the self-consumption of electricity, reducing the demand for the grid supplies. A 11.76 TWh (-8.9% year on year) decrease of electricity generation by the domestic hard coal and lignite fired power plants was reported in 2019.

2.1.2.2. Market environment

Electricity

Wholesale electricity price on the Day Ahead Market (RDN) of the Polish Power Exchange (Towarowa Giełda Energii S.A. - TGE) reached 229.31 PLN/MWh in 2019 and it was 2.82% (+6.28 PLN/MWh) higher as compared to 2018. The average settlement price on the Balancing Market (RB) came in at 234.84 PLN/MWh in 2018 and it was 3.08% (+7.01 PLN/MWh) higher as compared to 2018.

The factors behind the rising prices on the Day Ahead Market (RDN) and on the Balancing Market (RB) were: the continued high CO_2 emission allowances prices and the stable energy commodity (coal, oil) prices.

In connection with the commissioning of the new conventional generation units, among others the Opole Power Plant, the capacity balance in the national power system improved, rising by 1800 MW.

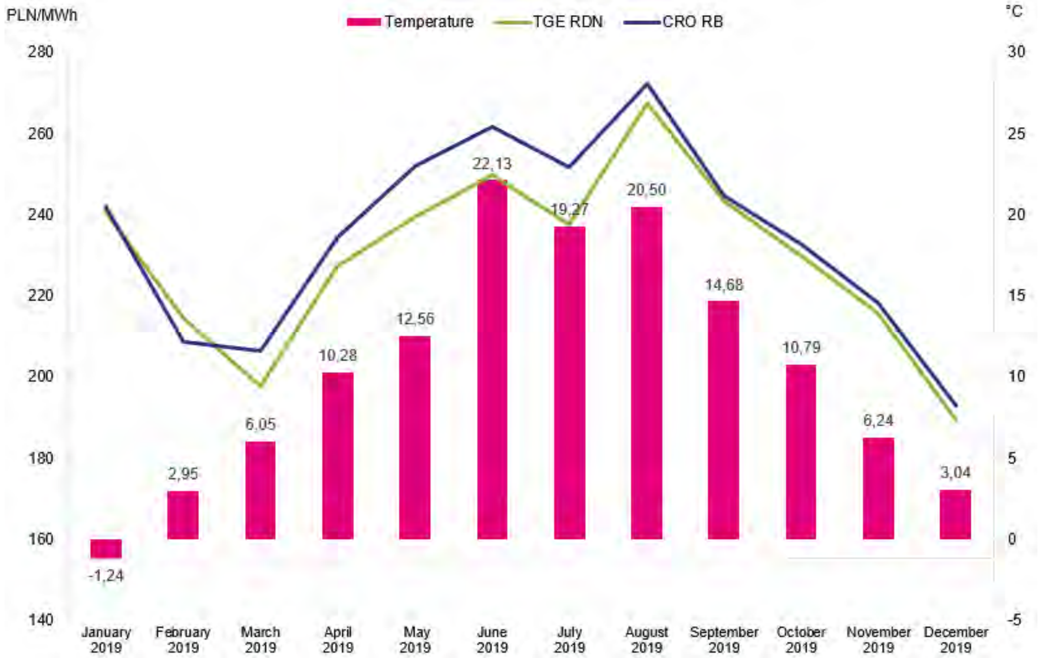
Analyzing the average monthly prices on the Day Ahead Market (RDN) it should be stated that the lowest prices were recorded in December 2019 with the average price of 189.45 PLN/MWh and the high generation from the wind sources (1.66 TWh), while the highest prices occurred in August 2019. with the average price of 267.22 PLN/MWh and the lowest generation from the wind sources (0.55 TWh).

The combination of a decrease in electricity consumption with a record breaking volume of electricity imported into the Polish power system and an increase in electricity production by the wind farms significantly contributed to a decline of the electricity production by the conventional sources.

In 2019, a decrease in electricity production by the hard coal fired power plants was recorded, down to 78.19 TWh (-4.19 TWh year on year and -5.08%). There was also a marked drop in the production by the lignite fired power plants down to 41.50 TWh, i.e. 7.57 TWh less than in 2018 (-15.43% year on year), mainly due to the permanent shutdown of the BEL 2-01 generating unit at the Bełchatów Power Plant with 370 MW of installed capacity and the overhaul of 3 generating units at the Turów Power Plant. The decline of the electricity production from hard coal and lignite was also the result of the higher generation by the gas fired power plants, whose production increased by 2.51 TWh on an annual basis to 12.10 TWh. The electricity production by the wind farms in 2019 also reached a record volume of 13.90 TWh (an increase by 19.05% year on year). The change in the structure of electricity production in Poland in 2019 caused a strong downward trend of the electricity prices on both the SPOT market as well as the Commodity Futures Market (RTT).

The below figure presents the average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2019.

Figure no. 15. Average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2019



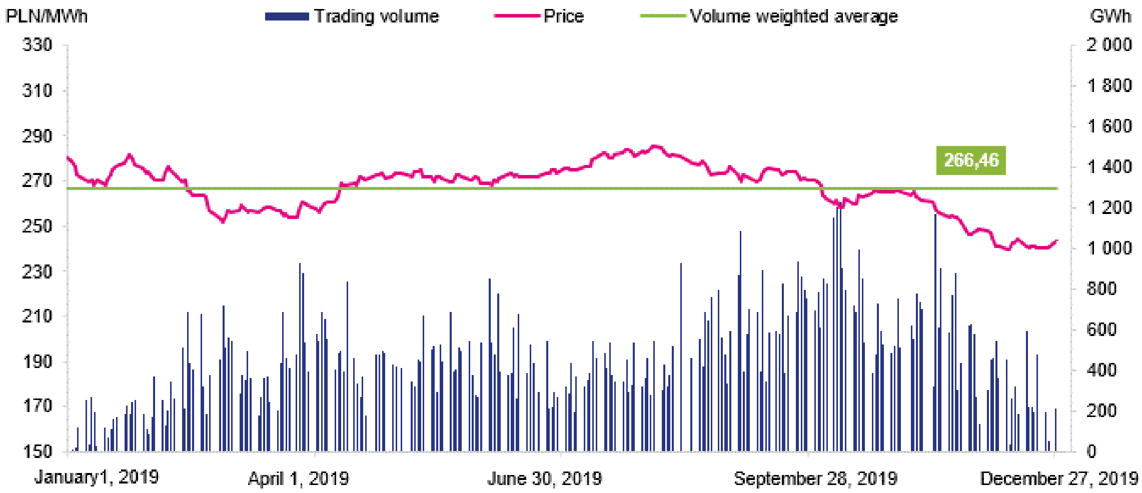
The reference base load contract with the delivery in 2020 (BASE_Y-20) was trending sideways on the electricity futures market almost throughout 2019. At the end of 2019, due to the strong price pressure caused by the low prices on the SPOT market, there was a price breakdown and a fall below the important support level of 250 PLN/MWh. The BASE_Y-20 contract was range bound in 2019 with the high of 285.02 PLN/MWh (on August 2, 2019) and with the low of 239.90 PLN/MWh (on December 9, 2019)

The volume-weighted average price of the BASE_Y-20 contract recorded in 2019, despite a marked decline at the end of 2019, was at a relatively high level of 266.46 PLN/MWh, and thus was higher by 24.84 PLN/MWh (+10.3%) as compared to the BASE_Y-19 contract prices in the same period of 2018. The total trading volume of the BASE_Y-20 contracts one year before delivery reached 115.68 TWh, i.e. almost 10 TWh less than the BASE_Y-19 contract volume a year before delivery in 2018.

The PEAK5_Y-20 contract price displayed similar volatility patterns, with its trading volume-weighted average price a year before delivery reaching 323.94 PLN/MWh, i.e. it and was lower by 22.83 PLN/MWh (-6.58%) than the average PEAK5_Y-19 contract price recorded last year. The lower average price of the PEAK5_Y-20 contract is the effect of low PEAK prices on the Day Ahead Market (RDN) market and a significant increase in the photovoltaics' installed capacity.

The below figure presents the BASE Y-20 contract trading performance.

Figure no. 16. BASE Y-20 contract performance



Oil and coal

2019 was characterized by relatively low oil prices on the global markets. The volume-weighted average price of Brent crude on the ICE stock exchange stood at 64.06 USD/bbl in 2019 and it was 7.8 USD/bbl lower as compared to 2018, which meant a drop in the price of Brent crude oil by 10.9% year on year. Brent crude oil was cheapest in the fourth quarter of 2019, when its volume-weighted average price was only USD 62.01 USD/bbl. The maximum price (68.22 USD/bbl) was reached in the second quarter of 2019.

The total trading volume in 2019 was more than 62 800 000 barrels, while in 2018 it reached more than 66 100 thousand barrels, which meant a 5% decline.

The global events were the main factors that had an impact on the demand and supply on the oil markets.

The trade negotiations between the US and China, conducted in 2019, intensified at the end of the fourth quarter of 2019. At the beginning of August 2019, the US imposed additional tariffs on China, and in response China imposed its tariffs on selected American goods. Fears of a global recession caused by the economic weakness in China and the exacerbation of the trade conflicts around the world caused the price of oil to fall to just over USD 52 USD/bbl at the beginning of 2019.

The oil production in the US reached a record level of 12 900 000 barrels a day In the fourth quarter of 2019. In December 2019, as a result of the OPEC meeting, the cut in oil production was increased from 1 200 000. up to 1 700 000 barrels per day, which should take effect in the first half of 2020. At the same time, Saudi Arabia decided to make further cuts by 400 000 barrels per day, thanks to which the effective reduction increased to 2 100 000 barrels a day in total.

Another significant event affecting oil prices was the attack on the oil refineries in Saudi Arabia, as a result of which the oil price rose to almost 72 USD/bbl in September 2019. However, after the full production had been restored, the price again fell below 65 USD/bbl after a dozen or so days.

ARA coal prices dropped from 86.60 USD/Mg to 71.5 USD/Mg in the first quarter of 2019. The price drops were mainly caused by China's activities involving an increase of the domestic production combined with the launch of the new nuclear power plant capacity, as well as the trade conflict between the US and China, which had an impact on the valuation of energy commodities.

An increase in coal production in China, a decrease in demand for coal in Germany, France, Spain and the United Kingdom, caused by a decrease in hard coal based electricity production to 4.7 TWh (14.4 TWh in April 2018), led to a surge in the coal inventory at the ARA ports to record levels. This accelerated the fall in the ARA coal prices, which in May 2019 stood at approx. 62 USD/Mg, while prices of the coal imported from Russia reached their lowest level since the beginning of 2019, falling to 48.08 USD/Mg.

In Europe, as a result of June weather forecasts for the summer period, there was an increase in the prices of the ARA contracts, based on the fear of the risk of a low water level that could, as in 2018, prevent the transportation of coal to the power plant using rivers. The above increase was negated by the market participants and, as a consequence, as early as in August 2019, the price of coal approached 62 USD/Mg again.

In September 2019, an increase in the ARA coal valuation was recorded, which was caused by the market participants preparing for the winter season, however, as time passed and new weather forecasts appeared, the prices were more volatile. The gas prices, which in combination with the climate and energy policy led to a reduced interest in coal in the manufacturing industry and energy sectors, brought about a drop in coal prices below 60 USD/Mg (the 2019 minimum price reached 56.15 USD/Mg), i.e. levels not seen on the market since 2016

Natural gas

2019 brought much lower gas prices as compared to 2018. The average price on the Day Ahead Market for gas on the Polish Power Exchange (TGE) stood at 68.06 PLN/MWh in 2019 and it was approx. 37 PLN/MWh lower than in 2018. A contract with the delivery on the next day was particularly low priced in June 2019, when its average volume-weighted monthly price came in at PLN 50/MWh, while the highest price was recorded in January 2019, when the volume-weighted average monthly price of this contract exceeded 100 PLN/MWh. The reason for the low prices were primarily record-high levels of storage tanks, record LNG imports to Poland and Europe, and relatively mild winter. The lowest price, i.e. 38.73 PLN/MWh, was recorded on September 7, 2019.

On the gas RDB market the weighted average gas price was approx. 37 PLN/MWh lower than in 2018. The contract on the RDB market was cheapest in June 2019, when its volume-weighted average price stood at 49.52 PLN/MWh, while the highest price was recorded in January 2019, when the volume-weighted average price reached PLN 100.65 / MWh.

On the RTT market for gas the month with the highest prices was January 2019, when the weighted average prices of some monthly, quarterly, seasonal and annual contracts reached the highs above 100 PLN/MWh. The cheapest month was December 2019, when some of the contracts reached the minimum prices close to 60 PLN/MWh. The low prices were caused by the warm end of the year and the oversupply on the European gas markets, which was due to large and regular supplies of liquefied natural gas.

Looking at the total trading volume on the RTT market, the lowest total volume was recorded in February 2019 (below 5 000 000 MWh), while the highest trading volume was reported in August 2019 (more than 13 600 000 MWh).

The weighted average price of the reference one year GAS_BASE_Y-20 contract in 2019 was 89.96 PLN/MWh. The maximum price was reached at the beginning of April 2019, coming in at 103.43 PLN/MWh, while the minimum price was reached at the end of 2019, coming in at 67.63 PLN/MWh. The total trading volume on the Polish Power Exchange (TGE) in 2019 was more than 146.1 TWh, as compared to 143.3 TWh in 2018, which meant an increase of almost 2% year on year.

The futures market had the largest share in gas trading in 2019, with a volume of more than 123 TWh. On the SPOT market, the total trade in the day ahead contracts came in at almost 17.0 TWh (a decline by 3.7% year on year). The decrease also took place on the RDB market, where the turnover stood at less than 5.7 TWh, as compared to 6.1 TWh in 2018 (a drop by 6.3% year on year).

LNG imports (from Qatar, Norway and the US) went up by more than 0.7 billion m^3 in 2019 (an increase by 32% year on year) and reached the volume of approx. 3.3 billion m^3 (after regasification), as compared to 2018, when approx. 2.5 billion m^3 of LNG was imported (after regasification). It was the highest LNG import in the history of Poland.

The key events on the gas market included: the decision of the Dutch government to completely shut down the largest inland gas field in Europe, in Groningen, the Netherlands, by the end of the 2022 gas year, as well as the deadline for the commissioning of the second line of the Nord Stream 2 off-shore gas pipeline by the end of 2019 having not been met and an extension of the contract on the Russian gas transit through the territory of the Ukraine.

The below figure presents average monthly SPOT and Y-20 contract prices on TGE in 2019.

Figure no. 17. Average monthly SPOT and Y-20 contract prices on TGE in 2019

CO_2 emission allowances

The CO_2 emission allowances market was characterized by substantial price volatility in 2019. The CO_2 emission allowances prices moved within the 18.40 - 29.95 EUR/Mg range. In just a few days from the beginning of the year, the prices of the above allowances dropped from 25 EUR/Mg to 21.86 EUR/Mg, despite the reduction of the supply at the primary auctions.

Important events that affected the EUA prices in January 2019 included, among others, a vote by the British Parliament to reject the agreement on BREXIT, which directly translated into increased market uncertainty and the German Coal Commission's presentation of a preliminary plan specifying the deadline for the complete withdrawal of the coal in the energy sector in Germany.

Other significant events causing high price volatility on the market included, among others, the adoption by the European Commission of an updated list of sectors exposed to carbon leakage, which will become effective in the

4th trading (settlement) period of the EU ETS, the passing of the resolution on the EU's long term low emission development path until 2050 by the European Parliament's Environment Committee on February 26, 2019, and the information provided by the Minister of Energy and Green Growth of the United Kingdom on February 27, 2019, on the works underway aimed at creating a separate (dedicated exclusively to the United Kingdom) CO_2 emissions trading system, which is to be ready in 2021 and connected to the EU ETS system. The said action is a consequence of the fact that, after BREXIT, the United Kingdom will lose its decision-making power under the rules governing the functioning of the emissions trading system in Europe.

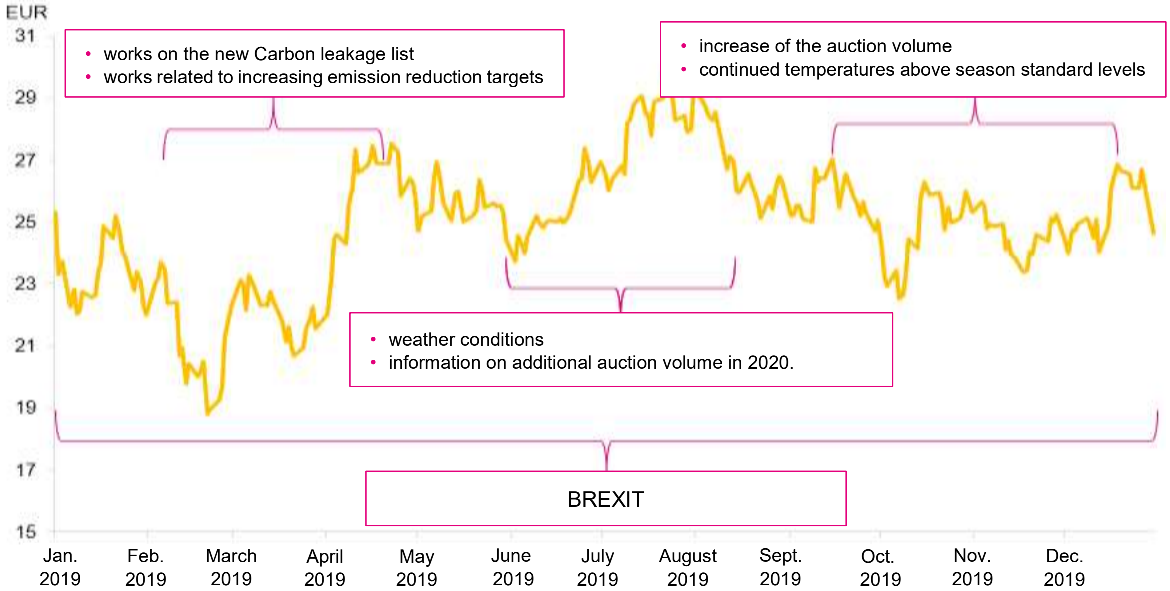
EUA prices ranged from 21 EUR/Mg to 27.85 EUR/Mg in April 2019. The reason for such high market volatility was the prolonged uncertainty regarding BREXIT as well as the date of the annual settlement of emissions in the system. Based on the data from the system settlement, on May 15, 2019, the European Commission announced the estimated value of the excess CO_2 emission allowances in circulation in 2018, that stood at 1.65 billion of allowances.

Due to the forecast high temperatures in Europe for the summer period, an upward trend in EUA prices was observed in June 2019, while at the same time information about a decrease in the system's emissions by 3.9% was published. On June 12, 2019, Poland announced the sale of additional allowances in the following year, with the volume set at 49.52 million CO_2 emission allowances. In July 2019, the prices reached the level of 29.95 EUR/Mg, which was historically the highest during the second and third phases of the EU ETS system. An additional factor that particularly strongly fueled the growth of the prices in this period was the information about the possible cancellation of the allowances in Germany for the power plants that were to be shut down as part of the plan presented by the Coal Commission.

The standard auction volumes returned to the market in September 2019, and, as a result, the supply exceeded the demand and the prices continued their correction. In October 2019, the EUA prices were impacted by the information related to the United Kingdom. The EUA prices reached 24.64 EUR/Mg in December 2019.

The below figure presents the impact of the political actions and the environment on the EUA SPOT product price in 2019.

Figure no. 18. Impact of the political actions and the environment on the EUA SPOT product price in 2019.



Property rights

Due to the ongoing work on the amendment to the *act of February 15, 2015 on renewable energy sources*, in 2019 the prices of PMOZE_A certificates (green certificates) were sensitive to any emerging information regarding the existing RES support system. In the first quarter of 2019, following the appearance in the draft amendment of the proposal of a new way to calculate the substitution fee, the prices of the green certificates fell by 50%. The TGEozea index fell from 152.50 PLN/MWh to 80.82 PLN/MWh since the beginning of 2019. In the second and third quarter of 2019, after the above proposal had been suspended, the prices of the green certificates ranged from 124.15 PLN/MWh to 135.99 PLN/MWh. The fourth quarter of 2019 saw an upward movement of the prices of the green certificates, with the prices ranging from 134.60 PLN/MWh to 150.27 PLN/MWh. The weighted average price of the green certificates came in at 132.19 PLN/MWh in 2019 (an increase of more than 27%, as compared to 2018) and it was higher than the applicable substitution fee by less than 2%. The value of the substitution fee was 129.78 PLN/MWh in 2018, with the obligation to submit PMOZE_A certificates for redemption (retirement) at 18.5%. The trading volume came in at 11 226 GWh in this period and it was lower by more than 23%, as compared to 2018. The balance of the PMOZE_A register reached a surplus of 32.16 TWh at the end of December 2019. Taking into account the certificates blocked for redemption (retirement), this balance drops by more than 7.67 TWh, to the level of 24.49 TWh (an increase by 10.2% year on year).

The prices of the certificates confirming the production of electricity from agricultural biogas, PMOZE-BIO-2019 (blue certificates), for which the obligation was 0.5% in 2019, were consistently fluctuating around the substitution fee level, which was 300.03 PLN/MWh. In the first 5 months of 2019, the prices of these certificates were stable and fluctuated within the range from 300.01 PLN/MWh to 302.44 PLN/MWh. In the third quarter of 2019, higher price volatility was noticeable. From the end of June 2019, the prices began to fall, in July 2019 they reached 285.45 PLN/MWh, while from August 2019 the prices of the TGEozebio index remained in an upward trend and returned to the level around the substitution fee. Finally, the weighted average value of the TGEozebio index stood at 300.11 PLN/MWh at the end of 2019 and it was lower by almost 4% than the weighted average price for 2018. The total trading volume came in at 513.11 GWh, and the PMOZE_BIO register balance reached the level of 440 GWh as of the end of 2019. Taking into account the certificates blocked for redemption (retirement), this level dropped to 397 GWh.

The weighted average price of the property rights confirming the production of electricity in high efficiency gas cogeneration in 2018, PMGM-2018 (yellow certificates), in the first half of 2019, stood at 110.48 PLN/MWh. The prices for this contract ranged from 99.27 PLN/MWh in June 2019 to 114.38 PLN/MWh in May 2019. The applicable substitution fee stood at 115 PLN/MWh.

The prices for the coal fired cogeneration certificates, PMEC-2018 (red certificates), fluctuated slightly below the substitution fee, which stood at 9 PLN/MWh, only starting from the second half of June 2019 the prices dropped to 3.96 PLN/MWh. The weighted average price came in at 8.58 PLN / MWh.

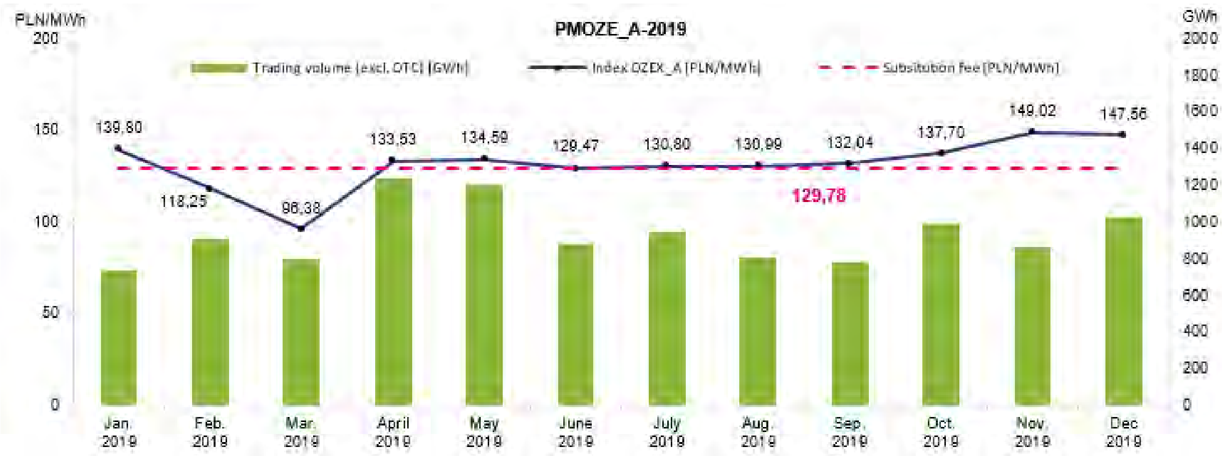
The prices of the certificates for electricity production as a result of burning methane, PMMET-2018 (violet certificates), were moving within the price range from 55 PLN/MWh to 58.05 PLN/MWh, until the end of June 2019, remaining stable. The weighted average price for the first half of 2019 came in at 55.22 PLN/MWh, with the applicable substitution fee of 56 PLN/MWh.

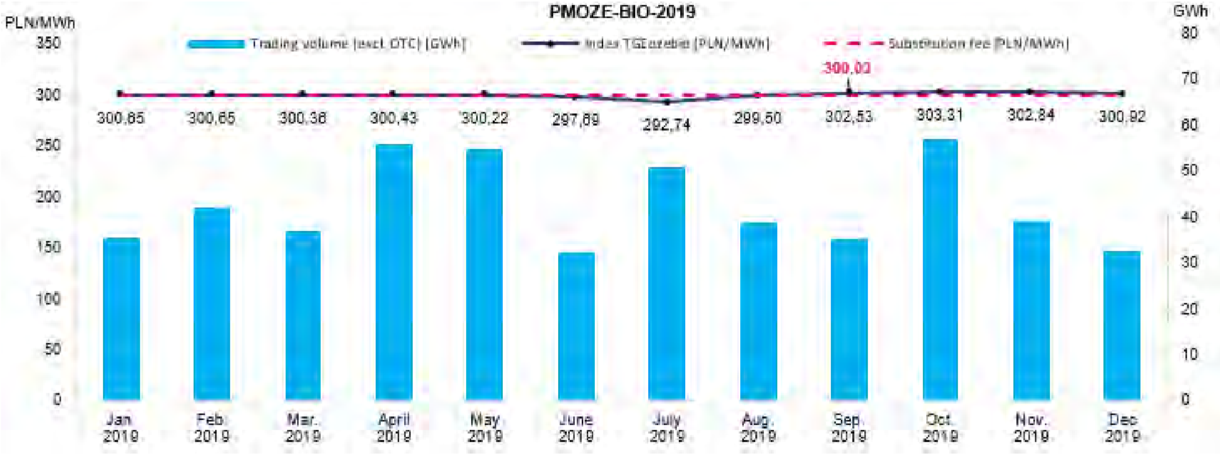
The prices of the PMEF certificates (white certificates) remained in a downward trend throughout the first half of 2019. The prices of the above certificates dropped by as much as 94.2%, from 440.47 PLN/toe to 25.56 PLN/toe, in June 2019, while in December 2019, due to the *act of June 13, 2019, amending the act the amendment to the act on the excise tax and certain other acts, the act on the energy efficiency and the act on the biocomponents and liquid biofuels*, which extended the validity of the white certificates, the prices of the white certificates rose to 1 740.00 PLN/toe. The weighted average price of the PMEF certificates for 2019 finally came in at 1 012.39 PLN/toe (an increase by 57.4% year on year). This level was much lower than the applicable substitution fee which stood at 1 653.75 PLN/toe last year.

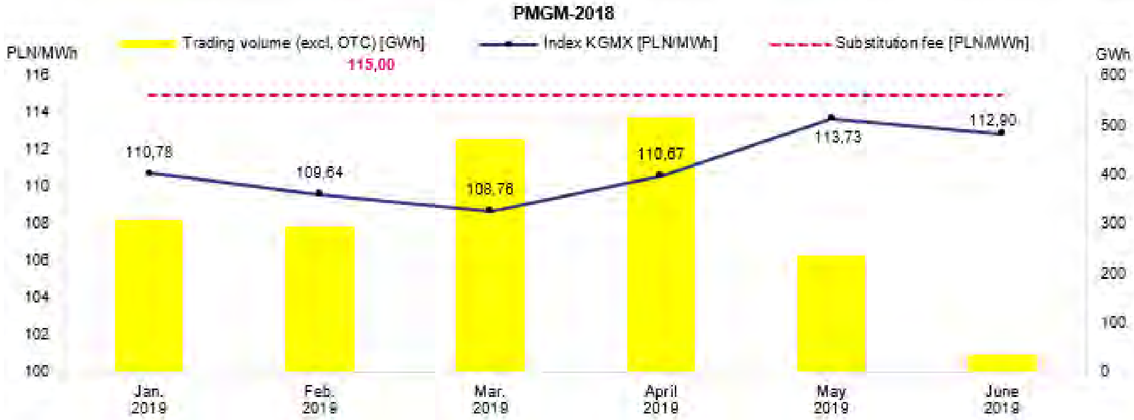
The prices for the PMEF-2019 and PMEF_F registers remained high, around the substitution fee level. However, due to the regulatory changes in June 2019, the prices fell to 1 300 PLN/toe for the PMEF-2019 contract and 1 359.14 PLN/toe for the PMEF_F contract. However, after the regulatory changes have been introduced, the prices of both contracts returned to the substitution fee level. The weighted average prices of the PMEF-2019 and PMEF_F contracts came in at 1 565.86 PLN/toe and 1 628.09 PLN/toe, respectively, in 2019.

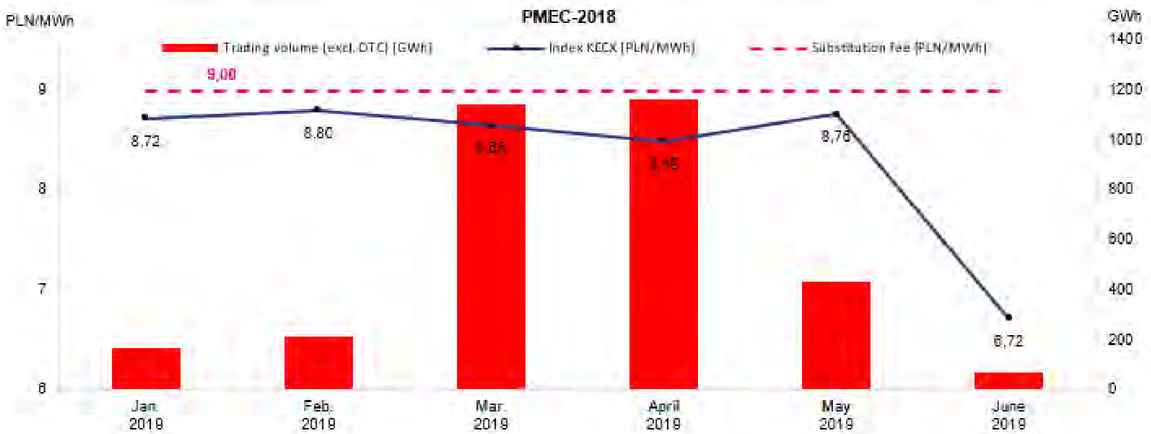
The below figures present the property rights indices, the so-called green, blue, red, yellow and violet certificates.

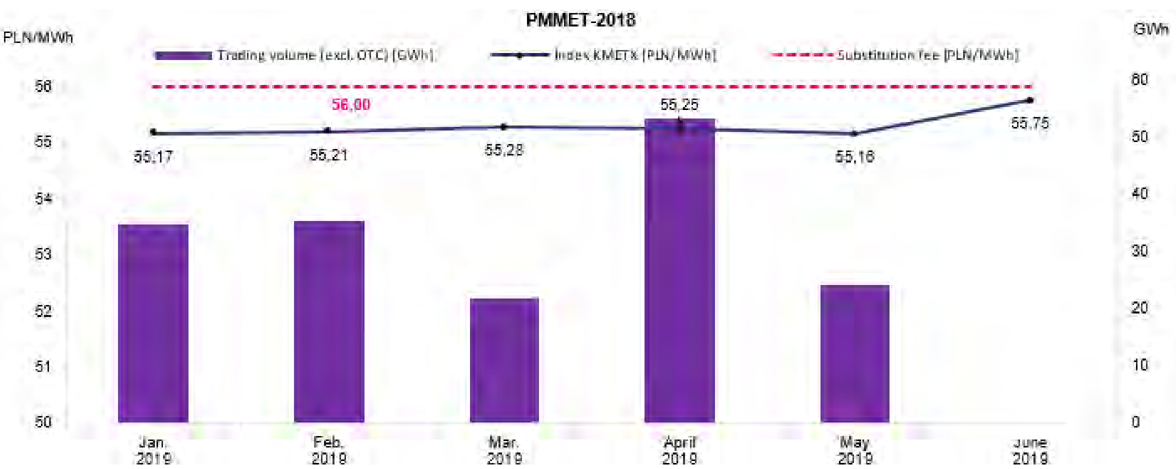
Figure no. 19. Property rights indices




PMOZE-BIO-2019
PLN/MWh
GWh
Trading volume (excl. OTC) [GWh]
Index TGEozebio [PLN/MWh]
Substitution fee [PLN/MWh]
300,03
300,65
300,65
300,38
300,43
300,22
297,89
292,74
299,50
302,53
303,31
302,84
300,92
350
300
250
200
150
100
50
0
80
70
60
50
40
30
20
10
0
Jan. 2019
Feb. 2019
Mar. 2019
April 2019
May 2019
June 2019
July 2019
Aug. 2019
Sep. 2019
Oct. 2019
Nov. 2019
Dec 2019


PMGM-2018
PLN/MWh
GWh
Trading volume (excl. OTC) [GWh]
Index KGMX [PLN/MWh]
Substitution fee [PLN/MWh]
115,00
110,78
109,64
108,78
110,67
113,73
112,90
116
114
112
110
108
106
104
102
100
600
500
400
300
200
100
0
Jan. 2019
Feb. 2019
Mar. 2019
April 2019
May 2019
June 2019


PMEC-2018
PLN/MWh
GWh
Trading volume (excl. OTC) [GWh]
Index KECX [PLN/MWh]
Substitution fee [PLN/MWh]
9,00
8,72
8,80
8,76
6,72
9
8
7
6
1400
1200
1000
800
600
400
200
0
Jan. 2019
Feb. 2019
Mar. 2019
April 2019
May 2019
June 2019


PMMET-2018
PLN/MWh
GWh
Trading volume (excl. OTC) [GWh]
Index KMETX [PLN/MWh]
Substitution fee [PLN/MWh]
56,00
55,17
55,21
55,28
55,25
55,16
55,75
56
55
54
53
52
51
50
60
50
40
30
20
10
0
Jan. 2019
Feb. 2019
Mar. 2019
April 2019
May 2019
June 2019

2.1.2.3. Regulatory environment

National regulations

Amendment to the act on the amendment to the act on the excise tax and certain other acts (electricity prices)

As of the beginning of 2019 the *act of December 28, 2018 on the amendment to the act on the excise tax and certain other acts* came into force with its goal to provide protection for the electricity consumers against a significant increase of the costs of purchasing electricity in 2019. Apart from reducing the excise tax rate and the transition fee rates, the above act introduced the ”freezing” in 2019 of the prices and rates of the fees stemming from the tariffs and electricity price lists applied by the electricity trading companies at the level of prices and fees applied in 2018.

The act of June 13, 2019, changing the act on the amendment to the act on the excise tax and certain other acts, the act on energy efficiency and the act on the biocomponents and liquid biofuels, upheld the right to the reduced electricity prices for the entire period of 2019 for:

1. final household consumers – without the need for them to take any additional actions,
2. microbusinesses and small businesses, hospitals, public finance sector units and other state organizational units with no legal personality (the so-called special status consumers) – provided they have submitted the applicable declaration.

Medium size and large enterprises were, in the second half of 2019, entitled to the support involving subsidizing of electricity prices as part of the *de minimis* aid, provided that they had submitted, by the statutorily defined deadline, to the trading company that is a party to the electricity sale agreement or the comprehensive (master) agreement with the given final consumer, of the declaration confirming the status of such a consumer. Consumers operating in the energy intensive sectors and sub-sectors were be able to take advantage of the support system set up based on the *act July 19, 2019, on the system of compensations for the energy intensive sectors and sub-sectors*.

Following the June amendment to the act on the excise tax, for the period:

1. from January 1, 2019, to June 30, 2019, utility companies and the final consumers that buy electricity on the Polish Power Exchange directly, will be entitled to receive the so-called ”price difference amount”,
2. from July 1 2019, to December 31, 2019:
   - trading companies, supplying electricity to the consumers with a special status, had the right to receive the so-called financial compensation in connection with the provision of the service in the overall economic interest,
   - final consumers that are medium size and large enterprises (excluding the energy intensive enterprises) have the possibility to apply for a subsidy to the electricity purchased in that period (the so-called subsidy).

The receipt of the refund of the difference amount, financial compensation and subsidy requires a request of an entitled entity. The support, the calculation rules of which are defined in the executive regulations to the act, is financed using the funds of the Price Difference Payout Fund (Fundusz Wypłaty Różnicy Ceny), controlled by the Minister of Energy (as of November 15, 2019, Ministry of State Assets), and managed by Zarządca Rozliczeń S.A.(Settlements Manager).

On July 19, 2019, the Minister of Energy issued a *regulation on the way to calculate the amount of the price difference and financial compensation, and the method to be used to set the reference prices*, that came into force on August 14, 2019. Additionally, the Minister of Energy, on August 28, 2019, published a *notice on the other unit cost and the subsidy rate*, that defines, for a utility company dealing with the trading: in-house costs of conducting business operations, the costs of balancing the electricity demand curve and the margins dependent on the total volume of electricity supply to the final consumers. Based on the provisions of the above mentioned Regulation of the Minister of Energy, the President of the Energy Regulatory Office publishes information on the amount of other unit costs constituting the components used to calculate the amount of the price difference and the financial compensation.

The electricity prices (for the households' final consumers using the tariff of TAURON Sprzedaż as an ex officio seller) and the distribution service rates in force in 2020 were determined and approved by the President of the Energy Regulatory Office in accordance with the standard mechanisms for the determination thereof under the Energy Law. Legislative works are currently underway on the introduction of a new mechanism to compensate for the increase in the electricity prices for the household final consumers.

Act on the system of compensations for the energy intensive sectors and sub-sectors

The *act on the system of compensations for the energy intensive sectors and sub-sectors* was passed on July 19, 2019 and came into force as of August 29, 2019. Based on the above act, the energy intensive enterprises have the right to the compensation for an increase of the electricity prices due to the rising costs of the emission allowances. The use of the above support system excludes the use of the support system introduced under the *act of December 28, 2018, on the amendment to the act on the excise tax and certain other acts*. For these reasons in

2019 the energy intensive enterprises may choose only one of the above support systems. At the same time, in accordance with the *act on the system of compensations for the energy intensive sectors and sub-sectors*, in case the given energy intensive enterprise submits a declaration on waiving the right to have the electric utility apply prices and fee rates for electricity at the level as of June 30, 2018:

1. an energy intensive enterprise will have to refund the amounts that it has obtained thanks to this mechanism – in case the electric utility has adjusted its prices and fee rates for electricity,
2. an electric utility will be exempted from the obligation to adjust its prices and fee rates for electricity for such energy intensive enterprise – in case it has not done it yet.

Act on energy efficiency

The act of June 13, 2019, amending the act on the amendment to the act on the excise tax and certain other acts, the act on energy efficiency and the act on biocomponents and liquid biofuels also introduced a material change to *the act of May 20, 2016 on energy efficiency.* It involves an extension, until June, 31, 2021, of the deadline within which energy efficiency certificates issued under the act on energy efficiency previously in force (the so-called tender certificates) will be taken into account in the implementation of the obligation to obtain energy efficiency certificates and present them for retirement to the President of ERO.

Amendment to the Act on Renewable Energy Sources (RES)

The act on the amendment to the act on Renewable Energy Sources and certain other acts was passed on July 19, 2019. The material changes that were introduced under the said amendment include:

1. extension of the support systems' effective term, envisaged under the act, until June 30, 2039,
2. extension of the "prosumer" definition to cover entrepreneurs, provided that sales of electricity generated by their own micro-installations will not be the subject of the given entrepreneur's dominating business operations,
3. extension of the deadlines (running from the auction session closing date) by which an auction participant will be obligated to sell, for the first time, electricity generated by a renewable energy source installation, that will be erected or will be upgraded following the auction date,
4. extension of the so-called discount system to cover entrepreneurs operating micro-installations with the installed capacity greater than 10 kW,
5. increase of the micro-installations' installed capacity level which cannot be exceeded in case of completing an upgrade of such installation, from 40 kW to 50 kW,
6. increase of the maximum level of installed capacity making biogas and hydroelectric installations eligible to take advantage of the so-called FIP system from 1 MW to 2.5 MW,
7. enabling participation in the FIT and FIP support system for the installations that use biomass,
8. increasing the maximum age of devices that constitute a part of RES installations eligible to take advantage of the auction based support system from 18 months to 21 months – for photovoltaics, from 24 months to 33 months – for on-shore wind based power generation and from 36 months to 42 months – for a different type of technology (excluding off-shore wind based power generation).

The above act also defines the minimum share of electricity from the renewable energy sources in the total annual electricity supply for 2020 as follows:

1. 19.50% – with respect to electricity generated from agricultural biogas prior to the entry into force of section 4 of the act or renewable energy sources other than agricultural biogas or the substitution fee paid,
2. 0.50% – with respect to electricity generated from agricultural biogas from the date of entry into force of section 4 of the act or equivalent volume of electricity stemming from the retired certificates of origin of agricultural biogas or the substitution fee paid.

Furthermore, the above amendment includes regulations that define the maximum volume of electricity and its value to be sold at auctions for 2019 and the conditions under which auctions for the purchase of electricity from renewable energy sources installations will be conducted in 2019.

The majority of the act's regulations came into force as of August 29, 2019. For some of the regulations the *vacatio legis* period was extended until 2020, and with respect to some regulations, that might potentially impact the EU's internal market, the notification procedure before the European Commission regarding changes to the support program was commenced. In the letter of October 31, 2019, the European Commission provided information that it assessed the changes to the renewable energy sources auction system introduced by the act as changes of a purely administrative nature, that did not require the notification of the new support (aid) to the European Commission.

Executive regulations to the act on promoting electricity from high efficiency cogeneration

The process of supplementing the *act of December 14, 2018, on promoting electricity from high efficiency cogeneration* with the executive regulations was completed in 2019. In connection with the above the following regulations to the above act have been published:

1. *regulation of the Minister of Energy of August 21, 2019, on the maximum volume and value of electricity from high efficiency cogeneration covered by the support and unit amounts of the guaranteed bonuses in 2019 and 2020,* that came into force as of September 17, 2019,
2. *regulation of the Minister of Energy of August 21, 2019, on the maximum value of investment costs (capital expenditures) and operating expenses in case of building and operating a new comparable cogeneration unit*, that came into force as of September 17, 2019,
3. *regulation of the Minister of Energy of August 21, 2019, on the reference values for new and substantially upgraded (refurbished) cogeneration units in 2019,* that came into force as of September 17, 2019,
4. *regulation of the Minister of Energy of September 6, 2019, on the methodology to be applied to determine eligibility for the individual cogeneration bonus and the values of coefficients taken into account when determining such eligibility*, that came into force as of October 1, 2019.
5. *regulation of the Minister of Energy of September 22, 2019 on the range of data required to calculate the individual guaranteed bonus and the cogeneration bonus, including the way to take into account the value of the public aid received*, that came into force as of October 15, 2019,
6. *regulation of the Minister of Energy of September 23, 2019, on the way to calculate data provided for the needs of the use of the support system and the detailed scope of the obligation to confirm the data related to the volume of electricity from high efficiency cogeneration*, that came into force as of October 15, 2019,
7. *regulation of the Minister of Energy of November 41, 2019, on the reference values for new and substantially upgraded (refurbished) cogeneration units in 2020,* that came into force as of December 3, 2019
8. *regulation of the Minister of State Assets of December 20, 2019 on the amount of the cogeneration fee for 2020,* that came into force on January 1, 2020.

The goal of the above regulations is to enable implementing a support mechanism for the generation units generating electricity from the high efficiency cogeneration.

Amendment to the act on the system of greenhouse gas emission allowances trading and certain other acts

The act on the amendment to the act on the system of greenhouse gas emission allowances trading and certain other acts was passed on July 4, 2019 and it came into force as of August 24, 2019. The essential goals of the act include implementing and introducing into use the European Union regulations regulating the rules of emission allowances trading in the so-called fourth trading (settlement) period and dispelling the interpretation doubts arisen over almost three years of applying the act on the system of greenhouse gas emission allowances trading, and also aligning the regulations with respect to greenhouse gas emission allowances trading to the current economic and social conditions. The above act, among others:

1. introduces regulations related to the allocation of emission allowances to other production than electricity production in the 2021 – 2030 trading (settlement) period and in the subsequent trading (settlement) periods,
2. introduces changes with respect to accounting for the investment costs (capital expenditures) related to the tasks included in the National Investment Plan (Krajowy Plan Inwestycyjny), including the possibility to balance (offset) the emission allowances granted for the discontinued tasks or tasks that have not led to achieving the approved indicators of compliance against the costs of other completed investment tasks,
3. imposes an obligation to develop monitoring methodology plans and submit such plans by entities operating an installation for approval to the applicable (competent) authority (feedback (opinions) on the plans will be provided by the National Centre for Emissions Management (Krajowy Ośrodek Bilansowania i Zarządzania Emisjami - KOBiZE)),
4. assumes simplifying and accelerating the procedure used to apply for the allocation of emission allowances in case of a new installation, by transferring the up-to-now authorizations of the competent minister responsible for the environment to the National Centre for Emissions Management (Krajowy Ośrodek Bilansowania i Zarządzania Emisjami - KOBiZE)),
5. limits (to 5 years) the obligation to prepare and enter the reports on emissions volume into the National data base,
6. aims to eliminate a number of interpretation doubts that have surfaced during the application of the existing version of the act.

Draft act on the amendment to the act – Energy law and certain other acts

Since the end of 2018, the public consultation process related to the draft act amending the *act of April 10, 1997 - Energy Law and certain other acts* has been underway. The act underwent changes during the legislative process and the draft is currently dated January 30, 2020. Changes introduced in the draft that are most important for TAURON Group's subsidiaries include the proposals to:

- introduce the central energy market information system to be used for the implementation of electricity market processes that will be determined pursuant to the regulation of the minister competent for energy,
- impose, on a DSO, an obligation to install, by December 31, 2028, remote readout electricity meters connected to the remote readout system in at least 80% of the total number of electricity consumption points at the final

consumers, equipped with a direct metering system, connected to the grid with a rated voltage not higher than 1 kV in accordance with the schedule defined in the act,

impose on a DSO, that is a part of a vertically integrated enterprise, an obligation to have separate personnel from the personnel used by the remaining part of the vertically integrated enterprise, with the only exception foreseen for the administrative staff,

introduce regulations regarding the relationship between the trademark of a DSO and the trademark of the electricity supplier that is a part of the same vertically integrated company,

grant to the President of ERO the right to obligate the parties, by way of a decision, to amend the content of an agreement on the provision of the gas fuels / electricity transmission or distribution services concluded between a supplier (seller) and the transmission system operator (TSO) / distribution system operator (DSO), in order to enable the supplier (seller) to supply (sell) gas fuels / electricity or provide a comprehensive service to the consumers connected to such operator's grid or, if required: ensure that the final consumers' interests are protected, balance the parties' interests, counter competition limiting practices,

define the rules for recognizing and operating closed distribution systems and electricity storage facilities, including the rules for connecting storage facilities to the grid, and obligate the DSO to include, in its development plan projects with respect to the use of electricity storage facilities, provided the given DSO deems it technically justified to ensure supply of electricity and will demonstrate that the use of electricity storage facilities will bring benefits and it will not involve disproportionately high costs,

strengthen the position of electricity consumers, including by: shortening the process of switching electricity suppliers to 7 days, obligating electricity or gas suppliers (sellers) to provide public access to the currently applicable regulations defining the rights of an electricity consumer, introducing a ban prohibiting the conclusion of supply contracts or comprehensive (master) contracts for the supply of gas fuels or electricity with households consumers outside business premises, otherwise the contract shall be null and void, introducing detailed provisions specifying the rules for providing property security (collaterals) in case of claims of third parties that may arise as a result of the improper conducting of the operations covered by the license,

extend the catalog of cases in which the President of the ERO shall have the right to amend or revoke the relevant license, to cover the situations in which:

- President of the Office for Competition and Consumer Protection (UOKiK) has issued, with respect to an entity operating based on such license, a decision on deeming the practice as infringing upon the collective interests of consumers,
- an energy company has stopped to guarantee proper performance of its operations,

introduce the required definitions or clarify in detail the applicable provisions in order to fix the identified gaps or dispel the interpretation doubts.

Regulation of the Minister of Energy on the parameters of the main auction for the delivery year 2024 and the parameters of the additional auctions for the delivery year 2021

On August 2, 2019, the *regulation of the Minister of Energy on the parameters of the main auction for the delivery year 2024 and the parameters of the additional auction for the delivery year 2021* was published. In accordance with the *act of December 8, 2017 on the capacity market*, the regulation laid down, in particular, such parameters as:

1. values determining the demand in the given auction,
2. maximum prices for the so-called price takers,
3. maximum number of rounds in the given auction,
4. unit levels of the capital expenditures determining the qualification of the given capacity market units as new or refurbished.

Amendments to the act on the value added tax (VAT)

On September 1, 2019, the amendments to the *act of March 11, 2004 on the value added tax* passed by way of the *act of April 12, 2019 on the amendment to the act on the value added tax and certain other acts* came into force. These amendments introduced the so-called white list of the VAT taxpayers, i.e. the list of the taxpayers registered as VAT taxpayers, managed by the Head of the National Tax Administration, containing also the data on the bank accounts indicated by these entities for settlements.

On November 1, 2019, the provisions of the *act of August 9, 2019, on the amendment to the act on the value added tax and certain other acts* came into force, introducing the obligation to apply the so-called split payment mechanism regarding trade in goods and services indicated in Annex 15 to the act on VAT. The above amendments provide for sanctions (effective as of January 1, 2020) for a failure to make a payment using the split payment mechanism with respect to the above mentioned goods and services, as well as for the settlements using bank accounts other than the bank accounts indicated on the white list of the VAT taxpayers. These sanctions include:

1. inability to classify as the tax deductible costs the amounts paid to the accounts other than those on the white list of the VAT taxpayers or paid without using the split payment mechanism if there is a legal obligation to use this mechanism (goods and services listed in Annex 15 to the VAT Act),

2. joint and several liability with the taxpayer for the VAT related obligations in the proportion of the tax corresponding pro rata to the supply of goods or services for which payment was made to an account other than the one indicated on the white list of the VAT taxpayers.

European Union regulations

Winter package *Clean Energy for all Europeans*

On March 26, 2019, the European Parliament, and on May 22, 2019, the Council formally accepted the worked out content of the political agreements related to the 4 remaining elements of the *Winter Package* (the acts published in the EU Official Journal in June 2019), i.e.:

1. directive on the common rules for the internal market in electricity and amending directive 2012/27/UE (*Directive of the European Parliament and Council (EU) 2019/944 of June 5, 2019*),
2. regulation on the internal market in electricity (*Regulation of the European Parliament and Council (EU) 2019/943 of June 5, 2019*),
3. regulation on the risk-preparedness in the electricity sector and repealing directive 2005/89/WE (*Regulation of the European Parliament and Council (EU) 2019/941 of June 5, 2019*),
4. regulation establishing the European Agency for the Cooperation of Energy Regulators (*Regulation of the European Parliament and Council (EU) 2019/942 of June 5, 2019*).

EMIR REFIT Regulation

Regulation of the European Parliament and Council (EU) 2019/834 of May 20, 2019, amending regulation (EU) no. 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories (EMIR REFIT Regulation) was published in the Official Journal of the European Union on May 28, 2019.

The above regulation impacts TAURON Capital Group's operations, primarily in the areas of the reporting obligations related to the derivatives contracts and the thresholds for the clearing of such contracts by a central counterparty.

In the first area a possible exemption from reporting derivative contracts concluded by non-financial counterparties within the same capital group (intragroup) to the trade repository is envisaged under the following collective conditions: both counterparties are included in the same consolidation on a full basis, both counterparties are subject to the appropriate centralized risk evaluation, measurement and control procedures; and the parent undertaking is not a financial counterparty. However, the application of the exemption referred to above requires notifying the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego). The exemption shall be valid unless the notified competent authorities do not agree upon fulfilment of the above mentioned conditions within 3 months of the date of notification.

In the second area the EMIR REFIT Regulation imposes on non-financial counterparties an obligation to calculate, as of the day of the above mentioned Regulation's entry into force (i.e. as of June 17, 2019), and subsequently every 12 months, the aggregate average position in OTC derivative contracts. The calculations are used to determine the capital group's position with respect to the obligation to clear contracts with a central counterparty (CCP), i.e. with the so-called NFC+ or NFC- status. Furthermore, the obligation for derivative contract counterparties to inform each other of the above mentioned status in the contract documentation was introduced.

Regulation on the Innovation Fund, draft executive regulation on the Modernization Fund

Commission Delegated Regulation (EU) 2019/856 of 26 February 2019 supplementing Directive 2003/87/EC of the European Parliament and of the Council with regard to the operation of the Innovation Fund was published in the Official Journal of the European Union on May 28, 2019. The said fund was set up under art. 10a, section 8 of directive 2003/87/EC of the European Parliament and of the Council of October 13, 2003, establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, in order to provide support for projects demonstrating highly innovative technologies, processes or products, indicating a significant potential to reduce greenhouse gas emissions. However, these projects must have an appropriate level of maturity and scalability. The Fund is to represent an extension of the support provided under NER 300 program. The available financing amount is to correspond to the market value of at least 450 million CO_2 emission allowances.

The above regulation lays down the Innovation Fund's necessary principles of operations, such as: the operational objectives of the Innovation Fund, the forms of the support provided under the Innovation Fund, the application procedure for the Innovation Fund support (calls for proposals), the procedures and criteria for project selection under the Innovation Fund, rules for the disbursement of the Innovation Fund support, the governance of the Innovation Fund, reporting, monitoring, evaluation, control and publicity (transparency) concerning the operation of the Innovation Fund. However, a possibility of transferring some implementation activities, such as organizing an invitation to submit applications (a call for proposals), preliminary selection of projects or management of the agreements related to grants, to executive authorities is envisaged. Grants that may reach up to 60% of the costs are envisioned as a basic form of financing investment projects from the fund. An extended funding option has been proposed for small-scale projects (below 7.5 million EUR).

A draft executive regulation was developed in 2019, specifying the principles of the functioning of the Modernization Fund, which is the second fund provided for in Directive 2003/87/EC for the financing of the energy transition. The fund will be operating in 2021-2030 and is to be funded by the sale of the CO_2 emission allowances, which will be allocated to the modernization of the energy systems and the improvement of the energy efficiency in the EU Member States in which GDP per capita in 2013 was less than 60% of the EU average. To the priority areas, which include:

1. generation and use of energy from renewable energy sources,
2. improving energy efficiency (except for energy efficiency due to the production of energy from solid fossil fuels),
3. energy storage and modernization of the energy network, including heating systems,
4. increasing interconnection,
5. supporting fair changes in the coal regions of the beneficiary countries of the Modernization Fund, including the reduction of negative social effects,

no less than 70% of the funds of the Modernization Fund are to be allocated.

Determining of the final content and publishing of the above mentioned Regulation is planned for 2020.

Opinion of the Agency for the Cooperation of Energy Regulators establishing the guidelines for the calculation of the CO_2 emissions conditioning the units' participation in the capacity market mechanisms

On December 19, 2019, the Agency for the Cooperation of Energy Regulators published an opinion no. 22/2019 containing the technical guidelines for calculating the values indicated in the first paragraph of art. 22, clause 4 of the *Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market in electricity*. These values condition the possibility of the given capacity market unit being covered by the capacity obligation or receiving remuneration for performing the capacity obligation. The final version of the opinion does not contain provisions regarding the extension of the catalog of the emissions included in the calculation of the approved emission factors, by adding methane and nitrous oxide.

European Green Deal

On December 11, 2019, the European Commission presented the assumptions of the so-called *European Green Deal* (COM (2019) 640 final) – a strategy of actions aimed at: using resources more efficiently by moving to a clean circular economy, halting the climate change, countering biodiversity loss and reducing pollution. The objective of Europe reaching climate neutrality by 2050 is to be achieved by, among others, taking the following measures, implemented successively from 2020:

1. adoption of the first European climate law - a road map for this regulation was presented for consultation by the European Commission on January 9, 2020, and the regulation indicates that the purpose of the climate law is to be in particular to ensure an ambitious and fair EU climate policy, to contribute to the implementation of the Paris Agreement and to set a long term legal path to achieving the objective of climate neutrality by the EU in 2050,
2. setting the new emission targets by 2030,
3. adoption of a new industrial strategy (in a number of sectors of the economy, including energy) and an EU action plan for the circular economy,
4. development and adoption of an investment plan for a sustainable Europe to ensure that the climate and energy targets set for 2030 are met - investment financing is envisaged to counter the climate change using the funds in the amount of at least 25% of the EU's long-term budget and funding from the European Investment Bank (EIB)
5. adoption of a green funding strategy to include the private sector in financing the green transformation
6. covering of new sectors by the ETS system,
7. review of the directive related to the taxation of the energy with respect to the environmental issues,
8. promoting the EU objectives and standards with respect to the environment protection at the global forum, including during the UN Convention on Biological Diversity and Climate,
9. introduction of a just transition mechanism (fund) intended to support regions with an economy based mainly on the activities resulting in significant CO_2 emissions, in particular through the programs allowing for the acquisition of new professional qualifications and the creation of jobs in new sectors of the economy

Sustainable financing requirements:

Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment

On December 18, 2019, the European Parliament and the Council reached an agreement on the *Regulation on the establishment of a framework to facilitate sustainable investment*, aimed at introducing the world's first classification system (the so-called green list) for sustainable economic activities (Taxonomy). The Taxonomy Regulation aims to establish a general framework to determine, in a uniform and harmonized manner, which economic activities can be considered environmentally sustainable. The above regulation provides for further delegated acts specifying and developing its standards. EU, Member States, financial market participants offering financial products (through the obligation to disclose information on how and to what extent the investments underlying their financial product support economic activity that meets all criteria for environmental sustainability), financial and non-financial companies covered by the non-financial reporting will be obligated to use Taxonomy from December 2021. In particular, companies covered by the non-financial reporting will be required to disclose how and to what extent their activities constitute environmentally sustainable activities within the meaning of the Regulation, including the share of revenues from such activities, the share of CAPEX and OPEX expenses. Entities that do not meet the relevant requirements may be exposed to the higher costs of financing their operations and investments. Taxonomy will also be able to be used on a voluntary basis by other market participants, including entities raising funds for conducting environmentally sustainable activities.

Regulation (EU) 2019/2088 of the European Parliament and of the Council of November 27, 2019, on sustainability related disclosures in the financial services sector

Regulation (EU) 2019/2088 of the European Parliament and of the Council of November 27, 2019, on sustainability related disclosures in the financial services sector introduces uniform requirements as to how institutional investors (such as asset managers, insurance companies, pension funds or investment advisors) should take into account the ESG factors - i.e. environmental, social and corporate governance factors - in the investment decision making process. The exact requirements in this respect will be specified in the delegated acts of the European Commission.

Pursuant to the above regulation, asset managers and institutional investors will have to demonstrate compliance of their investments with the ESG objectives and disclose how these requirements are met. Financial market participants and financial advisors will be required, in their activities, including as part of due diligence, to introduce and continuously assess not only the financial risks, but also risks to sustainable development that could have a significant negative impact on the return on investment or consultancy. Risk for sustainable development means an event or environment, social or management related conditions that, if they occur, could have a significant negative impact on the value of the investment. Financial market participants and financial advisors will also be required to specify in their strategies how they take account of these risks and to publish those strategies, as well as to have procedures to address the major adverse effects of sustainable development risks and to publish information on these procedures on their websites along with a description of the main adverse effects. The assessments of risk for sustainable development should become a part of pre-contractual disclosure by the financial advisers. If it is determined that there are no risks to sustainable development in relation to the given financial product, the regulation introduces an obligation to indicate the justification for such a statement, and where the assessment leads to the conclusion that those risks are relevant, the extent to which those sustainability risks might impact the performance of the financial product should be disclosed, either in qualitative or quantitative terms. The above regulation also establishes a harmonized definition, stating that the companies receiving the investments (investee companies) follow good governance practices and ensure compliance with the precautionary principle – "do not cause significant environmental or social harm". The regulation applies, as a principle, from March 10, 2021 (some of its provisions are to apply from January 1, 2022).

Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 27, 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks

Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 27, 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks introduces 2 new categories of low-emission benchmarks:

1. a climate transition benchmark to be a low-emission alternative to the commonly used benchmarks,
2. a specialized benchmark whose investment portfolios will be in line with the target set in the Paris Agreement stipulating that the global temperature rise should be limited to 1.5˚C in reference to the level before the industrial age.

The new categories are to be voluntary labels to facilitate the choice of investors who want to adopt a climate-friendly investment strategy. They are designed to reflect the carbon footprint of enterprises and provide investors with the information on the carbon footprint of the investment portfolio. The new benchmarks will have a significant impact on the investment flows, including the creation of the investment products, measuring their results and developing an asset allocation strategy. The European Commission has been authorized to adopt delegated acts to specify the minimum standards for the above mentioned benchmarks.

The above regulation imposes an obligation on all benchmark administrators, except for the administrators of the interest rates benchmarks and the currency benchmarks, to disclose in the statement regarding the benchmark whether the benchmarks or groups of such benchmarks meet the objectives of environment protection, social policy and corporate governance, and whether the benchmark administrator offers such benchmarks.

The above-mentioned regulations may affect the conditions for obtaining financing by TAURON Capital Group.

XBID

TGE launched the European Electricity SIDC (Single Intra-Day Coupling) market based on the XBID (Cross-Border Intraday) model on November 19, 2019. XBID is a project aimed at creating a single cross-border electricity market for the intraday trading within the EU (currently connects 21 countries). The goal of the project is to increase the efficiency of trading on the European intraday market by using existing cross-border transmission capacity in the exchange trading. It allows for the matching of the market participants' orders in a continuous trading formula (24 hours a day), locally and in any price zone within the scope of the project, as long as the cross-border transmission capacity is available. Transactions on this market are concluded in EUR, and the settlements between TGE and the participants of the Polish market are carried out by the Commodity Clearing House (IRGiT S.A.) in PLN. The intraday clearing and settlement model developed by IRGiT, appropriately adapted to the requirements of the XBID model, will allow for optimizing the costs of the collaterals contributed by the IRGiT members.

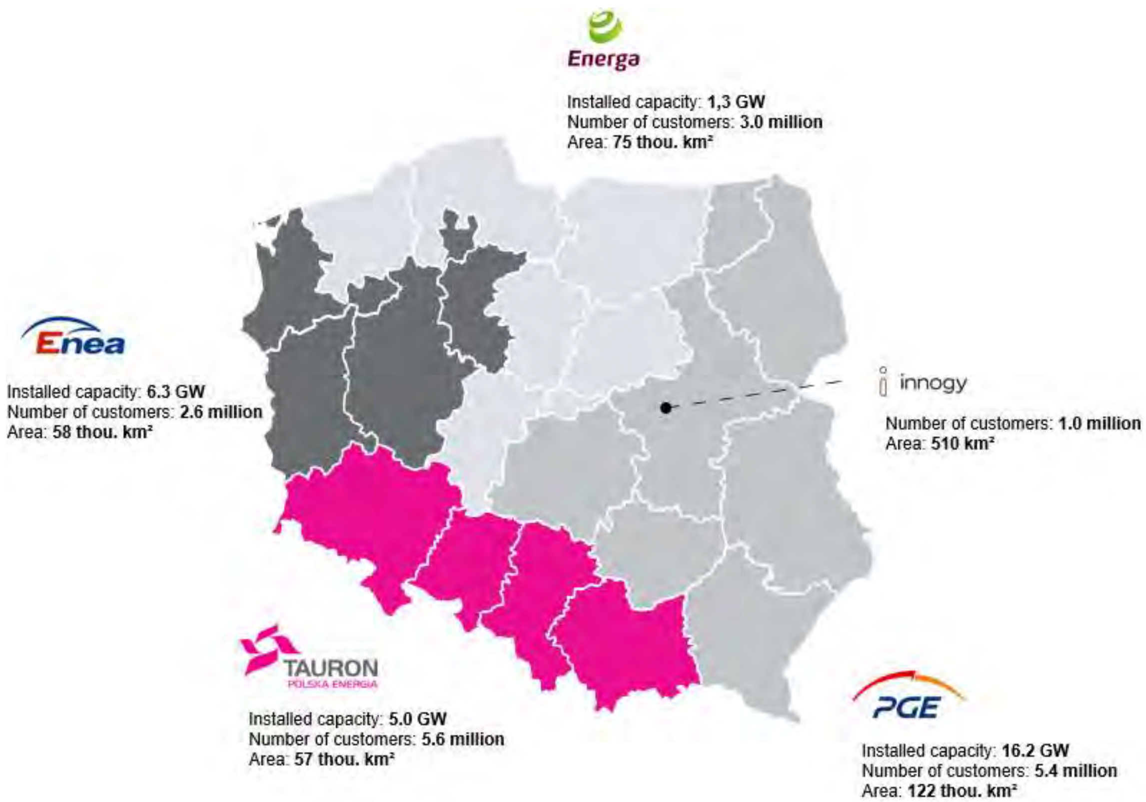
The launch of the homogenous intraday electricity market in Western and Northern Europe took place in June 2018. In case of Central and Eastern European countries the launch of this market took place in the fourth quarter of 2019 and it involved the coupling with the earlier operating XBID market merging the electricity markets of: Poland, Germany, Czech Republic, Austria, Hungary, Romania, Bulgaria, Slovenia, Croatia, Sweden and Lithuania. In Poland XBID is implemented by Polskie Sieci Elektroenergetyczne (PSE - TSO), in cooperation with the following exchanges: TGE, EPEX SPOT and EMCO.

2.1.2.4. Competitive environment (landscape)

Apart from TAURON Capital Group, three large, vertically integrated energy groups are currently operating on the Polish market: PGE, ENEA S.A. (ENEA) and ENERGA S.A. (ENERGA). Furthermore, Innogy Polska is operating in Warsaw, managing the city’s power grid.

The below figure presents TAURON Capital Group’s competitive environment (landscape) based on the data available for 2018.

Figure no. 20. TAURON Capital Group’s competitive environment (landscape) based on the data available for 2018.



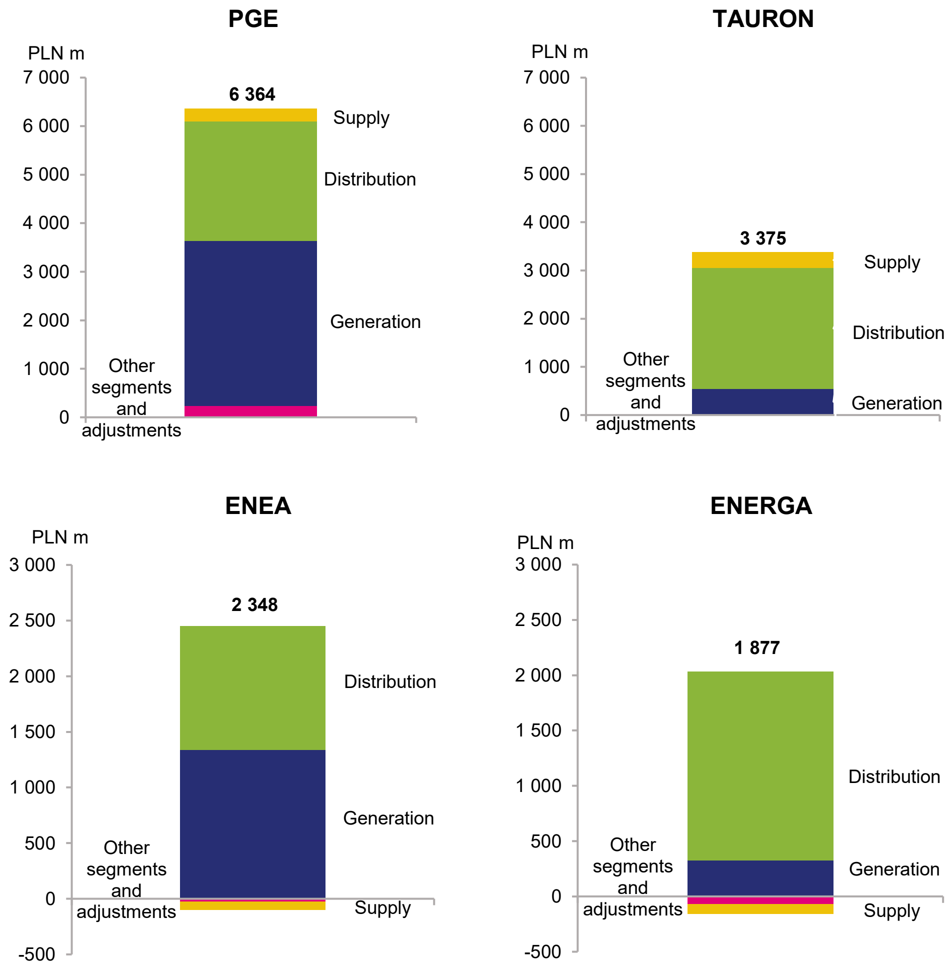
According to the Q1-3 2019 data the consolidated energy groups (PGE, TAURON, ENEA, ENERGA) held a 68% market share in the electricity generation sub-sector.

TAURON Capital Group is a fully vertically integrated energy enterprise (electric utility) that takes advantage of the synergies stemming from the size and scope of the operations conducted.

TAURON Capital Group controls the value chain, from hard coal mining up to the delivery of electricity to the final consumers. TAURON Capital Group conducts its operations in all the key segments of the energy market (excluding electricity transmission), i.e. in hard coal mining, as well as electricity and heat generation, distribution, supply and trading.

The below figure presents information on the structure of EBITDA based on the main segments.

Figure no. 21. EBITDA – estimated structure based on the main segments in 2018[1]



[1]In order to make the segments presented comparable the Generation Segment includes also Mining, RES and Heat.
Source: Companies' periodic reports

Generation

TAURON Capital Group is Poland's key electricity producer

TAURON Capital Group's share in the domestic electricity generation market, based on the gross electricity production output, reached approx. 9% after Q3 2019. TAURON Capital Group is the third largest electricity producer on the Polish market. TAURON Capital Group's generation assets are concentrated in southern Poland. Also the deposits of the hard coal used to fire TAURON Capital Group's power plants and combined heat and power plants are located in this region. The location of the generating assets near the coal deposits allows for the optimization of the costs related to the transportation of this raw material.

87% of TAURON Capital Group's generation assets are, as of the end of 2019, hard coal fired units, 10% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity reached almost 5.2 GW as of December 31, 2019. Wind farms' installed capacity represents 7.4%, hydroelectric power plants' installed capacity accounts for 2.6%, biomass-fired generating units' installed capacity constitutes 2.8% of TAURON Capital Group's total installed capacity.

Nationwide, after the first three quarters of 2019, TAURON Capital Group's hard coal fired units' installed capacity accounted for approx. 14% of the total installed capacity of all hard coal and lignite fired generating units in Poland. In terms of the installed capacity of the wind farms, biomass and biogas fired as well as hydro power plants, the share of TAURON Capital Group was approx. 7%, 13% and 6%, respectively.

According to the data after three quarters of 2019, PGE Group is the largest electricity generator in Poland, with its share in the domestic electricity production market in the third quarter of 2019 standing at approx. 39%, and the installed capacity of 16.2 GW. ENEA is the second largest electricity producer in Poland, with a market share of around 18% and the installed capacity of 6.3 GW. ENERGA, on the other hand, has the largest share of electricity produced from the renewable energy sources on the Polish market – more than 1.0 TWh out of the company's total production of 2.8 TWh (36% RES share). The total installed capacity of ENERGA Group is 1.4 GW.

The below figures present information on installed capacity and electricity generated in Q1-3 2019.

Figure no. 22. Gross electricity production - estimated market shares in Q1-3 2019

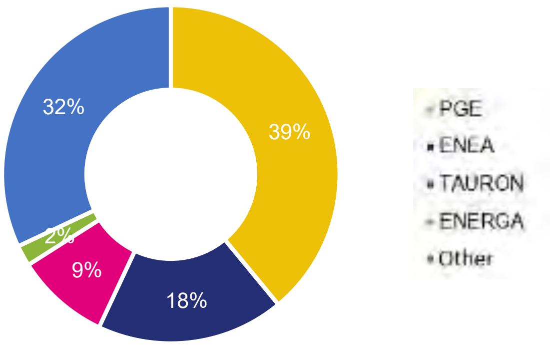
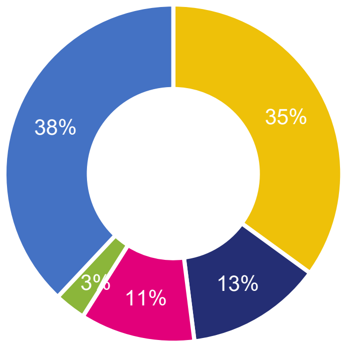


Figure no. 23. Installed capacity - estimated market shares in Q1-3 2019



Source: Agencja Rynku Energii S.A. (ARE), information from the companies published on their websites

Distribution

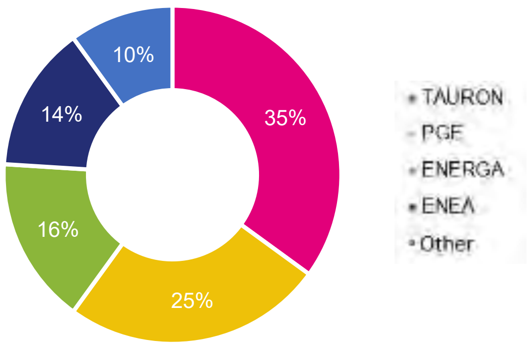
TAURON Capital Group is the Polish market leader in terms of the number of distribution customers and volume of electricity distributed.

TAURON Capital Group is Poland's largest electricity distributor. TAURON Dystrybucja's share in electricity distribution to the final consumers reached approx. 35% in Q1-3 2019. TAURON Capital Group's distribution grids cover more than 18% of Poland's territory. In 2019 the volume of electricity delivered to the final consumers reached 51.7 TWh. TAURON Capital Group is Poland's largest electricity distributor also in terms of revenue from the distribution operations.

It should be emphasized that TAURON Capital Group's distribution operations, due to the natural quasi monopoly in the designated area, are a source of stable and predictable revenue, representing a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution geographical area on which the Distribution and Supply Segments subsidiaries are historically operating is a heavily industrialized and densely populated area and therefore the grid is very well utilized. The number of the Distribution Segment's customers reached 5.65 million in 2019.

The below figure presents estimated market share of the individual energy groups in terms of electricity distribution based on the Q1-3 2019 data.

Figure no. 24. Electricity distribution - estimated market shares in Q1-3 2019



Source: ARE, information from the companies published on their websites

Supply

TAURON Capital Group is Poland's second largest electricity supplier.

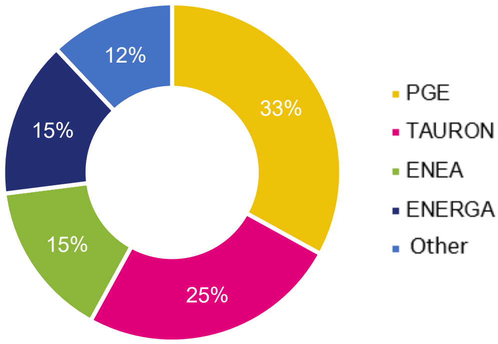
TAURON Capital Group has a 25% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at ...33.7 TWh in 2019. The number of customers served by TAURON Capital Group's Supply Segment is more than 5.5 million.

PGE Group is the largest retail electricity supplier with a 33% market share. The other two groups, ENEA and ENERGA, each have a 15% market share.

In the segment of electricity supply to the households the individual energy groups are geographically tied, first of all, to the areas in which they are acting as an ex officio supplier. The need to submit household tariffs for approval to the President of the Energy Regulatory Office leads to limited options for positioning prices in the product offerings, and what follows, it impacts their attractiveness for the customers. These restrictions do not apply to business and institutional customers. A broader and more open competition exists in these sectors.

The below figure presents estimated market share of the individual energy groups in terms of electricity supply to the final consumers based on the Q1-3 2019 data.

Figure no. 25. Electricity supply to the final consumers - estimated market shares in Q1-3 2019



Source: ARE, information from the companies published on their websites

The below table presents information on the installed capacity and the volume of electricity generation, distribution and supply after the first three quarters of 2019, as well as the domestic market shares.

Table no. 10. Installed capacity, generation, distribution and supply of electricity by energy groups after the first three quarters of 2019

#	Group	Installed capacity		Generation[1]		Distribution		Supply	
		Quantity (GW)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)
1.	PGE	16.2	34.5	47.6	39.0	27.1	25.4	32.8	33.3
2.	TAURON	5.2	11.0	10.4	8.5	37.4	35.0	25.0	25.3
3.	ENERGA	1.4	2.9	2.8	2.3	16.6	15.5	14.7	14.9
4.	ENEA	6.3	13.4	21.8	17.8	14.8	13.8	14.4	14.6
5.	Other	17.8	38.2	39.6	32.4	11.0	10.3	11.7	11.9
	Total	**46.9**	**100.0**	**122.2**	**100.0**	**106.9**	**100.0**	**98.6**	**100.0**

[1]Volume of gross electricity generated after the first three quarters of 2019

Source: ARE, information from the companies published on their websites, own estimates in case of the companies publishing the net production

2.2. Material growth impacting factors

The most material impact on the operations of TAURON and TAURON Capital Group will come, similar as it was in the past, from the following factors:

1. macroeconomic situation, particularly in Poland, as well as the economic situation of the area on which TAURON Capital Group is conducting operations and at the EU and global economy level, including changes of interest rates, FX rates, etc., impacting valuation of assets and liabilities listed by the Company in the statement of financial position,
2. political environment, particularly in Poland and at the EU level, including the positions and decisions of the state administration institutions and offices, e.g.: UOKiK, URE (ERO) and the European Commission,
3. changes to the regulations related to the power sector, and also changes in the legal environment, including: tax law, commercial law, environment protection law,
4. change in the policies of financial institutions with respect to financing coal-based energy
5. introduction of the generation capabilities compensation mechanism (the so-called capacity market), in particular the impact on the results of the main auctions for the delivery of electricity in 2021-2024 and the decisions regarding the discontinuing of the operational capacity reserve and the interventional cold reserve mechanisms,
6. support system for electricity generation from dedicated sources (color certificates), resulting, on one hand, in the costs of redeeming (retiring) certificates for the suppliers of electricity to the final consumers, on the other hand, in revenue from the sales of certificates for the generators of electricity,
7. new RES support system, the so-called RES auctions,
8. situation in the power sector, including the activities and actions of the competition on the energy market,

9. number and price of the CO_2 emission allowances,
10. wholesale electricity prices,
11. level of tariff for the electricity supply to households (tariff group G) for 2020 approved by the President of ERO,
12. prices of energy commodities in Poland and worldwide,
13. environment protection requirements as a consequence of changes to the *act of April 27, 2001, Environment Protection Law*, the so-called anti-smog resolutions,
14. planned changes to the regulations related to the *act of August 25, 2006 on the system for monitoring and inspecting fuel quality*, among others the quality requirements for solid fuels,
15. science (research) and technical progress,
16. demand for electricity and the other energy market products, taking into account changes due to seasonality and weather conditions.

2.3. Core products, goods and services

TAURON Polska Energia S.A.

As the parent entity of the Capital Group TAURON performs the consolidating and management function at TAURON Capital Group. As a result of implementing the Business Model and centralizing of the functions, TAURON concentrated many competences related to the functioning of TAURON Capital Group's subsidiaries and is currently carrying out operations, among others, in the following areas

1. wholesale trading in electricity, gas and related products, in particular, with respect to providing trading (commercial) services for the subsidiaries, securing the requirements with respect to fuel, CO_2 emission allowances and certificates of origin of electricity,
2. purchasing management,
3. finance management,
4. asset management,
5. corporate risk management,
6. managing the IT model in place,
7. coordinating the research and development (R&D) activities carried out within TAURON Capital Group,
8. advisory services with respect to accounting and taxes,
9. legal support (services),
10. audit.

The above functions are gradually limited at TAURON Capital Group's subsidiaries. Such centralization is aimed at improving TAURON Capital Group's efficiency.

The core operations of the Company, besides managing TAURON Capital Group, include wholesale electricity trading on the territory of the Republic of Poland, based on the license for trading in electricity issued by the President of ERO for the period from June 1, 2008 until December 31, 2030.

The Company is focusing on purchasing and selling electricity for the needs of securing the buy and sell positions of TAURON Capital Group's entities and on wholesale electricity trading. In 2019 the Company bought and sold 38.8 TWh of electricity. Electricity sales performed by TAURON in the financial year 2019 were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, to which 90% of the electricity purchased was sold. These companies are carrying out the retail electricity supply – to the final consumers, and therefore TAURON is not dependent on any electricity consumer. The other consumers (trading companies outside TAURON Capital Group, exchanges) accounted for less than 8% of the revenue.

With respect to wholesale electricity trading changes were introduced to TAURON Capital Group's trading model at the end of December 2019. The company took over electricity trading from TAURON Wytwarzanie generation subsidiary and centralized this activity at TAURON level. The implementation of this task required changes to the Company's organizational structure as well as to the internal and intra-corporate regulations. This was dictated by TGE's requirements regarding conducting activities on behalf of another company from the capital group as well as the EU's REMIT and MAR regulations. In connection with the above, an SLA Agreement with respect to the trading activities conducted by TAURON for TAURON Wytwarzanie was concluded, pursuant to which the Company provides, among others, the *market access* service, under which it is operating on the Polish Power Exchange (TGE) on its own behalf for the benefit of TAURON Wytwarzanie and is fulfilling the exchange obligation for this subsidiary.

The Company's additional operations include wholesale trading in natural gas on the territory of the Republic of Poland based on the license for trading in gas fuels issued by the President of ERO for the period from May 4, 2012 until May 4, 2022. In 2019 the Company purchased and sold 3.6 TWh of gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż with 52% of the purchased fuel gas sold thereto. The other volume was sold mainly on the exchange (38%). Other consumers accounted for less than 10%.

The competences of the Company also include management, for the needs of TAURON Capital Group, of the property rights related to the certificates of origin of electricity, constituting the confirmation of electricity generation from the renewable sources (including sources using agricultural biogas), as well as the property rights related to electricity efficiency certificates. In 2019 the Company did not carry out trading in the property rights, such trading was carried out by TAURON Capital Group's subsidiaries obligated to redeem (retire) the above mentioned property rights.

The Company is a competence center with respect to the management and trading in the CO_2 emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing trading in emissions a synergy effect was achieved, involving optimizing of the costs of utilizing the resources of TAURON Capital Group's entities. In pursuit of the above objectives with respect to the CO_2 emission allowance trading, the Company is actively participating in trading on the London ICE exchange, the EEX Leipzig exchange and the OTC market. Due to centralizing of this function in TAURON the Company is responsible for the settlements of the subsidiaries' CO_2 emission allowances, securing the subsidiaries' emission needs taking into account the allowances allocated and the support in the process of acquiring free allowances for the subsequent periods. In 2019 the Company purchased and sold 16.4 million Mg, including 54% to TAURON Wytwarzanie, 10% to TAURON Ciepło and 36% of the volume outside TAURON Capital Group (purchase and sale of allowances on the exchanges and to external entities).

TAURON is actively participating in consultations related to the legal acts on the national and European level, and it is also providing support for its Generation Line of Business subsidiaries in the process of accounting for the capital expenditures for the tasks included in the National Investment Plan for the purpose of obtaining free allowances.

TAURON acts as the Market Operator and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for external customers. These functions are carried out under the transmission agreement concluded with the TSO – PSE.

In 2019 the value of the trading services related to electricity, provided by the Company, reached PLN 54.8 million, including 96% within TAURON Capital Group (the largest consumers: TAURON Sprzedaż 82%, TAURON Wytwarzanie 10%) and 4% on the market.

The Company currently holds exclusive control over the generation capacity with respect to the trading and technical capabilities related thereto, it is responsible for optimizing the generation, i.e. the selection of generation units for operation as well as the relevant distribution of loads in order to execute the contracts concluded, taking into consideration the technical conditions of the generation units as well as the grid constraints and other factors, over various time frames. As part of the services provided for the Generation Segment the Company participates in preparing the overhaul plans, plans of available (dispatchable) capacity as well as the production plans for the generation units, over various time frames, as well as in agreeing them with the relevant grid operator. TAURON is also developing its competences with respect to the Market Operator function for gas under the transmission agreement with GAZ – System S.A. In July 2015 TAURON, as one of the first entities in Poland, launched a balancing group for entities trading in gas.

In 2019 TAURON conducted, on behalf of TAURON Capital Group's subsidiaries, the general certification of physical units, existing and planned, and subsequently the certification of the capacity market units for the auctions for 2024 under the capacity market being implemented. As a result, TAURON Capital Group's physical generating units and controllable loads were able to take part in the auctions conducted in December 2019, which allows TAURON Capital Group to obtain revenue under this mechanism in 2024. Currently, TAURON is certifying the capacity market units selected for participation in the additional auctions for 2021

In accordance with TAURON Group's adopted Business Model the Company is performing the management function with respect to managing the purchasing of production fuels for the needs of TAURON Capital Group's generation entities.

TAURON Capital Group

TAURON Capital Group's core products include electricity and heat as well as hard coal. Additionally, TAURON Capital Group is trading in: electricity and energy market products as well as coal and gas, and it is also providing electricity distribution and supply services, including to the final consumers, heat distribution and transmission and other services related to the operations conducted.

The below table presents TAURON Capital Group's 2019 – 2017 production and sales volumes.

Table no. 11. 2019 – 2017 production and sales volumes

#	Production and sales volumes	unit	2019	2018	2017	Change in % (2019/2018)
1.	Commercial coal production	Mg m	3.78	5.01	6.45	75%
2.	Coal sales by the Mining Segment	Mg m	3.80	4.87	6.77	78%
3.	Electricity generation (gross production), including:	TWh	13.88	16.21	18.41	86%
4.	Electricity generation from renewable energy sources, including:	TWh	1.38	0.97	1.3	142%
	Production from biomass	*TWh*	*0.34*	*0.25*	*0.29*	*136%*
	Production of hydro and wind power plants	*TWh*	*1.04*	*0.72*	*1.01*	*144%*
5.	Heat production	PJ	10.85	11.29	12.2	96%

#	Production and sales volumes	unit	2019	2018	2017	Change in % (2019/2018)
6.	Electricity and heat supply by the Generation Segment	TWh	13.16	15.68	19.61	84%
		PJ	14.55	15.23	16.38	96%
7.	Electricity distribution	TWh	51.73	51.97	51.37	100%
8.	Electricity supply by the Supply Generation Segments	TWh	33.73	34.52	34.94	98%
9.	Number of customers – Distribution	'000	5 651	5 598	5 533	101%

The amounts corresponding to the sales volumes presented above are provided in section 5 of this report.

2.4. Markets and sources of supply

2.4.1. Markets

Coal sales

At TAURON Capital Group, coal sales are carried out by TAURON, with respect to supplying the production subsidiaries of TAURON Capital Group, and by TAURON Wydobycie, with respect to the sales on the domestic market and to TAURON.

With a view to implementing its tasks with respect to the fuel (coal) trading, TAURON continued, in 2019, to sell the fuels solely to TAURON Capital Group's subsidiaries, i.e. TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa Tauron, based on the purchase of fuels on the market and from within TAURON Capital Group - from TAURON Wydobycie, which is described in more detail in section 2.4.2. of this report.

TAURON Wydobycie is selling coal from its own extraction and production, offered for sale on the market in coarse, medium coal assortments and as steam coal dust as well as methane being the accompanying mineral from the Breszcze deposit.

Depending on the coal assortment, coal has the following commercial parameters

- calorific value from 19 MJ/kg to 30 MJ/kg,
- ash content from 6.5% to 31.5%,
- sulphur content from 0.2% to 1.2%.

TAURON Wydobycie conducts the sales of coal in 2 directions:

1. sales of fine coal (coal dust) and coal sludge to power plants and co-generation plants, mostly within TAURON Capital Group (via the Company),
2. sales of large and medium size lump coal as well as a small amount of coal dust assortments through the nationwide organized sales network, primarily on the domestic market

TAURON Wydobycie is selling coal mainly in southern and central Poland, in particular in the following regions (provinces): Silesia, Małopolska, Podkarpacie, Świętokrzyskie and Lower Silesia, both to enterprises as well as the individual consumers.

The hard coal sales by TAURON Wydobycie to TAURON Capital Group's Generation Segment companies reached approx. 3.8 million Mg in 2019, including 3.0 million Mg (approx. 80%) to TAURON for the needs of TAURON Capital Group's Generation Segment subsidiaries. It means a 18% decrease as compared to 2018 and is due to the lower commercial coal production by the individual coal mines. Sobieski Coal Mine (ZG Sobieski) suffered the biggest drop, which was due to, among others, the performance of the additional mining works to reinforce the longwall complex and fire in 547 coal face area. The lower extraction output by the other coal mines is a consequence of deteriorated geological and mining conditions.

The below figure presents the summary of the Company's 2019 coal shipments.

Figure no. 26. Summary of the Company's 2019 coal shipments (Mg m)

Sales of generated electricity and heat

TAURON Capital Group's electricity and heat generation (Generation Segment's operations) is performed by:

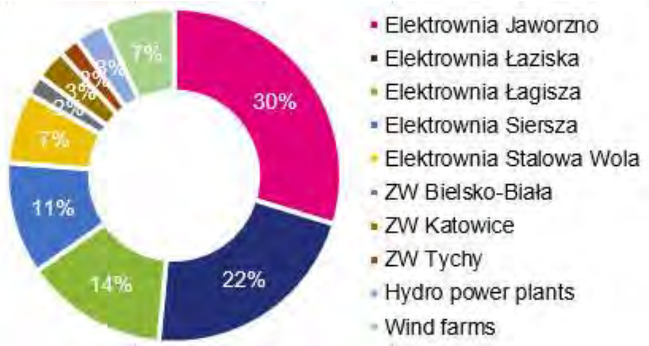
- coal-fired and biomass burning power plants and combined heat and power plants
- hydroelectric power plants,
- wind farms.

Generation Segment's operations also include trading, distribution and transmission of heat.

The total installed electric capacity of TAURON Group's generation units reached 5.2 GWe of electric capacity and 2.4 GWt of thermal capacity at the end of 2019.

The below figure presents the structure of installed electric capacity as of December 31, 2019 (as compared to 2018, the installed capacity in wind farms increased by 180 MW).

Figure no. 27. Structure of the Generation Segment's installed capacity as of December 31, 2019



In 2019 TAURON Capital Group's subsidiaries produced 13.9 TWh of electricity (including 1.4 TWh from RES), i.e. 14% less as compared to 2018 when the production of electricity reached 16.2 TWh (including 1.0 TWh from RES). It is a consequence of lower sales of electricity from own production year on year and a result of the adopted trading strategy. Higher production from RES is due to more favorable wind and hydrological conditions and the increased wind farms' installed capacity.

Sales of electricity from own production plus energy purchased for trading (resale) purposes reached 13.2 TWh in 2019, which meant a decrease by 16% as compared to 2018.

In 2019 the electricity produced by TAURON Capital Group's subsidiaries was sold on the domestic market, first of all to TAURON Capital Group's Supply Segment companies (38%), as well as on TGE (38%) and on the balancing market (PSE Operator) (24%). The share of electricity sales on TGE (due to an increase of the exchange obligation) was materially higher in 2019 versus 2018.

Heat sales by TAURON Capital Group's subsidiaries reached 14.6 PJ in 2019 and it was lower by 4% as compared to 2018. The share of the heat generated from own sources in the total heat sales reached 60% in 2019. TAURON Wytwarzanie subsidiary's power plants are selling heat in Upper Silesia and Zagłębie, and also in parts of the Podkarpackie region – Stalowa Wola and Nisko supplied by the Stalowa Wola Power Plant and Małopolska region – a part of Trzebinia supplied by the Siersza Power Plant.

Heat is sold mainly via the heat distributors: TAURON Ciepło, SCE Jaworzno III, Przedsiębiorstwo Energetyki Cieplnej Tychy and others, and on the Podkarpackie market - Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. and ENESTA sp. z o.o. Small volumes of heat are sold directly to the consumers located in the vicinity of the generation companies.

On the other hand, TAURON Ciepło's heat sales market - mainly for heating purposes, production of hot water for domestic use, process water, includes diverse consumers: Cooperative sector (47%), Private sector – multi-family buildings (housing communities) and single family houses (15%), Municipal sector (17%), Offices and institutions sector (11%) as well as the Industrial sector and other (10%).

In addition, TAURON Capital Group's generation companies obtain certificates of origin due to electricity generation from RES and in co-generation, which are subsequently purchased by the Supply Segment companies and submitted to the President of ERO for redemption (retirement).

Sales of electricity distribution services

TAURON Dystrybucja is a company conducting sales of electricity distribution services in TAURON Capital Group and, pursuant to the decision of the President of ERO, it is a Distribution System Operator (DSO) operating under the natural monopoly conditions.

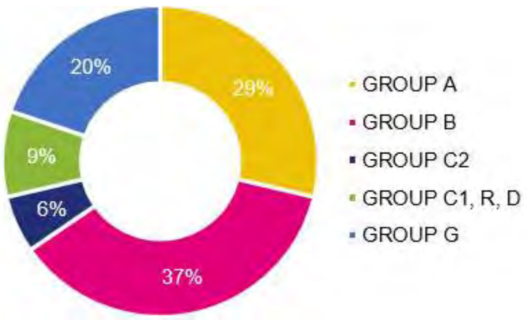
The regulated market on which TAURON Dystrybucja is operating includes the operations of 5 large distribution system operators (DSOs) that are subject to the full regulatory model. Each DSO is operating on the territory defined in the license. Following changes to the law, also more than a hundred of small distribution system operators are operating on this market serving small portions of the market (small market share), with respect to which the President of ERO is applying a simplified regulatory model. Their operations are local, based on the technical infrastructure held. One of the larger entities holding a license for distribution operations nationwide is PKP Energetyka sp. z o.o.

TAURON Dystrybucja is providing electricity distribution services for approx. 5 651 000 final consumers. The above company covers with its operations the area of about 57 thousand km^2, located mainly in the Lower Silesia, Małopolska, Opole and Silesia regions and, in addition, in the Łódź, Podkarpacie and Świętokrzyskie regions. The operational functions are performed by 11 branches located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

Sales to the tariff eligible consumers on individual voltage levels: high voltage (A group), medium voltage (B group) and low voltage (C,G,R), represent 96.6% of the distribution services sales volume. The total electricity volume supplied to the tariff eligible consumers connected to TAURON Dystrybucja's grid in 2019, as part of the sales of distribution services, reached 51.7 TWh (estimated) and it was slightly higher, as compared to 2018, by approximately 0.2 TWh, i.e. by 0.5%.

The below figure presents structure of electricity distribution by tariff groups in 2019.

Figure no. 28. Structure of electricity distribution by tariff groups in 2019



Sales of the distribution services are carried out on the basis of comprehensive agreements as well as agreements on the provision of distribution services concluded with the consumers. The first type of the agreement covers both electricity supply by the companies of the Supply Segment as well as the delivery of this electricity by the company acting as a DSO. The second type of the agreement regulates only the delivery of electricity by the company acting as a DSO. In case of this type of agreements, the purchase of electricity is governed by separate electricity supply agreements, concluded by a consumer with the supplier selected thereby.

Wholesale and retail supply of electricity and gas

Electricity supply is conducted by the Supply Segment companies, with respect to the wholesale trading of electricity, natural gas and other products of the energy market as well as with respect to retail electricity and natural gas supply.

TAURON's **wholesale trading operations** comprise mainly wholesale of electricity, trading and management of CO_2 emission allowances, property rights arising from the certificates of origin of electricity as well as natural gas, primarily for the needs of securing the buy and sell positions of TAURON Capital Group's entities.

TAURON is actively participating in auctions related to the cross-border (interconnector) exchange of electricity transmission capacity on the Polish-Czech, Polish-German and Polish-Slovak border, managed by the CAO auction office. Trading on the German market with respect to trading in financial instruments such as futures, is mainly carried out through the EEX exchange. On the other hand, on the Czech and Slovak markets trading is performed through a subsidiary - TAURON Czech Energy. In addition, the Company is operating on the KOTE a.s. (Czech Republic) and OKTE a.s. (Slovakia) exchanges.

The Company is operating on the wholesale markets both in Poland and abroad, also on the SPOT market and the RTT market. The Company is an active participant of TGE and the OTC platform run by a London energy broker - Tradition Financial Services.

With respect to the **wholesale gas fuels trading operations** the Company is an active participant of the gas market run by TGE, carries out transactions on the SPOT market as well as on the RTT products. It is involved in the proprietary trading activity on the international gas exchange POWERNEXT Pegas (as of January 1, 2020, The European Energy Exchange). The Company is present on the following hubs: GASPOOL, New Connect Germany and Tittle Transfer Facility. TAURON is operating on the foreign markets due to the agreements concluded by the Company with the German transmission system operators: GASCADE Gastransport and ONTRAS Gastransport GmbH as well as Czech NET4GAS s.r.o.

Furthermore, the Company is a participant of the Intercontinental Exchange (ICE) on the National Balancing Point (NBP) hub. Gaining access to new hubs is a consequence of the activity aimed at increasing TAURON's gas related competences and access to new sources. The volume of the OTC market transactions concluded by the Company is also successively increasing. By operating on the gas market the Company is securing the commodity supplies for the entities of TAURON Capital Group; moreover, proptrading operations are carried out on the RTT market, aimed at taking advantage of the volatility of gas prices to generate additional margins.

TAURON is also a participant of the European transmission capacity trading platform PRISMA European Capacity Platform GmbH, where purchasing of inter-system (interconnector) transmission capacities take place. With respect to booking transmission capacity on the Polish market the Company is operating as a participant of the GSA GAZ-SYSTEM Aukcje.

Electricity and natural gas retail supply – to the final consumers – is conducted by TAURON Sprzedaż and TAURON Sprzedaż GZE subsidiaries.

The customer segmentation applied by TAURON Capital Group (strategic, business and mass customers), depending on the volume of electricity consumed, is aimed at tailoring the product offering, sales channels and marketing communications to the expectations of the specific customer segment.

The below table presents categories of TAURON Capital Group's final customers, resulting from the market segmentation used and the specific nature of their business operations.

Table no. 12. Categories of TAURON Capital Group's final customers

#	Customer group	Description of customers
1.	Strategic customers	Customers with the annual potential energy consumption at a level not lower than 40 GWh or strategic business partners of TAURON Capital Group, i.e. mainly entities representing the sector of heavy industry, among others: metallurgical industry, chemical industry, mining industry, automotive industry.
2.	Business customers	Customers with the annual potential energy consumption at a level above 250 MWh (other than consumers), or purchasing energy based on the provisions of the *act of January 29, 2004, Public procurement law*, i.e. entities representing the other sectors of the manufacturing industry, producers of equipment, consumers from food industry, public sector, construction sector and municipal services sector.
3.	Mass customers - small and medium-sized enterprises	Customers dealing with sales, services, banking, catering and small businesses.
4.	Mass customers - households	Households

The supply companies were operating in 2019 in a market environment where the level of competitiveness in the individual market segments did not change significantly as compared to the previous years. The household market (individual customers) continued in 2019 to be covered by the obligation to have the electricity sales prices approved by the President of ERO.

According to the ERO data, from mid-2007 until December 2019, i.e. since the beginning of the electricity market liberalization process, approx. 657 000 households and approx. 210 000 institutional entities switched their electricity supplier.

In the institutions and business entities (business customer) market segment the competition is strong and companies have already been taking advantage of the liberalization of electricity prices for several years. The progress of the liberalization has resulted in the increasing awareness of business customers expecting competitive solutions. The enhanced sales activities of the energy companies exert ever increasing price pressure. Business customers are willing to switch their supplier. The consequences of such a situation include activities aimed at protecting own customer base against the actions taken by the competition by introducing loyalty building agreements.

The household segment, where the number of supplier switch cases represents a small percentage, is considered to offer a strong potential. In 2019 more than 61 500 consumers of electricity switched their suppliers (including approximately 8 900 institutional customers and approximately 52 600 households). In 2019 the rate of supplier changes in case of households dropped, as compared to 2018, by 9%, and in case of institutional entities, by 30%.

The offering of TAURON Sprzedaż for the business segment in 2019 included 2 media: electricity and gas fuel. The above company continued its activities geared towards building customer loyalty, with particular emphasis placed on developing an offering that would meet customer expectations. Customers were offered a number of products to choose from, taking into account their needs and the specifics of electricity consumption, including ecological, exchange based and technical products.

The sales of the *TAURON Giełda* product, structured based on the market prices set based on the RTT TGE indices performance, were continued in 2019. Furthermore, in order to intensify electricity and gas contracting, the *TAURON Multipakiet* product that provided simultaneous customer contracting with respect to both media within a single contracting negotiations process, continued to be a part of the offering. The *Wakacje od faktury* product was very successful with its sales rising almost four times in 2019 versus the previous year.

The process of mass segment customers (individual customer and small and medium size enterprises) migrating from the tariff based pricing to the product based pricing, was also observed in 2019. As of the end of 2019, TAURON Capital Group was selling electricity under agreements guaranteeing commercial terms over the specified period to 43% of the segment's customers (loyalty building agreements), while 57% of the customers were buying electricity at tariff based prices.

The key element of the commercial offering for the mass customers in 2019 were the combined products: *Elektryk* and *Serwisant*, based on the assistance functionality, that were used by more than 1.5 million customers (medical packages were launched, the functionality of the *Serwisant 24h PLUS* product was extended).

Furthermore, in 2019 the range of products addressed to the customers was extended by adding specialized products, e.g. *TAURON Smart Home*, with its sales in 2019 reaching 16 000. The assistance products will represent the core of the offering also in 2020.

In 2019 the retail supply of electricity by the Supply Segment companies to more than 5.5 million customers reached approx. 33.7 TWh, i.e. 98% of the 2018 level when the supply came in at approx. 34.5 TWh. Decreased supply volume was visible primarily in the Business Customer Segment, which was due to the loss of customers and the declining demand or the number of the consumption points at the customers' included in the portfolio of TAURON Capital Group's supply companies.

The below table presents information on the volume of electricity supplied by TAURON Capital Group's subsidiaries conducting operations related to the retail electricity supply to customers, as well as the number of customers, broken down into individual customer segments, in 2019.

Table no. 13. Volume of retail electricity supplied and the number of customers in 2019

#	Customer type	Electricity volume supplied (TWh)	Number of customers ('000)
1.	Strategic customers	6.3	0.6
2.	Business customers	12.4	195
3.	Mass customers, including::	11.9	5 317
	Households	*9.6*	*4 931*
4.	Supply to TAURON Dystrybucja to cover the balancing differences	2.8	0.001
5.	Other (exports, own needs)	0.4	-
	Supply Segment	**33.7**	**5 512**

2.4.2. Supply sources – fuel

Coal (domestic market)

In 2019 TAURON continued coal and coal sludge purchasing and trading, for the needs of TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON, under the agreements concluded with the suppliers from outside TAURON Capital Group:

1. Polska Grupa Górnicza Sp. z o.o. (65%[1]),
2. Węglokoks S.A. (16%[1]),
3. Jastrzębska Spółka Węglowa S.A. (10%[1]),
4. Grupa CZH S.A. (3%[1]),
5. EP Coal Trading Polska S.A. (2%[1]),
6. HALDEX S.A. (2%[1]),
7. TRANSLIS Sp. z o.o. (1%[1]),
8. Synergio Group S.A. (0.4%[1]).

[1]*suppliers' shares in the total coal supplies.*

In total, the Company bought 3.9 million tons of coal from the suppliers outside TAURON Capital Group.

In addition, the Company bought coal and coal sludge for the purposes of electricity and heat production by the Generation Segment from TAURON Wydobycie - a total of 3.0 million tons was delivered.

The below figure presents the quantity of coal and coal sludge purchased by TAURON Capital Group in 2019.

Figure no. 29. Coal and coal sludge purchased in 2019 (in Mg m)

44% of the coal supplies for the electricity and heat production were satisfied by the coal from TAURON Wydobycie's own coal mines in 2019. The remaining part of the demand was covered from the external sources, in which Polska Grupa Górnicza S.A. and Węglokoks S.A. had the largest shares.

TAURON does not have any equity ties to the above mentioned companies.

Gas (domestic and foreign market)

TAURON Capital Group purchases fuel gas on the domestic market, via exchanges.

The Company is an active participant of the gas market managed by TGE, carries out transactions on the SPOT market, as well as on the RTT futures market products.

The Company is also involved in the proprietary trading activity on an international gas exchange POWERNEXT Pegas (as of January 1, 2020, The European Energy Exchange) and is present in the following hubs: GASPOOL, New Connect Germany and Tittle Transfer Facility.

Furthermore, the Company is a participant of the Intercontinental Exchange (ICE) on the National Balancing Point. It is also systematically increasing the volume of transactions concluded by the Company on the OTC market.

Operating on the gas market the Company is securing gas supplies for TAURON Capital Group's entities.

2.5. Timeline

The below figure presents the timeline of selected highlights associated with the operations of TAURON Polska Energia S.A. and TAURON Capital Group that took place in 2019.

Figure no. 30. Timeline

JANUARY - FEBRUARY

- Signing of the agreement with Krakowski Park Technologiczny sp. Z o.o. on the participation in the KPT ScaleUp acceleration program. The program is the implementation of the assumptions of the ScaleUp program as part of activity 2.5 Acceleration programs of the Intelligent Development Operational Program for 2014-2020 implemented by the Polish Agency for Enterprise.

MARCH – APRIL

- Completion of the project: *Implementation of the GDPR (RODO) regulation at TAURON Group*.
- Publishing of the FY 2018 financial results of TAURON and TAURON Capital Group
- Adoption of the *IT development assumptions and directions in 2019-2021*.
- Adoption of TAURON Group's *Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination*.
- Launching of the project: *Implementation of the requirements of the act on the National Cybersecurity System at TAURON Group.*.

MAY - JUNE

- TAURON's Ordinary GM.
- Passing of the amendments to the Company's Articles of Association.
- Update of *TAURON Group's Investment Portfolio for 2018-2021.*
- Adoption of *TAURON Group's Process-based Management Policy.*
- Publishing of the Q1 2019 financial results of TAURON and TAURON Capital Group
- Adoption of the *Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025*
- Launching of the project aimed at market verification of the option to divest TAURON's shares in TAURON Ciepło and a potential continuation of the sale process
- Launching of the project aimed at analyzing and determining the optimal scenario and conditions, followed by market verification of the option to divest some of TAURON Wydobycie's mining assets and potential continuation of the sale process
- Launching of *TAURON Group's Integrated Work Health and Safety Management Program*
- TAURON joining TAURON Group's Employers' Union aiming to protect the rights and represent the interests of the associated Employers of TAURON Group

JULY - AUGUST	• Launching of the *Home Energy Management Program* and the projects included in the Program related to the development of the new products and services in the Customer area • Commencement of the drilling of the 870 m deep shaft as part of the "Grzegorz" Shaft construction project. • Launching of the project: *Development of a comprehensive assessment methodology for the Internal Control System* • Commencement of the hot start-up of the 910 MW unit in Jaworzno by the firing of the boiler burners with light oil for the first time • Publishing of the multimedia Integrated Report for 2018 • Completion of the *One Distribution Program* • Completion of the project: *Reorganization of the Combustion By-products and Mining By-products area at TAURON Group* • Adoption of *TAURON Group's Intellectual Property Policy* and *TAURON Group's Intellectual Property Management Regulations*
SEPTEMBER - OCTOBER	• Adoption of TAURON Group's planning assumptions for 2020-2029 with an outlook until 2040 • Acquisition of 5 wind farms with the total capacity of 180 MW from the in.ventus group • TAURON joining the Association of Polish Power Industry Employers. • Launching of Poland's first digital power sub-station in Oborniki Śląskie by TAURON Dystrybucja. • Publishing of the H1 2019 financial results of TAURON and TAURON Capital Group • Signing by TAURON Dystrybucja and the Ministry of Energy (as of November 15, 2019, the Ministry of State Assets) of an agreement on the cooperation in the energy sector aimed at increasing Poland's cybersecurity • TAURON's participation in the GovTech government program, which aims to create an alternative for the traditional tender procedure when acquiring modern solutions for the public sector and companies. • TAURON awarded special *The Best of The Best* prize for the Annual Report for 2018, the first prize for the multimedia Integrated Report 2018 and the honorable mention for the best statement on applying corporate governance in *The Best Annual Report 2018* competition organized by the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków) • Completion of the works on the modern structure of the headframe of the "Janina VI" shaft at the Janina Coal Mine.
NOVEMBER - DECEMBER	• Commissioning of a modern infrastructure, unique in the mining sector, related to the utilization of water from the depths of the Sobieski Coal Mine • Publishing of the Q3 2019 financial results of TAURON and TAURON Capital Group • Adoption of *TAURON Group's Climate Policy* • TAURON's Extraordinary GM • Participation in the main capacity market auction for 2024 • First synchronization with the National Power System (Krajowa Sieć Elektroenegetyczna) of the 910 MW generating unit in Jaworzno

2.6. Major events and TAURON Capital Group's accomplishments with a significant impact on its operations

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that occurred in 2019, as well as until the date of drawing up this report are listed below. In addition. the above events should include concluding agreements significant for TAURON Capital Group's operations, described in detail in section 12.2.1. of this report.

Major business events in 2019

Adoption of the update of the strategic directions of TAURON Group's Strategy for 2016-2025

On May 27, 2019, the Company's Management Board adopted, and the Supervisory Board issued a positive opinion on it, the Update of the Strategic Directions that are an addendum to the Strategy. The updated strategic directions take into account the changes in the market and regulatory environment in which TAURON Capital Group is operating.

In accordance with the Strategy in force and the adopted Update of the Strategic Directions the growth of TAURON Capital Group's value will primarily be based on: regulated and stable Distribution segment, development of low emission and zero emission sources, conventional assets eligible for support, sales of energy and energy related products and services tailored to customer needs.

As a result of implementing the actions planned it will be possible to raise the share of low emission and zero emission sources in TAURON Capital Group's generation fleet from 10 percent in 2018 to almost 30 percent in 2025 and more than 65 percent in 2030.

Taking into account the need for TAURON Capital Group's energy transition, optimization of the investment portfolio and maintaining financial stability, the decision on conducting a market verification of the following strategic options has been taken:

1. development of low emission and zero emission power generation, primarily through investments in the renewable energy sources. By 2025 TAURON Capital Group is planning to invest in on-shore wind farms (additional 900 MW), photovoltaic farms (additional 300 MW) and commence the process of engaging in the construction of off-shore wind farms. The growth of TAURON Capital Group's renewable sources' capacity may take place under various business models. In the case of some of the projects planned it is assumed that financial partners will be recruited and investment projects will be carried out with an approx. 20 percent equity share of TAURON Capital Group and TAURON Capital Group will be able to manage such assets
2. enhancing the flexibility of TAURON Capital Group's asset portfolio by aligning the mining assets with TAURON Capital Group's planned demand for fuel, reorganizing the Generation segment and equity investments portfolio.

As part of that option, a market verification of the divestment of the Janina Coal Mine (ZG Janina) and TAURON Ciepło, as well as a sale of the shares in the companies: EC Stalowa Wola and PGE EJ 1, are taken into consideration. With respect to conventional power generation, permanent decommissioning of the 120 MW units and, past 2025 – the 200 MW units, is planned

The specific strategic options will be implemented solely in case the profitability of the solutions adopted is confirmed, taking into account TAURON Capital Group's financial capabilities.

At the current stage the Update of the Strategic Directions does not involve a change of the objectives defined in TAURON Group's 2016-2025 Strategy.

The information on the above event was disclosed by TAURON in the regulatory filing (current report) no. 23/2019 of May 27, 2019.

Update of the information on the construction of the power generating unit in Jaworzno III

On September 17, 2019, Nowe Jaworzno Grupa TAURON Sp. z o.o. received a request from the RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. consortium, constituting an invitation to start negotiations on expanding the scope of works defined in the agreement on the construction of the 910 MWe unit with supercritical parameters at Jaworzno III Power Plant – Power Plant II.

The Consortium proposed performance of additional works whose effect would have a positive impact on the technical and environmental parameters of the unit and allow to expand the so-called fuel field (mix) of the unit (admission of a broader variety of coal types), which will allow for optimizing the costs of electricity production. In the Consortium's opinion, the additional work will bring measurable financial and operational benefits to TAURON Capital Group. The Consortium indicates that TAURON's approval of a potential extension of the scope of works may have an impact on the unit's construction schedule and the value of the above agreement.

In view of the above Nowe Jaworzno Grupa TAURON Sp. z o.o. proceeded to the negotiations related to the proposals presented by the Consortium, the main part of which, related to the extension of the works defined in the above agreement, at the level of negotiating teams was completed on October 17, 2019.

As a result of the negotiations, it was agreed that the Consortium would perform additional tasks, including: conducting the optimization efforts aimed at expanding the so-called fuel field (mix, range) of the unit (admission of a broader variety of coal types) in order to make the unit's operational conditions more flexible and guarantee the compliance with the future environmental requirements, among others, it would supply an additional catalyst layer and an additive dosing installation to the flue gases desulfurization system in order to reduce mercury emissions.

In addition, after the unit has been commissioned, the Consortium will carry out optimization steps aimed at verifying the unit's compliance with the changed technical parameters. As a result of extending the scope of works it will be possible to reduce the level of substances emitted by the unit to the environment, while expanding of the so-called fuel field (mix, range) of the Unit (admission of a broader variety of coal types) will enable TAURON Group to have greater flexibility in hard coal contracting.

In view of the above it was agreed that it would be necessary to introduce changes to the agreement, in particular with respect to the agreement value and the unit's construction schedule. It was agreed that the net price defined in the agreement would be increased by PLN 52.3 million to PLN 4 537.8 million, and the acceptance (takeover) of the unit for operation would take place by January 31, 2020.

The change to the terms and conditions of the agreement will not cause an overrun of the assumed total capital expenditures budgeted for the implementation of this investment project, i.e. PLN 6.2 billion.

The amendment to the agreement between Nowe Jaworzno Grupa TAURON and the Consortium was signed on December 19, 2019.

TAURON disclosed the information on the above events in the regulatory filing (current report) no. 37/2019 of September 17, 2019, in the regulatory filing (current report) no. 40/2019 of October 17, 2019, and in the regulatory filing (current report) no. 57/2019 of December 19, 2019.

Decision on admitting bidders to the due diligence of TAURON Ciepło Sp. z o.o.

On 22 November 2019, TAURON's Management Board decided to admit bidders to the due diligence of TAURON Ciepło, which may end with the submission of the binding bids. This decision was made, among others, based on the received preliminary, non-binding bids to purchase TAURON Ciepło.

The conclusion of the potential Transaction will require in particular obtaining relevant corporate consents and approvals of the institutions financing the operations of TAURON Capital Group. The Company allows the possibility of the cancelation of the process leading to the conclusion of the Transaction.

TAURON disclosed the information on the above events in the regulatory filing (current report): no. 49/2019 of November 22, 2019.

Decision to end the process of seeking a potential investor interested in acquiring Janina Coal Mine (ZG Janina)

On December 10, 2019, TAURON's Management Board took a decision to end the process of seeking a potential investor interested in acquiring Janina Coal Mine (ZG Janina), conducted since May of 2019, due to not having received any bids by the deadline set.

At the same time, TAURON informed that it would be conducting conceptual and analytical works related to implementing the strategic direction aimed at making TAURON Capital Group's asset portfolio more flexible by adapting its mining assets to TAURON Capital Group's planned demand for fuel.

TAURON disclosed the information on the above events in the regulatory filing (current report): no. 53/2019 of December 10, 2019.

Preliminary results of the capacity market main auction for 2024 provided by Polskie Sieci Elektroenergetyczne S.A.

On December 10, 2019, TAURON informed that PSE had provided preliminary results of the capacity market main auction for 2024, conducted on December 6, 2019, as part of the capacity market mechanism.

In accordance with the information published by PSE, the above auction's closing price reached 259.87 PLN/kW/year and TAURON Capital Group's subsidiaries concluded capacity agreements for the total volume of the capacity obligations amounting to 573.5 MW, including the agreements for:

- 5 years (i.e. for 2024-2028) with the capacity obligation of 505 MW, under which the annual revenue estimated by the Company will reach PLN 131.23 million,
- 2 years (i.e. for 2024-2025) with the capacity obligation of 29 MW, under which the annual revenue estimated by the Company will reach PLN 7.54 million,
- 1 year (i.e. for 2024) with the capacity obligation of 39.5 MW, under which the annual revenue estimated by the Company will reach PLN 10.26 million.

Taking the above into account the Company estimated that TAURON Capital Group's revenue from the above mentioned auction would reach:

- in 2024: PLN 149.04 million,
- in 2025: PLN 138.77 million,
- in 2026-2028 (in total): PLN 393.70 million.

Pursuant to the *act of December 8, 2017 on the capacity market*, the final results of the Auction will be announced by the President of the Energy Regulatory Office in the Bulletin of Public Information (Biuletyn Informacji Publicznej) on its website, on the first business day following the 21st day from the day of closing the above mentioned auction. Until the final results of the auction are announced, TAURON Capital Group's subsidiaries' capacity agreements are concluded under a suspending condition.

In case the final results of the auction differ from the preliminary results of the above auction, the Company will disclose the accordingly adjusted data.

TAURON disclosed the information on the above events in the regulatory filing (current report): no. 54/2019 of December 10, 2019.

The final results of the main auction for the delivery year 2024 were announced by the President of the Energy Regulatory Office on December 30, 2019.

Major corporate events in 2019

Shareholders' request to include particular items in the agenda of the General Meeting of the Company

The Company received, from the shareholders representing more than 1/20 part of TAURON's share capital, requests to include in the agenda of the Ordinary General Meeting of the Company to be convened on May 8, 2019, the additional items, including

1. on March 11, 2019, from KGHM Polska Miedź, an item related to the adoption of resolutions on making changes to the composition of the Company's Supervisory Board
2. on April 16, 2019, from the Minister of Energy, exercising the rights of the shareholder State Treasury, the items: the adoption of the resolutions on amending resolution no. 5 of the Extraordinary General Meeting of Shareholders of December 15, 2016, on the principles for determining the compensation of the Members of the Management Board and the adoption of the resolutions on amending the Company's Articles of Association.

KGHM informed that it was intending to propose making changes to the composition of the Company's Supervisory Board and would file applicable motions at the Ordinary General Meeting.

Minister of Energy, in the statement of reasons with respect to the item related to the adoption of the resolutions on amending resolution no. 5 of the Extraordinary General Meeting of Shareholders of December 15, 2016 on the principles for determining the compensation of the Members of the Management Board pointed out, among others, that updating of the general catalogue of the Management Targets for the Management Board of TAURON Polska Energia S.A. was justified by the planned completion, in 2019, of the accomplishment of the majority of the Management Targets, and what followed, the problems that may arise in the future with respect to the detailing thereof by the Supervisory Board.

In the statement of reasons with respect to the item related to the adoption of the resolutions on amending the Company's Articles of Association, the Minister of Energy pointed out the need to introduce amendments to the provisions implemented in the Company's Articles of Association in 2017 in connection with the amendment of the *act of December 16, 2016 on the principles of state assets management*.

The detailed information on the above events was disclosed in the regulatory filings (current reports) no. 5/2019 of March 11, 2019 and no. 11/2019 of April 16, 2019.

Ordinary General Meeting of the Company

The Ordinary General Meeting of the Company was held on May 8, 2019, and it adopted the resolutions concerning, inter alia, the approval of the financial statements of TAURON for the financial year 2018, the consolidated financial statements of TAURON Capital Group for the financial year 2018, the report of the Management Board on the operations of TAURON and TAURON Capital Group for the financial year 2018, the covering of the net loss for the financial year 2018, the acknowledgement of the fulfillment of duties by members of the Company's Management Board and Supervisory Board, dismissing and appointing new members of the Supervisory Board, updating of the general catalogue of the management targets for the Company's Management Board by amending the earlier resolution of the Extraordinary General Meeting of Shareholders of December 15, 2016 on the principles for determining the compensation of the Members of the Management Board, amending the Company's Articles of Association of TAURON Polska Energia S.A.

The decision was taken to cover the Company's net loss for the financial year 2018, in the amount of PLN 1 709 852 955.76 from the Company's spare (supplementary) capital.

The Ordinary General Meeting of the Company made changes to the composition of the Supervisory Board by way of:

- dismissing from the Supervisory Board of the 5th common term of office Mr. Radosław Domagalski-Łabędzki and Mr. Paweł Pampuszko, and
- appointing to the Supervisory Board of the 5th common term of office Mr. Rafał Pawełczyk and Ms. Katarzyna Taczanowska.

The Company disclosed the information on convening of the Ordinary General Meeting and on the content of the draft resolutions in the regulatory filings (current reports) no. 9/2019 of April 11, 2018, no. 10/2019 of April 11/2019 and no. 14/2019 of April 30, 2019.

The Company disclosed the information on the adopted resolutions of the Ordinary General Meeting in the regulatory filing (current report): no. 18 of May 8, 2019.

Extraordinary General Meeting of the Company

The Extraordinary General Meeting of the Company was held on November 21, 2019, and on December 6, 2019, that adopted the resolutions on the principles for determining the compensation of the Members of the Management Board and a change to the composition of the Company's Supervisory Board by appointing to the Supervisory Board of the 5th common term of office Mr. Grzegorz Peczkis.

The Company disclosed the information on convening of the Extraordinary General Meeting, changes to the agenda and on the content of the draft resolutions in the regulatory filings (current reports) no. 41/2019 and 42/2019 of October 24, 2019, no. 43/2019 of October 30, 2019 and no. 45/2019 of October 31, 2019.

TAURON disclosed the information on the adopted resolutions of the Extraordinary General Meeting in the regulatory filings (current reports): no. 47/2019 of November 21, 2019 and no. 51/2019 of December 6, 2019.

Other major events in 2019

Filing of a lawsuit against TAURON Sprzedaż and discontinuing of the proceeding (dismissal of the case)

On March 7, 2019, TAURON Sprzedaż subsidiary was served an official copy of the statement of claim filed against the company by Hamburg Commercial Bank AG (formerly HSH Nordbank AG) with its seat in Hamburg.

The subject of the statement of claim was the payment by TAURON Sprzedaż, in favor of Hamburg Commercial Bank AG, of the total amount of PLN 232 878 578.36 plus the statutory interest for a late payment, accrued from the day of filing the lawsuit until the payment date, on account of:

- damages (in the total amount of PLN 36 251 978.36) due to TAURON Sprzedaż's failure to perform agreements on the sale of the property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source, and
- liquidated damages (in the total amount of PLN 196 626 600) assessed due to the termination of the above mentioned agreements

Hamburg Commercial Bank AG was seeking redress arising from the purchase by way of a transfer of claims originally due to, according to its assertions, the in.ventus group subsidiaries, i.e.:

- in.ventus sp. z o.o. EW Dobrzyń sp.k.,
- in.ventus sp. z o.o. INO 1 sp.k.,
- in.ventus sp. z o.o. EW Gołdap sp.k.

The competent court to rule on the lawsuit was the Regional Court in Cracow (Sąd Okręgowy w Krakowie). The preliminary assessment of the lawsuit and its statement of reasons indicated, in the opinion of TAURON Sprzedaż, that the claims asserted were without merit and completely groundless.

TAURON disclosed the information on the termination by TAURON Sprzedaż of the long term contracts for the purchase of the property rights arising from the certificates of origin of electricity from the renewable sources in the regulatory filing (current report) no. 6/2017 of February 28, 2017.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 4/2019 of March 7, 2019.

On September 3, 2019, Hamburg Commercial Bank AG withdrew the lawsuit and waived its claim, and therefore the parties jointly submitted a request to discontinue the proceeding (dismiss the case) in whole. By way of the decision of September 5, 2019 the court discontinued the proceeding (dismissed the case). The court's decision became legally binding on September 19, 2019.

Ratings and outlooks affirmed and rating assigned to the hybrid bonds

On April 17, 2019, Fitch Ratings rating agency (Fitch) affirmed TAURON's long term foreign and local currency ratings of "BBB" with a stable outlook and assigned a local currency rating of "BB+" and a national rating of "BBB+(pol)" to the PLN 400 million hybrid bonds issued on March 29, 2019, under the 2017 hybrid bonds program concluded with BGK.

The full list of rating actions includes:

- long term local currency and foreign currency ratings affirmed at "BBB"; stable outlook,
- short term local currency and foreign currency ratings affirmed at "F3",
- national long term rating affirmed at "A+(pol)"; stable outlook,
- foreign currency senior unsecured debt rating of EUR 500 million Eurobonds affirmed at "BBB",
- national senior unsecured debt rating affirmed at "A+(pol)",
- EUR 190 million hybrid bonds (European Investment Bank – "EIB") rating affirmed at "BB+",
- PLN 750 million hybrid bonds (EIB) rating affirmed at "BB+",
- PLN 400 million hybrid bond program (BGK) rating affirmed at "BB+",
- PLN 400 million hybrid bond program (BGK) national rating affirmed at "BBB+(pol)",
- PLN 400 million hybrid bonds (BGK) assigned a local currency rating of "BB+",
- PLN 400 million hybrid bonds (BGK) assigned a national rating of "BBB+(pol)".

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 12/2019 of April 17, 2019.

Ruling of the Court of Arbitration at the Polish Chamber of Commerce on the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A. and the decision of the Court of Appeals in Rzeszów

On April 25, 2019, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw issued the award in the case related to the claim filed by Abener Energia against EC Stalowa Wola..

The proceedings before the Court of Arbitration were related to the claim for payment, the petition to establish legal relationship and the claim for an injunction to submit a statement of will (intent) in conjunction with the terminated contract, concluded between Abener Energia and EC Stalowa Wola, for the construction of an approx. 400 MW CCPP unit, including a heat generation unit, at Elektrociepłownia Stalowa Wola S.A.

According to the ruling of the Court of Arbitration, EC Stalowa Wola was obligated to pay Abener Energia the amount of PLN 333 793 359.31, plus statutory interest for the delay and the costs of the arbitration proceedings.

An appeal to have the ruling of the Court of Arbitration overturned may have been filed with a common court of law.

After the review of the ruling and the statement of its reasons on June 24, 2019, EC Stalowa Wola filed an appeal to the Court of Appeals in Rzeszów to have the ruling of the Court of Arbitration overturned.

At the same time, Abener Energia filed a request to determine enforceability and append an enforcement clause to the ruling of the Court of Arbitration.

On August 5, 2019, the Court of Appeals in Rzeszów issued the decision in which the Court deferred the processing of the request of Abener Energia to determine enforceability and append an enforcement clause to the ruling of the Court of Arbitration of April 25, 2019.

The processing of the request mentioned above was deferred by the Court of Appeals until the appeal filed by EC Stalowa Wola to have the ruling of the Court of Arbitration overturned, is completed.

TAURON disclosed the information on the above events in the regulatory filings (current reports) no. 16/2019 of May 2, 2019 and no. 29/2019 of August 8, 2019.

Lowering of the equity of TAURON Dystrybucja S.A.

On June 28, 2019, the District Court for Kraków - Śródmieście in Kraków, 11th Commercial Department of the National Court Register registered the changes related to the lowering of the share capital of TAURON Dystrybucja S.A.

The above event was a consequence of retiring 1 766 522 of own shares bought back by TAURON Dystrybucja S.A. from the minority shareholders in accordance with art. 418[1] of the Commercial Companies Code (Ksh) (squeeze out). The nominal value of the retired shares is PLN 35 330.44. The repurchase price was each time determined in accordance with art. 418[1] § 6 of the Commercial Companies Code (Ksh), i.e. as an equivalent of the value of net assets of TAURON Dystrybucja S.A. per share, disclosed in the financial statements for the last financial year, reduced by the amount to be split among the shareholders. As a result of retiring of the shares TAURON's share in the company's share capital is 99.75%.

Ruling of the Regional Court related to Polska Energia - Pierwsza Kompania Handlowa sp. z o.o.

On July 25, 2019, TUARON informed that the Regional Court in Gdańsk had issued a partial and preliminary ruling in the lawsuit filed against PEPKH by Amon sp. z o.o. in 2015, in which the Court: determined that PEPKH's statements on the termination of the long term agreements, concluded between PKH and Amon sp. z o.o., for the purchase of electricity and the property rights arising from the certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, and determined that the demand for the payment of damages for a failure to perform the agreement on the sale of property rights arising from the certificates of origin had been justified in principle, however the Court did not determine the amount of the potential damages.

The ruling was issued in the first instance and it is not legally binding. PEPKH disagrees with the ruling and filed an appeal on October 25, 2019.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 26/2019 of July 25, 2019.

Filing of a lawsuit against Polska Energia - Pierwsza Kompania Handlowa sp. z o.o.

On September 2, 2019, TAURON informed that its PEPKH subsidiary received an official copy of the lawsuit filed against PEPKH by Amon.

The subject of the lawsuit is the demand to pay by PEPKH to Amon of the total amount of PLN 29 009 189.38 plus statutory interest for late payment accrued from the date of filing of the lawsuit until the date of payment, on account of:

- damages in the total amount of PLN 1 576 475.44 due to PEPKH's failure to perform the Agreement for the Sale of Property Rights arising from the certificates of origin constituting confirmation of electricity generation from a renewable energy source – the wind farm located in Łukaszów in the period from August 1, 2017 to December 31, 2017,
- damages in the total amount of PLN 27 432 713.94 due to PEPKH's failure to perform the Agreement for the Sale of Electricity generated from a renewable energy source – the wind farm located in Łukaszów in the period from September 25, 2017 to July 31, 2019.

TAURON disclosed the information about the termination by PEPKH of the above mentioned long term agreements in the regulatory filing (current report) no. 7/2015 of March 19, 2015.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 33/2019 of September 2, 2019.

On November 4, 2019, PEPKH filed a response to the lawsuit demanding that the lawsuit be dismissed in its entirety. The preliminary assessment of the demands included in the lawsuit and its statement of reasons indicates that the claims are without merit.

Information on the effects of the 2020 electricity tariff for the G tariff groups customers approved by the President of the Energy Regulatory Office.

On December 17, 2019, TAURON informed that it had performed an evaluation of the impact on TAURON Capital Group's financial results of the 2020 electricity tariff for the G tariff groups consumers, approved by the President of the Energy Regulatory Office on December 17, 2019.

The President of ERO approved the electricity sales price for the G tariff groups consumers for TAURON Sprzedaż sp. z o.o. at PLN 289.37 per MWh on average. The G tariff will be in effect until 31 December 2020. The G tariff consumers are primarily households.

Taking into account the approved electricity sales price and acting in compliance with IAS 37 *Provisions, contingent liabilities and contingent assets*, TAURON identified the need to set up, in Q4 of 2019, a provision related to onerous contracts in the Supply Segment that was initially estimated to be worth between PLN 230 million and PLN 280 million.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 56/2019 of December 17, 2020.

As of December 31, 2019, TAURON Capital Group updated the provision related to the onerous contracts in the Supply Segment up to the amount of PLN 237 445 000 PLN, as described in detail in note 39.2 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019*.

Filing of a lawsuit against Elektrociepłownia Stalowa Wola S.A.

On 20 December 2019, EC Stalowa Wola received a lawsuit filed to the Court of Arbitration at the Polish Chamber of Commerce in Warsaw by Abener Energia.

The subject of the claim is the payment by EC Stalowa Wola to Abener of the total amount of PLN 156 446 842.98 and EUR 536 839.02 (which is the equivalent of PLN 2 287 148.96 according to the NBP's average exchange rate as of December 20, 2019) plus statutory interest for the delay, as damages due to EC Stalowa Wola having called for and obtained, at Abener Energia's expense, the payment under the contract performance bond or potentially a repayment of the unjust enrichment of ECSW at Abener Energia's expense due to obtaining the payment under the contract performance bond. The bond was granted to EC Stalowa Wola by Abener Energia in accordance with the contract concluded between Abener Energia (general contractor) and EC Stalowa Wola (employer) on the construction of the approx. 450 MW electric capacity combined cycle power plant in Stalowa Wola.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 59/2019 of December 20, 2020.

EC Stalowa Wola had proceeded to review the content of the lawsuit and filed its response to the lawsuit on March 20, 2020. A preliminary assessment of the statement of claim and its justification indicates that the claim is without merit.

Major events after December 31, 2019

Update of the information on the construction of the power generating unit at Jaworzno

On January 30, 2020, TAURON received from Nowe Jaworzno Grupa TAURON information on the change of the commissioning date of the 910 MWe supercritical power generating unit at Jaworzno III Power Plant - Power Plant II. The unit's contractor, i.e. RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium, notified Nowe Jaworzno Grupa TAURON that the unit would be ready for commissioning on February 4, 2020. Taking into account the information received from the Consortium, Nowe Jaworzno Grupa TAURON conducted an internal unit construction schedule viability analysis. Taking into account the course of the technical tests and the trial (test) run of the unit conducted so far, Nowe Jaworzno Grupa TAURON estimated that the commissioning of the Unit should take place by February 15, 2020.

On February 13, 2020, Nowe Jaworzno Grupa TAURON received a letter from the company E003B7 sp. z o.o. (a subsidiary of RAFAKO SA) in which, in particular, it was indicated that during the last phase of the unit's tests one of the boiler's elements had been damaged. As a result, the commissioning of the Unit was not possible on the above indicated date. Currently, the team composed of the representatives of the contractor and Nowe Jaworzno Grupa TAURON is working to determine the scope of works and the time required to replace damaged elements.

On March 6, 2020, Nowe Jaworzno Grupa TAURON received the information from RAFAKO S.A. regarding the estimated date of commissioning the unit. RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium estimated that the unit should be commissioned by July 31, 2020.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 2/2020 of January 30, 2020, no, 4/2020 of February 13, 2020 and no. 7/2020 of March 6, 2020.

Bond issue program established

On February 6, 2020, TAURON concluded, with Santander Bank Polska, a program agreement, pursuant to which a bond issue program was established, within which TAURON has an option to issue bonds up to the maximum amount of PLN 2 billion, with the value of the issue being determined each time at the time of making the decision on the issue.

Under the above program bonds will be issued pursuant to the *act of January 15, 2015*, on bonds. The procedure under which the bonds will be offered as part of the Program will not entail an obligation to draw up an issue prospectus. The bonds will take the form of dematerialized, unsecured bearer securities, denominated in PLN, with the maturity between 5 and 10 years (inclusive). The Company’s intention is to place the bonds on the market and introduce them to the trading in the alternative trading system Catalyst run by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A. - GPW).

The proceeds from the bond issue will support the implementation of TAURON Capital Group’s energy transition, including increasing the share of the low and zero emission sources in its generation mix, in particular, the proceeds from the bond issue will be used to:

- finance the costs of developing / acquiring renewable energy sources (RES) projects (RES),
- finance the distribution, as well as TAURON Capital Group’s general corporate operations related to RES or the energy transition to zero emission,
- finance the costs of developing or acquiring projects where biomass or gas is used as fuel,
- refinance TAURON Capital Group’s debt taken on in order to finance the above undertakings.

The proceeds from the bond issue will not be allowed to be used to finance new and existing coal fired units, the operations of TAURON Wydobycie and the operations of TAURON Wytwarzanie, in case of other undertakings than the ones indicated above.

The terms of the bond issue, including the ones related to the maturity, as well as to the amount and manner of paying out interest, will be defined for the individual series of the bonds being issued.

The terms of the bonds issued as part of the above program will include sustainable development indicators (indices, metrics) in the form of the CO_2 emission reduction rate (indicator) and the RES capacity growth rate. The degree of achieving the defined threshold values of these indicators will have an impact on the level of the bonds’ interest rate margin.

TAURON’S intention is to carry out the first bond issue within 3 months from the date of concluding the above mentioned agreement. The final decisions on the individual bond issues as part of the Program will be signed off based on TAURON’s applicable corporate approvals and will be dependent on the market conditions.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 3/2020 of February 6, 2020.

Ruling of the Regional Court related to Polska Energia - Pierwsza Kompania Handlowa sp. z o.o.

On March 6, 2020, TAURON informed that the Regional Court in Gdańsk issued a partial and preliminary ruling in the lawsuit filed in 2015 against PEPKH by Talia sp. z o.o. (Talia), in which it determined that PEPKH’s statements on the termination of the long term agreements, concluded between PKH and Talia sp. z o.o., for the purchase of electricity and property rights arising from the certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all of the provisions and shall be binding for the parties, and determined that the demand for payment of damages for a failure to perform the agreement on the sale of the property rights arising from the certificates of origin had been justified in principle, however it did not determine the amount of the potential damages.

The decision was issued in the first instance and is not legally binding. PEPKH does not agree with the decision.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 6/2020 of March 6, 2020.

On March 12, 2020, PEPKH filed with the court its request that the court serve the decision, including the statement of reasons in writing, in order to analyze it and file an appeal.

Signing of the loan agreement with the bank SMBC BANK EU AG

On March 16, 2020, TAURON concluded a loan agreement with SMBC BANK EU AG worth PLN 500 million, the proceeds from which may be used to fund the Company's general corporate purposes, excluding the construction, acquisition, extension of any coal-fired power plants and refinancing any financial debt or expenditures incurred for such purposes.

Pursuant to the above mentioned agreement, the Company will be able to use the funds within 2 months from the date of concluding the agreement (after the suspending conditions that are standard for this type of financing have been met).

The loan will be repaid within 5 years from the date of concluding the above agreement. The interest will be calculated based on a fixed interest rate.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 8/2020 of March 16, 2020.

Signing of the memorandum of understanding on the preliminary terms of cooperation between TAURON and PFR with respect to investments in renewable energy sources (RES)

On March 23, 2020, TAURON signed a memorandum of understanding with the closed-end investment funds, a part of whose investment portfolio is managed by PFR (Polski Fundusz Rozwoju - Polish Development Fund).

The above memorandum of understanding sets out the preliminary terms of cooperation under consideration between TAURON and PFR with respect to investments in renewable energy sources (RES). The Company and PFR have agreed that the above mentioned investments will be carried out as joint investments in assets in the RES segment, the so-called direct Investments, and have also allowed for investments in companies operating in the cleantech area. The Memorandum of Understanding sets out the general conditions for conducting direct investments, with the minimum level of each PFR investment in a company 100 percent owned by TAURON, which owns a portfolio of investment projects of an appropriate size at the stage of readiness for construction, in terms of the total ultimate capital expenditures of such company, amounting to not less than PLN 50 million and will be implemented through successive capital injections for the purpose of implementing the capex projects. In addition, TAURON and PFR will be subject to a period of limitation in the disposal of the shares in the above company of between 5 and 7 years from the moment PFR acquires shares in the given company. The recapitalizations will each time take place in the form and proportions ensuring TAURON's ultimate share of at least 50 percent + 1 share, and PFR’s share of no more than 50 percent - 1 share.

The primary goal of the investment will target on-shore wind farm projects and photovoltaic farm projects located in Poland. The parties envisage the possibility of acquiring an additional partner by selling shares thereto or have it join the company owned by TAURON.

The final terms of the cooperation between TAURON and PFR with respect to the direct investments will each time be agreed in the transaction documentation regarding the specific investments.

The Memorandum of Understanding is intentional in its nature and does not constitute a binding commitment of the parties, does not give rise to financial obligations, does not oblige or guarantee any of the parties' exclusivity with respect to RES investments, nor does it preclude the possibility of their independent investments or cooperation with third parties.

The potential implementation of the goal described in the Memorandum of Understanding is in line with the Update of the Strategic Directions announced on May 27, 2019, that provides for a significant increase in the share of low- and zero emission sources in the structure of TAURON Group’s installed generation capacity.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 11/2020 of March 23, 2020.

Changes to the composition of TAURON’s Supervisory Board

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company’s Articles of Association, as of March 24, 2020:

- dismissed Ms. Agnieszka Woźniak from the Company’s Supervisory Board,
- appointed Mr. Andrzej Śliwka to be a member of the Company’s Supervisory Board.

TAURON disclosed the information on the above events in the regulatory filing (current report) no. 12/2020 of March 24, 2020. The information about the appointed member of the Company’s Supervisory Board was disclosed in the regulatory filing (current report) no. 14/2020 of March 30, 2020.

Signing of the syndicated loan agreement

On March 25, 2020, TAURON concluded a syndicated loan agreement worth PLN 500 million with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Spółka Akcyjna) (Joint Stock Company) Oddział w Polsce (Polish Branch).

In accordance with the above agreement the funds obtained may be used to finance the Company’s and TAURON Capital Group’s general corporate purposes, excluding the financing of any new projects related to the coal assets

The financing period was set as 5 years from the date of concluding the above agreement, with an option to extend it, twice, each time by a year, i.e. up to 7 years maximum. The Company will be able to use the funds throughout the entire financing period (after the suspending conditions that are standard for this type of financing have been met).

The interest rate will be calculated based on the variable WIBOR interest rate, applicable to the given interest period, increased by a margin depending, among others, on the degree of loan utilization and the fulfillment of the pro-ecological contractual conditions, i.e. the reduction of emissions and an increase of the share of renewable energy sources (RES) in TAURON Capital Group's generation fleet structure.

TAURON disclosed the information on the above events in the regulatory filing (current report) no. 13/2020 of March 25, 2020.

2.7. Prizes and accolades (honorable mentions)

TAURON and TAURON Capital Group's subsidiaries received the following awards and accolades (honorable mentions) in 2019:

TAURON awarded special The Best of The Best prize for the Annual Report for 2018, the first prize for the multimedia Integrated Report 2018 and the honorable mention for the best statement on applying corporate governance in The Best Annual Report 2018 competition

TAURON awarded a prize in the *Ecology Leader in the Energy Industry* category for making significant contributions to pro-ecological projects during the *5th Sustainable Economy Summit* organized by the Executive Club

TAURON awarded the title of the *Transparent Company of the Year* among WIG20 Index companies for the transparency of business operations and the quality of communication with the market in the 3rd edition of the ranking organized by the *Stock Market and Investors Newspaper Parkiet* and the *Institute of Accounting and Taxes*

Honorable mention for TAURON for continuous and high quality communication with investors in the competition organized by the Association of Individual Investors as part of the 23rd Wall Street Conference

TAURON awarded the 3rd spot in the *Best Investor Relations* according to individual investors in 2018 among WIG30 index companies competition, organized by the *Stock Market and Investors Newspaper Parkiet* and the *Chamber of Brokerage Houses*

President of the Management Board of TAURON awarded the *Amber of the Polish Energy Industry* statuette for effective activities in the development and security of the Polish economy and energy industry in Poland and abroad during the *Polish National Energy Summit* in Gdańsk.

TAURON Capital Group awarded a prize in the *Idea of Compliance of the Year* category for TAURON Group's Anti-Corruption Campaign in the *Polish Compliance Awards 2019* competition organized by the Compliance Institute.

TAURON Distribution awarded the main prize in the *Producer of the Year* category for, among others, the record number of renewable energy sources connected to the power grid in the Energy World Leaders competition, which is a joint initiative of the EuroPOWER Energy Conference and the OZE POWER Congress.

TAURON Wydobycie awarded the *Reliable Company 2018* title for timely settlement of all obligations and respect for ecology and consumer rights granted by the Board of the *Reliable Company Business and Consumer Program*.

TAURON ranked 23rd (8th among Polish companies) in the *TOP 500 CEE 2019* ranking of the largest companies in Central and Eastern Europe organized by Coface in cooperation with the *Rzeczpospolita* daily

TAURON awarded the *Culture Supporter* prize by the Cracow Festival Office as the Strategic Sponsor of the Film Music Festival

KW Czatkowice awarded the *Source of Success* statuette for outstanding achievements and activities for the local community by Krzeszowice Municipality

TAURON awarded the *Top Industry Diamond Prize* in the *Start-up Patron* category for comprehensive support for the development of young companies and developing activities stimulating entrepreneurship in the industry in Poland during the *Top Industry Summit Conference* organized by the Executive Club under the auspices of the Ministry of Digitization and the Ministry of Investment and Development.

Honorable mention for 25 best practices, implemented by TAURON in 2018 in the *Responsible Business report in Poland 2018. Best practices* by the Responsible Business Forum report and thus TAURON Group taking a spot in the top ten among 180 enterprises with the highest number of best practices.

Recognizing TAURON'S Investment Projects Area as one of top two project management offices in Europe in the Europe PMO of the Year 2019 competition organized by the International Project Management Association Poland.

Nowe Jaworzno Grupa TAURON awarded the 1st place in the *Build Safely 2019* competition for the construction of a 910 MW supercritical parameters power generation unit in Jaworzno organized by the Regional Labor Inspectorate in Katowice

TAURON awarded a special prize of *The Heart Corporate Innovation Awards2018* for courage and willingness to change, as well as work in the field of innovations and introducing new technological solutions in the energy industry organized by The Heart.

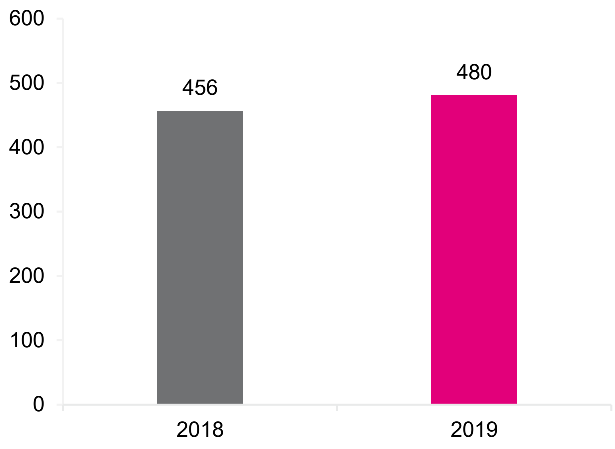
TAURON IT Security Team awarded the second spot in the *Grid NetWars* competition during the CC4ES conference organized by CERT PSE together with experts from the United States

2.8. Information on the employment at TAURON Polska Energia S.A. and TAURON Capital Group

TAURON's average headcount reached 480 FTEs in 2019 which meant an increase by 24 FTEs versus the headcount in 2018, when the average employment was 456 FTEs.

The below figure presents TAURON's average headcount in FTEs (rounded up to the full FTE) in 2018 and in 2019.

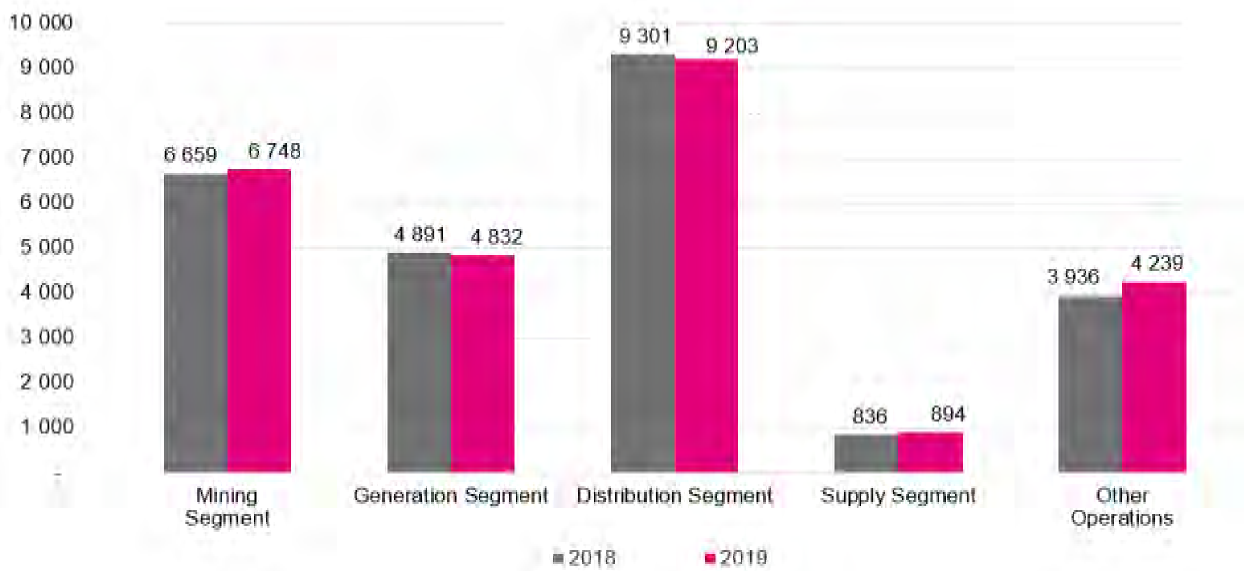
Figure no. 31. TAURON's average headcount in FTEs in 2018 and in 2019



TAURON Capital Group's average headcount reached 25 916 FTEs in 2019, which meant an increase by 294 FTEs versus the headcount in 2018, when the average employment level was 25 622 FTEs. This increase was primarily caused by, among others adjusting the employment system to the requirement to provide protection of the facilities of TAURON Capital Group's subsidiaries, the implementation of the strategic initiatives and the expansion of the trading (commercial) activities. Due to the change in the nature of its operations, the data on TAURON Dystrybucja Serwis is provided in the Supply Line of Business for 2018 and 2019. In the previous reporting periods, this information was provided in the Distribution Line of Business.

The below figure presents TAURON Capital Group's average headcount in FTEs (rounded up to the full FTE) per Segment in 2018 and in 2019.

Figure no. 32. TAURON Capital Group's average headcount in FTEs per Segment in 2018 and in 2019.



2.8.1. Key Employment Data

The below table below presents key data on employment at TAURON and TAURON Capital Group as of December 31, 2018 and December 31, 2019.

TAURON Capital Group's headcount reached 1 723 FTEs in 2019.

Table no. 14. Key data on employment at TAURON and TAURON Capital Group as of December 31, 2018 and December 31, 2019

#	Key employment data	unit	TAURON		TAURON Capital Group	
			December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
1.	Headcount by segment, including:	persons	464	487	25 829	26 086
	Mining Segment	*persons*	*-*	*-*	*6 651*	*6 811*
	Generation Segment	*persons*	*-*	*-*	*4 890*	*4 780*
	Distribution Segment	*persons*	*-*	*-*	*9 291*	*9 270*
	Supply Segment	*persons*	*464*	*487*	*869*[1]	*917*[1]
	Other operations	*persons*	*-*	*-*	*4 128*	*4 308*
2.	Headcount by education, including:	%	100	100	100	100
	College graduates	*%*	*96.8*	*97.5*	*33.2*	*33.8*
	High school graduates	*%*	*3.2*	*2.5*	*43.1*	*43.3*
	Vocational school graduates	*%*	*0.0*	*0.0*	*21.6*	*20.9*
	Elementary school graduates	*%*	*0.0*	*0.0*	*2.1*	*2.0*
3.	Headcount by segment, including:	%	100	100	100	100
	Up to 30 years	*%*	*11.6*	*13.8*	*8.4*	*9.0*
	30 - 40 years	*%*	*43.3*	*38.0*	*22.4*	*22.3*
	40 - 50 years	*%*	*34.5*	*37.0*	*31.0*	*30.1*
	50 - 60 years	*%*	*9.1*	*9.0*	*32.5*	*32.2*
	Above 60 years	*%*	*1.5*	*2.2*	*5.7*	*6.4*
4.	Headcount by gender, including:	%	100	100	100	100
	Women	*%*	*44.4*	*45.0*	*21.5*	*21.4*
	Men	*%*	*55.6*	*55.0*	*78.5*	*78.6*

[1] *Figure includes TAURON's headcount*

2.8.2. Human Resources Management Policy

TAURON Group's Human Resources Management Policy implemented at TAURON Capital Group focuses on acquiring, developing and maintaining competences that are key for organizational efficiency and achieving TAURON Capital Group's strategic goals.

TAURON Capital Group's overarching objective is to provide support for the management in efficiently implementing the proposed changes and promoting the new initiatives. TAURON Capital Group creates the conditions for the development of knowledge and skills and creates a work environment based on the cooperation and partnership in which innovation and optimization are the foundations of the actions undertaken.

Initiatives undertaken with respect to the human resources management at TAURON Capital Group focus on the continuous improvement of the human resources management processes in order to adapt them to the changing business environment. A permanent element of the above mentioned changes involves developing and strengthening such attitudes among employees that are in line with the values of TAURON Capital Group, i.e. *Partnership, Development, Boldness*. This basic premise allows for building an organizational culture that enables the employees to take on and implement new challenges (projects), search for innovation, increase efficiency as part of their daily tasks and raise the level of job satisfaction.

TAURON Group's Human Resources Management Policy defines the mission and vision in the area of human resource management (HR):

The challenges and objectives of the Human Resources (HR) area, stemming from the changes in the energy sector, and in particular the activities facing TAURON Capital Group in connection with the *Green Turn of TAURON*, were subjected to a verification process as a result of the update of TAURON Capital Group's strategic directions in 2019. The result of the joint efforts of the representatives of the HR area from TAURON Capital Group's leading subsidiaries was the identification of the priority areas for the development of the organization and human capital of TAURON Capital Group and then the assignment to the above-mentioned priorities of the tasks aimed at improving the most important HR processes, strengthening the organization's ability to create and respond quickly to the business changes by ensuring the optimal number and quality of competences and setting the direction for the activities planned for 2020-2023 by the HR area. The priorities diagnosed include: recruitment and onboarding, training, age and knowledge management, development conversation, potential management, cooperation with the education sector, outplacement and employer branding.

The below figure presents 8 identified priority areas for the development of organization and human capital of TAURON Capital Group.

Figure no. 33. Eight priority areas for the development of organization and human capital of TAURON Capital Group

TAURON Capital Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy

TAURON Capital Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy regulates the standards of the process of recruitment and induction (onboarding, orientation) of the new employees at TAURON Capital Group and the policy also sets out the consistent and uniform assumptions regarding the selection and induction (onboarding, orientation) of the employees at TAURON Capital Group's subsidiaries.

In order to adapt to the changes taking place on the labor market, TAURON Capital Group undertakes a number of initiatives that enhance the image of TAURON Capital Group as a good and desirable employer, that inlcude, among others:

Job Fairs

Participation in the Job Fairs organized by the universities is a regular element of the activities promoting TAURON Group in the academic community. TAURON Capital Group promoted its job offers, among others, during two editions of the Employers and Entrepreneurship Exchange organized by the Silesian University of Technology in Gliwice and during the Job Fair organized by the University of Economics in Katowice in 2019. The participation in the above initiatives enabled us to promote the current job offers, apprenticeships and internships coming from all of TAURON Capital Group's subsidiaries, as well as to promote the organizational culture, attitudes and values that TAURON Capital Group follows every day in the organization.

Employee Referral Program

The Employee Referral Program was launched at TAURON Capital Group in 2019, with a goal to acquire candidates with the required potential, i.e. with the desired professional qualifications and competences, based on the referrals of the people who are already employed by the organization. The above program is an additional recruitment activity that allows for reaching more candidates through the involvement of TAURON Capital Group's employees.

TAURON Capital Group's Recruitment Hotline

In order to attract the candidates interested in working at TAURON Capital Group, the Recruitment Hotline for TAURON Capital Group's job candidates was launched at the end of 2019. The main purpose of the hotline is to encourage people with qualifications that are in line with TAURON Capital Group's current needs to start working for the company. The direct contact with the hotline consultants provides quick access to the information on the available job offers, details of the requirements for the positions offered, the recruitment process and the information about benefits offered by TAURON Capital Group.

The launch of the hotline was accompanied by a campaign promoting the initiative with the slogan: *Work at TAURON. Join the group of our specialists (professionals)! (Pracuj w TAURONIE. Dołącz do grona naszych fachowców!*)

2.8.3. Development and training

Current market trends and technological development, changes occurring both globally and locally, a competitive market and rising requirements, both coming from the institutional as well as the individual clients, require much greater speed and flexibility with respect to the development activities. Employee development and improvement is permanently inscribed in the Strategy, and the implementation of the development activities takes place on the basis of the regulations for improving the qualifications of the employees, in place at TAURON Capital Group's individual subsidiaries. All the development activities at TAURON Capital Group are implemented according to the 70-20-10 principle (effective learning principle), according to which:

70% of the development activities should be related to gaining experience in the position, among others by delegating new or additional tasks and rights to the employee, broadening the scope of his / her responsibility, participation in the task or project teams,

20% of the development activities are based on learning from others, including the ongoing support and regular feedback from your direct superior and colleagues,

10% of the development activities involve participation in various forms of educational and training activities (internal and external)..

TAURON Capital Group's employees have a wide range of external development opportunities to choose from, among others through the participation in industry conferences, seminars, workshops, specialist training, e-learning training, as well as language courses and internal courses, that are organized with the use of the knowledge and competences of the employees of TAURON Capital Group.

The below table below presents key data on employee training at TAURON and TAURON Capital Group as of December 31, 2018 and December 31, 2019.

Table no. 15. Key data on employee training at TAURON and TAURON Capital Group as of December 31, 2018 and December 31, 2019.

#	Key data on employee training	TAURON		TAURON Group	
		December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
1.	Average number of training hours per employee by job group, including:	177	176	125	109
	Management Board and Directors	*85*	*88*	*63*	*45*
	Management positions	*53*	*51*	*33*	*32*
	Administrative staff (white collar positions)	*30*	*28*	*12*	*14*
	Blue collar positions	*9*	*9*	*17*	*18*
2.	Number of training hours per employee by gender, including	16 771	16 766	456 179	477 618
	Women	*6 961*	*6 624*	*77 305*	*79 871*
	Men	*9 810*	*10 142*	*378 874*	*397 747*

TAURON Capital Group has been undertaking a number of initiatives to promote the organization among pupils, students and university graduates for a number of years, and as part of such activities the Company organizes internship and apprenticeship programs as well as competitions on topics related to TAURON Capital Group, cooperates with faculty staff at schools and universities, student organizations, career offices and research clubs, and takes part in scientific symposia and conferences.

Initiatives, development and development supporting activities

Development conversation

Actions aimed at implementing a new human resource (HR) management process, i.e. *Development Conversation,* were initiated in 2019. The goal of the initiative is the development of the organization by building a culture of dialogue between the superior and the employee, and the ability to focus on the development of employees in accordance with their needs as well as the business capabilities and needs of the organization. The *development conversation* is based on *TAURON Group's Competence Model* in place and assumes the need for the continuous development of these competences as the business challenges are changing. The *development conversation* is a tool for planning the desired shape of a team, ensuring effective implementation of the business goals, but also space for expressing concern for an employee and noticing (appreciating) his / her activities. For an employee, it is primarily a sense of real impact on his / her own development as well as mobilization and commitment to achieving goals. The *development conversation* allows for strengthening the key competences, building a culture based on corporate values, increasing employee efficiency and properly managing their potential.

Development supporting activities

The development of workforce competences is invariably one of the pillars of TAURON Capital Group.

The next, 3rd edition of the postgraduate studies organized in cooperation with the Jagiellonian University, entitled *Purchase management in business*, was launched in 2019, with the improvement of the purchasing, negotiation and commercial (trading) qualifications of the Purchasing Area staff as the main assumption of the program. 32 participants are taking part in the current edition.

Taking into account the number of implemented and planned investment projects, a proprietary annual training program dedicated to investment project management at TAURON Capital Group, entitled *PM Academy,* aimed at expanding the employees' competences with respect to project management, was organized in 2018-2019. The *PM Academy's* program includes, among others, training courses related to project management, investment process implementation, IT tools used to support Project Managers, communications and team management. 15 employees from 5 of TAURON Group's Subsidiaries took part in the program in 2019. The confirmation of the competences was the IPMA exam, with all of the participants passing it successfully and receiving a renowned IPMA level D certificate.

TAURON Group Open University

TAURON Group Open University is a series of lectures conducted continuously since 2014.

The goal of establishing and continuing the *TAURON Group Open University* concept is to provide employees with access to knowledge and information on the current topics, related to both business as well as personal development. In addition, this initiative allows for the creation of a platform enabling an exchange of views and experiences among the employees from various subsidiaries and, as a result, increased integration among the workforce

5 lectures, attended by a total of 2 654 employees of TAURON Capital Group, were carried out as part of *TAURON Group Open University* in 2019. Thanks to the broadcasting of the lectures to various locations, the number of attendee increased by more than 1 500 employees.

A particularly important event, from the point of view of the Update of TAURON Capital Group's Strategic Directions, was a lecture on the climate change, given by an expert in the field of climate science. During the lecture, more than 600 employees of TAURON Capital Group had an opportunity to learn about the scientific basis of the global warming, find out what its causes are and what problems may arise from the large and rapid climate changes. The participants of the lecture received practical tips on what to do, including in the private sphere, in order to reduce the negative impact on the climate change.

Internal Trainers (Coaches) Academy

The *Internal Trainers (Coaches) Academy* is an initiative supporting the development of employees using the internal resources. An Internal Trainer is an employee of TAURON Capital Group who willingly shares expert knowledge with others, and at the same time develops his / her coaching potential. TAURON supports activities aimed at facilitating appropriate selection and didactic (pedagogical) preparation of the internal trainers to conduct training courses. The trainer is personally involved in the study of training needs, designs the training and supports the process of implementing the new competences in the organization. 83 internal trainers completed a total of 167 training sessions for more than 1 800 of TAURON Capital Group's employees in 2019.

E-learning

In addition to the training courses carried out using the traditional method, TAURON Capital Group enables its employees to continuously improve their competences in the form of e-learning training courses. The advantages of this form of education include the flexibility of its implementation and the ability to adjust it to the individual pace of knowledge absorption of the given employee. The e-learning training formula also significantly reduces the costs of the training courses, while at the same allowing them to be attended by a larger number of employees and allows for better accommodating the pro-ecological aspects as compared to the traditional training formula.

TAURON Capital Group's employees underwent a number of training courses using the e-learning platform in 2019, including the mandatory ones, among others with respect to internet security, TAURON's services, GDPR regulations, Corporate Social Responsibility Code of Conduct or the principles of preventing mobbing and discrimination, as well as optional specialist ones, including with respect to the use of IT tools to support everyday work, legal and financial aspects, as well as training courses aimed at enhancing interpersonal skills. In total, more than 14 000 employees took advantage of 48 000 hours of e-learning training courses in 2019.

Internships and apprenticeships

Student internships constitute a specific development method for TAURON Capital Group, geared towards improving the competences of university students and graduates, that enables combining theoretical knowledge with the practical professional issues. The participation in the apprenticeship and internship programs enables acquiring the first experience and prepares pupils and students to enter the labor (job) market. Through the internship and apprenticeship programs TAURON Capital Group is implementing its long-term goals related to acquiring the best, from the point of view of the business needs and organizational culture, pupils, students and graduates. 655 people took advantage of the apprenticeship and internship programs at TAURON Capital Group in 2019.

TAURON Capital Group's internship program called "Join" ("Przyłącz się") also has its permanent place among the initiatives related to the cooperation with the academic community, with the goal of the program aiming to prepare the most talented students of the domestic universities to enter the labor (job) market, enable the trainees to obtain comprehensive professional development with respect to modern energy, get to know the enterprise's organization system, as well as the conditions and rules in force at the company, and develop the right attitude towards the tasks performed, i.e.: taking cares of the quality and timeliness of the tasks performed, developing one's own initiative or acquiring team work skills. The second edition of the program was carried out in 2019, with 20 interns taking part, undergoing internships at 8 of TAURON Capital Group's subsidiaries, i.e. TAURON, TAURON Wydobycie, TAURON Wytwarzanie, TAURON Ciepło, TAURON Obsługa Klienta, TAURON Sprzedaż, TAURON Dystrybucja, KW Czatkowice.

During the 5-month internship students and graduates of TAURON's partner universities had an opportunity to learn about the operations of TAURON Capital Group, the values that TAURON is guided by in its activities, the competency model and they had an opportunity to participate in a dedicated integration workshop

TAURON Group's Ambassador Program.

The second edition of *TAURON Group's Ambassador Program* was continued in 2019, with the main goal of the program aiming to engage the students in the process of developing a positive image of TAURON Capital Group in the academic environment and generate interest in the offer of internships, apprenticeships and work among the best students and graduates. As part of this edition, 9 Ambassadors from 6 partner universities carried out the proprietary promotional activities at their universities. As a result of the cooperation with the ambassadors, additional initiatives were organized, i.e. a trip of the students of the AGH University of Science and Technology in Cracow to Janina Coal Mine's adit, combined with a lecture on the history of the mine, the technology used and the investment activities carried out, as well as the participation of the brands experts as part of the *TAURON releases energy* event, organized jointly with the Energy and Fuels Department. As part of the event, the students were able, among others, to take part in a test recruitment interview, consult their CV, and get acquainted with TAURON Capital Group and the current offers of internships and jobs at its mining plants.

Patronage classes

TAURON is cooperating with patronage classes, whose goal is to provide education in the professions that are key for the organization, thus promoting employment at TAURON Capital Group's subsidiaries after completing the formal education. This initiative enable students to learn the profession in a real work environment by organizing practical classes and professional internships, and engaging the Group's specialists, with some teaching experience and many years of professional experience at TAURON Capital Group, in the teaching process. As part of patronage classes, education is provided in such professions as, among others: underground mining technician, power sector technician, electrician technician, mechatronics technician, electronics technician and solid mineral processing technician. By the end of 2019, TAURON included 47 classes under its patronage, including 3 new classes in 2019. The classes covered by TAURON's patronage have 300 students in total.

POWER project

TAURON Capital Group was actively involved, in 2018-2019, in the implementation of the project entitled: *Developing a model of vocational and practical training program in the power sector*, within the Operational Program Knowledge Education Development (Program Operacyjny Wiedza Edukacja Rozwój - POWER) as part of activity 2.15 Vocational education and training adapted to the needs of a changing economy. The goal of the project was to prepare solutions with respect to engaging employers in the organization of practical vocational training, including: developing a quality framework for internships and apprenticeships for students pursuing practical training at enterprises, taking into account the European framework of professional internships and developing the model practical vocational training programs for professions at the technician's qualifications level.

Pilot apprenticeship programs were implemented at 4 of TAURON Capital Group's subsidiaries, i.e. TAURON Wytwarzanie, TAURON Ciepło, TAURON Dystrybucja Branch in Częstochowa and Opole) in the period from March to June 2019. The pilot project covered 103 students from 4 schools providing education in the profession of an electrician technician.

The project involved nearly 100 schools and vocational training centers in the power sector from all over Poland, a network of employers, as well as a team of vocational counselors with many years of experience in developing educational programs related to vocational education.

Innovative education models were created as a result of the cooperation involving the entire business and social environment of TAURON Capital Group.

All of the products developed were subjected to a verification during a seminar organized in November 2019, which was attended by more than 100 teachers representing TAURON Capital Group's partner schools, 50 representatives of the business sector and the Ministry of National Education, the Silesian Board of Education, the Institute of Educational Research, the Foundation for the Development of the Education System and the Katowice Special Economic Zone

Katowice a City of Professionals

TAURON Group took part, in 2019, in the 2nd edition of the *Katowice, a City of Professionals* project organized by the Katowice City Hall. The main goal of the project was to encourage young people facing the choice of a further education path, to undertake education in the first level technical and vocational schools, to show professional prospects related to the vocational and technical education, and to increase the level of knowledge and public awareness with respect to the dual education system. During the second edition, nearly 450 students from 10 elementary schools in Katowice visited TAURON Capital Group's generation plants. As part of the study visits, the students had an opportunity to become acquainted with the specifics of work in the given profession, practical principles of the company's functioning, the skills used in the given position, as well as a chance to get information about employment opportunities in the enterprise and to learn how the new employees are recruited.

Employee satisfaction surveys

The 2nd edition of *TAURON Capital Group's employee satisfaction survey* was carried out at the key companies of TAURON Capital Group in April 2019. As part of the study, each of more than 25 000 employees had an opportunity to assess the individual aspects of work at the subsidiary and at TAURON Capital Group, by answering 39 questions in an anonymous survey regarding, among others, work environment, satisfaction, commitment, communication and workplace relationships.

55% of the employees of TAURON Capital Group (i.e. 14 234 people) took part in the survey. Among the employees participating in the survey, 84% declared very strong commitment to the performance of their tasks and achieving the best possible results of their work, 75% declared that they appreciated the atmosphere in the department / team and relationships with the colleagues, 66% declared that they liked their work and were generally satisfied with their job at the subsidiary, and 64% positively assessed the managerial staff, both in terms of managerial communication, understood as providing feedback on the tasks carried out, or providing relevant information about the company, as well as managerial attitudes, viewed as building lasting and good relationships as well as delivering on the agreements reached jointly.

Promotion of a healthy lifestyle

For the sake of its employees, TAURON Capital Group is investing in medical care and programs encouraging more physical activities, implementing health-promoting initiatives that are tailored to the needs of the employees, and is promoting a healthy lifestyle. A series of campaigns were organized in 2019 to show how to take care of health and prevent occupational or civilization-related diseases, among others:

- a photo competition, organized by Wsparcie Grupa TAURON, on sports topics *I am active - I take care of health*, aimed at encouraging the employees to share their ways of how to stay fit and healthy,
- a series of workshops organized for TAURON Obsługa Klienta's employees with respect to stress management and prevention of burnout, conducted by a psychologist at the company's 12 locations;
- lectures for TAURON Obsługa Klienta's employees regarding the so-called OFFICE diets (Diety OFFICE), combined with the individual diet consultations, with the goal to promote a healthy lifestyle and providing instruction on maintaining the correct posture.

Training on the pre-medical first aid

Training sessions on the pre-medical first aid are dedicated to the employees of TAURON Capital Group's individual subsidiaries. The goal of the above training sessions is to transfer knowledge and practical skills with respect to the behavior (conduct) and response in the situations that pose a threat to human health and life. Training programs deal with the issues related to the legal grounds and rules of behavior (conduct) at the place of danger, as well as sets of topics related to the individual types of injuries. The training sessions are conducted by the qualified paramedics with many years of experience. 2 200 training sessions on pre-medical first aid were conducted in 2019.

2.8.4. Social dialogue

The Management Board of TAURON conducts a constructive and open dialogue with the social partners, with the main goal to maintain high quality and effectiveness of the mutual cooperation.

Social partners' representatives are, during regular meetings and consultations, informed about issues related to:

- TAURON Capital Group's economic and financial situation,
- implementation of the strategic initiatives,
- Voluntary Redundancy Programs underway at TAURON Capital Group's subsidiaries,
- issues related to employee matters at TAURON Capital Group.

The ongoing communication is carried out simultaneously at TAURON Capital Group's subsidiaries between the management boards and the trade union organizations operating at the given employer. TAURON actively participates in meetings held at the national level with the representatives of the government, employees and employers (e.g. as part of the works of the Three-party Team for the Energy Industry).

In addition, steps geared towards increasing business awareness as well as promoting pro-efficiency and engaging attitudes are taken. *A valuable development conversation* workshops for TAURON Capital Group's social partners were held in 2019.

2.9. Corporate Social Responsibility (CSR) Policy

The fundamental assumption of the corporate social responsibility concept at TAURON Capital Group is to base the enterprise's success on its long-term sustainable development. An indication of this approach is the integration, already at the strategic level, of the financial and non-financial factors, including aspects of environmental protection, social impact and corporate governance. This results from the conviction that for a business to exist and develop it needs to be run in a manner allowing for both economic aspects and social or environmental interest, and balance is required among all of them.

In view of the above, TAURON Capital Group's development goals are based on the 3P model, referring to the economic gains (Profit), the individuals associated with the company (People), and the care for the environmental aspect of the activity (Planet). At TAURON Capital Group, the stipulation to strive for sustainable development is implemented in practice by *TAURON Group's Sustainable Development Strategy for 2017-2025* (Sustainable Development Strategy) adopted by the Company's Management Board on August 1, 2017.

The Sustainable Development Strategy implemented in 2019 defines 5 basic areas of activities (directions):

1. **Reliability and quality of supply of products and services for the customer** - TAURON Capital Group's goal is, above all, to ensure security of electricity supply for our customers and to develop an offering of products and services tailored to their expectations, as well as to promote innovation.
2. **Orientation towards the customer and his / her needs** - TAURON Capital Group's goal is to maintain good relationships with customers, care for the highest standards of customer service as well as comprehensiveness and quality of the offering addressed to the customers. The measures of the effectiveness of TAURON Capital Group's actions include an increase in customer loyalty and satisfaction, or a drop in the number of complaints

3. **Environment protection** - TAURON Capital Group's goal is to ensure efficient management, recycling and reuse of the resources, implementation of environment management systems (ISO, EMAS), investing in modern technologies, continuous modernization of the production assets, optimization of the production processes, increasing the efficiency of resource utilization, educating the society and setting requirements for the suppliers
4. **Work safety, ethical culture and employee engagement** - TAURON Capital Group's goal is to develop lasting relationships with employees based on diversity, a sense of security, development opportunities and combining social and professional roles, as well as creating working conditions seeking to minimize the accident rate
5. **Social and business partnership** - TAURON Capital Group's goal is to set the highest industry standards with respect to business ethics and environment protection. Activities are focused on conducting projects related to social engagement, promoting CSR topics among stakeholders and encouraging them to act in a responsible manner, as well as conducting a transparent policy with respect to the communication with the stakeholders.

Within each direction, 18 commitments have been set in total, that TAURON Capital Group intends to fulfill by the end of 2025. Key initiatives were formulated for each commitment to support their implementation.

All of the stakeholders of TAURON Capital Group can become acquainted with

The reports on the implementation of the Sustainable Development Strategy are published annually in the Integrated Report on the Company's web site at: https://www.tauron.pl.

Changes to TAURON Group's Sustainable Development Strategy

The works on updating the Sustainable Development Strategy, which is a coherent plan of actions related to social responsibility, based on the updated Strategic Directions of TAURON Group and a study of the real needs of all stakeholder groups, were commenced in the third quarter of 2019,

The main objectives of the document, whose adoption is scheduled for the second quarter of 2020, include:

- striving for even greater coherence of the business and social goals and seeking to achieve the leadership position in CSR and sustainable development in the energy sector in Poland,
- sustainable transition towards becoming a leading, low-emission energy group,
- clean energy and searching for the new development (expansion, growth) paths

In accordance with the adopted Update of the Strategic Directions and the *Green Turn of TAURON* concept, the sustainable growth of TAURON Capital Group's value will be based first and foremost on:

- regulated and stable Distribution Segment,
- development of low and zero emission sources,
- conventional generating assets,
- sales of energy and energy-related products and services tailored to the customers' needs,
- modern management culture and a friendly work environment based on the principles of diversity and compliance,
- building lasting relationships with local communities by developing social and business partnership initiatives.

2.9.1. Impact on natural environment

Environment protection in the energy and mining industry is an area that is strictly controlled and regulated by the EU and national regulations as well as the local law. Therefore, the activities with respect to the environmental impact are strongly associated with the business operations of TAURON Capital Group, especially in the context of the contemporary challenges regarding minimizing the impact of the entire supply chain on the environment. Bearing in mind the principles of sustainable development, TAURON Capital Group‘s subsidiaries are optimizing the processes of managing their resources (water, raw materials and materials), and also conducting an active waste management policy.

TAURON Capital Group is taking responsibility for taking care of natural environment and the consequences of using natural resources for the benefit of the current and future generations and emphasizes that it is ready to take actions that go beyond legal obligations.

The confirmation of the above actions are: *TAURON Group's Environmental Policy*, adopted by the Company's Management Board in July 2017, and *TAURON Group's Climate Policy* adopted by the Company's Management Board in November 2019.

Some of TAURON Capital Group's subsidiaries have implemented a certified environmental management system according to ISO14001. TAURON Wytwarzanie, representing conventional energy production, has additionally received the EMAS Community Eco-Management and Audit Scheme, the EU's environmental certification system, used to create, at an organization, a sustainable development culture and effective management of available resources and energy, operating on the basis of Regulation of the European Parliament and of the Council (EC) No. 1221/2009 of November 25, 2009 on the voluntary participation by organizations in a Community eco-management and audit scheme (EMAS).

2.9.1.1. Environmental Policy

TAURON Group's Environmental Policy (Environmental Policy), adopted by the Company's Management Board in July 2017, defines TAURON Capital Group's approach to the management of the issues related to the impact made by its operations on the natural environment, including the direction of its environmental activities and the principles it follows in environment related matters. The Environmental Policy is the benchmark for assessing all of the activities of TAURON Capital Group's subsidiaries with respect to environment protection and environmental management.

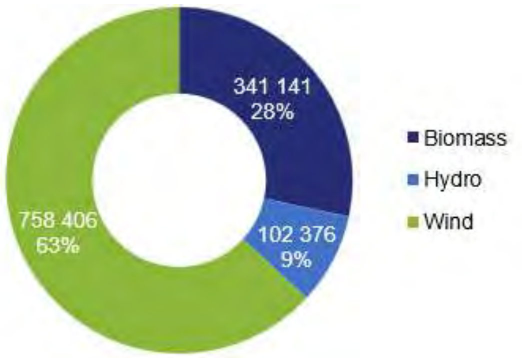
The Environmental Policy documents the values and the vision followed by TAURON Capital Group with respect to making an impact on the natural environment.

The key principle of the Environmental Policy is to limit both the direct, as well as the indirect impact on the environment and to conduct responsible communications, ensuring the understanding of the operations of TAURON Capital Group that may impact the environment.

TAURON Capital Group, in accordance with the regulations and administrative practices in force on the territory of its operations, takes into account the needs related to environmental protection and acts in way that contributes to accomplishing a broader objective, which is sustainable development, and in particular the implementation of the closed circuit economy.

The below figure presents the structure of certificates of origin for the renewable energy (PMOZE) at TAURON Capital Group in 2019.

Figure no. 34. Structure of certificates of origin for the renewable energy (PMOZE) at TAURON Capital Group in 2019 (MWh)



Due to diverse production and service profiles of TAURON Capital Group's subsidiaries, their impact on the environment varies significantly, therefore the principles of the Environmental Policy are addressed in the individual internal documents of the individual subsidiaries in a way corresponding to their role in TAURON Capital Group's value system.

Minimizing negative impacts on the environment is effectively implemented taking into account the specifics of the sector, technological development and access to environmentally friendly technologies.

TAURON Capital Group is monitoring, on an ongoing basis, the main aspects of the direct and indirect environmental impact of its business operations.

The below table presents the annual emissions of SO_2, NO_X, dust and CO_2 from thermal combustion of fuel for 2019.

Table no. 16. **Annual emissions of SO_2, NOx, dust and CO_2 from thermal combustion of fuel for 2019**

#	Subsidiary name	Emission of SO_2 (Mg)	Emission of NO_X (Mg)	Emission of dust (Mg)	Emission of CO_2 (Mg)
1.	TAURON Wytwarzanie including:	8 313	9 124	441	10 562 024
	Oddział Jaworzno III	*1 999*	*3 383*	*92*	*4 576 575*
	Oddział Łaziska	*2 355*	*2 316*	*86*	*3 026 691*
	Oddział Łagisza	*737*	*1 034*	*48*	*1 174 996*
	Oddział Siersza	*1 263*	*962*	*75*	*1 177 875*
	Oddział Stalowa Wola	*1 959*	*1 429*	*140*	*605 887*
2.	TAURON Ciepło including:	2 016	1 276	137	1 624 744
	ZW Bielsko-Biała	*720*	*268*	*21*	*427 472*

#	Subsidiary name	Emission of SO_2 (Mg)	Emission of NO_X (Mg)	Emission of dust (Mg)	Emission of CO_2 (Mg)
	ZW Kamienna Góra	*48*	*19*	*6*	*14 990*
	ZW Katowice	*580*	*549*	*88*	*757 246*
	ZW Tychy	*430*	*351*	*14*	*351 331*
	Centralna Ciepłownia Olkusz	*125*	*46*	*3*	*34 519*
	Centralna Cieplownia Zawiercie	*96*	*33*	*3*	*29 241*
	Other (local heat plants)	*17*	*10*	*2*	*9 945*
3.	KW Czatkowice	0.03	0.8	8.4	8 449
	Total	**10 329**	**10 401**	**586.4**	**12 195 217**
	Decline versus 2018	**20%**	**17%**	**21%**	**17%**

The emissions of SO_2, NO_X, dust and CO_2 from fuel combustion for the purpose of electricity generation are well below the levels set as the maximum permitted annual loads of substances released into the atmoshpere according to permits. The above is due to the fact that all working generating units of TAURON Wytwarzanie and TAURON Ciepło achieve the SO_2, NO_2, and dust concentration levels below the permitted values, and the SO_2 and NO_2 concentration levels for the 200 MW units and biomass fired boilers are already at a level close to the limits defined in the BAT Conclusions that will apply from 2021.

TAURON Capital Group assumes responsibility for taking care of the natural environment and the consequences of using its resources. TAURON Capital Group's subsidiaries calculated fees in the total amount of approx. PLN 32 891 000.

The below table presents the estimated charges for the business use of the environment at TAURON Capital Group's selected subsidiaries due for 2019.

Table no. 17. Estimated charges for the business use of the environment due for 2019

#	Subsidiary name	Charges[1] for the business use of the environment due for 2019 (PLN '000)
1.	TAURON Wytwarzanie	14 882
2.	TAURON Wydobycie	14 856.5
3	TAURON Ciepło	2 910.3
4.	TAURON Dystrybucja	181.5
5.	KW Czatkowice	55.2
6.	TAURON Dystrybucja Serwis	< 0.8
7.	TAURON Obsługa Klienta	1.6
8.	TAURON EKOENERGIA	< 0.8
9.	TAURON Sprzedaż	< 0.8
10.	Bioeko Grupa TAURON	4
	Total	**32 891.1**

[1]*partly estimated data, the annual settlement has not been completed*

Management of by-products

In order to take care of the natural environment TAURON Capital Group minimizes the quantity of waste deposited in the environment by bringing it to the market to be used as substitutes for natural materials.

4 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2019, with as much as 51% of that quantity brought to the market as full value products to be used, among others, in the construction, road building, mining or agricultural sector. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization, among others in land reclamation, macro-leveling and filling of the post-mining voids in mining.

The below figure presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019.

Figure no. 35. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019

TAURON Capital Group is seeking to implement the closed circuit (circular) economy model. It is planned that the maximum of generated process waste is used within TAURON Capital Group, consequently reducing the consumption of natural resources and the product's carbon footprint.

TAURON Wytwarzanie brought as much as 88% of ashes and boiler slag coming from 6 system power plants to the market as by-products in 2019, to be used in construction, road engineering (building), mining and agriculture. The remaining 12% of the waste was used for a business purpose.

TAURON Capital Group's power generating plants produced 120 000 Mg of ashes in 2019, which were used as a valuable raw material used in fire prevention in the coal mines. Ashes produced by the conventional power generation sector are a valuable raw material used in fire prevention in the coal mines. Ashes from TAURON Capital Group's power plants and combined heat and power plants cover 100% of the demand for ashes to be used for fire prevention at TAURON Wydobycie's coal mines.

100% of TAURON Ciepło's waste, i.e. 231 000 Mg tons of ashes, bottom ashes and slag, was used for business purposes. Almost 0.6 million Mg of the fly ash produced by TAURON Capital Group are used as the construction products, in the form of concrete enhancements (additives) improving their plasticity, preventing cracking and increasing the concrete's resistance to chemical corrosion. Ashes are also a substitute for natural aggregates and contribute to the formation of highly specialized lightweight concrete.

TAURON Wydobycie processes post-mining waste, as a result of which high-quality construction and road aggregates are obtained. 569 thousand tons of aggregates and materials produced based on the post-mining waste were brought to the market in 2019.

All of the above activities contribute to reducing the consumption of natural resources, e.g. sands or gravels.

2.9.1.2. Climate policy

TAURON Group's Climate Policy (Climate Policy) was adopted by the Company's Management Board in November 2019, with the goal to counteract climate change and the sustainable development of TAURON Capital Group's Lines of Business, through a just transition towards achieving climate neutrality in the future.

Effectively counteracting the climate change and the sustainable development are the two main stipulations of the Climate Policy that is in line with the assumptions of the *Green Turn of TAURON* concept.

The Climate Policy constitutes the basis for TAURON Capital Group to manage its operations in such a way so as to mitigate the risks associated with the climate, reduce TAURON Capital Group's negative impact on the climate and maximize the positive effects of the climate change throughout the entire value chain.

One of the most important commitments in this respect is the declaration of support for the measures aimed at reducing the global warming by maintaining the rate of the temperature rise below 2° C relative to the pre-industrial levels.

The Climate Policy refers to all kinds of activities and operations carried out as part of TAURON Capital Group's value chain, the effects of which impact climate change or constitute the implication thereof, including in particular: measures aimed at reducing the global warming and measures with respect to TAURON Capital Group's adaptation to the climate changes underway

TAURON Capital Group introduced the update of the strategic directions in 2019, thus conducting the first activities as part of the final review and adaptation of the Strategy towards reducing the risk associated with the transition of the energy sector and taking advantage of the market expectations related to the climate.

TAURON Capital Group's dependence on the natural capital varies for the individual Lines of Business of TAURON Capital Group. Mining, Generation and Heat Lines of Business are dependent on the fossil fuel resources, which are not very sensitive to the climate change, and their physical availability is not dependent on the rate of the global warming. The RES Line of Business, due to generating electricity in hydropower plants, is highly exposed to the risk of outages or reduction of production as a result of prolonged droughts, which translate into a decrease in surface water resources in river basins, where hydropower plants are located. TAURON Ekoenergia is monitoring such developments on an ongoing basis and has an inventory list of assets most exposed to such restrictions.

2.9.2. Key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations

In order to make the best use of the value levers (drivers) defined as part of the Strategy and the update of the strategic directions, as well as to ensure efficient (from the point of view of the individual capitals) implementation of the Sustainable Development Strategy, the following key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations were defined.

1. ratios (metrics, performance indicators) related to the reliability and quality of supply of products and services for the customer,
2. ratios (metrics, performance indicators) related to the orientation towards the customer and his / her needs,
3. ratios (metrics, performance indicators) related to the environment protection,
4. ratios (metrics, performance indicators) related to the work safety, ethical culture and employee engagement,
5. ratios (metrics, performance indicators) related to the social and business partnership.

The below table presents the key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2018-2019.

Table no. 18. Key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2018-2019

#	Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
					2018	2019
1.	Reliability and quality of supply of products and services for the customer, including:					
	Number of individual and business customers in the Distribution Line of Business,	Financial capital / Distribution Segment's RAB, capital expenditures, cash flow from operating activities	Stimulant	number	234 175	221 335
	Number of cases of non-compliance and complaints related to products and services with respect to providing information	Financial capital / Cash flow from operating activities, net profit, long term rating	Destimulant	number	0	0
	SAFI[1]	Financial capital / Cash flow from operating activities	Destimulant	minutes	0.33	0.28
2.	Orientation towards the customer and his / her needs, including:					
	Number of individual and business customers in the Supply Line of Business	Financial capital / Sales revenue, EBITDA, EBITDA margin, net profit, long term rating	Stimulant	number	5 459 918	5 511 946
	CSI index	Social capital / Implemented and applied TAURON Group's PROClient Social Policy	Stimulant	-	81	83
3.	Environment protection, including:					
	Percentage share of RES installed capacity in the total installed capacity	Production capital / Installed capacity in hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	10	12
	Percentage share of electricity production based on RES in the total electricity production	Production capital / Electricity production by hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	7	11
		Production capital / Heat production by hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	5	6
	Direct greenhouse gas emissions	Natural capital / Direct greenhouse gas emissions	Destimulant	Mg	14 629 722	12 215 945
	Total weight of non-hazardous waste (including combustion and mining by-products) generated	Natural capital / Total amount of non-hazardous waste	Destimulant	Mg	3 103 596	1 366 974

#	Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
					2018	2019
	Number of meetings with trade union organizations at TAURON Capital Group's subsidiaries	Intellectual capital, Social capital, Human capital / developing relationships based on dialogue, organizational culture based on PRO values	Stimulant	number	249	329
4.	Work safety, ethical culture and employee engagement, including:					
	Number of employees	Human capital / Number of employees Human capital / Number of trainings courses conducted by Internal Coaches (Trainers) Intellectual capital / Knowledge and competences of the Group's employees Social capital / Personnel education and development	Nominant	number	25 829	26 086
	Accident rate (frequency) at work[2]	Social capital / Organizational culture based on the PRO values	Destimulant	-	8.1	7.8
	Share of women among the workforce	Human capital / Share of women among the workforce Social capital / Diversity Policy and Respect for Human Rights Policy implemented and applied	Nominant	%	21.5	21.4
	Number of training session hours	Human capital / Number of training session hours	Stimulant	'000	449	478
5.	Social and business partnership, including:					
	Number of local and social initiatives	Social capital / Support for local initiatives through TAURON Foundation	Stimulant	number	147	158
	Number of agreements with respect to corporate social responsibility	Social capital / Implemented and applied TAURON Group's PROClient Social Policy Social capital / Developing lasting relationships and active dialogue with the stakeholders Social capital / Support for local initiatives through TAURON Foundation	Stimulant	number	9	11
	Number of meetings with local communities held in order to provide information on the operations conducted and its impact on the residents		Stimulant	number	Regular, in accordance with the ongoing operations	Regular, in accordance with the ongoing operations
	Number of sports and cultural events organized for the employees		Stimulant	number	16	18

[1]*The value of SAFI is calculated according to the formula: number of interruptions at the consumers / number of the consumers served / year*
[2]*The accident frequency rate is calculated according to the formula: (number of accidents at work x 100) / average employment in a year*

2.10. Sponsoring activities

TAURON Capital Group's sponsoring activities were conducted in 2019 based on the *Plan of conducting the sponsoring activities by TAURON Group in 2019*, adopted by the Company's Management Board and granted a positive opinion by the Company's Supervisory Board.

The main objective of TAURON Capital Group's sponsoring activities is to support its business goals defined in the Strategy.

The sponsoring activities were carried out based on the negotiated agreements, containing standardized provisions. The introduction of bonuses for the promotional result achieved was started in the sponsorship agreements in 2018,, making the payment of significant parts of the remuneration dependent on the measurable effectiveness of the contracts performed

Moreover, this activity was monitored, analyzed and reported on an on-going basis, through detailed reports on the implementation of the sponsoring agreements, surveys and analyses conducted in quarterly, 6-month and annual cycles by the specialized external entities and the internal oversight.

In accordance with the procedures implemented, the effectiveness of the activities conducted was assessed based on the opinion polls, measuring the size and value of the brand's exposure in the media in the context of the activities conducted, as well as by measuring the impact on the pro-sales attitudes including the reporting of the results achieved.

An independent research entity initially estimated, as a result of the measurement of the promotional effectiveness, the advertising equivalent achieved in relation to the activities completed in 2019. By comparing the summarized value obtained this way, to the sum of all expenditures arising from the relevant sponsoring agreements, the ROI ratio (understood here as a comparison of the advertising equivalent to the expenditures on the implementation of the contract) at a level of approximately 4.2 was obtained. This means that each zloty (PLN) spent for that purpose generated promotional benefits to TAURON Capital Group, the value of which was independently, initially estimated at approximately PLN 4.20.

The confirmation of the financial effectiveness of the activities conducted is the high positioning of the TAURON brand in an independent research report, *Sponsoring Monitor 2016*. According to this report, TAURON is ranked 8th overall among the TOP 10 sponsors. Several hundred brands were classified in the ranking, which is the result of opinion polls. TAURON's result was very good result. Due to the relatively low level of sponsorship spending by TAURON Capital Group, the position in this ranking can be regarded as high.

The sponsorship activities covered a total of 17 projects with 15 counterparties (business partners, contractors) in 2019. The preliminary data on the advertising equivalents achieved, regarding the activities completed in 2019, indicate that the best results were generated by such activities as the 76th edition of Tour de Pologne. Among the projects with their status being 'in progress', which is understood as contracts that were concluded but not completed, the activities such as the sponsoring of TAURON Arena Kraków were characterized by a strong potential.

3. RISK MANAGEMENT AT TAURON CAPITAL GROUP

3.1. Risk management objective and principles at TAURON Capital Group

At TAURON Capital Group risk is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both negatively (threat), as well as positively (opportunity).

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, risk management is to ensure increased predictability of TAURON Capital Group achieving its strategic goals, including the sustainable generation of its financial results.

TAURON Capital Group's risk management:

- covers all elements of the value chain,
- provides centralized risk measurement, monitoring and control function, and also the ability to evaluate the full risk profile in the organization and coherent risk management principles,
- ensures independence of the risk taking function from its control and monitoring,
- ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
- is an active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
- is a systematic and continuously improved process which allows for aligning it, on an ongoing basis, to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment,
- places a strong emphasis on developing awareness, training and encouraging the personnel to use the knowledge of risks in the daily activities,
- co-creates at TAURON Capital Group the internal audit system, constituting, along with the compliance and security management functions, an element of the three line defense.

3.2. Risk management strategy

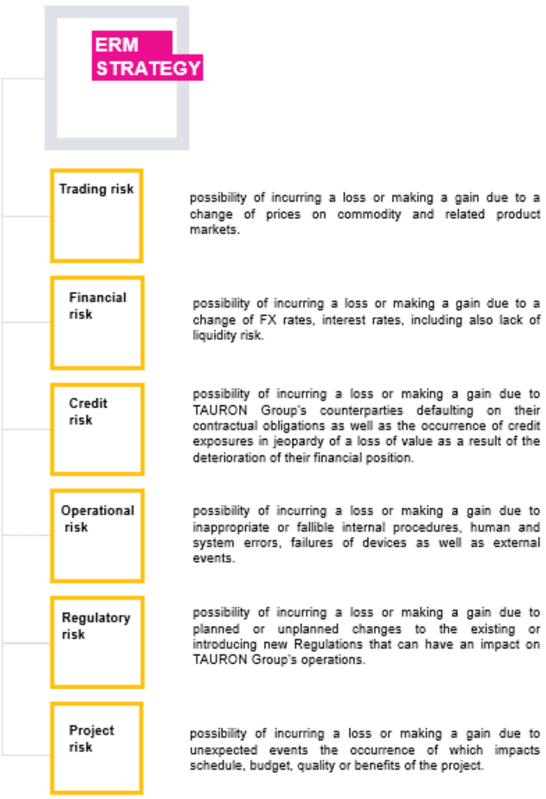
The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring safety (security) of TAURON Capital Group's operations. The ERM system is governed by the *Enterprise Risk Management Strategy at TAURON Group* (ERM Strategy) that defines TAURON Capital Group's enterprise risk management framework and rules, and its goal is to ensure the consistency of managing the individual risk categories that were detailed in separate regulations, aligned to the specifics of the individual threat groups

As part of the ERM System, the following specific risks are identified within TAURON Group, for which separate policies tailored to the nature and specifics of the given group of threats are defined:

1. Trading (commercial) risk,
2. Credit risk,
3. Financial risk,
4. Operational risk,
5. Regulatory risk,
6. Project risk.

The below figure presents the basic classification of the enterprise risk.

Figure no. 36. Basic classification of the enterprise risk



The center of the ERM System is a risk management process that includes continuous activities, i.e. risk identification, risk measurement as well as developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including:

organization of the ERM System, risk control and monitoring rules, risk model, risk management tools, assessment of the adequacy and functioning of the ERM system.

The below figure presents the architecture of the ERM system in place at TAURON Capital Group.

Figure no. 37. Architecture of the ERM system in place at TAURON Capital Group

3.2.1. Risk management process

The process of enterprise risk management ensures the comprehensive and consistent risk management rules linked with one another in terms of methodology and information. The process of enterprise risk management means taking continuous measures comprising risk identification, risk assessment, planning of risk response, implementation of the adopted risk response and communication between risk management process participants.

The below figure presents the risk management process.

Figure no. 38. Risk management process

Risk identification consists in determining the potential events that may affect the implementation of business goals of TAURON Capital Group. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated response to the risk identified in order to achieve the desirable results. The planned actions constituting the prepared risk response are dependent and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in practical implementation of the responses to the identified risk, prepared in the planning process. The defined set of actions as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, indicate whether the activities carried out are effective and risk management is bringing the assumed effect of maintaining the value of the EWI indicators EWI within the acceptance range.

Communication consists in a continuous flow of information among the participants of the process, which is to ensure full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodical risk reporting is also an element of this process.

3.2.2. Organization of the risk management system (roles and responsibilities)

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest. In particular, the system guarantees independence of the risk taking function from risk control and monitoring. This is achieved through the centralization of the control function at the parent Company level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the risk owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system was placed at the parent Company, in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and oversight of the risk management process effectiveness. Within the Risk Committee two separate teams are set up, one for the trading (commercial) risk area and the other for the financial and credit risk area. Oversight of the enterprise risk management system is performed directly by the Risk Committee.

The below figure presents the links between the individual roles in the context of the ERM Strategy and the other documents regulating in detail TAURON Capital Group's ERM system.

Figure no. 39. Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM system

Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail and they are provided in the below table.

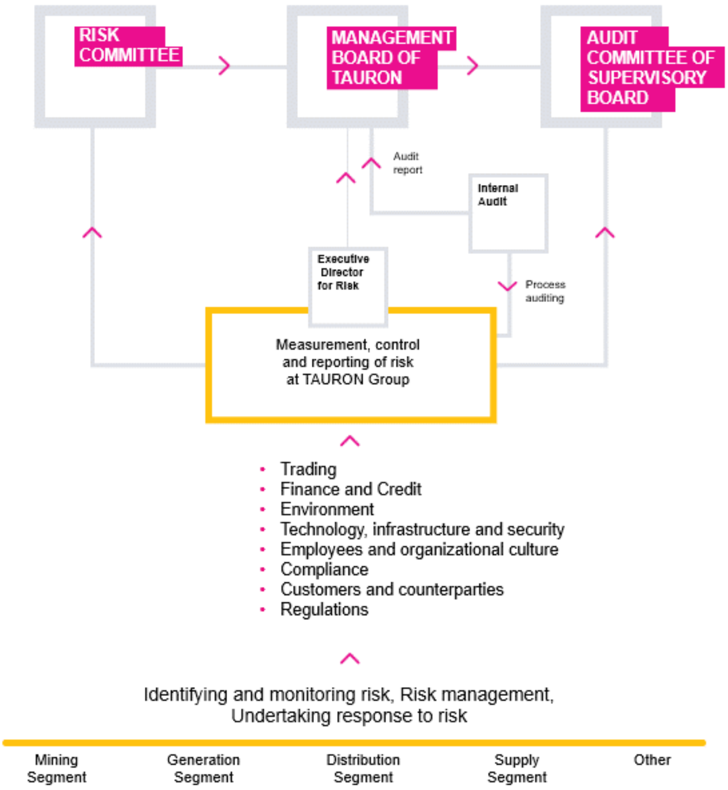
Table no. 19. Description of the ERM System participants' roles and responsibilities

#	Participant	Participant's roles and responsibilities
1.	TAURON Supervisory Board	• Assessment of the ERM System, especially of its adequacy and effectiveness. • Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities.
2.	Audit Committee of TAURON Supervisory Board	Monitoring the ERM System's effectiveness.
3.	TAURON Management Board	• Assessment of the ERM System's adequacy, effectiveness and efficiency. • Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Company's Management Board will be performing the Risk Owner's function. • Approving TAURON Capital Group's risk tolerance and global limits for the key risks. • Managing the risks of special importance for TAURON Capital Group's operations.
4.	Risk Committee	• Overseeing TAURON Capital Group's risk management process. • Auditing TAURON Capital Group's risk exposure.

#	Participant	Participant’s roles and responsibilities
		• Providing opinions and recommending to the Company’s Management Board the shape of the individual elements of the risk management infrastructure. • Defining TAURON Capital Group’s risk tolerance and global limits for the key risks, and also applying to the Company’s Management Board for the approval or change thereof. • Overseeing the preparation of the quarterly information for the Company’s Management Board on all important issues related to TAURON Capital Group’s risk
5	Executive Director for Risk	• Coordinating the risk management process on all levels and in all areas (lines of business) of the organization’s operations. • Responsibility for the development of the ERM System (threat identification, evaluation monitoring and checking methods, processes and procedures). • Support and oversight over the system’s participants in the risk management implementation and evaluation of its efficiency. • Preparing and providing the risk reports to authorized risk management process participants. • Actions aimed at developing organizational culture and raising awareness with respect to TAURON Capital Group’s risk management.
6.	Executive Director for Internal Audit and Control	Periodic review of the correctness of designing and implementing as well as the effects of actions taken within the ERM System.
7.	Management Board of a subsidiary	• Responsibility for risk management within a subsidiary. • Promoting risk management culture in a subsidiary. • Responsibility for the appropriate reactions to risk and the effectiveness thereof. • Appointing Risk Owners at the given subsidiary. • Approving plans of reaction to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded.
8.	Risk Owner	• Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in context of an impact on the ongoing operations as well as on the implementation of the strategic, operational and financial goals of the unit. • Responsibility for preparing a plan and for implementing a reaction to risk in case its established values are exceeded, and also for the communications and reporting within the risk management implemented.

The below figure below presents the flow of information within the key participants of the risk management process.

Figure no. 40. Flow of information within the key participants of the risk management process



3.2.3. Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group’s exposure to factors that may have an adverse impact on its functioning. The basic risk control tool is the risk tolerance approved by the Management Board that defines the value of the maximum permitted risk exposure at TAURON Capital Group.

The process of defining the risk tolerance takes into account the specifics and scope of TAURON Capital Group’s operations. Its level is defined as a value, and the rules of measurement of individual risks in the organization ensure the consistency of risk measurement with the applied tolerance definition. The risk tolerance constitutes the basis for allocation of its level to the global limits dedicated to a single risk or many specific risks. Subsequently global limits are allocated to operating limits within the specific risk management. The key assumption is to guarantee independence of the risk taking function from risk control and monitoring which guarantees safety of the functioning of the organization.

A supplementary tool used for risk monitoring and control comprises the Early Warning System based on the catalogue of Key Risk Indicators - KRI and Early Warning Indicators - EWI.

The system functioning based on the above mentioned indicators enables an appropriately early identification of threats by measuring the causes of the individual threats. At the same time this system allows for an appropriately early taking of remedy actions, before the individual threats actually materialize.

3.2.4. Risk management tools

Risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group uses, in particular, the following tools:

1. **Risk identification / review questionnaire** - a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
2. **Risk card** - a document containing the detailed information on the identified risk.
3. **Risk register** - a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations.
4. **Risk response plan** - a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to a given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization
5. **Risk assessment form** - a tabular summary of detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of risk measurement parameters (KRI / EWI).

3.2.5. Risk model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories.

The below table presents the main risk categories and sub-categories, in accordance with the Risk Model in place.

Table no. 20. Main risk categories and sub-categories, in accordance with the Risk Model in place

#	Main risk categories	Main risk sub-categories	Description of the main risk sub-categories
1.	Trading risk	Trading	Risks determining the market volatility of electricity and related products market prices to which the enterprise is exposed.
2.	Financial and credit risk	Finance and credit	Risks related to changes in exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on contractual obligations.
3.	Operational risk	Environment (stakeholders)	Risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Group's goals.
		Technology, infrastructure and security	All events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure.
		Employees and organizational culture	Risks related to employee issues and organizational culture.
		Compliance	Risks related to non-compliance, internal and external abuse as well as unethical behavior.
		Customers and contractors (counterparties)	Risks related to the volatility of the supplies / services market, failure of the customer / contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin.
4.	Regulatory risk	Regulations	Risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Group.

3.2.6. Assessment of the adequacy and the functioning of the risk management system

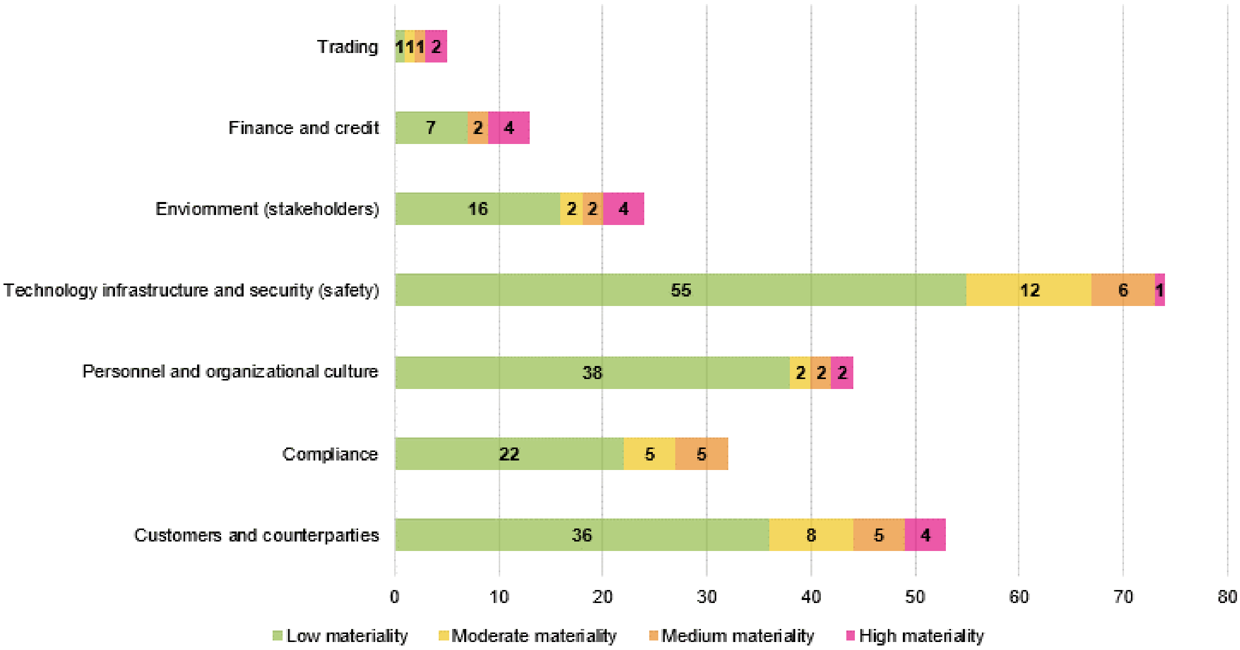
Risk management is a systematic process subject to continuous improvement which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment. It is also subject to a periodic, internal and independent assessment of adequacy and reviews:

- ERM System is subject to continuous reviews with respect to its adequacy and alignment with the structure and specifics of TAURON Capital Group's operations, as well as to the changing environment,

- Executive Director for Risk, at least once a year, prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee,
- Executive Director for Audit, as part of performing the institutional (third line of defense), periodically conducts an independent audit of risk management at TAURON Capital Group verifying the appropriate implementation of the rules by the process participants, as well as its adequacy and effectiveness

The below figure presents the main risk categories defined by TAURON Capital Group, including the number of key threats.

Figure no. 41. Number of risks monitored, broken down into sub-categories



3.3. Managing TAURON Capital Group's key risks

The Company is actively managing all risks, seeking to eliminate or to maximum degree reduce their potential negative impact, in particular on TAURON Capital Group's financial result.

3.3.1. Trading risk management

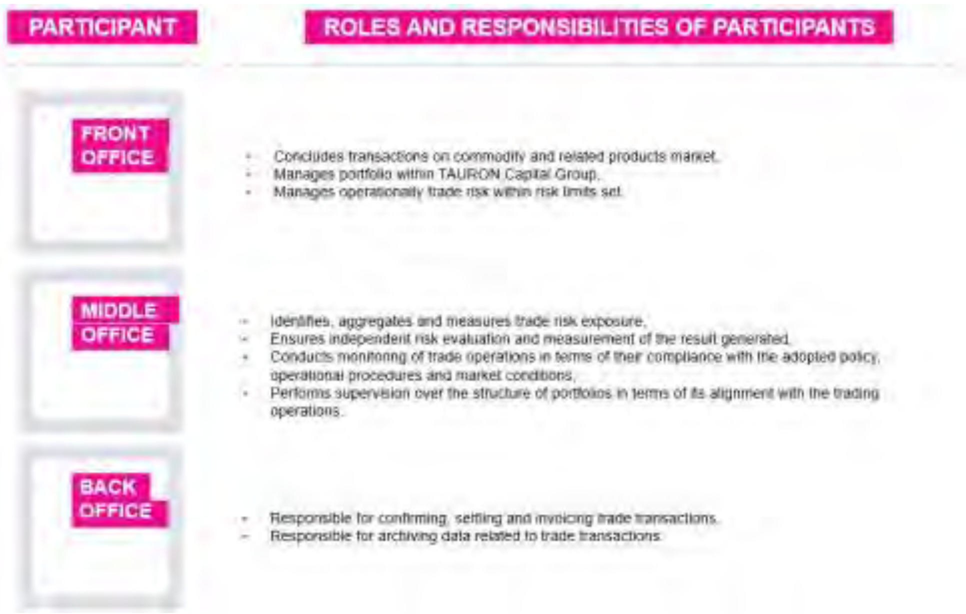
In accordance with *TAURON Group's Trading Risk Management Policy* in place trading risk is understood as the possibility of incurring a loss or making a gain due to price fluctuations on the commodity and related products markets. The trading risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of subsidiaries operating both in the Mining and the Generation Lines of Business as well as in the Supply Line of Business. Due to the opposing positions in the above Lines of Business the risk is, to a certain degree, naturally diversified, however, since the above mentioned Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and related products.

In order to efficiently manage this group of risks the trading risk management system was established, tied with respect to organization and information, to the trading position hedging strategy in place at TAURON Capital Group's level. In particular, *TAURON Group's trading risk management policy* introduces an early warning system and a system used to limit the risk exposure in the individual trading areas. The basic operating measure of TAURON Capital Group's market risk is Value at Risk, defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk represents a dynamic risk measure which, in contrast to static measures, allows for determining potential negative effects before their factual occurrence. However, being aware of certain limitations of the statistical measures of this type, the Risk Area also uses a number of supplementary risk measures aimed at enabling a safe operation of the trading areas.

The organizational structure of the trading risk management system envisages a strict split of competences as part of which risk management is decentralized, where the supervision and risk control are performed centrally at TAURON level. In particular, an element of the organizational structure of the trading risk management system is the split of TAURON Capital Group's trading operations into: Front Office, Middle Office and Back Office. The goal of such a split of tasks is to guarantee the independence of the operating functions carried out by the Front Office from the risk control function carried out by the Risk Area, and it ensures an appropriate level of operational flexibility. For the needs of the risk management process such a placement of responsibility is assumed in order to ensure an optimal approach to the given type of threat, in particular taking advantage of the economy of scale and the synergy effect. Such an approach ensures efficiency of the trading processes conducted and appropriate supervision over one of the main business processes conducted by TAURON Capital Group.

The below figure presents a breakdown of TAURON Capital Group's trading operations.

Figure no. 42. Breakdown of TAURON Capital Group's trading operations



3.3.2. Financial risk management

As part of the financial risk management, TAURON Capital Group is managing the FX risk and the interest rate risk, based on the developed and adopted for use *TAURON Group's Financial Risk Management Policy*. The main goal of managing these risks is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of transactions with the use of the derivative instruments. In cases when it is possible and economically justified, TAURON uses the derivative instruments the characteristics of which allow for applying the hedging accounting.

With respect to the financial risks TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay the current expenses, due to an inadequate value or structure of liquid assets in relation to the short term obligations or an insufficient level of the actual net inflows from the operating activities. TAURON Capital Group's liquidity position is monitored on an ongoing basis for any potential deviations from the assumed plans and the availability of the external sources of financing the amount of which substantially exceeds the expected short term demand, mitigates the risk of losing liquidity. TAURON Group's financial liquidity management policy put in place defines the rules of determining the liquidity position, both of the individual subsidiaries, as well as of entire TAURON Capital Group, which allows for securing funds to cover a potential liquidity gap, both by allocating the funds among the subsidiaries (cash pool mechanism), as well as with the use of the external financing, including the overdrafts.

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. In order to minimize the financing risk, TAURON conducts a policy of acquiring the funding for TAURON Capital Group with an appropriate advance notice in relation to the planned date of its use, i.e. up to 24 months in advance of the planned funding requirement. It means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging this financing by collecting the funds on TAURON Capital Group's accounts. Such a policy is first and foremost aimed at ensuring a flexible choice of the financing sources and taking advantage of favorable market conditions as well as reducing the risk of need to take on new liabilities under unfavorable market conditions. TAURON"s policy also covers standardizing of the covenants and the provisions of the financing agreements in the key elements of the documentation.

3.3.3. Credit risk management

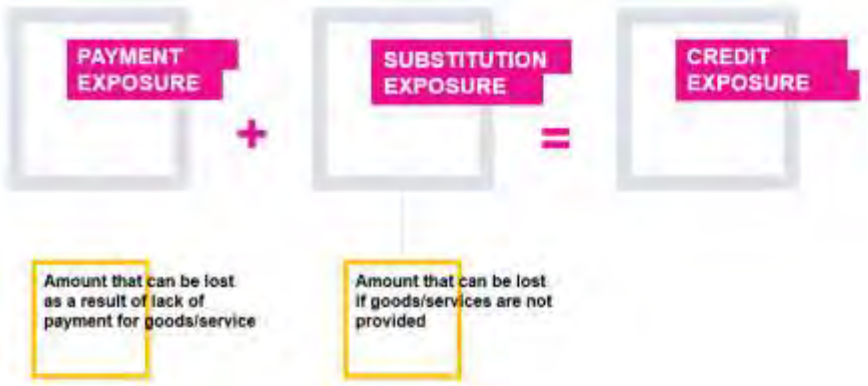
In accordance with *TAURON Group's Credit Risk Management Policy* in place credit risk is understood as the possibility of incurring a loss or making a gain due to trade partners (counterparties) failing to fulfill their contractual obligations (default) as well as the occurrence of credit exposures at risk of impairment due to the deterioration of their financial position. TAURON Capital Group has a decentralized credit risk management system in place, however the control, limiting and reporting of this risk category is carried out centrally, on the parent Company level. *TAURON Group's Credit Risk Management Policy* put in place defines credit risk management principles on

TAURON Capital Group's level, aimed at effectively minimizing the impact of this risk on achieving TAURON Capital Group's goals.

Credit risk management is carried out by controlling the credit exposure generated upon the conclusion of contracts by TAURON Capital Group's subsidiaries. The general rule is that prior to concluding a material contract every entity is subjected to an examination of its financial standing and receives a credit limit which caps the maximum exposure due to the given trade. Credit exposure is, in this context, understood as an amount that can be lost if a counterparty (business partner, contractor) fails to fulfill its obligations (defaults) within a certain time (taking into account the value of the collaterals submitted thereby). Credit exposure is calculated as of the current day and is split into exposure due to payment (payment exposure) and replacement exposure.

The below figure presents credit exposure components.

Figure no. 43. Credit exposure components



Based on the exposure value and the evaluation of the financial standing of specific customers, the credit value at risk that TAURON Capital Group is exposed to is calculated using the statistical methods according to which the exposure value is calculated based on the total loss probability distribution CVaR.

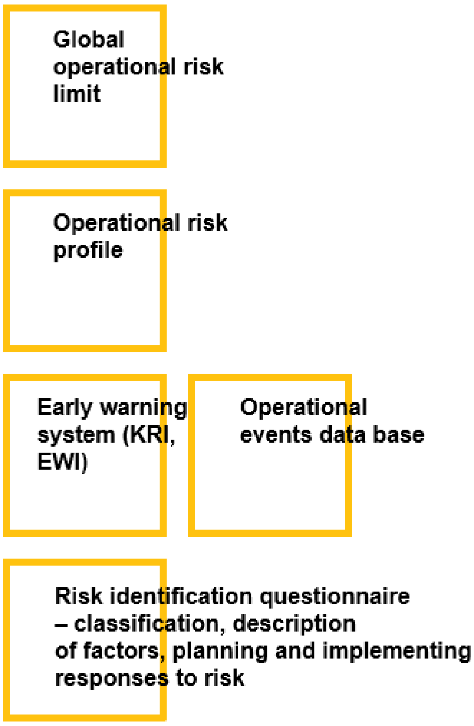
3.3.4. Operational risk management

Operational risk, in accordance with *TAURON Group's Operational Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to inappropriate or fallible internal procedures, human and system errors or as a consequence of external events. It also includes reputational risk and non-compliance risk. Operational risk, due to the specific nature of the threats and the ability to manage them, constitutes a separate group of risks affecting TAURON Capital Group's operations. The said risk is a complex issue, occurs in every process and type of operations, it is multi-dimensional and applies to various types of activities and operations. In particular, the exposure to the operational risk factors is related to the size and complexity of the organizational structure, the number and complexity of the IT systems and to the number of business processes conducted. Operational risk is characterized by the lack of the ability to totally eliminate its sources, and the analysis of its factors and parameters (among others, frequency and severity), and also the evaluation thereof requires the use of complex measurement and analysis methods.

In order to effectively manage the operational risk, TAURON Capital Group is using appropriate tools that, in particular, include the global operational risk limit, operational events database, the early warning system functioning on a broad scale and the related system of operational limits.

The below figure presents the risk management system tools.

Figure no. 44. Risk management system tools



Global operational risk limit is the basic tool for the operational risk control and represents the allocation of risk tolerance adopted by TAURON Capital Group. The global operational risk limit can be subsequently allocated to TAURON Capital Group's individual lines of business, the operational risk sub-categories as well as to the specific operational risks.

Operational risk profile is aimed at identifying areas, processes or activities with an excessive exposure to threats stemming from specific operational risk factors. It is expressed in particular in the structural dimension that includes types of operational events, TAURON Capital Group's organizational structure and processes, and in the scale dimension that includes estimated potential losses, taking into account especially historical values of actual losses, as well as the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the operational risk Profile the individual types of the operational risk are broken down (due to the nature of the occurrence thereof) into continuous and one-off risks.

Early Warning System is defined in order to monitor the operational risk level for each identified threat. Early Warning Indicators (EWI) are selected from the Key Risk Indicators (KRI) set as the ones that are subject to continuous control with respect to the caution thresholds set for them, i.e. acceptance, mitigation and escalation thresholds.

Operational events database is created for the needs of identifying new risk factors, and in parallel in order to define the risk profile for TAURON Capital Group. It allows for keeping the records of cases that are characterized by a potential or actual loss for the organization. The goal of maintaining the operational events database is to determine the frequency and severity of the individual operational risk factors, as well as the areas and processes they occur in.

Risk identification questionnaire is a document in the form of a tabular form that constitutes a tool supporting the performance of the risk management process with respect to risk identification, specifying the detailed information that should be collected in this process.

3.3.5. Regulatory risk management

Regulatory risk, in accordance with *TAURON Group's Regulatory Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of TAURON Capital Group. Regulatory risk, due to the specific nature of threats and limited options to manage them, is a separate category of the enterprise risk to which TAURON Capital Group is exposed as part of its operations. Regulatory risk management is based on the Regulatory Risk Management Process and is a refinement of the Risk Management Process specified in the ERM Strategy.

The main causes of regulatory risk include:

1. instability of the legal environment,
2. change in regulatory policy at national and European levels,
3. progressing integration of the European energy market,
4. uncertain political situation,
5. a significant increase in the requirements for specific regulation.

The main goal of the regulatory risk management at TAURON Capital Group is to minimize losses and maximize gains from the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of the organization. As a result, it allows for reducing the potential threats, to a level as neutral as possible, to achieving TAURON Capital Group's strategic goals. The regulatory risk management is also aimed at building culture and awareness among the employees of TAURON Capital Group regarding the risk taken, as well as at the continuous improvement of the process of managing such risk.

Regulatory risk occurs when there are indications of regulatory changes, for example an entry into force of the EU directive, which will be implemented into the Polish legal regime or the positions of the legislators declaring the regulatory changes. Regulatory risk management does not cease when a specific regulation which is frequently expected to provide executive regulations that specify its implementation method but from the moment the regulatory requirements take effect (The period from the entry of a legal act into force until the beginning of the regulatory requirements becoming effective is a transition period). At that time the regulatory risk management turns into the risk of non-compliance monitored as part of the compliance risk.

The below figure presents the regulatory risk life cycle.

Figure no. 45. Regulatory risk life cycle

In accordance with the classification of the regulatory risk, as part of *TAURON Group's Regulatory Risk Management Policy,* 12 areas of regulatory risk have been identified at TAURON Capital Group. The classification is based on the identification of homogeneous groups of regulations, based on their impact on the operations of TAURON Capital Group, taking into account the possibility of undertaking an effective response to the given risk. The regulatory risk areas are divided into 2 basic categories:

1. **Sector regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to the generation and supply of electricity and heat. Within this category, independently, there are also risks related to the distribution of electricity and the extraction of raw materials.
2. **Non-sector regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to, among others, the public procurement law, information security or compliance area, personal data protection, labor law, accounting and tax law, work (occupational) health and safety and corporate management.

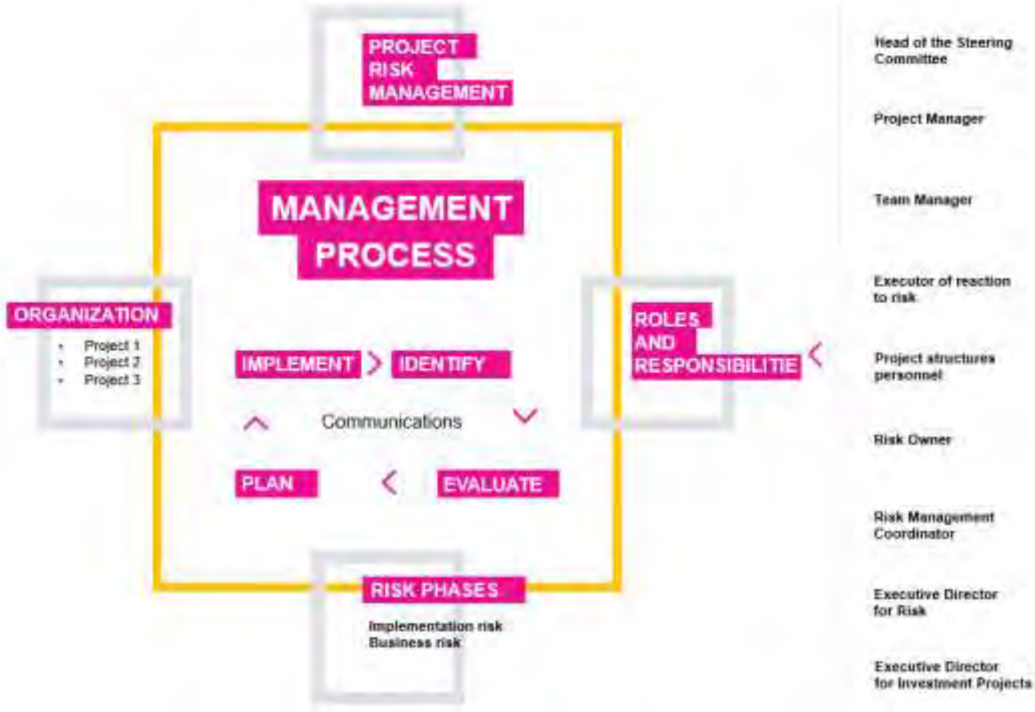
3.3.6. Project risk management

TAURON Capital Group is conducting a number of investment projects in many lines of its business operations. These projects, due to their scale and often very complicated nature of implementation, represent a source of threats that may have an impact on the schedule, budget or quality of the final products. Systematic use of the provisions of *TAURON Group's Project Risk Management Policy* is aimed at mitigating these risks, supporting at the same time the accomplishment of the organization's strategic goals. This regulation, in particular, defines the basic principles of project risk management, ensuring consistency, comprehensive approach and unequivocal understanding in this area. The goal of the actions taken is to achieve the required probability of the project's completion, while complying with the defined schedule, budget and quality of the products received. The overall objective is to obtain the expected benefits from the project's completion and to achieve TAURON Capital Group's strategic goals.

Project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes identification, valuation of such risks, defining and monitoring the early warning indicators as well as planning and implementing actions related to managing such risks. In case of the risks having an impact on the organization, the risk valuation is made as the absolute value of the impact, including indicating the impact period broken down into the individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks having an impact on the organization, the Plans of responses to the risk and back-up Plans are developed. The evaluation of the project risks and the risks stemming from the projects for the organization is taken into account when making the key decisions related to launching and implementing such projects.

The below figure presents the project risk management model.

Figure no. 46. Project risk management model



3.4. Description of the most material risk categories related to TAURON Capital Group's operations

The below table presents the most material risk categories identified for TAURON Capital Group.

Table no. 21. Most material risk categories identified for TAURON Capital Group

#	Risk name	Risk description	Risk trend	Reaction to risk
Trading				
1.	Market risk	Risk related to the change in market conditions for the operations of TAURON Capital Group's subsidiaries, in particular as a result of the tightening of the EU climate policy, growing environmental awareness of the society, activities supporting energy efficiency (moving away from coal as fuel, prosumer development, support for thermal insulation and construction of in-house energy and heat sources) resulting in a decrease of the margin in the Generation Line of Business (CDS / volume) as well as an increase in the costs and a decrease in the revenues	↗	• Daily measurement and reporting of portfolio positions, • Ongoing monitoring of the levels of S-P, VaR and Stop Loss, • Adoption of an optimal trading strategy, • Implementing position hedging mechanisms, • Auditing compliance with risk mandates with specific limits.
Finance and credit				
2.	Interest rate risk	Risk related to an unfavorable impact of interest rates on TAURON Capital Group's financial results.	→	• Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the interest rates. • Transfer of risk through the use of derivative instruments
3.	FX rate risk	Risk related to an unfavorable impact of FX rates on TAURON Capital Group's financial results.	→	• Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the FX rates, • Transfer of risk through the use of derivative instruments
4.	Liquidity risk	Risk related to the lack of TAURON Capital Group's ability of to pay its liabilities on an ongoing basis	→	• Diversification of the sources of financing including arranging guaranteed financing programs and securing alternative sources of financing. • Implementing the central financing policy. • Analyzing the market and the availability of the sources of financing. • Monitoring the schedules and the date of announcing a financing program.
5.	Financing risk	Risk related to the difficulties with accessing capital, change to the conditions for obtaining and servicing financing contracted and planned	↗	• Diversification of the sources of financing including arranging guaranteed financing programs and securing alternative sources of financing. • Implementing the central financing policy.

#	Risk name	Risk description	Risk trend	Reaction to risk
		(including due to the tightening of the EU climate policy).		• Analyzing the market and the availability of the sources of financing. • Monitoring the schedules and the date of announcing a financing program. • Gradual withdrawal of anthropogenic sources of greenhouse gas emissions from fossil fuels through the development of renewable energy and zero and low-emission electricity generation technologies, • Active search for technical and organizational solutions that minimize the impact of TAURON Capital Group's operations on the climate change.
6.	Tax risk	Risk related to incorrect or untimely payment of tax obligations.	→	• Activities in accordance with legal regulations (Corporate Income Tax Act). • Issuing opinions on the economic events by TAURON Capital Group's tax advisors. • Jointly agreed positions at TAURON level. • Applying uniform accounting principles for companies within the PGK (Tax Capital Group). • Preparation of tax documentation for transactions between PGK companies and related entities outside PGK, requiring such documentation in accordance with the CIT Act, and auditing other transactions to confirm that they are concluded at arm's length.
7.	Credit risk	Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty (business partner, contractor) that may turn out to be insolvent.	→	• Regular monitoring of the counterparties (business partners, contractors)' financial standing. • Periodic customer scoring, credit rating of each customer prior to submitting an offer / concluding a contract. • Use of protection mechanisms (hedging) in commercial agreements
Environment (stakeholders)				
8.	Reputational risk	Risk related to the current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash, including the risk related to not following the market trends related to the climate protection.	→	• Continuous monitoring of the Company's external and internal threats. • Media monitoring, developing contacts and relationships with the media within TAURON Capital Group. • Preparing procedures for the Company's communications with the external and internal environment (stakeholders). • Striving to change the business profile to zero and low emission (carbon).
9.	License risk	Risk related to the lack of the possibility to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held, as well as the unfavorable legal changes with respect to the licensed operations.	→	• Ongoing control of the correct performance of the licensing obligations. • Monitoring changes to the legal acts with respect to the licensing obligations. • Legal support for the license extension and obtaining process.
10.	Macroeconomic risk	Risk related to the changes in the economic situation of the country, instability of the financial markets resulting in a decrease of the demand for electricity.	↗	• Diversification of the revenue sources. • Market analysis and the application of the pre-emptive actions for the anticipated crisis or a slowdown of the GDP growth rate.
11.	Climate change risk	Risk related to the tightening of the EU climate policy, as well as the environmental requirements resulting from the climate change, activities supporting energy efficiency (prosumer development, support for the thermal insulation, construction of in-house energy and heat sources, departure from coal as fuel), change in the conditions of TAURON Capital Group's operation (the need to adapt the company to the challenges of change resulting from the climate change). The implications of the risk are: difficulties or increase in the cost of raising capital to finance operations based on the fossil fuels, the need to incur additional expenditures as a result of the climate change (transition of the assets), difficulty or increase in the insurance costs of the assets based on the fossil fuels, an increase in the costs of the environmental fees and the need to incur additional capital expenditures for adapting the assets to the environmental requirements, an increase of the price of the CO_2 emission allowances, decreasing margins in the conventional energy segment, falling demand for electricity as a result of energy efficiency and the prosumer energy development, declining demand for the products offered by TAURON Capital Group's subsidiaries,	↗	• Application of TAURON Group's Climate Policy. • Defining, updating and implementing the Strategy. • Update of TAURON Group's Strategic Research Agenda. • Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from TAURON Group's Climate Policy and Investment Strategy. • Update and implementation of TAURON Group's sustainable development strategy.

#	Risk name	Risk description	Risk trend	Reaction to risk
		limiting or discontinuing of the operations based on the fossil fuels and carbonates, the need to restructure employment due to a change in the profile of the operations, greater difficulties in all the administrative procedures with the participation of the public by the non-governmental organizations (NGOs), a decline in the value of the enterprise, the inability to meet market expectations due to the lack of the expected products in the portfolio.		
Technology, infrastructure and security (safety)				
12.	Environmental risk	Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would enable the prevention of excessive pollution, damage, disruption or failures of the installations or equipment that would have a negative impact on the environment. The risk also related to the possibility of: lack of the validity of environmental decisions, depositing waste in places not intended for such purpose or not in accordance with the conditions of the use of the facilities intended for such a purpose, the occurrence of a crisis situation: e.g. fire, displacement of earth masses, extreme phenomena, the use of the waste not in accordance with the authorized destination, the lack of the appropriate safeguards limiting the negative impact of TAURON Capital Group's operations on the environment, release of the hazardous substances into the environment, social protests. The implications of the risk are: degradation of the natural environment and penalties for a failure to comply with environmental requirements, the need to remove such substances, the curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that would prevent their use, destruction of a habitat, object or valuable natural area - environmental compensation, restrictions on a further expansion of the business operations, a loss of the image of TAURON Capital Group, limitation of the ability to use the financial assistance programs. The risk also includes an increase in the environmental requirements due to the tightening of the EU's climate policy.	➔	• Adoption and implementation of TAURON Group's Environmental Policy. • Conducting business operations that affect the environment in accordance with the principles of the sustainable development. • Ongoing supervision over compliance with the conditions of the environmental decisions. • Maintaining the required efficiency of the devices reducing the emission of pollutants. • Frequent evaluation of the compliance of the activities with the legal requirements with respect to environment protection. • Implementing investment projects in the environment protection area in order to minimize the adverse impact of the mining and processing operations conducted on the environment and climate. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on the climate change.
13.	Weather risk	Risk related to the more frequent occurrence of the temperatures oscillating around 0°C in winter, higher rainfall intensity that can cause floods at any time of the year, uneven precipitation, resulting in longer periods of no rainfall, intermittent abrupt rainfall, and the intensification of the evaporation processes, increased frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings, more frequent occurrence of droughts and restrictions in access to water related thereto, as well as an increased risk of fires, a very high risk of weakening of the stands, making trees more susceptible to the damage caused by the wind. The implications of the risk include, in particular: increased costs of fixing of the failures, decrease of the volume of electricity and heat supply, decline of the production volume, deterioration of the quality indicators and an impact on the regulated revenue.	➚	• Upgrading (refurbishing) the hydroelectric structures aimed at optimizing the utilization of the water resources. • Preparing of the plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works. • Continuous monitoring of the wind conditions and icing on the wind farms' blades. • Continuous technical oversight over the operation of the individual wind farms, conducted by the companies operating the farms. • Monitoring and analyzing new technological solutions that reduce the impact of the adverse weather conditions on the volume of the electricity generated. • Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Lines of Business sensitive to these factors.

#	Risk name	Risk description	Risk trend	Reaction to risk
14.	Company asset failure risk	Risk related to the machinery and equipment failures, distribution grid failures (electricity, heat) caused, among others, by random events including those related to the extreme weather conditions (storms, floods, hurricane winds, heat waves, fires) as a consequence of, among others, the climate change.	➔	• Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of the machines, devices and installations. • Raising professional qualifications and work culture of the personnel by organizing courses and training. • Responding to an emergency situation by the technical personnel and automatic process safety interlocks (safeguards). • Insuring assets against fortuitous events (excluding underground assets). • Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios). • Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Distribution Line of Business.
15.	IT risk	Risks related to the IT infrastructure security, failures of the IT infrastructure.	➔	• Developing and maintaining plans aimed at ensuring continuity of the IT infrastructure's operation. • Periodic identifying and categorizing of the IT resources based on the service restoration targets. • Use of the IT solutions with the appropriate technical parameters, providing an acceptable level of reliability and performance of the operation (including also UPS devices, GSM modem, mobile phones). • Planning and conducting training courses on the IT infrastructure's continuity of operation and security. • Storing and protecting the back-up data.
16.	Asset (property) security and protection risk	Risk related to compromising the integrity of machines / devices and to the security of information, including its improper processing and unauthorized disclosure.	➔	• Monitoring the implementation of the developed plans to protect the facilities that are subject to mandatory protection. • Maintaining and updating contingency procedures / plans. • Oversight over compliance with the information security rules in force. • Regular personnel training with respect to the security procedures in force.
17.	Geological risk	Risk related to the impact of geological factors on the mining operations	➔	• Making test drillings for the better intelligence on the positioning of the coal deposits. • Continuing to take preventive measures in areas under threat in order to improve the geological and mining conditions and to provide protection against natural threats (including, among others, long-drilled blasting hole shooting in order to break the rock mass)
Workforce and organizational culture				
18.	Social dispute risk	Risk related to collective disputes, strikes, social conflicts being the consequence of a lack of the personnel's satisfaction with the economic and social situation.	➔	• Conducting public consultations regarding the planned changes. • Conducting a policy of dialogue with the workforce. • Preparing and implementing motivational solutions for the personnel. • Standardizing the tasks and requirements towards the personnel. • Developing organizational culture based on values. • Conducting active internal communications on personnel matters
19.	Human resources risk	Risk related to the employee issues, including diversity, participation, employment and working conditions, relations with the trade unions and respect for the right to freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to the climate change, forcing a change in the profile of the business operations. The materialization of the risk may result in interruptions or disruptions to the operations, employee complaints, collective disputes, strikes, loss of specialized staff and difficulties in recreating it.	➔	• Adoption and implementation of TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy. • Adoption and implementation of TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination. • Taking care of developing personnel competences through the participation in the training courses • Conducting consultations with the social organizations at TAURON Capital Group • Implementation of the human resources policy based on TAURON Group's Competence Model and the applicable remuneration and labor law regulations (Compensation Regulations, Company Collective Bargaining Agreement, Labor Regulations). • Adoption and implementation of TAURON Group's Diversity Policy. • Adoption and implementation of TAURON Group's Respect for Human Rights Policy.
20.	Risk of the lack of the employees' due diligence	Risk related to non-compliance with the procedures and the lack of the employees' due diligence in the performance of the official duties.	➔	• Implementation of TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy, • Systematic periodic employee training, • Analysis of the recurring cases of errors and mistakes of the employees, taking systemic remedial actions.
21.	Work Health and Safety (WHS) Risk	Risk related to ensuring health and safety at work. The materialization of the risk results in an employee injury, a loss of health or excessive exposure of an	➔	• Prioritizing safety of the employees, customers, contractors and stakeholders in the business activities undertaken • Adoption and implementation of TAURON Group's WHS Policy, • Ensuring optimal working conditions,

#	Risk name	Risk description	Risk trend	Reaction to risk
		employee to factors harmful to health, the compensation paid out for personal injury.		• Conducting active monitoring of the working conditions and the correctness of its organization, • Raising the employees' qualifications with respect to improving work safety, • Conducting training courses, implementing and improving the OHS management system
22.	Communications risk	Risk related to providing inaccurate, untrue information or a lack of information disclosure at specific time.	➔	• Building relationships with the workforce of TAURON Capital Group and close cooperation with the Social Dialogue Ombudsman. • Use and development of the available communications tools to provide relevant information to the employees of TAURON Capital Group. • When providing the relevant information – organizing the direct meetings between the management and the employees. • Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social anxiety. • Regular meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange information. • Developing the Communications Strategy for TAURON Group
Compliance				
23.	Internal fraud risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, the use of the official position for personal gain resulting in the financial losses, criminal and administrative sanctions, criminal and civil law liability.	➔	• Educational and training activities for the employees, including the mandatory e-learning training with respect to the Compliance Management System at TAURON Group. • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. • Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators. • Building the organizational culture based on TAURON Capital Group's values and principles. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of TAURON Group's Corporate Social Responsibility Code of Conduct. • Adoption and implementation of TAURON Group's Rules for accepting and giving gifts.
24.	External fraud risk	Risk related to the occurrence of an external fraud (abuse) that affects the operations of TAURON Capital Group through: disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attack and hacker attacks, tax fraud, theft, vandalism, counterfeiting, money laundering, terrorist attack.	➔	• Raising the employees' awareness through training and information campaigns related to the existing threats of external fraud (abuse). • Adoption and implementation of the Code of Conduct for Contractors of TAURON Group's Subsidiaries. • Introduction of the anti-corruption clauses to contracts with the contractors (counterparties). • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. • Monitoring of the cooperation with the contractors (counterparties and testing their credibility at TAURON Capital Group. • Promoting of the best practices, improving the procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct and the functioning of the abuse (fraud) reporting (whistleblowing) system. • Building the organizational culture based on TAURON Capital Group's values and principles.
25.	Risk of unethical behavior and mobbing	Risk related to the occurrence of unethical behavior resulting, in particular, in the lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of the employees.	➔	• Adoption and implementation of TAURON Group's Respect for Human Rights Policy. • Adoption and implementation of TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination. • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization • Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators with respect to the anonymous reports of mobbing and discrimination. • Reviewing of the reports of mobbing or discrimination by the Ethics Committee. • Promoting of the best practices, improving the procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct and the functioning of the abuse (fraud) reporting (whistleblowing) system. • Building the organizational culture based on TAURON Capital Group's values and principles. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of TAURON Group's Rules for accepting and giving gifts.

#	Risk name	Risk description	Risk trend	Reaction to risk
26.	Legal risk	Risk related to non-compliance with the legal provisions, misinterpretation of the new laws and regulations, the requirements imposed by the regulator and the supervisory authorities. The materialization of the risk may result in the financial penalties, criminal and civil law liability, a loss of the image of TAURON Capital Group.	→	• Adoption and implementation of TAURON Group's Compliance Policy. • Continuous monitoring of the legal environment and changes to the legal regulations with respect to the non-sector regulations related to information security or the area of compliance in order to minimize the risk of non-compliance. • Monitoring of the implementation process or implementing of the changes to the internal regulations required by the law. • Setting up or participating in the working groups tasked with adapting the organizations to the changes stemming from the legal environment. • Consultations with the relevant organizational units with respect to the planned key regulations for the area of compliance. • Training of the personnel with respect to the changes to the legal regulations and the internal regulations.
27.	Risk of a breach of the contractual provisions (default)	Risk related to a breach of the contractual provisions with respect to the contract parameters or a failure to perform the contract (default).	→	• Updating and adapting the contract templates to the legal changes. • Monitoring of the complaints and proceedings of the Energy Regulatory Office (URE) / Office of Competition and Consumer Protection (UOKiK). • Process optimization.
28.	Personal data protection risk	Risk related to Inappropriate storing and processing of personal data resulting in an undesirable leak or violation of the rights of data subjects related to personal data protection	→	• Identifying and implementing the appropriate technical or organizational measures to ensure the adequate level of security of personal data. • Monitoring the compliance with the legal regulations related to personal data protection. • Raising the level of awareness of the workforce with respect to personal data protection, in accordance with the applicable regulations. • Defining and implementing the process of handling the data subjects' requests in accordance with the regulations and process documentation in force at TAURON Capital Group. • Providing information and advice on personal data protection to the employees of the organization.
Customers and counterparties (business partners, contractors)				
29.	Customer service risk	Risk related to non-compliance with the customer service standards leading to customer dissatisfaction with the service, customer complaints, loss of customers.	→	• Monitoring and analyzing the external customer satisfaction indicators and the indicators related to the complaints. • Taking the additional measures, e.g. with respect to the internal regulations, defining standards of conduct as a result of the analysis of indicators. • Taking the additional measures, e.g. introducing new internal regulations in order to improve the customer service standards. • Developing the key account managers' competences and skills. • Continued raising of the customer service standards.
30.	Risk related to performance of agreements by contractors and subcontractors	Risk related to the improper performance by the contractors and subcontractors of the works commissioned, the termination of the agreement and delays, changes to the budget and scope related thereto.	→	• Concluding of the agreements with the contractors and subcontractors in accordance with TAURON Capital Group's standards. • Analyzing the performance of the subject of the agreement, examining the quality of services provided by the contractors and subcontractors. • Evaluating the financial standing and credibility of the contractors and the subcontractors.
31.	Volume and margin risk	Risk related to the decline in the volume of the sales of the products offered by TAURON Capital Group's subsidiaries, in particular as a result of the development of the energy efficiency solutions, building insulation, prosumer development, the impact of the climate factors causing a significant temperature deviation from the planned values. The implications of the risk include, first of all, the loss of revenue in the individual operating segments of TAURON Capital Group due to the reduced demand.	→	• Ongoing updating of the offering, launching of the sales of the multi-package type products. • Conducting the marketing campaigns, acquiring new customers. • Taking actions focused on retaining the existing customers and recovering the lost ones.
32.	Purchasing process risk	Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, including the	→	• Adoption and implementation of the Code of Conduct for Contractors of TAURON Group. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of TAURON Group's Respect for Human Rights Policy. • Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof. • Building lasting relationships with the contractors based on trust and mutual respect. • Expecting the contractors to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of

#	Risk name	Risk description	Risk trend	Reaction to risk
		methods used to prevent violations of the human rights by the business partners, counteracting corruption and abuse (fraud) in the purchasing process and compliance with the ethical and moral standards during the implementation thereof. The materialization of the risk results in unfavorable purchase agreements, the need to cancel the tender procedures, a loss of the image of TAURON Capital Group and its credibility with the stakeholders.		countering discrimination and unequal treatment, respect for human rights and dignity of the employees, transparent personnel policy, environment protection, fair competition, preventing and combating fraud, and information security and protection. • Application of the contract forms (templates) and standard clauses in the contracts regarding compliance with the human rights by the business partners of TAURON Capital Group.
Regulations				
33.	Regulatory risk	Risk related to the change of the existing or the introduction of the new regulations that affect the operations of TAURON Capital Group and the need to adapt to the regulatory changes, in particular those resulting from a significant increase in the requirements of a specific regulation, including the environmental requirements stemming from the climate change, the support for the pro-climate activities (prosumer development, thermal insulation, development of in-house production sources). The implications of the risk are primarily: the loss of revenues in the individual operating segments of TAURON Capital Group, the increase in the operating expenses as a result of the need to adapt to the legislative changes.	↗	• Ongoing analysis of the draft regulations and acts. • Active participation in the works of the teams providing opinions on the drafts and proposing optimal solutions. • Gradual adaptation of the generation assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as to the zero and low-emission electricity generation technologies.

3.5. Risk classification in the individual operating Segments

3.5.1. Mining Segment

The Mining segment, in particular with respect to the hard coal mining, is exposed to a number of risk factors, the materialization of which significantly hinders or completely reduces the mining capacity at the individual coal mines. The most material operational risks include:

1. risk of adverse geological and mining conditions characterized by, e.g. unfavorable positioning of the coal deposits in the coal seam, faults, or excessive presence of the rocks (stone),
2. risk of the lack of the timely commissioning of the coal faces involving the lack of the preparation of the mining fronts (headings) in advance,
3. risk of asset failures leading to the coal mining downtime, due to the occurrence of the machinery and equipment failures,
4. risk of the occurrence of natural geological and mining threats leading to the coal mining downtime, caused by the rock bursts, endogenous fires, presence of methane in the deposit, too much water inflow

The material risks in the Mining Segment also include threats stemming from the regulatory environment, including the gradual introduction of the new environmental requirements tightening the emission standards for the coal fired power plants, which will result in a decline of the demand for coal with low quality parameters.

The Mining Segment will also be significantly affected by the climate policy, which assumes a departure from the coal based generation technology in order to reduce pollution and achieve climate neutrality in the EU in the long term, which will, in effect, lead to the need to gradually phase out coal production. In addition, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investments in the Mining Segment.

3.5.2. Generation Segment

The Generation Segment is exposed, in particular, to the market risk, regulatory risk as well as the technical and organizational risks which will have a significant impact on the Segment's results in the coming years.

As part of the market risk, the significant risk factors include: the gradually declining CDS margin and the plans to integrate the European electricity market (increase in the electricity imports). In addition, the development of renewable energy technologies and the ever growing share of RES in meeting the demand for electricity have a significant impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market. Also, the electricity imports and the introduction of the new coal fired capacity into the system, with the efficiency definitely higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be falling.

With respect to the operational factors, the most important threat is the risk of not achieving the planned availability rate of the units, which is closely related to the individual units' failure rate, high variability of the units' loads and the higher frequency of start-ups or the use of inadequate quality fuel.

The Generation Segment's operations will also be materially affected by the climate factors, including the climate policy, that assumes the ultimate departure from the coal fired generation technology to reduce pollution, which, in turn, will cause a drop in the profitability of this operating segment. In addition, the climate factors will lead to an increase of the average temperature during the year, causing the reduction of the revenue from the heat supply. Furthermore, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investments in the Generation Segment.

The material risk factors in the near future include planned refurbishments of the units, with the goal to adapt the units to the new environmental requirements defined in the BAT Conclusions. The implementation of the refurbishments on the existing facilities may lead to the rise of the project and organizational risks related to, among others, the potential increase of the costs of the refurbishments or the reduction of the units' availability rates.

In the long term, the regulatory risks, including the further tightening of the environmental requirements, will lead to the need to carry out the transition of the Generation Segment, both in terms of the technical as well as the social aspects.

3.5.3. Distribution Segment

One of the most important threats to the Distribution Segment is the distribution services sales risk related to the electricity supply volume decline, and, as a consequence, a drop in the revenues from the provision of the distribution services to the individual groups of consumers. The material reasons behind this risk include both the macroeconomic factors, i.e. a decline in the demand for electricity due to the economic slowdown, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing energy intensity and the rapid development of the prosumer energy.

An equally significant risk is associated with the occurrence of an unfavorable deviation of the operating expenses resulting in the costs of the operations, and in particular the operating expenses and the costs of purchasing electricity to cover the balance difference, not being covered by the tariff during the tariff period.

With respect to the operational factors, a major risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs of fixing the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings causing failures of the distribution grids.

In the medium and long term, the material risks for the Distribution Segment include the risk of an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the value of the capital expenditures, the balance difference indicators and the amount of the transmission fees), the issues related to the compliance with the distribution's quality indicators that have an impact on the regulated revenue and the planned change to the distribution tariff model.

3.5.4. Supply Segment

In the Supply Segment, TAURON Capital Group identifies and manages the risks related to the supply of electricity to the final consumers, including the key customers (volume risk per individual customer segment, margin risk, profile risk and the risk of non-balancing).

A significant threat to the accomplishment of the Supply Segment's assumed goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the macroeconomic factors, i.e. a drop of the demand for electricity caused by the economic slowdown and an increase of the electricity prices. In addition, this risk is fueled by the increased customer awareness, the trend to strengthen consumer protection, and the regulatory pressure to reduce the price hikes.

At the same time, the Supply Segment is threatened by the market risk due to the high volatility of the electricity, gas and related products prices. This risk, as a consequence of the price fluctuations as well as the observed liquidity of the electricity market, affects the margin obtained due to the steps required to hedge the cost of the electricity supply.

The most important regulatory risks in the Supply Segment include the tariff risk, in particular related to the reduction of the Company's costs by the President of the Energy Regulatory Office to the level of the justified costs and the costs actually incurred not being covered by the tariff for the given year. The consequences of the materialization of this risk include the reduction of the planned revenue, profitability and funds for the development of the company's potential.

In the long run, the climate factors, in particular the rapid development of the prosumer energy, pose a threat to the stability (predictability) of achieving the Supply Segment's goals. The risk of the prosumer market growth is associated with an increase in the electricity production from the micro-installations, resulting in an increase of the costs of serving the prosumers and a loss of the supply volume and the planned margin on the electricity supply.

3.5.5. Other operations

Other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other operations segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, personal data protection as well as security and protection of property.

At TAURON Capital Group's level, the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing resulting from the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, risks associated with the human resources management and the workforce expectations with respect to the growth of wages, as well as the pending court litigations against TAURON.

3.5.6. Risk category map

The below table presents the classification of risks based on TAURON Capital Group's operating segments. The risk categories indicated below are consistent with the Risk Model adopted by TAURON Capital Group described in section 3.2.5. of this report.

Table no. 22. Classification of risks based on TAURON Capital Group's operating segments

#	Risk	Term			Operating Segment[1]				
		Short	Medium	Long	Mining Segment	Generation Segment	Distribution Segment	Supply Segment	Other operations
1.	Market risk	x	x	x	5	5	3	5	0
2.	Interest rate risk	x	x	x	2	2	4	2	4
3.	FX rate risk	x	x		1	2	2	1	1
4.	Liquidity risk	x	x	x	4	4	2	2	2
5.	Financial risk	x	x	x	5	5	3	3	3
6.	Tax risk	x			3	3	3	3	3
7.	Credit risk	x	x		1	1	4	4	1
8.	Reputational risk	x	x	x	2	2	3	3	2
9.	License risk	x	x	x	3	3	3	3	0
10.	Macroeconomic risk	x	x	x	4	4	5	5	2
11.	Climate change risk	x	x	x	5	5	4	4	4
12.	Environmental risk	x			2	2	1	0	0
13.	Weather risk	x			1	3	3	2	0
14.	Company asset failure risk	x			5	5	4	0	1
15.	IT risk	x			3	3	3	3	3
16.	Asset (property) security and protection risk	x			2	3	3	1	2
17.	Geological risk	x			5	0	0	0	0
18.	Social dispute risk	x			4	4	4	3	2
19.	Human resources risk	x	x		3	2	3	2	2
20.	Risk of the lack of the employees' due diligence	x			2	2	2	2	2
21.	Work Health and Safety (WHS) Risk	x			3	3	2	1	1
22.	Communications risk	x			2	2	2	2	1

#	Risk	Term			Operating Segment[1]				
		Short	Medium	Long	Mining Segment	Generation Segment	Distribution Segment	Supply Segment	Other operations
23.	Internal fraud risk	x			2	2	2	2	2
24.	External fraud risk	x			3	3	3	3	3
25.	Risk of unethical behavior and mobbing	x			2	2	2	2	2
26.	Legal risk	x			3	3	3	2	2
27.	Risk of a breach of the contractual provisions (default)	x			2	2	2	2	2
28.	Personal data protection risk	x			2	2	3	3	3
29.	Customer service risk	x			1	1	3	3	1
30.	Risk related to performance of agreements by contractors and subcontractors	x			2	2	2	1	2
31.	Volume and margin risk	x	x		4	4	5	4	2
32.	Purchasing process risk	x			2	2	3	1	2
33.	Regulatory risk	x	x	x	5	5	4	3	2

[1]*values signifying the impact of the individual risks on TAURON Capital Group's operating segments: 0 - neutral, 1 – immaterial on the Company's level, 2 - material on the Company's level, 3 - serious on the Company's level, 4 – material on TAURON Capital Group's level, 5 – serious on TAURON Capital Group's level*

4. ANALYSIS OF FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A.

4.1. Overview of economic and financial data disclosed in the annual financial statements

Statement of comprehensive income

The below table presents the annual standalone statement of comprehensive income in 2019-2017, drawn up in accordance with the International Financial Reporting Standards (IFRS).

Table no. 23. Annual standalone statement of comprehensive income in 2019-2017 drawn up in accordance with the IFRS

Statement of comprehensive income drawn up in accordance with the IFRS (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Sales revenue	**10 680 577**	**8 618 642**	**7 792 025**	**124%**
Own cost of goods, materials and services sold	(10 431 139)	(8 472 648)	(7 414 707)	123%
Gross profit (loss) from sales	**249 438**	**145 994**	**377 318**	**171%**
Cost of sales	(24 036)	(20 692)	(23 309)	116%
Overheads	(121 636)	(98 716)	(88 751)	123%
Other operating revenues and costs	(2 664)	(3 927)	(2 470)	68%
Operating profit (loss)	**101 102**	**22 659**	**262 788**	**446%**
Operating profit margin (%)	*0.9%*	*0.3%*	*3.4%*	*-360%*
Financial revenue	1 490 670	1 146 884	1 017 258	130%
Costs of interest on debt	(407 866)	(298 602)	(334 638)	137%
Revaluation of stocks and shares	(94 920)	(2 469 069)	(134 372)	4%
Revaluation of bonds and loans	(1 394 812)	15 493	0	-
Other financial revenues and costs	(40 381)	(149 648)	108 529	27%
Pre-tax profit (loss)	**(346 207)**	**(1 732 283)**	**919 565**	**-**
Pre-tax profit margin (%)	*(3.2)%*	*(20.1)%*	*11.8%*	-
Income tax	(116 623)	22 430	(65 214)	-
Net profit margin (%)	**(462 830)**	**(1 709 853)**	**854 351**	**27%**
Net profit margin (%)	*(4.3)%*	*(19.8)%*	*11.0%*	-
Other net comprehensive income	**11 171**	**(19 666)**	**(6 713)**	**-**
Total comprehensive income	**(451 659)**	**(1 729 519)**	**847 638**	**26%**
EBITDA	**114 198**	**27 287**	**268 220**	**419%**
EBITDA margin (%)	*1.1%*	*0.3%*	*3.4%*	*338%*

The Company posted an operating profit of PLN 101 million in 2019, higher than in 2018, primarily as a consequence of TAURON generating higher margins on the trading operations, in particular on trading in electricity and CO_2 emission allowances.

In 2019, similar as in 2018, impairment charges related to the value of stocks and shares in subsidiaries were recognized in the financial results, due to the completed impairment tests related to the loss of the carrying amount of stocks and shares in subsidiaries as well as bonds and loans as of June 30, 2018 and as of December 31, 2018. The detailed information is provided further on in this report.

The Company disclosed the information on the above events in the regulatory filings (current reports): no. 30/2019 of August 19, 2018 and no. 5/2019 of March 4, 2019.

Revenue

The below table presents the Company's sales revenue in 2019 – 2017.

Table no. 24. Company's sales revenue in 2019 – 2017

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Sales total	**12 248 381**	**9 815 952**	**8 963 044**	**125%**
Sales revenue	**10 680 577**	**8 618 642**	**7 792 025**	**124%**
Revenue from sales of goods and materials:	**10 526 854**	**8 506 398**	**7 664 715**	**124%**
Electricity (without excluding excise tax)	9 468 482	7 555 021	7 117 988	125%
Gas	347 631	277 887	190 507	125%
Greenhouse gas emission allowances	701 607	666 306	336 566	105%
Other	9 134	7 184	19 654	127%
Revenue from sales of services:	**153 723**	**112 244**	**127 310**	**137%**
Trading services sales	110 256	67 014	52 711	165%
Other	43 467	45 230	74 599	96%
Revenue from other operations	**2 089**	**1 698**	**1 427**	**123%**
Revenue from financial operations	**1 565 715**	**1 195 612**	**1 169 592**	**131%**
Revenue from dividend	1 100 861	819 437	560 832	134%
Revenue from bonds and loans interest	389 809	327 447	456 426	119%
Other financial revenue	75 045	48 728	152 334	154%

Revenue from the sales of goods and materials represents 86% of the total revenue, while financial revenue represents 13%, which is a consequence of the implemented Business Model and centralizing of functions by TAURON.

The goal of the adopted solution is to hedge the buy and sell positions of TAURON Capital Group's entities, to perform the function of the Market Operator and the entity responsible for the trading balancing of TAURON Capital Group's subsidiaries and to optimally manage, among others, the property rights and the CO_2 emission allowances.

A relatively large share of revenue from bonds and loans interest is a consequence of the implemented central financing model and *TAURON Group's Liquidity Management Policy,* along with the cash pooling mechanism put in place at TAURON Capital Group, which allows for efficient management of the finances of all of TAURON Capital Group's subsidiaries.

The revenue from the sales of goods and materials achieved in the reporting period was impacted by:

1. higher revenue from the sales of electricity as a result of higher electricity sales prices (25.3%), as compared to 2018,
2. increase of revenue from the sales of greenhouse gas emission allowances (sales to TAURON Capital Group's subsidiaries for the purpose of redeeming the allowances in conjunction with the fulfillment of the obligation due to greenhouse gas emissions) as a result of a rise of the sales prices of greenhouse gas emission allowances,
3. higher revenue from the sales of natural gas as a result of an increase of prices and sales volume,

As part of the revenue from the sales of services TAURON recognizes revenue from:

1. services related to electricity (+279% as compared to 2018, primarily due to the commencement of the provision of the portfolio management services by TAURON Capital Group's subsidiaries in 2019),
2. management of the portfolio of CO_2 emission allowances (+44%, as compared to 2018).
3. intermediary services related to coal purchase transactions on the market for TAURON Capital Group's subsidiaries (-17% as compared to 2018, due to the lower supply volumes),
4. use of the trademark by TAURON Capital Group's subsidiaries.

Due to its holding operations the Company is reporting material financial revenue. Its rise by 31% is mainly a consequence of higher revenue from dividends (by 34%), higher bonds and loans interest (by 19%), and other financial revenue (by 54%, including positive foreign exchange gains and the valuation of the financial instruments).

The Company’s operations are primarily conducted on the territory of Poland. Sales to foreign customers came in at PLN 35.974 million and PLN 97.502 million, respectively, in the years ended on December 31, 2019 and December 31, 2018.

Costs

The below table presents the level and structure of the costs incurred by the Company in 2019 – 2017.

Table no. 25. Structure of the costs incurred by the Company in 2019 – 2017

Item (PLN ‘000)	2019	2018	2017	Change in % (2019/2018)
Total costs	**(12 594 588)**	**(11 548 235)**	**(8 043 479)**	**109%**
Cost of goods, materials and services sold	(10 431 139)	(8 472 648)	(7 414 707)	123%
Costs of sales and overheads	(145 672)	(119 408)	(112 060)	122%
Costs of other operations	(4 753)	(5 625)	(3 897)	84%
Costs of financial operations	(2 013 024)	(2 950 554)	(512 815)	68%

The total costs of the Company’s operations In 2019 represented 109% of the level of the costs in 2018, mainly as a result of an increase in the costs of goods, materials and services sold, which constituted the largest share in the total costs (83%). The higher costs of purchasing electricity, resulting from a higher purchase price of electricity (by 28.2%) had the largest impact on the increase in these costs by 23% as compared to 2018. The increase in the Company's costs was also affected by the recognition in the financial costs in 2019 of the effects of booking the impairment charges related to the carrying amount of the bonds and loans granted to the subsidiaries stocks and shares in subsidiaries, while the effects of booking the impairment charges related to the carrying amount of the shares in the subsidiaries were recognized in 2019 in the lower amount than in 2018.

The costs of sales and overheads were higher by 22% in 2019, as compared to 2018. The increase was mainly related to the costs of compensations due to the fact that the costs on the revenues from the use of shares were reversed in 2018 decreasing the compared value and the general increase of compensations in 2019. In addition, the impact of IFRS 16 *Leases* was recognized in 2019 and translated into a higher level of depreciation.

The costs of other operations include mainly premiums paid to the industry organizations and donations, and the decrease of the costs by 16% is primarily due to the reduction of the premiums paid to the organizations as compared to 2018.

The financial costs included mainly:

- an excess of the booked and reversed impairment charges related to the carrying amount of stocks and shares in the subsidiaries,
- update of the bonds and loans,
- interest on debt.

The impairment charges related to the carrying amount of stocks and shares in subsidiaries as well as intra-Group loans and bonds, conducted as of June 30 and December 31, 2019, demonstrated:

- validity of booking write-downs related to the loss of the carrying amount of the shares in TAURON Ciepło in the amount of PLN 168 million,
- validity of reversing write-downs related to the loss of the carrying amount of the shares in TAURON EKOENERGIA in the amount of PLN 185 million,
- validity of booking write-downs related to the permanent loss of the carrying amount of the shares in TAURON Wydobycie in the amount of PLN 99 million
- validity of reducing the carrying amount of the financial assets (shares and debt financing instruments) due to the shares in the subsidiary TAURON Wydobycie. As a result of the impairment tests and the valuation, as of the balance sheet date, of the above financial assets, the pre-tax financial result for 2019 is reduced by PLN 1 510 million.

The impairment tests conducted as of December 31, 2019, took into account the following premises:

- the Company's capitalization persistently staying below the net carrying amount of the assets,
- changes in the global prices of energy related commodities and electricity as well as the strong growth of the CO_2 emission allowances prices,
- high volatility of the electricity prices on the futures market and persistent problems with the lack of liquidity,
- regulatory actions aimed at limiting the increase of the electricity prices for the final customers,
- increased risks related to commercial coal production,

- the effects of the results of the thus far RES auctions and of the very rapid growth of the prosumer and micro-installations subsector in connection with the support programs launched,
- the effects of introducing the provisions of the winter package, including the emission standard, adversely affecting the possibility of the coal fired units' participation in the capacity market after July 1, 2025,
- tightening of the emission standards and persisting unfavorable market conditions from the point of view of the conventional energy's profitability,
- a decrease in the risk-free rate.

Furthermore, the impairment charge related to the shares in PGE EJ 1 in the amount of PLN 4 million, the impairment charge related to the shares in ElectroMobility Poland in the amount of PLN 6 million, the impairment charge related to the shares in Finanse Grupa TAURON in the amount of PLN 24 million were booked, as well as the impairment charge related to the shares in TAURON Sweden Energy in the amount of PLN 21 million was reversed.

Company's assets and financial position

The below table presents the Company's annual standalone statement of financial position, drawn up in accordance with the IFRS.

Table no. 26. Annual standalone statement of financial position drawn up in accordance with the IFRS (material items)

Statement of financial position drawn up in accordance with the IFRS (PLN '000)	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	Change in % (2019/2018)
ASSETS				
Fixed assets	**27 010 590**	**27 166 500**	**27 371 684**	**99%**
Stocks and shares	21 844 183	21 076 056	20 912 679	104%
Bonds and loans granted	5 047 552	5 852 741	6 392 909	86%
Current assets	**3 474 539**	**2 346 490**	**2 949 690**	**148%**
Inventory	149 364	409 587	198 428	36%
Trade receivables and other receivables	1 727 952	833 484	719 133	207%
Bonds and loans granted	265 202	205 428	562 776	129%
Cash and equivalents	923 728	465 925	721 577	198%
TOTAL ASSETS	**30 485 129**	**29 512 990**	**30 321 374**	103%
LIABILITIES				
Equity	**14 808 177**	**15 259 836**	**17 377 906**	**97%**
Long term liabilities	**10 947 500**	**8 533 790**	**9 530 787**	**128%**
Liabilities due to debt	10 909 597	8 474 344	2 725 763	129%
Short-term liabilities	**4 729 452**	**5 719 364**	**3 412 681**	**83%**
Liabilities due to debt	3 607 266	4 504 374	2 725 763	80%
Liabilities towards suppliers and other liabilities	697 230	897 632	513 484	78%
TOTAL EQUITY AND LIABILITIES	**30 485 129**	**29 512 990**	**30 321 374**	103%

As of December 31, 2019 fixed assets represented the biggest share of the total assets (89%), where the dominating item is the value of stocks and shares (72% of the total assets) as well bonds as loans granted (19% of the total assets).

The following events had the biggest impact on an increase of the value of stocks and shares by 4% year on year:

1. establishing of the companies TEC1, TEC2 and TEC3 and increasing of the share capitals in the companies TEC1, TEC2 and TEC3 in the amount of PLN 601 million,
2. increasing of the share capital of Nowe Jaworzno Grupa TAURON in the amount of PLN 250 million,
3. increasing of the share capital of EEC Magenta ASI and EEC Magenta 2 ASI in the amount of PLN 12 million.

The additional factors that led to a change of this balance sheet item were the impairment charges related to the stocks and shares that were booked and reversed as a result of impairment tests conducted due to the loss of the carrying value of stocks and shares in subsidiaries. The impairment tests conducted as of June 30 and December 31, 2019, demonstrated the validity of booking or increasing the already booked write-downs in the following subsidiaries: TAURON Ciepło in the amount of PLN (168) million and TAURON Wydobycie in the amount of PLN (99) million, as well as that of reversing the write-downs on the value of shares in TAURON EKOENERGIA in the amount of PLN 185 million.

The item *Bonds and loans granted* presents the value of the bonds issued by the subsidiaries, purchased by TAURON and the loans granted by TAURON to the subsidiaries, The conversion of TAURON Capital Group's subsidiaries' debt, due to the intra-group bonds, to the intragroup loans, while maintaining the thus far maturities of the financial instruments, was carried out in December 2019.

As of December 31, 2019 and as of December 31, 2018, equity represented, respectively, 49% and 52% of total equity and liabilities.

The liabilities of the Company due to debt, as of December 31, 2019, were related to:

- bonds issued under the bond issue program worth PLN 5 544.5 million, including the subordinated hybrid bonds in the amount of PLN 1 913.4 million,
- loans obtained from the consortium of banks in the amount of PLN 5 305.6 million,
- loans obtained from BGK in the amount of PLN 998.5 million,
- loans from related entities drawn under the *Agreement on the provision of the cash pool service* in the amount of PLN 1 205.4 million,
- loans obtained from the European Investment Bank (EIB) in the amount of PLN 694.5 million (including interest),
- loan from a subsidiary in the amount of PLN 711 million,
- overdraft in the amount of PLN 21.2 million.

In addition, pursuant to IFRS 16 *Leases,* the Company's liabilities due to debt also include a lease liability in the amount of PLN 36.2 million, related to the right of perpetual usufruct of land, leases of office and storage space, parking spaces and cars.

Statement of cash flows

The table below presents the statement of cash flows drawn up in accordance with the IFRS.

Table no. 27. Statement of cash flows drawn up in accordance with the IFRS (material items)

Statement of cash lows drawn up in accordance with the IFRS (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Cash flows from operating activities				
Pretax profit / (loss)	(346 207)	(1 732 283)	919 565	-
Adjustments	(152 063)	1 607 137	(673 538)	-
Net cash from operating activities	**(498 270)**	**(125 146)**	**246 027**	
Cash flows from investing activities				
Purchase of stocks and shares	(863 047)	(2 646 353)	(6 169 590)	33%
Purchase of bonds	(420 000)	(160 000)	(350 000)	263%
Loans granted	(1 281 444)	(847 442)	(307 132)	151%
Redemption of bonds	1 190 000	1 334 920	3 547 110	89%
Repayment of loans granted	15 600	421 225	1 000 000	4%
Dividends received	1 100 861	819 437	359 787	134%
Interest received	335 316	289 177	642 017	116%
Net cash from investing activities	**74 699**	**(720 432)**	**(1 353 288)**	
Cash flows from financing activities				
Redemption of debt securities	(2 420 000)	0	(1 650 000)	-
Repayment of loans / credits	(862 318)	(162 318)	(175 695)	531%
Interest paid	(405 881)	(301 978)	(265 223)	134%
Issue of debt securities	500 000	1 350 000	2 707 462	37%

Statement of cash lows drawn up in accordance with the IFRS (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Loans taken	5 150 000	0	0	-
Net cash from financing activities	**1 934 525**	**844 776**	**593 470**	**229%**
Increase/(decrease) in net cash and equivalents	**1 510 954**	**(802)**	**(513 791)**	**-**
Net FX differences	(239)	(526)	2 038	45%
Cash opening balance	**(1 560 034)**	**(1 559 232)**	**(1 045 441)**	**100%**
Cash closing balance	**(49 080)**	**(1 560 034)**	**(1 559 232)**	**3%**

The balance of cash received from operating, investing and financing activities of the Company for 2019, taking into account the opening cash balance, was PLN (49.1) million. In addition, the closing cash balance presented in the Company's balance sheet as of the end of the period in the amount of PLN 923.7 million results from the adjustment of cash by the balance of loans granted and drawn under the cash pooling transactions, due to the fact that they do not constitute cash flows from investing or financing activities, as they are used mainly for the current liquidity management.

4.2. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON for 2019. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

4.3. Key financial ratios and the Alternative Performance Measures

The below table presents key financial ratios of TAURON, which may constitute an important source of information for investors about the financial and operational standing of the Company. The Alternative Performance Measures below as defined by the ESMA Guidelines on Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding the Company's financial results. They constitute standard metrics commonly used in financial analysis, the usefulness of which has been analyzed in terms of the information provided to investors on the financial standing, financial efficiency and cash flows of the Company.

Table no. 28. Key financial ratios of TAURON

#	Item	Definition	2019	2018	2017	Change in % (2019/2018)
1.	Gross Profitability	Gross profit / sales revenue	(3.2)%	(20.1)%	11.8%	-
2.	Net Profitability	Net profit / sales revenue	(4.3)%	(19.8)%	11.0%	-
3.	Return on equity	Net profit / equity as of the end of the period	(3.1)%	(11.2)%	4.9%	-
4.	Return on assets	Net profit / total assets	(1.5)%	(5.8)%	2.8%	-
5.	EBIT (PLN '000)	Operating profit	101 102	22 659	262 788	446%
6.	EBIT margin	(EBIT / sales revenue)	0.9%	0.3%	3.4%	360%
7.	EBITDA (PLN '000)	Operating profit before depreciation	114 198	27 287	268 220	419%
8.	EBITDA margin	EBITDA / sales revenue	1.1%	0.3%	3.4%	338%
9.	Current liquidity ratio	Current assets / short term liabilities	0.73	0.41	0.86	179%

The higher EBIT achieved by the Company in 2019, as compared to 2018, is mainly due to TAURON generating higher margins on the trading operations, in particular on trading in electricity and CO_2 emission allowances.

The 2019 pre-tax and net financial results were impacted by the booked and reversed impairment charges related to the stocks and shares in subsidiaries and the value of loans granted.

The amount of the operating profit is typical for a company conducting operations involving managing a holding entity (costs related to managing TAURON Capital Group are included in the operating activities while revenues gained from dividends are recognized under the financial activities).

The Company's ability to pay its accounts payable was not in jeopardy in 2019.

4.4. Principles of preparing annual financial statements

Financial statements have been drawn up in accordance with the IFRS approved by the EU.

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

The financial statements have been drawn up with the assumption of the continuation of business operations by TAURON in the foreseeable future. As of the date of approval of the consolidated financial statements for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON.

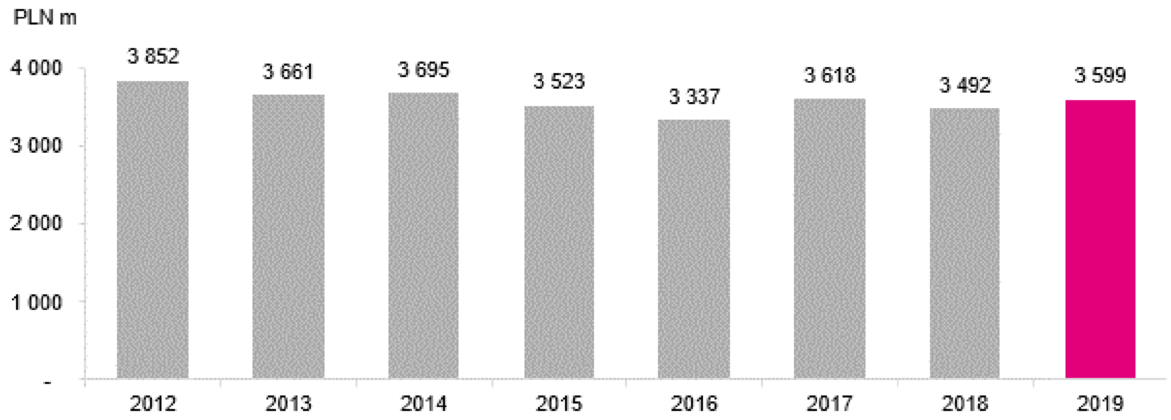
The accounting principles (policy) adopted for drawing up of the consolidated financial statements are presented in note 8 to the *Financial statements of TAURON Polska Energia S.A., drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

5. ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL

5.1. TAURON Capital Group's financial results

The below table presents TAURON Capital Group's EBITDA in 2012-2019.

Figure no. 47. TAURON Capital Group's EBITDA in 2012-2019



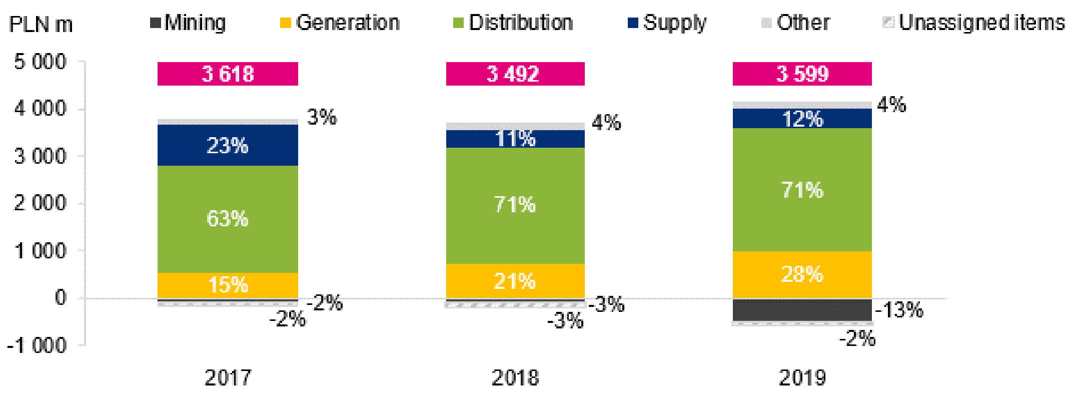
The below table presents TAURON Capital Group's 2019-2017 EBITDA broken down into individual lines of business (segments). Data for the individual segments do not include consolidation exclusions.

Table no. 29. TAURON Capital Group's 2019-2017 EBITDA broken down into individual lines of business (segments)

EBITDA (PLN '000)	2017	2018	2019	Change in % (2019/2018)	Change (2019-2018)
Mining	43 913	(90 262)	**(499 865)**	-	(409 603)
Generation	537 024	731 372	**984 239**	135%	252 867
Distribution	2 282 685	2 465 537	**2 605 808**	106%	140 271
Supply	841 222	372 471	**428 577**	115%	56 106
Other operations	118 043	135 032	**136 186**	101%	1 154
Unassigned items	(78 297)	(122 066)	**(56 578)**	-	66 488
Total EBITDA	3 617 641	3 492 084	3 599 367	103%	107 283

The below figure presents TAURON Capital Group's 2017-2019 EBITDA structure (composition).

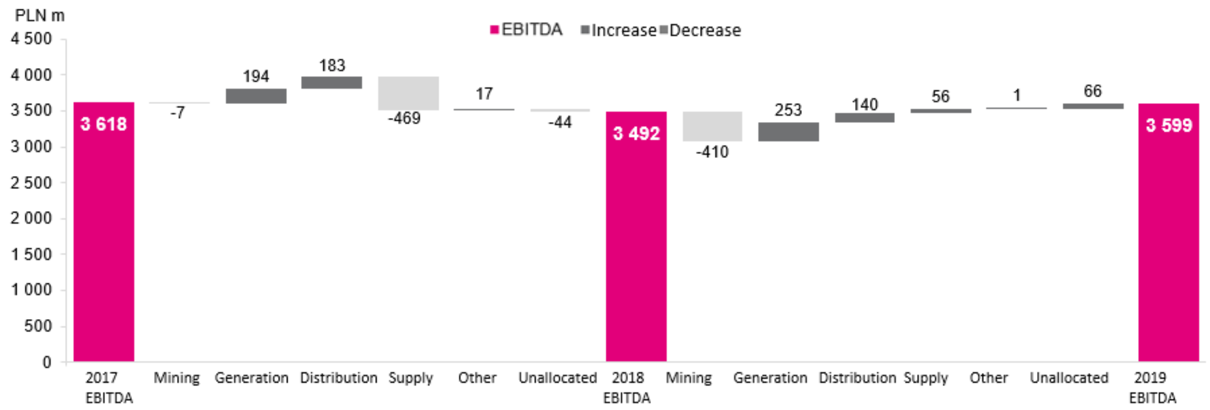
Figure no. 48. TAURON Capital Group's 2017-2019 EBITDA structure (composition).



Distribution, Generation and Supply Segments are the biggest contributors to TAURON Capital Group's EBITDA.

The below figure presents the change in TAURON Capital Group's EBITDA in 2017-2019.

Figure no. 49. Change of TAURON Capital Group's EBITDA in 2017-2019



5.2. TAURON Capital Group's financial results by operating Segments (Lines of Business)

5.2.1. Mining Segment

The below table presents the Mining Segment's 2019-2017 results.

Table no. 30.Mining Segment's 2019-2017 results

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019-2018)
Mining					
Sales revenue	**944 433**	**1 266 024**	**1 541 425**	**75%**	**(321 591)**
coal - coarse and medium assortments	*236 506*	*367 449*	*509 348*	64%	(130 943)
thermal coal	*658 630*	*831 875*	*973 549*	79%	(173 245)
other revenue	*49 296*	*66 700*	*58 528*	74%	(17 404)
Operating profit (EBIT)	**(1 391 949)**	**(1 053 469)**	**(211 070)**	**-**	**338 480**
Depreciation and write-downs	892 084	963 207	128 034	38%	(71 123)
EBITDA	**(499 865)**	**(90 262)**	**43 913**	**-**	**(409 603)**

Mining Segment's revenue was 25% lower in 2019, as compared to 2018, as a consequence of the lower coal volume sold, which was due to the lower production of the commercial coal by TAURON Wydobycie's mining subsidiaries. Sobieski Coal Mine (ZG Sobieski) suffered the biggest drop, which was due to, among others, the performance of the additional mining works to reinforce the longwall complex and fire in 547 coal face area. The lower extraction output by the other coal mines is a consequence of deteriorated geological and mining conditions.

Mining Segment's 2019 EBITDA was significantly lower as compared to the 2018 earnings, which was due to the following factors:

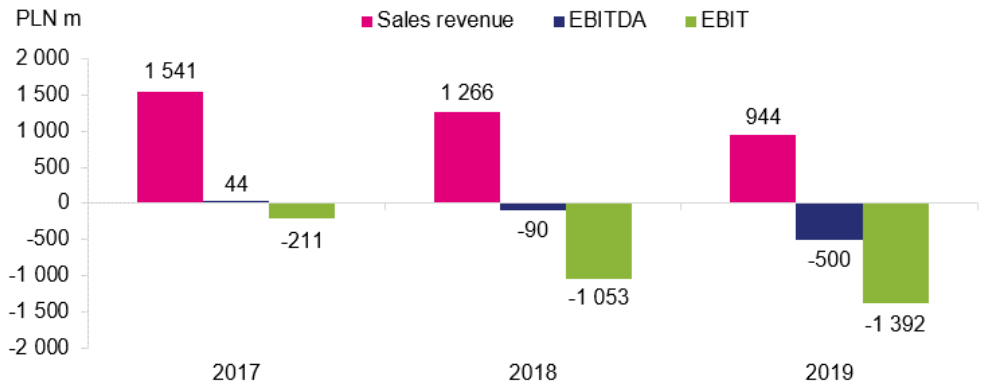
1. lower sales volumes of each product assortment by 22% on average – mainly as a result of the lower production of commercial coal,
2. lower average price of the products sold by 4% on average, as a result of the lower price of coarse and medium coal assortments, which is a consequence of the situation on the coal market, as a result of a decrease of the demand for this commodity and a slight increase of the prices of coal dust sold by 1%,
3. higher coal production variable direct unit cost which is a consequence of a 24% drop in the volume and the higher variable direct costs. The rise of the costs is due to the higher costs of the preparatory works accounted for, which is related to the larger quantity of the coal from the drifts,
4. sales, in 2019, of the production output from the preceding period, while in 2018, some of the coal produced and not sold, had been recognized as assets in the balance sheet.

The Segment's EBIT was significantly lower in 2019 than in 2018, mainly due to the impairment charges and the above factors.

TAURON Capital Group recognized, in the 2019 results, the booking of the impairment charges related to the loss of the carrying amount on the balance sheet of the Mining Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 694 million, which is lower than the value recorded in the same period last year.

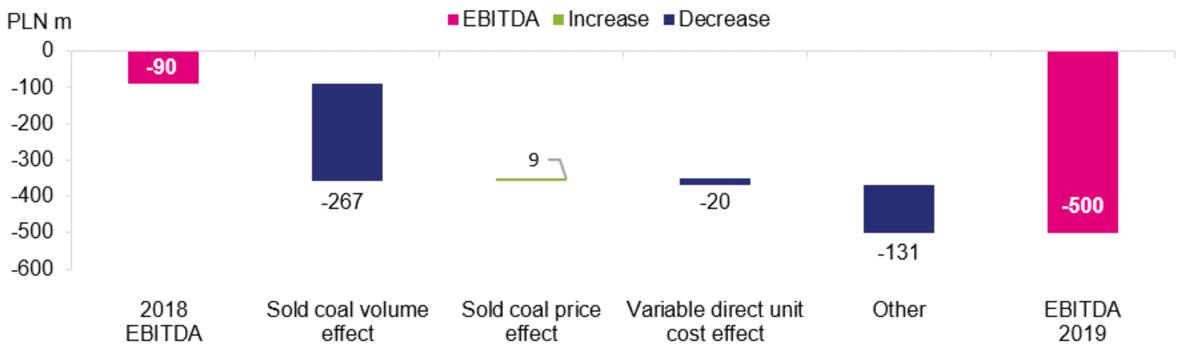
The below figure presents the Mining Segment's 2017 - 2019 financial data.

Figure no. 50. Mining Segment's 2017 - 2019 financial data



The below figure presents the Mining Segment's EBITDA, including the material factors affecting the year on year change.

Figure no. 51. Mining Segment's EBITDA



Major investments

Mining Segment's total capital expenditures came in at PLN 480 million in 2019, including the outlays on the following investment projects:

1. PLN 94 million on the construction of the "Grzegorz" shaft, including the construction of the infrastructure and the accompanying headings,
2. PLN 81 million on the construction of the 800 m level at Janina Coal Mine (ZG Janina),
3. PLN 70 million on Brzeszcze Coal Mine's (ZG Brzeszcze) capex program.
4. PLN 85 million expenditure on the preparation of future production.

Mining Segment's other capital expenditures are spent on coal extraction preparations and operations (mainly the purchase of machines and equipment, drilling of headings, longwall preparation).

5.2.2. Generation Segment

The below table presents the Generation Segment's 2019 – 2017 results.

Table no. 31. Generation Segment's 2019 – 2017 results

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019-2018)
Generation					
Sales revenue	**4 923 281**	4 638 494	4 537 002	106%	284 787

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019-2018)
Electricity	*3 793 331*	*3 598 195*	*3 484 071*	*105%*	*195 131*
Heat	*826 638*	*833 410*	*873 777*	*99%*	*(6 772)*
property rights related to certificates of electricity origin	*253 936*	*153 637*	*114 840*	*165%*	*100 299*
other revenue	*49 377*	*53 252*	*64 314*	*93%*	*(3 786)*
Operating profit (EBIT)	**(129 097)**	196 658	89 645	-	(325 755)
Depreciation and write-downs	1 113 336	534 714	447 379	208%	578 622
EBITDA	**984 239**	**731 372**	**537 024**	**135%**	**252 867**

Generation Segment's sales revenue in 2019 was higher by 6%, as compared to 2018, due to the higher electricity sales revenue (due to the higher electricity sales prices) and the higher property rights sales revenue (due to the higher PM OZE sales prices and volume). The lower revenue from the heat sales is a consequence of the lower sales volume which was due to the higher outdoor temperatures year on year.

Generation Segment's EBITDA was 35% higher in 2019, as compared to last year.

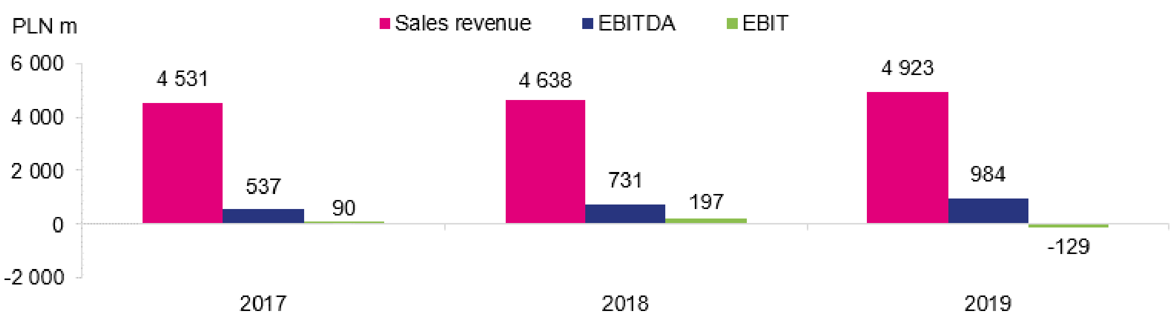
The following factors had an impact on the results achieved:

1. higher margin on electricity (conventional energy) - mainly due to the higher CDS year on year. The recognition of the provision set up in connection with the obligation to present the CO_2 emission allowances for redemption (retirement) related to (including) 883 thousand Certified Emission Reduction (CER) units, had a significant impact on the CDS in 2019
2. higher margin on electricity (RES) - due to the higher electricity and PMOZE sales prices as well as the higher production volumes by the wind and hydro power plants,
3. lower margin on heat – mainly due to the increase in the costs of the CO_2 emission allowances and fuel costs, not fully passed on in the heat tariffs,
4. the result on the opportunistic acquisition of 5 wind farms from the in.ventus group – an event that had a positive impact on the result in 2019,
5. dissolving of the provision related to the employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie – an event that had a positive impact on the result in 2018,
6. other (mainly: the dissolving (reversal) of the provisions related to the refund of the subsidies for the biomass units, the dissolving (reversal) of the provisions for the reclamation of the furnace (combustion) waste landfill, the dissolving (reversal) of the provision for the Voluntary Redundancy Program, the higher revenue from the compensations, an increase in the labor costs resulting from the payroll agreement and the lower costs of rent, lease and perpetual usufruct of land in connection with the implementation of IFRS 16).

TAURON Capital Group recognized, in the 2019 results, the booking and reversing of the impairment charges related to the loss of the carrying amount on the balance sheet of the Generation Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 610 million.

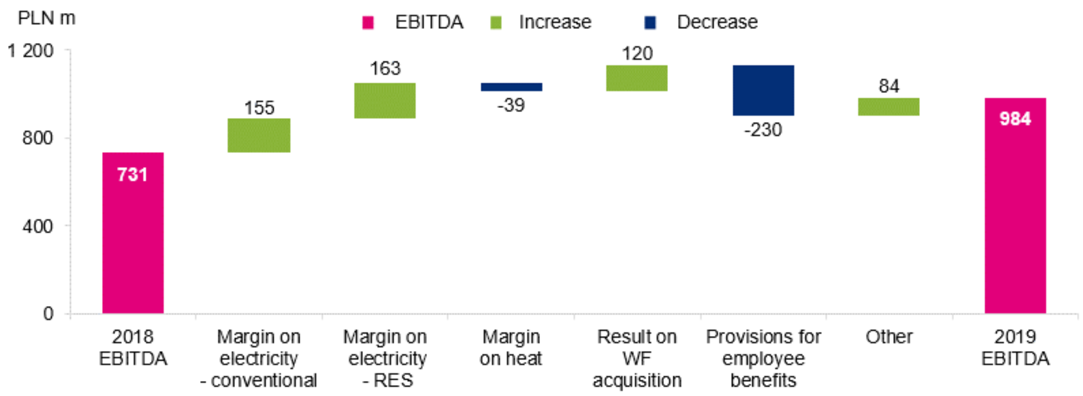
The below figure presents the Generation Segment's 2017 – 2019 financial data.

Figure no. 52. Generation Segment's 2017 – 2019 financial data



The below figure presents the Generation Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 53. Generation Segment's EBITDA



Major investments (CAPEX)

The Generation Segment's total capital expenditures came in at PLN 1 683 million in 2019, including the outlays on the following strategic investment projects:

1. PLN 1 020 million on the construction of the new 910 MWe unit in Jaworzno,
2. PLN 25 million on investment projects related to expanding and maintaining the district heating networks,
3. PLN 104 million on the implementation of the heat unit at Łagisza Power Plant,
4. PLN 42 million on the adaptation of TAURON Wytwarzanie's generating units to the *BAT conclusions*,
5. PLN 32 million on the restoration of SDW at Łagisza Power Plant
6. PLN 27 million on connecting new facilities,
7. PLN 6 million on connecting facilities heated from the low emission sources to the district heating networks,
8. PLN 215 million on the replacement expenditures and overhaul components at TAURON Wytwarzanie.

Furthermore, the financial costs constitute approx. PLN 166 million of the segment's total capex.

Apart from the above capex the investment project in Stalowa Wola, with the participation of the strategic partner, PGNiG, is underway. TAURON and PGNiG hold a 50% stake each in the special purpose vehicle implementing the project that includes the construction of the 449 MWe CCGT unit, including the 240 MWt heat generation component. In January 2016, the contract with the general contractor Abener Energia S.A was terminated. In March 2017, thanks to the repayment of the institutions financing the project thus far, the signed amendments to the gas and electricity agreements as well as the agreement on the project's restructuring came into force. The agreement was reached and the decision was taken on the construction of the backup heat source. In March 2018, financing was obtained from Bank Gospodarstwa Krajowego S.A. (BGK) and PGNiG. As a result of completing a number of analyses, among others due to the project's advancement level, the contract manager formula (EPCM) was chosen. Energopomiar Gliwice - Energoprojekt Katowice consortium was selected to implement the EPCM project. The project's completion is scheduled for H1 2020. The expected capital expenditures on the project (excluding the financial costs) amount to PLN 1.4 billion.

5.2.3. Distribution Segment

The below table presents the Distribution Segment's 2019 – 2017 results.

Table no. 32. Distribution Segment's 2019 – 2017 results

Item (PLN '000)	2019	2018	2017[1]	Change in % (2019/2018)	Change (2019-2018)
Distribution					
Sales revenue	**6 594 864**	**6 060 201**	**5 847 303**	109%	**534 663**
distribution and trading services	*6 299 847*	*5 789 487*	*5 438 954*	*109%*	*510 360*
connection fees	*80 885*	*81 129*	*114 112*	*100%*	*(244)*
Revenue due for fixing power line collisions	*45 058*	*51 399*	*37 220*	*88%*	*(6 341)*
other revenue (rent, goods and materials, construction and assembly services)	*169 074*	*138 186*	*257 017*	*122%*	*30 888*

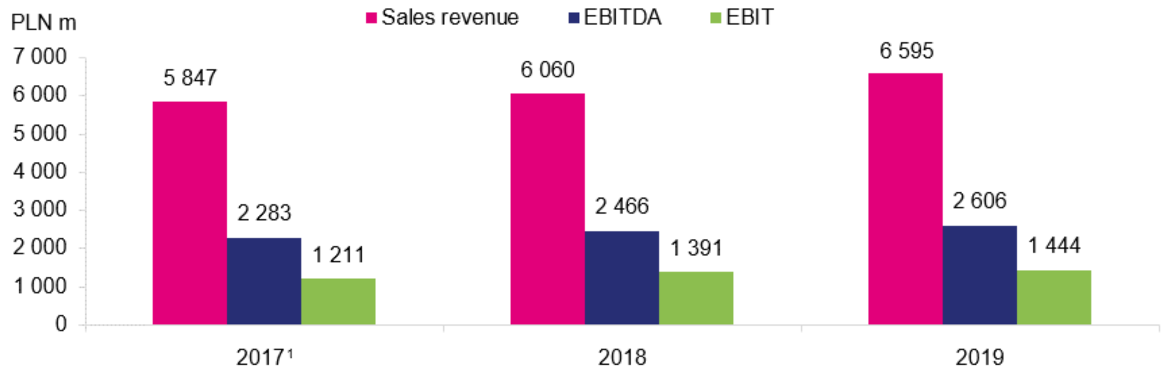
Operating profit (EBIT)	**1 443 741**	**1 391 155**	**1 210 925**	104%	**52 586**
Depreciation and write-downs	1 162 067	1 074 382	1 071 760	108%	87 685
EBITDA	**2 605 808**	**2 465 537**	**2 282 685**	106%	**140 271**

In 2019, as compared to 2018, the Distribution Segment reported an 9% sales revenue increase, while the increases of EBIT and EBITDA reached 4% and 6%, respectively. The following factors had an impact on the results:

1. increase of the average rate of the distribution service sales to the final consumers,
2. declining overall electricity delivery volume, including:
   - decrease in group A resulting both from the actions taken by the consumers aimed at reducing electricity consumption from the distribution grid (wider use of own generating facilities and optimization of electricity consumption) as well as the reduction of the production output (coal companies and steel industry),
   - increase of electricity delivery to the final consumers, in particular among the B group consumers, as a result of the continued GDP growth, primarily in the first half of 2019, and in the G group, first of all due to the increase, by 53 thousand, of the number of the household consumers,
3. higher transmission services purchase costs,
4. higher costs of purchasing electricity to cover the balancing difference as a result of higher purchase price, lower volume and the deviation due to the upward adjustment,
5. decrease of the revenue due to fixing power line collisions in connection with the fact that two significant collisions in the WN-110kV grid were fixed in 2018 and a slight drop of the revenue from the connection fees related to the connections of entities mainly to the HV grid,
6. increase of charges for exceeding the contractual connection capacity (power) and the above-standard passive energy off-take.

The below figure presents the Distribution Segment's 2017 – 2019 financial data.

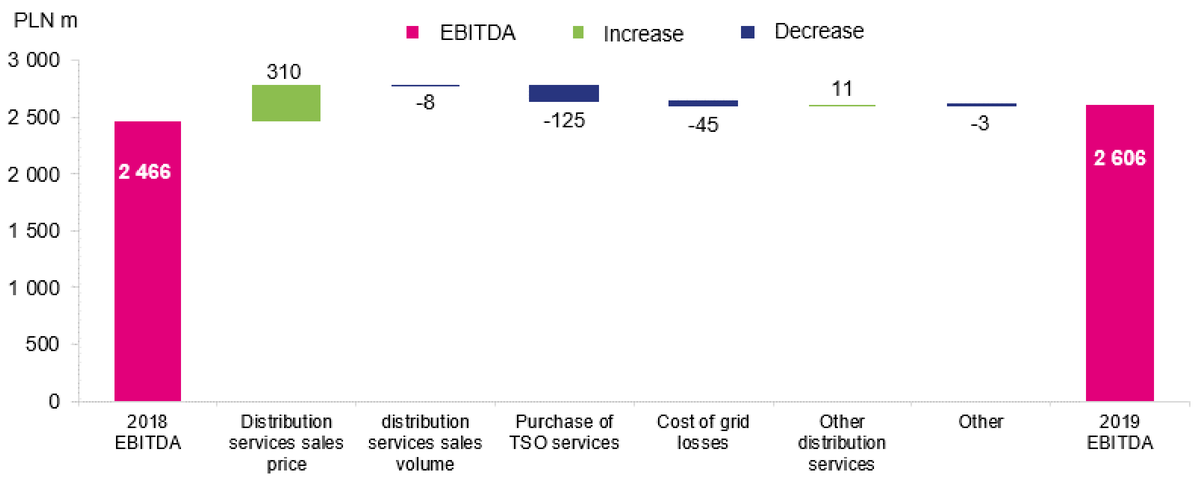
Figure no. 54. Distribution Segment's 2017 – 2019 financial data



[1]2017 data includes the results of TAURON Dystrybucja Serwis

The below figure presents the Distribution Segment's EBITDA, including the material factors impacting the year on year change.

Figure no. 55. Distribution Segment's EBITDA



Major investments (CAPEX)

The Distribution Segment's total capital expenditures came in at PLN 1 785 million in 2019. The main capex directions included:

- PLN 996 million on the investment projects related to the grid upgrades (refurbishments) and replacements
- PLN 676 million on the investment projects related to connecting new consumers.

In addition, the expenditures in the total amount of approx. PLN 117 million were also spent on: communications and IT, buildings and structures, means of transportation, in 2019.

5.2.4. Supply Segment

The below table presents the Supply Segment's 2019 – 2017 results.

Table no. 33. Supply Segment's 2019 – 2017 results

Item (PLN '000)	2019	2018	2017[1]	Change in % (2019/2018)	Change (2019-2018)
Supply					
Sales revenue	**14 907 937**	**14 219 677**	**13 567 887**	**105%**	**688 260**
electricity, including	*9 488 091*	*9 011 153*	*8 740 196*	*105%*	*476 938*
revenue from retail electricity supply	*7 479 056*	*7 928 888*	*7 554 448*	*94%*	*(449 832)*
greenhouse gas emission allowances	*701 607*	*666 306*	*336 566*	*105%*	*35 301*
fuel	*1 396 300*	*1 371 117*	*1 024 912*	*102%*	*25 183*
distribution service (transferred)	*3 117 588*	*2 948 306*	*3 448 567*	*106%*	*169 282*
other revenue, including trading services	*204 351*	*222 795*	*17 641*	*92%*	*(18 444)*
Compensations	952 650			-	952 650
Operating profit (EBIT)	**382 185**	**332 428**	**832 216**	**115%**	**49 757**
Depreciation and write-downs	46 392	40 043	9 006	116%	6 349
EBITDA	**428 577**	**372 471**	**841 222**	115%	**56 106**

[1]2017 data does not include the results of TAURON Dystrybucja Serwis

Supply Segment's sales revenue was 5% higher in 2019, as compared to 2018, mainly due to the higher electricity sales revenue (higher electricity sales price on the wholesale market), an increase in the revenues from the sales of the distribution services and the greenhouse gas emission allowances (an increase in the market prices). The fuel sales revenue was also higher as a result of the rising gas fuel sales prices (higher gas fuel sales price along with the higher volume at the same time).

Supply Segment's EBITDA and EBITDA were higher in 2019 than in the preceding year due to the following factors:

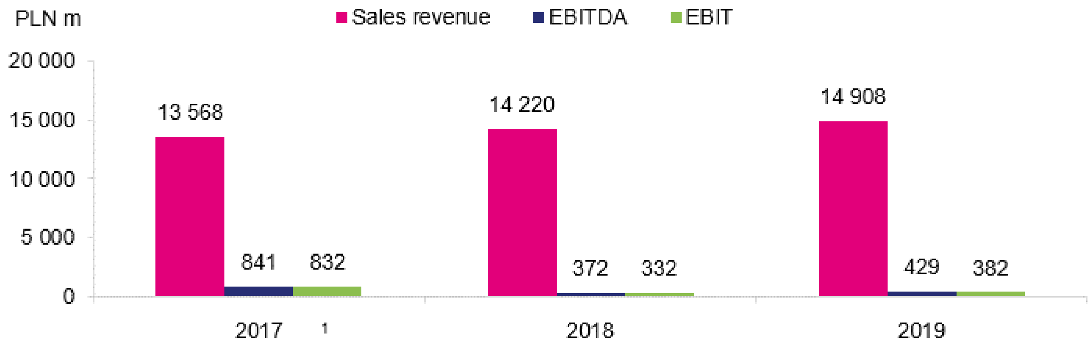
1. electricity volume and prices – a negative impact on the result is mainly due to an increase of electricity market prices and the introduction of the act on "freezing sales prices", this situation has a direct impact on the margin decline, mainly in the mass customers segment, with the total electricity supply volume falling at the same time by 1.8 TWh year on year (from 39.14 TWh to 37.36 TWh, including the retail electricity supply volume – a decline by 0.8 TWh and the electricity wholesale volume – a drop by 1.0 TWh),
2. taking into account in the consolidated financial statements, drawn up as of December 31, 2019, of the estimated adjustments reducing the revenue from the customers, stemming from the need to adjust the prices in this period to the provisions of the amended Act,
3. taking into account in the consolidated financial statements, drawn up as of December 30, 2019, of the price difference and the financial compensation, in connection with TAURON Capital Group trading subsidiaries' right to submit requests for payment to Zarządca Rozliczeń SA (Settlements Manager),
4. cost of the provision set up based on the requirements imposed in the amended act, as described in more detail in note 12 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019*, and consumption (using up) of the provision for onerous agreements, set up last year in connection with the introduction of the act on "freezing electricity sales prices",
5. property rights prices – a negative impact on the result due to an increase of the prices of the green certificates,
6. obligation to redeem (retire) property rights – a positive impact on the result is a consequence of a lack of the cogeneration obligations in 2019 (the redemption (retirement) obligation level in force in 2018 was: for PMEC

23.2%, for PMGM 8%, for PMMET 2.3%), with the obligation for the green certificates rising, at the same time, from 17.5% to 18.5% and the obligation for PMOZE-BIO being maintained at 0.50%,

7. other – the recognized (booked) result on the other market (commercial) products sales includes, among others, the result on the sales of the CO_2 emission allowances, the provision of the street lighting service, the result on the other business operations, the impairment charge related to the amount of the accounts receivable and the costs of sales).

The below figure presents the Supply Segment's 2017 – 2019 financial data.

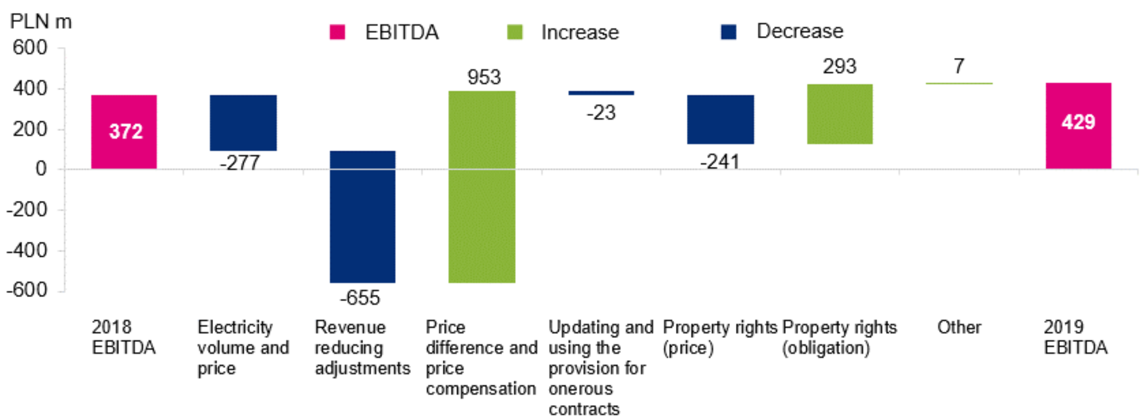
Figure no. 56. Supply Segment's 2017 – 2019 financial data



[1]2017 data does not include the results of TAURON Dystrybucja Serwis

The below figure presents the Supply Segment's EBITDA, including the material factors impacting the year on year change.

Figure no. 57. Supply Segment's EBITDA



Major investments (CAPEX)

The Supply Segment's total capital expenditures came in at PLN 47 million in 2019, mainly for activities related to the maintenance and expansion of street lighting.

5.2.5. Other operations

The below table presents the Other Operations Segment's 2019 – 2017 results.

Table no. 34. Other Operations Segment's 2019 – 2017 results

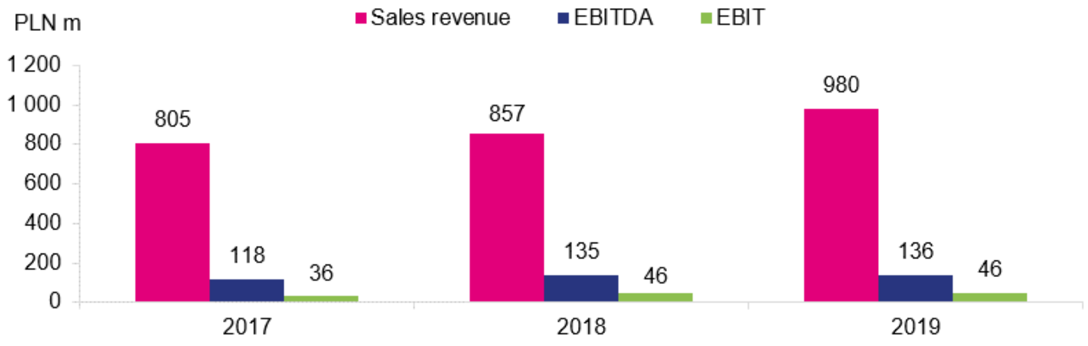
Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019/2018)
Other operations					
Sales revenue	**979 911**	**857 462**	**804 560**	**114%**	**122 449**
customer service services	*215 785*	*190 765*	*198 113*	*113%*	*25 020*
support services	*481 000*	*424 468*	*392 394*	*113%*	*56 532*
Biomass	*118 546*	*78 699*	*74 248*	*151%*	*39 847*

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019/2018)
aggregates	*106 573*	*101 495*	*101 343*	*105%*	*5 078*
other revenue	*58 007*	*62 035*	*38 462*	*94%*	*(4 028)*
Operating profit (EBIT)	**46 152**	**46 023**	**35 902**	**100%**	129
Depreciation and write-downs	90 034	88 009	82 141	101%	1 025
EBITDA	**136 186**	**135 032**	**118 043**	**101%**	**1 154**

The Other Operations Segment's revenue was 14% higher in 2019, as compared to 2018, which was primarily due to an increase of the revenue from the higher sales of biomass and the support services. In addition, the revenue rose as a result of centralizing the services provided by CUW HR and the sales of the by-products of the coal burning and extraction.

The below figure presents the Other Operations Segment companies' 2017 – 2019 financial data.

Figure no. 58. Other Operations Segment companies' 2017 – 2019 financial data



Major investments (CAPEX)

The Other Operations Segment companies' capital expenditures came in at PLN 133 million in total in 2019. They include mainly expenditures on the IT systems.

In addition, the capital expenditures related to the acquisition of 5 wind farms from the in.ventus group in the amount of PLN 601 million were incurred.

5.3. Overview of economic and financial data disclosed in the consolidated annual financial statements

5.3.1. Characteristics of the structure of assets and liabilities in the consolidated statement of financial position

The below table shows the structure of the annual consolidated statement of financial position.

Table no. 35. Structure of the annual consolidated statement of financial position

Consolidated statement of financial position	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017
ASSETS			
Fixed assets	**83.6%**	**87.9%**	**86.6%**
Current assets	**16.4%**	**12.1%**	**13.4%**
TOTAL ASSETS	**100.0%**	**100.0%**	**100.0%**
EQUTY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	43.4%	49.3%	50.3%
Non-controlling stakes	2.1%	0.4%	0.1%
Total equity	**45.5%**	**49.7%**	**50.4%**
Long-term liabilities	35.7%	30.7%	35.5%

Consolidated statement of financial position	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017
Short-term liabilities	18.8%	19.6%	14.0%
Total liabilities	**54.5%**	**50.3%**	49.6%
TOTAL EQUITY AND LIABILITIES	**100.0%**	**100.0%**	**100.0%**
Financial liabilities	**11 394 246**	**9 421 718**	**9 059 844**
Net financial liabilities	**10 129 572**	**8 571 889**	**8 047 158**
Net debt / EBITDA ratio	2.8x	2.5x	2.2x
Current liquidity ratio	0.87	0.62	0.95

The below figure presents the structure of assets as well as equity and liabilities.

Figure no. 59. Structure of assets

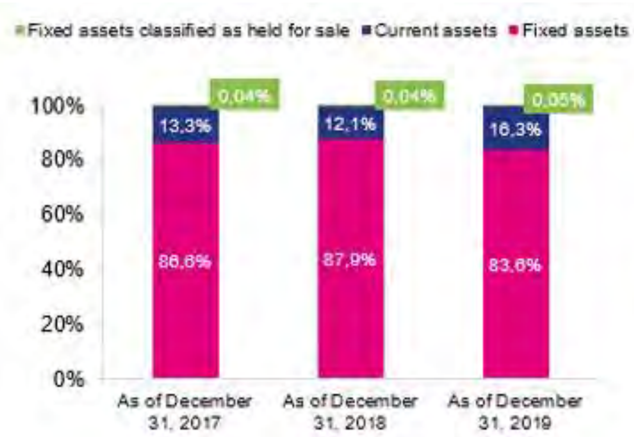


Figure no. 60. Structure of equity and liabilities

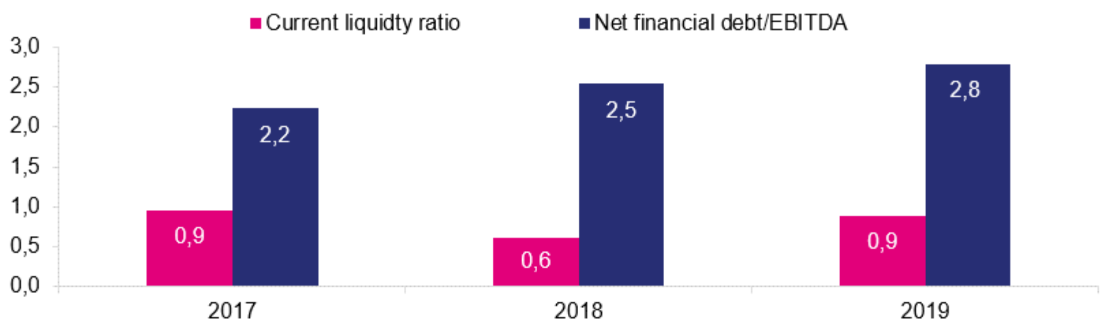
As of December 31, 2019, similar as in 2018, the value of fixed assets constitutes the largest share in the structure of assets. In the structure of fixed assets, the tangible fixed assets of the following Segments constitute the largest share: Distribution (56%), Generation (38%) and Mining (4%).

As of December 31, 2019, the liabilities represent the largest share (54.5%) in the structure of equity and liabilities.

The level of debt of TAURON Capital Group remains at a safe level, which is indicated by the value of the leverage ratio which is below the value agreed upon with the institutions financing TAURON Group's operations. The current liquidity ratio and the net debt to EBITDA ratio remain at a safe level.

The below figure presents the current liquidity ratio and the net debt to EBITDA ratio in 2017-2019.

Figure no. 61. Current liquidity ratio and the net debt to EBITDA ratio in 2017-2019



The below table presents the annual consolidated statement of financial position – **assets**

Table no. 36. Annual consolidated statement of financial position - assets (material items)[1]

Statement of financial position (PLN '000)	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	Change in % (2019/2018)
ASSETS				
Fixed assets	**35 052 287**	**32 596 304**	**31 048 542**	**108%**
Tangible fixed assets	31 099 071	29 406 667	28 079 886	106%
Current assets	**6 865 478**	**4 501 173**	**4 786 474**	**153%**
Cash and equivalents	1 237 952	823 724	909 249	150%
Fixed assets classified as held for sale	22 710	13 712	15 910	166%
TOTAL ASSETS	**41 917 765**	**37 097 477**	**35 835 016**	**113%**

[1]Due to the limited comparability of earlier periods, data is presented in a three-year horizon. Data comprising earlier periods is presented in section no. 5.7 of this report.

As of December 31, 2019, the statement of the financial position of TAURON Capital Group indicates the balance sheet total higher by approx. 13%. The below figure presents the change in the level of assets and current assets.

Figure no. 62. Change in assets

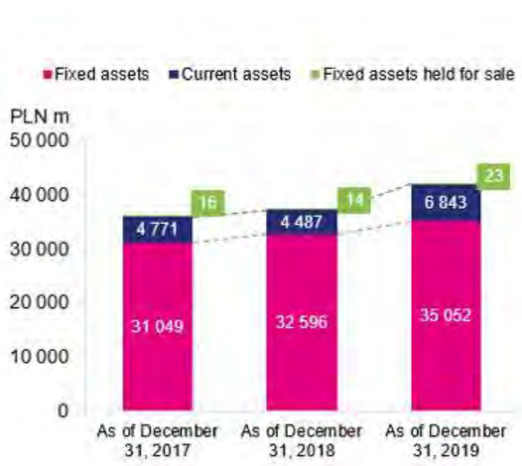
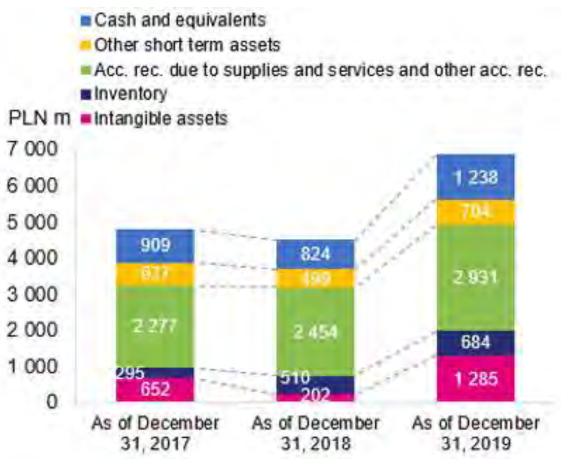


Figure no. 63. Change in current assets



In the year ended on December 31, 2019, TAURON Capital Group, having taken into account the following factors:

1. long-term hovering of the market value of Company's net assets at a level below the balance sheet carrying amount,
2. changes to the commodity, electricity and greenhouse gas emission allowances prices on the worldwide markets;
3. substantial volatility of electricity prices on the futures market and continued problems with a lack of liquidity,
4. regulatory actions aimed at curbing an increase of electricity prices for the final consumers,
5. rising risk related to the commercial coal production,
6. effects of the results of the thus far RES auctions and the very fast growth of the prosumer and micro-installations subsector in connection with the support programs launched,
7. effects of the implementation of the winter package provisions, including the emissions standard, that have an adverse impact on the ability of the coal-fired units to take part in the capacity market after July 1, 2025,
8. tightening of the emissions standards and continued adverse market conditions from the point of view of the conventional power generation's profitability,
9. decrease of the risk-free rate,

recognized (booked) impairment charges and reversed the write-downs related to tangible fixed assets previously booked as a result of the impairment tests conducted as of December 31, 2019 and as of June 30, 2019, of which the Company disclosed information in the regulatory filings (current reports) no. 5/2020 of March 4, 2020, and no. 9/2020 of March 17, 2020. and no. 9/2020 of March 17, 2020. The results of the tests conducted demonstrated the validity of booking write-downs in the total amount of PLN 1 035 million (excess of the booked write-downs over the reversed write-downs).

The value of fixed assets increased by PLN 2 456 million (8%), which is the result of the following events:

1. increase in the value of the tangible fixed assets as a result of capital expenditures on the investment projects related to the tangible fixed assets underway at TAURON Capital Group's subsidiaries (mainly at TAURON Dystrybucja, TAURON Wytwarzanie, Nowe Jaworzno Grupa TAURON and TAURON Ciepło), and also the impairment charges booked as a result of the impairment tests conducted,
2. recognition (booking) in 2019 in the accounting books of the right to use the assets in connection with the entry into force of IFRS 16 *Leases*. At the same time, in accordance with an option allowed by the standard, TAURON Capital Group resigned from adjusting (converting) the comparable data. The data as of December 31, 2018, was prepared based on IAS 17 *Leases*, IFRIC 4 *Determining whether the contract contains a lease* and SIC 15 *Operating lease - special promotional offers*,
3. decrease in the value of the acquired property rights related to the certificates of origin of electricity and greenhouse gas emission allowances as a result of their reclassification as the current assets in connection with the fulfilment of the conditions for the redemption (retirement) of the said assets.

The following factors had an impact on the increase in the value of the current assets by PLN 2 364 million (53%):

1. increase of the level of cash and equivalents by PLN 414 million which is described in more detail in the section on the cash flow account,
2. increase of the value of the certificates of origin of electricity and greenhouse gas emission allowances to be redeemed (retired) by PLN 1 084 million, which is the result of:
   - transferring them from the long term intangible assets to meet the redemption obligation for the current reporting period,
   - purchasing the property rights in order to meet the obligation to present the certificates of origin for electricity for redemption, pursuant to the provisions of the *act of 10 April 1997, Energy Law* and the CO_2 emission allowances to meet the obligation to redeem them for the current reporting period,
   - redeeming a part of the certificates of origin of electricity and the CO_2 emission rights held, due to the fulfilment of the statutory obligation,
3. increase of the value of the accounts receivable from the consumers by PLN 61 million,
4. increase of the accounts receivable due to income tax by PLN 241 million, in connection with the surplus of advance payments made in 2019 above the PGK's taxes due,
5. increase of the accounts receivable due to other taxes and fees by PLN 175 million, mainly as a result of recognizing the accounts receivable due to VAT,
6. increase of the value of other financial assets by PLN 156 million, mainly as a result of recognizing the accounts receivable due to the compensations for the trading subsidiaries - this is applicable to the accounts receivable due to the Financial Compensation for the fourth quarter of 2019, as discussed in detail in note 12 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019*,
7. increase of the value of other non-financial assets by PLN 45 million,
8. increase of the inventory value by PLN 174 million, mainly as a result of the higher coal inventory levels at TAURON Wydobycie and the Generation Segment's subsidiaries.

The below table presents the annual consolidated statement of financial position – **equity and liabilities**.

Table no. 37. Annual consolidated statement of financial position - liabilities (material items)[1]

Statement of financial position (PLN '000)	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	Change in % (2019/2018)
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the parent entity	19 192 226	18 295 824	18 036 446	99%
Non-controlling stakes	900 434	132 657	31 367	679%
Total equity	**19 092 660**	**18 428 481**	**18 067 813**	**104%**
Long-term liabilities	14 963 274	11 382 254	12 739 852	131%
Liabilities due to debt	11 830 183	8 488 210	9 501 414	139%
Short-term liabilities	7 861 831	7 286 742	5 027 351	108%
Liabilities due to debt	2 484 093	2 475 167	351 382	100%
Total liabilities	**22 825 105**	**18 668 996**	**17 767 203**	**122%**
TOTAL EQUITY AND LIABILITIES	**41 917 765**	**37 097 477**	**35 835 016**	**113%**

[1]*Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in section no. 5.7 of this report*

The below figure presents the change in the level of liabilities and equity attributable to the majority shareholders.

Figure no. 64. Change in equity and liabilities

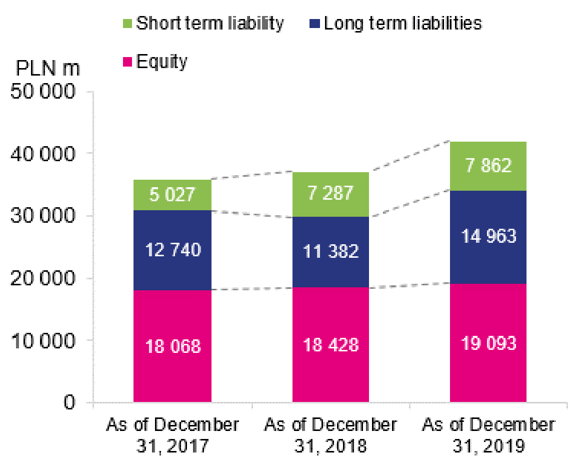
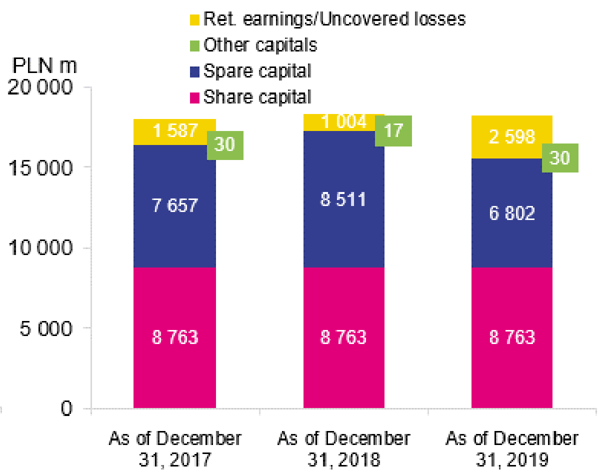


Figure no. 65. Change in equity attributable to majority shareholders



Equity was a material source of financing the assets in 2019 and its share in the balance sheet total stood at 45.5%.

The below figures present the change in the level of short term and long term liabilities.

Figure no. 66. Change in long term liabilities

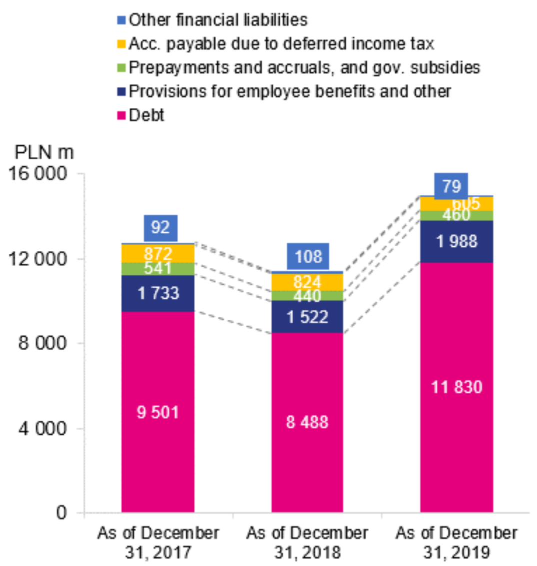
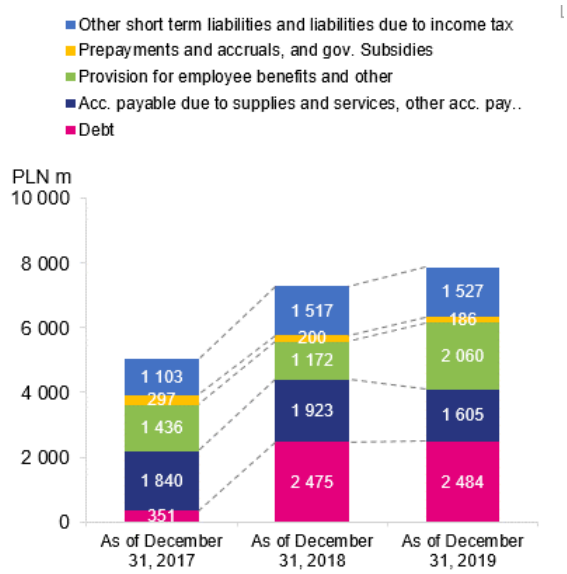


Figure no. 67. Change in short term liabilities



The following factors had an impact on the increase in the value of TAURON Capital Group's long-term liabilities by PLN 3 581 million (31%):

1. increase of the liabilities due to debt by PLN 3 342 million, which is the result of:
   - applying IFRS 16 *Leases* as of January 1, 2019 – an impact worth PLN 938 million. In accordance with the option allowed by the standard, the Group resigned from adjusting (converting) the comparable data,
   - taking out credits and loans in 2019 in the total amount of PLN 4 037 million, with a part of the loan in the amount of PLN 1 840 is related to the replacement of the bond issue program with a loan agreement.
2. Increase of the provision related to employee benefits (entitlements) by PLN 199 million, which is due to the updating of their value as a result of the change in the discount rate used in the calculations,
3. decrease of the liabilities due to deferred income tax by PLN 218 million.

The value of short-term liabilities of TAURON Capital Group increased by PLN 575 million (8%), which resulted from the following factors:

1. increase of accounts payable towards the suppliers by PLN 280.5 million,
2. an increase of the provision related to the liabilities due to the certificates of origin of electricity and the CO_2 emissions by PLN 883 million. As of December 31, 2019, TAURON Capital Group recognized a provision related to the liabilities due to the CO_2 emissions for the entire current year, while in 2018 it presented a significant part

of CO_2 emission allowances to be redeemed before the balance sheet date, i.e. December 31, 2018, and therefore, the recognized provision in this respect was accordingly lower

3. decrease of other financial liabilities by PLN 213 million, which is due to the settlement of the CO_2 futures contracts in December 2019 as a result of a drop of the allowances prices in relation to the comparable period, as well as the recognition, as of the balance sheet date of December 31, 2019, of the obligation to repay the overpaid amounts to the consumers and the recognition, related thereto, by TAURON Capital Group of the adjustments reducing revenues from customers for 2019 in connection with the entry into force of the amended act on the "freezing of the sales prices",
4. increase of liabilities due to other taxes and fees by PLN 183 million, which is the result of the recognition of a higher liability due to VAT.

5.3.2. Consolidated statement of comprehensive income

The below table presents the annual consolidated statement of comprehensive income. Due to the changes in the segments and in order to maintain the comparability, the results are presented for 3 years.

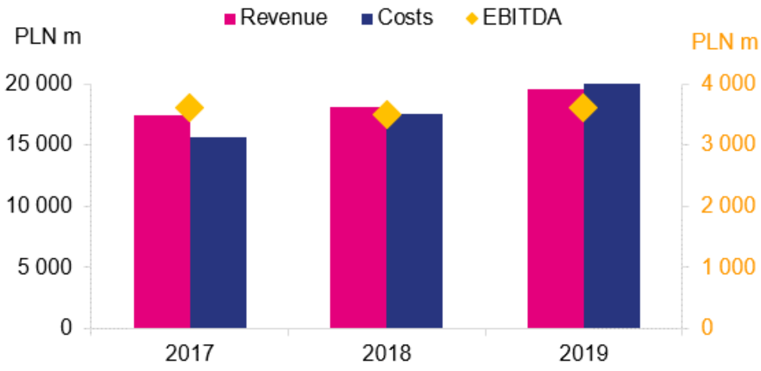
Table no. 38. Annual statement of comprehensive income for 2019-2017[1]

Statement of comprehensive income (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Sales revenue	**19 558 292**	**18 121 748**	**17 424 551**	**108%**
Compensations	952 650			
Own cost of sales (including the costs of sales and overheads), including:	(20 422 371)	(17 546 428)	(15 614 201)	116%
loss of the carrying amount of the non-financial fixed assets	*(1 275 480)*	*(815 410)*	*(40 857)*	156%
Other operating revenues and costs	158 936	160 519	(4 079)	99%
Share in the profit (loss) of the joint venture	47 947	54 890	73 050	87%
Operating profit (loss)	**295 454**	**790 729**	**1 879 321**	**37%**
Operating profit margin (%)	*1.5%*	*4.4%*	*10.8%*	*35%*
Cost of interest on debt	(250 800)	(147 372)	(209 322)	170%
Other financial revenue and costs	(60 022)	(138 710)	87 653	43%
Pre-tax profit (loss)	**(15 368)**	**504 647**	**1 757 652**	**-**
Gross profit margin (%)	*0.1%*	*2.8%*	*10.1%*	-
Income tax	3 685	(297 602)	(374 706)	-
Net profit (loss) for financial year	**(11 683)**	**207 045**	**1 382 946**	**-**
Net profit margin (%)	*0.1%*	*1.1%*	*7.9%*	-
Total income for financial year	(113 536)	182 523	1 389 312	-
Profit attributable to:				
Shareholders of the parent entity	(10 908)	204 880	1 380 663	-
Non-controlling stakes	(775)	2 165	2 283	-
EBIT and EBITDA				
EBIT	**295 454**	790 729	1 879 321	37%
EBITDA	**3 599 367**	3 492 084	3 617 641	103%

[1]Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in section no. 5.7 of this report

The below figure presents TAURON Capital Group's 2017-2019 financial results.

Figure no. 68. TAURON Capital Group's 2017-2019 financial results



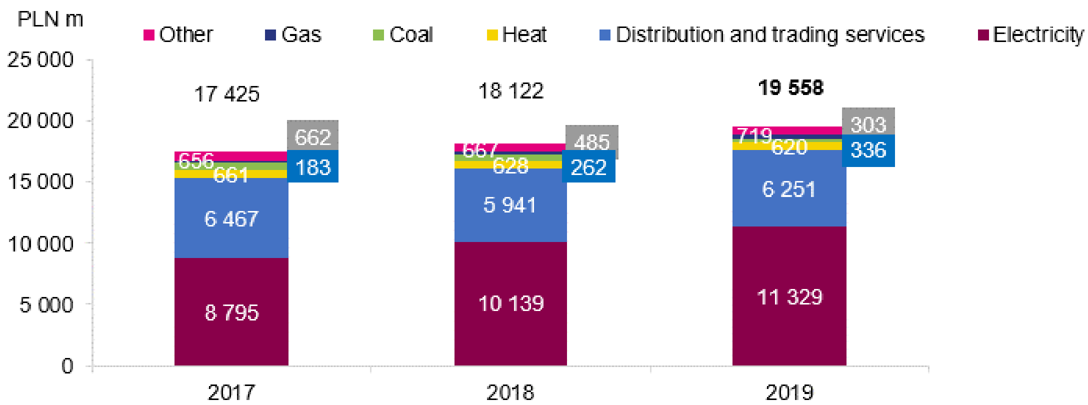
In the reporting period ended on December 31, 2019, TAURON Capital Group generated 8% higher sales revenue, as compared to the values achieved in 2018, due to the following factors:

1. higher revenue from electricity sales (by 12%) – mainly as a result of a 10% increase of the average electricity sales price and a 1% decline of TAURON Capital Group's electricity supply volume,
2. higher revenue from gas sales (by 28%), due to a 6% increase of the gas sales prices and a 21% rise of the volume,
3. lower revenue from heat sales (by 1%) – lower heat and transmission services sales volume due to the higher outdoor temperatures, as compared to 2018,
4. higher revenue from the distribution and trading services sales (by 5%), mainly due to an increase of the rate of the distribution service sales to the final consumers as a consequence of the introduction of the application of IFRS 15 *Revenue from contracts with customers* and the exclusion of the transition fee from the revenue in 2018,
5. lower revenue from coal sales (by 38%) as a result of a decrease of the coal sales volume by 36%, along with the drop of the coal sales price by 3%, mainly due to the increase in the share of cheaper coal dust in the total coal sales.

In addition, in 2019 TAURON Capital Group received compensations for the freezing of the electricity prices - the "electricity act", in the amount of PLN 952.7 million.

The below figure presents the structure of TAURON Capital Group's sales revenue (except for the compensation) in 2017-2019.

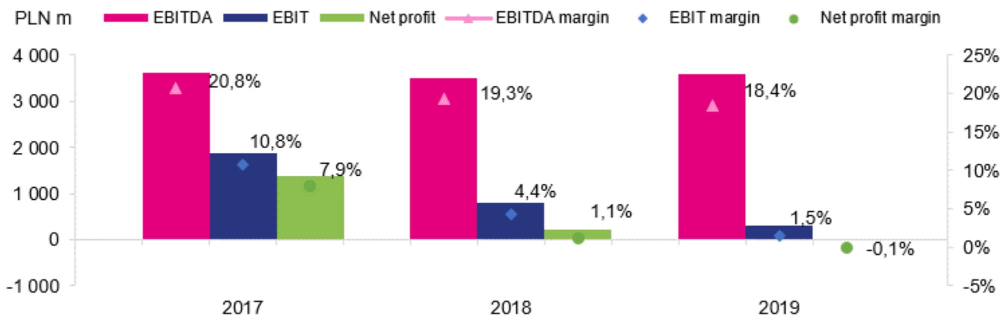
Figure no. 699. Structure of TAURON Capital Group's sales revenue (except for the compensation) in 2017-2019[1]



[1]Due to the limited comparability of the earlier periods, data is presented in a three-year time frame. Data comprising the earlier periods is presented in section no. 5.7 of this report

The below figure presents TAURON Capital Group's financial results and the level of margins realized.

Figure no. 70. TAURON Capital Group's financial results and the level of margins realized in 2017-2019[1]



[1]Due to the limited comparability of the earlier periods, data is presented in a three-year time frame. Data comprising the earlier periods is presented in section no. 5.7 of this report

TAURON Capital Group's costs of operations came in at PLN 20.4 billion in 2019, which meant that they were 16% higher than the costs incurred in 2018.

One of the reasons for the rising costs was the booking, in 2019, of the impairment charges related to the tangible fixed assets as a result of the impairment tests conducted as of December 31, 2019 and June 30, 2019, of which the Company disclosed information in the regulatory filings (current reports) no. 30/2019 of August 19, 2019, no. 5/2020 of March 4, 2020. and no. 9/2020 of March 17, 2020.

In the year ended on December 31, 2019, TAURON Capital Group recognized impairment charges in the Generation and Mining Segments and partly reversed (dissolve) the previously booked write-downs in the Generation Segment.

The total impact on the financial result of TAURON Capital Group reached PLN 854.6 million in 2019 (excess of the booked write-downs over the reversed impairment charges), of which PLN 815.8 million was charged to the cost of goods, products, materials and services sold.

Apart from the above mentioned one-off events the level of TAURON Capital Group's costs in 2019 was impacted by the following factors:

1. increase of the depreciation costs, mainly as a result of:
   - beginning of putting into operation of the commissioned investment projects carried out by TAURON Capital Group and therefore the start of depreciating their value in accordance with the adopted depreciation rates,
   - recognition in the current depreciation period of the rights to use assets in connection with the entry into force of IFRS 16 *Leases*, as of January 1, 2019,
   - update of the depreciation rates as a result of the booked or updated impairment charges related to the assets' carrying amount, as a result of the completed impairment tests,
2. increase of the costs of purchasing electricity, mainly due to a rise, by 32% on average, of the sales prices,
3. decrease of the cost of other external services, which is due to the lower costs of the construction and assembly (erection) services in the current year due to the intensification of the works in 2018 related to the implementation of the investment project - construction of the 910 MW unit in Jaworzno, a partial dissolving of the provision to the reclamation of the combustion waste, the lower costs of the mining services and machinery rentals due to the lower production of coal mines, as well as the lower costs of renting and leasing due to the entry into force of IFRS 16 *Leases*, as of January 1, 2019,
4. higher volume of electricity purchased from the counterparties (business partners, contractors) from outside TAURON Capital Group, and the lower production of electricity by the generating units,
5. higher costs of materials and electricity consumption, mainly as a result of"
   - higher costs of biomass consumption due to the operation of the units based on this fuel,
   - higher costs of the prices of electricity consumed for the needs of the balancing difference as a result of higher prices,
   - lower costs of materials consumed in the production of the commercial coal and reinforcements of the drifts (longwall galleries) due to the lower extraction output.
6. increase of the costs of the distribution service due to the higher costs of purchasing the transmission services (increase of the grid charges),
7. higher costs of the obligation to retire the greenhouse gas emission allowances, mainly due to an increase of the prices year on year (from 46 PLN/Mg to 65 PLN/Mg),
8. higher labor costs due to the increase of the employment level at TAURON Capital Group's subsidiaries, related to the change in the operational model with respect to coal mining by supporting in-house preparatory works divisions, limiting the use of temporary workers as a consequence of changes to the applicable legal

regulations and the development of the property protection and management operations, as well as the signed wages agreements, an increase of the cost of actuarial reserves due to the reduction of the discount rate. In addition, in 2018 the provision related to employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie, which led to the reduction of the level of these costs in the comparable period,

9. increase in the level of the inventory balance as well as accruals and prepayments, which is mainly due to an increase in the coal inventories coming from the Company's own production,
10. growth of the cost of providing services for the entity's own needs, due to the increase of the in-house resources' engagement in the investment projects carried out by TAURON Capital Group
11. recognizing (booking), in the current reporting period, by the Supply Segment's subsidiaries of the provisions related to the onerous contracts in the amount higher than in 2018. The updating of the provision, set up due to the coming into force of the *act on the amendment to the act on the excise tax and certain other acts,* was a consequence of the adoption in the calculation of the sales price for 2020 for these consumers of the parameters specified in the summons of the President of the Energy Regulatory Office, whose approval in December 2019 results in the inability to obtain revenues from the electricity sales in the amount covering the justified costs of doing business in this respect (it is described in more detail in note 39.2 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019*.

EBITDA margin achieved in 2019 came in at 18.4% and it was 0.9 pp lower, as compared to 2018. As a result of the write-downs booked, the value of which was higher in 2019 than the write-downs booked in 2018, the EBIT margin and the net profit margin were lower in the reporting period than achieved a year ago, reaching 1.5% and (0.1)%, respectively. Should the effects of the impairment charges be disregarded, the EBIT margin and the net profit margin would have reached, respectively, 8% and 5.2%, in 2019 and, respectively, 8.9% and 4.8% in 2018.

In accordance with the presented consolidated statement of comprehensive income, the total comprehensive income of TAURON Capital Group for 2019, taking into account the net profit increased or decreased by the change in the value of the hedging instruments, FX differences arising from the conversion of the foreign entity and the other revenue after tax, stood at PLN (113.5) million in 2019, as compared to PLN 182.5 million generated in 2018.

5.3.3. Statement of cash flows

The below table presents the statement of cash flows.

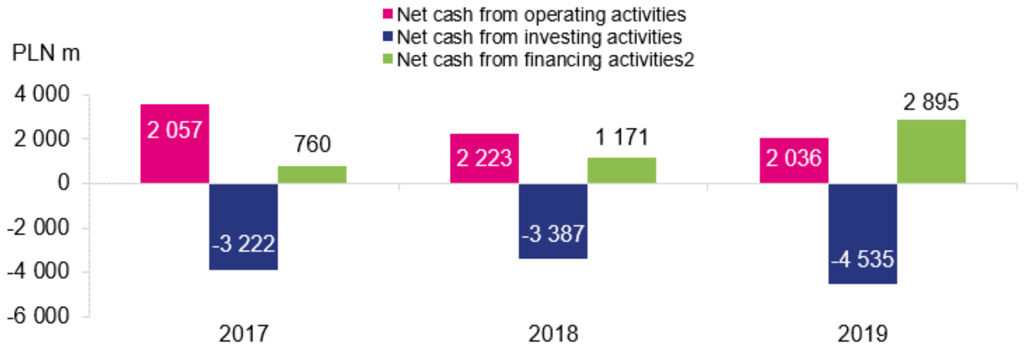
Table no. 39. Statement of cash flows (material items) in 2017-2019[1]

Statement of cash flows (PLN '000)	Year ended on December 31, 2019	Year ended on December 31, 2018	Year ended on December 31, 2017	Change in % (2019/2018)
Cash flows from operating activities				
Pre-tax profit / (loss)	(15 368)	504 647	1 757 652	-
Adjustments	2 050 943	1 717 974	1 801 015	119%
Net cash from operating activities	**2 035 575**	**2 222 621**	**3 558 667**	**92%**
Cash flows from investing activities				
Purchase of tangible fixed assets and intangible assets	(4 035 132)	(3 741 566)	(3 561 758)	108%
Net cash from investing activities	**(4 534 738)**	**(3 387 402)**	**(3 871 676)**	**134%**
Cash flows from financing activities				
Redemption of debt securities	(2 420 000)	0	(1 650 000)	-
Issue of debt securities and proceeds from taking out credits / loans	5 650 000	1 350 000	2 707 462	418%
Repayment of loans / credits	(867 360)	(168 874)	(154 918)	514%
Interest paid	(212 556)	(160 170)	(184 550)	133%
Net cash from financing activities	**2 894 792**	**1 171 400**	**759 629**	**247%**
Increase / (decrease) in net cash and equivalents	**395 629**	**6 619**	**446 620**	**5 977%**
Cash opening balance	**807 972**	**801 353**	**354 733**	**101%**
Cash closing balance	**1 203 601**	**807 972**	**801 353**	**149%**

[1]Due to the limited comparability of the earlier periods, data is presented in a three-year time frame. Data comprising the earlier periods is presented in section no. 5.7 of this report.

The below figure presents the 2017-2019 cash flows.

Figure no. 71. 2017-2019 cash flows



The realized positive value of cash flows from operating activities in 2019 was lower than the cash flows realized in 2018 by PLN 187 million. The following factors had the biggest impact on the change in this item of the cash flow account:

1. generating EBITDA higher by PLN 107 million, which recognized a non-monetary result on the opportunistic acquisition of the wind farms in the amount of PLN 120 million,
2. working capital lower by PLN 140 million is the result of:
   - positive change in the balance of accounts receivable mainly from the consumers by PLN 105 million,
   - positive change in the balance of the inventories by PLN 47 million,
   - negative change in liabilities by PLN 601 million as a result of a decrease in liabilities towards suppliers as of December 31, 2019 and December 31, 2018, and a change in the value of the variation margins received by the Company on account of the current exchange settlements, due to the settlement (clearing) of some futures contracts and a change in the valuation of the other futures contracts,
   - incurring a lower, by PLN 456 million, expenditure on the purchase of the CO_2 emission allowances,
   - incurring a higher, by PLN 91 million, expenditure on the purchase of the certificates of origin of electricity,
   - paying a substitution fee due to the fulfilment of the obligation to present the certificates of origin for electricity for redemption, pursuant to the provisions of the *act of April 10, 1997 Energy Law* in the amount of PLN 33 million,
3. payment of the higher, by PLN 32 million, income tax, as a result of:
   - PGK paying income tax in 2019 in the amount higher by PLN 101 million than in 2018,
   - net cash inflow in the amount of PLN 18 million in 2019, due to the tax settlements for the previous years,
   - payment by PGK, in 2018, of the income tax for 2017, in the amount of PLN 46 million,
   - payment of the income tax in 2018 by companies that are not part of PGK in the amount of PLN 3 million, while in 2019 the amount of this cash flow was PLN 0.5 million.

The biggest impact on cash flows from investing activities came from the expenditures to purchase tangible fixed assets, which were higher by PLN 294 million in the reporting period, as compared to the outlays incurred in 2018. The largest expenditures were incurred by the Distribution and Generation Segments.

The positive value of cash flows from financing activities is due to the bond issue completed in 2019, worth PLN 500 million in total, and taking out credits and loans in the total amount of PLN 5 150 million, while at the same time debt securities worth PLN 2 420 were redeemed, as well as credits and loans taken out in the previous years were repaid in the amount of PLN 867 million. In 2019, the bond issue program was replaced by a loan agreement, and therefore the cash received from the first tranche of the loan, of June 28, 2019, was allocated for the redemption of the bonds with a nominal value of PLN 1 840 million.

In addition, in 2019, TAURON Capital Group received an inflow of PLN 780 million, which is related to the cash contributions made by FIK FIZAN and PFR IFIZ for taking up the shares in the increased share capital of Nowe Jaworzno Grupa TAURON. The total amount of interest paid, presented in cash flows from financing activities, reached PLN 213 million.

The below figure presents TAURON Capital Group's 2019 cash flows.

Figure no. 72. TAURON Capital Group's 2019 cash flows

TAURON Capital Group continues its expansion process and still maintains its market position. It should be noted that the balance of cash flows from operating activities is positive, consequently enabling TAURON Capital Group to autonomously finance its current operations.

5.4. Material off-balance sheet items

Material off-balance sheet items included in the consolidated financial statements

As of December 31, 2019, the material contingent liabilities of TAURON Capital Group include:

1. Lawsuits related to the termination of long-term contracts:
   1) lawsuits filed by the companies that are a part of the following groups: in.ventus, Polenergia and Wind Invest, against PEPKH for determination that the statements submitted by PEPKH on the termination of the contracts for the purchase of electricity and property rights concluded with the above mentioned companies are not valid (are ineffective).

      On September 2, 2019, Amon (a Polenergia group company) filed new lawsuits containing the following claims for damages in the total amount of PLN 29 009 000. After the balance sheet date, on February 24, 2020, PEPKH received a letter constituting a change of the lawsuit of Dobiesław Wind Invest Sp. z o.o., in which, apart from the original claim, a lawsuit was filed for the award the claims in the total amount of PLN 34 464 000.

      As of the date of drawing up this report the amount of damages claimed in the lawsuits is: EUR 20 397 000 (in.ventus group companies), PLN 115 566 000 (Polenergia group companies), PLN 322 313 000 (Wind Invest group companies).

      As of the balance sheet date, the Company set up a provision related to the onerous contracts in the amount of PLN 4 213 000.

      The above event is described in detail in section 2.6 of this report.
   2) lawsuits of the companies that are a part of the following groups: in.ventus, Polenergia and Wind Invest against TAURON for payment of damages and for determination of liability for damages that may arise in the future due to torts, including unfair competition acts. The factual basis for the lawsuits, according to the plaintiff, is the termination by PEPKH of the long term contracts for the purchase of electricity and property rights arising from certificates of origin and alleged management (directing) of this process by TAURON. The amount of damages claimed in the lawsuits is: EUR 12 286 000 (in.ventus group companies), PLN 78 855 000 (Polenergia group companies), PLN 129 947 PLN. (Wind Invest group companies)
      Furthermore, the plaintiffs indicate in their lawsuits the following values of the estimated damages that may arise in the future: EUR 35 706 000 (in.ventus group companies), PLN 265 227 000 (Polenergia group companies), PLN 1 119 363 000. (Wind Invest group companies),
   3) statements, submitted by TAURON Sprzedaż subsidiary, on the termination of the long term contracts, concluded with the in.ventus group companies, for the purchase of property rights arising from certificates of origin of electricity from renewable sources. The above Contracts were terminated due to the parties' failure to reach an agreement as a result of the contractual renegotiations in accordance with the procedure set forth in the contracts. The total net amount of the contractual obligations of TAURON Sprzedaż estimated for the 2017-2023 years under the above mentioned terminated contracts would, as of the termination date, reach approx. PLN 417 000 000.
   4) notifications, received by TAURON Sprzedaż subsidiary, in the cases filed by two Polenergia group companies against TAURON Sprzedaż, of motions for a summons to a conciliation hearing with respect to the total amount of PLN 78 855 000, due to damages for alleged harm done to Polenergia group companies,

as a result of the groundless termination of the long term contract concluded between these companies and PEPKH. The companies indicated in the applications that the company, PEPKH and the liquidators of PEPKH did and continue to do harm to Polenergia group companies, and TAURON Sprzedaż consciously took advantage of this harm and – according to Polenergia group companies - bears full responsibility for such harm. No settlements have been reached at the court hearings.

5) lawsuit filed by Hamburg Commercial Bank AG (formerly HSH Nordbank AG) against TAURON Sprzedaż for payment of damages due to a failure of TAURON Sprzedaż to perform agreements on the sale of property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source and liquidated damages assessed due to the termination of the above mentioned agreements. The subject of the statement of claim is the payment by TAURON Sprzedaż, in favor of the bank, of the total amount of PLN 232 879 000 along with the statutory interest for a late payment, accrued from the day of filing the lawsuit until the payment date, including the damages in the total amount of PLN 36 252 000 and the liquidated damages in the total amount of PLN 196 627 000.

The above event is described in detail in section 2.6 of this report.

2. Proceedings initiated by the President of UOKiK:
   1) proceedings against TAURON Sprzedaż and TAURON Sprzedaż GZE related to the mechanism for automatic extending of the period for settling the charges for electricity supply according to the price list in case a consumer has not taken any actions having been presented with a new offer
   2) proceedings against TAURON Sprzedaż GZE in conjunction with the suspected applying of a practice violating the collective interests of consumers involving hindering a switch of an electricity supplier
   3) proceedings against TAURON Sprzedaż in connection with the suspicion of violating the collective interests of consumers by applying practices related to concluding electricity sales agreements over the phone.
   4) proceedings against TAURON Sprzedaż in connection with the suspicion of violating the collective interests of consumers by introducing changes to the scope of information made available to consumers in applications for concluding or changing the terms of a comprehensive electricity agreement,
   5) proceedings against TAURON Sprzedaż and TAURON Sprzedaż GZE summoning the companies to provide information on the last resort supply contracts concluded in 2018 and 2019 and to provide the relevant explanations regarding this issue.

3. Proceedings initiated by the President of ERO:
   1) proceedings against TAURON Dystrybucja concerning imposing of a monetary fine due to a failure to maintain facilities, equipment and installations in due technical condition and the violation of the terms defined in the license for electricity distribution. By way of the decision of the President of ERO a penalty was imposed on TAURON Dystrybucja in the amount of PLN 350 000. The company submitted an appeal against the above decision to the Court of Competition and Consumer Protection (SOKiK). The above company set up a provision in the amount of PLN 351 000,
   2) proceedings initiated against TAURON EKOENERGIA with respect to imposing a monetary fine, in connection with the suspected conducting of the operations involving electricity generation at Dąbie Hudroelectric Plant (Elektrownia Wodna Dąbie) and at Przewóz Hydroelectric Plant (Elektrownia Wodna Przewóz) without the water permits for the special use of water for energy related purposes, required by the regulations of the *act of July 20, 2017 Water Law*. By way of the decision of the President of ERO a fine of PLN 2 000 was imposed on the company. TAURON EKOENERGIA filed an appeal against the above decision to the Regional Court in Warsaw.
   3) proceedings initiated against TAURON Sprzedaż with respect to adapting the terms of the granted license for electricity trading to the legal regulations currently in force. By way of the decision of the President of ERO, TAURON Sprzedaż was obligated to change the license. TAURON Sprzedaż filed an appeal against the above decision to the Court of Competition and Consumer Protection (SOKiK).
   4) proceedings initiated against TAURON Sprzedaż with respect to halting the supply of electricity to the final consumer,
   5) proceedings initiated against TAURON Sprzedaż GZE with respect to halting the supply of electricity to the final consumer,
   6) proceedings against TAURON Sprzedaż GZE with respect to imposing monetary fines, in connection with the detection of the possibility of non-compliance with the obligations specified in art. 9a, clause 1, art. 9a, clause 8 of the *act of April 10, 1997, Energy Law* and art. 12, clause 1 of the *act of May 20, 2016, on energy efficiency*. The above company set up a provision in the total amount of PLN 6 320 000.

4. court dispute between TAURON as a legal successor of Górnośląski Zakład Elektroenergetyczny S.A (GZE) and Huta Łaziska S.A. (Huta Łaziska) as a result of a failure by Huta Łaziska to fulfil the obligation to pay the accounts payable for electricity supplies, which consequently caused the halting of electricity supplies to Huta Łaziska by GZE in 2001 and thus the claim for the payment of damages is PLN 182 060 000 for the alleged losses caused by the halting of electricity supplies.

5. lawsuit brought by ENEA against TAURON as well as TAURON Sprzedaż and TAURON Sprzedaż GZE as third party respondents (defendants), due to the alleged unjustified benefit gained by the Company in connection with the settlements of non-balancing on the Balancing Market, made with PSE (TSO) in the period from January to December 2012. The claim for payment by TAURON amounts to PLN 17 086 000. In case the lawsuit against TAURON is dismissed, the claim for payment by TAURON Sprzedaż and TAURON Sprzedaż GZE amounts to PLN 8 414 000 in total, including interest.
6. lawsuit of Galeria Galena Sp. z o.o. against TAURON Wydobycie for payment of PLN 22 785 000 due to the refund of the expenditures incurred to protect a facility against the impact of mining operations and the lawsuit of Galeria Galena Sp. z o.o. against the legal successors to Kompania Węglowa S.A. The above cases were combined for a joint hearing. No provision has been set up with respect to the above event,
7. lawsuit brought by the consortium: WorleyParsons Nuclear Services JSC, WorleyParsons International Inc and WorleyParsons Group Inc, against PGE EJ 1 for the total amount of PLN 128 million. TAURON, as a shareholder of PGE EJ 1 with a 10% stake in the share capital. TAURON concluded an agreement with PGE EJ 1 and the other shareholders governing the mutual relationships among the parties to the agreement related to the said claims. In accordance with the Company's assessment a potential financial engagement of the Company in PGE EJ1, under the above agreement should not exceed 10% of the claim of the consortium,
8. potential claims not reported by the owners of land with unregulated status due to the lack of detailed records of unregulated land and, as a result, the inability to reliably estimate the amount of potential claims. As of the balance sheet date a provision was set up with respect to the reported court litigations in the amount of PLN 88 070 000. (note 39.1 to the Consolidated financial statements for the year ended on December 31, 2019),
9. potential occurrence of the situations, provided for in the investment agreement signed by the Company with FIZ (Closed Investment Funds - Fundusze Inwestycji Zamkniętych) managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund), constituting a material breach of the above agreement by the Company. Any potential material breach of the agreement on the part of TAURON Capital Group's subsidiaries may lead to a potential invoking of a procedure, which may result in the request (exercising of the option) by FIZ to have the shares in Nowe Jaworzno Grupa TAURON bought back, for the amount invested by FIZ in the shares plus the agreed return and the premium for a material breach and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON to FIZ. After the balance sheet date, on March 27, 2020, an amendment to the above agreement was concluded, changing the catalog of the material breaches of the agreement on the part of the Company. At present, the Company does not identify any risk of a material breach of the above agreement on its part and is of the opinion that there are no real possibilities, including in the future, of an occurrence of material breaches of the agreement that are beyond the Company's direct control. As of the balance sheet date, FIZ holds the shares of Nowe Jaworzno Grupa TAURON in the amount of PLN 880 000 000.

The detailed information related to the off-balance sheet items is provided in notes 50 and 51 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019*.

Off-balance sheet items included in the Standalone financial statements

Standalone financial statements for the year ended on December 31, 2019, include the off-balance sheet items indicated above in clauses 1, 4, 5, 7 and 9.

The detailed information related to the off-balance sheet items indicated above is provided in note 40 to the *Financial statements of TAURON Polska Energia S.A. drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

5.5. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON Capital Group for 2019. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

5.6. Key financial ratios and the Alternative Performance Measures

The below table presents key financial ratios of TAURON, which may constitute an important source of information for investors about the financial and operational standing of the Company. The Alternative Performance Measures below as defined by the ESMA Guidelines on Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding the Company's financial results. They constitute standard metrics commonly used in financial analysis, the usefulness of which has been analyzed in terms of the information provided to investors on the financial efficiency, cash flows and debt of TAURON Capital Group.

Table no. 40. Key financial ratios of TAURON Capital Group[1]

Ratios	Definition	2019	2018	2017
PROFITABILITY				
EBIT Margin	Operating profit / Sales revenue	1.5%	4.4%	10.8%
EBITDA Margin	EBITDA / Sales revenue	18.4%	19.3%	20.8%
Net Profitability	Net profit/ Sales revenue	(0.1)%	1.1%	7.9%
Return on Equity (ROE)	Net profit/ Equity at the end of the period	(0.1)%	1.1%	7.7%
LIQUIDITY				
Current liquidity ratio	Current assets (excluding assets held for trade) / Short-term liabilities	0.87	0.62	0.95
DEBT				
Total debt ratio	Total obligations/ total liabilities	0.54	0.50	0.50
Net financial debt/ EBITDA	(Financial liabilities - Cash)/ EBITDA	2.8x	2.5x	2.3x
OTHER RATIOS				
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	(0.01)	0.12	0.79

[1]Due to the limited comparability of the earlier periods, data is presented in a three-year time frame. Data comprising the earlier periods is presented in section no. 5.7 of this report.

TAURON Capital Group's net profitability ratio came in at the level of (0.1)% in 2019, as a consequence of recognizing of the balance of the impairment charges, in the 2019 result, in the amount higher than in 2018 and the higher costs of interest on debt. Due to the different values of the impairment charges these ratios are not comparable.

Without taking into account the impairment charges, the net profitability ratio stood at 5.2% in 2019, i.e. it was 0.4 pp higher than the comparable ratio of 4.8% in 2018.

The current liquidity ratio was higher as of December 31, 2019, than as of December 31, 2018, which proves that the financial standing of TAURON Capital Group continued to be stable.

The total debt ratio and the net debt / EBITDA ratio illustrate the share of liabilities in financing TAURON Capital Group. The current level of these ratios enables TAURON Capital Group to obtain external financing required to carry out the planned investment (capex) projects. The levels of both ratios confirm the stable financial position of TAURON Capital Group.

The EPS ratio (calculated in relation to the net result attributable to the shareholders of the parent entity) is negative due to the negative net financial result, for the reasons described above.

The below table presents the reconciliation of the net financial debt, the amount of which, together with the EBITDA amount, is the basis for calculating the net debt / EBITDA ratio.

Table no. 41. Net financial debt reconciliation

Item (PLN m)	2019	2018	2017
Cash and equivalents	**1 265**	**850**	**1 013**
Cash and equivalents – balance acc. to balance sheet	*1 238*	*824*	*909*
Short term investments with the maturity of up to 1 year	*27*	*26*	*103*
Long term financial debt	**8 982**	**6 950**	**8 710**
Long term credits and loans, and other	*4 728*	*703*	*902*
Long term liabilities due to bonds issued	*4 255*	*6 248*	*7 808*
Short term financial debt	**2 412**	**2 471**	**350**
Short term credits and loans, and other	*2 323*	*184*	*314*
Short term liabilities due to bonds issued	*89*	*2 288*	*36*

Item (PLN m)	2019	2018	2017
Total financial debt	**11 394**	**9 422**	**9 060**
Net financial debt	**10 130**	**8 572**	**8 047**

The below table presents the reconciliation of the result at the EBITDA level.

Table no. 42. Reconciliation of the result on the EBITDA level

Item (PLN m)	2019	2018	2017
Net profit (loss)	**(12)**	**207**	**1 383**
Income tax charged to the financial result	(4)	298	375
Financial costs	411	369	313
Financial revenue	(100)	(83)	(191)
EBIT	**295**	**791**	**1 879**
Depreciation charged to the financial result	1 992	1 839	1 693
Change in the balance of write-downs related to the loss of the carrying value of fixed assets and intangible assets	1 312	862	45
EBITDA	**3 599**	**3 492**	**3 618**

5.7. Most significant financial and operating data of TAURON Capital Group for the last 5 years

The below table presents the most significant financial data and operating data of TAURON Capital Group for the last 5 years, i.e. for the 2019 – 2015 period.

Table no. 43. Financial and operating data for 2019-2015[1]

Key information	unit	2019	2018	2017	2016	2015	Change in % (2019/2018)
Statement of comprehensive income							
Sales revenue	PLN m	19 558	18 122	17 425	17 646	18 264	108%
Operating profit	PLN m	295	791	1 879	802	(1 901)	37%
Financial revenue (total)	PLN m	100	83	191	125	81	120%
Financial expenses (total)	PLN m	(25)	(11)	(313)	(418)	(368)	234%
Pre-tax profit (loss)	PLN m	(15)	505	1 758	509	(2 188)	-
Income tax	PLN m	4	(298)	(375)	(139)	384	-
Net profit	PLN m	(12)	207	1 383	370	(1 804)	-
attributable to shareholders of the parent entity	PLN m	(11)	205	1 381	367	(1 807)	-
attributable to non-controlling shares	PLN m	(1)	2	2	3	3	-
EBITDA	PLN m	3 599	3 492	3 618	3 337	3 523	103%
Statement of financial position							
Fixed assets	PLN m	35 052	32 542	31 049	29 148	28 124	108%
Current assets	PLN m	6 865	4 556	4 786	4 309	3 947	151%
Total equity	PLN m	19 093	18 428	18 068	16 679	16 048	104%
Total liabilities	PLN m	22 825	18 669	17 767	16 778	16 023	122%
Long-term liabilities	PLN m	14 963	11 382	12 740	11 969	8 584	131%
Short-term liabilities	PLN m	7 862	7 287	5 027	4 809	7 439	108%

Key information	unit	2019	2018	2017	2016	2015	Change in % (2019/2018)
Net financial debt[2]	PLN m	10 130	8 572	8 047	7 704	7 886	118%
Capital expenditures	PLN m	4 128	3 838	3 474	3 817	4 175	108%
Cash flow account							
Net cash from operating activities	PLN m	2 036	2 223	3 559	3 064	3 387	92%
Net cash from investing activities	PLN m	(4 535)	(3 387)	(3 872)	(3 627)	(3 942)	134%
Net cash from financing activities	PLN m	2 895	1 171	760	590	(526)	247%
Cash closing balance	PLN m	1 204	808	801	355	328	149%
Ratios							
EBIT Margin	%	1.5%	4.4%	10.8	4.5	(10.4)	35%
EBITDA Margin	%	18.4%	19.3%	20.8	18.9	19.3	95%
Net financial debt/ EBITDA	multiple	2.8x	2.5x	2.2x	2.3x	2.2x	115%
Net earnings per share	PLN / share	(0.01)	0.12	0.79	0.21	(1.03)	-
Operating data							
Commercial coal production	Mg m	3.78	5.01	6.45	6.37	4.91	75%
Gross electricity production	TWh	13.88	16.21	18.41	16.80	18.56	86%
Electricity production from RES	TWh	1.38	0.97	1.30	1.32	1.63	142%
Heat production	PJ	10.85	11.29	12.20	11.52	11.51	96%
Retail electricity supply	TWh	33.73	34.52	34.91	32.04	35.94	98%
Distribution of electricity	TWh	51.73	51.97	51.37	49.68	49.20	100%
Number of customers (Distribution)	m	5.65	5.60	5.53	5.47	5.42	101%

[1]The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organization of Segments
[2]Excluding the issue of hybrid bonds

The below table presents TAURON Capital Group's EBITDA for the last 5 years, i.e. for the 2019 – 2015 period.

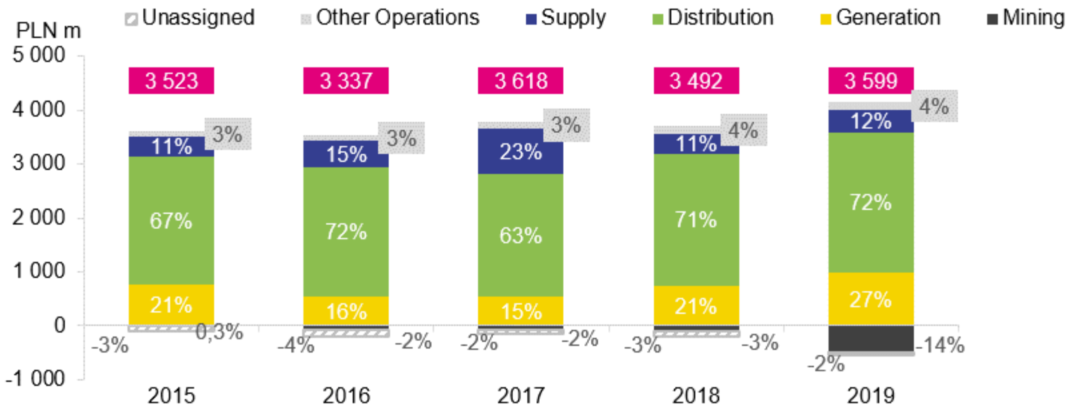
***Table no. 44.** TAURON Capital Group's EBITDA, broken down into Segments (Lines of Business)[1]*

#	EBITDA (PLN m)	2019	2018	2017	2016	2015	Change in % (2019/2018)	Change (2019-2018)
1.	Mining	(500)	(90)	(83)	(82)	9	-	(410)
2.	Generation	984	731	537	545	755	135%	253
3.	Distribution	2 606	2 466	2 283	2 395	2 372	106%	140
4.	Supply	429	372	841	490	380	115%	56
5.	Other	136	135	118	115	100	101%	1
6.	*Unallocated items*	*(56)*	*(122)*	*(78)*	*(126)*	*(94)*	-	66
	Total EBITDA	**3 599**	**3 492**	**3 618**	**3 337**	**3 523**	**103%**	**107**

[1]The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organization of Segments

The below figure presents the structure of TAURON Capital Group's EBITDA in 2015-2019.

Figure no. 73. Structure of TAURON Capital Group's EBITDA in 2015-2019



Key information for 2015-2019 by Segments

The below figures present the 2015 - 2019 financial data by Segments.

Figure no. 74. Mining Segment's 2015 - 2019 data

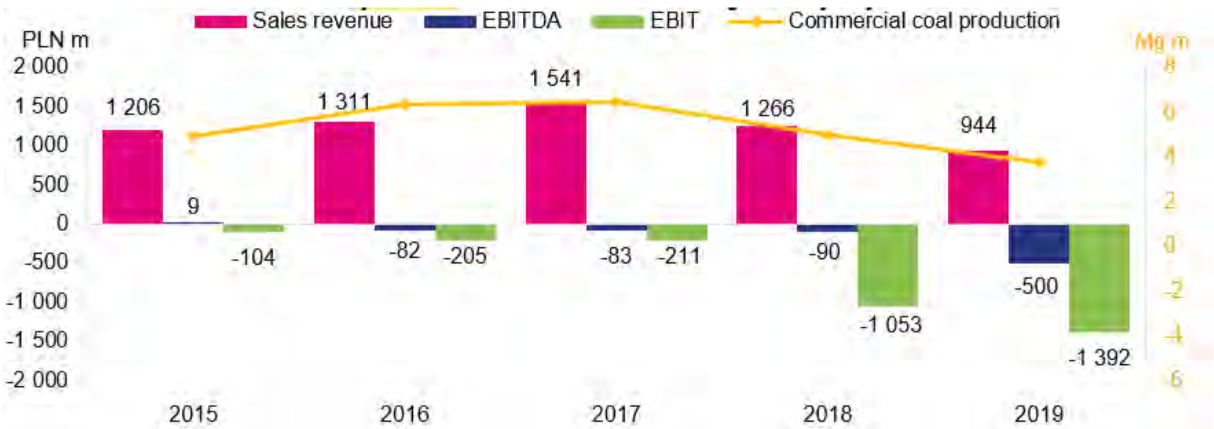


Figure no. 75. Generation Segment's 2015 - 2019 data

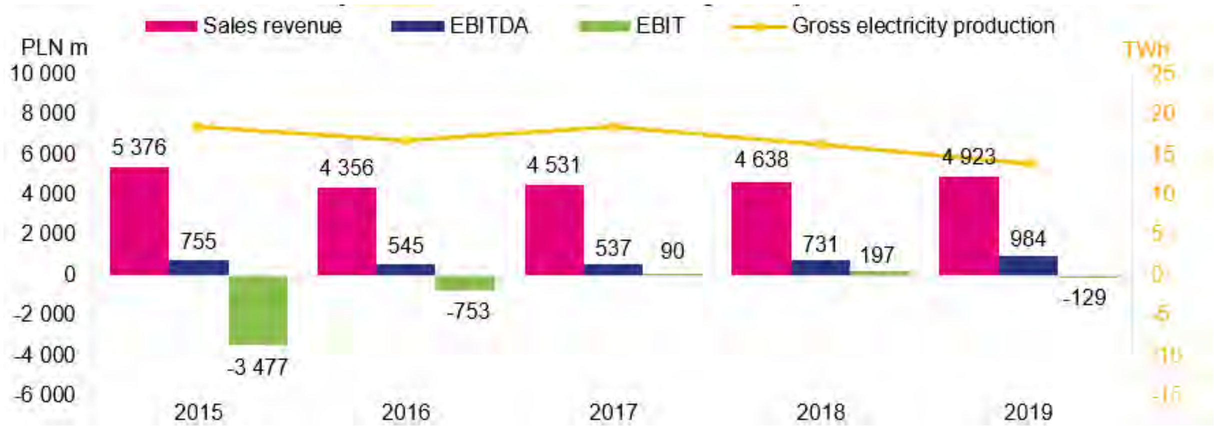


Figure no. 766. Distribution Segment's 2015 – 2019 data

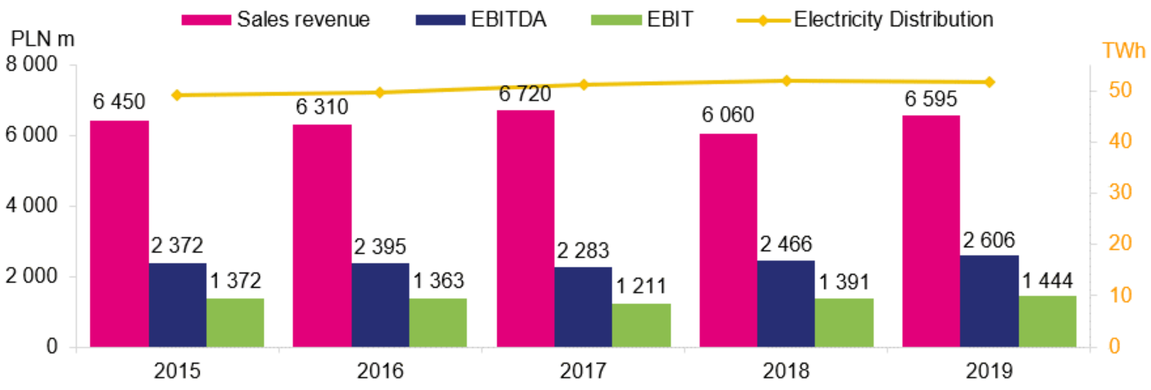


Figure no. 77. Supply Segment's 2015 - 2019 data

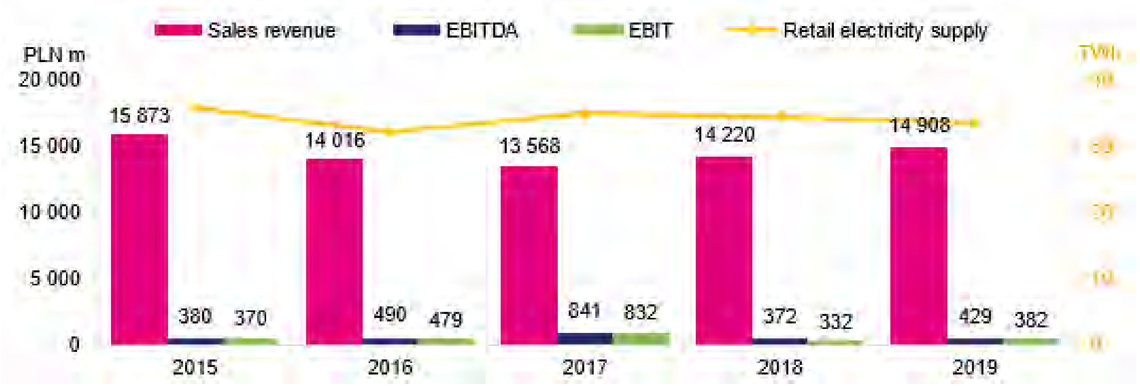
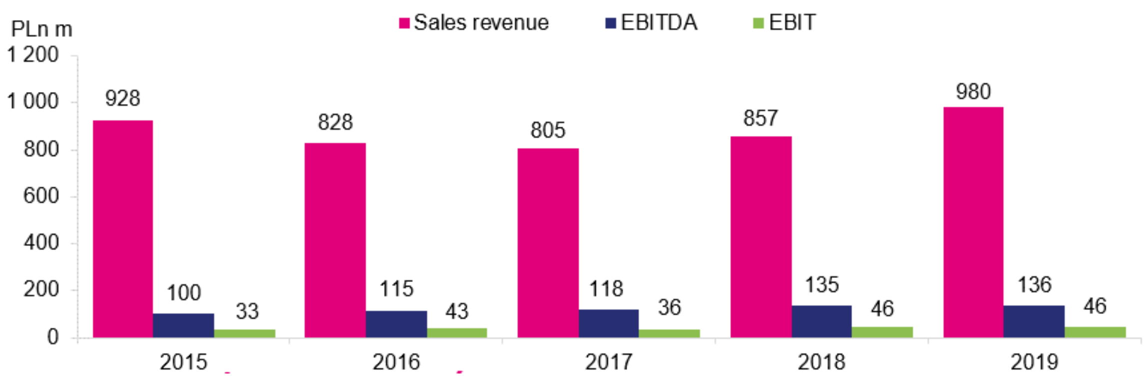


Figure no. 78. Other Operations Segment's 2015 - 2019 data



5.8. What can be expected in 2020

According to the analysts of the World Bank, 2020 will be a period of an economic slowdown in the global economy. The main risk factors for the global economy are the slowdown of the Chinese economy, weakening volume of the global trade, uncertainty on the financial markets, declining pro-risk sentiment and geopolitical tensions, which include tensions between China and the US, Brexit and the conflict between Iran and the US. A factor impacting the global GDP is also the slowdown of the economic growth in the euro zone countries, dropping from the 1.1% GDP growth rate in 2019 to 1% in 2020.

According to the forecasts of the NBP, in 2020-2021 the domestic GDP growth rate will be gradually declining. Poland's GDP growth rate came in at 4.1% in 2019, while the forecast assumes a decline of Poland's economic growth rate to 3.2% in 2020 and 3.1% in 2021.

The inflation rate is forecast to rise to 3.7% in 2020, from 2.3% recorded in 2019, and in the following year the inflation rate is expected to drop to around 2.7%.

The unemployment rate in Poland fell to approx. 3% in 2019, mainly due to an increase in the employment level and a decrease in the labor supply. The unemployment rate is forecast to rise to 3.1% in 2020, with an upward trend expected in the subsequent years.

The energy sector is expected to continue to maintain a low level of demand for the hard coal. Within 2-3 years the demand may fall even by up to approx. 9 million tons, due to the growing production of electricity from the renewable sources. The level of demand for the coal fuel is also affected by a decline in the demand for electricity and a drop of the electricity production in Poland and the growing electricity imports. The rising electricity generation costs – the high prices of the CO_2 emission allowances and the growing competitiveness of the renewable sources will contribute to the decline of the economic efficiency in the conventional generation segment.

An increase in the ecological awareness of the society and a change in the customer's approach to the way of consuming electricity can be observed in the Supply Line of Business, which leads to a decline of the demand for electricity and an increase in the number of prosumers operating on the market. Due to the market price developments a pressure on margins in the Supply Segment is expected.

The majority of investment projects in the power sector, related to the construction of the new generating capacity, were commissioned in 2019. The completing of the investment project in Jaworzno (910 MWe) as well as the commissioning of the CCGT unit in Stalowa Wola (450 MWe), the Żerań combined heat and power (CHP) plant (497 MWe) and the Turów power plant (496 MWe) are planned in 2020.

In the regulatory area, further works will be carried out on the key direction documents for the sector, including: further works on the document and the adoption of *Poland's Energy Policy until 2040*, as well as the regulations with respect to the off-shore wind based energy projects, the adoption of the direction aimed at achieving the EU climate neutrality in 2050. and the adoption, at the EU level, of a regulation establishing the Just Transition Fund. The sector will also be impacted by a change in the policies of the financial institutions with respect to financing the coal-based energy.

It is assumed that all of the above parameters may be adjusted due to the changes in the world economy resulting from the global coronavirus pandemic.

5.9. Current and forecast financial and assets situation (financial and assets outlook)

Taking into account the current market situation, it is expected that the results of TAURON Capital Group in the coming years will be affected by both internal factors as well as external factors.

The results of the **Mining Segment** in the coming years will, to a large degree, be dependent on the work progress in the implementation of the investment projects and the technical and organizational changes introduced. The company assumes the implementation of the restructuring initiatives that are aimed at increasing the productivity and efficiency of the production and optimizing the costs.

It is expected that the financial situation of the **Generation Segment** in the next few years will improve as compared to the current situation, mainly due to the commissioning of the 910 MWe unit in 2020 and due to the revenue from the capacity market. The additional revenue from the capacity market starting from 2021 will allow for compensating the expenditures incurred for the required refurbishments of the generating units in order to adapt them to the *BAT Conclusions*. In order to improve the results activities will be continued throughout the entire line of business to improve its cost efficiency. On the other hand, the demanding market situation and the continuing upward trend of the CO_2 emission allowances prices carry the risk of the degradation of the 1st degree margin on electricity and heat.

In the **Distribution Segment**, the level of remuneration (return) on the invested capital and the cost efficiency improvement measures undertaken will play a key role impacting the operating result. Updating of the regulatory model due to the beginning of the new regulatory period in 2021 will have a significant impact on the results in the coming years, namely the update of the parameters used to determine the weighted average cost of capital, the correction factor used to determine the justified operating expenses and the balancing difference factors used to determine the justified volume of the balancing difference. Undoubtedly, the financial situation of the enterprise will also be affected by the government actions related to supporting the development of the renewable sources and the local energy communities, reducing the emission of harmful substances to the atmosphere and developing the infrastructure for charging electric vehicles.

Supply Segment - the need to curtail the expansion activities, while focusing on the goal of minimizing the number of customers leaving as well as recovering of customers lost in the previous years, has to be kept in mind in the coming years, and also the threats related to the level of electricity tariffs approved by the ERO. In addition, it is estimated that the impact of the regulations, the so-called electricity act, was generally neutral on the 2019 financial results, however, when analyzing the financial situation, the significant increase of the electricity and PMOZE purchase prices on the market should be taken into account, and what follows, the growing pressure on placing the minimum burden, coming from these factors, on the final consumers.

Other operations: the main consumers of the shared services are the Distribution and Supply Segments, for which the projects with respect to customer service are implemented and finalized. While at the same ensuring the highest quality of service. In addition, the services for TAURON Capital Group's subsidiaries are provided, with respect to, among others, financial and accounting, services, human resources and payroll services, IT services, property security services, fleet management services and real estate management services. These activities enable achieving synergy effects across TAURON Capital Group and improve cost efficiency.

5.10. Principles of preparing annual consolidated financial statements

The consolidated financial statements have been drawn up in accordance with the IFRS approved by the EU.

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

TAURON Capital Group's subsidiaries and the parent entity keep their accounting books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy that is preparing the financial statements in accordance with the accounting principles applicable in the Czech Republic and the companies TEC1, TEC2, TEC 3 and the limited partnerships listed in section 1.3.1 of this report, that are keeping their books and preparing their financial statements in accordance with the accounting act.

The consolidated financial statements contain adjustments which are not included in the ledgers of TAURON Capital Group's entities, introduced in order to bring the consolidated statements into compliance with IFRS.

The consolidated financial statements have been drawn up with the assumption of the continuation of business operations by TAURON Capital Group's subsidiaries in the foreseeable future. As of the date of approval of the consolidated financial statements for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON Capital Group's subsidiaries.

The accounting principles (policy) adopted for drawing up of the consolidated financial statements are presented in note 6 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

6. INFORMATION ON THE AUDIT FIRM

On November 23, 2018, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyt Polska) to conduct an audit of the financial statements and consolidated financial statements of TAURON for the years 2019-2021. On January 11, 2019, TAURON concluded an agreement with Ernst & Young Audyt Polska the Amendment to the agreement with the subject of the agreement covering:

1. audit of the financial statements of the Company for the years 2019-2021, drawn up in accordance with the requirements of the IFRS,
2. audit of the financial statements of selected subsidiaries of TAURON Capital Group for the years 2019-2021, drawn up in accordance with the IFRS,
3. audit of the consolidated financial statements for the years 2019-2021, drawn up in accordance with the IFRS,
4. review of the interim, half year financial statements of the Company, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS,
5. review of the interim, half year consolidated financial statements, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS.

In addition, in accordance with the agreement, TAURON may exercise the option to commission other permitted services including: verification of the interim, half-year and annual consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021, required to prepare the consolidated financial statements and to carry out in 2020 and 2021 the agreed procedures regarding the verification of the subsidiary's report on the update of the Regulatory Asset Base (RAB) and the Regulatory Asset Base for the AMI System (AMI RAB) for the purpose of determining a justified return on capital employed by the President of the Energy Regulatory Office for 2021 and 2022.

In connection with the changes in the organization of TAURON Capital Group described in section 1.3.2. of this report, resulting in the need to include additional subsidiaries in the consolidated financial statements, on December 5, 2019, TAURON concluded, with Ernst & Young Audyt Polska, Amendment No. 1 to the agreement of January 11, 2019, under which the option to commission other permitted services in the form of the verification of the annual and interim, half-year consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021 was extended to include additional companies covered by the consolidated financial statements of TAURON Capital Group.

Prior to 2019 the services provided for the Company by Ernst & Young Audyt Polska included the audit of the standalone financial statements and consolidated financial statements of the Company for the years from 2008 until 2012 and the years from 2017 to 2018 as well as the reviews of the interim, half year standalone financial statements and the consolidated financial statements of the Company for the periods ended on June 30 in the individual years from 2010 until 2012 and from 2017 to 2018. The Company also used, prior to 2018, the advisory and training services provided by Ernst & Young Audyt Polska, to the extent in line with the legal regulations in force and not leading to the limitation of the level of impartiality and independence of the auditor.

The compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries is shown in the below table.

Table no. 45. Compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries

#	Services provided for TAURON Capital Group's subsidiaries	Year ended on December 31, 2019 (PLN '000)	Year ended on December 31, 2018 (PLN '000)
1.	Mandatory audit, including:	1318	1079
	consolidated financial statements	*147*	*124*
	standalone financial statements of the parent entity	*175*	*54*
	standalone financial statements of the subsidiaries	*996*	*901*
2.	Other certifying services provided to TAURON Capital Group, including reviews of financial statements	967	585
3.	Tax advisory services	0	0
4.	Other services (including training) provided for TAURON Capital Group	0	0
	Total	**2 285**	**1 664**

7. FINANCIAL RESOURCES AND INSTRUMENTS

7.1. Proceeds from security issues

Bond issue program underwritten by banks

As part of the bond issue Program concluded with the following banks: Bank Handlowy w Warszawie S.A., BGŻ BNP Paribas S.A., Santander Bank Polska S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A. (mBank), MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Oddział w Polsce and Powszechna Kasa Oszczędności Bank Polski S.A., of November 24, 2015, the Company:

- issued on March 25, 2019, bonds with the nominal value of PLN 100 000 000, with the maturity date falling on March 25, 2020,
- purchased on June 28, 2019, bonds in the total amount of PLN 1 839 400 000 in order to redeem them.

The proceeds from the issue were used for TAURON Capital Group's general corporate purposes.

Subordinated bond issue program

On March 29, 2019, the Company issued subordinated (hybrid) bonds with the nominal value of PLN 400 000 000 as part of the subordinated bond issue program concluded with Bank Gospodarstwa Krajowego (BGK) of September 6, 2017.

The financing period is 12 years from the issue date, however in accordance with the nature of hybrid financing the first financing period has been defined as 7 years (the so-called non-call period) during which TAURON shall not be able to redeem the hybrid bonds early and BGK shall not be able to sell the Bonds to third parties early (in both cases subject to the exceptions defined in the documentation). The Agreement also provides for an option to defer the hybrid bonds' interest payment dates until, at the latest, the hybrid bonds' maturity date. The subordinated nature of the bonds means that in case of a bankruptcy or winding up of TAURON the obligations related to the bonds shall be repaid only ahead of the liabilities of TAURON's shareholders. The hybrid bond issue has a positive impact on TAURON Capital Group's financial stability as the bonds are excluded from the calculation of the leverage ratio which is a covenant in some of TAURON's financing programs. Furthermore, 50 percent of the hybrid bonds amount will be classified by the Fitch rating agency as equity in the rating model which will have a favorable impact on TAURON's rating. The hybrid bonds were granted a BB+ rating by the Fitch rating agency.

The proceeds from the issue were used to fund TAURON Capital Group's operating expenses and capital expenditures.

The below table presents the summary of TAURON Capital Group's issued and non-redeemed bonds in 2019 underwritten by entities other than TAURON Capital Group's subsidiaries, listed according to their maturity.

Table no. 46. Summary of TAURON Capital Group's issued and non-redeemed bonds in 2019 underwritten by entities other than TAURON Capital Group's subsidiaries

#	Issuer	Investor	Type and level of interest rate	Issue date	Maturity date	Nominal (par) value ('000)
1.	TAURON	BNP Paribas	WIBOR 6M+fixed margin	25.03.2019	25.03.2020	3 100 PLN
				09.11.2018	09.11.2020	6 300 PLN
				29.02.2016	29.12.2020	51 000 PLN
2.	TAURON	Eurobonds	Fixed interest rate	05.07.2017	05.07.2027	500 000 EUR
3.	Finanse Grupa TAURON (formerly: TAURON Sweden Energy)	German market investors	Fixed interest rate	03.12.2014	03.12.2029	168 000 EUR
4.	TAURON	BGK	WIBOR 6M+fixed margin	2014-2016	2019-2029	1 430 000 PLN
5.	TAURON	EIB	Fixed interest rate	17.12.2018	17.12.2030	400 000 PLN
6.	TAURON	EIB	Fixed interest rate	19.12.2018	19.12.2030	350 000 PLN
7.	TAURON	BGK	WIBOR 6M+fixed margin	29.03.2019	29.03.2031	400 000 PLN
8.	TAURON	EIB	Fixed interest rate	16.12.2016	16.12.2034	190 000 EUR

On November 4, 2019, the Company made the timely redemption of the market listed TPEA1119 series bonds.

7.2. Financial instruments

7.2.1. Application of financial instruments in order to eliminate price changes, credit risk, material disruptions of cash flows and loss of financial liquidity

The financial risk at TAURON Capital Group is managed by TAURON. The centralizing of the financial risk management function is aimed at optimizing the process, including minimizing TAURON's and TAURON Capital Group's costs in the above mentioned respect. As part of the financial risk management in 2019 TAURON Capital Group continued to hedge the risk of volatility in cash flows resulting from its debt based on the WIBOR reference rate.

Moreover, in 2019 TAURON Capital Group hedged its FX exposure arising from the trading operations (mainly due to the purchase of the CO_2 emission allowances) by concluding the forward contracts. In 2019 TAURON Capital Group was also continuing the strategy of hedging its foreign currency exposure generated by interest payments on the financing obtained in EUR by concluding the forward contracts and the CIRS transactions. The goal of these transactions was to hedge against the risk of cash flow volatility resulting from the FX rate fluctuations.

The below table presents active futures derivative transactions as of December 31, 2019 (due to the adopted centralized financial risk management model, the data refers only to TAURON).

Table no. 47. Information on the futures transactions and derivatives as of December 31, 2019

#	Type of transaction concluded	Total denomination of the specific type of transaction ('000)	Currency			Maturity date of the specific type of transaction		Valuation of transaction of the specific type as of December 31, 2019 ('000)
			PLN	EUR	Other	up to 1 year	above one year	
1.	IRS	2 100 000	x			x		69
		1 490 000	x				x	19 393
2.	CIRS	2 095 100	x				x	-12 885
3.	Forward	272 511		x		x		-22 436
		92 330		x			x	-7 408

With respect to hedging the credit risk TAURON Capital Group did not use financial instruments.

As part of *TAURON Group's Portfolio Policy* put in place, the contracting of the electricity sales is followed by the contracting of the CO_2 emission allowances. Such a way of hedging the positions allows for minimizing the risk of the CO_2 costs not being covered by the contracted electricity price. The basis for setting the CO_2 sales price for the emission allowances volume defined this way is the CO_2 price on the exchange from the period in which the CO_2 volume is contracted.

On the other hand, as part of the liquidity loss risk management debt the instruments referred to in section 7.3 are used.

7.2.2. Objectives and methods of financial risk management

The objectives and methods of financial risk management at TAURON and TAURON Capital Group are presented in section 3.3.2 of this report.

7.3. Assessment of financial resources management

TAURON has put a centralized financial management function in place and thus effective management of finances of entire TAURON Capital Group is possible. The main tools enabling effective management include: the implemented central financing model and the appropriate internal corporate regulations as well as the cash pool intra-Group loans service implemented by TAURON Capital Group and the intra-Group bond issue program put in place in 2019. Additionally, the financial management system is supported by the central policy of managing the financial risk at TAURON Capital Group and the central Insurance policy of TAURON Capital Group. In these areas the Company plays the role of the management body and decision maker with respect to the directions of the measures undertaken, enabling determining the relevant limits of the risk exposure.

In accordance with the adopted financing policy the Company is responsible for acquiring the financing for TAURON Capital Group's subsidiaries. Funds acquired both internally (from TAURON Capital Group's subsidiaries generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to TAURON Capital Group's subsidiaries, reporting the requirement for the financing.

The conducted policy of acquiring the funding sources enables, first of all, to increase the possibility of obtaining the financing, decrease the cost of the external capital, reduce the establishing of the number and form of collaterals on the assets of TAURON Capital Group and covenants required by the financial institutions, as well as leads to the reduction of the administrative costs. The central model of financing also enables acquiring the financing sources that are not available for the individual subsidiaries.

Another key element influencing the efficiency of financial management is the policy of financial liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position of TAURON Capital Group allowing for optimizing the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of the liquidity reserve. The above factors lead to both, cost reduction as well as liquidity safety improvement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overarching goal is to provide for the ongoing financial liquidity at TAURON Capital Group, while at the same time limiting the costs of the short term external financing and maximizing the financial revenue due to investing the cash surpluses. Owing to the cash pooling structure TAURON Capital Group's subsidiaries facing short term funding deficits, may use the funds of the subsidiaries generating the financial surpluses, without the need to acquire the external financing.

Both, the financing policy, as well as TAURON Capital Group's liquidity management policy conducted by TAURON are aimed, apart from increasing the efficiency of managing TAURON Capital Group's finances, first of all, at eliminating threats of limiting or losing TAURON Capital Group's financial liquidity. The guaranteed sources of the financing, obtained with an appropriate lead time, effectively eliminate the risk of TAURON Capital Group losing its liquidity. The description of the liquidity risk is presented in detail in section 3.3.2 of this report.

Moreover, TAURON implemented a unified program of bank guarantees. Under the agreements concluded by the Company with the banks, it is possible to issue guarantees to provide collaterals for the liabilities of TAURON Capital Group's subsidiaries within the centralized limit. The above mentioned measure reduced the costs of the guarantees acquired within TAURON Capital Group and limited the total number of actions required to obtain a guarantee.

In 2019 TAURON and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.

In addition, the Company uses the available overdraft facility, foreign currency loans and the available financing under a syndicated loan agreement, which is used for the general corporate purposes, including to secure the current liquidity situation of TAURON Capital Group.

As of the balance sheet date, the Company also had financing available under the loan agreement concluded on December 19, 2019 with Intesa Sanpaolo S.P.A.

Furthermore, after the balance sheet date the Company concluded additional financing agreements:

1. on February 6, 2020, a program agreement with Santander Bank Polska S.A.,
2. on March 16, 2020, a loan agreement with SMBC BANK EU AG,
3. on March 25, 2020, a syndicated loan agreement with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Spółka Akcyjna) (Joint Stock Company) Oddział w Polsce (Polish Branch).

The detailed information regarding the conclusion of the above agreements is presented in section 2.6. of this report.

The Company is conducting the policy of diversifying its financing instruments, but first and foremost it is seeking to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet their current and future obligations both in the short as well as in the long term. The liquidity risk management is associated with the planning and monitoring of cash flows in the short and long term and involves taking actions aimed to secure the financial resources required to conduct the business operations of TAURON Capital Group's subsidiaries.

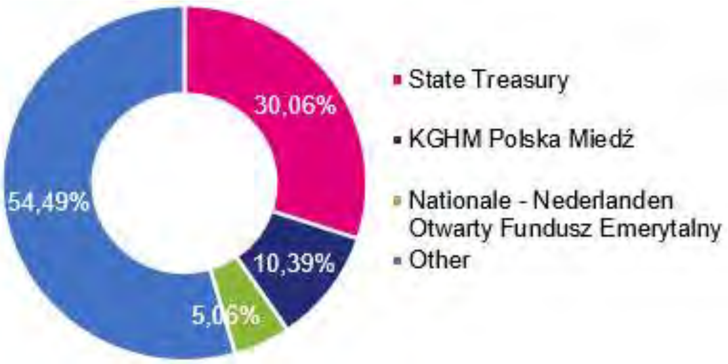
8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

8.1. Shareholding structure

As of December 31, 2019 and as of the date of drawing up this report the Company's share capital stood at, in accordance with an entry in the National Court Register, PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered BB series shares.

The below figure presents the shareholding structure as of December 31, 2019 and as of the date of drawing up this report.

Figure no. 79. Shareholding structure as of December 31, 2019 and as of the date of drawing up this report.



8.2. Dividend policy

As part of its Strategy adopted on September 2, 2016 the Company adopted its dividend policy. In the long term TAURON is planning to pay out a dividend of minimum 40 percent of the consolidated net profit. The Company's intention is to provide a dividend yield that would be competitive versus the yield offered by long term debt instruments issued on the Polish market by investment grade rated companies. The final recommendation on the dividend will be impacted by the additional factors, including in particular:

1. TAURON Capital Group's liquidity position,
2. market situation,
3. implementation of the investment policy,
4. cost and ability to obtain financing,
5. legal requirements and provisions of the financing agreements, in particular related to not breaching the defined level of the leverage ratio,
6. ensuring investment grade rating.

The dividend was last time paid out by the Company in 2015, in the amount of PLN 262 882 409.10 for the financial year 2014. As of 2015, the Company has not paid out any dividend.

8.3. Number and nominal value of the Company's shares, as well as of the shares in units related to the Company, held by members of the Management Board and the Supervisory Board

As of December 31, 2019, and as of the date of drawing up this report, members of the Management Board and members of the Supervisory Board did not have any TAURON shares, nor they held any shares in units related to the Company.

8.4. Agreements related to potential changes to the shareholding structure

The Company has no information on the existence of agreements (including also the agreements concluded past the balance sheet date), as a result of which changes in the proportions of shares held by the existing shareholders and bondholders may occur in the future.

8.5. Share buybacks

In 2019 and as of the date of drawing up this report, TAURON and its subsidiaries did not hold its own shares.

8.6. Employee stock award programs

In 2019 no employee stock award programs were implemented by the Company.

8.7. Shares performance on the Warsaw Stock Exchange (WSE)

TAURON shares have been listed on the Main Market of the Warsaw Stock Exchange since June 30, 2010.

TAURON share price fluctuated between PLN 1.43 and PLN 2.44 (at the closing prices) in 2019. During the last session of 2018 the share price stood at PLN 2.19, while as of the end of 2019 the price reached PLN 1.64.

Despite Poland's persistent solid economic growth, which in this respect continues to be one of the leaders in Europe, the performance of the shares listed on Warsaw Stock Exchange does not reflect this trend. The capitalization of the companies operating in a number of sectors, among others, the energy, banking, chemical, food, clothing and fuel sectors, dropped in 2019.

The Polish stock market, despite the boom prevailing on most of the global capital markets, recorded lower trading volumes and a decreasing number of listed companies. The negative trend observed on the domestic trading floor in 2019 was a consequence of the external factors, such as the trade restrictions between the United States and China and uncertainty about the effects of Brexit, as well as the local factors that had significantly undermined confidence in the capital market.

TAURON stock price followed the negative trends prevailing on the WSE. In the entire 2019 TAURON stock price declined 25.1%, while other domestic energy groups (PGE, ENEA and ENERGA) recorded a more than 20% drop in their capitalization, and WIG-Energia fell by 18.6%.

Investors' attitude to the energy industry remained under strong pressure from the external environment and the growing uncertainty associated with the electricity prices for the final consumers as well as the legal and regulatory changes in this sector. In addition, the valuation of the energy companies was significantly influenced by the tightening global climate policy, which will result in the need for a rapid modification and transition of the energy mix in Poland towards renewable energy. Such a change will entail large capital expenditures that will have to be incurred by the entire energy sector, while limiting its dividend potential.

TAURON Capital Group's response to the expectations of the stakeholders involved taking actions that will result in a change in the structure of the electricity production, the so-called *Green Turn of TAURON*. The modified approach of TAURON Capital Group with respect to the energy mix was defined in the Update of the Strategic Directions. TAURON Capital Group strives to develop low- and zero-emission electricity generation, primarily through investments in renewable energy. Thanks to the implementation of the planned actions, it will be possible to increase the share of low- and zero-emission sources in the generation structure of TAURON Capital Group to nearly 30% in 2025, and more than 65% in 2030. As part of implementing its strategic directions, in September 2019, TAURON Capital Group acquired wind farms with the installed capacity of 180 MW.

As of December 31, 2019, TAURON shares were included in the following stock exchange indices:

1. **WIG - index** that includes all companies listed on WSE's Main Market that meet basic criteria for inclusion in the indices. TAURON's share in WIG: 0.58 percent
2. **WIG-Poland** - national index that groups solely shares of domestic companies listed on WSE's Main Market that meet basic criteria for inclusion in the indices. TAURON's share in WIG-Poland index: 1.21 percent
3. **WIG20** - index calculated on the basis of the value of the portfolio of the shares of 20 largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG20 index: 0.82 percent
4. **WIG30** - index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG30 index: 0.76 percent.
5. **WIG-Energia** - sector based index that comprises companies included in the WIG index and are also qualified to the energy sector. TAURON's share in WIG-Energia: 13.41 percent
6. **RESPECT Index** (calculated until December, 31, 2019) - index that used to group in its portfolio companies that operate in accordance with the highest corporate social responsibility standards. TAURON's share in the RESPECT Index: 1.59 percent

Since January 1, 2020, TAURON shares are included in the WIG-ESG index that includes the shares of companies recognized as socially responsible, i.e. those that comply with the principles of corporate social responsibility, in particular with respect to the environmental, social, economic and corporate governance issues. TAURON's share in WIG-ESG is 4.95%

The below table presents the key data on the Company's shares in 2011-2019.

Table no. 48. Key data on TAURON shares in 2011-2019

#		2011	2012	2013	2014	2015	2016	2017	2018	2019
1.	Share price high (PLN)	6.81	5.61	5.39	5.69	5.29	3.19	4.12	3.28	2.44
2.	Share price low (PLN)	4.65	4.08	3.85	4.04	2.37	2.31	2.75	1.67	1.43
3.	Last share price (PLN)	5.35	4.75	4.37	5.05	2.88	2.85	3.05	2.19	1.64
4.	Capitalization at the end of the period (PLN m)	9 376	8 325	7 659	8 850	5 047	4 995	5 345	3 838	2 874
5.	Capitalization at the end of the period (%)	2.1	1.59	1.29	1.5	0.98	0.9	0.8	0.66	0.52
6.	Book value (PLN m)	15 922	16 839	17 675	18 107	18 837	16 349	17 880	18 967	19 168
7.	P/E	8.1	5.5	5.5	7.8	4.2	-	3.02	3.7	13.9
8.	P/BV	0.59	0.49	0.43	0.49	0.27	0.31	0.31	0.2	0.15
9.	Rate of return ytd[1] (%)	-16.73	-5.03	-3.64	20.07	-40.78	-1.04	7.02	-28.2	-25.11
10.	Dividend yield (%)	2.8	6.5	4.6	3.8	5.2	-	-	-	-
11.	Trading volume (PLN m)	5 575	3 199	3 104	3 135	3 063	3 199	2 737	3 104	2 001
12.	Trading volume share (%)	2.21	1.7	1.41	1.53	1.5	1.69	1.16	1.52	1.04
13.	Average volume per session	3 721 539	2 667 725	2 793 020	2 489 329	3 190 195	4 662 087	3 261 765	5 622 737	4 508 965
14.	Average number of transactions per session (pcs)	1 373	960	1 022	1 106	1 431	1 465	1 323	1 769	1 699

Source: Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

[1]Rate of return calculated taking into account the investor's income from the dividend and assuming that the additional income realized is re-invested. Methodology in accordance with WSE Statistical Bulletin

The below graphs present historical TAURON share price performance and trading volumes, including against WIG20 and WIG-Energia indices.

Figure no. 80. TAURON share price (in PLN) and trading volumes in 2019

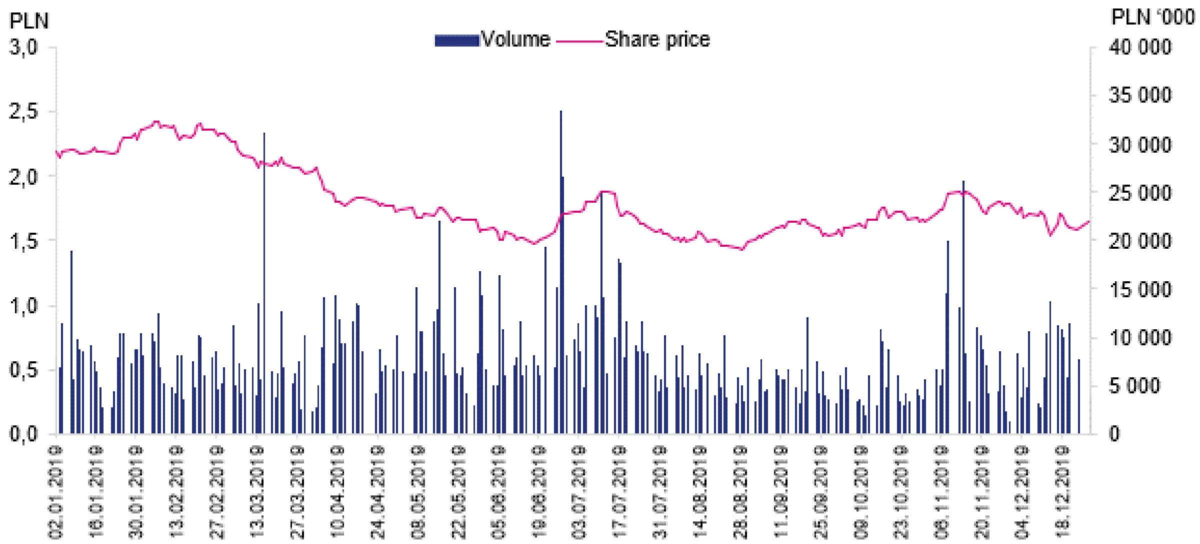
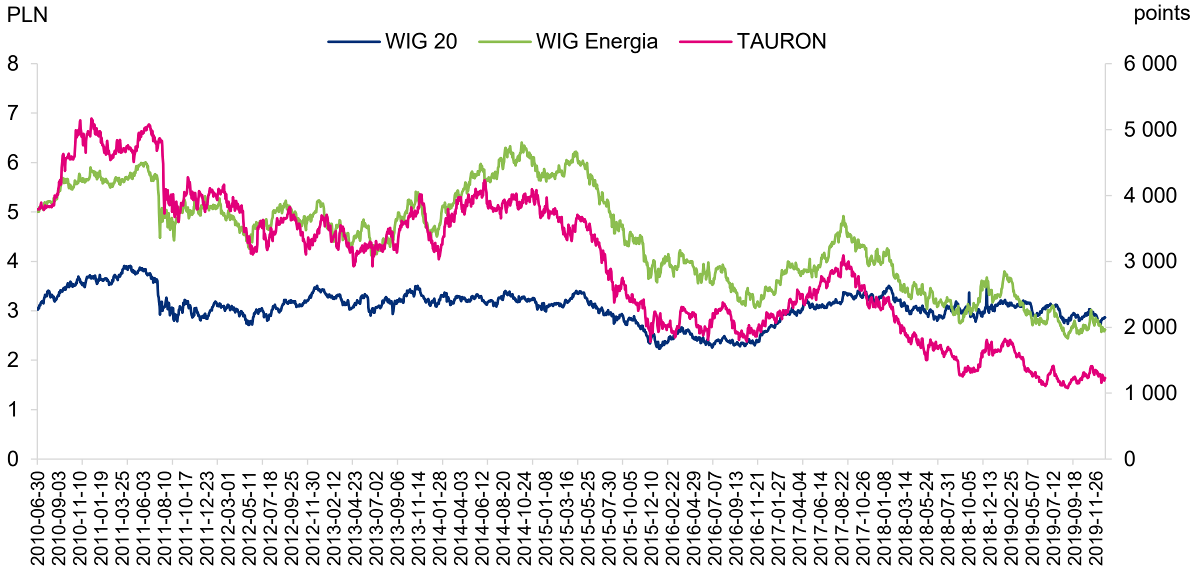


Figure no. 81. TAURON share price and trading volumes since the market debut until December 31, 2019

Figure no. 82. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2019



Recommendations for the shares of TAURON Polska Energia S.A.

Analysts from brokerage houses and investment banks issued, in total, 13 recommendations for TAURON shares in 2019, including:

7 "buy" recommendations

4 "hold" recommendations

2 "sell" / "reduce" recommendations

The below table presents a list of recommendations issued in 2019.

Table no. 49. Recommendations issued in 2019

#	Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
1.	20.01.2019	Citi	Hold / PLN 2.50
2.	04.02.2019	mBank Biuro Maklerskie	Buy / PLN 3.12
3.	08.02.2019	Beskidzki Dom Maklerski	Reduce / PLN 2.18
4.	02.04.2019	mBank Biuro Maklerskie	Buy / PLN 2.89
5.	10.04.2019	Societe Generale	Hold / PLN 2.10

#	Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
6.	18.04.2019	PKO BP Biuro Maklerskie	Hold / PLN 2.00
7.	13.05.2019	Biuro Maklerskie Santander	Hold / PLN 1.80
8.	25.06.2019	mBank Biuro Maklerskie	Buy / PLN 2.52
9.	06.09.2019	Societe Generale	Buy / PLN 2.30
10.	09.09.2019	Biuro Maklerskie Santander	Buy / PLN 2.10
11.	10.09.2019	Wood&Co	Buy / PLN 2.06
12.	06.11.2019	mBank Biuro Maklerskie	Buy / PLN 2.45
13.	04.12.2019	TRIGON Dom Maklerski	Sell / PLN 1.40

8.8. Investor relations

Transparent, accurate and regular communications is the foundation of TAURON's investor relations (IR) program. It is provided not only in the form of mandatory activities required by law, i.e. by disclosing information in the current and periodic regulatory filings, but it is also supplemented via many additional activities and tools addressed directly to all the stakeholders. As a consequence The Company places a lot of weight on building good relations with all stakeholder groups, which, as a consequence, high quality communications leads to a higher level of trust among the investors, financing institutions and business partners. Building relationships with the investors is based on both implementing the best practices used around the world as well as setting the highest standards on the Polish capital market.

In 2019, analysts, journalists and shareholders had access to a wide spectrum of information about TAURON Capital Group using various communication tools.

As part of its investor relations program the Company organized quarterly earnings conferences as well as participated in investor conferences and roadshows in Poland and abroad. During meetings with the investors the members of TAURON's Management Board and the key managers were presenting TAURON Capital Group's strategy, discussing the key capex projects, the financial situation as well as the current standing and outlook for the energy sector.

In connection with the publication of the periodic reports, the Company organized earnings conferences for investors and analysts, each time attended by several dozen representatives of the capital market and media. You could also participate in these events on-line in Polish and English or listen to them by phone. It was also possible to follow them at a later date. Thanks to this, all interested parties were guaranteed equal access to the information.

Besides meetings accompanying the publication of the periodical reports, in 2019 members of the Management Board and representatives of the Investor Relations Team took part in more than a dozen conferences and roadshows, during which several dozen meetings with managers and capital market analysts were held. The representatives of TAURON met with institutional investors not only in Poland, but also in Austria and the Czech Republic.

An initiative that was positively received by the investor community was to organize, in cooperation with the PKO BP Brokerage House, the Institutional Investor Day. As part of the event, several dozen fund managers visited the construction site of the largest investment project of TAURON Capital Group, i.e. a 910 MW generating unit in Jaworzno. In addition, the representatives of the management staff of TAURON Capital Group presented to the participants of the Institutional Investor Day selected issues related to the Generation and Distribution Segments.

In 2019, similar as in the previous years, TAURON also participated in the events addressed to the individual investors. The Company was, inter alia, a partner of the "WallStreet" conference in Karpacz organized by the Individual Investors Association. As part of the regular communications with this sizeable group of investors, 4 chats with the representatives of the Management Board took place in 2019, with approximately one hundred individual investors taking part each time.

In connection with the growing role of the online channels and the social media, much emphasis was placed on their development with respect to the communications with the investors. Broadcasts of events important for the investors were provided via the YouTube service: earnings conferences, GMs, investor days and comments of the President of the Management Board on the financial results. On the other hand, announcements of significant events were published by the Company on Facebook. TAURON also has a corporate profile on Twitter where entries related to, among others, investor relations appear. Being aware of the fact that the website is a significant source of information for the investors, in particular, the Investor Relations tab; the Company takes cares of its content and validity of the content provided therein. The *Investor Relations* section contains a lot of useful information on the current events, financial results or TAURON Capital Group's strategy. It also provides presentations and video broadcasts of conferences summarizing the financial results.

Activities with respect to investor relations are appreciated by the capital market participants and investors. In 2019, the Company received further awards for the high quality of its investor relations.

The below table presents a timeline of the investor relations highlights and activities that took place in 2019.

Table no. 50. Timeline of the investor relations highlights and activities that took place in 2019

#	Date	Highlight (event)
1.	03.04.2019	Full year 2018 stand-alone and consolidated earnings reports published
2.	04.04.2019	TAURON Management Board's meeting with analysts and fund managers to present FY 2018 earnings, Warsaw
3.	04.04.2019	Chat for individual investors as part of cooperation with the Individual Investors Association
4.	11.04.2019	Meetings with the fund managers, IPOPEMA, Warsaw
5.	08.05.2019	Company's Ordinary General Meeting, Katowice
6.	27.05.2019	Q1 2019 consolidated earnings report published
7.	28.05.2019	TAURON Management Board's meeting with analysts and fund managers to present Q1 2019 earnings, Warsaw
8.	29.05.2019	Chat for individual investors as part of cooperation with the Individual Investors Association
9.	12.06.2019	Meeting of the Management Board with Raiffeisen Capital Management fund managers and Erste Securities analysts, Warsaw
10.	09-10.09.2019	Participation in the 16th Annual Emerging Europe Investment Conference, Pekao Investment Banking, Warsaw
11.	25-26.09.2019	Participation in the Energy, Mining and Fuels conference organized by Dom Maklerski PKO BP, Kraków Investor Day at TAURON Polska Energia S.A., Jaworzno
12.	30.09.2019	H1 2019 consolidated earnings report published
13.	01.10.2019	TAURON Management Board's meeting with analysts and fund managers to present H1 2019 earnings, Warsaw
14.	01.10.2019	Chat for individual investors as part of cooperation with the Individual Investors Association
15.	08-10.10.2019	Participation in the Erste Group Investor Conference, Vienna, Austria
16.	13.11.2019	Q3 2019 consolidated earnings report published
17.	15.11.2019	TAURON Management Board's meeting with analysts and fund managers to present Q3 2019 earnings, Warsaw
18.	15.11.2019	Chat for individual investors as part of cooperation with the Individual Investors Association
19.	21.11.2019	Company's Extraordinary General Meeting, Katowice
20.	15-16.11.2019	Participation in Santander's Annual Utility / Oil & Gas / Metals & Mining Sector Conference, Warsaw
21.	04-06.12.2019	Participation in WOOD's Winter Wonderland - Emerging Europe Conference, Prague, Czech Republic

9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 70, clause 6, sub-clause 5) *of the Regulation of the Minister of Finance of March 29, 2018 on current and periodical information disclosed by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a non-member state* (i.e. Journal of Laws of 2018, item 757), the Company's Management Board presents the statement on the application of corporate governance in 2019.

9.1. Indication of applied set of corporate governance rules

In 2019 the Company was subject to the corporate governance rules, described in the document *Best Practice of WSE (GPW) Listed Companies 2016* (Best Practice 2016), adopted by the Supervisory Board of the WSE (GPW) in resolution no. 26/1413/2015 of October 13, 2015, which came into force on January 1, 2016.

The text of the Best Practice 2016 the Company is subject to is published on the GPW website at the address: https://www.gpw.pl/dobre-praktyki.

9.2. Indication of abandoned rules of corporate governance

In 2019 the Company did not apply the following detailed rules provided in the Best Practice 2016:

1. IV.Z.2. concerning ensuring of publicly available real-time broadcasts of general meetings, due to the lack of the relevant provisions of the Articles of Association enabling the aforementioned broadcast. In order to enable the application of the rule, the Company's Management Board requested the Ordinary GM of the Company to adopt the relevant amendment to the Company's Articles of Association ensuring publicly available real-time broadcast of general meetings. However, the Ordinary GM of the Company convened on 8 June 2016 did not adopt the amendment to the Company Articles of Association proposed by the Company Management Board in this respect,
2. VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of compensation of members of the Company's management board and key managers to the actual long-term financial standing of the Company and long-term shareholder value creation as well as the Company's stability. This rule was not applied due to the compensation and bonus system applicable in TAURON in relation to members of the Management Board of the Company and its key managers stipulates that the level of compensation will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,
3. VI.Z.2. concerning tying the compensation of members of the management board and key managers to the Company's long-term business and financial goals. The period between the allocation of options or other instruments linked to the Company's shares under the incentive scheme and their exercisability should be no less than two years. 2 years This rule was not applied due to the compensation and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers does not provide that compensation should be tied to instruments linked with the Company shares.

In 2019 the following rules provided in the Best Practice 2016 did not apply to the Company:

1. I.Z.1.10. concerning posting the financial projections on the Company website - if the company has decided to publish them - published at least in the last 5 years, including information about the degree of their achievement. This principle did not apply to the Company due to the fact that the Company did not publish the financial forecasts,
2. III.Z.6. stating that where the Company has no separate internal audit function in its organization, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated - due to the fact that the Company has a separate Internal Audit Department in its organizational structure.

Furthermore, the Management Board of the Company, adopting the detailed rules of Best Practice 2016 designated as: I.Z.1.3, I.Z.1.15, I.Z.1.16, II.Z.1, II.Z.6, II.Z.10.1, II.Z.10.2, II.Z.10.3, II.Z.10.4, V.Z.5, V.Z.6, VI.Z.4., indicated the manner of applying them. The detailed description of the manner of applying the above rules is provided in the *Information on the status of applying by the Company of the recommendations and rules provided in Best Practice 2016*, provided on the Company's website at address: https://www.tauron.pl.

Information concerning abandonment of the recommendations provided in Best Practice 2016 for application

In 2019 the Company did not apply only the recommendation provided in Best Practice 2016, designated as IV.R.2 concerning ensuring a possibility to shareholders to participate in the GM using electronic communication means, due to the lack of such shareholders' expectation. This decision is expressed by the failure of the Company GM on 8 June 2016 to adopt the relevant amendments to the Company Articles of Association ensuring publicly available real-time broadcast of general meetings.

The other recommendations provided in the Best Practice 2016 were applied by the Company in 2019.

9.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial

The internal audit and risk management system with respect to the process of drawing up the financial statements and consolidated financial statements is implemented on 3 levels:

Pursuant to the adopted internal regulations TAURON Capital Group's subsidiaries operate based on the organizational regulations and have defined organizational structures where the applicable business units are assigned the responsibility for preparing the financial statements and the consolidated financial statements. Such units are obligated to perform ongoing control of the tasks vested and the functional control of their activities. Based on TAURON Capital Group's Business Model put in place the Process Documentation of Megaprocess 3.4 Accounting was implemented, containing, among others, processes associated with the financial reporting of the Company and TAURON Capital Group. The process documentation defines the responsibilities of the business units within the reporting processes.

TAURON Capital Group has put the Risk Area in place, whose role is to oversee and establish TAURON Capital Group's risk management system. These functions are implemented within the Company by the Corporate, Market and Credit Risk Management Teams. The purpose of the risk management is to improve the predictability of attaining strategic objectives by TAURON Capital Group, including stable creation of the financial result through early identification of threats allowing preventive activities to be undertaken. Risk management standards applicable at TAURON Capital Group have been defined in TAURON Group's Corporate Risk Management Strategy and in the policies for managing the specific risks. The ERM system encompasses all of TAURON Capital Group's lines of business and the business processes carried out within TAURON Capital Group, including the process of preparing the financial statements. The risks associated with this process are managed, monitored and reported within the ERM System. The goal of the standardization is to ensure consistency in managing the individual risk categories, defining the general principles, standards and tools of the system's architecture. The oversight of the ERM system at TAURON Capital Group is performed by the Risk Committee. The risk management system is described in more detail in section 3.2. of this report.

The Audit and Control Area is functioning within TAURON Capital Group, with the goal to plan and implement the audit tasks, including the advisory and opinion (feedback) providing activities as well as the performance of the control tasks, including the ad-hoc inspections commissioned. The audit and advisory activities are carried out by two teams: the Strategic Audit Team dealing with the strategic tasks covering TAURON Capital Group and the Operational Audit Team carrying out specialized operational tasks at the level of the individual subsidiaries and lines of business areas of TAURON Capital Group. The control activities are organized in a similar manner, carried out at the group level by the Internal Control Team and at the level of the subsidiaries by the inspectors employed at these subsidiaries. In addition, within the Audit and Control Area, a specialized unit is in place, specializing in controlling the IT, OT and security systems area. Such organization of the area is aimed at enabling the scope of audits and controls to cover the entire operations of the organization both from the point of view of the needs of TAURON Capital Group and those of the individual subsidiaries. In addition, since 2018, the Audit and Control Area has been conducting works aimed at building and developing a model for a periodic assessment of the Internal Control System functioning at the Company and at entire TAURON Capital Group. The results of the assessment of the Internal Control System are presented to the Management Board and the Audit Committee of the Company's Supervisory Board.

Most important aspects related to internal audit and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Supervision over application of consistent accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statements
In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS) approved by the European Union the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's stand-alone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements. Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Team and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.
Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements
The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for economic and financial affairs (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements. Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A., whose membership, competence and description of activities are provided in clauses 9.11.3 and 9.11.6 of this report.
IT systems as well as financial and accounting processes
TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are drawn up using an IT tool used to consolidate financial statements, providing system control with respect to the coherence (integrity) and timeliness of preparing the consolidation data. TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. Granted rights are also subject to periodic verification. Due to the integration of the accounting functions and the transfer of TAURON Capital Group's material subsidiaries' financial and accounting services to CUW-R (Shared Cervices Center – Accounting) TAURON Capital Group's financial and accounting processes were gradually unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments. TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.
Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor
Full year financial statements of the Company and full year consolidated financial statements of TAURON Capital Group are subject to an audit by an independent certified auditor. In 2018 the Company appointed an entity authorized to audit and review the financial statements of the material subsidiaries of TAURON Capital Group and the consolidated financial statements. The agreement with the entity authorized to audit financial statements was concluded to conduct an audit of the financial statements and consolidated financial statements for the years 2019-2021 and to conduct a review of the interim, half year financial statements and the interim, half year consolidated financial statements for the half year periods ended on June 30, 2019, June 30, 2020 and June 30, 2021,
Rule related to changing the Company's and TAURON Capital Group's audit firm
The following rule was established in the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,* adopted by the Audit Committee of the Company's Supervisory Board on October 16, 2017: 1. maximum period of continuous orders for audits to be conducted by the same audit company or an entity related to that audit company or any member of the network operating in the European Union countries that such audit companies are members of, shall not exceed 5 years, 2. after a 5-year duration of the order neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years, 3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years, 4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

9.4. Shareholders holding substantial blocks of shares

The below table presents shareholders holding, as of December 31, 2010 and as of the date of drawing up this report, directly or indirectly substantial blocks of the Company's shares

Table no. 51. Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2010 and as of the date of drawing up this report

#	Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total number of votes
1.	State Treasury	526 848 384	30.06%	526 848 384	30.06%
2.	KGHM Polska Miedź	182 110 566	10.39%	182 110 566	10.39%
3.	Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88 742 929	5.06%	88 742 929	5.06%

Since the date of publishing the previous periodical report, i.e. since November 13, 2010, until the date of drawing up this report the Company did not receive any notifications from its shareholders of any changes in the ownership structure of the substantial blocks of TAURON shares.

9.5. Holders of securities providing special control rights

The Company did not issue securities that would grant special control rights with respect to the Company.

9.6. Restrictions on exercising the voting right

Restrictions on exercising the right to vote are included in § 10 of the Company's Articles of Association which are available on the Company's website: https://www.tauron.pl.

The above restrictions on exercising the voting right are formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the company shall be limited so that none of them can exercise more than 10% of the total votes in the company at the General Meeting of Shareholders.
2. The restriction on exercising the voting right mentioned in clause 1 above shall not apply to the State Treasury and entities controlled thereby in the period during which the State Treasury, together with entities controlled thereby, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company
3. Votes of shareholders who have a parent / subsidiary relationship within the meaning of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
4. A shareholder, in the understanding of § 10 of the Articles of Associations, shall be any party (entity), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity) that does not hold the company's shares, and in particular to a user, lien holder, party (entity) entitled on the basis of a depositary receipt under regulations of the *Act of July 29, 2005 on financial instruments trading*, as well as a party (entity) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
5. A parent company and subsidiary company, for the purposes of § 10 of the Company's Articles of Association, shall be understood, accordingly, as a party (entity
   1) with a status of a controlling undertaking, controlled undertaking or, at the same time, both the status of a controlling undertaking and controlled undertaking in the understanding of the *Act of February 16, 2007 on the protection of competition and consumers*, or
   2) with a status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company, co-controlled company or one that has both the status of a parent company (including a higher level parent company) and the status of a subsidiary (including a lower level subsidiary company and a co-controlled company) in the understanding of the *Act of September 29, 1994 on accounting*, or
   3) which has (parent company) or one which is under controlling influence (subsidiary company) in the understanding of the *Act of September 22, 2006 on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or
   4) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity) or other parties (entities) on conditions defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring substantial blocks of the Company's shares.
6. Aggregation of votes is based on totaling the number of votes held by individual shareholders that are members of the Shareholders' Cluster

7. Reduction of votes involves decreasing the total number of votes in the company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the company. Reduction of votes shall take place in accordance with the following rules
    1) number of votes of a shareholder who holds the largest number of votes in the company among all shareholders that are members of the Shareholders' Cluster shall be reduced by a number of votes equal to a surplus above 10% of total votes in the company held by all shareholders that are members of the Shareholders' Cluster,
    2) if, despite the above mentioned reduction, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,
    3) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
    4) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.
8. Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
10. A party (entity) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity) shall be null and void.

9.7. Restrictions on transfer of the ownership right to securities

As of December 31, 2019, and as of the date of drawing up this report the Company's Articles of Association do not envisage restrictions on the transfer of the ownership right to the Company's securities.

However, in accordance with the *act of July 24, 2015 on the control of some investments* (Journal of Laws of 2020, item 117), an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – Minister of Energy of its intention to do so, unless such obligation rests on other entities.

9.8. Rules on appointing and dismissing managing and supervising persons and their powers

9.8.1. Management Board

Rules on appointing and dismissing members of the Management Board

Management Board of the Company shall be composed of 1 to 6 persons, including the President and Vice Presidents. Members of the Management Board shall be appointed and dismissed by the Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. Each of the Management Board members can be dismissed or suspended in office by the Supervisory Board or the GM.

In order to recruit a person with whom an agreement on performing the management board level function at the Company, Supervisory Board announces the competition and conducts a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a member of the Management Board must meet the requirements set forth in §16 clauses 3 and 4 of the Company's Articles of Association. The announcement of the qualification process is published on the Company's web site at the address: https://www.tauron.pl. and in the Public Information Bulletin of the Ministry of Energy. The Company notifies the shareholders of the results of the qualification procedure.

Management Board's competence

Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Company's Articles of Association, to the scope of competence of the General Meeting of Shareholders or Supervisory Board, shall be within the scope of competence of the Management Board.

In accordance with the Company's Articles of Association, all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Management Board, in particular, the following issues listed in the below table, as of December 31, 2019, and as of the date of drawing up this report.

Table no. 52. Management Board's competence as of December 31, 2019, and as of the date of drawing up this report

Matters that require a resolution of the Management Board
1. Management Board by-laws, 2. Company's organizational regulations, 3. establishment and liquidation of branches, 4. appointment of a proxy, 5. taking on credits and loans, 6. approving annual material and financial plans of the Company and of the Capital Group as well as the Capital Group's Corporate Strategy, 7. assuming contingent liabilities within the meaning of the Act of September 29, 1994 on accounting, including granting guarantees and sureties by the Company as well as issuing bills of exchange, subject to § 20 clause 2 item 4 and 5 of the Company's Articles of Association, 8. making donations, cancelling interest or releasing from debt, subject to § 43 clause 3 items 1 and 2 of the Company's Articles of Association, 9. purchase of real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, subject to § 20 clause 2 item 1 of the company's Articles of Association, 10. purchase of fixed assets excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association, 11. disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 3 of the company's Articles of Association, 12. defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 3 item 9 of the company's Articles of Association, 13. rules of conducting sponsoring activities, 14. adoption of the annual plan of sponsoring activities, 15. matters which the Management Board refers to the Supervisory Board or the General Meeting of Shareholders for review

9.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

Supervisory Board shall be composed of 5 to 9 persons, appointed for a common term of office lasting three years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association members of the Supervisory Board shall be appointed and dismissed by the General Meeting of Shareholders, subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities in the understanding of § 10 clause 5 of the Articles of Association, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company, the State Treasury, represented by the minister competent to handle the State Treasury's affairs, shall be entitled to appoint and dismiss members of the Supervisory Board in the number equal to half of the maximum number of members of the Supervisory Board defined in the Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:
    1) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of members in the Supervisory Board that would correspond to the maximum number of members of the Supervisory Board defined in the Articles of Association in case such a motion is submitted to the Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
    2) shall be excluded from the voting at the General Meeting of Shareholders on appointing and dismissing other members of the Supervisory Board, including independent members of the Supervisory Board; this shall not, however, apply to the case when the Supervisory Board cannot act due to its membership being smaller than required by the Articles of Association, and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Supervisory Board in accordance with the distribution of seats in the Supervisory Board defined in this section
2. during the time when the State Treasury, together with the State Treasury controlled entities in the understanding of § 10 clause 5 of the Articles of Association, hold a number of the company's shares that entitle them to exercise less than 25% of the total number of votes in the company, the State Treasury, represented

by the minister competent to handle the State Treasury's affairs, shall be entitled to appoint and dismiss one member of the Supervisory Board..

3. appointing and dismissing members of the Supervisory Board by the State Treasury pursuant to the above mentioned clause 1) or 2) shall take place by means of a statement submitted to the Company.

In accordance with the Best Practice 2016 at least two members of the Supervisory Board shall meet the criteria of independence. A phrase an "independent member of the Supervisory Board" shall denote an independent member of the Supervisory Board in the understanding of Appendix II to the *European Commission's Recommendation of February 15, 2005 related to the role of non-executive directors or members of a supervisory board of publicly listed companies and a supervisory board's committee* (2005/162/EC) and the additional criteria indicated in the Best Practice 2016 .

Members of the Supervisory Board shall submit to the Company, prior to their appointment as members of the Supervisory Board, a written statement on compliance with the independence criteria mentioned in the Best Practice 2016. In case a situation occurs where the independence criteria are not complied with a member of the Supervisory Board shall be obligated to forthwith inform the Company thereof. The Company shall provide information on the compliance of the members of its Supervisory Board on its website at the address: https://www.tauron.pl.

Supervisory Board's competence

Supervisory Board shall continuously oversee the Company's activities in all areas of its operations.

According to the Company's Articles of Association the Supervisory Board's tasks and competences shall include in particular the matters listed in the below table, as of December 31, 2019, and as of the date of drawing up this report.

Table no. 53. Supervisory Board's competence as of December 31, 2019, and as of the date of drawing up this report

Matters that require a resolution of the Supervisory Board
Competences related to providing opinions
1. evaluate the Management Board's report on the Company's operations (Directors' Report) as well as the financial statements for the last financial year with respect to their compliance with books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements, provided they are drawn up, 2. evaluate the Management Board's recommendations on profit distribution or loss coverage, 3. submit a written report to the General Meeting of Shareholders on the outcome of activities covered in clauses 1 and 2, 4. prepare once a year and submit to the General Meeting: 1) evaluation of the Company's situation, including the assessment of the internal control, risk management systems, compliance and internal audit functions, including all significant control mechanisms, in particular, those related to financial reporting and operations 2) report on activities of the Supervisory Board comprising at least information concerning: composition of the Supervisory Board and its Committees, compliance with the independence criteria by Members of the Supervisory Board, number of meetings of the Supervisory Board and its Committees and self-assessment of the Supervisory Board, 3) assessment of the method of fulfilment of information obligations by the Company, in relation to the application of corporate governance principles defined in the Regulations of the Exchange and provisions related to current and periodical information submitted by issuers of securities, 4) assessment of rationality of sponsoring, charitable policy, or other similar policy pursued by the Company, or information concerning the lack of such policy 5. prepare, along with the report on the results of the Company's annual financial statements' evaluation, the Supervisory Board's opinion on the financial viability of the Company's capital (equity) investments in other commercial law entities made in the given financial year, 6. provide opinions on the Capital Group's Corporate Strategy, 7. provide opinions on the rules of conducting sponsoring activities, 8. provide opinions on the annual plan of conducting sponsoring activities as well as on the annual report on its implementation, 9. provide opinions on the reports drawn up, by the Management Board, on entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management, 10. provide opinions on the Management Board's motions regarding matters referred to in § 35 of the Company's Articles of Association, excluding motions regarding members of the Supervisory Board 11. provide opinions on the changes of the rules of divesting fixed assets, defined in § 38[1] of the Company's Articles of Association.
Competences that include
1. selecting a certified auditor to carry out an audit of the Company's financial statements and the Capital Group's consolidated financial statements, 2. defining the scope and deadlines for submitting the company's and the Capital Group's annual material and financial plan by the Management Board, 3. approving the Company's and the Capital Group's material and financial plan by the Management Board 4. adopting the consolidated text of the Company's Articles of Association, drawn up by the Company's Management Board, 5. approving the Management Board's by-laws, 6. approving the organizational regulations of the Company's enterprise, 7. approving the capital group's compensation policy, 8. purchasing real estate asset components within the meaning of the *act of September 29, 1994* with the value exceeding: 1) PLN 20 000 000 or 2) 5% of the total assets within the meaning of the *act of September 29, 1994,* determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 6 of the Company's Articles of Association,

Matters that require a resolution of the Supervisory Board

9. disposing of fixed asset components, within the meaning of the *act of September 29, 1994,* classified as intangible assets, property, plant and equipment or long term investments, including making a contribution to a company or cooperative if the market value of these components exceeds PLN 20 000 000 or 5% of the total assets within the meaning of the *Accounting Act of 29 September 1994* determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 6 of the Company's Articles of Association, as well as handing over these components for use to another entity for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject of the legal transaction exceeds PLN 500 000 or 5% of the total assets, with handing over these components for use in the case of:
    1) lease, tenancy and other contracts for the transfer of an asset for use by other entities for a fee - market value of the subject of legal action means the value of services for: one year - if the asset was transferred on the basis of an agreement concluded for an indefinite period, the entire duration of the agreement - in the case of contracts concluded for a fixed period,
    2) loan contracts and other free contracts for the handing over of an asset for use by other entities - the market value of the subject of legal transaction is the equivalent of benefits that would be due if the lease or tenancy agreement were concluded, for: one year - if the asset is handed over under the contract concluded for an indefinite period, the entire duration of the contract - in the case of contracts concluded for a definite period,
10. assuming contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of PLN 20 000 000,
11. issuing bills of exchange of the value exceeding the equivalent of PLN 20 000 000,
12. making an advance payment on account of the expected dividend,
13. taking up or purchasing shares in another company with the value exceeding:
    1) PLN 20 000 000 or
    2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994* determined on the basis of the last approved financial statements,
14. selling shares in another company with the value exceeding:
    1) PLN 20 000 000 or
    2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994* determined on the basis of the last approved financial statements,
15. concluding a material agreement with a shareholder holding at least 5% of the total number of votes in the Company or a related company, with a proviso, that this obligation shall not cover typical transactions and concluded at arm's length as part of the business operations conducted by the Company with entities that are members of the Capital Group,
16. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
17. amending an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, increasing the compensation above the amount mentioned in section 16 above,
18. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount is not envisaged,
19. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets within the meaning of the *act of September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
20. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets in the understanding of the act of September 29, 1994 on accounting, determined on the basis of the last approved financial statements,
21. granting a permission to establish the Company's branches abroad,
22. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders of companies in which the company holds more than 50% of shares, with respect to the following matters:
    1) selling and leasing out the company's enterprise or its organized part as well as establishing a limited proprietary right on them if their value exceeds the PLN equivalent of EUR 5 million,
    2) dissolving and liquidating the company
23. defining the manner of exercising the voting right by a representative of TAURON during the GMs of companies (subsidiaries) with respect to which the Company is a dominating entrepreneur within the meaning of art. 4 section 3 of the *act of February 16, 2007 on competition and consumer protection*, with respect to the following issues:
    1) company setting up another company,
    2) change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
    3) merging, transforming, splitting, dissolving and liquidating the company,
    4) increasing or decreasing the company's share capital,
    5) selling and leasing out the company's enterprises or its organized part and establishing a limited property right thereupon,
    6) redeeming (retiring) of shares,
    7) setting the compensation of members of Management Boards and Supervisory Boards,
    8) provision on claims for remedying damage inflicted when setting up the company or performing management or supervision,
    9) matters mentioned in art. 17 of the *act of December 16, 2016 on the principles of managing state assets*, subject to § 15 clause 4 of the Company's Articles of Association, with the exception of the matters relating to legal transactions referred to in § 20. clause 6 of the Company's Articles of Association, and with the exception of matters regarding the acquisition or disposal of fixed assets constituting or intended to constitute assets necessary to conduct business operations with respect to the distribution of electricity by a company that is an operator of the power distribution system.

Competences related to the Management Board

1. appoint and dismiss members of the Management Board,
2. establish the rules of compensation and the amounts of compensation for the members of the Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Management Board from office for important reasons,
4. delegate members of the Supervisory Board to temporarily perform duties of the members of the Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Management Board shall not exceed the compensation established for the Member of the Management Board to replace whom the Member of the Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions in the Company shall be concluded and conclude such agreement to perform the management board functions in the Company,
7. grant a permission to Members of the Management Board to take positions in governing bodies of other companies

Other competences of the Company's Supervisory Board

Matters that require a resolution of the Supervisory Board
1. approve the Management Board's annual report on the supervision over the implementation of investment projects 2. prepare reports on overseeing the implementation of investment projects by the Management Board, including fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of expenditures related thereto 3. approve the reports drawn up by the Management Board on : 1) entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management, 2) applying good practices defined by the Prime Minister on the basis of art. 7, clause 3 of the *Act on the principles of state assets management with respect to corporate governance*, corporate social responsibility and sponsorship, 4. pass regulations describing in detail the Supervisory Board's procedures.

9.9. Description of the procedure of amendment of TAURON Polska Energia S.A.'s Articles of Association

Amendments to the Company's Articles of Association shall be made in accordance with the provisions of the Code of Commercial Companies, in particular: amendments to the Company's Articles of Association shall take place by means of resolution of the GM, passed by the majority of 3/4 of the votes, and then shall require issuing of a decision by a competent court on entering the change into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

In accordance with the Company's Articles of Association, a material amendment to the subject of the operations requires 2/3 of the votes in the presence of persons representing at least half of the share capital.

9.10. Procedures of the General Meeting of Shareholders, its fundamental powers and description of shareholders' rights and the manner of exercising thereof

The Company's General Meeting of Shareholders' procedures and its empowerments are defined in the Company's Articles of Association and in the Regulations of the *General Meeting of Shareholders of TAURON Polska Energia S.A.* (GM Regulations) which are available on the Company's website at the address: http://www.tauron.pl/.

Procedures of the General Meeting of Shareholders

General Meeting of Shareholders shall be convened by a notice published on the company's website and in a manner defined for providing current information by public companies. In case the General Meeting is convened by an entity or a body other than the Management Board on the basis of regulations of the Code of Commercial Companies, as convening a General Meeting of Shareholders requires the Management Board's cooperation, the Management Board shall be obligated to perform any activities required by law in order to convene, organize and conduct General Meetings of Shareholders that take place either at the Company's seat or in Warsaw.

General Meeting of Shareholders shall be opened by the Chairperson of the Supervisory Board, and in case he/she is absent the following persons shall be entitled to open the General Meeting of Shareholders in the given order: Vice Chairperson of the Supervisory Board, President of the Management Board, a person designated by the Management Board or the shareholder who registered at the General Meeting of Shareholders such number of shares that grant the right to exercise the highest number of votes. Then, the chairperson of the General Meeting of Shareholders shall be elected from among persons entitled to participate in the General Meeting of Shareholders.

General Meeting of Shareholders shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the company's Articles of Association state otherwise. General Meeting of Shareholders may order a break in the meeting by the majority of two thirds of votes. Breaks shall not exceed 30 days in total.

A break in the GM session may take place only in exceptional situations indicated on a case-by-case basis in the justification to the resolution, prepared based on reasons presented by a shareholder requesting the announcement of the break.

The GM resolution concerning a break shall clearly indicate the date of resumption of the session, however, such a date must not create a barrier for participation of the majority of shareholders in resumed meeting, including minority shareholders.

Competence of the General Meeting of Shareholders

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting of Shareholders as of December 31, 2019, and as of the date of drawing up this report.

Table no. 54. Competence of the General Meeting of Shareholders as of December 31, 2019, and as of the date of drawing up this report

Matters that require a resolution of the General Meeting of Shareholders
1. reviewing and approving the financial statements of the Company and the consolidated financial statements of the Capital Group for the previous financial year for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of the Capital Group 2. granting the acknowledgement of the fulfillment of duties to the members of the Company's corporate bodies, 3. profit distribution and coverage of loss, 4. appointing and dismissing members of the Supervisory Board, 5. suspending members of the Management Board in performance of their duties, 6. establishing the amount of compensation for members of the Supervisory Board, subject to § 29 clause 4 of the company's Articles of Association, 7. establishing the principles of determining compensation and the amount of compensation of members of the Management Board taking into account the provisions of the act of *June 9, 2016 on the principles of determining compensation of the management personnel of certain companies*, 8. selling and leasing out the Company's enterprise or its organized part as well as establishing a limited proprietary right on them, 9. concluding a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person, 10. increasing and decreasing the Company's share capital, 11. issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling their holder to subscribe or acquire the shares, 12. purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies, 13. mandatory redemption of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies, 14. setting up, using and liquidating reserve capitals, 15. using supplementary capital, 16. provisions related to claims to repair damage caused while establishing the company or serving on the management board or performing supervision, 17. merger, transformation and division of the Company, 18. redemptions (retirements) of shares, 19. amendment to the Articles of Association and change of the subject of the Company's operations, 20. dissolving and liquidating the Company.

In accordance with the provisions of the Code of Commercial Companies the decision on the issue and repurchase of shares shall be included within the competence of the General Meeting.

Description of the shareholders' rights and the manner of exercising thereof

The below table presents the description of the Company's shareholders' rights related to the General Meeting of Shareholders in accordance with the Company's Articles of Association, Code of Commercial Companies and the Regulations of the General Meeting of the Shareholders.

Table no. 55. Description of the Company's shareholders' rights related to the General Meeting of Shareholders

#	Shareholders' rights	Description of shareholders' rights
1.	Convene a General Meeting of Shareholders	Shareholders representing at least 1/20 of the share capital, may request convening of an Extraordinary General Meeting of Shareholders. Such request should include a concise justification. It may be submitted to the Management Board in writing or in an electronic form, to the company's e-mail address, provided by the company on its website under the *Investor Relations* tab. Shareholders representing at least a half of the share capital or at least a half of all votes in the company may convene an Extraordinary General Meeting of Shareholders and appoint a chairperson of such General Meeting.
2.	Include matters (items) in the agenda of the General Meeting of Shareholders	Shareholders representing at least 1/20 of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting of Shareholders. Such request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Management Board not later than 21 days prior to the set date of the General Meeting of Shareholders in electronic form to the Company's e-mail address or in writing to the Company's address.
3.	Become acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list at the company's Management Board's seat for 3 weekdays preceding directly the General Meeting of Shareholders. Shareholders may also request that the list of shareholders be sent to them free of charge by electronic mail, providing the address to which the list should be sent.
4.	Participate in the General Meeting of Shareholders	Only persons who are Shareholders 16 days before the date of the General Meeting of Shareholders (date of registering to participate in the General Meeting of Shareholders) shall have the right to take part in the General Meeting of Shareholders. In order to participate in the General Meeting shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting of Shareholders to an investment (brokerage) company running their securities account. Such request should be submitted not earlier than following the announcement on convening of the General Meeting of Shareholders and not later than on the first weekday following the day of registering the participation in the General Meeting of Shareholders.
5.	Represent a shareholder by a proxy (power of attorney)	Shareholders may take part in the General Meeting of Shareholders as well as exercise the voting right in person or through a proxy (power of attorney). Shares' co-owners may take part in the General Meeting of Shareholders and exercise the voting right only through a joint representative (proxy). A proxy (power of attorney) may represent more than one shareholder and vote differently based on shares of each shareholder.
6.	Elect the Chairperson of the General Meeting of Shareholders	Shareholders shall elect the Chairperson of the General Meeting of Shareholders from among the persons entitled to take part in the General Meeting of Shareholders. Each of the participants of the General Meeting of Shareholders shall have the right to propose one candidate for the post of the Chairperson. Chairperson shall

#	Shareholders' rights	Description of shareholders' rights
		be elected by a secret ballot, by an absolute majority of votes. In case there is just one candidate for the Chairperson, election can take place by acclamation.
7.	Elect the Returning Committee	Each shareholder may propose no more than 3 candidates for members of the Returning Committee to be elected by the General Meeting of Shareholders, and vote for maximum 3 candidates.
8.	Submit a draft resolution	During the General Meeting of Shareholders a shareholder shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting of Shareholders, as part of the given item of the agenda, or put forward his/her own draft of such resolution. Proposals of changes or draft resolutions, including justifications, may be submitted in writing to the Chairperson or verbally to be recorded in the minutes of the meeting.
9.	Raise an objection	Shareholders who voted against a resolution and, after the General Meeting of Shareholders has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such objection is raised later, which however shall not take place later than by the time the General Meeting of Shareholders is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. Shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting.

9.11. Composition of TAURON Polska Energia S.A.'s management and supervision bodies and their committees, its changes and the description of their operations

9.11.1. Management Board

The current, fifth term of office of the Management Board began its run on March 16, 2017. On March 15, 2017 the Supervisory Board dismissed, effective as of the end of the day, all members of the Management Board of the Company and appointed, as of March 16, 2017, members of the Management Board for the fifth common term of office. In accordance with the Company's Articles of Association the common term of office shall last 3 years.

Composition of the Management Board as of December 31, 2019 and as of the date of drawing up this report

1. Filip Grzegorczyk - President of the Management Board,
2. Jarosław Broda - Vice President of the Management Board for Asset Management and Development,
3. Marek Wadowski - Vice President of the Management Board for Finance.

Changes to the Management Board's composition in 2019

As of January 1, 2019, the Management Board was composed of the following persons: Filip Grzegorczyk (President of the Management Board), Jarosław Broda (Vice President of the Management Board for Asset Management and Development), Kamil Kamiński (Vice President of the Management Board for Customer and Corporate Support) and Marek Wadowski (Vice President of the Management Board for Finance).

On September 21, 2019, the Supervisory Board dismissed Kamil Kamiński from the Management Board and the function of Vice President of the Management Board for Customer and Corporate Support.

There had been no other changes to the composition of the Company's Management Board by the date of drawing up this report.

Experience and competences of members of the Management Board

Filip Grzegorczyk - President of the Management Board

A graduate of the Faculty of Law and Administration and the Faculty of International and Political Studies of the Jagiellonian University in Cracow where the obtained a PhD degree in the EU law, and then a post-PhD degree in the business law. A graduate of the Executive Master of Business Administration studies (AESE Business School, EM Normandie, UEK Cracow School of Business).

He also completed the Summer Advanced Course program in the European Law at the University of London, King's College, Centre of European Law as well as the International Business and Trade Summer School program at Catholic University of America – Columbus School of Law and Ecole de droit français Université d'Orléans. He speaks fluent English and French.

He has broad professional experience in the fuel and energy sector. In 2015-2016 he served as the Deputy Minister of the State Treasury responsible for ownership supervision and legislative processes and a member of the Standing Committee of the Council of Ministers. In 2011-2014 he was associated with Kompania Węglowa S.A. as a management board proxy for energy sector development and the director of corporate affairs at Węglokoks Energia sp. z o.o. In 2007-2008 he was the Vice President of TAURON Polska Energia S.A. for capital group management.

He holds the position of Associate Professor at the University of Economics in Cracow.

As the President of the Management Board he manages the work of the management board, performs the rights and obligations of the employer and oversees the following areas of the company's operations: legal, corporate, strategy as well as communications and marketing, regulations and international affairs, audit and control, human resources, security and compliance, Compliance Officer and Social Dialogue Commissioner.

Jarosław Broda - Vice President of the Management Board

A graduate of the Warsaw School of Economics, a holder of a postgraduate diploma in project management from the Kozmiński University

He has experience in the area of energy sector's consolidation and operation, privatization of state-owned utility groups, developing processes associated with the restructuring and strategy building as well as energy entities' expansion projects.

Since the beginning of his professional career he has been associated with the energy sector's entities, holding senior executive and managerial positions. He gained his professional experience working at the Ministry of State Treasury as well as at TAURON and GDF Suez Energia Polska. Recently associated with GDF Suez Energia Polska – Katowice and GDF Suez (Branch Energy Europe) where he was responsible for market analyses and developing the company's expansion strategy, regulatory management and M&A projects. He was also involved in developing the sales and marketing expansion strategy in Europe. Since mid-2015 he was responsible for developing the commercial strategy and the contract for difference related to the nuclear project in Great Britain.

As the Vice President of the Management Board for Asset Management and Development he oversees the following areas of the company's operations: investment projects, mergers, acquisitions and divestments, asset management, mining asset management, research and development, work (occupational) health and safety, risk and the WHS Commissioner.

Marek Wadowski - Vice President of the Management Board

A graduate of the Faculty of Economics of the University of Economics in Katowice. He also completed post graduate studies at École Supérieure de Commerce Toulouse where he obtained Mastère Spécialisé en Banque et Ingéniere Financière diploma and the Executive MBA studies at the Kozminski University in Warsaw.

He has professional experience in the field of financial, controlling and accounting process management in industry (power sector, mining, steel industry), as well as in financing of investment projects and international commercial transactions. He was involved in the implementation of the due diligence projects and valuations of many enterprises (using income-based, equity and comparison valuation methods).

From the beginning of his professional career he was associated with the energy, mining and steel sector entities, acting in the capacity of the President or the Vice-President of the Management Board and holding senior managerial positions. He gained his professional experience working at BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries. From 2008, acting in the capacity of the Vice-President of the Management Board in charge of the financial division at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries, he was responsible, inter alia, for structuring commercial transactions, implementing the foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquiring funds from the consortium of banks in the form of a bond issue program. He was also involved in the IPO of JSW S.A. (implementation of the IAS, modification of the management information system, preparing the IPO prospectus, talks with investors). He held the position of the President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in the bond issue program for Kompania Węglowa and was dealing with the acquisition of debt financing from the consortium of banks.

As the Vice President of the Management Board for Finance oversees the following areas of the Company's operations: financial management, controlling, accounting and taxes, analyses, purchasing and administration, IT, market operator and trade services, trading, fuel trading, portfolio management and the Data Protection Officer.

The detailed description of the experience and competences of the members of the Management Board is published on the Company's website at the address: https://www.tauron.pl.

Description of the procedures

Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice* which are available on the Company's website at the address: https://www.tauron.pl. When performing their duties members of the Management Board shall be acting in accordance with the principles included in the Best Practice 2016.

Two members of the Management Board or one member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

Meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. Meetings of the Management Board shall also be convened on the motion of the majority of Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's seat on the date set by the person that convened the meeting. In justified cases the Management Board's meetings may be held outside the Company's seat. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board.

Management Board shall vote in an open ballot. The result of the ballot shall be recorded in the minutes of the meeting. President of the Management Board shall order a secret ballot at the request of any member of the Management Board.

Resolutions of the Management Board shall be passed by an absolute majority of votes in the presence of 3/5 of the members of the Management Board. In case of an equal number of votes the President of the Management Board shall have a casting vote. Management Board may pass resolutions by voting in writing or using means of direct remote communications. Voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Vice President of the Management Board designated thereby, including setting the deadline for casting votes by members of the Management Board. Submission of a dissenting opinion shall be allowed. Such dissenting opinion shall be recorded in the minutes of the meeting, including the justification thereof. Decisions of the Management Board related to ongoing issues that do not require passing of a resolution shall be recorded solely in the minutes of the meeting.

The internal split, among members of the Management Board, of the tasks and responsibilities for the individual areas of the Company's operations, as defined in the *Organizational Regulations of TAURON Polska Energia S.A.* and including the independent work positions as well as organizational units reporting directly to the Executive Directors, whose work is managed (supervised) by members of the Company's Management Board directly or via the Managing Directors, is defined by the Company's Management Board Resolution No. 397/V/2019 of November 13, 2019 *regarding the assignment of individual business areas of the Company and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A.* as subsequently amended.

The structure of the Company's business areas reporting to the individual members of the Management Board is presented on the diagram (flowchart) showing the split of responsibilities of the members of the Company's Management Board, described in section 1.6.5. of this report and posted on the Company's web site at the address: https://www.tauron.pl.

9.11.2. Supervisory Board

The current, 5th term of office of the Supervisory Board, began on May 29, 2017, i.e. on the day of holding the Ordinary GM of the Company approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the 4th term, i.e. for the financial year 2016. In accordance with the Company's Articles of Association it shall be a common term of office and it shall last for 3 years.

The composition of the Supervisory Board as of December 31, 2019

1. Beata Chłodzińska - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Barbara Łasak-Jarszak - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Jan Płudowski - Member of the Supervisory Board,
7. Marcin Szlenk - Member of the Supervisory Board,
8. Katarzyna Taczanowska - Member of the Supervisory Board
9. Agnieszka Woźniak - Member of the Supervisory Board.

Changes to the composition of the Supervisory Board in 2019 and by the date of drawing up this report

As of January 1, 2019, the Supervisory Board was composed of the folowing members: Beata Chłodzińska (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Radosław Domagalski - Łabędzki (Member of the Supervisory Board), Barbara Łasak – Jarszak (Member of the Supervisory Board), Paweł Pampuszko (Member of the Supervisory Board), Jan Płudowski (Member of the Supervisory Board) and Agnieszka Woźniak (Member of the Supervisory Board).

On May 8, 2019, the Company's Ordinary General Meeting dismissed Radosław Domagalski-Łabędzki and Paweł Pampuszko from the Supervisory Board of the Company of the 5th common term of office and appointed Rafał Pawełczyk and Katarzyna Taczanowska to the Supervisory Board of the Company of the 5th common term of office.

On July 26, 2019, the mandate of Rafał Pawełczyk, a member of the Company's Supervisory Board, expired due to death.

On December 6, 2019, the Extraordinary GM appointed Grzegorz Peczkis to be a member of the Company's Supervisory Board of the 5th common term of office.

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, as of March 24, 2020, dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board and appointed Mr. Andrzej Śliwka to be a member of the Company's Supervisory Board.

The composition of the Supervisory Board as of the date of drawing up this report

1. Beata Chłodzińska - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Barbara Łasak-Jarszak - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Jan Płudowski - Member of the Supervisory Board,
7. Marcin Szlenk - Member of the Supervisory Board,
8. Andrzej Śliwka - Member of the Supervisory Board,
9. Katarzyna Taczanowska - Member of the Supervisory Board.

Information on the independence of members of the Supervisory Board

The phrase "an independent member of the Supervisory Board" denotes independence of a member of the supervisory board within the meaning of Appendix II to the Recommendation of the European Commission of February 15, 2005, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) and taking into account the Best Practice 2016. At least two members of the Supervisory Board should meet the criteria of independence within the meaning of the above. Recommendation.

The table below presents information on the fulfillment by the members of the Company's Supervisory Board of the independence requirements specified in the above mentioned Recommendation and the *Best Practice 2016* as of December 31, 2019 and as of the date of drawing up this report.

Table no. 56. Fulfillment by the members of the Company's Supervisory Board of the independence requirements, as of December 31, 2019 and as of the date of drawing up this report

#	First and last name	Fulfillment of the independence requirements	
		as of December 31, 2019	as of the date of drawing up this report
1.	Beata Chłodzińska	Meets independence requirements	Meets independence requirements
2.	Teresa Famulska	Meets independence requirements	Meets independence requirements
3.	Jacek Szyke	Meets independence requirements	Meets independence requirements i
4.	Barbara Łasak - Jarszak	Meets independence requirements	Does not meet independence requirements
5.	Grzegorz Peczkis	Meets independence requirements	Meets independence requirements
6.	Jan Płudowski	Meets independence requirements	Meets independence requirements
7.	Marcin Szlenk	Meets independence requirements	Meets independence requirements
8.	Andrzej Śliwka	-	Does not meet independence requirements
9.	Katarzyna Taczanowska	Does not meet independence requirements	Does not meet independence requirements
10.	Agnieszka Woźniak	Does not meet independence requirements	-

Experience and competences of the members of the Supervisory Board

Beata Chłodzińska - Chair of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University. She is a licensed legal counsel.

In 2001-2016 she was associated with the Ministry of State Treasury where she was providing legal services, most recently as the Deputy Director at the Legal and Litigation Department. She is currently working at PKN Orlen S.A. in the legal area.

She gained professional experience associated with supervising the operations of the State Treasury owned companies by, among others, holding seats on the supervisory boards of the following companies: Polska Agencja Prasowa S.A. with its seat in Warsaw, Centrum Techniki Okrętowej S.A. with its seat in Gdańsk, Chemia Polska sp. z o.o. with its seat in Warsaw, Międzynarodowa Korporacja Gwarancyjna sp. z o.o. with its seat in Warsaw.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since August 12, 2015. In the Supervisory Board of the 5th common term of office she is the Chair of the Supervisory Board, the Head of the Nominations and Compensation Committee of the Supervisory Board, as well as a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice, a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice.

She has been associated with the University of Economics in Katowice since 1981. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998-2013 she was working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of approximately 150 domestic and foreign publications in the field of finance, mainly public finance (including taxes and tax systems) and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducts numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff as part of the post-graduate studies and in cooperation with, among others, the Polish Economic Society (Polskie Towarzystwo Ekonomiczne) and the Accountants Association in Poland (Stowarzyszenie Księgowych w Polsce). Since 2007 she has been working at the State Examination Commission on Tax Advisory Services, where she has been the Head of the Commission since 2010. Since 2007 a member of the Financial Education Committee of the Polish Academy of Science, where she was a member of the Board of the Committee in 2011-2015. Furthermore, she is a member of the Main Board of the Polish Finance and Banking Association (Zarząd Główny Polskiego Stowarzyszenia Finansów i Bankowości), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries (Centrum Informacji i Organizacji Badań Finansów Publicznych i Prawa Podatkowego Krajów Europy Środkowej i Wschodniej) and Polish Economic Society (Polskie Towarzystwo Ekonomiczne).

She was awarded the following orders and accolades: Silver Cross of Merit (Srebrny Krzyż Zasługi), Silver Medal for Long-term Service (Srebrny Medal za Długoletnią Służbę), Medal of the Commission of National Education

(Medal Komisji Edukacji Narodowej), awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2015. In the Supervisory Board of the 5th common term of office she is the Vice-Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

Jacek Szyke - Secretary of the Supervisory Board

A graduate of the Faculty of Economics of Łódź University and of the Faculty of Electric Engineering of the Technical University in Poznań where he also obtained a PhD in technical science.

He has yearslong professional experience associated with the utility scale power industry where he climbed up all levels of the career ladder, starting with an intern, through foreman, Head of the Safety and Instrumentation and & Control Department (Zakład Energetyczny Kalisz and Łódź), Engineer On Duty Responsible for the Operation (Elektrociepłownia Łódź), up to the position of the Chief Engineer (Zakład Energetyczny Łódź and Płock) and General Manager (Zakład Energetyczny Płock and Elektrociepłownia Siekierki). He also worked as the Contract Manager in Libya. The owner and President of the JES ENERGY consulting company.

State orders awarded: Golden Cross of Merit (Złoty Krzyż Zasługi), Knight's Order (Krzyż Kawalerski). Industry orders awarded: Distinguished for the following sectors: Power, Construction, Communications, Firefighting, Culture and Heat industry.

The author of more than 100 articles, publications and books, including: "Wspomnienia o tradycji i zwyczajach pracy w energetyce" (Memories of traditions and customs related to working in the power utilities sector), "O energetyce z sentymentem" (About electric utilities sector with a sentiment), "Historia Polskiej Elektroenergetyki" (History of Poland's Power Industry), "Złota Księga Elektroenergetyki" (Golden Book of Power Industry), "Grupa TAURON - monografia" (TAURON Group – monograph).

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since September 14, 2010. In the Supervisory Board of the 5th common term of office he is the Secretary of the Supervisory Board and the Head of the Strategy Committee of the Supervisory Board as well as a member of the Audit Committee of the Supervisory Board.

Barbara Łasak - Jarszak - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University.

Between January 1997 and February 2017 she was working at the Legal Department of the Ministry of State Treasury. Between April 1998 and February 2017 she headed an organizational unit of the Legal Department providing legal services for the Ministry. Since March 1 2017 the Head of the State Property and Finance Division of the State Treasury Department of the Chancellery of the Prime Minister where she is dealing with. among others, with the issues related to the new principles of managing the state owned property.

In 1999-2001 a member of the Disciplinary Commission of the Ministry of State Treasury. In 1999-2005 deputy public finance auditor for the Minister of State Treasury.

He has yearslong professional experience of holding seats on supervisory boards of State Treasury owned companies, including: ZPP "Lenora" sp. z o.o., Koneckie Zakłady Odlewnicze S.A., Uzdrowisko Busko-Zdrój S.A., ŚWWG Polmos S.A., Stocznia Gdynia S.A., Archimedes S.A., PSO "Maskpol" S.A., ZG "Dom Słowa Polskiego" S.A. in liquidation, Fundusz Rozwoju Spółek S.A., Zakłady Mięsne Nisko S.A.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board.

Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

He gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Polish Patent Office.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019. In the Supervisory Board of the 5th common term of office he is a member of the Strategy Committee of the Supervisory Board.

Jan Płudowski - Member of the Supervisory Board

A graduate of the Faculty of Electric Engineering of the Silesian University of Technology in Gliwice. He also completed post-graduate studies at the Faculty of Electric Engineering of the Gdańsk University of Technology, at the University of Economics (formerly K. Adamiecki Academy of Economics) in Katowice in the field of corporate finance management and at the Faculty of Management and Services Economics of the University of Szczecin in the field of marketing and corporate management.

Professionally associated with the power sector, he gained professional experience by climbing up all levels of the career ladder. He was working, among others, as the Regional Chief Power Engineer (PKP Śląska Dyrekcja Okręgowa Kolei Państwowych (Polish State Railways' Silesian Regional Board) in Katowice), Director of Zakład Energetyki Kolejowej (Railways' Power Unit) in Katowice and the Head of the Power Management Department (PKP Dyrekcja Energetyki Kolejowej (Polish State Railways' Power Unit Board) in Warsaw), Director of the Cash Flow Office ("PKP Energetyka" sp. z o.o. in Warsaw). He is currently holding the position of the Project Coordinator Director at "PKP Energetyka" S.A. in Warsaw.

In 2007-2008 he was a member of the Supervisory Board of Spółka Energetyczna Jastrzębie S.A.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 30, 2016. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Marcin Szlenk - Member of the Supervisory Board

A graduate of the Warsaw School of Economics – a master's degree in economics, field of expertise: Management and Marketing, as well as Finance and Banking.

He completed the Executive MBA program of the University of Warsaw and University of Illinois, as well as the Post-graduate European Financial, Economic and Legal Relations Studies at the Warsaw School of Economics. Since 2007 he has been a member of the Chartered Institute of Management Accounting (CIMA). In 2016 he completed the Global Management Development Program organized by the Johnson Matthey Group.

He has a broad professional experience from many years of working as a financial controller and director in diverse business environments. In 1999-2002 a Senior Auditor at Arthur Andersen. In 2002-2010 a Financial Controller at Magneti Marelli Aftermarket Sp. z o.o., and then Automotive Lighting Polska Sp. z o.o. (both companies owned by the FIAT Group). In 2010-2012 he worked as the European Financial Controller at Axeon. Since 2012 he has been the Financial Director and a Member of the Management Board of Johnson Matthey Battery Systems Sp. z o.o., and since 2017 a Member of the Management Board of Johnson Matthey Poland Sp. z o. o.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since April 16, 2018. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board.

Andrzej Śliwka - Member of the Supervisory Board,

A graduate of the Faculty of Law and Administration of the University of Gdańsk. He completed the Taxes and Tax Law post-graduate studies at the University of Gdańsk as well as the attorneys-at-law's training of the Warsaw Bar Association of Attorneys-at-Law (Okręgowa Izba Radców Prawnych w Warszawie). He is a licensed legal counsel.

He specializes in corporate law, business contracts and the investment process. In addition, he has also been dealing with: real estate law, due diligence processes, as well as conducting court litigations, in his professional career thus far.

He is currently the Deputy Director of the 1st Department of Ownership Oversight at the Ministry of State Assets and is a member of the expert team for increasing the efficiency of Supervisory Boards, which is a part of the Commission for the reform of ownership oversight.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since March 24, 2020.

Katarzyna Taczanowska - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University, registered on the list of attorneys-at-law of the Warsaw Bar Association of Attorneys-at-Law (Okręgowa Izba Radców Prawnych w Warszawie).

Ms. Katarzyna Taczanowska has many years of professional experience in providing legal services for business entities that she has been offering since 2003. She was a partner at the GWW Woźny and Partners (GWW Woźny i Wspólnicy) law firm, since 2009 until now she has been a partner at the Kudlak, Taczanowska-Wileńska sp.k. law firm.

In 2009-2012 she was the Director of the Legal Office at Towarzystwo Funduszy Inwestycyjnych PZU S.A. (PZU S.A. Investment Funds Company). She was a member of the Supervisory Boards of PZU Życie S.A., LOT Aircraft Maintenance Services sp. z o.o. and IDA Management sp. z o.o.

Since July 2018 Ms. Katarzyna Taczanowska has been the General Director for Corporate and Legal Affairs at KGHM Polska Miedź S.A.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 8, 2019. In the Supervisory Board of the 5th common term of office she is a member of the Audit Committee of the Supervisory Board.

The detailed description of the experience and competences of the members of the Supervisory Board is published on the Company's website at the address: http://www.tauron.pl.

Description of the procedures

The detailed description of the Supervisory Board's operations is provided in the Code of Commercial Companies, the Company's Articles of Association and in the R*egulations of the Supervisory Board of TAURON Polska Energia S.A.* with its registered office in Katowice, which is available on the Company's website at the address: http://www.tauron.pl/.

The main form of the Supervisory Board overseeing the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. Meetings of the Supervisory Board shall be convened by the Chairperson of the Supervisory Board or Vice Chairperson of the Supervisory Board by presenting a detailed agenda:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a written request of each member of the Supervisory Board,
4. at a written request of the Management Board.

Meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all members of the Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. Notifications of the Supervisory Board's meeting shall be sent by fax or electronic mail and confirmed by phone. In the notification of the Supervisory Board's meeting the Chairperson shall define the date of the meeting, venue of the meeting and the detailed draft agenda. Supervisory Board shall meet on as needed basis, however not less frequently than once every 2 months. Supervisory Board may hold meetings without convening a formal meeting if all members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may occur when all members of the Supervisory Board are present at the meeting and no one raises an objection against the agenda. An issue not included in the agenda should be included in the agenda of the next meeting.

Participation in a meeting of the Supervisory Board shall be a Supervisory Board member's duty. A member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a member of the Supervisory Board shall require a resolution of the Supervisory Board. Members of the company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

Supervisory Board may seek opinions of legal counsels who provide regular legal advice for the company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to seek their opinion and make the right decision. In the above mentioned cases the Supervisory Board shall pass a resolution on commissioning the selected expert (auditing, consulting company) to carry out the work, obligating the Company's Management Board to conclude an applicable agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence by the Vice Chairperson. For important reasons, with the consent of the majority of members of the Supervisory Board present at the meeting, the chairperson chairing the meeting shall be obligated to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Supervisory Board. Supervisory Board shall make decisions in the form of resolutions. Supervisory Board's resolutions shall be passed mainly at its meetings. Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all its members have been invited in the appropriate way defined in the Regulations. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all members of the Supervisory Board are present and nobody raises an objection. This shall not apply to resolutions on excusing a Supervisory Board's member's absence at the meeting. Resolutions shall be voted on in an open ballot. A secret ballot shall be ordered:

- at the request of at least one member of the Supervisory Board,
- in personnel related matters

In accordance with the company's Articles of Association the Supervisory Board may pass resolutions in writing or using means of direct remote communications. Passing a resolution in such way shall require a prior notification of all members of the Supervisory Board of the content of the draft resolution. Passing resolutions this way shall not apply to appointing the Chairperson, the Vice Chairperson and the Secretary of the Supervisory Board, appointing or suspending from office a member of the Management Board and dismissing these persons, as well as other matters that require a secret ballot vote. When voting on a resolution in the aforementioned way a member of the Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". In case a member of the Supervisory Board fails to indicate his/her vote by the time defined by the Chairperson the resolution shall not be passed. A resolution with a note that it has been passed in writing or by voting using means of direct remote communications shall be signed by the Chairperson of the Supervisory Board. Resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

Members of the Supervisory Board shall be allowed to take part in the meeting and vote on resolutions during such meeting using means of direct remote communications, i.e. a conference call or a video conference, subject to a proviso that at least half of its members are present at the meeting's venue indicated in the notification of the meeting and a secure communications link is technically possible.

Members of the Supervisory Board shall take part in meetings and exercise their rights and responsibilities in person, and while performing their duties they shall be obliged to act with due diligence. Members of the Supervisory Board shall be obliged to keep confidential information related to the company's activities that they have acquired in connection with holding their seat or on another occasion. Supervisory Board shall perform its activities collectively.

Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision actions on their own for a defined period of time. Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Supervisory Board, submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: http://www.tauron.pl.

Supervisory Board may appoint from among its members permanent or temporary (ad-hoc) working groups, committees to perform specific actions. Supervisory Board's standing committees shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

9.11.3. Audit Committee

Members of the Audit Committee for the current term were appointed on June 20, 2017 by the Supervisory Board from among its members. In 2019 the Audit Committee was composed of five members.

Due to the change to the membership of the Supervisory Board of the Company for the 5th term, introduced in 2019, the Supervisory Board also made changes to the membership of the Audit Committee.

Members of the Audit Committee as of December 31, 2019 and as of the date of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Jan Płudowski - Member of the Audit Committee,
3. Marcin Szlenk - Member of the Audit Committee,
4. Jacek Szyke - Member of the Audit Committee,
5. Katarzyna Taczanowska - Member of the Audit Committee.

Changes to the Audit Committee's membership in 2019 and by the date of drawing up this report

As of January 1, 2019, the Audit Committee was composed of the following members: Teresa Famulska (Head of the Audit Committee), Radosław Domagalski – Łabędzki, Jan Płudowski and Jacek Szyke.

On May 8, 2019, the Company's Ordinary General Meeting dismissed Radosław Domagalski-Łabędzki from the Supervisory Board of the Company of the 5th common term of office.

On May 27, 2019 the Company's Supervisory Board appointed Katarzyna Taczanowska to be a member of the Audit Committee.

There had been no other changes to the composition of the Audit Committee by the date of drawing up this report.

Information on the independence of members of the Audit Committee as of December 31, 2019

The membership (composition) of the Audit Committee is in compliance with the requirements defined in the *act of May 11, 2017 on certified auditors, audit companies and public supervision*. The evaluation of independence and the statutory requirements with respect to the knowledge and skills of the individual members of the Audit Committee was made by the Supervisory Board based on the relevant statements submitted by the members of the Audit Committee. All of the members of the Audit Committee, except for Katarzyna Taczanowska, comply with the statutory requirements related to independence.

The Head of the Audit Committee Teresa Famulska, as well as Marcin Szlenk have knowledge and skills in the field of accounting and auditing financial statements. Two members of the Audit Committee: Jacek Szyke and Jan Płudowski, have knowledge and skills in the field of energy, i.e. the Company's industry.

The way the members of the Audit Committee have gained the knowledge and skills in the above mentioned fields is indicated in section 9.11.2. of this report, as part of the description of the experience and competences of the Supervisory Board.

Tasks and competence of the Audit Committee

In 2019 the Audit Committee was performing the tasks and competences defined in the current legal regulations in force and in the *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.* adopted by the Supervisory Board.

The Audit Committee held 10 meetings in total during the period covered by this report.

The tasks and competence of the Audit Committee as of December 31, 2019, and as of the date of drawing up this report, are presented in the below table.

Table no. 57. Competence of the Audit Committee as of December 31, 2019, and as of the date of drawing up this report,

Competence of the Audit Committee
1. monitoring: • the Company's financial reporting process, • the effectiveness of internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting • the performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and arrangements of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company 2. controlling and monitoring of independence and impartiality of the chartered accountant (certified auditor) and the audit firm, in particular in case other services than an audit are provided for the benefit of the Company, 3. performing the evaluation of independence of the certified auditor and expressing consent for performing by him of permitted services not constituting the audit within the Company, 4. developing the policy for selecting the audit company to perform the audit, 5. developing a policy for performing by the auditing company conducting the audit, entities related to the auditing company and members of the auditing company's corporate network of permitted services not constituting the audit, 6. defining the procedure for selecting the auditing company by the Company, 7. presenting to the Supervisory Board of the recommendation for selection of the auditing company responsible for performing the statutory audit or review of financial statements, as required under Art. 130, clauses 2 and 3 of the *Act of May 11, 2017 on certified auditors, auditing companies and public oversight and in Art. 16, clause 2 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC,* in line with policies referred to above in items 4 and 5, 8. informing the Supervisory Board of audit results and explaining as to who did the audit contribute to trustworthiness (accuracy) of financial reporting in the Company, and also what was the role of the Audit Committee in course of the audit, 9. presenting recommendations aimed at ensuring reliability of the financial reporting process within the Company, 10. performing other activities vested with audit committees pursuant to the *act of May 11, 2017 on certified auditors, auditing companies and public oversight, Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities, repealing the Commission Decision 2005/909/EC and the act of September 29, 1994 on accounting.*

Allowed non-audit services provided by an audit firm

The following allowed non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries by an audit firm auditing the financial statements in 2019:

1. confirmed in writing verification of the annual and interim standalone reporting packages of selected TAURON Capital Group's subsidiaries required to prepare the annual and interim consolidated financial statements,

2. completing the agreed procedures for the verification of the report of TAURON Dystrybucja subsidiary in connection with the requirement to estimate RAB and AMI RAB for the needs of determining the justified return on capital employed by the President of ERO.
3. confirmed in writing verification of the annual and interim standalone consolidation packages for TEC1, TEC2 and TEC3 subsidiaries as well as the Polish limited partnerships acquired from the in.ventus group, prepared for the years 2019.

In connection with the provision of the above services the Audit Committee performed an evaluation of the independence of the audit firm Ernst & Young Audyt Polska and expressed its consent for the provision of the above services.

Main assumptions of the policy for appointing an audit firm to conduct the audit and the policy of providing the allowed non-audit services by entities related to such audit firm and by a member of the audit firm's network

In connection with the coming into force of the *act of May 11, 2017, on certified auditors, auditing companies and public oversight*, the following regulations, adopted by the Audit Committee on October 16, 2017, were in force in 2019:

1. *Policy for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,*
2. *Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. and*
3. *Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to such audit firm and by a member of the audit firm's network.*

Policy for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the selection of the audit firm to conduct the Audit and Review of the Company's financial statements with the legal regulations. The policy defines, in a clear manner, the principles and rules of the process for the appointment of the audit firm to audit the reports of TAURON as a public interest unit, principles of the procedure for the appointment of the audit firm, principles of preparing the recommendations of the Audit Committee related to the appointment of the audit firm, as well as the principles of the rotation of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of TAURON. The key assumptions adopted in the policy include the fact that the process for the appointment of the auditor shall be based on the applicable legal regulations, ensuring the transparency and objectivity of the process for the appointment of the auditor and including in the process of the requirements necessary for the timely and correct performance of the audit services for the Company.

Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the process for the appointment of the audit firm to conduct the Audit and Review of the Company's financial statements with the legal regulations, as well as ensuring that the audit and review of the financial statements are conducted at a high quality level, within a specified time frame, while ensuring independence, objectivity, transparency and credibility of the audit firm and certified auditors. The procedure defines in detail and accurately the individual stages of the appointment of the audit firm, including indicating the authorities and organizational units responsible for such stages. Furthermore, the procedure defines the general conditions for the participation in the proceedings and the criteria for the selection of the audit firm as well as the time frame of the auditor selection process. The most important assumptions assumed in the procedure include adopting a clear and transparent, based on the legal regulations, split of the responsibilities in the process for the appointment of the auditor, as well as defining transparent and non-discriminatory conditions for the participation in the tender procedure and criteria for the appointment of the audit firm that the company may apply.

Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to such audit firm and by a member of the audit firm's network is aimed at defining clear rules aimed at meeting the requirement of the independence of the audit firm conducting the audit of the Company, in case such firm or entities that are members of its network are providing non-audit services. This policy defines the principles related to the provision for the benefit of TAURON Capital Group's entities, by the audit firm conducting the audit at TAURON, entities related to the audit firm and a member of the audit firm's network, of additional non-audit services or non-review services, in particular the conditions for the admissibility of the provision of allowed services, the principles of the Audit Committee conducting an assessment of the threats and safeguards of the independence of the audit firm, as well as control mechanisms with respect to observing the principles of the independence of the certified auditor at TAURON Capital Group. The most important assumptions adopted in the policy include defining clear rules for the Audit Committee to conduct an assessment of threats and safeguards of the independence of the audit firm and expressing consent for the provision of non-audit services, based on the compliance with the legal regulations and the purposefulness of the provision of such services.

Recommendations of the Audit Committee related to the appointment of the audit firm

The Audit Committee did not recommend an appointment of the audit firm to the Supervisory Board of TAURON in 2019.

On November 23, 2018, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyt Polska) to conduct an audit of the financial statements and consolidated financial statements of TAURON for the years 2019-2021. On January 11, 2019, TAURON concluded an agreement with Ernst & Young Audyt Polska the Amendment to the agreement with the subject of the agreement covering:

In 2018, the audit firm was selected to audit and review the financial statements and consolidated financial statements of TAURON for the years 2019-2021. Based on the recommendation of the Audit Committee, the Supervisory Board selected the audit company which met the applicable conditions and was appointed as a result of the Company's public procurement proceedings, in accordance with the applicable criteria, including an indication of a second alternative entity to perform these activities and providing the justification for the preferences behind the selection of the recommended audit firm.

The detailed description of the activities of the Audit Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: http://www.tauron.pl.

9.11.4. Nominations and Compensation Committee

Members of the Nominations and Compensation Committee for the current term were appointed on June 30, 2017 by the Supervisory Board from among its members. In 2019 the Nominations and Compensation Committee was composed of three members.

Members of the Nominations and Compensation Committee as of December 31, 2019

1. Beata Chłodzińska - Head of the Nominations and Compensation Committee,
2. Barbara Łasak - Jarszak - Member of the Nominations and Compensation Committee,
3. Agnieszka Woźniak - Member of the Nominations and Compensation Committee.

Changes to the Nominations and Compensation Committee's membership in 2019 and by the date of drawing up this report

As of January 1, 2019, the Nominations and Compensation Committee was composed of the following members: Beata Chłodzińska (Head of the Nominations and Compensation Committee), Barbara Łasak - Jarszak and Agnieszka Woźniak.

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board.

Members of the Nominations and Compensation Committee as of the date of drawing up this report

1. Beata Chłodzińska - Head of the Nominations and Compensation Committee,
2. Barbara Łasak - Jarszak - Member of the Nominations and Compensation Committee.

Tasks and competence of the Nominations and Compensation Committee

The tasks and competence of the Nominations and Compensation Committee did not change in 2019.

The tasks and competence of the Nominations and Compensation Committee, as of December 31, 2019 and as of the date of drawing up this report, are presented in the below table.

Table no. 58. Competence of the Nominations and Compensation Committee, as of December 31, 2019 and as of the date of drawing up this report

Competence of the Nominations and Compensation Committee
1. recommending to the Supervisory Board a recruitment procedure for the positions of members of the Company's Management Board, 2. evaluating candidates for members of the Management Board and providing the Supervisory Board with opinions in this respect, 3. recommending to the Supervisory Board a form and content of agreements to be concluded with members of the Management Board, 4. recommending to the Supervisory Board a compensation and bonus system for members of the Management Board, 5. recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons, 6. recommending to the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties, along with a compensation proposal

The detailed description of the activities of the Nominations and Compensation Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: http://www.tauron.pl.

9.11.5. Strategy Committee

Members of the Strategy Committee for the current term were appointed on June 30, 2017 by the Supervisory Board from among its members. In 2019 the Strategy Committee was composed of four members from July, 26, 2019, to December 16, 2019, while during the remaining periods of the year it was composed of five members.

Members of the Strategy Committee as of December 31, 2019

1. Jacek Szyke - Head of the Strategy Committee,
2. Beata Chłodzińska - Member of the Strategy Committee,
3. Grzegorz Peczkis - Member of the Strategy Committee,
4. Jan Płudowski - Member of the Strategy Committee,
5. Agnieszka Woźniak - Member of the Strategy Committee.

Changes to the Strategy's Committee's membership in 2019 and by the date of drawing up this report

As of January 1, 2019, the Strategy Committee was composed of the following members: Jacek Szyke (Head of the Strategy Committee), Beata Chłodzińska, Paweł Pampuszko, Jan Płudowski i Agnieszka Woźniak.

On May 8, 2019, the Company's Ordinary General Meeting dismissed Paweł Pampuszko from the Supervisory Board of the Company of the 5th common term of office.

On May 27, 2019 the Company's Supervisory Board appointed Rafał Pawełczyk to be a member of the Strategy Committee.

On July 26, 2019, the mandate of Rafał Pawełczyk, a member of the Company's Supervisory Board, expired due to death.

On December 16, 2019 the Company's Supervisory Board appointed Grzegorza Peczkis to be a member of the Strategy Committee.

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board.

Members of the Strategy Committee as of the date of drawing up this report

1. Jacek Szyke - Head of the Strategy Committee,
2. Beata Chłodzińska - Member of the Strategy Committee,
3. Grzegorz Peczkis - Member of the Strategy Committee,
4. Jan Płudowski - Member of the Strategy Committee.

Tasks and competence of the Strategy Committee

The tasks and competence of the Strategy Committee did not change in 2019.

The tasks and competence of the Strategy Committee as of December 31, 2019 and as of the date of drawing up this report are presented in the below table.

Table no. 59. Competence of the Strategy Committee as of December 31, 2019 and as of the date of drawing up this report

Competence of the Strategy Committee
1. evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board, 2. recommending to the Supervisory Board the scope and deadlines for submitting the long term strategic plans by the Management Board, 3. evaluating the impact of planned and currently undertaken strategic investment projects on the Company's assets, 4. monitoring the implementation of strategic investment tasks, 5. evaluating activities related to the use of material Company's assets, 6. providing opinions on strategic documents submitted to the Supervisory Board by the Management Board

The detailed description of the activities of the Strategy Committee in the last financial year is provided in the report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: http://www.tauron.pl.

9.11.6. Description of the activities of the Committees of the Supervisory Board

The detailed description of the activities of the Committees of the Supervisory Board is provided in the Regulations of the individual Committees of the Supervisory Board.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of their tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of 3 to 5 members, while the Strategy Committee is composed of 3 to 7 members. The activities of the individual Committees are managed by their Chairpersons (Heads).

Meetings of the Committees are convened by the Chairperson (Head) of the specific Committee on his / her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held on as needed basis. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson of the specific Committee or a person appointed by him / her submits motions, recommendations and reports to the Supervisory Board .

The Committees of the Supervisory Board pass resolutions if at least a half of their members were present at the meeting and all their members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given “for” than “against” and “abstain”. The Committees of the Supervisory Board may pass resolutions in writing or by using means of direct remote communication.

Members of the Committees of the Supervisory Board may also participate in meetings and vote of the adopted resolutions by using means of direct remote communication, i.e. tele- or videoconferences.

The Company’s Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on their memberships, the number of meetings held and participation in the meetings during the year, as well as on their main activities.

The Company’s Management Board provides the possibility to use the services of external advisers by the Committees to the extent required for performing the obligations of the Committees.

9.12. Description of the policy of diversity applied with respect to the Company’s authorities

TAURON Group’s Diversity Policy (Diversity Policy), put in place in 2017, was in force at the Company and TAURON Capital Group in 2019, with its goal to reinforce the awareness and organizational culture open to diversity.

In accordance with the above Diversity Policy diversity and openness are an integral part of TAURON Capital Group’s business operations. TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees, and in particular to the management bodies and its key managers. Also, actions have been undertaken to prevent discrimination by fostering appropriate work atmosphere as well as building and strengthening positive relationships among the personnel and developing organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),

The diversity policy is also applied with respect to the cooperation (relationships) with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, the following regulations are put in place at TAURON Capital Group.

1. Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination at TAURON Group,

2. Policy of Respect for Human Rights defining the principles of respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect,

3. Training and competence development programs conducive to and supporting the creation of an atmosphere for the development of each employee,

4. Regulations ensuring fairness and objectivity with respect to work organization and compensation, including among others:

• TAURON Group’s Compensation Principles

• Human Resources Management Policy at TAURON Group,

• regulations with respect to benefits (entitlements),

• flexible forms of work time and ability to work remotely.

5. Programs and regulations dedicated to women, ensuring equal opportunities for them and support in combining professional life with private life, e.g.:

• reduced working time for pregnant women,

• "Mum works" program put in place in the distribution line of business, with the goal to build a friendly work environment for mothers,

• Program Magenta meetings as part of the KobiecaMoc (WomenPower) campaign - for women students of electrical engineering faculties, whose goal is to provide support for girls, among others in selecting a career path.

6. TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy,

7. TAURON Group's Competence Model.

The detailed data and indicators related to diversity in terms of age, gender and the steps taken as well as the results stemming from the implementation of the Diversity Policy are provided in section 2.8 of this report.

With respect to the members of the corporate authorities of TAURON, i.e. the Management Board and the Supervisory Board, persons acting as Members of the Management Board are appointed by the Supervisory Board, while Members of the Supervisory Board are appointed by the Company's GM and the Minister of State Assets acting within the statutory powers of the State Treasury.

Members of the Management Board are appointed by the Company's Supervisory Board after conducting a qualification procedure designed to verify and assess their qualifications and selecting the best candidate. The notice of the qualification process is published on the Company's web page and in the Public Information Bulletin of the Ministry of State Assets. The competition is open for any person that meets the requirements provided in the Company's Articles of Association and defined by the Supervisory Board, specified in the notice. Due to no special requirements placed on such features as, among others, gender, type of education, age and professional expertise, the Supervisory Board is able to ensure comprehensive and diverse approach when assessing and selecting candidates to the Company's Management Board.

As of December 31, 2019, the Company's Management Board was composed of 3 men, and the Company's Supervisory Board included 5 women and 4 men. The age structure of the members of the Company's Management Board was as follows: over 30-40 years - 1 person, over 40-50 years - 2 persons, while in case of the Company's Supervisory Board: over 40-50 years - 5 persons, over 50-60 years - 1 person, above 60 years - 3 persons.

Information on the qualifications and professional experience of persons appointed as members of the Management Board and the Supervisory Board is published in the applicable securities filings (current reports) and on the Company's website at the address: https://www.tauron.pl.

10. STATEMENT ON NON-FINANCIAL INFORMATION

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the Accounting Act of 29 September 1994 (Journal of Laws of 2019, item 351), instead of the statement on non-financial information, the Company drew up a Non-financial Report of TAURON Capital Group for 2019, in the form of a separate document posted on the Company's website at the address: https://www.tauron.pl.

The above Report was drawn up in accordance with:

1. Article 49b, clause 1 and art. 55, clause 2b-e of the *accounting act of September 29, 1994*, as subsequently amended, which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information;

2. Global Reporting Index guidelines - GRI Standards (core level).

11. MANAGEMENT AND SUPERVISORY PERSONNEL COMPENSATION POLICY

11.1. Compensation system for members of the Management Board and key managers

11.1.1. General information on the adopted compensation system for members of the Management Board

Compensation system for members of TAURON's Management Board

Principles of compensation for members of the Company's Management Board defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016, *on the principles for determining compensation of members of the Management Board*, as subsequently amended, and detailed by the Supervisory Board of the Company pursuant to the resolution of December 19, 2016, *on determining compensation of members of the Management Board of TAURON Polska Energia S.A.*, as subsequently amended, had been in force at the Company until November 20, 2019.

With a view to clarifying the principles of compensation for members of the Company's Management Board, at the request of the Company's shareholder, the State Treasury, the Extraordinary General Meeting of TAURON was held on November 21, 2019, which, by way of a resolution, defined the new the principles of compensation for members of the Company's Management Board (Rules for determining compensation), thereby repealing the rules in force thus far.

The above Principles for determining the compensation were specified in detail by the Company's Supervisory Board by way of a resolution of January 27, 2020, *on the amendment of Resolution No. 94/IV/2016 of the Supervisory Board of TAURON Polska Energia S.A. of December 19, 2016, on determining the compensation of Members of the Management Board of TAURON Polska Energia S.A*. At TAURON, the principles of the compensation of members of the Company's Management Board are in accordance with the provisions of the *act of June 9, 2016 on the principles for determining the compensation of the management personnel of certain companies*, as subsequently amended.

The adopted Principles for determining compensation define the compensation system for members of the Company's Management Board in connection with the outstanding tasks aimed at the implementation of the adopted Strategy, directions of expansion and financial plans. The overriding objective of the adopted compensation system is to ensure an incentive-based compensation of the most senior management staff and to create the foundations for their development.

Policy of compensation for members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A. (Compensation Policy), adopted by the Company's Supervisory Board on October 23, 2017, was in force in 2019.

The overall objectives of the compensation policy are:

1. ensuring a consistent and motivational compensation system for members of the Management Board,
2. linking the compensation rules with monitoring of the implementation of adopted strategic plans and implementation of the financial plans,
3. setting the level of compensation for the Company's Management Board members in connection with the implementation of the management objectives set,
4. increasing the Company's value through the development of the most senior management staff,
5. improving the compensation systems leading to the implementation of the Company's strategy and expansion directions.

Model of compensation for members of the Company's Management Board members is based on a two-component system for determining compensation, where the total compensation of a member of the Company's Management Board is composed of a fixed part constituting the monthly base wage and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management objectives (KPI).

System of compensation for members of the Management Board assumes linking the variable part of the compensation with the outstanding management objectives stemming from the provisions of the *act of June 9, 2016 on the principles for determining compensation of the management personnel of certain companies*, as subsequently amended, and set, based upon these provisions, by the GM and the Supervisory Board of the Company. The goal of adopting, in the system of compensation, of the dependence of the compensation's variable part on achieving the management goals set is aimed, in particular, at implementing the adopted Strategy, the directions of the Company's expansion and financial plans, it also shapes a new organizational culture of the Company.

Taking into account the applicable regulations, the level of compensation for members of the Management Board is determined by the Supervisory Board within the range determined by the Company's GM.

The variable compensation of members of the Management Board of TAURON constitutes up to 60% of the fixed compensation for the financial year, assuming the management objectives, set by the GM and detailed by the Supervisory Board for the given financial year, have been achieved.

Variable compensation for achieving financial management objectives is granted based on the data from the audited consolidated financial statements of the Company for the given financial year. Variable compensation for achieving non-financial management objectives is due in connection with achieving specific goals in the given financial year based on the assessment of their achievement by the Supervisory Board.

The overall management objectives set by the GM include::

1. achieving EBITDA at the level approved in the Material and Financial Plan for the given financial year,
2. achieving the Net debt/EBITDA ratio at the level approved in the Material and Financial Plan for the given financial year,
3. maintaining the rating of TAURON Polska Energia S.A. at an investment grade level,
4. achieving of the effects of the implemented restructuring programs or programs aimed at improving the efficiency of TAURON Capital Group,
5. implementation of the Strategy, investment projects in accordance with the optimal schedule and budget from the point of view of project profitability and the condition of TAURON Capital Group,
6. implementation of the key investment projects for energy security, in particular with respect to electricity generation and distribution, including investment projects related to BAT in 2020-2021,
7. sales of new products (sales of products that include electricity and products that are synergic with electricity and gas),
8. improving quality indicators for customer service or other operational indicators,
9. increase in TAURON Capital Group's innovations through the implementation of research and development works, pilot projects as well as deployments, taking into account the effective use of funds allocated for this purpose

Members of the Management Board of the Company are neither covered by the bonus program based on the capital (equity) of the Company, nor do they receive any compensation or awards due to the performance of their functions in the governing bodies (authorities) of TAURON Capital Group's subsidiaries.

System of compensation for members of the Management Board of TAURON Capital Group's subsidiaries

In all of TAURON Capital Group's subsidiaries for which TAURON is a parent company within the meaning of art. 4, clause 3 of the *act of February 16, 2017, on the protection of competition and consumers*, as subsequently amended, the principles of compensation for the members of the management authorities are applied in accordance with the *act of June 9, 2016 on the principles of determining compensation of the management personnel of certain companies*. The above was defined in the *Policy for determining the compensation for the members of the authorities of the Subsidiaries* and the *Principles of determining compensation for the members of the corporate authorities of the Subsidiaries*.

The principles of compensation for members of the management bodies (authorities) of the subsidiaries are, similar as at TAURON, based on a two-component system for determining compensation, where the total compensation is composed of a fixed part and a variable part dependent on fulfilling specific, results based criteria, i.e. achieving the management objectives. Linking of the compensation's variable part to achieving the management objectives set is of major importance in TAURON Capital Group's management process and is aimed at prioritizing the directions for expansion of the individual subsidiaries.

The management objectives that the variable compensation is linked to may, in particular, include:

1. increase of the net profit or EBITDA or a positive change of the growth rate of one of those figures;
2. achieving or changing the production or sales value;
3. amount of the revenue, in particular revenue from sales, from the operating activities, from the other operating or financing activities;
4. reducing losses, reducing the overhead costs or costs of the business operations conducted (operating expenses);
5. implementation of the strategy or restructuring plan;
6. achieving or changing certain indicators, in particular profitability, financial liquidity, management efficiency or solvency;
7. implementing investment projects, taking into account in particular the scale, rate of return, innovations, on-time implementation (delivery);

8. change of the company's market position, calculated as market share or according to other criteria or relationships with the counterparties (business partners, contractors) designated as the key counterparties (business partners, contractors) according to the defined criteria;
9. implementation of the personnel policy conducted and an increase of the workforce commitment.

Compensation policy and compensation report

On October 16, 2019, the *act on the amendment to the act on the public offering and conditions governing the introduction of financial instruments to an organized trading system, as well as on public companies and certain other acts* was passed, which imposed, on the company's GM, an obligation to adopt a compensation policy for the members of the management board and supervisory board.

The above amendment defines the scope of issues that the above mentioned policy should cover, including, among others, in particular:

1. description of the fixed and variable components of the compensation, as well as the bonuses and other pecuniary and non-monetary benefits that may be granted to the members of the management board and the supervisory board,
2. indication of the relative proportions of the components of compensation referred to in section 1 above,
3. explanation of how the pay and working conditions of the employees of the company other than the members of the management board and the supervisory board were taken into account when establishing the compensation policy,
4. indication of the period for which employment contracts, commission job performance contracts, specific task performance contracts or other contracts of a similar nature were concluded with the members of the management board and the supervisory board, as well as indication of the periods and terms of the termination of these contracts, and if no agreement has been concluded with a member of the management board or the supervisory board - an indication of the type and period for which the employment relationship between the member of the management board or the supervisory board and the company was established, as well as the period and conditions for terminating such a legal relationship,
5. description of the main features of the additional pension and retirements programs, as well as early retirement programs
6. description of the decision-making process carried out to establish, implement and review the compensation policy,
7. description of the measures taken to avoid or manage conflicts of interest related to the compensation policy,
8. indication of how the compensation policy contributes to the implementation of the business strategy, long-term interests and the stability of the company.

Pursuant to the above amendment, the company's GM may authorize the supervisory board to detail the elements of the above mentioned policy, while a resolution regarding such a policy should be adopted at least every 4 years.

Based on the review of the compensation system, the Supervisory Board prepares, on an annual basis, a report on the compensations and submits it to the GM for the GM to issue an opinion on such report. This report should include the results of the completed comprehensive review of the compensations, including all of the benefits, regardless of their form, received by the individual members of the management board and the supervisory board or due to the individual members of the management board and the supervisory board in the last financial year, in accordance with the above mentioned compensation policy.

The compensation policy for the members of the management board and the supervisory board will be adopted by the OGM approving the Company's financial statements for the financial year 2019 and posted, along with the resolution regarding its adoption, on the Company's website.

11.1.2. General information on the adopted compensation system for key managers

The principles concerning the compensation and bonus system for the key managers and other employees are defined in the *Regulations of the Compensation for the Employees of TAURON Polska Energia S.A.,* adopted for application by the Management Board of the Company.

In 2019 the *Principles of Compensation at TAURON Group* were in force, constituting the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for the key managers based on the management by objectives system consistent throughout TAURON Capital Group, representing a combination of the planning process, efficiency (performance) measurement process and assessment process.

The compensation and bonus system for the key managers in force envisages that the level of compensation should be tied to the financial situation of TAURON Capital Group and the Company over a year's time frame, in connection with the achievement (implementation) of the strategic goals.

The overarching assumption of the compensation system in force is to ensure the optimum and motivating compensation level, based on the value and type of work in the given position as well as the quality of work and effects achieved by the employees.

The structure of the compensation is composed of the following elements:

1. fixed part - constituting the base salary determined in accordance with the table of level (tier) categories applicable at the Company and the monthly rates of the personal level (tier). The allocated level of the basic salary reflects the value and type of work as well as the quality of the employee's work, defined based on the assessment of the employee's competence level,
2. variable part - which is dependent on the performance results, defined based on the level of accomplishing the targets and tasks within the MBO bonus system,
3. benefits - which are defined in the internal regulations of the Company.

The MBO bonus system based on the market principles of awarding bonuses ensures focusing of the activities of the key management staff on attaining the objectives aimed at implementing the Strategy, as well as the individual strategic objectives and expansion directions of TAURON Capital Group's individual subsidiaries. This system allows for cascading of the objectives defined by the Company's Management Board at TAURON Capital Group level and at the Company level, down to the concrete, parameterized tasks vested with the employees at the lower levels of the organization. In addition, the MBO bonus system has been linked with the process based management system implemented at TAURON Capital Group, inter alia by aligning the objectives with the Mega-processes defined within TAURON Capital Group. Therefore, the Management by Objectives culture introduced reflects the specific features of the individual functions implemented at the Company and allows for the use of the mechanisms enabling dialogue between the superior and the subordinate during the process of setting and assessing the objectives, leading to attaining the overall efficiency throughout the entire organization.

At the same time, this tool enables precise correlating of the KPIs defined for the members of the Management Board with the objectives defined for the given year for the key managers of the Company. An initial assessment of the accomplished objectives takes place after the elapse of the first 6 months and after the year has ended, the members of the Management Board make the final assessment of the KPI performance by the key managers.

11.1.3. Principles, conditions and amount of compensation for members of TAURON Polska Energia S.A.'s Management Board and entities that are part of TAURON Capital Group

Compensation of members of the Management Board of TAURON

The compensation of the members of the Company's Management Board is determined by the Company's Supervisory Board The total amount of compensation understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, due or paid by the Company to the members of the Management Board in 2019 reached the gross amount of PLN 4 557 000.

The compensation of the members of the Company's Management Board in 2019, broken down into components, is presented in the below table.

Table no. 60. Compensation of members of the Company's Management Board in 2019, broken down into components

#	First and last name	Period of holding the position in 2018	Compensation[1] (PLN '000)	Variable compensation[1] (PLN '000)	Other benefits[1] (PLN '000)	Total (PLN '000)
1.	Filip Grzegorczyk	01.01.2019. - 31.12.2019	793	407	3	1 203
2.	Jarosław Broda	01.01.2019 - 31.12.2019	740	444	0	1 184
3.	Kamil Kamiński	01.01.2019 - 21.09.2019	536	436	14	986
4.	Marek Wadowski	01.01.2019 - 31.12.2019	740	444	0	1 184
	Total		**2 809**	**1 731**	**17**	**4 557**

[1] *excluding markups (surcharges)*

The Company does not have any obligations towards the former members of the Management Board due to pensions or benefits of similar nature.

At the same time, it is indicated that, because of the Company's obligations towards the former members of TAURON's Management Board, the total amount of PLN 517 000 PLN was paid out in 2019 due to the payment of the compensation for refraining from performing competing activities (the non-compete clauses).

Members of TAURON's Management Board did not receive compensation or bonuses for performing the functions in the corporate bodies (authorities) of TAURON Capital Group's subsidiaries in 2019.

All members of the Company's Management Board received compensation in 2019, in accordance with the applicable contract for the provision of the management services in accordance with the *act of June, 2016, on the principles of determining compensation of the management personnel of certain companies*.

Compensation of members of the Management Boards of TAURON Capital Group's subsidiaries

The compensation of the members of the Management Boards of TAURON Capital Group's subsidiaries is determined taking into account the scale of the given subsidiary's operations, in particular:

1. average annual headcount,
2. annual net revenue (turnover) from the sales of goods, products and services as well as the financial operations,
3. total assets on the balance sheet at the end of the year.

Based on the above criteria, the categories of subsidiaries are defined, which determine the amount of the fixed compensation of the members of the subsidiaries' management authorities.

The principles of compensation for the members of the Management Boards of TAURON Capital Group's subsidiaries are published on the website at the address: https://www.tauron.pl.

11.1.4. Agreements concluded with management personnel that envisage compensation in case of their resignation or dismissal from the position held, with no important reason, or if their dismissal or resignation takes place as a result of the merger of the Company as a result of a takeover

The agreements (contracts) on the provision of the management services concluded both with the members of TAURON's Management Board as well as with the members of the Management Boards of TAURON Capital Group's individual subsidiaries, envisage, in case of the termination or renouncement of the agreement by the Company for reasons other than defined therein, a payout of the severance payment in the amount of three times the fixed part of the compensation, on the condition they have performed their function over a period of at least 12 months prior to the termination of the agreement.

Furthermore, due to the members of TAURON's Management Board, as well as the members of the Management Boards of TAURON Capital Group's individual subsidiaries having access to confidential information the disclosure of which could expose the Company and TAURON Capital Group's subsidiaries to losses, the agreements on the provision of the management services include the non-compete clauses applicable after the expiry of the term of office. Under the above mentioned agreements the members of the Management Board are obligated to refrain from conducting competitive activities for a specified period in return for the compensation.

Members of the Company's Management Board had not held the positions of members of the Management Boards of TAURON Capital Group's subsidiaries prior to being appointed as members of the Company's Management Board.

11.1.5. Non-financial components of compensation due to members of the Management Board and key managers

Non-financial components of the compensation of members of the Management Board

Members of the Management Board, in accordance with the agreements on the provision of the management services, are entitled to the reimbursement by the Company of the cost of training up to the net amount of PLN 15 000 in a calendar year, and as of February 2020, to have the Company refinance their basic contribution to the participation in the Employee Pension Program operated at the Company.

Non-financial components of the compensation of key managers

Staff members employed at the key positions by the Company are entitled to take advantage of the following benefits and non-financial components of the compensation offered by the Company:

1. participation in the Employee Pension Program operated by the employer (under the condition of being employed by the Company or one of TAURON Capital Group's subsidiaries over a period of at least 1 year),
2. use of the medical package financed with the Company's funds,
3. use of a company car allocated for their exclusive use,
4. use of the cash allowance to the accommodation in case the availability of the employee is required due to the nature of his / her work and scope of responsibilities and his / her permanent residence is located at a substantial distance from the Company's registered office.

11.1.6. Information on changes to the compensation policy during the last financial year

On May 8, 2019, the Ordinary GM of the Company amended the resolution of the Extraordinary GM of the Company of December 15, 2016, *regarding the principles of determining compensation of Members of the Management Board* by changing the overall management objectives.

On November 21, 2019, the Extraordinary General Meeting of the Company repealed the resolution of the Extraordinary General Meeting of the Company of December 15, 2016, *regarding the principles of determining compensation of Members of the Management Board*, as subsequently amended, at the same time defining the new principles for the compensation of members of the Management Board and setting the new management goals.

The detailed list of the management objectives is presented in section 11.1.1. of this report.

11.1.7. Assessment of the functioning of the compensation policy in terms of the fulfilment of its objectives, in particular the long-term growth in shareholder value and stability of the company's performance

The applied compensation system for members of the Management Board is in accordance with the *Act of June 9, 2016 on the principles for determining compensation of the management personnel of certain companies*. The incentive based and consistent system is provided, linked with the monitoring of the annual financial plans and the adopted Strategy and development (expansion) directions. *Policy of compensation for members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A.* in force at the Company is in line with the Best Practice 2016 principles and defines, in particular, the form, structure and the manner of determining the compensation of members of the Management Board.

The form, structure and level of the compensation correspond to the market conditions and are oriented towards enabling the recruitment and retaining individuals fulfilling the criteria required to manage the Company in a manner that would take into account the shareholders' interests (building the Company's value for the shareholders), as well as prevent arising of conflicts of interest among members of the Management Board and the shareholders. At the same time, they are structured in a manner that is transparent for the investors so as to build their confidence in the Company and enable them to express their opinions using the applicable procedures.

The disbursement of the variable components of the compensation is linked to the pre-defined, measurable management objectives that support the long-term stability of the Company and TAURON Capital Group.

The criteria the fulfilment of which determines obtaining of the variable components of the compensation and the level thereof are defined in accordance with the SMART methodology, i.e. they display such features as: precision, measurability, achievability, materiality and timing references.

The compensation and bonus system for both members of the Management Board of the Company as well as the key managers in force at TAURON supports the accomplishment (implementation) of the strategic goals and takes into account the determination of the compensation depending on the financial situation of the Company and TAURON Capital Group over one year period.

11.2. Compensation system for members of the Supervisory Board

In 2019 the system of compensation for members of the Supervisory Board of the Company defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016 *on determining compensation for members of the Supervisory Board, as subsequently amended*, was in force, adopted as the implementation of the provisions of the *act of 9 June 2016 on the principles for determining compensation of the management personnel of certain companies* (Journal of Laws of 2016, item 1202).

In accordance with the above mentioned Resolution of the Extraordinary GM the monthly compensation of members of the Supervisory Board is determined as a product of multiplying the assessment base mentioned in art. 1, clause 3, item 11 of the *act of 9 June 2016 on the principles for determining compensation of the management personnel of certain companies*, and the multiplier:

- for the chairperson of the Supervisory Board – 1.7
- for the other members of the Supervisory Board – 1.5

Members of the Supervisory Board are entitled to receive the compensation irrespective of the frequency of the formally convened meetings.

The compensation is not due for a month in which a member of the Supervisory Board was not present at any of the formally convened meetings, for unjustified reasons. The decision on excusing or a failure to excuse the absence of a member of the Supervisory Board at its meeting is taken by the Supervisory Board by way of a resolution.

The compensation is calculated on a pro rata basis, in relation to the number of days when the function was performed, in case the appointment or dismissal occurred in the course of the calendar month.

The Company covers the costs incurred in connection with the performance of the functions assigned to the members of the Supervisory Board, in particular: the costs of the round trip between the place of residence and the venue of the Supervisory Board's meeting or a meeting of the Supervisory Board Committee, the costs of the individual supervision and the costs of accommodation and board.

Compensation of the supervision personnel

The compensation of the members of the Company's Supervisory Board in 2019 is presented in the below table.

Table no. 61. Compensation of the members of the Company's Supervisory Board in 2019

#	First and last name	Period of holding the position in 2019	Compensation (PLN '000)
1.	Beata Chłodzińska	01.01.2019 - 31.12.2019	102
2.	Teresa Famulska	01.01.2019 - 31.12.2019	90
3.	Jacek Szyke	01.01.2019 - 31.12.2019	90
4.	Radosław Domagalski - Łabędzki	01.01.2019 - 08.05.2019	32
5.	Barbara Łasak - Jarszak	01.01.2019 - 31.12.2019	90
6.	Paweł Pampuszko	01.01.2019 - 08.05.2019	32
7.	Rafał Pawełczyk	08.05.2019 - 26.07.2019	20
8.	Grzegorz Peczkis	06.12.2019 - 31.12.2019	6
9.	Jan Płudowski	01.01.2019 - 31.12.2019	90
10.	Marcin Szlenk	01.01.2019 - 31.12.2019	90
11.	Katarzyna Taczanowska	08.05.2019 - 31.12.2019	58
12.	Agnieszka Woźniak	01.01.2019 - 31.12.2019	90
	Total		**790**

The Company does not have any obligations towards the former members of the Supervisory Board due to pensions or benefits of similar nature.

12. OTHER MATERIAL INFORMATION AND EVENTS

12.1. Material proceedings pending before the court, competent arbitration authority or public administration authority

The below table presents material proceedings pending before the court, competent arbitration authority or public administration authority in 2019.

Table no. 62. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2019

#	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
Proceedings involving TAURON		
1.	Huta Łaziska (plaintiff) TAURON (as a legal successor to GZE) and State Treasury represented by the President of ERO (defendants)	Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of ERO of October 12, 2001 related to the resumption of electricity supply to the plaintiff.
		Value of the object of litigation: PLN 182 060 000.00
		Initiation of the proceeding: the lawsuit of March 12, 2007
		Company's position: the Company considers the claims covered by the lawsuit as being without merit. By way of the ruling of May 28, 2019, the Regional Court in Warsaw dismissed the Huta Łaziska's lawsuit in whole and ruled that Huta Łaziska shall refund each defendant the costs of the proceedings. The ruling is not legally binding. Huta Łaziska filed an appeal on July 25, 2019, appealing against the above mentioned ruling in whole
2.	Head of the Mazovian Customs and Tax Office (authority conducting the investigation) TAURON (party)	Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the three investigations carried out by the Head of the Mazovian Customs and Tax Office are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from the following entities: Castor Energy sp. z o.o. (Castor Energy) and Virtuse Energy sp. z o.o. (Virtuse Energy)
		Value of the object of litigation (deducted VAT amount): PLN 54 371 306.92, out of which: Castor Energy sp. z o.o. – PLN 52 494 671.92, Virtuse Energy sp. z o.o. – PLN 1 876 635.00
		Date of initiating the proceeding: Castor Energy sp. z o.o. – October 2014 and August 2016, Virtuse Energy sp. z o.o. – December 2016
		Company's position: in the Company's opinion during the verification of both counterparties (business partners, contractors), due diligence was adhered to, the Company acted in good faith and should have the right to deduct the tax assessed on the invoices documenting the electricity purchase from the counterparties (business partners, contractors) Castor Energy and Virtuse Energy.
3.	ENEA (plaintiff) TAURON (defendant)	Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment in connection with the settlements related to the non-balancing of the Balancing Market with PSE between January and December 2012
		Value of the object of litigation: PLN 17 085 846.49
		Initiation of the proceeding: the lawsuit of December 10, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
Lawsuits pertaining to the termination, by the PEPKH subsidiary, of the agreements related to the sales of electricity and property rights arising from the certificates of origin		
4.	Dobiesław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of liability for the future.
		Value of the object of litigation: PLN 34 746 692.31
		Initiation of the proceeding: the lawsuit of June 30, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
5.	Dobiesław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for submitting a security (collateral) by establishing an escrow deposit (set aside for a separate consideration outside the proceeding under section 4)
		Value of the object of litigation: PLN 183 391 495.00
		Date of initiating the proceeding: June 30, 2017
		Company's position: the Company considers the claims as being without merit. On November 29, 2019, the Regional Court in Cracow dismissed the case as a result of the withdrawal of the lawsuit by the plaintiff.

#	Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
6.	Gorzyca Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 39 718 323.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
7.	Pękanino Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 28 469 073.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
8.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 27 008 100.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
9.	in.ventus sp. z o.o. Mogilno I sp. k. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: EUR 12 286 229.70 (i.e. PLN 53 587 619.46 at NBP's average exchange rate of June 29, 2018) Initiation of the proceeding: the lawsuit of June 29, 2018 Company's position: the Company considers the claims covered by the lawsuit as being without merit. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute.
10.	Amon sp. z o.o. and Talia sp. z o.o. (formal co-participation on the plaintiff's side) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: Amon – PLN 47 556 025.51; Talia – PLN 31 299 182.52 Initiation of the proceeding: the lawsuit of April 30, 2018 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
Proceedings involving TAURON Capital Group's subsidiaries related to the termination, by a subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin		
1.	Gorzyca Wind Invest sp. z o.o. Pękanino Wind Invest sp. z o.o. Dobiesław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages. Value of the object of litigation: Gorzyca – PLN 112 353 945.05; Pękanino PLN 64 116 908.85 Date of initiating the proceeding: Gorzyca – May 18, 2015, Pękanino – May 20, 2018, DWI – May 18, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
2.	Dobiesław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to award damages. Value of the object of litigation: PLN 42 095 462.00 Initiation of the proceeding: the lawsuit of June 14, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
3.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages. Value of the object of litigation: PLN 69 282 649.20 Initiation of the proceeding: the lawsuit of June 3, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit.

#	Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
4.	Amon sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.
		Value of the object of litigation: PLN 40 478 983.22
		Initiation of the proceeding: the lawsuit of May 22, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit. On July 25, 2019 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court: • determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon sp. z o.o., for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties • determined that Amon's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. The ruling is not legally binding. PEPKH disagrees with the ruling and filed an appeal on October 25, 2019.
5.	Amon sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to determine awarding of damages due to a failure to perform, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin.
		Value of the object of litigation: PLN 29 009 189.38
		Initiation of the proceeding: September 2, 2019
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
6.	Talia sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.
		Value of the object of litigation: PLN 46 078 047.43
		Initiation of the proceeding: the lawsuit of May 21, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit. On March 6, 2020 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court: • determined that PKH's statements on the termination of long term agreements, concluded between PEPKH i Talia, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties • determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages The ruling is not legally binding. PEPKH disagrees with the ruling and will file an appeal.
7.	Mogilno III Mogilno IV Mogilno V Mogilno VI (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity null and void, and to award damages.
		Value of the object of litigation: Mogilno III – equivalent of EUR 3 651 402.56; Mogilno IV – equivalent of EUR 3 765 458.12 EUR; Mogilno V – equivalent of EUR 3 505 331.82; Mogilno VI – equivalent of EUR 2 231 812.61
		Initiation of the proceeding: the lawsuit of May 25, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute.
8.	Mogilno I Mogilno II (plaintiff) PEPKH (defendant)	Object of litigation: lawsuit for payment of damages for the losses arisen as a result of a failure to perform agreements for the sale of property rights by PEPKH.
		Value of the object of litigation: Mogilno I – equivalent of EUR 3 583 336.19 EUR; Mogilno II – equivalent of EUR 3 659 538.72
		Initiation of the proceeding: the lawsuits of November 7, 2018
		Company's position: the Company considers the claims covered by the lawsuit as being without merit. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute.
9.	Hamburg Commercial Bank AG (formerly HSH Nordbank AG) (plaintiff) TAURON Sprzedaż (defendant)	Object of litigation: lawsuit for payment of damages due to TAURON Sprzedaż's failure to perform agreements for the sale of property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source and the liquidated damages assessed due to the termination of the above mentioned agreements.
		Value of the object of litigation: PLN 232 878 578.36

	Initiation of the proceeding: March 7, 2019
	Company's position: the Company considers the claims covered by the lawsuit as being without merit. In the letter drawn up jointly by the parties of September 3, 2019, the Plaintiff withdrew the lawsuit and waived its claim, and therefore the parties jointly submitted a request to discontinue the proceeding (dismiss the case) in whole. By way of the decision of September 5, 2019 the court discontinued the proceeding (dismissed the case). The decision is legally binding.

12.2. Information on agreements concluded by TAURON Capital Group's subsidiaries

12.2.1. Agreements significant for TAURON Capital Group's operations

Loan agreement to replace the bond issue program

On June 19, 2019, a loan agreement worth PLN 6.07 billion was signed between the Company as the borrower and Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Oddział w Polsce and Powszechna Kasa Oszczędności Bank Polski S.A. as lenders.

The above agreement basically replaced the bond issue program worth up to PLN 6.27 billion, concluded on November 24, 2015, including the subsequent amendments (Bond Issue Program), with the above mentioned banks and BNP Paribas Bank Polska S.A. that continues to finance the Company under the Bond Issue Program in the amount based on the bonds taken up thus far, whose maturities, as defined in the terms and conditions of the bond issue fall not later than by the end of 2020.

The key parameters of the financing defined in the above agreement, including the level of margin, the effective term of financing and the level of the individual lenders' financial exposure have not been changed as compared to the Bond Issue Program. The financing available to the Company under the agreement amounts to:

a) PLN 6.07 billion until December 31, 2021,

b) PLN 5.82 billion until December 31, 2022.

In accordance with the above agreement, on June 28, 2019, the Company drew the funds under the loan in the amount of PLN 1 839 600 000, to be used to redeem the bonds in the same amount, held by the bondholders that were the parties to the above mentioned agreement. Moreover, the funds will be used, among others, to implement the activities outlined in the update of the strategic directions that complemented TAURON Group's 2016-2025 Strategy and assumed an increased share of the renewable sources in TAURON Group's generation assets.

Due to the signing of the above agreement, the banks' undertaking to take up bonds issued under the Bond Issue Program has been cancelled, and thus the Company will not be placing any further bond issues under the program.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 24/2019 of June 19, 2019.

Signing of the transaction documents related to the acquisition of the wind farms

On September 3, 2019, the subsidiaries: TEC1, TEC2 and TEC3 signed the transaction documents related to the acquisition by of 5 wind farms owned by the in.ventus group and the receivables held by Hamburg Commercial Bank AG with its registered office in Hamburg against the wind farm operating companies. Wind farms are located in northern Poland and were commissioned in 2009-2011. Their total installed capacity is 180 MW, and the average annual electricity production is approx. 450 000 MWh.

The above transaction was executed through the acquisition by the above mentioned subsidiaries of the Polish partnerships that owned the wind farms and the German partnerships that were their limited partners (Project Companies). The above subsidiaries assumed all rights and obligations of the existing partners of the Project Companies and, at the same time, acquired the receivables held by Hamburg Commercial Bank AG against the Project Companies.

The total acquisition price was agreed in the transaction documents at EUR 137.1 million and will be subject to adjustments resulting, in particular, from the effects of the cooperation between the parties. The acquisition price was calculated using the "locked-box" mechanism as of December 31, 2018.

The purchase price was paid from the funds coming from the recapitalization by TAURON of the TEC1, TEC2 and TEC3 companies acquiring the above Project Companies.

The above terms of the wind farm acquisition transaction were adopted by the Management Board of TAURON on August 27, 2019. On September 2, 2019, the resolution on determining the manner of exercising the voting right by the sole shareholder, i.e. TAURON, at the extraordinary General Meetings of TEC1, TEC2 and TEC3 with respect to granting approval of the acquisition of fixed assets and increasing the share capital as well as taking up shares in the above-mentioned subsidiaries by TAURON in connection with the transaction was passed by TAURON's

Supervisory Board. On July 24, 2019, the President of UOKiK issued clearance for the concentration involving TAURON taking over control of the companies operating the wind farms.

Based on the signed transaction documents, on September 3, 2019, Hamburg Commercial Bank AG withdrew the lawsuit filed against TAURON Sprzedaż whose subject was the payment of damages in the amount of PLN 36.3 million and the liquidated damages in the amount of PLN 196.6 million, therefore, the parties jointly requested that the proceedings be discontinued in their entirety. By way of the decision of September 5, 2019, the court discontinued the proceedings. The court's decision became legally binding on September 19, 2019.

TAURON disclosed the information on the filing of the lawsuit in the regulatory filing (current report) no. 4/2019 of March, 2019.

The acquisition of the wind farms is in line with the update of the strategic directions announced on May 27, 2019, that complemented TAURON Group Strategy for 2016-2025, which provided for a significant increase in the share of the low- and zero-emission sources in the structure of TAURON Capital Group’s installed generation capacity.

TAURON disclosed the information on the events related to the acquisition of the wind farms in the regulatory filings (current reports) no. 27/2019 of July 25, 2019, no. 31/2019 of August 27, 2019, no. 34/2019 of September 2, 2019 and no. 35/2019 of September 3, 2019.

Signing of the loan agreement with Intesa Sanpaolo S.P.A.

On December 19, 2019, a loan agreement worth PLN 750 000 000 was concluded between TAURON and Intesa Sanpaolo S.P.A., acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), the proceeds from which may be used to cover TAURON Capital Group’s capital expenditures, including, in particular, the outlays related to:

- broadly understood renewable energy,
- electricity distribution, including grid extension and upgrade,
- refinancing of TAURON’s existing financial debt,

with a caveat that the said financing will not be used to finance or refinance projects related to the coal assets.

In accordance with the above agreement TAURON will be able to utilize the funds within 4 months from the date of concluding the agreement (after the suspending conditions that are standard for this type of financing have been met). The loan repayment will take place after 5 years have elapsed from the date of concluding the above agreement. Interest will be calculated based on the WIBOR floating interest rate, increased by the bank’s margin.

The acquisition of a new source of financing by concluding the loan agreement contributes to the shoring up of TAURON’s financial stability.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 58/2019 of December 19, 2019.

12.2.2. Transactions with related entities on terms other than at arm’s length

All transactions with related entities are concluded at arm’s length.

The detailed information on the transactions with related entities is provided in note 52 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

12.2.3. Signed and terminated credit and loan agreements

Working capital credits and short term loans

In accordance with the financing model adopted by TAURON Capital Group, only TAURON may act as a party to working capital credits and short-term loans raised with external institutions.

TAURON Capital Group is using a cash pooling service, implemented under the true cash pooling service agreement concluded with PKO BP (of October 9, 2017 with the validity term until December 17, 2020). The cash pooling structure is based on daily limits granted to the individual participants by the agent managing the service, the function performed by TAURON. As a result of implementing the cash pooling mechanism, the cash transfers are performed between accounts of the participants of the service and the agent’s account.

In connection with the cash pooling structure TAURON uses the following services offered by PKO BP:

- overdraft limit in the amount of PLN 300 000 000, based on the overdraft agreement concluded with the bank in October 2017, with the repayment date falling on December 29, 2020, and
- intraday limit in the amount of PLN 500 000 000, effective until December 17, 2020. The intraday limit is a daily limit which must be fully repaid by the end of each day on which it was used.

As part of financing its ongoing operations the following agreements were also in force in 2019:

- overdraft agreement with BGK, up to the amount of EUR 45 000 000, concluded with BGK in 2016, as subsequently amended, with the repayment date of December 31, 2020. The overdrawn amount is used for financing of the transactions of purchase/ sale/ exchange of CO_2 emission allowances, trading in electricity and gas made on the European exchanges,
- overdraft agreement concluded with mBank on March 30, 2018 for the amount not exceeding of USD 500 000, including the amendment of March 26, 2019, as a result of which the loan amount was reduced to USD 200 000 USD, to be used for financing the ongoing operations, in particular, for financing the collateral margin and commodity products transactions. The repayment deadline of the loan falls on March 31, 2020.

The purpose of above described foreign currency loans is to mitigate the FX risk related to the trade transactions concluded.

The below table presents the detailed summary of TAURON Capital Group's working capital loan and credit agreements effective in 2019, listed according to the repayment date and the amount as of December, 31, 2019.

Table no. 633. Summary of TAURON Capital Group's working capital loan and credit agreements effective in 2019 (listed according to the repayment date)

#	Parties to the agreement	Type of agreement	Interest rate	Amount of credit/loan ('000)	Date of agreement	Repayment date	As of December 31, 2019 ('000)
1.	TAURON - mBank	Overdraft	LIBOR 1M + fixed margin	200 USD	27.03.0218	31.03.2020	199 USD
2.	TAURON - BGK	Overdraft	EURIBOR 1M + fixed margin	45 000 EUR	30.12.2015	31.12.2020	4 804 EUR
3.	TAURON - PKO BP	Intraday limit	None	300 000 PLN	09.10.2017	17.12.2020	0 PLN
4.	TAURON - PKO BP	Overdraft	WIBOR O/N + fixed margin	300 000 PLN	09.10.2017	29.12.2020	0 PLN

Investment credits and loans

In 2019 TAURON signed loan agreements:

1. up to the amount of PLN 6 070 000 000 with the commercial banks: Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Oddział w Polsce and Powszechna Kasa Oszczędności Bank Polski S.A, as a replacement of the bond issue program with the loan agreement,
2. up to the amount of PLN 750 000 000 with Intesa Sanpaolo S.P.A.

The detailed information related to the above agreement is provided in section 12.2.1 of this report.

The below table presents a detailed summary of TAURON Capital Group's investment credit and loan agreements effective in 2019, listed according to the repayment date.

Table no. 64. Summary of TAURON Capital Group's investment credit and loan agreements effective in 2019, (listed according to the repayment date)

#	Parties to the agreement	Interest rate	Amount of credit/loan ('000)	Date of agreement	Repayment date	Balance as of December 31, 2019 ('000)
1.	KW Czatkowice – WFOŚiGW	Floating rate	914 PLN	12.05.2016	31.05.2021	168 PLN
2.	TAURON – EIB	Fixed rate	210 000 PLN	24.10.2011	15.12.2021	42 000 PLN
3.	TAURON – EIB	Fixed rate	300 000 PLN	24.10.2011	15.12.2021	60 000 PLN
4.	TAURON Wytwarzanie – WFOŚiGW	Base rate + fixed margin	40 000 PLN	25.10.2010	15.12.2022	12 000 PLN
5.	TAURON - Banks – Loan providers	Base rate + fixed margin	6 070 000 PLN	19.06.2019	31.12.2022	5 289 600 PLN
6.	KW Czatkowice - WFOŚiGW	Floating rate	293 PLN	05.11.2018	30.11.2023	229 PLN
7.	TAURON – EIB	Fixed rate	450 000 PLN	03.07.2012	15.06.2024	184 091 PLN
8.	TAURON – EIB	Fixed rate	200 000 PLN	03.07.2012	15.09.2024	90 909 PLN
9.	TAURON – EIBI	Fixed rate	250 000 PLN	03.07.2012	15.09.2024	113 636 PLN
10.	TAURON - Intesa	Base rate + fixed margin	750 000 PLN	19.12.2019	19.12.2024	0 PLN
10.	TAURON – EIB	Fixed rate	295 000 PLN	18.07.2014	15.03.2027	221 250 PLN

#	Parties to the agreement	Interest rate	Amount of credit/loan ('000)	Date of agreement	Repayment date	Balance as of December 31, 2019 ('000)
11.	TAURON - BGK	WIBOR 6M + fixed margin	1 000 000 PLN	19.12.2018	20.12.2033	1 000 000 PLN

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2019.

On March 16, 2020, TAURON concluded a loan agreement with SMBC BANK EU AG for the amount of PLN 500 000 000 and on March 25, 2020, it concluded a syndicated loan agreement for the amount of PLN 500 million with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Spółka Akcyjna) (Joint Stock Company) Oddział w Polsce (Polish Branch).

The information about the conclusion of the above loan agreements is provided in section 2.6 of this report.

12.2.4. Loans and sureties granted as well as sureties and guarantees received

Loans granted

In December 2019, TAURON and the Subsidiaries converted the debt due to the intra-Group bonds into intra-Group loans with the maturity of the loans corresponding to the original maturities of the bonds. The total amount of debt due to the intra-Group bonds subject to the conversion into intra-Group loans was PLN 4 535 000 000.

In addition, in 2019, TAURON granted financing to TAURON Wydobycie in the amount of PLN 1 400 000 000 in the form of 2 loans to be used for the repayment of the liabilities under the cash pool and 3 loans in the total amount of PLN 370 000 000, to be used for the repayment of the accounts payable due to the bonds in accordance with their maturities.

The below table presents a summary of Tauron Capital Group's intra-Group loans granted and effective in 2019.

Table no. 65. Summary of TAURON Capital Group's intra-Group loans granted and effective in 2019

#	Parties to the agreement	Interest rate	Repayment date	Total loan amount ('000)
1.	TAURON Ciepło - TAURON	Fixed rate	02.2020 - 09.2025	975 000 PLN
2.	TAURON Dystrybucja - TAURON	Fixed rate	02.2020 - 11.2025	3 000 000 PLN
3.	TAURON Ekoenergia - TAURON	Fixed rate	06.2025	160 000 PLN
4.	TAURON Wydobycie - TAURON	Fixed rate	02.2020 - 12.2029	1 970 000 PLN
5.	TAURON Wytwarzanie - TAURON	Fixed rate	09.2020	200 000 PLN

In addition, as of the reporting date, the intra-Group loans are in place, granted among the project companies acquired in September 2019 by TAURON Capital Group from the in.ventus group with the total amount of PLN 125 596 000, of which PLN 48 259 000 is subject to write-off.

In 2019 TAURON continued the financing of:

- joint subsidiary in the form of loan that were used to finance the current operations of EC Stalowa Wola, financing the VAT settlements and financing the agreements concluded by EC Stalowa Wola with the subcontractors,
- PGE EJ 1 in the form of 2 loans with the repayment terms of 3 years from the date of concluding the individual contracts

The below table below presents the summary of loans for the jointly controlled subsidiaries and affiliated companies granted by TAURON and in force in 2019 at TAURON Capital Group, listed according to the repayment date.

Table no. 66. Summary of loans for the jointly controlled subsidiaries and affiliated companies granted by TAURON and in force in 2019 at TAURON Capital Group (listed according to the repayment date)

#	Parties to the agreement	Interest rate	Date of agreement	Repayment date	Loan principle amount as of December 31, 2019 ('000)
1.	EC Stalowa Wola - TAURON	WIBOR 1M + fixed margin	11.04.2018	30.09.2020	5 100 PLN
2.	PGE EJ 1 - TAURON	Fixed rate	08.11.2017	06.11.2020	2 940 PLN
3.	PGE EJ 1 - TAURON	Fixed rate	02.03.2018	02.03.2021.	4 800 PLN
4.	EC Stalowa Wola - TAURON	Fixed rate	28.02.2018.	30.06.2033	310 851 PLN

#	Parties to the agreement	Interest rate	Date of agreement	Repayment date	Loan principle amount as of December 31, 2019 ('000)
5.	EC Stalowa Wola - TAURON	Fixed rate	30.03.2018	30.06.2033	7 000 PLN
6.	EC Stalowa Wola - TAURON	Fixed rate	19.12.2018	30.06.2033	8 535 PLN
7.	EC Stalowa Wola - TAURON	Fixed rate	12.03.2019	30.06.2033	5 175 PLN

Apart from the above mentioned loans, the Company did not grant other loans in 2019.

After the balance sheet date, loans in the total amount of PLN 631 175 000 were granted at TAURON Capital Group.

Sureties and guarantees granted

Principles of granting collaterals by TAURON and its subsidiaries are based on the applicable corporate internal regulations in force.

The below table presents the summary of corporate sureties and guarantees granted by TAURON, effective in 2019, listed according to the validity date.

Table no. 67. Summary of sureties and guarantees granted by TAURON effective in 2019 (listed according to the validity date)

#	Beneficiary	Agreement / collateral	Entity whose liabilities constitute the subject of collateral	Liability amount under agreement ('000)	Date of agreement	Validity date
1.	Entrepreneurs (businesses) and consumers who have concluded a contract with TAURON EKOENERGIA on the basis of the electricity trading license granted by the President of the Energy Regulatory Office	Corporate guarantee	TAURON EKOENERGIA	16 400 PLN	09.11.2017	19.07.2019
2.	GAZ-SYSTEM	Guarantee agreement	EC Stalowa Wola	1 667 PLN	05.04.2017	30.07.2020
3.	BGK	Guarantee agreement	EC Stalowa Wola	3 644 USD	31.10.2019	30.07.2020
4.	Polska Spółka Gazownictwa	Guarantee agreement	TAURON Sprzedaż	20 000 PLN	30.03.2016	30.11.2020
5.	PSE	Guarantee agreement	Nowe Jaworzno GT	33 024 PLN	29.10.2018	31.12.2020
6.	BGK	Guarantee agreement	EC Stalowa Wola	9 959 PLN	08.11. 2018	30.01.2021
7.	BGK	Guarantee agreement	EC Stalowa Wola	1 328 USD	31.10.2019	24.04.2021
8.	WFOŚiGW	Guarantee agreement	KW Czatkowice	914 PLN	01.06.2016	15.06.2021
9.	WFOŚiGW	Guarantee agreement	KW Czatkowice	293 PLN	05.11.2018	31.12.2023
10.	Fund advisors	Guarantee agreement	Nowe Jaworzno GT	2 500 PLN	29.12.2017	28.09.2025
11.	Bondholders	Corporate guarantee	TAURON Sweden Energy	168 000 EUR	03.12.2014	03.12.2029
12.	PSE	Guarantee agreement	TAURON Wytwarzanie	5 000 PLN	04.08.2014	Indefinitely

Besides TAURON the other subsidiaries of TAURON Capital Group did not grant any sureties.

As part of the framework agreements in force, at the request of the Company, in 2019 bank guarantees were issued for the liabilities of TAURON Capital Group's subsidiaries, which as of December 31, 2019 amounted to PLN 587 320 000. The most important item is the bank guarantee granted by MUFG Bank, Ltd. on behalf of the Company as a collateral for BGK's claims against EC Stalowa Wola. The guarantee is valid until April 11, 2020.

On February 5, 2019, TAURON concluded a new guarantee cap (limit) agreement with MUFG Bank, Ltd., under which Amendment No. 1 to the bank guarantee was issued to provide a collateral for BGK's claims against EC Stalowa Wola under the loan agreement concluded on March 8, 2018, between EC Stalowa Wola as a borrower, and BGK and PGNiG as lenders.

On February 5, 2019, TAURON concluded a new bank guarantee cap agreement with Caixabank S.A.:

1. up to the amount of PLN 80 000 000 with the availability cap for the period of 36 months from the date of concluding the agreement, with a proviso that the period of validity of the bank guarantees issued under the agreement shall not exceed the effective term expiration by more than 12 months,
2. up to the amount of PLN 20 000 000 with the availability cap for the period of 24 months, with a proviso that during the agreement term, bank guarantees with a maximum validity of 84 months may be issued.

The above agreements with Caixabank S.A., for the total amount of PLN 100 000 000, replace the bank guarantee cap agreement of July 12, 2016, which has been terminated.

The below table presents the summary of the bank guarantees granted from January 1, 2019 to December 31, 2019, listed according to the validity date.

Table no. 68. Summary of bank guarantees granted (listed according to the validity date)

#	Bank	Company	Beneficiary	Type guarantee	Amount ('000)	Validity term
1.	Santander Bank	TAURON	IRGiT	Accounts payable	20 000 PLN	27.03.2019 - 31.05.2019
2.	Santander Bank	TAURON	IRGiT	Accounts payable	30 000 PLN	05.04.2019 - 31.05.2019
3.	Santander Bank	TAURON	IRGiT	Accounts payable	50 000 PLN	08.04.2019 - 31.05.2019
4.	CaixaBank	TAURON	IRGiT	Accounts payable	50 000 PLN	01.06.2019 - 31.07.2019
5.	CaixaBank	TAURON	IRGiT	Accounts payable	19 000 PLN	29.08.2019 - 30.09.2019
6.	CaixaBank	TAURON	PSE	Bid bond	7 906 PLN	23.09.2019 - 17.10.2019
7.	CaixaBank	TAURON	PSE	Bid bond	7 409 PLN	16.10.2019 - 31.10.2019
8.	CaixaBank	KW Czatkowice	PGE	Bid bond	1 925 PLN	02.08.2019 - 29.12.2019
9.	CaixaBank	TAURON Dystrybucja	ELEKTROBUDOWA	Payment	7 579 PLN	11.12.2019 - 29.12.2019
10.	CaixaBank	TAURON Wydobycie	PKP	performance bond	105 PLN	01.01.2019 - 31.12.2019
11.	CaixaBank	TAURON Sprzedaż	Welcome Airport Services	performance bond	111 PLN	22.11.2019 - 30.01.2020
12.	CaixaBank	TAURON	IRGiT	Accounts payable	25 000 PLN	01.08.2019 - 31.01.2020
13.	CaixaBank	TAURON	IRGiT	Accounts payable	25 000 PLN	27.08.2019 - 31.01.2020
14.	CaixaBank	TAURON	IRGiT	Accounts payable	11 000 PLN	29.08.2019 - 31.01.2020
15.	CaixaBank	KW Czatkowice	PGE	Bid bond	300 PLN	20.12.2019 - 17.02.2020
16.	CaixaBank	TAURON Dystrybucja Serwis	S&I Poland	performance bond	488 PLN	17.04.2019 - 29.02.2020
17.	CaixaBank	TAURON Sprzedaż	Wodociągi Kieleckie	performance bond	253 PLN	13.11.2019 - 01.03.2020
18.	CaixaBank	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna	performance bond	106 PLN	01.01.2019 - 30.03.2020
19.	CaixaBank	KW Czatkowice	PGE Energia Ciepła	performance bond	258 PLN	01.01.2019 - 30.03.2020
20.	CaixaBank	KW Czatkowice	Zespół Elektrociepłowni Wrocławskich	performance bond	48 PLN	01.01.2019 - 30.03.2020
21.	MUFG Bank Ltd.	TAURON	BGK	Accounts payable	517 500 PLN	12.04.2019 - 11.04.2020
22.	CaixaBank	TAURON Sprzedaż	Główny Instytut Górnictwa	performance bond	103 PLN	07.11.2019 - 31.07.2020
23.	CaixaBank	TAURON Sprzedaż	Centrum Onkologii	performance bond	947 PLN	30.07.2019 - 30.10.2020
24.	CaixaBank	TAURON Wydobycie	PKP	performance bond	106 PLN	01.01.2019 - 31.12.2020
25.	CaixaBank	TAURON Sprzedaż	Akademia Wychowania Fizycznego	performance bond	251 PLN	04.11.2019 - 30.01.2021
26.	CaixaBank	TAURON Sprzedaż	GPW	performance bond	703 PLN	20.12.2019 - 31.01.2021
27.	CaixaBank	TAURON Sprzedaż	Telewizja Polska	performance bond	3 089 PLN	06.11.2019 - 30.04.2021
28.	CaixaBank	TAURON Dystrybucja Serwis	S&I Poland	warranty and guarantee	100 PLN	27.06.2019 - 25.06.2021

#	Bank	Company	Beneficiary	Type guarantee	Amount ('000)	Validity term
29.	CaixaBank	TAURON Dystrybucja Serwis	Budimex	performance bond	107 PLN	04.11.2019 - 30.11.2021
30.	CaixaBank	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna	performance bond	417 PLN	04.11.2019 - 31.03.2022
31.	CaixaBank	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna	performance bond	235 PLN	12.11.2019 - 31.03.2022
32.	CaixaBank	KW Czatkowice	PGE Energia Ciepła	performance bond	100 PLN	20.12.2019 - 31.03.2022
33.	CaixaBank	KW Czatkowice	Zespół Elektrociepłowni Wrocławskich	performance bond	120 PLN	27.12.2019 - 31.03.2022
34.	CaixaBank	TAURON Dystrybucja Serwis	Generalna Dyrekcja Dróg Krajowych i Autostrad	performance bond	50 PLN	25.06.2019 - 28.07.2029
35.	CaixaBank	TAURON Dystrybucja Serwis	Generalna Dyrekcja Dróg Krajowych i Autostrad	performance bond	50 PLN	25.06.2019 - 28.07.2029

Apart from the guarantees issued under TAURON's framework (master) agreements, at the instruction of TAURON Czech Energy banks issued 4 guarantees as collaterals for accounts payable, as summarized in the below table.

Table no. 69. Summary of bank guarantees granted in 2019 at the instruction of TAURON Czech Energy (listed according to the validity date)

#	Bank	Company	Beneficiary	Type of collateral	Amount ('000)	Validity term
1.	PKO BP Czech Branch	TAURON Czech Energy	OTE, a. s.	accounts payable	15 000 CZK	01.06.2019 - 31.05.2020
2.	UniCredit Bank Czech Republic and Slovakia	TAURON Czech Energy	OKTE a.s.	accounts payable	200 EUR	01.07.2019 - 30.06.2020
3.	UniCredit Bank Czech Republic and Slovakia	TAURON Czech Energy	OKTE a.s.	accounts payable	500 EUR	01.07.2019 - 30.06.2020
4.	PKO BP Czech Branch	TAURON Czech Energy	Slovenské elektrárne,a.s.	accounts payable	500 EUR	21.03.2019 - 31.01.2021

In the period from January 1, 2019 to December 31, 2019, the bank guarantees granted before January 1, 2019 for the total amount of PLN 19 417 000 ceased to be applicable (effective).

After the balance sheet date, the Company concluded:

- on January 28, 2020, a guarantee cap (limit) agreement with MUFG Bank, Ltd., under which, at the Company's instruction, Amendment No. 2 to the bank guarantee was issued, up to the amount of PLN 517 500 000, extending the guarantee effective term until April 11, 2021,
- on March 13, 2020, an agreement on issuing a guarantee under the BGK credit line, with a cap of PLN 500 000 000. The cap is effective until March 13, 2021, and can be used as a collateral of the Company's liabilities towards IRGiT. On March 18, 2020, at the Company's instruction, BGK issued 5 bank guarantees of PLN 100 000 000 each, with the effective terms of June 30 (3 guarantees), July 31 and August 31, 2020.

After the balance sheet date, at the instruction of TAURON Czech Energy, an amendment to the bank guarantee issued in 2018 in the amount of CZK 30 000 was issued, extending its effective term until January 31, 2021.

As of the date of drawing up this report, the amount of the bank guarantees granted is PLN 1 091 913 000.

In order to provide collaterals for the transactions carried out by TAURON on the Polish Power Exchange (TGE) and due to the participation in the settlements (clearing) guarantee system managed by IRGiT, on December 18, 2019, three-party agreements on the transfer of title to the collateral were concluded by TAURON Wytwarzanie, TAURON and IRGiT. Under the agreements, TAURON Wytwarzanie transferred the rights to collaterals to IRGiT in the amount of 9 795 035 tons.

Sureties and guarantees received

The below table presents the summary of collaterals received by TAURON, effective as of December 31, 2019.

Table no. 70. Summary of collaterals received by TAURON, effective as of December 31, 2019

#	Entity whose liabilities constitute the subject of collateral	Entity issuing collateral	Type of collateral	Amount in currency ('000)	Validity term
1.	PKP CARGO S.A.	Credit Agricole Bank Polska S.A.	guarantee	2 270 PLN	from 01.01.2018 to 30.01.2020
2.	**Consortium:** DB Cargo Polska S.A., CTL Logistics sp. z o.o., Rail Polska sp. z o.o.	mBank S.A.	guarantee	201 PLN	from 19.12.2018 to 30.01.2020
3.	**Consortium:** DB Cargo Polska S.A., CTL Logistics sp. z o.o., Rail Polska sp. z o.o.	mBank S.A.	guarantee	423 PLN	from 19.12.2018 do 30.01.2020
4.	Rail Polska sp. z o.o.	UNIQA TU S.A.	guarantee	100 PLN	from 01.01.2018 to 30.01.2020
5.	Rail Polska sp. z o.o.	UNIQA TU S.A.	guarantee	212 PLN	from 26.01.2018 to 30.01.2020
6.	**Consortium:** DB Cargo Polska S.A., CTL Logistics sp. z o.o., Rail Polska sp. z o.o.	Sopockie TU ERGO HESTIA S.A.	guarantee	201 PLN	from 01.01.2018 to 31.01.2020
7.	**Consortium:** DB Cargo Polska S.A., CTL Logistics sp. z o.o., Rail Polska sp. z o.o.	Sopockie TU ERGO HESTIA S.A.	guarantee	423 PLN	from 01.01.2018 to 31.01.2020
8.	Polenergia Obrót S.A.	Bank Pekao S.A.	guarantee	750 EUR	from 23.10.2015 to 31.03.2021

Management Board of the Company

Katowice, March 30, 2020

Filip Grzegorczyk - President of the Management Board

Jarosław Broda - Vice President of the Management Board

Marek Wadowski - Vice President of the Management Board

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this report is presented below.

Table no. 71. Explanation of abbreviations and acronyms as well as trade terms used in the report

#	Abbreviation and trade term	Full name / explanation
1.	Abener Energia	Abener Energia S.A. with its registered office in Campus Palmas Altas (Sevilla).
2.	AKPiA	I&C (Instrumentation and Control).
3.	The Update of the Strategic Directions	Document entitled *The Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025* adopted by TAURON's Management Board on May 27, 2019, that complemented the document entitled *TAURON Group Strategy for 2016-2025,* adopted by TAURON's Management Board on September 2, 2016
4.	Amon	Amon sp. z o.o. with its registered office in Łebcz.
5.	ARA	Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports
6.	ARE	Agencja Rynku Energii S.A. with its registered office in Warsaw.
7.	BASE (BASE Contract)	A baseload contract for the supply of electricity at all hours of the period, e.g. the BASE contract for March 2020 is related to the supply of the same amount of electricity during all hours of the month of March 2020.
8.	BGK	Bank Gospodarstwa Krajowego with its registered office in Warsaw.
9.	Bioeko Grupa TAURON	Bioeko Grupa TAURON Sp. z o.o. with its registered office in Stalowa Wola.
10.	B+R	Research and Development.
11.	B+R+I	Research, Development and Innovations.
12.	CAO	Central Allocation Office – auction office for the cross-border transmission capabilities in Central and Eastern Europe.
13.	CAPEX	Capital Expenditures.
14.	Cash pooling	True cash pooling structure, implemented under the cash management agreement, is based on daily limits granted to the individual participants by the agent managing the service, i.e. TAURON. As a result of the implementation of the cash pooling mechanism, cash transfers are made between the accounts of the service participants and the Agent's account.
15.	CC4ES	Cybersecurity Conference for Energy Sector
16.	CDS	Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO_2 emission allowances.
17.	Color certificates	Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: **green** - certificates of origin of electricity from RES, **blue** - certificates of origin of electricity generated from agricultural biogas. **yellow** - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, **red** - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), **violet** - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing, **white** - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors)
18.	CIRS	Currency Interest Rate Swap - transaction involving a swap between counterparties (business partners, contractors) of interest payments assessed on amounts denominated in various currencies and determined according to various interest rates
19.	CPI	Consumer Price Index.
20.	CRO	Deviation Settlement Price (Cena Rozliczeniowa Odchylenia) - the price at which PSE (transmission system operator) accounts for deviations in the production or consumption of electricity by the electricity balancing market (RB) participants.
21.	CSI	Customer Satisfaction Index – index used in marketing to determine the level of customer satisfaction with the products or services offered by a company
22.	CSR	Corporate Social Responsibility.

#	Abbreviation and trade term	Full name / explanation
23.	CUW	Shared Services Center (Centrum Usług Wspólnych - CUW), (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services).
24.	CVaR	Credit Value at Risk - risk measure determining the maximum possible credit risk loss with a given probability and within a specified time frame.
25.	CVC	Corporate Venture Capital - Venture Capital (VC) investments carried out by VC funds with the intention of achieving not only financial goals, but also strategic (industry) goals set by a large company (corporation) which is the capital donor for this fund. VC are capital investments made on the OTC market in business ventures that are in the early stages of development. CVC is a development of VC as a way of investing capital and is to have a positive impact on the industry objectives of TAURON Capital Group.
26.	DMS	Distribution Management System.
27.	Best Practices 2016	*Best Practices of WSE Listed Companies 2016,* in force as of January 1, 2016
28.	DSM	Demand Side Management
29.	DSR	Demand Side Response
30.	EIB	European Investment Bank with its registered office in Luxembourg.
31.	EBIT	Earnings Before Interest and Taxes.
32.	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
33.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. (Combined Heat and Power Plant – CHP) with its registered office in Stalowa Wola.
34.	EEC Magenta ASI	EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw.
35.	EEC Magenta 2 ASI	EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw
36.	EEC Ventures	EEC Ventures limited liability company limited joint stock partnership with its registered office in Warsaw
37.	EEC Ventures 2	EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw
38.	EEX (EEX exchange)	European Energy Exchange) - European energy exchange in Leipzig, where contracts and derivatives for electricity for various European countries are traded, as well as primary auctions of CO_2 emission allowances are conducted.
39.	ElectroMobility Poland	ElectroMobility Poland S.A. with its registered office in Warsaw.
40.	EMAS	EcoManagement and Audit Scheme.
41.	EMCO	Energy Management Company - a company dealing with comprehensive energy management for the customer.
42.	ENEA	ENEA S.A. with its registered office in Poznań.
43.	ENERGA	ENERGA S.A. with its registered office in Gdańsk.
44.	EPCM	Engineering Procurement Construction Management - construction, engineering and procurement management service (Contract Manager).
45.	EPEX (EPEX exchange)	European Power Exchange SE - electricity exchange operating in Germany, France, Great Britain, the Netherlands, Belgium, Austria, Switzerland and Luxembourg.
46.	ERM	Enterprise Risk Management.
47.	ESCO	Energy Service Company - an enterprise providing energy services or other energy efficiency improvement measures for an electricity user / consumer
48.	ESG	Environmental, Social and Governance - environmental, social and corporate governance factors used in the investment decision making process.
49.	EU ETS	European Union Emission Trading System
50.	EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO2) equivalent to the air, within the meaning of Article 2 section 4 of the *act of July 17, 2009 on the management system of emissions of greenhouse gases and other substances*, which is used for settlements of emission level within the system and which can be managed under the rules provided in the *Act of April 28, 2011 on the system of greenhouse gases emission allowances trading*
51.	EUR	Euro - a common European currency introduced in some EU member states
52.	EWI	Early Warning Indicator.
53.	Finanse Grupa TAURON	Finanse Grupa TAURON sp. z o.o. with its registered office in Katowice.
54.	FIIK	Fundusz Inwestycji Infrastrukturalnych – Kapitałowy (Infrastructure Investment Fund – Equity).

#	Abbreviation and trade term	Full name / explanation
55.	FIP	Feed-in premium - system of subsidies to the market price, which is a form of support for the generation of electricity from renewable energy sources
56.	FIT	Feed-in tariff - guaranteed tariff system, which is a form of support for the generation of electricity from renewable energy sources
57.	FIZ	Fundusz Inwestycyjny Zamknięty (Closed-end investment fund)
58.	FIZAN	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end private equity investment fund)
59.	GAZ-SYSTEM	Transmission Pipelines Operator (Operator Gazociągów Przesyłowych) GAZ-SYSTEM S.A. with its registered office in Warsaw.
60.	GPW	Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A.) with its registered office in Warszawie.
61.	TAURON Capital Group	TAURON Capital Group Polska Energia S.A.
62.	GUS	Central Statistics Office (Główny Urząd Statystyczny).
63.	GZE	Górnośląski Zakład Elektroenergetyczny S.A. with its registered office in Gliwice.
64.	HEMS	Home Energy Management System.
65.	ICE (ICE exchange)	InterContinental Exchange - commodity and financial exchange, where, among others, contracts for oil, coal, natural gas and CO_2 emission allowances are traded.
66.	IOS	Flue gas desulphurization installation
67.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. with its registered office in Warsaw.
68.	IRS	Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market
69.	KECX	Property rights confirming the generation of electricity in high-efficiency coal fired cogeneration.
70.	KGHM Polska Miedź	KGHM Polska Miedź S.A. with its registered office in Lubin.
71.	KGMX	Property rights confirming the generation of electricity in high-efficiency gas fired cogeneration.
72.	KMETX	Property rights confirming the generation of electricity in high-efficiency cogeneration using methane coming from mine demethanation.
73.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
74.	Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
75.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
76.	BAT Conclusions	Best Available Techniques with respect to large combustion plants (LCP), introduced by way of the Executive Decision of the European Commission (EU) no. 2017/1442of July 31, 2017 (
77.	KPI	Key Performance Indicators – key financial and non-financial indicators used as ways to measure progress of achieving goals of an organization.
78.	KRI	Key Risk Indicators.
79.	KSE	National Power System (Krajowy System Elektroenergetyczny)
80.	Ksh	*Act of September 15, 2000, Code of Commercial Companies*
81.	KW Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. with its registered office in Krzeszowice.
82.	LNG	Liquefied Natural Gas.
83.	Łagisza Grupa TAURON	Łagisza Grupa TAURON sp. z o.o. with its registered office in Katowice.
84.	Magenta Grupa TAURON	Magenta Grupa TAURON sp. z o.o. with its registered office in Katowice.
85.	MAR	Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse
86.	Marselwind	Marselwind sp. z o.o. with its registered office in Katowice.
87.	MBO	Management By Objectives - system of management by objectives, in which the assessed Employee implements the objectives assigned thereto in the settlement period and is assessed on their accomplishment. The outcome of the assessment of the achievement of the objectives set is the basis for making a decision regarding the acquiring by the assessed Employee of the bonus entitlement.
88.	Ministry of State Assets	Ministry of State Assets with its registered office in Warsaw (until November 15 , 2019, Ministry of Energy).
89.	Mg	Mega gram - million grams (1 000 000 g), i.e. a ton.

#	Abbreviation and trade term	Full name / explanation
90.	Business Model	Document entitled *TAURON Group's Business and Operational Model* (which is an update of *TAURON Group's Business Model* adopted by the Management Board on May 4, 2016).
91.	IAS	International Accounting Standards
92.	IFRS	International Financial Reporting Standards
93.	NBP	National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw.
94.	NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.
95.	Nowe Jaworzno Grupa TAURON	Nowe Jaworzno Grupa TAURON sp. z o.o. with its registered office in Jaworzno.
96.	Line of Business (Segment)	Seven areas (segments) of TAURON Capital Group's core operations set up by the Company: Trading, Mining, Generation, RES, Heat, Distribution and Supply
97.	UN	United Nations (Organizacja Narodów Zjednoczonych – ONZ) with its registered office in New York, was established on October 24, 1945 as a result of the United Nations Charter signed on June 26, 1945 in San Francisco, becoming effective.
98.	OPEC	Organization of the Petroleum Exporting Countries with its registered office in Vienna.
99.	OPEX	Operating Expenses.
100.	DSO (OSD)	Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD)
101.	TSO (OSP)	Transmission System Operator (Operator Systemu Przesyłowego - OSP)
102.	OTC (OTC market)	Over The Counter Market – European OTC market.
103.	RES (OZE)	Renewable Energy Sources (Odnawialne Źródła Energii - OZE)
104.	OZEX	Property rights confirming the production of energy from renewable energy sources.
105.	PEAK (PEAK contract)	Peak contract for the supply of electricity during business hours (8-22) on business days, e.g. the PEAK contract for March 2020 is related to the supply of the same amount of electricity on all business days in March 2020 between 8 and 22.
106.	PEC Tychy	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. with its registered office in Tychy.
107.	PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. with its registered office in Warsaw.
108.	PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund) with its registered office in Warsaw.
109.	PFR IFIZ	PFR Inwestycje Fundusz Inwestycyjny Zamknięty (PFR Investments Closed-end Investment Fund)
110.	PGE	PGE Polska Grupa Energetyczna S.A. with its registered office in Warsaw.
111.	PGE EJ 1	PGE EJ 1 sp. z o.o. with its registered office in Warsaw.
112.	PGK	Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK).
113.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw.
114.	GDP (PKB)	Gross Domestic Product (Produkt Krajowy Brutto)
115.	PLN	Polish zloty currency symbol - zł
116.	PMEC	Property rights related to the certificates of origin confirming generation of electricity in the other co-generation sources
117.	PMEF	Property rights related to the energy efficiency certificates
118.	PMGM	Property rights related to the certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW
119.	PMMET	Property rights related to the certificates of origin confirming generation of electricity in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing
120.	PMOZE	Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009
121.	PMOZE_A	Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009
122.	PMOZE-BIO	Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
123.	POPC	Digital Poland Operational Program.(Program Operacyjny Polska Cyfrowa – POPC).

#	Abbreviation and trade term	Full name / explanation
124.	Paris Accord	The first universal and legally binding global climate agreement, adopted under the United Nations Framework Convention on Climate Change, signed on April 22, 2016, ratified by the EU on October 5, 2016.
125.	PRO	Partnership, Development, Boldness (Partnerstwo Rozwój Odwaga – PRO) - key corporate values reflecting the way TAURON Capital Group wants to achieve its business goals.
126.	PSE	Polskie Sieci Elektroenergetyczne S.A. with its registered office in Konstancin-Jeziorna .
127.	RB	Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced.
128.	RDB	Intraday Market - a market operating on the POLPX TGE), where trading is carried out in a continuous trading formula, 24 hours a day. Instruments with delivery on the next day are traded, with their trading starting at 14:00 the day before the delivery and gradually exiting the market one hour before the start of the delivery.
129.	RDBg	Intraday Gas Market - a market operating on the POLPX (TGE), where trading is carried out on the day of delivery in the continuous trading system.
130.	RDN	Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery.
131.	RDNg	Day Ahead Gas Market - a market operating on the POLPX (TGE), where trading is carried out every day and is conducted in the continuous trading system..
132.	REMIT	Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on the integrity and transparency of the wholesale electricity market
133.	RESPECT Index	Stock market index grouping stock market companies operating in accordance with the sustainable growth principles
134.	GDPR (RODO)	Regulation (EU) of the European Parliament and of the Council 2016/679 of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)
135.	ROI	Return on Investment - profitability ratio used to measure efficiency.
136.	RTT	Futures Commodity Market (Rynek Terminowy Towarowy – RTT) - market operating on the POLPX (TGE), where trading in contracts is carried out in the continuous trading system and in the auction system.
137.	SAFI	System Average Interruption Frequency Index
138.	SCE Jaworzno III	Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. with its registered office in Jaworzno.
139.	SCR	Selective Catalytic Reduction - flue gas denitrification system.
140.	Segment, Segments of Operations (Operating Segments)	TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following five Segments (also called Line of Business in this report): Mining, Generation, Distribution, Supply and Other operations.
141.	SIDC	Single Intraday Coupling - European Electricity Intraday Market in the XBID model. It enables cross-border trade in electricity among entities in most EU countries.
142.	SLA	Service Level Agreement
143.	SNG	Synthetic (Substitute) Natural Gas
144.	SOKiK	Court of Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów – SOKiK)
145.	SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded with delivery not later than 3 days after the date of the transaction's conclusion (most often it is one day before the date of delivery). The operation of the SPOT market for electricity is strongly tied to the operation of the balancing market run by the TSO.
146.	Company / TAURON	TAURON Polska Energia S.A. with its registered office in Katowice.
147.	Company's Articles of Association	Document entitled *Articles of Association of TAURON Polska Energia S.A.*
148.	Stop Loss	A mechanism aimed at maintaining the S-P results at an acceptable level by reducing the excessive losses based on the valuation of an open position
149.	Strategy	Document entitled *TAURON Group's Strategy for 2016-2025* adopted by the Management Board on September 2, 2016
150.	Sustainable Development Strategy	Document entitled *TAURON Group's Sustainable development strategy for 2017-2025*, adopted by the Management Board on August 1, 2017, which is an update of the document entitled *TAURON Group's Sustainable development strategy for 2016-2018 with an outlook until 2020.*
151.	SUG	Spółka Usług Górniczych sp. z o.o. with its registered office in Jaworzno.
152.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its registered office in Dąbrowa Górnicza.
153.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its registered office in Dąbrowa Górnicza.

#	Abbreviation and trade term	Full name / explanation
154.	TAMEH Czech	TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic).
155.	TAURON / Company	TAURON Polska Energia S.A. with its registered office in Katowice.
156.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its registered office in Katowice.
157.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republc).
158.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its registered office in Cracow.
159.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with its registered office in Tarnów.
160.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with its registered office in e Wrocław
161.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its registered office in Jelenia Góra.
162.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with its registered office in Wrocław.
163.	TAURON Serwis	TAURON Serwis sp. z o.o. with its registered office in Katowice.
164.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its registered office in Cracow.
165.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with its registered office in Gliwice.
166.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with its registered office in Stockholm (Sweden).
167.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with its registered office in Katowice.
168.	TAURON Wydobycie	TAURON Wydobycie S.A. with its registered office in Jaworzno.
169.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with its registered office in Jaworzno.
170.	TEC1	TEC1 sp. z o.o. with its registered office in Katowice.
171.	TEC2	TEC2 sp. z o.o. with its registered office in Katowice.
172.	TEC3	TEC3 sp. z o.o. with its registered office in Katowice.
173.	TGE (POLPX)	Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw.
174.	TGEozebio	Property rights confirming the generation of electricity from renewable energy sources using agricultural biogas
175.	TU	Towarzystwo Ubezpieczeń (Insurance Company)
176.	EU (UE)	European Union (Unia Europejska - UE)
177.	UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK))
178.	ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki - URE)
179.	USA	United States of America
180.	USD	United States Dollar - US dollar's international acronym
181.	VaR	Value at Risk - a measure of risk that determines the maximum possible change in the value of the Portfolio with the given probability and within a specified time frame.
182.	VPP	Virtual Power Plant - integration of distributed energy sources
183.	WACC	Weighted Awerage Cost of Capital - the weighted average cost of capital of the company, weighted respectively by the share of debt and equity in the company's capital structure.
184.	WFOŚiGW	Regional Environment Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) in Katowice or in Cracow .
185.	RAB (WRA)	Regulatory Asset Base (Wartość Regulacyjna Aktywów – WRA).
186.	AMI RAB (WRA AMI)	Regulatory Asset Base for the AMI system.
187.	Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. with its registered office in Tarnów.
188.	GM (WZ/ZW)	General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW)
189.	S-P result	sales minus purchase - the value of the current and future financial flows related to the trading activities in the markets for energy and related products, generated in the given financial year. The value is the sum of the first-degree margin on the closed position and the first-degree margin on the open position based on the fair value (Marked to Market - MtM) including the transaction costs incurred.

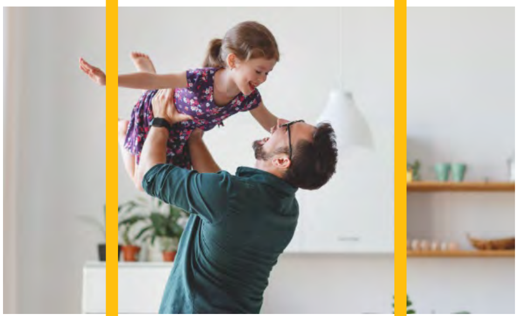
#	Abbreviation and trade term	Full name / explanation
190.	ZG	Coal Mine (Zakład Górniczy - ZG) (Janina Coal Maine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze).
191.	ZW	Generation Plants (Zakłady Wytwarzania – ZW) (Katowice, Tychy, Bielsko-Biała, Kamienna Góra, Tychy).
192.	XBID	Cross Border Intraday Coupling – the Intraday Market model launched in 2018 as a joint initiative of the energy exchanges and the TSOs from the European countries (currently interconnects 21 countries), aimed at creating an integrated, uniform cross-border Intraday Market across Europe model.

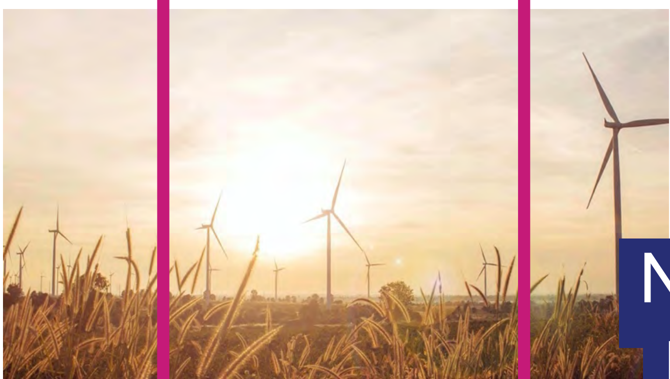
Appendix B: INDEX OF TABLES AND FIGURES

The list of tables and figures presented in this report is provided below.

Index of tables

Index of figures





NON-FINANCIAL REPORT

of TAURON Capital Group for the financial year 2019

TABLE OF CONTENTS

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

we are aware of the role that TAURON Capital Group plays in the Polish economy. For this reason, we carry out growth oriented investment projects, secure the supply of raw materials and steadfastly expand our offering by adding new products and services that are increasingly tailored to the needs of our customers. At the same time, we want all the stakeholders not only to be aware of our goals, but also to be the beneficiaries of our actions. Therefore, developing sensitivity to the social needs and assuming full responsibility for the natural environment is part of our business DNA.

We want the Non-financial Report to be an exhaustive and transparent document presenting the relationships between the Group's business model and the Strategy described by the non-financial indicators as well as the due diligence policies and procedures required for its implementation. The discussion of the risks and methods how to manage them when implementing the Strategy is an important part of the Report.

The layout and content of the publication are based on the structure and guidelines of the international reporting standard GRI (Global Reporting Initiative). The goal of this comprehensive presentation of our operations is to make the stakeholders, especially investors, financial institutions, insurers and customers familiar with TAURON Capital Group's activities and directions of expansion.

We have made very significant changes last year. The update of TAURON Group's Strategic Directions for the years 2016-2025 and the implementation of TAURON Group's Climate Policy, are our foundations for a safe and sustainable transition towards the energy of the future.

In this first document, we are making an assumption that the planned investment projects in renewable energy sources with a total capacity of 1 200 MW and the replacement of obsolete power plants by commissioning a 910 MW unit in Jaworzno will reduce the Group's emissions by more than 20 percent by 2025 and by more than 50 percent by 2030. We are touting this course of our actions as TAURON's Green Turn.

The results presented in the Report are the outcome of everyday work and dedication of many people - customers, business partners and highly qualified personnel, whom we invariably consider to be the company's most valuable resource. Thanks to you we are able to continue to grow, offering the best solutions in the industry.

Sustainable development and corporate social responsibility is for TAURON Group a way to ensure the right balance among its business operations, ethics, ecology and the needs of all the stakeholders, as well as a path to achieving its business goals.

In appreciation of the trust you have placed in us, I would also like to assure you, on behalf of the Management Board, that we will strive to achieve our goals with full determination and work with a complete commitment to continue to increase the Group's value for all the stakeholders.

Yours respectfully,
Filip Grzegorczyk

President of the Management Board of TAURON Polska Energia S.A.

1. INFORMATION ON THE REPORT, THE LEGAL BASIS

1.1. Information on the principles, structure and methodology of the Report

The 2019 Non-financial Report presented contains data and indicators regarding TAURON Capital Group (hereinafter alternatively referred to as the Group, TAURON Group and TAURON) as well as TAURON Polska Energia S.A., which is the parent company in TAURON Capital Group. (hereinafter referred to as TAURON Polska Energia, Company).

The report was prepared in accordance with:

- Article 49b, clause 1 and art. 55, clause 2b-e of the Accounting Act of September 29, 1994, as subsequently amended, which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information;
- Global Reporting Index guidelines - GRI Standards (core level).

Non-financial data was compiled on the basis of a dialogue with the stakeholders carried out according to the AA1000SES standard.

The business model, key non-financial performance indicators, policies and the due diligence procedures applied, as well as the potential risks and the risk management system, are provided in this Report from the point of view of the entire TAURON Capital Group and are presented on a consolidated basis.

The subject matter scope of the Report has not changed significantly as compared to 2018. The Report covers those subsidiaries that are responsible for generating 98% of the Group's revenue. As a result, as in the previous year, the following subsidiaries are included: TAURON Polska Energia, TAURON Wydobycie, TAURON Wytwarzanie, TAURON Ciepło, TAURON Ekoenergia, TAURON Dystrybucja, TAURON Dystrybucja Serwis, TAURON Dystrybucja Pomiary, Bioeko Grupa TAURON, TAURON Sprzedaż GZE, TAURON Obsługa Klienta, Kopalnia Wapienia "Czatkowice", Spółka Usług Górniczych, TAURON Serwis, TAURON Ekoserwis and the special purpose vehicles set up to manage the wind assets, TAURON Czech Energy, TAURON Ubezpieczenia i Wsparcie Grupa TAURON. This set of companies, also included in the Financial Statements, is representative of all of the Group's lines of business. This approach enables understanding the way they are operated, but also their impact on the environment.

TAURON Capital Group's reporting process takes place on an annual basis (the Integrated Report was published in June 2019). There were no significant changes to the structure, form of ownership or value chain in 2019, that would affect a change of the business model.

Due to the growing importance of non-financial data, the Non-financial Report has been prepared for the first time in the history of TAURON Group, constituting an independent, autonomous document. To date, the Group has conducted this reporting using a Statement on non-financial data, as a part of the Management Board's Report on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the ended financial year.

As part of the process of drawing up the Report, documents, policies, due diligence procedures, risk management principles and other information materials related to the operations of TAURON Capital Group were analyzed.

An external consultant representing the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków) participated in drawing up the document. All contents published in the Report have also been subject to an internal audit.

1.2. Reporting methodology

The preparation of the content of this Report was performed in the following stages:

- Developing a map of stakeholders and defining the material aspects of the reporting;
- Confirming the material business and corporate social responsibility issues and their importance, adequate for TAURON Capital Group;

- Collecting the data illustrating the implementation of the policies with respect the business model, Strategy and the corporate social responsibility goals, as well as the due diligence and risk management principles and the way they are managed at TAURON Capital Group;
- Drawing up his Report based on the collected data in accordance with the Accounting Act of December 15, 2016 (Journal of Laws of 2017, item 61), the European Commission Communication 2019 / C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information and based on the reporting standard Global Reporting Index - GRI Standards (core level).

1.3. Reporting standard

We see growing interest in non-financial data that allows for understanding of the organization in a broader context. When drawing up this Report, our goal was to present the content that can be used by the stakeholders interested in the value creation process by TAURON Capital Group, including, in particular, the investors, analysts and bondholders, employees, customers, suppliers, business partners, local communities, legislators, regulators and decision makers.

This Report is based on the Global Reporting Index standard - GRI Standards (core level). The Report presents indices from three categories of the basic description (Foundation, GRI 101), profile indices (General Disclosures, GRI 102), management approach (Management Approach, GRI 103) and selected topic specific Standards, coming from the economic (Economic, GRI 200), environmental (Environmental, GRI 300) and social (Social, GRI 400) series.

The indices described in this Report are presented in the final part of the document. They are also provided at the end of each of the topic specific parts.

When selecting the materials, we were guided by the principle of materiality and care that the message addressed to our stakeholders was comprehensive. We applied the principle of brevity when drafting the texts.

1.4. Stakeholder mapping

We are aware of the importance of the aspect of sustainable management for the proper development of the business operations, and a double commitment to combine the business practices with social responsibility is present at every stage of the company's operations. The interaction between the company and the environment requires getting to know the expectations of the stakeholders and conscious shaping of the relationships therewith. Managing these relationships is a fundamental element of TAURON Group's Sustainable Development Strategy and thus the Business Strategy. The basis of the relationship between the company and the environment is, in turn, trust, which constitutes the intangible capital, extremely important for TAURON Group.

Each of the Group's stakeholder groups has different expectations and requirements with respect to the Group, and also impacts its operations in a different way. Also, with respect to each of them TAURON has for many years been pursuing a policy of social responsibility, both at the level of the entire Group as well as the individual subsidiaries. All these activities are aimed at building the so-called sustainable (balanced) value by combining the shareholder value with the value for the other stakeholders.

Partnership relations, based on mutual understanding and trust, are of key importance for TAURON Capital Group, as an organization exerting a significant impact on its environment, due to the scale of its operations, turnover volume and profile, as well as having full awareness of it and taking full responsibility for it. Therefore, the cooperation with the stakeholders constitutes the foundation for the Group to achieve success in both business operations as well as social activities. For this reason, TAURON is, in a partnership like, fully transparent manner, developing relations with the stakeholders, being aware of their importance for the long term strategy and the sustainable (balanced) approach to the business operations. The basis of this process is a dialogue aimed at getting to know the mutual expectations and possibilities as well as implementing the agreements reached.

With the above purpose as the starting point, the process of identifying and mapping TAURON Capital Group's stakeholders was carried out in 2019 in cooperation with the experts from the AGH University of Science and Technology and the Institute of Accounting and Taxes. It was considered as the initial and basic stage of developing functionalities related to sustainable development. Johnson & Scholes methodology was used as part of this step.

Identifying the stakeholders became the first stage of the mapping process. The starting points for this process were, firstly, a valid map of the stakeholders, created at TAURON Capital Group in 2017 and confirmed in 2018, and secondly, a survey on the selection of the non-financial issues to be included in TAURON Group's Integrated Report for 2018. A comparative analysis of both of these documents demonstrated that the thus far valid map of TAURON Capital Group's stakeholders had become obsolete and therefore changes to its structure should be introduced. The main reasons for coming to the above conclusion were, first and foremost, the type differences between the stakeholder groups shown on the 2017 and 2018 maps, and the types of stakeholders who took part, by providing their answers, in the survey on the selection of the non-financial issues of the non-financial issues to be included in TAURON Group's Integrated Report for 2018. 13 types of stakeholders took part in this study, answering the questions asked by TAURON Group, while there were 8 groups in the previously valid stakeholder map.

Using the market development and changes proven above as the starting point, in order to quantify this volatility, the first benchmarking analysis was conducted in 2019, where the applicable list of stakeholders was referenced to the maps of stakeholders of other energy groups in Poland (three benchmarks) and in the European Union (three benchmarks). In addition to the above activities, there was also an analysis of the activity of the individual stakeholders in the social media managed by TAURON Capital Group. As part of this study, the types of stakeholders responding to the posts published by TAURON Group on its Facebook and Instagram social networks' profiles were analyzed, as well as the types of stakeholders responding to the messages published by the Group and its subsidiaries on their websites. This way the activities of the individual groups of stakeholders were checked, which enables creating a preliminary summary of interest among the individual groups.

Based on that, the following groups of TAURON Capital Group's stakeholders were identified in 2019:

- local communities,
- public administration,
- investors, shareholders, analysts,
- suppliers,
- industry organizations
- local government,
- media,
- customers,
- employees,
- banks, capital providers,
- regulators.

The second stage of the stakeholder mapping process, carried out in accordance with the Johnson & Scholes methodology, involved an assessment of the degree of interest - orientation of the stakeholders towards the organization and the degree of the organization's interest - orientation towards the stakeholders, as well as the degree of the impact of the stakeholders on the organization and the degree of the organization's impact on the stakeholders. This way, TAURON Capital Group's internal determinants related to the relations with the stakeholders (the organization's interest in the stakeholders and the impact of the stakeholders on the organization and the impact of the organization on the stakeholders) and the external determinants related to these relations (level and type of the interest of the stakeholders in TAURON Group) were analyzed. The first aspect was analyzed by conducting workshops with the highest and middle level management staff of TAURON Group and of its individual subsidiaries. As part of the study, values from -5 (no impact at all) to +5 (very high impact) were allocated to the impact of the individual stakeholder groups on TAURON Group, as well as regarding the impact of TAURON Group on the individual groups of the stakeholders. The decision was made to measure TAURON Group's interest in the individual groups of the stakeholders the same way, placing them on the scale from -5 (no interest at all) to +5 (very high level of interest). On the other hand, the level of interest of the individual stakeholders in TAURON Capital Group was measured by deepening the analysis of their activity in the social media managed by TAURON Group presented above. The number and types (broken down into positive, neutral and negative) of the stakeholder comments in relation to the individual posts published on TAURON's Facebook and Instagram social networks' profiles were counted, as well as the responses (classified the same way) of the stakeholders in the context of the messages published on the websites of the Group and of its individual subsidiaries. This way, depending on the share of the positive, neutral and negative responses, based on the decentile system the levels of interest of the individual groups of the stakeholders were placed on the scale from -5 (no interest at all) to +5 (very high level of interest)

The obtained results confirmed the existence of the above identified groups of TAURON Capital Group's stakeholders. It also turned out that, among the responses to the Group's posts or messages, no stakeholders outside the previously identified groups had been found.

Completing the above activities allowed for preparing the final map of TAURON Capital Group's stakeholders in 2019. Johnson & Scholes stakeholder matrix was created this way, as shown in Figure no. 1.

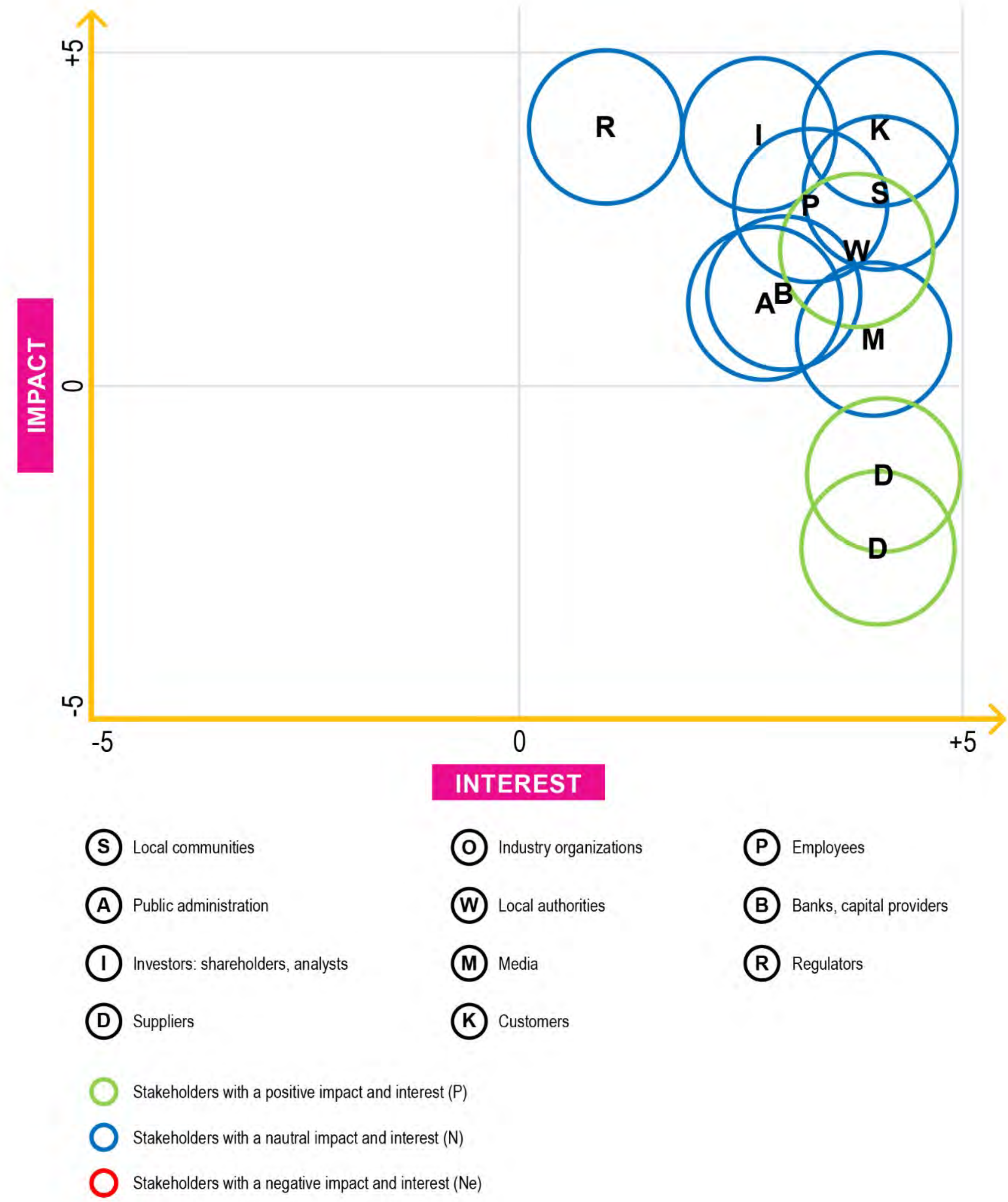


Figure no. 1. Johnson & Scholes matrix illustrating the map of TAURON Capital Group's stakeholders in 2019

1.5. Material aspects of the reporting

External and internal stakeholders identified in the mapping process were involved in the process of selecting the material aspects of TAURON Capital Group's reporting. The following actions contributed to the process of defining the material aspects of the reporting

- **individual interviews with experts -** including with the representatives of the universities, organizations dealing with responsible business and non-governmental organizations with an ecological profile of activities,
- **expert online survey -** sent, among others to the representatives of the industry

organizations, the regulator, NGOs and the social partner,

- • **online survey -** a questionnaire, sent electronically, was completed by a record number of more than 12 000 employees and customers**.**
- **workshops with TAURON Group's managers -** managers, including the ones working in the area of strategy, customer, distribution, human resource management, compliance, took part in the meeting

TAURON Group's perspective takes into account the opinions collected from both the managerial staff as well as the employees of the Group. Therefore, separate points of view of the individual subsidiaries have not been identified, as the Group is regarded as a whole. Within it, however, the individual lines of business (Mining, Generation, Heat, RES, Distribution, Customer Service and Supply) can be distinguished and for which the indices that are most important from the point of view of their operations have been selected and reported.

In turn, the perspective of the Group's stakeholders is the aggregate result of the opinions of the experts who took part in TAURON's dialogue panels, as well as of the Group's customers, the representatives of the public administration, the regulator, the industry organizations, non-governmental organizations and the media.

The effect of the above mentioned work was the preparation of the final shape of the list of the material aspects of TAURON Capital Group's reporting, along with the determination of their significance for the Group and its stakeholders.

Material aspects of the reporting identified by the external and internal stakeholders are presented in Figure no. 2.

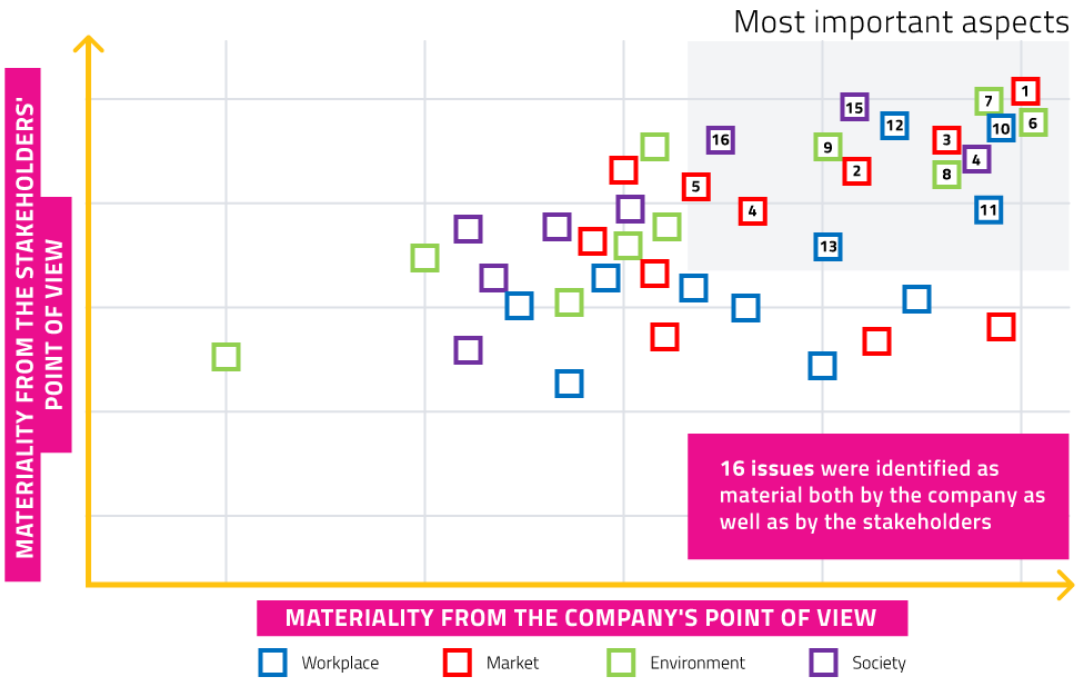


Figure no. 2. Significance of the individual aspects of the reporting for TAURON Capital Group and its stakeholders

	Issues selected during the materiality analysis	SUSTAINABLE DEVELOPMENT AREA
1	Ensuring energy security - efficient provision of access to electricity and heat	MARKET
2	Investment projects aimed at increasing customer access to electricity supply (capital expenditures on new generation capacity, the refurbishment of the existing assets and the expansion of the RES-based generation capacity portfolio).	MARKET
3	Transparency of the offering and a responsible sales process (access to the information on the products and services, comprehensible sales language, clear bill / invoice, security of customer data).	MARKET

4	Responsible and ethical cooperation with TAURON Group's suppliers (raw material suppliers, business partners, contractors, etc.)	MARKET
5	Customizing of the offering to meet the customers' diverse needs and devising the solutions for the sensitive groups (e.g. special solutions for less affluent consumers, senior citizens, single parents, etc.)	MARKET
6	Investment projects aimed at increasing the share of energy generated from renewable sources and supporting sustainable development	ENVIRONMENT
7	Minimizing the negative impact of the company on the natural environment (through the investment projects undertaken, energy and water saving (efficiency) solutions, reduction of the emissions; waste management, etc.)	ENVIRONMENT
8	Research and development initiatives as well as innovative solutions related to the natural environment protection and energy saving (efficiency)	ENVIRONMENT
9	Efficient management of the consumption of the raw materials used in the production process	ENVIRONMENT
10	Terms of employment and friendly workplace (a transparent remuneration system, clear promotion criteria, non-discrimination, work (occupational) safety and health (WHS) issues)	WORKPLACE
11	Internal communication with the employees	WORKPLACE
12	Management of the employee departure and restructuring issues (e.g. outplacement programs for the people whose employment relationships have been terminated for reasons attributable to the employer)	WORKPLACE
13	Education and development of the employees at various levels in the organization	WORKPLACE
14	Support and resolution of the social problems (e.g. problems with access to electricity among economically handicapped social groups: the poor, the elderly; education of the society, etc.)	SOCIETY
15	Educational activities with respect to the functioning of the electricity market, energy efficiency and the safe use of electricity and its infrastructure.	SOCIETY
16	TAURON Group's support for the local communities within which it is operating (support for the local organizations, implementation of the social programs, organization of events in the regions, etc.)	SOCIETY

1.6. GRI indices described in this chapter

- GRI 101 Reporting principles and basics
- GRI 102-14 Statement from senior decision maker
- GRI 102-40 List of stakeholder groups
- GRI 102-42 Identifying and selecting stakeholders
- GRI 102-43 Approach to stakeholder engagement including the frequency of engagement by type and stakeholder group
- GRI 102-44 Key topics and concerns raised by stakeholders and the response from the organization also by reporting them
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-46 Defining report content and topic boundaries
- GRI 102-47 List of material topics
- GRI 102-49 Changes in reporting (significant changes from previous periods covered by the report regarding material topics and topic boundaries)
- GRI 102-50 Reporting period
- GRI 102-51 Date of most recent report (if published)
- GRI 102-52 Reporting cycle
- GRI 102-54 Claims of reporting in accordance with the GRI Standards using Core or Comprehensive option
- GRI 102-56 External assurance (Confirmation of credibility)
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 102-55 GRI Index

2. TAURON CAPITAL GROUP'S VALUE CHAIN AND ITS BUSINESS AND OPERATIONAL MODEL

TAURON Capital Group is a fully integrated energy group with its operations covering all elements of the electricity and heat value chain: from mining and procuring raw materials, through generation, distribution and supply to the final consumers.

The Group is made up of autonomous commercial law companies. The Group is led by TAURON Polska Energia S.A. (with its registered office in Katowice) as the parent entity (hereinafter called alternately the Company). TAURON Poland's largest electric utilities.

The Group's business model coincides with the value chain: from mining and procuring thermal fuel, through generation, electricity and heat trading and distribution, up to the supply to the final consumers. In response to the current and future challenges, the value chain has been expanded by adding the innovations ecosystem and the so-called new businesses that are set up at the interface between the innovations ecosystem and the core operations segments (lines of business). They also cover the gradual transition from the operations linear cycle to the closed cycle (circle) operations, which contributes to implementation of the circular economy assumptions. Figure no. 3 presents lines of business as part of the value chain in terms of their contribution to TAURON Group's EBITDA.

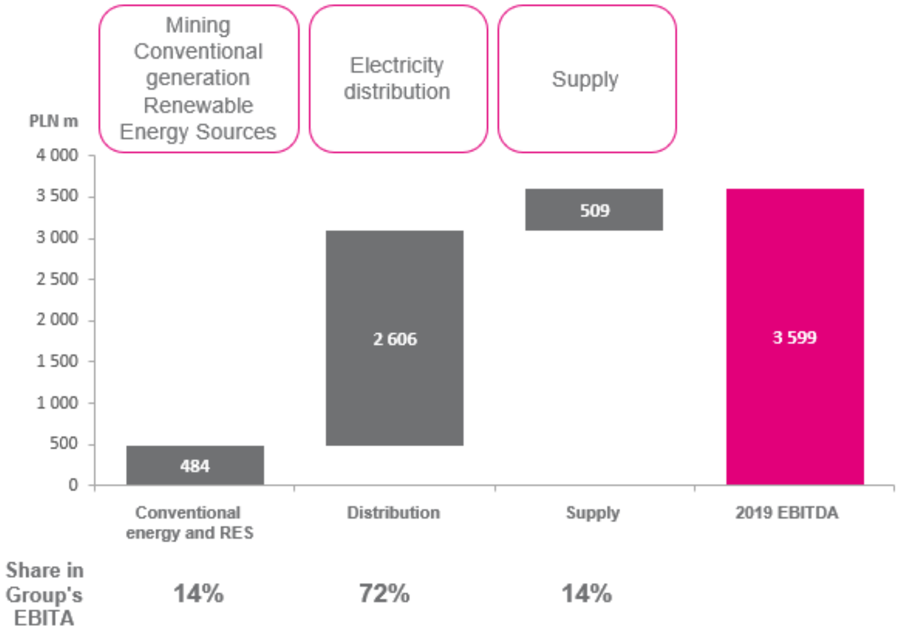


Figure no. 3. EBITDA's share in TAURON Capital Group's value chain in 2019

The business model is an element of the implementation of the Group's Strategy and through the structuring of the operations, organizing them into logical, interworking business processes, allows for optimizing the building of the value of TAURON Group as a whole, taking advantage of the economies of scale of the business conducted and the synergies resulting from the collaboration of the individual links of the value chain.

TAURON Capital Group is Poland's largest electricity distributor. Using its more than 235 000 km long distribution grids, it delivers electricity to more than 5.6 million consumers, in the area that covers approx. 57 000 km2, which constitutes more than 18 percent of Poland's territory. In terms of electricity supply to the final consumers TAURON Group is number two, with its supply volume of approximately 29.6 TWh per annum. On the other hand, in terms of production volume TAURON Group is the third largest electricity generator on the Polish market, with the annual net production of 12.7 TWh (13.9 TWh in gross output) and installed capacity of 5.2 GW. To produce electricity the Group's conventional installations are using hard coal and biomass, renewable energy source units are utilizing the energy of wind and the kinetic energy of falling water. TAURON Capital Group is managing 9 wind power plants and 34 hydroelectric power plants, and it is operating 1180 km of district heating networks. TAURON Capital Group's generation units are generating approx. 10 percent of Poland's electricity output.

2.1. TAURON Group’s Business Model assumptions

TAURON Capital Group’s business operations are conducted based on seven Lines of Business, defined in accordance with the Group’s value chain links: Mining, Generation, Heat, Renewable Energy Sources (RES), Trading, Distribution and Supply.

Additionally, there are other subsidiaries operating as part of the Group, whose operations are focused on providing support services for the Group, such as, for example, customer service, accounting and human resources services, IT services, security services.

TAURON Capital Group’s business model is presented in figure no. 4.

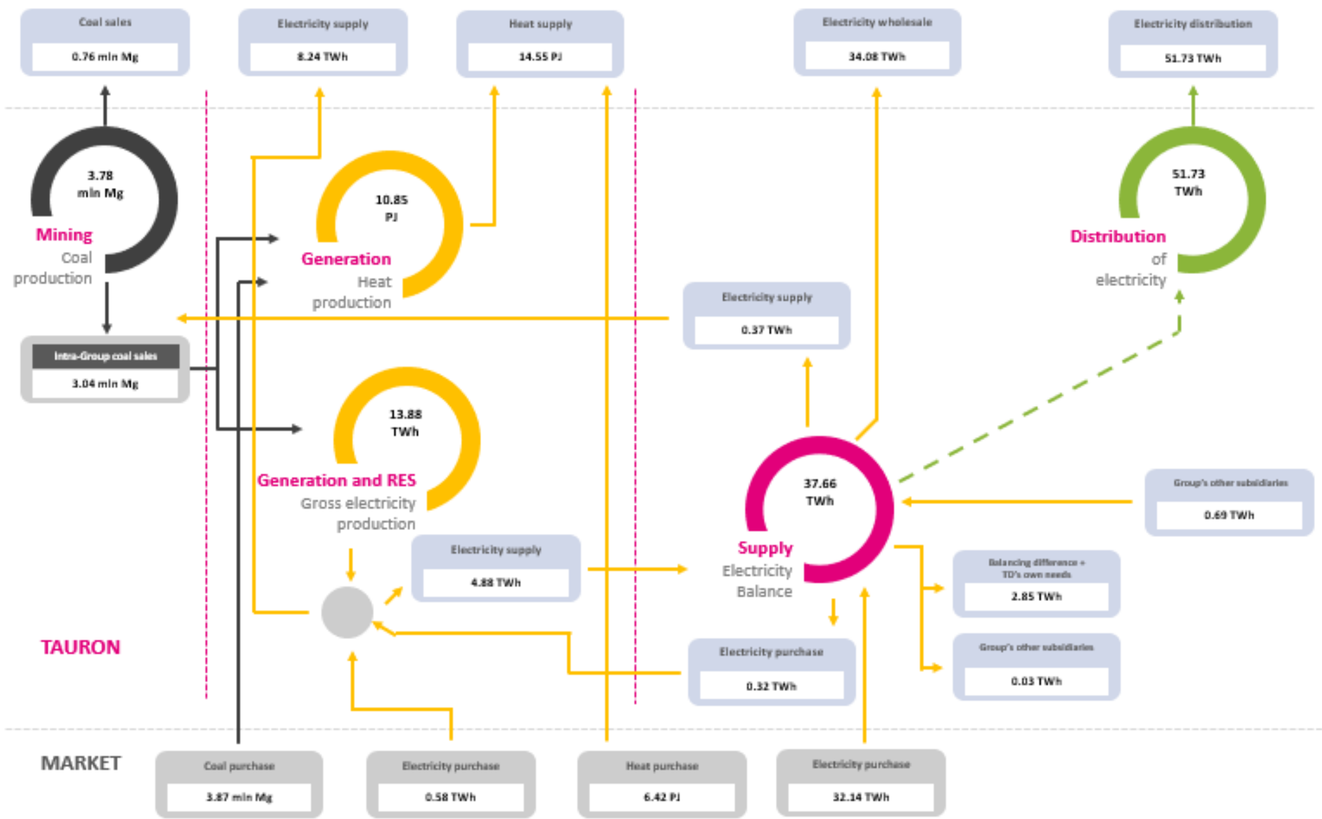


Figure no. 4. TAURON Capital Group’s business model in 2019

Mining

It comprises mainly hard coal mining, enrichment and sales to the utility scale power plants and individual customers. Apart from hard coal mining, the segment’s other activities also include mining operations involving open pit extraction of limestone, as well as its processing and sales within the Group and outside the Group.

The operations conducted in this Line of Business are conducted by the following subsidiaries: TAURON Wydobycie S.A., Kopalnia Wapienia ”Czatkowice” sp. z o.o. and Spółka Usług Górniczych sp. z o.o.

Hard coal mining

The current structure of TAURON Wydobycie S.A. is based on the model composed of the Center (Centrum), with its seat in Jaworzno, and three production plants (coal mines): Zakład Górniczy Sobieski (Sobieski Coal Mine) in Jaworzno, Zakład Górniczy Janina (Janina Coal Mine) in Libiąż and Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine) in Brzeszcze. The Center’s operations include, among other, shared functions management, planning and sales. The production facilities are mainly dealing with hard coal mining and enrichment. This Line of Business also includes a subsidiary that provides mining works services – Spółka Usług Górniczych sp. z o.o.

Limestone extraction

Kopalnia Wapienia ”Czatkowice" sp. z o.o. is an open pit mine, extracting high quality carbonate limestone deposits, located at 28 km away from Cracow, in the Krzeszowice municipality.

The limestone from the Czatkowice deposit is used in the power generation, steel making, construction, lime, cement, sugar, road building industries, as well as in agriculture.

Generation

It comprises electricity generation using conventional sources (also through the biomass burning process). The segment’s operations are conducted by TAURON Wytwarzanie S.A. subsidiaries and Nowe Jaworzno Grupa TAURON sp. z o.o., the company responsible for the construction and operation of the new power generation unit in Jaworzno with the capacity of 910 MW. Electricity generation by conventional units is carried out by 5 hard coal fired power plants with the total capacity of approx. 4.3 GWe and 1,2 GWt. These power plants are also equipped with two biomass fired units. The power plants are located in the following cities: Łaziska Górne, Będzin, Trzebinia, Stalowa Wola and Jaworzno. This Line of Business also includes the TAURON Serwis sp. z o.o. subsidiary that provides technical maintenance (support) services.

Heat

It comprises heat and electricity generation, distribution and supply, using co-generation sources. Heat generation is carried out by 3 combined heat and power plants, with the total capacity of approx. 0.3 GWe and 1,2 GWt, located in the following cities: Katowice, Tychy and Bielsko-Biała, as well as by local boiler houses. The generating units are using hard coal and biomass for their production. The heat operations are conducted by TAURON Ciepło sp. z o.o. and SCE Jaworzno III sp. z o.o. subsidiaries, that are, in total, operating approx. 1 180 km of the distribution heating networks on the territory of, among others, Bielsko-Biała, Czechowice-Dziedzice, Katowice, Dąbrowa Górnicza, Sosnowiec, Chorzów, Siemianowice Śląskie, Jaworzno, Zawiercie and Mysłowice, with 857 km being TAURON Ciepło’s own networks, and 121 km being SCE Jaworzno III’s networks.

Renewable Energy Sources

It comprises electricity generation using renewable energy sources, except for biomass burning. This line of business is managing 34 hydroelectric power plants with the total capacity of 133 MW, located primarily in the south of Poland, and 9 wind based power plants with the total capacity of 381 MW, located primarily in the north of Poland. The segment’s operations are conducted by TAURON Ekoenergia sp. z o.o., TAURON Ekoserwis sp. z o.o. subsidiaries and the group of special purpose vehicles set up to manage RES assets, among others the five wind farms acquired from the in.ventus group in September 2019.

Distribution

It comprises electricity distribution using the distribution grid located in the south of Poland. TAURON distributes electricity on the territory of the following regions: Małopolska, Lower Silesia, Opole and Silesia, and partly also Świętokrzyskie, Podkarpackie, Łódzie, Wielkopolska and Lubuskie.

The operations are conducted by TAURON Dystrybucja S.A. subsidiary. The operational functions (activities) are carried out by 11 branches located in Będzin, Bielsko-Biała, Częstochowa, Gliwice, Jelenia Góra, Cracow, Legnica, Opole, Tarnów, Wałbrzych and Wrocław. The operations of TAURON Dystrybucja are supported by the TAURON Dystrybucja Pomiary sp. z o.o. subsidiary.

Trading

It comprises electricity wholesale trading, as well as trading and management of CO_2 emission allowances and property rights arising from certificates of origin of electricity, as well as fuels.

Such operations are conducted by TAURON Polska Energia S.A. and TAURON Czech Energy s.r.o. subsidiaries. The Trading Line of Business also includes the procurement of biomass, as well as the utilization of mining and burning by-products carried out by Bioeko Grupa TAURON sp. z o.o. subsidiary.

Supply

It comprises the supply to the final consumers of electricity and natural gas, as well as related products. The operations are conducted by TAURON Sprzedaż sp. z o.o. and TAURON Sprzedaż GZE sp. z o.o. subsidiaries. The supply operations are conducted nationwide and, on a smaller scale, on the Czech and Slovak markets. This Line of Business also includes services related to street lighting, as well as energy efficiency and smart technologies services carried out primarily by TAURON Dystrybucja Serwis sp. z o.o. subsidiary. The company is managing approx. 750 thousand street lamps.

Other operations

It is a separate line of business called Shared Services Centers. It includes such services, provided for TAURON Group's subsidiaries as, among others, customer service, accounting and human resources services, as well as IT services, carried out by TAURON Obsługa Klienta sp. z o.o. subsidiary, managing insurance policies for all of the Group's subsidiaries – TAURON Ubezpieczenia sp. z o.o. subsidiary, security and order keeping services – Wsparcie Grupa TAURON sp. z o.o. subsidiary. The goal of such a division of competences is to relieve the Lines of Business from the obligation to carry out the processes that are not directly associated with their core business operations (non-core operations related processes), and also to reduce the costs of performing such processes thanks to the economies of scale and the improvement of operational efficiency.

Figure no. 5 presents the structure of TAURON Capital Group's Line of Business.

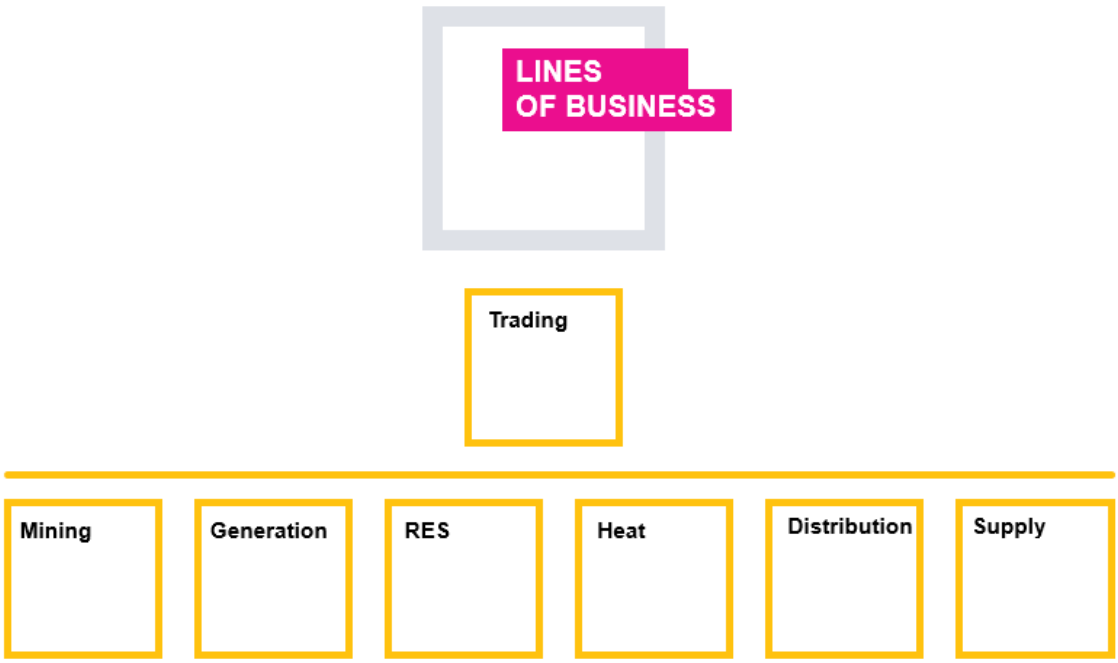


Figure no. 5. TAURON Capital Group's Lines of Business in 2019

2.2. Principles of TAURON Polska Energia S.A.'s management

Pursuant to the Ordinance of the Minister of Finance of March 29, 2018 (Journal of Laws of 2018, item 757) on current and periodic information to be disclosed by securities issuers and conditions for recognizing as equivalent the information required by the legal regulations in force in a non-member state (Journal of Laws of 2018, item 757), TAURON Polska Energia S.A., as an issuer, shall be obligated to draw up, among others:

1. Financial statements of TAURON Polska Energia S.A. for the ended financial year.
2. Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the ended financial year.
3. Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the ended financial year.

The range of topics that the Company shall be obligated to include in the financial statements is defined by the Act on accounting, while in case of the report on the operations such a scope is defined in the above mentioned Ordinance. The Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the ended financial year includes, among others, economic topics (section devoted to the analysis of financial position and assets) and environmental issues (section describing the impact on natural environment, including the description of the Climate Policy and the Environmental Policy).

In accordance with the provisions of the By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice, the Management Board conducts the affairs of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by legal regulations and provisions of the Articles of Association of TAURON Polska Energia S.A. to the competence of the General Meeting or the Supervisory Board shall be within the competence of the Company's Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for making statements on behalf of the Company.

In accordance with the Organizational Regulations of TAURON Polska Energia S.A., the Company is managed directly by the Management Board of the Company, as well as through proxies (power of attorneys), Managing Directors, Executive Directors or persons holding other positions reporting directly to Members of the Management Board.

The Company carries out its tasks through:

1) separate organizational units (business units):
   - Business areas, comprising independent work positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by members of the Company's Management Board directly or via the Managing Directors,
   - Teams, constituting organizational units (business units) reporting to the Executive Directors or Managing Directors. The activities of the team are managed by the Team Leader (Manager).
2) independent work positions:
   - Managing Directors who manage and lead the work of the subordinate Executive Directors, Teams or independent work positions,
   - Executive Directors who manage and lead the work of the subordinate Teams or independent work positions constituting the given business area of the Company,
   - other independent positions that may be entrusted to, in particular, Power of Attorneys, Inspectors, Spokespersons, Coordinators or Specialists,
3) temporary organizations – Project Teams set up with the goal to implement tasks and projects of the Company.

Only the most important assumptions, rules (principles) and regulations related to corporate governance, aimed at ensuring the performance of the above obligations, applied by TAURON Polska Energia S.A., are provided below, while confirming at the same time that they are fully in line with the letter of the Polish law, as well also as that they include all the Best Practices of WSE Listed Companies 2016. The complete, detailed description related to corporate governance is provided in section no. 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2019.

2.2.1. Management Board of TAURON Polska Energia S.A.

The Management Board of TAURON Polska Energia S.A. is composed of one to six persons, including the President and the Vice Presidents of the Management Board. Members of the Management Board are appointed and dismissed by the Supervisory Board for the common term of office that lasts 3 years, except for the 1st term that lasted 2 years. Each member of the Management Board can be dismissed or suspended in his/her activities by the Supervisory Board or General Meeting.

In order to select a person with whom an agreement to perform the management functions in the Company will be concluded, the Supervisory Board announces a competition and conducts a recruitment process for the position of the President or Vice President of the Management Board, with the goal to verify and evaluate the qualifications of candidates, as well as to select the best candidate. A candidate for a Member of the Management Board must meet the requirements defined in § 16, clause 3 and 4 of the Company's Articles of Association. The announcement on the recruitment process is published on the Company's website and in the Public Information Bulletin (Biuletyn Informacji Publicznej). The Company shall notify the shareholders of the recruitment process results.

The current, fifth term of office of the Management Board began its run on March 16, 2017. In accordance with the Company's Articles of Association the common term of office shall last 3 years.

The composition of the Management Board TAURON Polska Energia S.A. as of December 31, 2019 and as of the day of drawing up this Report is as follows:

1. Filip Grzegorczyk - President of the Management Board,
2. Jarosław Broda - Vice President of the Management Board for Asset Management and Development,
3. Marek Wadowski - Vice President of the Management Board for Finance.

The changes to the composition of the Management Board of TAURON Polska Energia S.A. that took place in 2019 are described in detail in sub-section 9.11.1. of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2019. The detailed descriptions of the experience and competences of the Members of the Management Board of TAURON Polska Energia are provided in the above mentioned section as well and such information is also published on the Company's website http://www.tauron.pl/.

The Management Board of TAURON Polska Energia S.A. is acting pursuant to the Code of Commercial Companies and other legal regulations, the provisions of the Articles of Association of TAURON Polska Energia S.A. and the provisions of the By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice, which is available on the website http://www.tauron.pl/. When performing their duties the members of the Management Board is acting in accordance with the principles provided in the Best Practices of WSE Listed Companies.

Two members of the Management Board or one member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice President of the Management Board designated by the President of the Management Board. Meetings of the Management Board are also convened at the request of the majority of Vice Presidents of the Management Board, as well as the Chairperson of the Supervisory Board. Meetings are held at the Company's headquarters, on the date set by the person that convened the meeting. In justified cases, meetings of the Management Board may take place outside the seat of the Company. The President of the Management Board or a Vice President of the Management Board designated thereby chair meetings of the Management Board.

The Management Board votes in an open ballot. The result of the ballot is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot at the request of any member of the Management Board.

The competences of the Management Board and matters requiring a resolution of the Management Board are presented in detail in sub-section 9.8.1. of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2019.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the members of the Management Board. In the event of an equal number of votes (a tie), the President of the Management Board has the casting vote. The Management Board may pass resolutions by voting in writing or using means of direct remote communications. Voting in accordance with the above mentioned procedures is ordered by the President of the Management Board or a member of the Management Board designated by the President of the Management Board, along with the setting of the deadline for casting votes by members of the Management Board. A dissenting opinion may be submitted. Such dissenting opinion is recorded in the minutes of the meeting including the justification thereof. The decisions of the Management Board related to ongoing issues that do not require passing of a resolution are recorded solely in the minutes of the meeting.

The internal split, among members of the Management Board, of tasks and responsibilities for the Company's individual lines of business, as defined in the Organizational Regulations of TAURON Polska Energia S.A. and covering independent work positions and organizational (business) units reporting to and supervised by individual members of the Management Board, is defined in the Organizational Regulations, and the diagram showing the above mentioned split is published on the Company's website.

The structure of the lines of business reporting to individual members of the Management Board is defined in the diagram presenting the split of responsibilities of members of the Management Board of the Company, discussed in section 2.5 of this Report.

2.2.2. Supervisory Board of TAURON Polska Energia S.A.

The Supervisory Board of TAURON Polska Energia S.A. is composed of five to nine persons appointed for the common term of office that lasts 3 years, except for the 1st term that lasted 1 year. In accordance with the Articles of Association of TAURON Polska Energia S.A., members of the Supervisory Board are appointed and dismissed by the General Meeting, subject to the reservations provided in sub-section 9.8.2. of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2019.

In accordance with the Best Practices of WSE Listed Companies 2016, at least two members of the Supervisory Board meet the independence criteria. The phrase "an independent member of the Supervisory Board" denotes independence of a member of the supervisory board within the meaning of Appendix II to the Recommendation of the European Commission of February 15, 2005 related to the role of non-executive directors or members of a supervisory board of publicly listed companies and of a supervisory board's committee (2005/162/EC) and the additional criteria indicated in the Best Practices of WSE Listed Companies 2016.

The Supervisory Board carries out continuous supervision over the Company's operations in all areas of its operations, performing its duties collectively.

The main form of the Supervisory Board overseeing the Company's operations are the meetings of the Supervisory Board, convened by the Chairperson of the Supervisory Board or a Vice Chairperson of the Supervisory Board:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his / her own initiative,
3. at a written request of each member of the Supervisory Board,
4. at a written request of the Management Board.

Meetings of the Supervisory Board are held at the Company's seat. In justified cases a meeting may be convened at a different venue.

The competences of the Supervisory Board and matters requiring a resolution of the Supervisory Board are presented in detail in sub-section 9.8.2. of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2019.

The current, fifth term of office of the Supervisory Board, began on May 29, 2017, i.e. on the day of holding the Ordinary General Meeting of TAURON Polska Energia S.A. approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the fourth term, i.e. for the financial year 2016. In accordance with the Company's Articles of Association it is a common term of office and it lasts 3 years.

The composition of the Supervisory Board as of the date of drawing up this Report is as follows:

1) Beata Chłodzińska – Chair of the Supervisory Board,
2) Teresa Famulska – Vice Chair of the Supervisory Board,
3) Jacek Szyke – Secretary of the Supervisory Board,
4) Barbara Łasak-Jarszak – Member of the Supervisory Board,
5) Grzegorz Peczkis – Member of the Supervisory Board,
6) Jan Płudowski – Member of the Supervisory Board,
7) Marcin Szlenk – Member of the Supervisory Board,
8) Katarzyna Taczanowska – Member of the Supervisory Board,
9) Andrzej Śliwka – Member of the Supervisory Board.

The changes to the composition of the Supervisory Board of TAURON Polska Energia S.A. that took place in 2019 are described in detail in sub-section 9.11.2. of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2019. The detailed descriptions of the experience and competences of the Members of the Supervisory Board of TAURON Polska Energia are provided in the above mentioned section as well and such information is also published on the Company's website http://www.tauron.pl/.

2.2.3. General Meeting

The procedures and empowerments of the General Meeting of TAURON Polska Energia S.A. are defined in the Company's Articles of Association and in the Regulations of the General Meeting of TAURON Polska Energia S.A. (the document is available on the Company's website http://www.tauron.pl/).

General Meeting of Shareholders shall be convened by a notice published on the website of TAURON Polska Energia S.A. and in a manner defined for providing the current information by public companies. In case the General Meeting is convened by an entity or a body other than the Management Board on the basis of regulations of the Code of Commercial Companies, as convening a General Meeting of Shareholders requires the Management Board's cooperation, the Management Board shall be obligated to perform any activities required by law in order to convene, organize and conduct General Meetings of Shareholders that take place either at the seat of TAURON Polska Energia S.A. or in Warsaw.

General Meeting of Shareholders shall be opened by the Chairperson of the Supervisory Board, and in case he/she is absent, the following persons shall be entitled to open the General Meeting of Shareholders in the given order: Vice Chairperson of the Supervisory Board, President of the Management Board, a person designated by the Management Board or a shareholder who registered at the General Meeting of Shareholders such a number of shares that grant the right to exercise the largest number of votes. Then, the Chairperson of the General Meeting of Shareholders shall be elected from among persons entitled to participate in the General Meeting of Shareholders.

General Meeting of Shareholders shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Articles of Association of TAURON Polska Energia S.A. state otherwise.

The competences of the General Meeting of Shareholders and matters requiring a resolution of the General Meeting of Shareholders are presented in detail in sub-section 9.10. of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2019.

As part of its corporate governance TAURON also established the Rights of the Shareholders of TAURON Polska Energia S.A. related to the General Meeting, defined in accordance with the Articles of Association of TAURON Polska Energia S.A., the Code of Commercial Companies and the Regulations of the General Meeting of TAURON Polska Energia S.A. They are presented in detail in sub-section 9.10. of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2019.

2.2.4. Description of the principles applied to amend the Articles of Association of TAURON Polska Energia S.A.

Amendments to the Articles of Association of TAURON Polska Energia S.A. are made in accordance with the provisions of the Code of Commercial Companies. In particular an amendment to the Articles of Association of TAURON Polska Energia S.A. takes place by means of a resolution of the General Meeting, passed by the majority of three fourths of the votes, and then requires issuing of a decision by a proper court on entering the change into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

In accordance with the Articles of Association of TAURON Polska Energia S.A., a material change to the subject of the operations of TAURON Polska Energia S.A requires two thirds of the votes in the presence of persons representing at least half of the share capital.

2.3. Principles of TAURON Group's management

The management of TAURON Group is carried out based on two internal documents: the Code of the Group and TAURON Group's Business and Operational Model.

2.3.1. Code of TAURON Group

The management of TAURON Group is based on the leading role of the corporate center, i.e. the parent company - TAURON Polska Energia S.A., which manages the subsidiaries that are part of the Lines of Business and the shared service centers. Relations with respect to making decisions are regulated by the Code of the Group, which is the core regulatory act of TAURON Group. The Code of the Group regulates its operations, ensuring the accomplishment of the goals through tailored solutions in the area of the management of TAURON Group's entities, including, enabling achieving of the effects assumed in the Strategy.

Currently, the works on updating the Code of the Group, due to the changes in the environment, the need to clarify some of the provisions and nearly ten years of experience gathered based on the use of this document are being finalized.

2.3.2. TAURON Group Business and Operational Model document assumptions

TAURON Group's Business and Operational Model adopted by the Company's Management Board on January 23, 2018, specifies the Group's management model, defines the high-level architecture of processes, as well as the functions and tasks of the Corporate Center, lines of business and other units.

The foundations of the Business and Operational Model include:

- building the value of TAURON Group as a whole (not of separate subsidiaries),
- focus on customers (internal and external),
- adhering to the Group's values (PRO values),
- making decision making processes red tape free,
- taking advantage of TAURON Group's knowledge and qualifications.

To ensure efficient management, the split of roles and responsibilities was implemented in accordance with the business model in force, based on assigning process competences to the Corporate Center, the Lines of Business and the Shared Services Centers. This split is presented in figure no. 6.

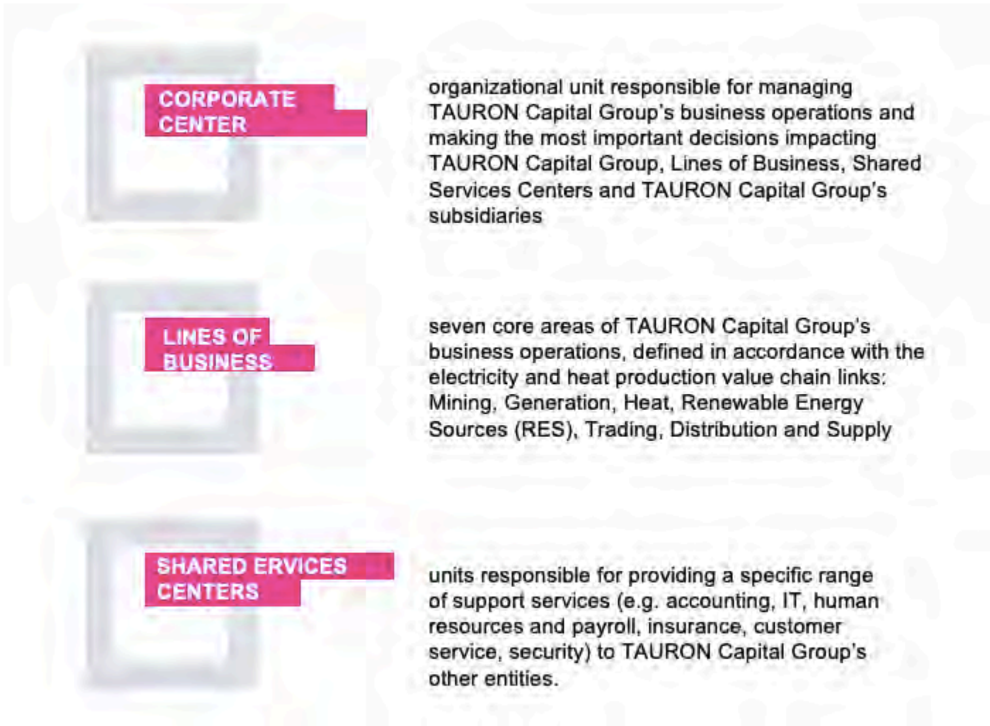


Figure no. 6. The split of obligations (duties) and responsibilities under TAURON Capital Group's business model in 2019

2.4. TAURON Capital Group's organization

TAURON Capital Group's organization should be viewed according to three aspects:

- process (business) aspect – based on the process structure that clearly defines responsibilities and how processes are implemented. The advantages stemming from the way of conducting key business processes build value and impact the competitive position of TAURON Group,
- line of business aspect – related to the profile of the operations conducted and the place within the Group's value chain,
- capital aspect – structure of the formal and legal domination of the Group's subsidiaries.

2.4.1. Process based organization

Regulations implemented in 2016, along with the Business Model, updated in 2018, introduced the management by processes within TAURON Capital Group.

The process documentation describes the split of competences and repeatable actions performed, operational processes including the descriptions of exchanged products and services. Processes are the superior organization in relation to the organizational structure of individual subsidiaries and run horizontally across entire TAURON Group.

Based on the main products, TAURON Capital Group's processes were divided into three groups: management, operational and support processes.

The chart presented in figure no. 7 presents mega-processes identified at TAURON Group (the highest process level).

Figure no. 7. TAURON Capital Group's mega-processes in 2019

The owners of the mega-processes (the highest process level) are indicated TAURON Polska Energia S.A. directors. The process documentation (maps, diagrams and process sheets) defines and describes decision making powers (competences) and actions to be undertaken by the individual organizational units within TAURON Capital Group's various companies. The owners of the mega-processes decompose these into lower level processes and appoint their owners. Each process has its owner and process metrics defined by the higher level process owner. The process documentation defines the course of action (interdependencies) and decision competences for the repeatable processes.

The goal of the process based management model implemented was to benefit from the operating synergies among TAURON Capital Group's various companies, share and use best practices, standardize and automate processes, and also to ensure coherence of actions taken within TAURON Capital Group's companies to support the implementation of the Strategy.

The essence of the management by processes lies in the continuous search for and implementation of efficiencies along with the clear and transparent division of competences and responsibilities. Processes are modified accordingly to improve their efficiencies. The process documentation is published in the intranet and available to all employees of the Group.

The competences and process interdependencies described in the process documentation supplement the competences stemming from the organizational structure of the individual companies and support the operations of TAURON Capital Group's companies as a single entity.

2.4.2. Organization by Lines of Business

TAURON Capital Group's operations are implemented based on seven Lines of Business (presented, including the assignment thereof to the individual subsidiaries of TAURON Group, in figure no. 8): Mining, Generation, Heat, Renewable Energy Sources (RES), Trading, Distribution and Supply.

A Line of Business is a company, several companies or a separate part of a company owned by TAURON Group, responsible for the implementation of specific tasks related to the Group's core business. Lines of Business are responsible for implementing the core processes and support at the Line of Business level and they participate in management processes and support processes implemented at the Group level.

Figure no. 8. Assignment of TAURON Capital Group's subsidiaries to Lines of Business in 2019

Mining

The most important tasks of the Line of Business include the implementation of plans for the extraction and processing of hard coal and limestone, as well as overhauls and support of devices covering all maintenance operations. The Line of Business prepares long-term and medium-term hard coal and limestone production plans, as well as investment plans for existing and new facilities that are subject to approval at the Group level.

Generation

The most important tasks of the Line of Business include the production of electricity and heat using power plants owned by TAURON Wytwarzanie and maintaining the Group's production units in an appropriate technical condition (high availability and efficiency rates). The Line of Business participates in the planning of operational activities related to the production of electricity and heat, as well as the activities related to the maintenance of assets, and also performs operational tasks in this respect. In addition to tasks related to operational work and maintenance activities related to the existing generating units, the Line of Business also participates in the works related to the planning and development of new facilities.

Heat

The most important tasks of the Line of Business are focused on heat production and supply planning, heat distribution as well as the implementation of overhaul and maintenance plans for installations owned by the Line of Business. For the heat production and supply planning conducted by the Trading Line of Business, the Heat Line of Business defines the volumes of electricity production in cogeneration carried out by the heat generation sources.

RES

The Line of Business is responsible for electricity production and maintaining production capacity in renewable energy sources. Its most important tasks include the implementation of electricity production plans and the implementation of overhaul and maintenance plans for production installations, as well as the development of its generation units fleet.

Distribution

The responsibility of the Line of Business includes the distribution of electricity, including the grid operations management in the power distribution system, ensuring the ongoing and long-term security of the system's operation, operation, overhauls and the required expansion of the distribution grid, including connecting new electricity consumers and producers, as well as connections with other power systems. The most important tasks of the Distribution Line of Business include the distribution of electricity in accordance with the grid needs and in order to meet customer needs, while maintaining its reliability, as well as the implementation of plans for overhauls, maintenance and development of the distribution grid.

Supply

The Supply Line of Business is responsible for the development of the customer base and the supply of electricity and other products and services offered by TAURON Group. The Supply Line of Business, and in particular Customer Service, is the main contact point for customers with TAURON Group. Its most important tasks include the implementation of electricity and other products supply plans, the development of the customer base as well as sales and service channels, and the development and maintaining good relations with this group of stakeholders.

Trading

The most important tasks of the Trading Line of Business include: planning electricity and heat production, trading in electricity, fuels, CO_2 emission allowances and property rights, optimization and management of the trading portfolios, management of the generating units' operation, preparation of plans for securing and balancing TAURON Group's ongoing fuel needs.

Shared Services Centers

Shared Service Centers are separate organizational units responsible for providing a specific range of support services (e.g. accounting, IT, human resources and payroll, customer service, insurance and security) to the Group's other entities.

2.4.3. Formal and legal organizational structure

As of December 31, 2019, TAURON Capital Group's subsidiaries, besides TAURON Polska Energia S.A. parent company, included 32 subsidiaries subject to consolidation.

TAURON Capital Group's structure is presented in figure no. 9.

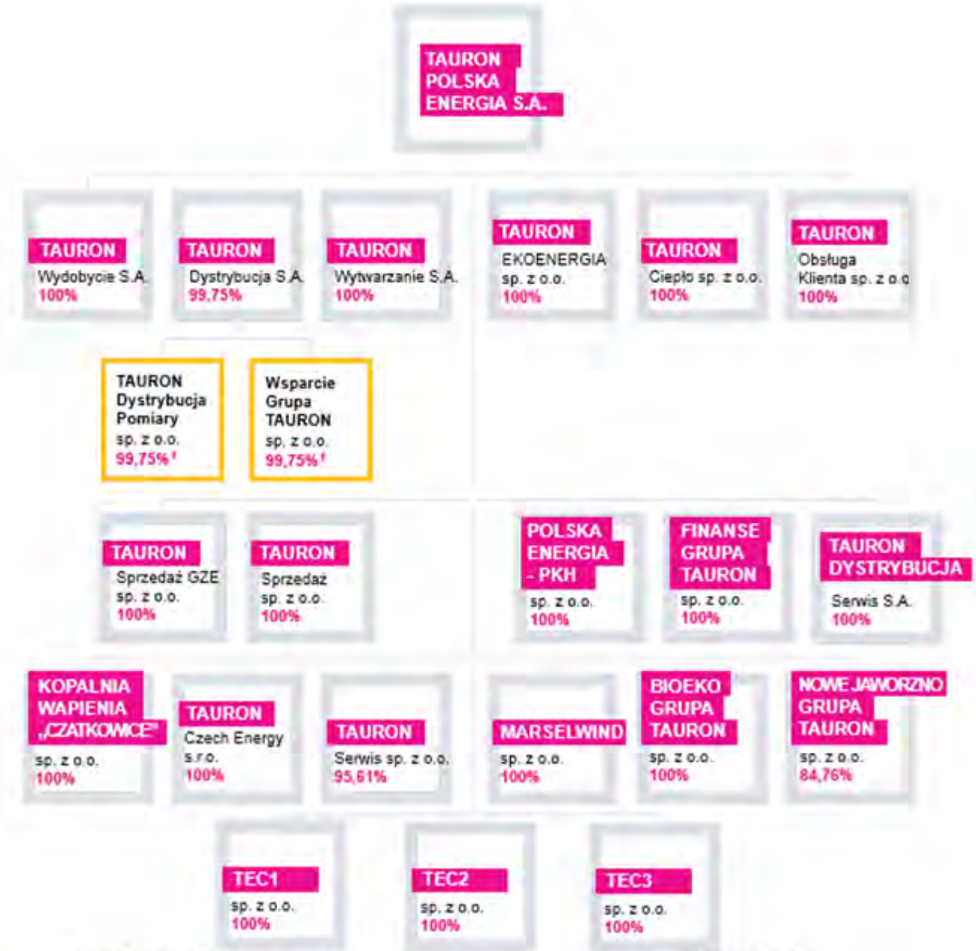


Figure no. 9. Core TAURON Capital Group's subsidiaries in 2019, including the parent company's shareholding therein

Parent company's organizational structure

TAURON Polska Energia S.A is TAURON Capital Group's parent company, performing the role of the corporate center. The company's operations are managed by the Management Board within which the competences for managing the business units were split among the President of the Management Board and the Vice Presidents of the Management Board.

Figure no. 10 presents the current split of competences within the Management Board of TAURON Polska Energia S.A.

Figure no. 10. Split of competences within the Management Board of TAURON Polska Energia S.A. as of December 31, 2019

2.5. Changes to the principles of TAURON Polska Energia S.A. and TAURON Capital Group's management

Changes to the principles of the Company's management

On October 25, 2019, as a result of changes taking place in the Company's business environment, seeking to optimize, streamline and strengthen the management processes as well as make the processes of composing independent work places and organizational units reporting to members of the Company's Management Board more flexible, the Management Board adopted and the Company's Supervisory Board approved the new Organizational Regulations.

In the above Organizational Regulations, that came into force on November 15, 2019, the existing Divisions were replaced by the Business Areas managed by the Executive Directors, the possibility of appointing, in justified cases, one of the Executive Directors to the position of a Managing Director in order to manage subject matter related Business Areas was introduced and it was established that the assignment of Business Areas to the specific members of the Company's Management Board would be made by the Company's Supervisory Board or, in the absence thereof, the assignment would be made pursuant to a resolution of the Company's Management Board.

In connection with the new Organizational Regulations, the required modifications of the scope of functions of the individual Business Areas in the organizational structure of the Company were also made.

The changes in the organizational structure of the Company were aimed at optimizing the functioning of the Company and TAURON Capital Group. The current organizational structure of TAURON Polska Energia is presented in Figure no. 11.

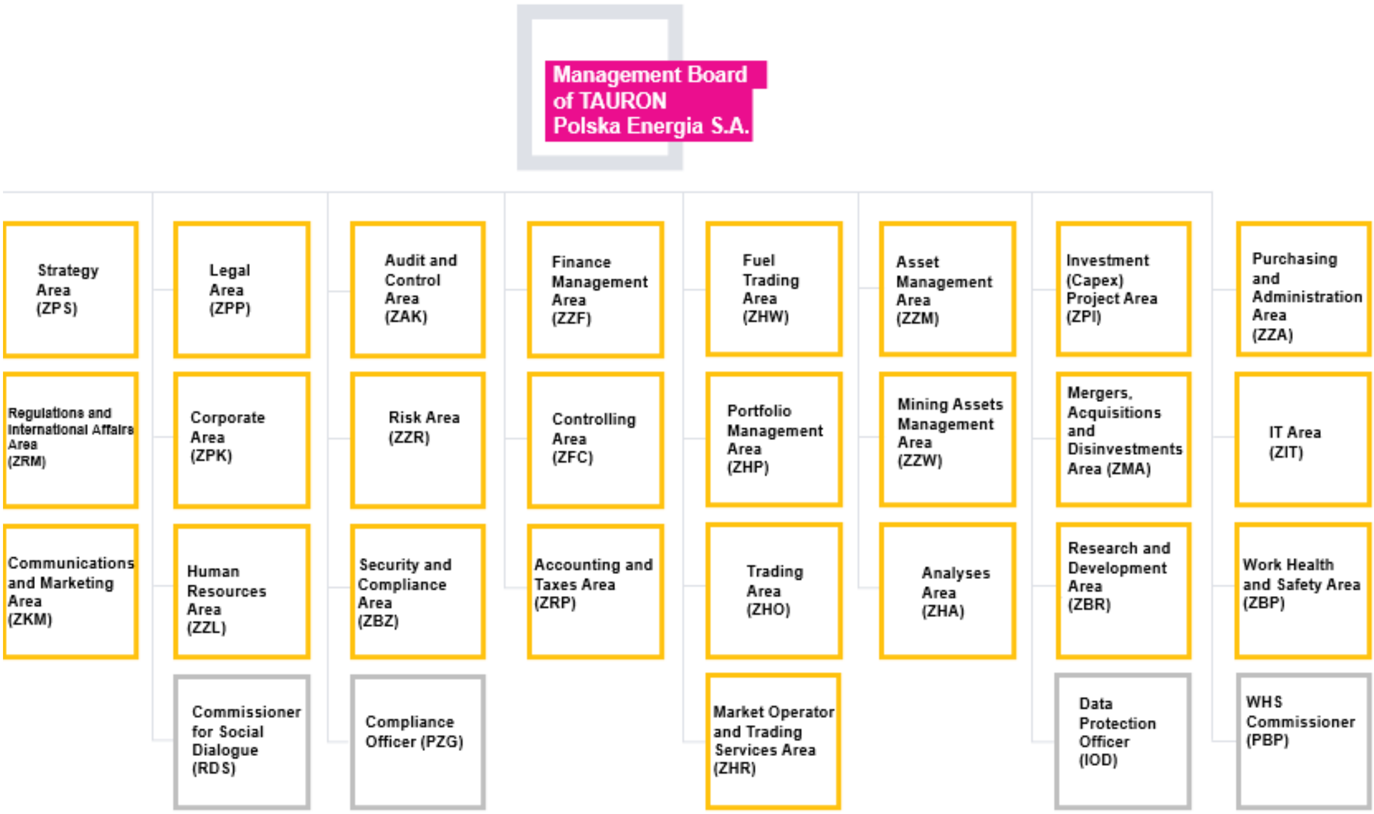


Figure no. 11. Organizational diagram of TAURON Polska Energia S.A. as of the day of drawing up this report

Changes to the principles of TAURON Capital Group's management

As part of the works related to the implementation of the Business Model, the activities related to designing and implementing the key processes at TAURON Capital Group's subsidiaries that conduct business operations, i.e. TAURON Dystrybucja Serwis, TAURON Dystrybucja Pomiary, TAURON Serwis, TAURON Ekoserwis, TAURON Sprzedaż GZE, TAURON Ubezpieczenia, Wsparcie Grupa TAURON, Bioeko Grupa TAURON, SCE Jaworzno III and Spółka Usług Górniczych Górniczych sp. z o.o. (SUG), were completed in 2019.

Maps and diagrams, as well as interface points for the processes taking place at TAURON Polska Energia and at other TAURON Capital Group subsidiaries, were agreed. The Company verified the processes throughout TAURON Capital Group in order to ensure high quality and consistency of the processes developed.

The robotic automation process and the path for initiating improvements by process participants were also implemented in 2019, which intensified the optimization process at TAURON Capital Group's subsidiaries. The works related to the implementation of the process maturity assessment were commenced at TAURON Capital Group, with TAURON Capital Group's Process Maturity Model tool having been designed and a pilot assessment of selected TAURON Capital Group subsidiaries' processes having been carried out. All of these activities were aimed at identifying areas for further improvement, in particular taking into account the issues related to business optimization and the response to physical and transition risks.

The implemented documentation and process tools, as well as the competences acquired by TAURON Capital Group with respect to process management and process optimization at TAURON Capital Group's subsidiaries set up conditions for further seeking of improvements and increasing the efficiency of the operations.

2.6. Disclosure of information regarding the business model in accordance with the guidelines provided in the 2019 European Commission Communication (2019 / C 209/01)

Being aware of the progressing climate changes and their effects, as well as the important role and tasks of the power sector in the broadly understood transition to a low emission economy, the Management Board of TAURON Polska Energia S.A. is taking actions aimed at reducing the negative impact of TAURON Group on climate and the environment. The Group was organized in a long chain of operations covering virtually the entire business: from acquiring fuel to selling the product to the final customer, and the individual links (Lines of Business) are based on large business entities. Such organization allows for impacting the quality of the processes implemented at every stage of value creation, and thus optimizing, adapting, if required, change the way of doing business so as to respond to the current and future challenges. In accordance with the Strategic Directions Update, the line of business responsible for the production of electricity from renewable sources area is expanded. Thus, TAURON Group is changing its generation mix, reducing greenhouse gas emissions.

2.6.1. Impact of climate related risk and opportunities on the business model, strategy and financial plans

Any action involves risk. For the energy industry, the climate impact includes both, weather related occurrences, as well as regulatory changes and changes in customer attitudes. All of this is not without significance for the business model and Strategy, especially in terms of shifting the place where value generation takes place within TAURON Group’s value chain. The response to the changes in the environment is the Update of the Strategic Directions, adopted by the Company's Management Board on May 27, 2019, and the resulting Green Turn of TAURON, i.e. short- and medium-term assumptions for transitioning the production mix towards low- and zero-emission sources, as well as TAURON Group’s Climate Policy adopted in November 2019.

The Group recognizes the risk of significant changes in the regulatory area, both at the European, as well as the national level, aimed at minimizing the negative impact on the climate by introducing further restrictions for coal based power generation. The tightening of climate regulations and the withdrawal by financial institutions and insurers from the cooperation with entities operating coal assets will have a negative impact on the operational prospects for conventional coal units that are part of TAURON Group’s production fleet. Due to the above TAURON sees physical risks as well as the so-called transition risks related to climate change.

The above is the main determining factor (driver) for the development of RES by TAURON Group, as well as for the implementation of the principles of the so-called circular economy. However, one should be aware of Poland’s current energy mix, including that of TAURON Group, which is based on fossil fuels and associated with large coal reserves held. Because of that, in addition to the fast expansion of renewable energy sources (RES), implemented as part of the Green Turn of TAURON, the Group is also taking steps to reduce the environmental impact of its existing coal fired units.

More information on the impact of climate risk on the business model is provided in section 5. The key risks for TAURON Capital Group and the management thereof, as well as section 2.6.3 below.

2.6.2. Ways the company's business model can have both a positive as well as a negative impact on climate

Due to the technologies used, business operations in the energy industry can generate a number of negative impacts on climate, in particular emissions from combustion sources, fossil fuels, as well as land drainage and degradation caused by mining operations. Nevertheless, due to continuous upgrades of conventional generating units, an increase of capacity in renewable energy sources, capture and utilization of methane from coal deposits for business purposes or withdrawal of inefficient coal fired units, TAURON Group is reducing its negative impact on the environment and climate. In accordance with the Strategic Directions Update, adopted in May 2019, by 2030 TAURON Group will reduce its emissions by more than 50%, as shown in Figure no. 12.

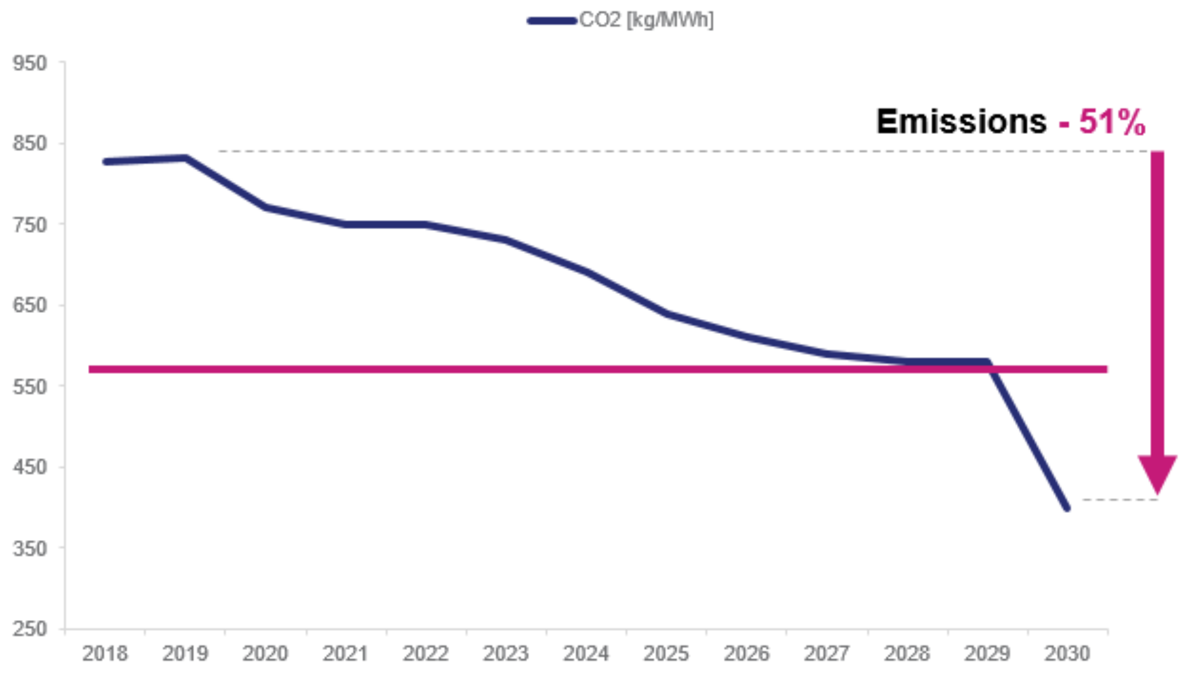


Figure no. 12. Planned CO_2 emissions by TAURON Capital Group in 2018-2030

2.6.3. Resilience of the company's business model and strategy, taking into account climate-related scenarios over various time frames, including a scenario assuming warming at the maximum rate of 2ºC and a scenario assuming warming by more than 2ºC

The Group's current Strategy responds to the current market, regulatory, technological and customer relationship challenges. The business model employed by TAURON Group allows for the implementation of strategic assumptions and thus supports the achievement of strategic goals.

TAURON Group takes into account the potential effects of climate change and how they can affect planning processes, risks and potential business consequences. The inclusion of the climate aspects in the business model and Strategy, and in particular the negative impact of climate change on the company and the possibility of the negative impact of the company on the climate, is an important issue from both from the business as well as social point of view, and taking these aspects into account in the strategic and operational documents will provide a better chance of success.

With respect to climate-related scenarios, we are considering three main areas of changes in the external environment that affect TAURON Group's business model and Strategy: society and customer behaviors, regulations as well as the power system and power generation model.

We assume that for both scenarios the developments described below will be taking place, but at different speeds and intensities. Based on the scenario assuming warming at a maximum level of 2ºC, changes in the external environment will be rather evolutionary, as a result of the growing awareness of the society and businesses and the ever increasing availability of the new technologies. If the evolutionary activities cannot stop the temperature rise and the forecasts will be clearly indicating that there is a high probability of exceeding the average temperature rise by more than 2°C above the value from the pre-industrial era, changes in the external environment, in particular with respect to the regulations, organization of the power (energy) system and the power (energy) production model, as well as the society and customer behaviors will be very deep and fast. The technological solutions for energy storage that are uneconomic today, in case of a significant increase in the energy production costs and the environmental restrictions introduced by the new regulations, may become economically profitable (viable).

As of today, we can plan combating climate change taking into account the available technologies and the best knowledge as well as the availability of financial resources. The potential emergence of modern and ground-breaking technological solutions and their commercialization may lead to the fundamental changes of the entire energy sector's functioning model.

a) Society and customer behavior:

The climate changes (average temperature and the increasing number and intensity of the extreme weather conditions) that can be observed, as well as the resulting restrictions in access to water, lead to an increase of the climate awareness among the ever growing portion of the society. In combination with the care for the natural environment (smog, waste, biodiversity protection, etc.), forces (organizations, social and political movements) exerting the ever growing and more effective pressure on all levels of the government towards taking actions aimed at reducing the human impact on the climate will be expanding. Internationally, the activities of some countries (those where the public climate awareness is the highest) will lead to the introduction of further regulations towards eliminating the use of fossil fuels for energy (power) production. These activities will be more and more socially accepted despite increasing the cost of the energy used.

The growing energy awareness, combined with the rising energy cost, will lead to the ever rising interest in energy efficiency, energy saving and in-house energy production from the renewable energy sources (RES). Economic incentives and better technologies will generate a rise in thermo-modernization, the purchasing of less and less energy consuming devices (including by the households). The falling costs of the photovoltaic installations, combined with an increase in electricity prices, as well as thanks to the support systems, will lead to an avalanche growth in their quantity and capacity. This trend will be supported by the positive feedback resulting from the fact that the higher the RES electricity production, the more expensive the electricity in the power system will be (the costs of maintaining the capacity reserve, balancing, distribution). In addition, the mechanism will be reinforced by the growing interest in the trendy ecological behavior. More and more customers will expect and accept higher electricity costs as long as it is produced without the negative impact on the climate.

The widespread and ever cheaper access to the Internet will lead to the situation that an ever increasing proportion of the population will be using mobile communication and sales channels. The size of the digitally excluded group of people will be shrinking. This will be taking place despite the aging of the society. The decreasing personal sales contacts will be gradually replaced by robots (chat bots) and the online sales and customer service channels.

No particular increase in the consumer interest in taking advantage of small economic incentives and in electricity consumption during the night (at a reduced price) should be expected if this requires consumers to enforce their own self-discipline in watching it and making calculations. Instead, the offers of solutions based on automatic electricity consumption cost optimization systems will be growing thanks to the development of the automation systems and smart home technologies.

Business consumers, in particular large manufacturing industry, will be making greater efforts to reduce their energy costs, primarily because of the rising electricity prices, but also due to the cost competition forced by the market. The expectations of the customers, especially households, will be directed more towards safety (security), ease of use and contact, not just the price any more.

The young generation entering the period of professional and consumer activity is characterized by a much lower tendency to accumulate goods than the previous generations. Greater mobility, readiness for change, greater interest in maintaining the private life and work balance are combined with the desire to use all of the available goods without the need for their possession. This creates more space for all of the share-economy prospects. The market for the shared goods and services will expand.

Climate change will cause the biggest problems in the world's poorest countries, which may lead to further migration crises and, consequently, growing political and security problems in the rich countries. Such developments may result in the need to intensify efforts to increase the security of the energy infrastructure.

b) Regulations

Social pressure and the EU regulations are causing Poland to introduce increasingly more stringent environmental standards and a rising taxation of the CO_2 emissions (charges for the CO_2 emissions). The continuous increase in the CO_2 emission allowances prices is also associated with the use of the regulatory mechanisms leading to the reduced supply of the emission allowances. The EU's commitments to reduce the emissions by more than 40% in 2030 will be implemented through the supply controls. The next version of the BAT conclusions is expected to be released in the second half of the decade. The adaptation of the coal fired units to the more stringent emission standards may prove to be impossible technologically or very expensive and economically unjustified to meet for the older generation sources.

The above applies directly to the conventional electricity generation technologies, but an increase in the requirements for the installations producing the system and process heat can also be expected. This will affect the most the small coal fired heating plants.

All energy processes using coal are accompanied by the production of the combustion and mining by-products. More stringent and therefore more costly requirements with respect to their storage and processing can be expected.

The increasing share of the intermittent (non-controllable) renewable energy sources in the EU countries' production mix will force the introduction of the new regulations regarding electricity cross-border exchange and electricity trading on the international platforms. This is due to the doctrinal approach to the free movement of goods and services. The currently used argument of responsibility for the country's energy security at the national level will be getting less and less important because of the need to ensure security in view of the deficit of the controllable generation sources. Countries will be increasingly interested in the ability to secure additional reserve capacity abroad. Greater interest should be expected in introducing the dual-commodity markets in the European countries that have not introduced such a solution yet.

Climate regulation will also affect the power sector indirectly. The new requirements imposed on the financial institutions practically cut off the coal technologies from the European funding sources. This raises the financial costs and provides an additional disincentive for their development. At the same time, the investors and financial institutions are eager to participate in the renewable energy projects. No European aid funds will be available for the development of the coal-based electricity generation sector, and for the gas fired generation sources this access will be limited. With respect to the power and heat generation sector, aid funds may be allocated solely to the restructuring and mitigation of the social effects as well as the transition towards electricity generation from RES.

Due to the fact that ensuring the social, economic and also personal security of citizens will be one of the biggest challenges, increasingly stringent regulations regarding the security of the infrastructure, competition and consumer protection and personal data protection should be expected. These will be further factors making the business operations more difficult to conduct and raising the costs.

c) Power system and the electricity generation model:

The increasing number of the intermittent (non-controllable) renewable energy sources, as well as the growing number of prosumer installations are ever increasingly affecting the power system from the technical and commercial point of view. Rising energy efficiency of the customers and growing production from the prosumer installations lead to a drop of the demand for the electricity generated by the system (utility scale) sources. This trend, combined with the rising prices of the fossil fuels and / or the uncertainty of their supply, the increase in the environmental and climate costs (CO_2 emission and the costs of other emissions), causes a shift in the role of the system (utility scale) power plants (in particular, the coal fired ones) from the position of primary sources to that of complementary ones. This means reducing the production time and volume, and thus increasing the share of the fixed costs in the total costs. This mechanism will cause the need to decommission power generating units that will not receive the support from the capacity market, because they will not generate a sufficient margin with the declining production. As a consequence, there may be capacity deficits during the periods of the low production from the renewable energy sources. In addition, the declining production from the coal fired units will lead to the decreasing demand for the thermal coal. The use of coal for the heating purposes will also drop as a result of the anti-smog regulations, as well as the increasing competitiveness of the use of the natural gas and heat pumps by the households.

It is assumed that the importance of the cross-border connections and the facilities making the cross-border trading easier will be growing. This will result in a greater system integration among countries and the greater competition, as well as a price link. This is an additional factor preventing the economically justified operation of the least efficient generation sources (obsolete coal fired units).

The rising share of the wind farms in the production mix will lead to the higher price volatility, which, combined with the tightening of the climate regulations and the increase in the price volatility of the CO_2 emission allowances, will create a situation where the investments in the new coal fired sources as well as the expenditures on the refurbishments and overhauls of these sources will be unacceptably risky.

The nature of the transmission networks and distribution grids is changing from handling the traditional direction of the electricity flow from the power plants to the transmission network, and then to the distribution grid and the consumers, to supporting the growing flows in the opposite direction, i.e. from the low voltage grids to the higher voltage networks. This requires undertaking investment activities aimed at equipping the networks with the metering devices, including data transmission and IT systems supporting the network management in order to maintain stability by controlling the flows (the load carrying capability of the network elements), controlling the voltages and the short-circuit powers. The low and medium voltage grids require large capital expenditures for their modernization so that they can absorb the avalanche of the emerging distributed generation installations. The distribution grids, in particular in the areas with the low density of the consumers, are becoming a guarantee of stability and security, as well as a kind of "energy storage" for the prosumer sources and the other renewable energy sources.

In the coming years, no development of new energy storage technologies reaching the capabilities that would enable their economic implementation on the system wide scale should be expected. An impulse for the dissemination and widespread use of the energy storage facilities for the systemic purposes may be significant regulatory restrictions on the use of the fossil fuels for electricity production and the volatility of the electricity prices caused by the large share of the intermittent (non-controllable) sources.

The technical solutions and network topologies are also significantly affected by the extreme weather conditions. Their increasing number and intensity makes it necessary to use the solutions resilient against, in particular, strong winds. This leads to the need to build cable and insulated networks (for the medium and low voltage grids) and upgrade the overhead networks, especially in the built-up and forest areas.

Poland's system heat (district heating) is one of the best-developed district heating systems in Europe, and the climate change, resulting in mild winters, reduces the demand for heat. In addition, the relatively high cost of the system heat increases interest in thermomodernizations and the automation systems that reduce heat consumption. All these factors combined cause increasingly limited growth opportunities for the district heating systems. The reduced heat consumption, growing competition of the local (individual) heat sources based on the natural gas or electricity, and the need to expand the district heating network outside the city centers will deteriorate the economics of such business operations.

Table no. 1 presents our understanding of the current situation and activities regarding the resilience of the business model to climate change.

Table no. 1. Changes to TAURON Capital Group's business model in the short, medium and long term

<table>
<tr><th rowspan="2">temperature rise scenario</th><th rowspan="2">Short term (until 2025)</th><th colspan="2">Medium term (until 2035)
Check point 2030</th><th rowspan="2">Long term (until 2050)</th></tr>
<tr><th>Up to the check point</th><th>Past the check point</th></tr>
<tr><td>< 2 °C</td><td rowspan="2">We have prepared solutions in place – we are implementing TAURON Group's Strategy:
• Shutdown of obsolete 120 MW coal fired units (approx. 1 GW).
• Prepared plan to change the fuel mix including a plan to invest in low and zero emission sources (approx. 900 MW in wind power plants + 300 MW in solar power plants)
• Commissioning of a high efficiency and lower emission new 910 MW unit in Jaworzno
• Plan to sell the Heat Line of Business – including the coal fired generating units.
• Option to sell a coal mine / mining company – at the stage of looking for a buyer.
• The growing role of the distribution and increasing expenditures on adapting the grid to the rapid growth of the RES mini- and micro-installations</td><td>• Shutdown of 200 MW coal fired units
• Participation in the off-shore wind farm construction project
• Service and product offering for the prosumers
• Construction of successive large RES installations</td><td>• Maintaining profitable coal fired units as regulating and intervention sources.
•Significant role of the distribution in the local balancing</td><td>* Preparation of the development assumptions for 2030+</td></tr>
<tr><td>> 2°C</td><td>Adapting the mining operations to the demand of the Group's coal fired generating units</td><td>•Limiting the mining operations to the level based on the Group's generating units regulating and intervention operation.
•Maintaining the leading role of the distribution, including the need to build energy storage facilities for the local balancing</td><td>*Preparation of the development assumptions for 2030+</td></tr>
</table>

* The main determining factors (drivers) for formulating the applicable provisions are: 1) Passing of Poland's Energy Policy; 2) Poland joining the agreement on climate neutrality in 2050.

Changes to the company's business model and its business strategy that have been introduced to reduce the risk associated with the transition and the physical risk in order to take advantage of climate-related market opportunities

Being aware of the progressing climate changes and their effects, both on a global as well as local scale, in 2019 TAURON Group adopted TAURON Group's Climate Policy. This document constitutes the direction for the Group to manage its activities so as to reduce climate risks, reduce negative impact on the climate and maximize the positive effects of climate change throughout the value chain.

We are constantly monitoring the external environment, including announcements of regulations aimed at counteracting climate change, as well as agreements and declarations of countries related to long-term strategies for reducing emissions and achieving climate neutrality. Bearing in mind such economic trends and development directions, on May 27, 2019, the Management Board of TAURON Polska Energia adopted the Update of the Strategic Directions to supplement TAURON Group's 2016-2025 Strategy. In accordance with the current Strategy and the Update of the Strategic Directions adopted, the increase in the value of the Group will be based primarily on:

- regulated and stable Distribution segment,
- development of low and zero emission sources in terms of greenhouse gases emissions,
- conventional generation assets eligible for support,
- sales of energy and energy related products and services tailored to customer need.

It is assumed that strategic options will be implemented, including:

- development of low emission and zero emission power generation, primarily through investments in renewable energy sources. By 2025 the Group is planning to invest in on-shore wind farms (additional 900 MW), photovoltaic farms (additional 300 MW) and commence the process of engaging in the construction of off-shore wind farms;
- enhancing the flexibility of the Group's asset portfolio by aligning the mining assets with the Group's planned demand for fuel, reorganizing the Generation segment and equity investments portfolio. This option assumes the divestment of Janina Coal Mine and TAURON Ciepło subsidiary, as well as a sale of the shares in the subsidiaries: Elektrociepłownia Stalowa Wola and PGE EJ 1. With respect to conventional power generation, permanent decommissioning of the 120 MW units and, after 2025 – the 200 MW units, is planned

Thanks to the implementation of the planned activities, it will be possible to increase the share of low- and zero-emission sources in the generation structure of TAURON Group from 10%. in 2018 to nearly 30 percent in 2025 and more than 65% in 2030.

The company's dependence on natural capital, including due to the risks associated with climate change

One of the key levers of TAURON Group's value is access to natural resources. Water, land (including its resources: hard coal and limestone) and air are resources that we have an impact upon in the course of our operations. Thus, we make every effort to reduce our impact and increase the rationality and efficiency of their use.

Mining assets play an important role in the Group's value chain. They are its first link, and thanks to the investment projects underway they are to guarantee the supply of suitable quality coal to the Group's generating units. In addition to conventional coal-fired generating units, water and wind energy are used to produce electricity. 34 hydroelectric power plants located in the south of Poland and 9 wind farms located mainly in the northern part of the country. We have also started the implementation of photovoltaic power plant construction projects, so another natural resource that will be used by TAURON Group is solar radiation.

Climate changes observed in recent years do not significantly affect the way we use our natural capital. Temperature rise associated with climate change has a negative impact on the production from hydroelectric power plants (due to hydrological drought), but thanks to the development of photovoltaic and wind generation, including off-shore, the Group will be able to use such renewable generation sources. Therefore, we are planning to build solar (photovoltaic) installations.
In the long run, TAURON Group's impact on natural resources will decrease, both due to the need to meet the expected tightening of environmental requirements and climate policy, as a result of investments into new, low- and zero-emission energy sources, but also thanks to the permanent shutdown of obsolete conventional units. Climate change, in particular the rise in temperature, mainly in the winter months, reduces the need for heat and electricity for the heating purposes. When planning the consumption of natural resources, the Group will have to take into account such changes.
Being aware of the non-renewable nature of the hard coal sources consumed, the Group uses them in a responsible and efficient manner.

Changes to the company's business model and business strategy that are aimed at mitigating climate change or adapting thereto, and will lead to changes of the company's needs in terms of human capital

The Group's transition towards low- and zero-emission energy will impact the business model, shifting revenue generation place within the value chain. In turn, the implementation of this scenario will have an impact on human capital, causing the need to change the qualifications of some employees and hire people with new skills. In connection with the above, actions are already being taken today to ensure that the best staff for TAURON Group subsidiaries will be available in the medium and long term, taking into account changes to the technologies used.

In 2019, the Management Board of TAURON Polska Energia updated the TAURON Group's Corporate Social Responsibility Code of Conduct by adding issues related to climate protection. This document is a set of values and principles, and at the same time it is a commitment to act in an ethical and transparent manner. It also obliges the Group to balance its impact on the environment through environmental and climate protection measures. On the other hand, employees should identify potential threats in this respect, taking actions to prevent irregularities or accidents that could pose a threat to the environment.

Thanks to the transition being implemented, there is also a chance that dedicated and qualified persons might become interested in working at TAURON Group, as they would be offered an opportunity to build career paths in the new renewable technology fields. The challenges associated with this and the opportunity to work in a stable industry will become one of the factors changing the perception of the energy sector by young generations and enable them to view the industry as modern and climate neutral.

Method applied to select scenarios

Action scenarios depending on the temperature rise were based on the assumption that measures aiming to reduce negative environmental effects, in particular the greenhouse effect, will be effective and stop the global average temperature rise rate below 2ºC, and alternatively, that this increase will be greater than 2ºC. TAURON Group is aware of the fact that a further increase in temperature will result in further reaching measures being taken to limit the negative impact of industrial human activities on the climate. Such actions may have a significant impact on the Group's conventional assets, thus the reaction will involve deeper changes to the business model. Currently, work has already begun on a new Strategy of the Group for the next period, which may translate into changes to the business model in the long run.

For the above reasons, no new investment projects will be undertaken in the coal mining and coal fired electricity production lines of business. TAURON Group will be operating in accordance with the assumptions of Poland's Energy Policy, and will also be implementing all decisions taken by Poland as part of initiatives and projects functioning based on the provisions and agreements reached during the next World Climate Summits (COPs), aiming at achieving climate neutrality over the next several decades. As a reference point, TAURON will use the climate scenario methodologies that are available and applied.

How does the company's operations contribute to climate change through greenhouse gas emissions arising, among others, due to deforestation, forest degradation or land use change

TAURON Group has no significant impact on climate change through deforestation, forest degradation or land use change. More information on this topic is provided in sections 4.3 and 4.4 where TAURON Group's Environmental Policy and Climate Policy are described.

2.7. TAURON Capital Group's values

2.7.1. Mission, vision

Mission

We deliver state-of-the art solutions with passion and commitment to produce energy in a constantly changing world.

Vision

We are the company that responds the best to customer needs in the Polish power sector.

The mission and vision of TAURON Capital Group are derived directly from the profile of our operations. As one of the largest energy groups in Central and Eastern Europe, whose operations cover all links in the value chain, we are aware of the importance of efficient functioning to ensure security of energy supply for Poland's residents and companies operating here. We also know that in the era of intense changes in the market environment, progressing digitization, social mobility and the impact of human activities on the environment and climate, there is a visible change in the expectations of our customers. They are becoming more and more active and aware of the quality of services provided, and expect a broad and comprehensive offering as well as modern customer service channels, while the highest standards of environmental protection are maintained and the climate impact is minimized.

Providing modern solutions in a constantly changing world and stable conditions for the development of the offering in line with customer expectations has become not only the basis for creating TAURON Capital Group's strategic directions, but also an expression of our social responsibility, including with respect to the environment and climate.

2.7.2. Corporate values

TAURON Capital Group's corporate values are a signpost on the road to the implementation of the assumptions of the Strategy, as well as in relations with employees, customers, business partners and the other stakeholders.

Values are also symbols and determinants of the Group's organizational culture. It is important for us not only what we are doing, but also the way in which we are achieving the set goals together.

TAURON Capital Group's values are described by the acronym PRO (Partnerstwo (Partnership), Rozwój (Development), Odwaga (Boldness):

PARTNERSHIP

- We are partners for customers and each other in achieving shared goals.
- We are building lasting relationships - based on trust and mutual respect.
- We are getting involved in what is important to our customers and the Group.

DEVELOPMENT

- We are innovative - we break down barriers, set trends and create change.
- We are constantly developing competences, skills and knowledge.
- We are looking for better and better solutions - we meet the current and future needs of customers, continuously improving the quality of our services.

BOLDNESS

- We talk boldly and openly about problems and the most daring ideas.
- We are determined to implement what we believe in, to achieve shared goals.
- We face the challenges of a changing environment with commitment and passion.

2.7.3. Corporate Social Responsibility Code of Conduct

Since 2017, we have been applying the principles of the Corporate Social Responsibility Code of Conduct (hereinafter the Code) - a key document on TAURON Capital Group's ethical culture. This set of principles and values, which is an impulse to create our own organizational culture, serves us as the foundation for the functioning of the organization and the implementation of strategic goals.

The document was based on the mission, vision and corporate values of TAURON Capital Group.

The Code defines the most important values and principles of conduct that should be followed by employees and stakeholders of the Group in the areas related to:

- workplace,
- natural environment,
- stakeholders.

It also describes the Fraud Reporting System in place at TAURON Capital Group.

The adoption of the Code by the Management Board of TAURON Polska Energia on April 4, 2017, was related to the Compliance Management System being developed by the Group. Since then, we have been constantly improving the culture of compliance, understood as a set of specific principles of conduct in compliance with the law, internal and intra-corporate regulations, and ethical standards, which, combined with our values, support the achievement of business goals.

Each employee of TAURON Group - regardless of the type of employment contract, seniority, position or function performed - is obliged to comply with the provisions of the TAURON Group's Corporate Social Responsibility Code of Conduct. We also believe that our values and principles of conduct will be accepted by all the stakeholders and will become a mode to be followed in developing long-term relationships with all the stakeholder groups.

Due diligence procedures

Due diligence procedures in place under the Corporate Social Responsibility Code of Conduct include a compliance reporting system, as well as rules related to a conflict of interest.

After the end of every quarter the Compliance Officer (Power of Attorney) prepares a written report for the Audit Committee with respect to the tasks completed, and after the end of each half-year, he/she draws up a written report for the Supervisory Board of TAURON Polska Energia S.A. with respect to the tasks completed.

In addition, after the end of every calendar year, by January 31, the Compliance Officer (Power of Attorney) prepares a written Compliance Report on the functioning of the Compliance Management System at TAURON Group. The report includes, among others, an assessment of the adequacy and effectiveness of the Compliance Management System adopted in the period covered by the report, the degree of the Compliance Plan implementation, indication of measures taken or proposed in cases of non-compliance or the risk of non-compliance.

Conflict of interest

The basis for preventing conflicts of interest at TAURON Group is the principle set out in TAURON Group's Corporate Social Responsibility Code of Conduct, according to which: "We avoid situations that could potentially cause a conflict of interest." A conflict of interest in case of an employee of TAURON Group occurs when, acting in his/her own interest or in the interest of any entity, the employee simultaneously carries out activities against the interest of TAURON Group. We openly communicate (in accordance with the rules in force at TAURON Group in this respect) cases that constitute or may constitute a source of conflict of interest, and we take actions aimed at eliminating the adverse consequences of such situations.

Reporting of cases of violations of the Code's provisions, including the above mentioned rules, takes place through the following communication channels:

a) in person: to the direct superior or the Compliance Officer (Power of Attorney) or the Compliance Coordinator,
b) in writing to the address: Compliance Officer (Power of Attorney), ul. Ks. Piotra Ściegiennego 3, 40 -114 Katowice,
c) by phone: + 48 32 774 22 22,
d) e –mail: compliance@tauron.pl,
e) Fraud Reporting Form available on the website: https://www.tauron.pl/tauron/o-tauronie/formularz-zgloszenia-naduzycia/.

In the event of receiving a notification of a conflict of interest, the Compliance Officer conducts fact finding investigations and also answers employee questions based on specific factual status.

In 2019, actions were initiated to implement detailed rules for dealing with conflicts of interest at TAURON Group. Their goal will be to build awareness among employees with respect to preventing conflicts of interest, as well as to define uniform standards of conduct in counteracting such a situation that occurs or may occur in connection with the duties performed by employees and the operations of the subsidiaries.

In addition, it should be noted that a practical manifestation of counteracting conflicts of interest at TAURON Group is the submission by the members of the tender committees and experts for the needs of the given purchasing procedure of statements on not having a legal or factual relationship with a contractor, that could raise reasonable doubts as to their impartiality.

What's more, in accordance with the Labor Regulations in force at TAURON Polska Energia, one of the employee's basic obligations is to inform the superior about taking up additional employment, commencing business operations or performing tasks (executing orders), the scope of which may lead to a conflict of interest between him/her and the employer.

Document update by adding climate issues

In 2019, the Management Board of TAURON Polska Energia updated TAURON Group's Corporate Social Responsibility Code of Conduct with issues related to climate protection. According to the document, we are obliged to offset our impact by actions for environment and climate protection. On the other hand, TAURON Group's employees should identify potential threats in this respect, taking actions to prevent irregularities or failures posing a threat to the environment.

Actions taken and results obtained

One of the main tasks of the Compliance Officer and Compliance Coordinators at TAURON Capital Group is to periodically organize and conduct training courses on compliance issues. The above activities are aimed at increasing employee awareness with respect to, among others, preventing fraud, reporting irregularities, rules on accepting and giving gifts, procedures for verifying contractors.

Two e-learning training courses on compliance issues have been posted on the e-learning platform for the personnel:

- training on TAURON Group's Corporate Social Responsibility Code of Conduct,
- training on TAURON Group's Compliance Management System, covering the following topics:
    - verification of contractors - presentation why the issue of verification of contractors is so important for the security of the Group and when to apply for an assessment of the contractor's credibility,
    - evaluation of external entities when organizing joint undertakings - presentation of the procedure for establishing cooperation with an external entity with respect to, for example, promotion or sponsorship and to whom the application for an external entity evaluation should be submitted,
    - reporting irregularities - presenting the available channels for reporting fraud at TAURON Capital Group and building awareness regarding warning signals about the possibility of fraud being committed,
    - rules on accepting and giving gifts - building awareness about the type of gifts that can be received or given and defining the conditions in which their acceptance or giving is unacceptable,
    - counteracting corruption - showing what corrupt activities and unethical behaviors are, and who TAURON Group's Anti-Corruption Policy is applicable to.

77.63% of employees with access to the training platform were trained on the Corporate Social Responsibility Code of Conduct at TAURON Group as of December 31, 2019, and 77.11% of eligible persons obtained a positive result.

78.41% of employees with access to the e-learning platform were trained on the Compliance Management System at TAURON Group as of December 31, 2019, and 75.51% of eligible persons completed the training with a positive result.

In addition to online training, 28 face to face meetings were conducted in 2019, as a result of which approx. 770 of TAURON Group's employees were trained.

Since November 2018, training courses for the managerial personnel of the following subsidiaries have been continuously conducted: Bioeko Grupa TAURON, SCE Jaworzno III, TAURON Ciepło, Spółka Usług Górniczych, TAURON Sprzedaż, TAURON Dystrybucja, TAURON Dystrybucja Pomiary, TAURON Obsługa Klienta, TAURON Wytwarzanie.

In order to develop the compliance culture at TAURON Group, 19 900 brochures and 15 000 leaflets were also handed out in 2019.

18 messages related to the activities of the Compliance Officer were published via the Group's intranet in 2019, regarding, for example, warnings against false, misleading decisions of the Patent Office, the procedure for accepting and giving gifts, the use of the split payment mechanism by TAURON Group or invitations to the Compliance Day.

Compliance Day

On September 30, 2019, the first edition of the Compliance Day took place at TAURON Polska Energia. The purpose of this undertaking was to spread awareness among TAURON Group employees with respect to compliance management. The event was attended by the workforce of TAURON Group's subsidiaries and the Compliance Coordinators.

The event was composed of two parts:

- the first part included an all-day consultation zone to enable mutual discussion and asking questions to the Compliance Team personnel,
- the second part included practical workshops on, among others, the rules for verifying contractors (counterparties), standards for accepting and giving gifts, or a system for reporting fraud.

The Compliance Day was accompanied by competition in the knowledge of compliance for TAURON Polska Energia's workforce.

2.8. GRI indicators described in this section

- GRI 102-1 Organization name
- GRI 102-2 Activities, brands, products and services
- GRI 102-3 Location of headquarters
- GRI 102-4 Location of operations - including the number of countries in which the organization operates, along with the names of those countries, where the main operations of the organization are located, or which are particularly important in relation to topics related to sustainable development discussed in the report
- GRI 102-5 Ownership and legal form
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization
- GRI 102-10 Significant changes during the reporting period regarding size, structure, ownership form or value chain
- GRI 102-11 Precautionary principle
- GRI 102-16 Values, ethics code, principles, standards, and norms of behavior
- GRI 102-17 Internal and external mechanisms enabling obtaining advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-18 Governance structure
- GRI 102-22 Composition of the top management authority
- GRI 102-23 Top management authority
- GRI 102-24 Method of selecting the top management authorities
- GRI 102-26 Role of the top management body in the environment, purpose, values and strategy
- GRI 102-28 Evaluation of the results of the top management body
- GRI 102-32 Role of the top management body in reporting
- GRI 102-25 Conflict of interest
- GRI 201-2 Financial implications and other risks and opportunities associated with climate change
- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. Impact of these activities on society,
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area with indication of material topics within the given area
- GRI 102-2 Activities, brands, products, and services
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes to the organization and its supply chain in the reported period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-25 Conflict of interests
- GRI 201-2 Financial implications and other risks and opportunities related to climate change

3. TAURON CAPITAL GROUP'S VALUE CREATION PROCESS AND INTEGRATED PRESENTATION OF THE RESULTS

3.1. Our capitals and relationships among them

TAURON Group creates value for shareholders, inter alia, by investing in modern energy and shoring up the finances. Value creation is possible thanks to the processing and transformation of TAURON Group's capitals - financial, natural, production, human, intellectual and social.

3.1.1. TAURON Group's financial capital

Financial capital is extremely important, both for the current operations of TAURON Group, as well as its expansion in the future. The sources of financing are: the company's equity, funds generated from business operations and liabilities. Currently, the Group is implementing a number of capital-intensive investment projects, mainly in the electricity distribution and generation lines of business, investing more than PLN 4.7 billion per annum.

TAURON Group is financing its operations by generating approximately PLN 3.5 billion in EBITDA per annum. The Group's subsidiaries use external financing in the form of loans and bond issues, as well as special-purpose funds, research programs and other instruments supporting modern, environmentally friendly investment projects. Due to the tightening of the policy with respect to the financing of investments in the conventional energy, the banks' unwillingness to finance the entities from the coal industry, and entities with companies using coal within their strictures, is visible. Also due to the above, the Group is implementing a responsible environmental policy under the ESG formula, which will affect the ability to obtain external financing.

TAURON has been active on the financial markets for a long time, acquiring financing from available instruments, including loans, bond issues on the domestic and the European markets. In accordance with the Strategy in force and the Strategic Directions Update adopted, TAURON Group takes into account changes in the market and regulatory environment. The introduction of new options to the Strategy is the basis for the safe and sustainable transition of the Group, and it also increases the investment potential for the development of renewable energy sources. The experience gained and the active acquisition of financing by TAURON on the financial market, i.e. hybrid bonds or Eurobonds. as well as financing taking into account the sustainability indicators, will be of significant importance in the Group's transition.

TAURON is generating financial results that enable its further expansion and implementation of strategic projects. In spite of changes in the business environment, growing revenues and cost optimization allow the Company to continue to maintain a stable result and the net debt to EBITDA ratio at a safe level.

Key data on TAURON Group's financial capital in 2018 and 2019 is presented in Table no. 2.

Table no. 2. Key data on TAURON Group's financial capital in 2018 and 2019

Key capital data	2019	2018
Equity	19 093	18 428
Fixed assets	35 052	32 596
Distribution segment's RAB	17 470	16 940
Generations assets value	15 212	12 713
Net debt	2,8x	2,5x
Capital expenditures	4 128	3 838

TAURON Group's management of return on financial capital is performed as follows:

- maintaining financial stability thanks to activities aimed at optimizing expenses and the structure of assets,
- implementation of the investment program and rationalizing the capital expenditures incurred,
- steadfast implementation of the financing optimization plan,
- developed capital partnership as part of the Corporate Venture Capital initiatives,
- new products and services as well as business models being implemented,
- increasing the share of revenue from the regulated market (capacity market),
- cooperation with banks and financial institutions,
- searching for optimal sources of financing,
- preferential loans to finance environmental investment projects,
- financial risk hedging,
- efficient liquidity management through the cash pooling service.

The results achieved as part of TAURON Group's management of return on financial capital are presented in table no. 3.

Table no. 3. Results achieved by TAURON Capital Group in 2018 and 2019 as part of the management of the return on financial capital

Results achieved:	2019	2018
Sales revenue	19 558	18 122
EBITDA	3 599	3 492
EBITDA margin	18,4%	19,3%
Cash flow from operating activities	2 036	2 223
Net debt/EBITDA ratio	2,8x	2,5x
Net profit	(12)	207
Long term rating*	BBB	BBB

** On April 17, 2019, Fitch ratings agency affirmed TAURON Polska Energia's long term foreign and local currency ratings of "BBB" with a stable outlook*

3.1.2. TAURON Group's natural capital

Natural capitals defined by TAURON Group - air, water, soil, minerals (coal, oil, gas, limestone), biomass - are used in almost the entire chain of operations. The Group's goal is to use them at the lowest possible cost for people, the environment and the climate. The confirmation of this approach is the adoption by the Management Board, in May of 2019, of the Strategic Directions Update, thanks to which the weight of individual natural capitals used in business processes will change in TAURON Group's value chain. The Management Board of TAURON Polska Energia has made the decision to turn towards renewable production technologies, so our focus will shift towards greater use of wind energy and solar radiation, while reducing the consumption of, for example, fossil fuels. In 2019, TAURON Group began implementing projects, involving the construction of photovoltaic installations on the Group's unused land, but also based on the purchase of projects in other parts of the country, which will mean that solar radiation will be another natural energy source for TAURON Group.

We are aware of the fact that changes in the use of natural capital will be implemented gradually, in an evolutionary way, and it is a necessary precondition for ensuring the supply of electricity to our customers.

Currently, TAURON Group has a stable base of raw materials ensuring the supply for the conventional production assets and for the external consumers. The base in the form of fossil fuels is also a guarantee of stable production in periods of intermittent or extreme weather conditions that have a negative impact on the security of the power system.

The Group's transition towards low- and zero-emission generation assets will significantly reduce its impact on the environment.

Key data on the capital

TAURON Group's natural capital includes renewable and non-renewable natural resources. Non-renewable resources deposits are exploited in a responsible, rational, regulated, systematic and sustainable manner.

The raw materials used by TAURON Group are presented in tables no. 4 and 5.

Table no. 4. Non-renewable resources deposits exploited by TAURON Capital Group in 2019

Number of deposits		Mineral	Number of coal mines	Total mining area km^2	Recoverable reserves ton m
8	Main mineral	hard coal	3	218.77	344.8*
		limestone	1	1.34	70.63
1	Accompanying mineral	Methane			

Table no. 5. GRI 301-1. Raw materials used by TAURON Capital Group in 2018 and 2019

TOTAL	**2019**	**2018**
NON-RENEWABLE RESOURCES *		
Net coal [tons]	6 082 657	7 271 605
Sludge [tons]	315 247	311 511
Natural gas [m^3]	8 220 614	8 413 515
Heating oil [tons]	26 575	30 642
Diesel oil [m^3]	6 857	9 942
Limestone [tons]	252 865	316 793
Limestone production [tons]	1 717 980	1 561 433
RENEWABLE RESOURCES		
Biomass agro [tons]	88 220	71 189
Biomass forest [tons]	332 592	238 742

** Includes the consumption and production by the Group's subsidiaries*

The renewable natural resources used by the Group include:

- biomass,
- water used by 34 diversion (run-of-river) and impoundment hydroelectric power plants as well as in conventional power generation technological processes,
- wind powering wind power plants,
- ultimately also solar energy (in photovoltaic installations).

Management of the return on capital:

TAURON is managing the resources that make up its natural capital in a responsible manner. The above is demonstrated by the steadfast implementation of the guidelines of the document approved in July 2017 entitled TAURON Group's Environmental Policy. The policy addresses comprehensively all types of activities carried out by the Group, related to the impact on the environment and the use of its resources in accordance with the principles of sustainable development. In addition, the Management Board of TAURON Polska Energia introduced TAURON

Group's Climate Policy and updated the TAURON Group's Corporate Social Responsibility Code of Conduct in 2019, among other by adding the climate impact related issues.

One of the Group's key expansion directions adopted is to aim to achieve the complete utilization of its waste, which in almost 100% is converted into products and can be used for commercial purposes. The achievement of this goal is implemented, among others, by minimizing the stream of waste generated thanks to product innovation, supply chain management and a conscious process of decommissioning some of the assets from service, as well as by promoting the use of waste generated during the product's life cycle and thus reducing the amount of waste deposited in the environment by placing it on the market for use as substitutes for natural materials.

The results achieved as part of the above actions are presented in Table no. 6.

Table no. 6. Results achieved by TAURON Capital Group in 2018 and 2019 as part of the management of the return on natural capital

Results achieved:	2019	2018
Direct greenhouse gas emissions – CO_2 (tons)	12 215 945	16 604 240
Nitrogen oxides – NO_X (tons)	10 709	16 105
Sulfur dioxide – SO_2 (tons)	10 386	16 911
Total dust	636	1 001
Other (such as: HCl, HF, carbon monoxide, ammonia, methane, metals)	33 522	37 000
Total volume of non-hazardous waste (including combustion waste and mineral extraction waste) (tons)	1 366 974	3 540 064
Dumpsite waste (tons)	5 539	4 639

3.1.3. TAURON Group's production capital

TAURON Group is a vertically integrated company, operating in all key segments of the power sector. The Group's financial result depends to a large extent on the effects of the assets' production activities, as well as their efficiency. Thus, the production (technical) capital, as a tool for generating revenue, is an important element of TAURON Group's business operations. The Group's Strategy places a strong emphasis on developing a stable base of regulated assets and improving the efficiency of conventional assets. The carrying amount of all of TAURON Group's assets is more than PLN 35 billion. TAURON Group's assets are very diverse, which is due to both the characteristics of individual segments, as well as the significant differences in the age of individual devices.

The production capital will be shored up by putting into operation in 2020 of the 910 MW unit in Jaworzno and the 450 MW CCGT unit in Stalowa Wola.

Due to the tightening of environmental requirements (BAT conclusions), some generating units are currently undergoing refurbishment. Nevertheless, due to the significant wear of TAURON Group's production fleet, the coming years will be a period of the transformation of the generation segment by way of decommissioning the inefficient units and developing new, low and zero emission facilities. The update of the Strategic Directions assumes that by 2025 their share will be close to 30%, and in 2030 more than 65%. Such measures will allow for reducing emissions of all pollutants by 2030, including cutting the CO_2 emissions by more than half.

The largest contribution to TAURON Group's financial result is made by the Distribution Line of Business, in which the largest capital expenditures are incurred. Only in this line of business TAURON Capital Group invests approx. PLN 2 billion per annum. The changing environment, in particular the development of renewable energy sources, also of the prosumer type, has a large impact on the need to upgrade and expand, as well as adapt the existing grid infrastructure. In addition, the growing expectations of customers and the approach of the Energy Regulatory Office have an impact on the need to improve the quality and reliability of electricity supply. In view of the above, TAURON Dystrybucja in implementing a cable grid construction program, increasing the share of cable lines in the distribution grid and thus improving quality indicators, security of electricity supply and resistance against weather conditions, including the ever more frequently occurring sudden weather conditions associated with climate change. Among the four integrated energy groups in Poland (the others are ENERGA, ENEA, PGE), TAURON Group boasts the largest share of cable lines in the structure of network grids and very good quality indicators.

Market challenges imply the need to make changes to the mining assets, which in the short and medium term will be the fuel base for TAURON Group's changing production mix. The investment projects currently underway, involving the construction of the Grzegorz shaft at ZG Sobieski, the construction of the 800 m level at ZG Janina and the implementation of the capex program at ZG Brzeszcze will allow for a more efficient fuel supply for the conventional generating units remaining in operation.

In order to ensure adequate asset productivity and efficiency of electricity supply, the Group is implementing a capex program that is tailored to its needs. A significant part of investment outlays is allocated to the distribution segment, where investment projects are primarily focused on connecting new customers and producers as well as upgrading the infrastructure in order to improve the reliability of electricity supply. Another investment direction is the generation segment, in which the largest outlays were incurred for the finalization of the implementation of the 910 MW power unit in Jaworzno and the modernization of air protection installations. In the future, we can expect that the level of capital expenditures in the distribution segment will be maintained, while with respect to electricity generation the expenditures on conventional energy will be reduced. Obsolete, inefficient conventional units will be gradually shut down, while a significant increase in capital expenditures on renewable energy sources should be expected.

The above mentioned activities and many others, of a smaller scale, will ensure that the production capital will, in the long run, continue to be the strong basis for building TAURON Group's value.

The key data on TAURON Group's production capital in 2018 and 2019 is presented in Table no. 7.

Table no. 7. Key data on TAURON Group's production capital in 2018 and 2019

Key data on the capital	**2019***	**2018**
Hard coal extracting coal mines	3	3
Hard coal fired power plants (quantity)	5	5
Hard coal fired power plants (installed capacity)	4.3 GWe; 1.35 GWt	4.3 GWe; 1.2 GWt
Combined heat and power plants (quantity)	3	3
Combined heat and power plants (installed capacity)	0.3 GWe; 1.2 GWt	0.3 GWe; 1.2 GWt
Proprietary district heating networks - TAURON Ciepło (length)	857 km	844 km
Heat supply	PJ	PJ
Hydroelectric power plants (quantity)	34	34
Hydroelectric power plants installed capacity)	133 MW	133 MW
Wind power plants (quantity)	9	4
Wind power plants (installed capacity)	382 MW	201 MW
Electricity distribution lines (length)	237 0000 km	235 000 km
Transformers (distribution)	58 900	58 800
Stations MV/LV	60 900	59 800
Stations HV/MV	491	490
Capital expenditures (billion PLN)	4 128	3 838
Depreciation (billion PLN)	1 992	1 839

* As of 31.12.2019

TAURON Group's management of return on the capital is performed, first and foremost, through investments, including:

- Connecting new consumers (and producers) to the distribution grid, expanding and upgrading the distribution grid;
- Improving extraction efficiency and providing fuel for TAURON Group's generating units through:
    - construction of the Grzegorz shaft including the infrastructure and accompanying headings at ZG Sobieski,
    - construction of the 800 m level at ZG Janina,
    - implementation of the ZG Brzeszcze capex program.
- Finalizing the construction of modern generation capacity, key for energy security, among others:
    - 910 MWe hard coal fired generating unit at Jaworzno Power Plant,
    - 450 MWe CCGT unit at Stalowa Wola;
- Expanding the district heating network;
- Adding the heating function at Łagisza Power Plant by refurbishing the 460 MW turbine to enable the heating function (150 MWt);
- Adapting the generating units to the operational conditions in force beyond 2021, resulting from the introduction of the BAT conclusions;
- Obtaining revenue from the Capacity Market and as part of the RES auctions;
- Increasing the installed capacity of RES and improving the productivity of the existing assets;
- Improving the quality and reliability of the power supply for electricity consumers.

The results achieved as part of TAURON Group's management of return on production capital is presented in table no. 8.

Table no. 8. GRI 301-1, EU2. Results achieved by TAURON Capital Group in 2018 and 2019 as part of TAURON Group's management of return on production capital

Results achieved	2019	2018
Commercial coal production by segment groups: coal dust, medium size lump coal, large size lump coal, eco-pea coal	3.78 million Mg	5.01 million Mg
Net electricity production	12.7 TWh	14.9 TWh
Including electricity production from RES	1.4 TWh	0.98 TWh
Heat distribution	8.51 PJ	8.78 PJ
Heat generated	9.03 PJ	9.63 PJ
Electricity distribution	51.73 TWh	51.97 TWh

3.1.4. TAURON Group's human capital

Employees are the most valuable capital of TAURON Group. The pool of their professional knowledge, experience and skills as well as attitudes and motivations at all levels of the organization translates into the value of the Group, proper functioning, operations and achievement of strategic goals. Therefore, it is very important for TAURON Group to undertake actions aimed at personnel development. We strive for this through building and promoting a knowledge-based organization, ensuring employee satisfaction by creating a friendly work environment, and promoting and supporting a healthy lifestyle, such as non-professional activities.

The strategic directions of activities in the area of human resource management include: seeking to retain and attract employees with competences in line with business needs, creating a work environment that supports innovation, creating opportunities for continuous development of competences and promoting the idea of a learning organization. The ambition is for TAURON Group to be an employer of choice, creating an attractive environment for the development of current and future employees.

We are aware of the dependence of the financial (commercial) success on the well-functioning and well-developed personnel base. To this end, we are creating an innovative organizational culture based on TAURON Group's values - Partnership, Development and Boldness.

The range of the Group's business operations, both in terms of geography as well as competence areas, from raw material acquisition, through the production and distribution of electricity and heat, up to the supply and customer service, employing more than 26 000 employees, significantly affects the complexity of the human capital management process. Depending on the employee's workplace in the Group's value chain, human resources management and organization of personnel policy are adapted accordingly in terms of training and development, improvement of information flow, career opportunities and ensuring competitive working conditions. We are periodically conducting employee satisfaction surveys, and their results are the basis for developing and implementing action plans that aim to increase engagement and create an attractive workplace.

All activities for employees are also important due to projected demographic changes and a falling number of professionally active people. Creating attractive jobs, TAURON Group strives to attract the best employees, also to developed and new areas of operations. In this regard, various activities have been undertaken for years, e.g. participation in job fairs, career fairs, entrepreneurship fairs and science festivals. Lectures, training courses and workshops as well as competitions for students are organized. We are actively promoting TAURON Group at universities, high schools and vocational schools. We are creating patronage classes with an offer tailored to the future HR needs of the Group's subsidiaries. To encourage the candidates interested in working for TAURON Group, a recruitment helpline for job candidates has also been launched.

The key data on TAURON Group's human capital is presented in table no. 9.

Table no. 9. Key data on TAURON Group's human capital in 2019 and 2019

Key data	**2019**	**2018**
Number of employees (in persons as of 31.12)	26 086	25 829
Share of women among the workforce	21.4%	21.5%
Share of men among the workforce	78.6%	78.5%
Share of college graduates among the workforce	33.8%	33.2%
Share of high school graduates among the workforce	43.3%	43.1%
Share of vocational and elementary school graduates among the workforce	22.9%	23.7%
Rotation rate	6.51%	6.45%

TAURON Group's management of return on the capital is performed, first and foremost, through:

- management of employee competences in accordance with TAURON Group's common competence model,
- introducing a career development conversation as a tool supporting the process of Management by Objectives, with the main assumption aimed at building employee development through dialogue between the superior and the employee,
- periodic surveys of TAURON Group's employees satisfaction level, the results of which are the starting point for undertaking initiatives aimed at improving job satisfaction and comfort, and thus increasing business efficiency,
- actions aimed at eliminating the risk of a generation gap through active cooperation with the education sector,
- implementation of a project under the Knowledge, Education, Development Operational Program (POWER) entitled: Developing a model of vocational and practical training program in the power sector, and TAURON Group's actively joining the strategy for responsible development in the field of dual education,

- active involvement in shaping academic education paths as well as modernization of development processes and training for the Group's personnel,
- cooperation with numerous educational institutions and adapting the offering of apprenticeships and internships by the Group's subsidiaries,
- supporting the idea of sharing knowledge and competences through the implementation of the Internal Coaches Program,
- promoting a culture of learning and knowledge sharing through proprietary and innovative development and training programs,
- development of leadership competences through dedicated development programs and post-graduate studies,
- access to the latest expert knowledge and current market trends in various areas of life as part of periodic lectures by TAURON Group Open University,
- Talent Management program, with the goal to support the employee development process and the utilization of the personnel's potential within TAURON Group,
- active use of the e-learning platform to implement training aimed at developing industry knowledge and interpersonal skills,
- supporting the Work-Life-Balance principles, by undertaking a series of actions promoting a healthy lifestyle and making work time more flexible,
- introducing programs for young parents and women returning to work after having a child, as well as conducting workshops for employees at pre-retirement age,
- improving cost flexibility by optimizing the utilization of competences within the Group,
- ensuring the competitiveness of remuneration systems by implementing transparent, market-based rules,
- employee benefit packages taking into account the needs of employees,
- increasing work efficiency by introducing digital solutions.

Through active management of the return on human capital TAURON Group's is achieving the results presented in table no. 10.

Table no. 10. Results achieved by TAURON Capital Group in 2018 and 2019 as part of TAURON Group's management of return on human capital

Results achieved	2019	2018
Number of training course hours	478 000	449 000
Number of the participants of TAURON Group Open University	2 700	785
Number of training courses conducted by Internal Coaches	167	215
Number of Internal Coaches	83	76
Number of persons trained by Internal Coaches	1 800	2 100
Number of interns / apprentices	655	748
Number of patronage classes	47	44

3.1.5. TAURON Group's intellectual capital

Using its business experience and employees' competences TAURON Group is developing to meet the challenges of the future energy sector. The key to maintaining competitiveness is modern management, the use of new technologies, digitization, corporate governance and relationships with the stakeholders, with all these elements jointly forming a compatible and coherent system that allows to efficiently conduct operations at every link in the value chain. Fast changing environment also implies the need to focus on innovation as well as research and development activities.

The potential of intellectual capital covers workforce capital, internal structural capital and external structural capital. It is worth emphasizing that the main component of TAURON Group’s intellectual capital is the employees' knowledge and their aggregate competences. Internal structural capital is another important component of intellectual capital. This capital includes technologies, methods and processes that enable the Group to function. Furthermore, research, development and innovation activities are carried out as part of internal projects and including the participation of business partners and the academic community. The last component, external structural capital, is related to intangible market factors. This capital includes the company’s brand and reputation, then network of associates and relations with the stakeholders, with a particular emphasis on relationships with suppliers and customers. TAURON Group strives to deepen cooperation with the suppliers of technology and know-how, represented both by large industrial conglomerates, as well as by small companies - mainly startups.

Effective intellectual capital management provides a chance to increase adaptive flexibility and carry out transformational activities aligned to changes in the market environment. TAURON Group adopted the Intellectual Property Policy in 2019, which was a set of rules and standards of conduct with respect to intellectual property management and a description of good practices that are expected from counterparties (contractors) and associates.

The key data on TAURON Group's intellectual capital in 2018 and 2019 is presented in Table no. 11.

Table no. 11. Key data on TAURON Group's intellectual capital in 2018 and 2019

Key data on capital – main components of TAURON Group's intellectual capital
• The Group's strategy focused on creating innovations; • Strategic Research Agenda – a road map for the Group’s research and development as well as innovative activities; • Knowledge and competences of the Group’s employees; • Catalogue of best practices related to the implemented management systems and internal procedures; • A developed model of cooperation with universities and vocational schools.

TAURON Group’s management of return on the capital is performed, first and foremost, through:

- implementation of projects with respect to research, development and innovations related to the following topics: the customer and his/her needs, intelligent grid services, distributed energy, low-emission production technologies, including also with the use of dedicated NCBiR programs, Horizon 2020, KIC InnoEnergy, the Research Fund for Coal and Steel RFCS .
- cooperation with start-ups: accelerator programs (Pilot Maker Elektro ScaleUp, KPT ScaleUp, TAURON PROGRES), CVC EEC Magenta,
- TAURON’s participation in the Govtech Program,
- cooperation with the Electric Power Research Institute (EPRI),
- development of the platform called Innovation Zone,
- workshops with representatives of universities and research institutes,
- cooperation with leading universities, research units and technology companies from Poland and the EU,
- organization of competitions for the Group’s employees aimed at supporting innovation,
- development of IT systems, digitization and robotic automation of selected processes,
- organization of open days for suppliers and contractors (counterparties).

The results achieved as part of TAURON Group’s management of intellectual capital in 2019 is presented in table no. 12.

Table no. 12. Results achieved as part of TAURON Group’s management of intellectual capital in 2019

Results achieved	**2019**	**2018**
The number of new research and development projects launched in all of the Group’s lines of business,	18, including 9 projects conducted in cooperation with start-ups	16

Number of projects underway in four portfolios	67	57
Total value of projects underway	PLN 178 million	PLN 261 million
Co-financing obtained from external sources for the implementation of the R&D projects	PLN 48 million	PLN 45 million

In 2018, a Corporate Venture Capital (CVC) type fund - EEC Magenta, was established jointly with the Polish Ventures Development Fund, the National Center for Research and Development and EEC Ventures,.

In 2019, EEC Magenta's first investment projects were carried out – a PLN 13 million investment in the company Reliability Solutions (RS), specializing in predicting and minimizing the effects of failures. This is the fund's first investment project.

In 2018, the Pilot Maker program co-financed by the Polish Agency for Enterprise Development as part of the Scale Up competition, was completed, as a result of which 28 start-ups began working with TAURON Group's subsidiaries.

In 2019, the cooperation with several startups was continued, extended pilot projects were implemented, works on 5 projects originally derived from the PilotMaker program were carried out, including MIGAM (a tool for online communication in real time), the solution o which was deployed for testing at Tauron Sprzedaż.

In 2018, TAURON got involved in the new Pilot Maker Elektro ScaleUp program.

In 2019, two rounds of recruitment to the Program were carried out. TAURON's experts had analyzed more than 60 ideas, and as a result of further selection, 5 startups were invited to cooperation and pilot projects were implemented with such companies with the use of TAURON subsidiaries' infrastructure.

In 2018, the cooperation with the EPRI Institute (USA) was established.

In 2019, as part of the cooperation with EPRI, TAURON participated in two research programs: with respect to energy storage and identifying the needs of electricity consumers.

Patents, inventions, know-how developed as part of R&D projects, increasing the potential to improve the Group's financial result in thecoming years - 13 inventions with patent protection in place and another 7 being under registration.

TAURON brand strong market position and recognition.

Modern IT systems supporting the core operations and customer service.

Licenses for the core operations: coal mining, electricity and heat production, distribution and trading.

3.1.6. TAURON Group's social capital

TAURON Group's social capital is based on developing mutual relations both within the organization as well as towards the external environment (stakeholders). The foundation of developing such relationships is TAURON Group's Sustainable Development Strategy for 2017-2025, and the main principles are described in TAURON Group's Responsible Business Corporate Social Responsibility Code of Conduct. The sustainable development strategy sets the directions and initiatives undertaken by the Group's subsidiaries to increase work safety, minimize the negative impact on the natural environment and climate, as well as to develop appropriate attitudes with respect to engaging the employees' and residents' of the areas where TAURON Group is conducting its business operations.

TAURON Group places particular weight on the relations with the stakeholders - it conducts social dialogue that is related to both the existing production assets as well as the implementation of new investment projects. The effects of the dialogue are specific actions that include, among others, a reduction of noise levels at selected production and distribution facilities. TAURON Group is also conducting a good neighbor policy, under which it aims to improve the living conditions of local communities and cooperates with local government bodies. The Group is also involved in a number of undertakings for the benefit of the environment, such as charity and education activities, cooperation with academic centers, employee volunteering and providing support for many important sports and cultural events.

The Group's involvement in climate protection and counteracting climate change is playing an increasingly important role in the development of social capital. The response to social challenges in this respect is TAURON Group's Climate Policy adopted to be put in place at the end of 2019, which was inaugurated with a lecture entitled: Climate facts and myths as part of TAURON Group Open University. The key data on TAURON Group's social capital is presented in Table no. 13.

Table no. 13. Key data on TAURON Group's social capital in 2019

Key data
• Organizational culture based on the values of Partnership, Development and Boldness • TAURON Group's Sustainable Development Strategy for 2017-2025 and TAURON Group's Corporate Social Responsibility Code of Conduct, which define the principles of cooperation with the stakeholders • Development of ethical culture and compliance management among employees • Building lasting relationships and active dialogue with the stakeholders • Cooperation with responsible suppliers in accordance with the principles of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries • Implemented and applied: TAURON Group's Diversity Policy and Respect for Human Rights Policy • Engaging employees in the company's development through special events (sports competitions, integration meetings) and competitions • Personnel education and development • Implemented and applied TAURON Group's PROCustomer Social Policy • Support for local initiatives through TAURON Foundation

TAURON Group's management of return on the capital is performed, first and foremost, through:

- promotion of the compliance culture, which in combination with TAURON Group's Competence Model, motivates employees to achieve business goals in accordance with the law, internal and intra-corporate regulations, and ethics,
- shaping the work environment based on respect, openness, integrity and justice, and respect for human work through the implementation and application of specific principles of conduct (including, inter alia, Diversity Policy, Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination at TAURON Group, Policy of Respect for Human Rights),
- development of the Purchasing Organization Support System called TAURON Group's Purchasing Platform, organization of Open Door Days for potential TAURON Group's contractors (counterparties),
- cooperation with the trade unions,
- Social Dialogue Ombudsman's activities,
- development of employee volunteering, which has been in place at TAURON since 2017.

The results achieved as part of TAURON Group's management of social capital in 2019 is presented in table no. 14.

Table no. 14. Results achieved as part of TAURON Group's management of social capital in 2019

Results achieved	**2019**	**2018**
Number of meetings with trade union organizations functioning at the Group's subsidiaries	329	249
Percentage of employees covered by collective bargaining agreements	95.7%	93.9%
Occupational accident frequency rate	7.8	7.7
New key and consolidated categories, in which particular importance is attached to financial optimization of the purchasing	As part of the business operations conducted, as required	As part of the business operations conducted, as required

Regular meetings with local communities to provide information on the business operations conducted and its impact on the residents	As part of the business operations conducted	As part of the business operations conducted
Number of local and pro-social initiatives that TAURON Foundation has joined	158	147
Number of framework agreements on corporate social responsibility	11	9
Number of sports and cultural events organized for TAURON Group's workforce	18	16
Number of employee volunteering projects involving nearly 200 employees	19	13

3.1.7. Value creation model and relations among capitals

Capitals as well as their mutual relations are constantly changing due to a number of factors, including. among others, changes in the market and regulatory environment. The internal change accelerator is the implementation of TAURON Group's Strategy. The implementation of the actions envisaged in the strategy allows for a sustainable transition of the Group and increases the investment potential for the development of renewable energy sources. The effects of the activities, in accordance with the Strategy, will be visible in all capitals. The transition towards the zero and low emissions will also have an impact on each segment of the Group's operations.

Financial capital is the basis for the effective use and development of TAURON Group's other capitals, the production capital in particular, it supports the development of intellectual capital and human capital and improves the efficiency of the use of natural capital. Through the implementation of investment projects, TAURON Group is constantly increasing the potential of its production capital. The development of this capital is carried out using the best available technologies and reduces the impact of the Group's business operations on climate and environment. The use of modern technological and technical solutions improves and develops new competences in the intellectual capital, which also contributes to the development of the human capital, improves the use of the production capital and strengthens TAURON Group's competitive position. The Group's business operations, primarily coal mining and electricity and heat production using conventional sources, consume natural resources. Improvement of the efficiency of the use of natural capital and better management of available resources by TAURON Group lead to a more efficient use of the production and financial capital. The overall business operations of TAURON Group, the provision of safe and stable electricity and heat supplies for its customers, continuously develops relations with the external environment, including the social stakeholders. On the other hand, taking care of the continuous development of the social capital builds the TAURON Group's value.

The relationships among the capitals as well as the value creation model at TAURON Capital Group in 2019 is presented in Figure no. 13.

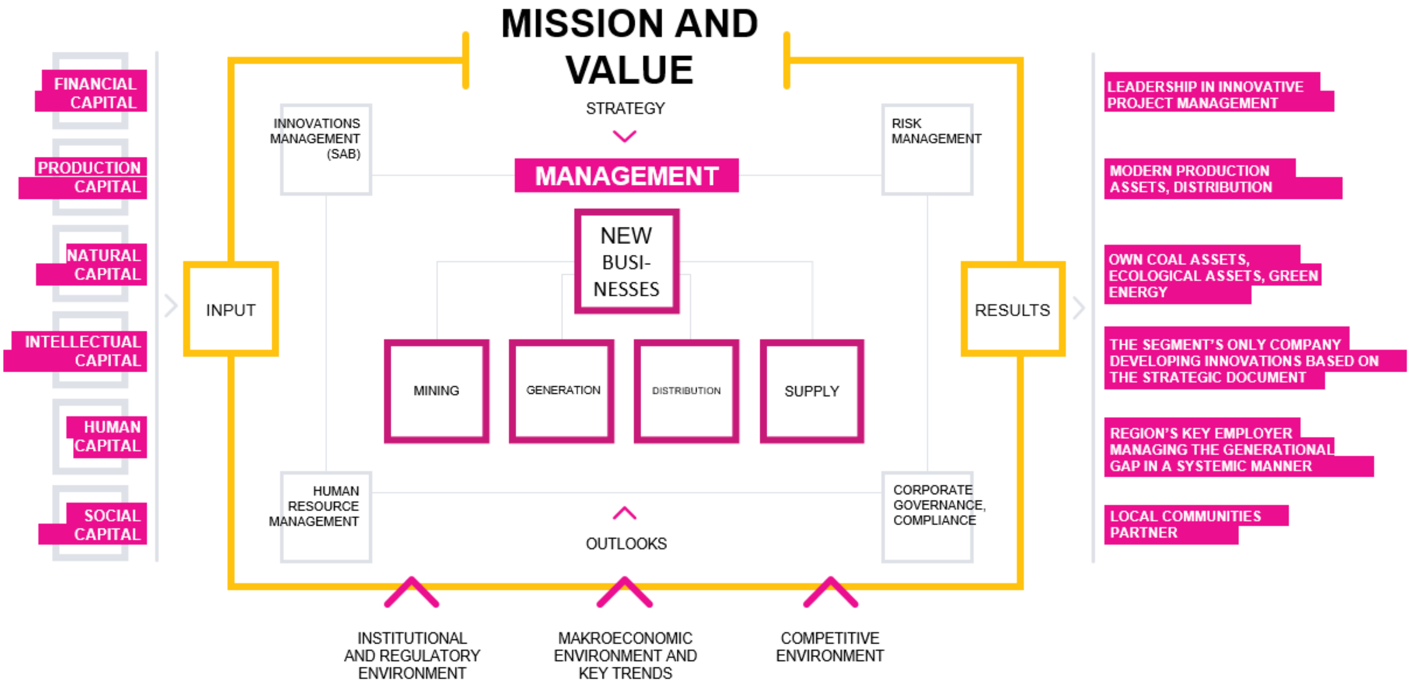


Figure no. 13. Value creation model and relationships among capitals at TAURON Capital Group in 2019

3.2. TAURON Group's value levers (drivers)

In accordance with the 2016 – 2025 Strategy adopted on September 2, 2016, TAURON Capital Group is aiming to optimize the businesses operating at the beginning of its value chain, maintain the position of its regulated businesses and grow the businesses placed at the end of the value chain that interact with the end customer. Due to this approach, TAURON Group's value levers (drivers) include, among others, customer-centricity and new businesses. Responding to the requirements arising from the European Union climate policy, the financial institutions' requirements and the expectations of customers and shareholders, TAURON Group is responding in a flexible manner to the current and future challenges in order to utilize its resources in an optimal way. In this respect, the value levers include its natural capital as well as the investment and restructuring potential, allowing, on one hand, for achieving the greatest possible independence from external suppliers, and on the other hand, providing the potential to respond to the changes and adapt to them. Organizational culture and employees are important value levers (drivers). Thanks to them, it is possible to efficiently implement business processes.

Analyzing its value levers, the Group is highlighting the market and regulatory changes, progressing climate changes, and is analyzing and implementing preventive measures that would allow for continuing its business operations in the long run. It is assumed that the transition of TAURON's value levers will be taking place in an evolutionary manner, through the implementation of the Group's Strategy.

3.2.1 Customer-centricity

According to TAURON Group's Strategy, the customer is always at the center of attention. In all its activities TAURON focuses on developing lasting relationships with customers using its products and services, and the strengthening of customer relations is the basis for the Group's assumed growth. The number of customers - both those who are connected to the distribution grid and those who have chosen the products and services offered by TAURON Group - continues to grow.

In the shorter term, TAURON Group's priority is to improve its products and services in response to customer needs, also by shaping the offering in accordance with the sustainable development principles. Over the past year, there has been a significant acceleration in the construction of individual, prosumer photovoltaic installations (more than 278 MW of renewable sources were connected to TAURON Dystrybucja's grid in 2019, with micro-installations accounting for 206 MW of that capacity). This is a trend which, in the opinion of TAURON Group, will be continued and should result in expanding the scope of cooperation with customers. In this aspect, the Group is becoming a partner and the supplier-consumer relationship will evolve towards sharing of the services.

The next goal is to simplify and optimize the communications processes between the customer and TAURON Group, as well as to increase the number of customer service centers in the field and to continuously improve electronic communications channels.

In the medium term, TAURON will be offering customers modern products and services to meet the customized expectations of selected groups. For this reason, an innovation ecosystem has been created, which, apart from issues related to continuous improvement of technology and reduction of negative impact on the environment, is equally focused on the tailoring the offering to the needs of the current and future customers in the best possible manner. The new approach to innovation, including through the use of the open innovation formula and the allocation, outlined in the Group's Strategy, of at least 0.4% of the revenue to innovation, research and development, will bring measurable results in the coming years. It is assumed that electricity cost increases are likely to translate into increased interest in the activities aimed at improving efficiency. This interest will amplify the demand for products and services related to the improvement of energy efficiency, which will allow TAURON Group to enrich the range of products and services offered. The availability of energy-saving devices and systems that reduce electricity consumption is growing, resulting in improved energy efficiency. Until now, mainly large enterprises and municipalities have been interested in services related to efficiency improvements. It is assumed that the increase in electricity prices will also generate interest in these activities among smaller enterprises and even households. Improvement of energy efficiency will result, in addition to financial aspects, also from the growing public awareness of the need to reduce the negative impact on the climate.

In the long run, TAURON Group's priorities with respect to customer centricity will remain unchanged, and the issues related to providing high quality products and services as well as an easy, interactive communications platform will be key to achieving success on the market. The tools of mutual communications will shift towards an increasing role of interactivity, shortening of the processes and increasing the transparency. It is assumed that a further development of individual power generation installations and the expected digitization of the metering (smart metering) will increase competition on the energy and energy related services market, while expanding TAURON Group's partnership relations with customers.

The topic of customer-centricity is discussed in detail in section 4.1 TAURON Group's PRO Customer Social Policy.

3.2.2. New businesses

In the short term, TAURON Group, using its competences, human, technical and organizational resources, a well as customer relations, intends to continue introducing new services and products on the market. To pave the way to new revenues, extensive research and development as well as innovative activities are carried out. TAURON Group organized development projects into four portfolios: Customer and his/her needs, Intelligent grid services, Distributed energy and Low-emission production technologies.

The new business ecosystem is strongly associated with the research and development ecosystem, but also with the mergers and acquisitions process. Such an approach not only allows for developing proprietary ideas, but also for taking advantage of the experience of external entities. Income based on the traditional power sector model has limited growth potential, therefore it is necessary to develop new activities. To this end, TAURON Group is conducting activities focused on obtaining additional revenues by offering new solutions, products and services, including with respect to the reduction of greenhouse gas emissions, also by improving energy efficiency. It is assumed that the share of revenue from the new activities will not be of key importance for many years, due to the very high value of the core operations in the fuel-energy-distribution chain, but this value will be growing gradually.

In the medium term, TAURON Group strives to achieve its strategic goal, according to which 25% of the supply line of business revenues will come from the new businesses in 2025. This is a very ambitious assumption, but it can be realized provided that, among others, the development of the innovation ecosystem will be continued.

In the long run, it is assumed that the energy industry will change its operating model. The new businesses and innovations will prepare TAURON Group for market challenges. Thanks to them, TAURON is already today involved in projects related to e-mobility (carsharing and electric vehicle charging stations), it is developing smart metering and internet access services, and is developing a database of products and services offered in addition to electricity. It is likely that today's centralized power sector model will evolve towards distributed, prosumer based energy industry that presents different challenges and generates revenues in other places of the value chain than it does today. TAURON Group's aspiration is for new businesses to bring the Group maximum possible benefits arising from the already appearing and coming changes.

3.2.3. Modern infrastructure

TAURON Group's major investment projects, such as the construction of a 910 MW unit in Jaworzno, the construction of a CCGT unit in Stalowa Wola and the investment projects related to the mining assets, reached a significant level of progress in 2019. TAURON Group is also continuing an expansion and modernization of its electricity distribution grid. Thanks to the modern infrastructure, TAURON will provide stable electricity supply at a competitive price, meet stringent environmental standards and reduce the negative impact on the climate.

TAURON Group's generating units are in the process of implementing an investment and administrative action plan that will prepare them for optimal adaptation to the new environmental standards, the so-called BAT conclusions that will come into force as of August 2021. Such adaptation is important both due to the need to ensure the country's energy security, but also because of the possibility of obtaining revenue from the capacity market. Thus, after 2020, TAURON Group will have a generation fleet capable of generating revenue on the dual-commodity energy market. In the Strategic Directions Update, TAURON Group adopted a goal to introduce profound changes to its generation assets.

In the time frame covered by the Strategy, it is planned that some of the already obsolete generating units will be decommissioned and replaced with new low- and zero-emission units: photovoltaic and wind based. In 2019, TAURON Group doubled its installed capacity in wind farms as a result of acquiring wind assets with a total capacity of more than 180 MW. In the coming years, in order to replace traditional production infrastructure, TAURON Group will launch more capacity in renewable energy sources and will be expanding its distribution grid, responding to the needs of TAURON Group's customers. Investment projects in the distribution grid carried out in recent years have improved the reliability of electricity supply and reduced grid losses. TAURON Group will continue the modernization and expansion of the distribution infrastructure also to adapt the grid to the growing amount of electricity generated by renewable energy sources, as well as to enable interworking with the infrastructure for charging electric vehicles.

3.2.4 Ability to access and use the natural capital

All aspects of TAURON Group's operations take into account the impact on the local environment, as well as the quality and price of the products and services that it is offering to the customers. TAURON Group's customers are also the beneficiaries of the Group's efforts related to protecting the quality of the natural environment and the way its resources are managed.

The Group's great assets are its natural resources that constitute a part of the natural capital that it uses to provide customers with its products and services. Water, land and air are resources that are impacted by TAURON Group's business operations. With these resources in mind every effort is made to reduce this impact. TAURON Group strives to convert 100% of its combustion waste into products.

TAURON Group owns 29% of Poland's coal resources (type 31-33). In order to optimally utilize the available raw material potential, the following investment projects are carried out: deepening of the shaft at Janina Coal Mine, construction of the shaft at Sobieski Coal Mine and the investment projects at Brzeszcze Coal Mine. TAURON Group's coal mining assets play an important role in the value chain. They are its first link, and thanks to the investment projects underway, they are to guarantee the supply of suitable quality coal to TAURON Group's generating units. It is assumed that TAURON Group's coal mines, after the projects currently underway have been completed, will become sustainably profitable and with limited further development will be the primary source of fuel for the Group's modern generating units. Water is an important natural resource for TAURON Group, as it is, among others, widely used in the electricity production processes. By using closed cooling water circuits at TAURON Group's power plants, the consumption of this resource is limited to the necessary minimum. TAURON Group has also taken steps to recover this resource through mine drainage processes and reuse the water recovered from the mines in its technological processes. In addition to the conventional coal-fired generating units, TAURON Group also uses falling water's energy and wind energy to produce electricity. TAURON Group is operating 34 hydroelectric power plants located in the south of Poland and 9 wind farms, located mainly in the northern part of the country. Solar (photovoltaic) power plant construction projects have started, so the next natural resource TAURON Group will be using will be solar radiation.

TAURON Group also has a limestone mine in its asset portfolio, where it acquires, among others, sorbent for flue gas desulphurization at conventional power plants. The raw material obtained is also widely used outside the energy sector - it is used in agriculture, steel making, construction, lime, cement, sugar and road building industries.

Electricity and heat production and distribution are areas that closely link TAURON Group with local communities. In its business operations the Group takes into account their expectations and minimizes the negative impact of the enterprise on the quality of local communities' life.

In the long term, the impact of TAURON Group's business operations on natural resources will be declining, both due to the need to meet the expected tightening of the environmental standards and climate policy, investments in new, low- and zero-emission energy sources, and due to the permanent shutdown of inefficient conventional units. We also want to continuously improve the efficiency of our work with our own or used natural capital. We strive to use it better and in a circular manner.

3.2.5. Investment and restructuring potential

TAURON Group is conducting a broad investment program in each of its Lines of Business. The integrated structure and the full value chain: from extraction and supply of fuel, through electricity and heat generation, distribution, up to the supply to the end customers, allows for optimizing its investment and operating activities.

TAURON Group's investment projects are an important element of ensuring Poland's energy security. The Group allocates annually PLN 3-4 billion per annum for capital expenditures, most of which are investments in the distribution grids. The detailed data on capital expenditures are presented in section 3.1.1 TAURON Group's financial capital.

In the short term, TAURON Group will continue its investments in the expansion and modernization of the electricity distribution grid, will complete its investments in new generating units: the CCGT unit in Stalowa Wola and the 910 MW unit in Jaworzno and will complete its strategic investment projects in the coal mines: deepening of the shaft at Janina Coal Mine, construction of the shaft at Sobieski Coal Mine. In the time frame covered by the Strategy, TAURON Group is planning to decommission obsolete generating units. 120 MW units will be decommissioned by 2021, and 200 MW units will be decommissioned in 2025-2030. The investment effort will be directed to the renewable sources. TAURON Group's aspiration is to have additional 900 MW of capacity in wind based generation assets and 300 MW in photovoltaic capacity by 2025. At the same time, an engagement in the development of off-shore wind farms is assumed.

In addition to the investment projects, TAURON Group is also implementing initiatives aimed at optimizing the Group's costs, including the Efficiency Improvement Program, whose total effect in the 2016-2018 period exceeded the initial assumptions and amounted to more than PLN 1.7 billion. Further activities aimed at improving the operational efficiency of TAURON Group's core operations are the Strategic Initiatives, whose total effect in the 2017-2020 period is estimated to be worth PLN 3.4 billion, including PLN 1.2 billion of the cumulative impact on EBITDA.

In the medium and long term, TAURON Group is planning to further change its energy mix. Successive tightening of the environmental and pro-climatic requirements, combined with the obsolete generation fleet, provides room for the construction of new generating units in renewable and low-emission technologies, as well as for significant changes to thedistribution grids. The need to expand and modernize the distribution grid due to the development of distributed (dispersed) power generation is well recognized. In the Strategic Directions Update, TAURON Group placed a strong emphasis on the development of low- and zero-emission sources. According to the assumptions, in 2030, due to the decommissioning of the obsolete units and new investments, low- and zero-emission assets will account for more than 65% of TAURON Group's installed capacity. In this respect, the Group's restructuring potential is very large, and the assumed changes to the production mix will require new competences.

3.2.6. Personnel and organizational culture

TAURON Group's new business model introduced in 2016 changed the organization from a silo based structure to a process-oriented one, with clearly defined competences and responsibility for the final product. In 2017, the Group implemented process based management, and since 2018, measures aimed at optimizing processes at the Group's main subsidiaries have been successively implemented, and process management is being expanded to include further subsidiaries. In 2019, all subsidiaries at which process based management had been implemented were included in the optimization process. At the same time, the robotic automation process and the path for initiating improvements by process participants were implemented, which intensified the optimization process at TAURON Capital Group subsidiaries. The works related to the implementation of the process maturity assessment have been commenced, with the Process Maturity Model having been designed and adopted, and a pilot assessment of selected processes having been carried out.

The business model combines activities at the strategic level and translates them into operational activities, indicating at the same time three key values: Partnership, Development and Boldness (PRO values) on which TAURON Group's organizational culture is based. These values support the implementation of the Strategy in everyday activities. A modern organization is one in which everyone talks to each other on a partnership basis, therefore particular importance is attached to dialogue and jointly taking up challenges. Apart from the customers, TAURON Group's largest and most important assets are the employees. To unleash their energy and knowledge, the organizational culture based on the Group's Values is steadfastly being shored up. More than 26 thousand highly qualified employees represent a capital of great value.

Generational changes visible on the macro scale have also affected the energy industry. The young generation expects not only stable earnings from the place of employment, but also development opportunities in a modern organization. The generational gap is becoming more and more apparent today and steps are being taken to ensure the best possible staff for TAURON Group's subsidiaries in the medium and long term. Due to the workforce age and the need to provide appropriate staff in the medium and long term, a number of activities are already carried out aimed at acquiring suitable, qualified employees in the future, which is taking place, for example, through cooperation with schools and launching of classes under patronage.

Value lever (driver) prospects

Some of TAURON Group's value levers are particularly important in the near term, while others will become more and more important as changes expected in the environment materialize and new challenges appear. Regardless, all value levers are complementary and make up TAURON Capital Group's entire business operations. They complement one another and shape the Group's presence and future. We have no doubt, however, that both today as well as in the near and more distant future, TAURON's most important asset will be the customers. Over time, through changes to the energy model, customers will also become partners and as prosumers will use natural resources and shape the image of the future power sector.

In the long run, the key capitals, in addition to the social capital of the customer relations - on which TAURON Group will focus, will be the intellectual capital and the natural capital. The ability to offer innovative solutions, ensuring the development of young employees and respect for the environment, including climate, are the most important success factors that will determine TAURON Group's growth in the future.

The prospects of value levers as well as the significance and impact of the individual elements on TAURON Capital Group is presented in Figure no. 14.

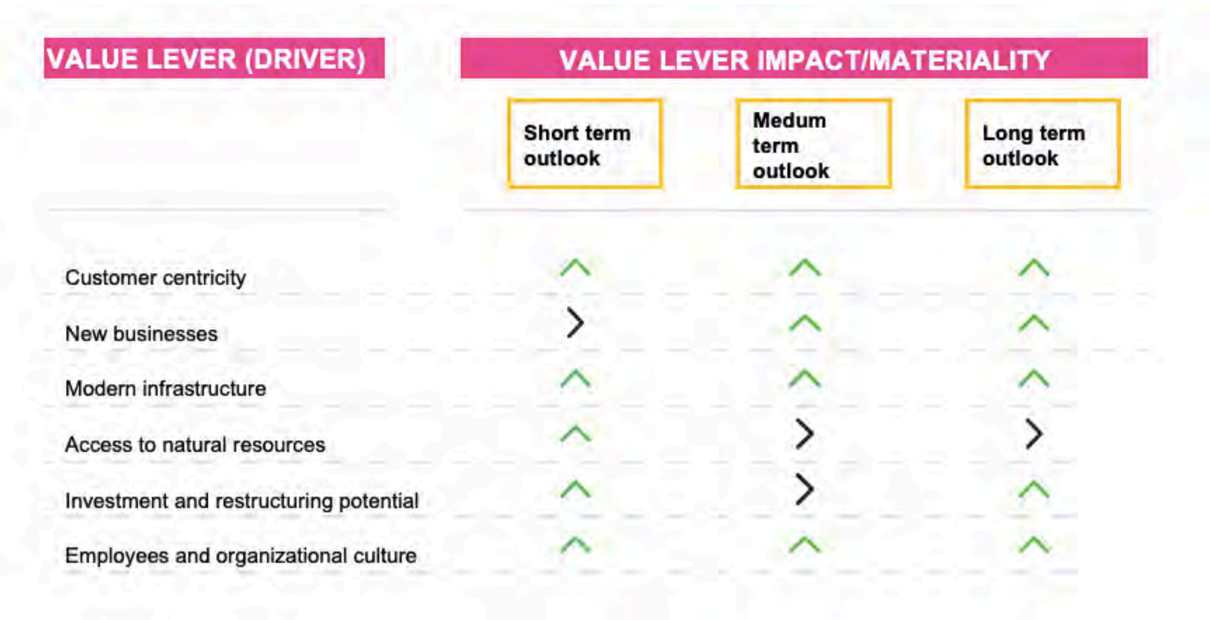


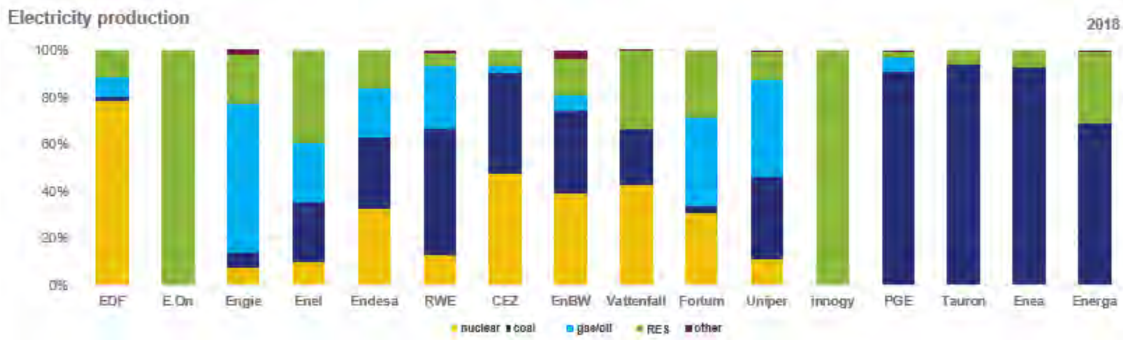
Figure no. 14. Prospects of value levers as well as the significance and impact of the individual elements on TAURON Capital Group

3.3. Conditions of the environment determining the choice of TAURON Group's strategy in the long, medium and short term and the assumptions of such strategy

3.3.1. TAURON Group as compared to the market – Europe

All of the energy groups in Europe are seeing changes taking place in their environment. Currently the main trend is the broadly understood development of renewable energy sources, and thus the concepts of decarbonization, electrification, energy efficiency or decentralization. All of this is to improve the quality and security of electricity supply, along with a change in the direction of capital expenditures in the power sector - towards the production of electricity based on zero-emission sources.

Figure no. 15 presents a comparison of the generation mix and installed capacity among selected largest energy groups in Europe.



Installed electric capacity in 2018 [GW]

Total	133,8	5,3	104,3	85,6	22,7	41,7	15,0	13,4	31,1	13,7	36,6	3,6	16,2	5,0	6,3	1,3
RES	32,6	5,3	24,8	39,2	6,5	4,3	1,7	3,7	14,5	4,9	3,6	3,6	2,2	0,4	0,4	0,5
Coal	7,9	-	7,2	15,8	7,4	17,5	6,8	4,4	3,5	b.d.	10,4	-	13,0	4,6	5,9	0,8

Figure no. 15. Comparison of the generation mix and installed capacity among selected largest energy groups in Europe.

Source: Proprietary compilation based on the annual reports of the European energy groups presented

Compared to the European market, Polish energy groups are characterized by a large dependence of their generation capacity on coal fuels. Electricity production among the European energy groups presented is much more diverse. Generating units based on coal and gas fuel do not have a majority share in their fuel mix - they do not exceed a dozen or so percent (with CEZ and RWE with the highest percentages).

Analyzing the installed electric capacity over the years 2018/2017, the trend of investing in renewable energy sources and turning away from coal is clearly visible. An example of this is, for example, the company Enel or German RWE, whose installed capacity based on coal in 2018 declined as compared to the previous year and, additionally, an increase in RES capacity was observed.

The growing trends associated with capital expenditures in renewable energy sources and a greater focus on the customer and his/her needs are visible in the plans and strategic directions of the energy companies presented, as illustrated in Table no. 15.

Table no. 15. Summary of the plans and strategic directions of selected sixteen of the largest energy groups in Europe

RES development 15 Groups	**Customer and his / her needs** 11 Groups	**Electromobility** 11 Groups
Digitization, smart metering 14 Groups	**Smart activities/products** 14 Groups	**Energy storage** 11 Groups
Generation assets restructuring 5 Groups	**Efficiency improvement/ financial stability** 7 Groups	**Use of drones, artificial intelligence, robotic automation** 4 Groups

Source: Proprietary compilation based on the annual reports of the European energy groups presented

In Europe, among 16 energy groups, almost all will focus on developing renewable energy sources (RES). Only Uniper did not declare an increase in the renewable energy capacity, at the same time it declared no capital expenditures in new coal-fired power plants and emission reduction. Activities aimed at improving the energy infrastructure, including smart type activities, digitization and smart meters are gaining momentum.

The activities of 70% of the companies will focus on the customer and his/her needs as well as electromobility. Along with the increase of renewable energy sources, including small prosumer installations, the activities related to electricity storage are gaining importance.

TAURON Group is taking note of the trends in the power sector and taking actions in all the areas presented, making changes and focusing on the challenges of the so-called energy of tomorrow.

Expansion of Renewable Energy Sources - declarations of energy companies

As the environment is changing, energy companies are updating their plans and strategic goals. Figure 16 presents the declarations of European power companies regarding capital expenditures and expansion, in the coming years, with respect to new generation capacity based on the RES assets.

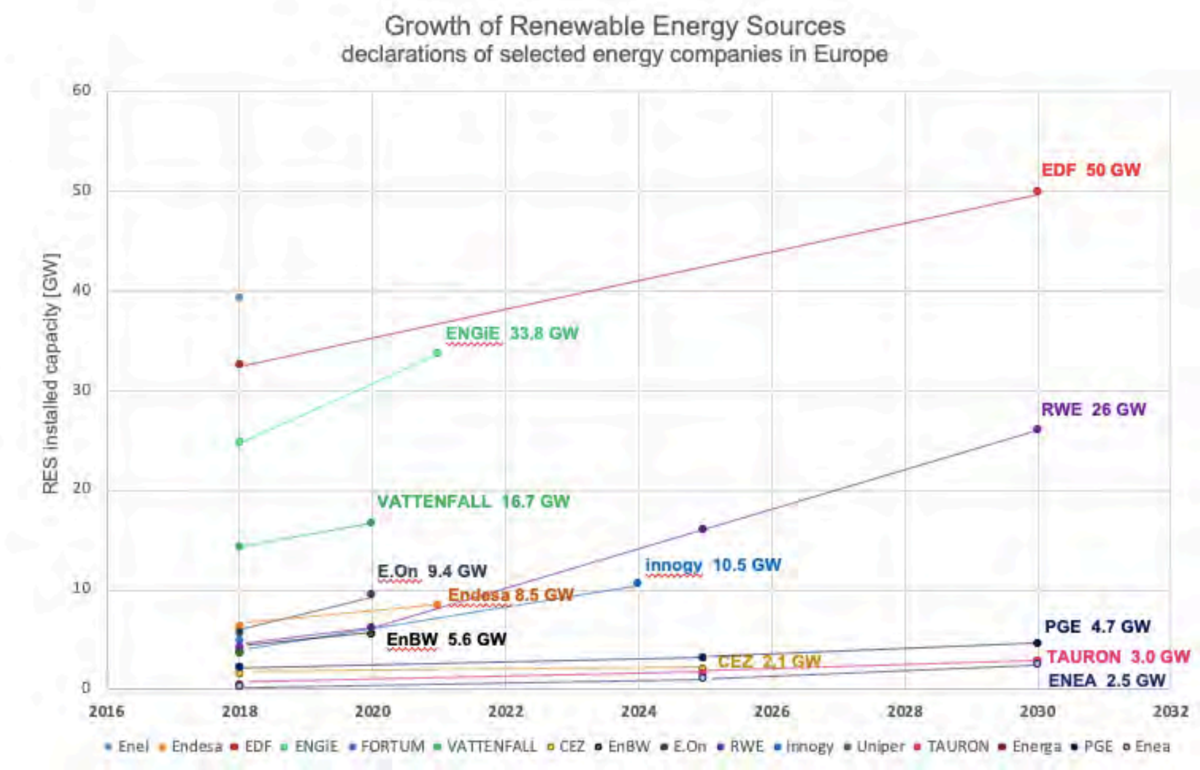


Figure no. 16. Declarations of European power companies regarding capital expenditures and expansion, in the coming years, with respect to new generation capacity based on the RES assets

Source: Proprietary compilation based on the annual reports of the European energy groups presented

In 2018, an Italian company Enel had the highest installed RES capacity among the energy companies presented with 39.2 GW. In its strategic plans, it assumes allocating 38% of its capital expenditures in the years 2019-2021 for investments in renewable energy sources (it is approx. EUR 10.6 billion). The second group, whose installed RES capacity was 32.6 GW in 2018, is French EDF, that is planning to increase the installed capacity of its green assets to 50 GW by 2030. ENGiE Group, the second company operating in France, is planning to increase its capacity by 9 GW in 2019-2021 (from 24.8 GW in 2018 to 33.8 GW in 2021). Swedish Vattenfall declares another 2.3 GW of installed RES capacity by 2020. Endesa, a Spanish energy group, had 6.5 GW of installed capacity in renewable energy sources in 2018. Its plans include an increase in capacity in wind and solar assets by 1.9 GW by 2021. By 2050, the group would like to produce 100% of its electricity volume from renewable energy sources. One of the German energy groups - E.On is planning an increase, by approx. 4.1 GW, of installed capacity in wind (on-shore and off-shore) assets by 2020. In 2020, the company may have 9.4 GW of installed capacity in renewable energy sources, as compared to 2018, when it had 5.3 GW. Another company operating on the German market, i.e. RWE, after the acquisition of new RES assets, which took place in 2019, updated its strategic directions in which they are aspiring to be the third company in Europe in terms of RES. Therefore, they declared an expansion of their renewable energy generation fleet by 2-3 GW of installed capacity per year. Taking into account the declarations, it is estimated that in 2030 RWE will have at least 26 GW of capacity in green assets. Innogy is planning an additional 7 GW of RES capacity by 2024. Another German energy group, EnBW, has declared an increase to approx. 5.6 GW of capacity in renewable assets by 2020. In 2018, Uniper had 3.6 GW of installed capacity in renewable energy sources and is one of the companies that are not directly declaring an increase in the renewable sources capacity, but has announced that it will not invest in coal power plants. A Czech company CEZ is planning to increase its assets by 0.4 GW by 2025, from 1.7 GW in 2018 to 2.1 GW of installed capacity. FORTUM Group is assuming an increase of the installed capacity in wind energy and photovoltaics in its plans.

On the domestic market, the PGE Group had the largest installed capacity in RES in 2018, i.e. 2.2 GW. PGE is seeking to ensure that in 2030 its production of electricity from renewable energy sources should account for 25% of the national production of electricity from renewable energy sources, and therefore this group has started to prepare investments in the construction of an off-shore wind farm on the Baltic Sea. PGE's ambition is to achieve 2.5 GW of off-shore wind capacity by 2030, with a path to reach 1 GW in 2025. According to the new strategic plan, Enea intends to increase its installed RES capacity to 2.5 GW by 2030.

In the Strategic Directions Update, TAURON Group declared an increase in installed RES capacity by 2025 by an additional 900 MW in wind assets and 300 MW in photovoltaics, and is also considering an engagement in off-shore wind assets. By 2030, the expected RES installed capacity of TAURON Group will be approx. 3 GW.

CO_2 emission reductions – declarations of energy companies

Power sector companies are adapting generating units to the requirements related to decarbonization and the transition to zero-emission electricity generation in their strategic declarations. Therefore, some of the presented companies have declared CO_2 emission reduction targets by 2030, as illustrated in Figure no. 17.

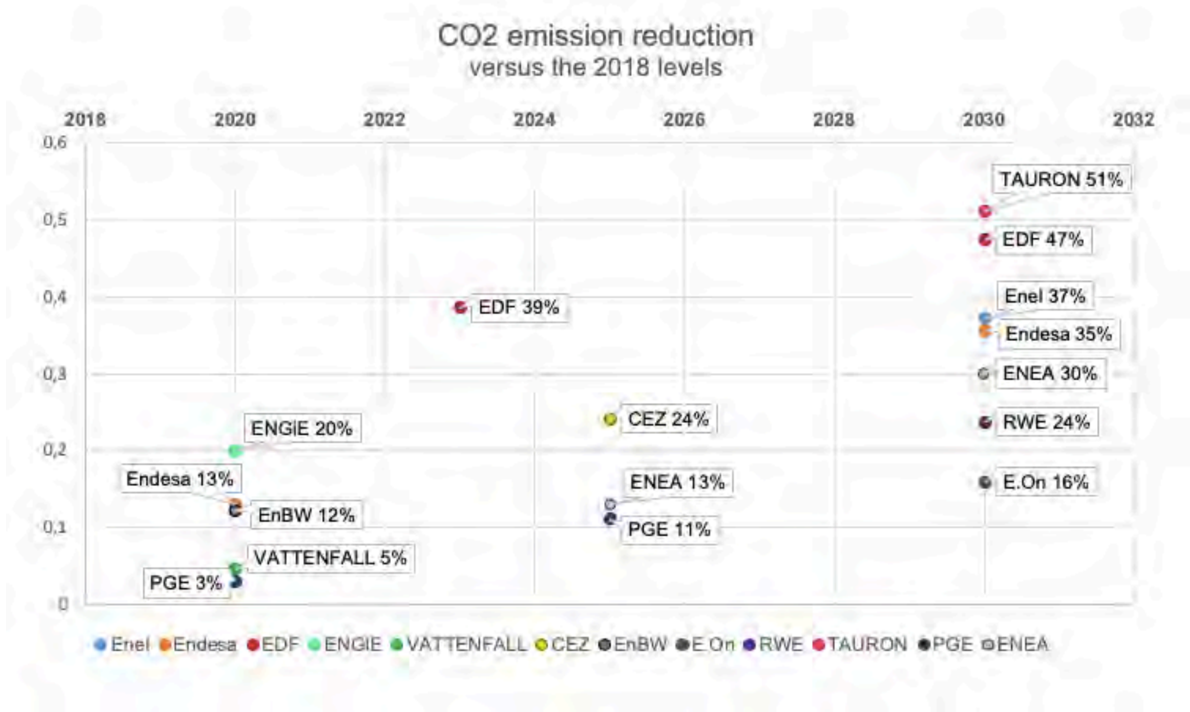


Figure no. 17. CO_2 emission reduction targets of the European energy companies

Source: Proprietary compilation based on the annual reports of the European energy groups presented

EDF Group has the most ambitious plans among the European energy groups, whose goal is to become a leader in the decarbonization of the energy sector and to achieve zero emissions. Pursuing this goal, the group is assuming a reduction of CO_2 emissions by 39% in 2023 and by 47% in 2030, as compared to 2018. Enel's ambition is to reduce carbon dioxide emissions by 37% in 2030. Endesa Group has set itself a goal of 100% electricity production with zero emissions by 2050. Therefore, the group is planning to reduce CO_2 emissions by 13% in 2020 and by 35% in 2030 (as compared to the level of emissions in 2018). CEZ aims to reduce the group's emissions by 24% by 2025. E.On Group is planning to reduce CO_2 emissions by 16% by 2030, and in their CSR strategy they are declaring achieving emission neutrality by 2050.

Among the Polish energy groups, TAURON Group has set the biggest reduction goals, planning to reduce emissions by 51% by 2030. PGE declared a reduction of specific CO_2 emissions by 20% by 2025, and Enea by 30% by 2030.

3.3.2. TAURON Group as compared to the market – Poland

In addition to TAURON Capital Group, 3 large, vertically integrated energy groups: PGE, ENEA and ENERGA, are currently operating on the energy market in Poland, The consolidated energy groups (PGE, TAURON, ENEA, ENERGA) had a 68% market share in the electricity generation sub-sector.

Generation

TAURON Group is one of the main producers of electricity in Poland. The Group's share in the domestic electricity generation market, measured by gross electricity production, came in at approx. 9% after 9 months of 2019. The Group is the third largest electricity generator on the Polish market. The Group's gross electricity production stood at 13.9 TWh in 2019.

Figures 18 and 19 present information on electricity generated in Poland after 9 months of 2019 and installed capacity as of September 30, 2019.

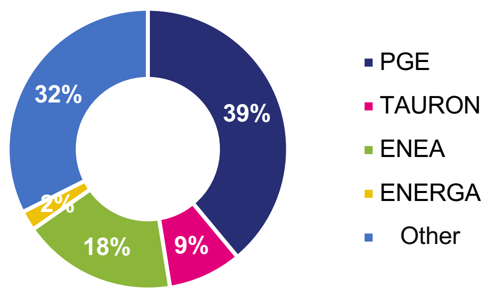


Figure no. 18. Gross *electricity production - estimated market shares after 9 months of 2019*

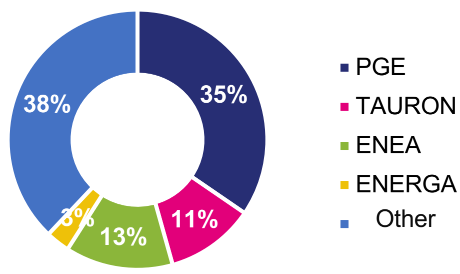


Figure no. 19. Installed capacity - estimated market shares after 9 months of 2019

Source: ARE, information from the energy companies published on their websites

Distribution

TAURON Group is a leader on the Polish market in terms of the number of distribution customers and the volume of electricity distributed. The Group's share in the distribution of electricity to the end customers stood at approx. 35% (taking into account 5 largest distributors) in the first three quarters of 2019. TAURON Capital Group's distribution grids cover more than 18% of the country's territory. Figure no. 20 presents the estimated market shares of the individual energy groups in the distribution of electricity according to the data for the first three quarters of 2019. TAURON Group's electricity distribution volume came in at 51.7 TWh in 2019.

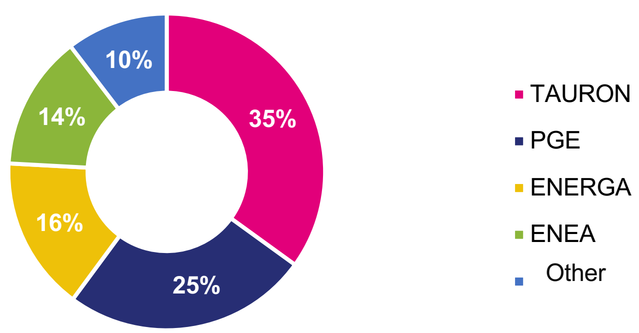


Figure no. 20. Electricity distribution - estimated market shares after 9 months of 2019

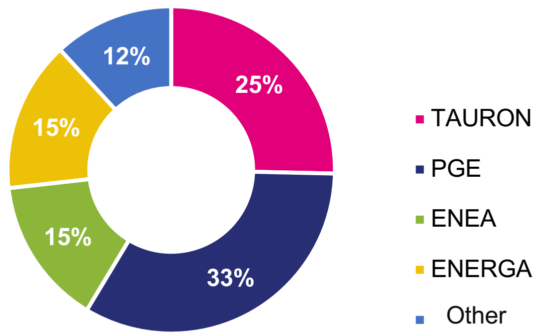
Source: ARE, information from the energy companies published on their websites

Supply

When comparing the data after the first three quarters of 2019, TAURON Group was the second, after PGE, largest supplier of electricity in Poland. TAURON Group's retail electricity supply reached 33.7 TWh for the full year 2019. The number of the Supply Segment's customers stands at approx. 5.5 million.

Figure no. 21 presents the estimated market shares of the individual energy groups in the supply of electricity to the final consumers, according to the data for the first three quarters of 2019

Figure no. 21. Electricity supply to the final consumers - estimated market shares after 9 months of 2019



Source: ARE, information from the energy companies published on their websites

3.3.3. TAURON Capital Group's strategic determinants in the external environment

Recent years have brought a lot of significant changes in the external environment of TAURON Capital Group. The most important of them, from the point of view of the Group's business operations, are the climate and environment related changes. The global warming, increase of the pollution and a serious smog problem in Poland that have been observed for years, is forcing specific actions to minimize the negative impact of the Group's operations on the environment. The rising threat results in the tightening of the decarbonization policy and support for the activities aimed at protecting the environment and counteracting global warming, adopted and regulated at the level of the European Union and Poland. Table 16 provides a summary of the main external factors that impact the selection and implementation of TAURON Group's strategic directions.

Table no. *16. Main external factors that impact the selection and implementation of TAURON Capital Group's strategic directions*

Political and regulatory	Environmental	Economic and market related	Social	Technological
• European Green Deal – EU climate neutrality by 2050 project • Further tightening of environmental standards (including coal quality standards, anti-smog measures), the need to adapt generating units to the BAT conclusions • Winter package and limitation of support systems for conventional energy (EPS 550) • Renewable energy and energy efficiency directives, EU ETS emissions trading system • Operation of the capacity market, support for individual RES technologies (auction system, cogeneration support mechanism) • Prospect of not being able to take advantage of the ETS derogation for the modernization of coal assets • New financing instruments: e.g. modernization fund - excluding support for the coal projects • Poland's Energy Policy Draft, National Plan for Energy and Climate • Risk of introducing regulations in the banking sector leading to an increase in capital allocation ratios for loans dedicated to financing coal assets	• Increase in average global temperature as a result of greenhouse gas emissions • High level of dust air pollution in Poland (smog) • High level of greenhouse gas emissions - Poland emits 18% more greenhouse gas per capita into the atmosphere and over 3 x more in relation to GDP than the EU average • Increasingly frequent occurrence of extreme weather conditions - droughts, hurricanes, severe heat waves, heavy rains and floods (causing not only the destruction of households, but also of the transportation and energy infrastructure) • Further rising of sea levels; irreversible changes in river ecosystems and the Baltic Sea (eutrophication, loss of water biodiversity) • Depletion of natural resources (including coal, wood and water) • Increased importance of the circular economy and minimizing of waste generation • Increase in the importance of limiting the effects of sewage, biogenic waste, municipal waste and fuels in seas and oceans	• Rising electricity generation costs (high prices of CO_2 emission allowances) • Reduction or lack of financing for conventional energy, preferential financing for renewable energy • RES cost competitiveness, rising RES generation • Increase in costs of materials, services and labor • Limited possibilities of thermal coal mining (deposits getting more and more difficult to access), • Thermal modernization activities, increase of energy efficiency • Generational and competence gap problem • Difficulties in recruiting qualified staff • Threat to stability of production and supply of electricity, risk of power shortage in the system	• Increase in anti-carbon sentiment among the public • Increase in society's ecological awareness • Improvement of the image of companies using energy from renewable energy sources • Increased customer awareness and customer requirements in terms of the quality of services provided and customer service, changing customer needs • Change in the customer's approach to the way electricity is consumed • Negative perception of waste storage	• Falling prices for renewable and distributed technologies • Development of prosumer energy, island installations, off-grid, • Development of electromobility • Development of energy storage • Digitization of the energy sector, development of smart metering and new billing technologies • Technology development with respect to the circular economy • Emergence of energy self-sufficient buildings - Near Zero Emission Buildings

3.3.4. TAURON Capital Group's Strategy and Outlook

Short term outlook

TAURON Capital Group's strategy responds to changes in the regulatory and macroeconomic environment as well as market challenges in both short as well as long term. In the time frame covered by the current Strategy, until 2025, TAURON Group is focusing on ensuring financial stability by increasing operational efficiency and optimizing its processes. As part of its development, TAURON is continuously improving its offering in response to the customer needs. We do not want to remain only a market participant, but we see ourselves as the leader in the transition of the energy sector in Poland.

At the stage of developing the Strategy, it was assumed that there would be no significant changes in the market and competitive environment until 2020, however, as a result of acquisitions carried out by PGE and ENEA in 2017, the generators' market landscape changed. Thanks to the acquisition of EDF assets, PGE is strongly developing its heating business, while ENEA, in connection with the acquisition of ENGIE assets and commissioning of the 1075 MW unit in Kozienice, has climbed to the runner-up spot in terms of installed capacity. At the same time, the share of industrial electricity generation increased, as, among others, ORLEN Group commissioned two gas fired units - in Płock with a capacity of 600 MW, in Włocławek with a capacity of 463 MW.

It is assumed that up to 2025 the highest growth rate will be observed in the renewable energy sources. On one hand, this will be the result of an increase in prices on the wholesale electricity market, associated with the charges related to the costs of CO_2 emission allowances, on the other hand, it will also the consequence of the strong support for the development of renewable energy sources and the cost competitiveness of such technology.

The fast growth of photovoltaics in Poland is primarily associated with the cost competitiveness of the technology and the launch of extensive support programs that significantly reduce investment costs. Binding national RES targets for 2020 prompted Poland to introduce a system of incentives, among others for prosumers that result in increased interest in this technology. The development of prosumer photovoltaics installations (which accounts for more than 60% of the photovoltaics' installed capacity) is possible thanks to the funding from such programs as Energia Plus. According to SolarPower Europe, Poland was in the fifth place in the European Union in 2019 in terms of the growth of new photovoltaic capacity. In 2020, another record amount of photovoltaics' installed capacity is expected due to the implementation of installations as a result of the RES auctions held in 2018 and 2019 and the fast growth of the prosumer sector.

It is assumed that by 2025 the installed capacity in wind based technology will also increase - the total capacity of new installations planned for construction is approx. 1000 MW, as a result of the RES auctions held in 2018 and approx. 2200 MW as a result of the RES auctions held in 2019. An impulse stimulating further growth of wind energy may be an amendment to the distance act, which may increase the supply of projects in the subsequent years.

It is forecast that after the introduction of the regulations regarding investments in off-shore wind farms (principles of settling investments in grid connections, the support system) and adopting the final version of the Spatial Development Plan for Polish Maritime Areas, the construction of the first wind energy installations on the Baltic Sea will begin, so that in 2025 the first off-shore farms will be put into operation. The most advanced works are carried out by PGE, PKN Orlen and Polenerga, and the grid connection conditions were issued for more than 7 GW of capacity.

The share of individual sources in the country's generation structure will change, but despite the growing number of renewable energy installations, coal will remain the primary fuel in the domestic energy sector by 2025.

The final decision is also expected on the commencement of the investment in the nuclear power plant.

Based on the changes observed on the European energy market and the situation of the domestic energy groups, it can be concluded that the energy business model will be modified. The mergers underway and planned - both the domestic as well as the European deals – indicate that fuel companies (e.g. Equinor-Statoil, PKN ORLEN, PGNiG) are making investments in the energy sector. On the other hand, specialization is also taking place, exemplified by the merger of two vertically integrated groups on the German market: RWE and E.ON. and a significant reduction of conventional energy, a gradual withdrawal of the Western conglomerates from nuclear energy and focusing mainly on the renewable energy sources.

In terms of the macroeconomics, according to the NBP, in the years 2019-2021 the domestic GDP growth rate will gradually slow down. The forecast for 2019 assumes a growth rate of 4.3%; 3.6% in 2020 and 3.3% in 2021. Despite the deceleration of the global economic growth, the Polish economy is still growing rapidly - it is assumed that GDP growth will be continued until 2025.

In the coming years, it is assumed that the growth in demand for electricity will be continued. Despite the expected decline in the energy intensity of the Polish economy, stabilization of the economic growth rate and the improvement of energy efficiency, there will be an increase in electricity consumption per capita - in terms of consumption Poland is below the EU average, so there is still a large growth potential. The increase in energy demand will also be sustained by the development of electromobility, expected after 2020, and the wider spreading of the use of electricity, for example, for heating purposes - in connection with counteracting low emissions. The electrification of heating (combined with an increase of the importance of district heating) will be rising along with a growth of environmental awareness and the intensification of activities related to smog reduction.

According to TAURON Group, the most important issues that will affect the energy sector until 2025 include:

- European and national regulations: further reduction of CO_2 emissions resulting in increased prices of emission allowances, increased obligation with respect to the share of electricity from renewable energy sources and increased energy efficiency; adoption and implementation of Poland’s Energy Policy until 2040,
- limitation of financing possibilities for investments in coal assets by the financial sector,
- decommissioning of some conventional generating units associated with the high costs of adaptation to the more stringent environmental requirements and their deteriorating competitive position versus other energy sources,
- integration of the European energy market and the associated reduction of the importance of the local markets in favor of the regional markets, rising capabilities for physical cross-border flows,
- ability to separate self-balancing areas, e.g. energy clusters, and the ability to provide additional services for them, not offered today (balancing, aggregation, DSM, capacity reservation, etc.),
- development of technology related to energy storage,
- broadly understood digitization.

TAURON Group’s Strategy, along with the Update of Strategic Directions, is in line with the market and regulatory trends identified in the time frame up to 2025. The Update of Strategic Directions, in turn, outlines TAURON's Green Turn, i.e. a sustainable transition towards a leading low-emission energy group in Poland. The main outcome will be a change in the Group's energy mix, approximately 28% of the installed capacity will be low- and zero-emission sources, with the simultaneous decommissioning of 120 MW units and maintaining of profitable and eligible for support 200 MW units, as well as modern, low-emission and high-efficiency coal fired units. At the same time, TAURON Group is preparing a portfolio of investment projects with respect to the renewable energy sources and is developing competences required for their implementation. In 2019, TAURON Group purchased five wind farms with the capacity of 180 MW, thus doubling the installed capacity in wind. In the coming years, the Group will be looking for other similar market opportunities.

TAURON Group’s Strategy, along with the Update, is in line with the European activities related to reducing the impact of the business operations on climate change. Given the significant importance of issues related to the protection of the environment and climate, TAURON Group is working on the assumptions for developing a new strategy with the minimum time frame of up to 2030, with a long-term outlook. The main guideline will be to prepare development scenarios that will ensure long-term profitable business operations immune to climate change and at the same time minimizing the impact of the Group's operations on the environment by reducing the emissions of the generation sources. The scenarios taken into account will depend on the intensity of changes taking place in the environment, in particular on the assumptions of Poland’s Energy Policy, the decisions taken by the Government as part of the climate initiatives and regulatory directions shaped during the global climate summits. TAURON will be defining climate scenarios based on the available and applied methodologies, in particular TAURON Group’s long-term strategic directions will be considered based on two temperature change scenarios: < 2 degrees and > 2 degrees.

Medium term outlook

In the medium term, a slight decrease of the electricity demand growth rate is assumed. The most important factors affecting the level of electricity demand include a further improvement of energy efficiency and, at the same time, still large potential for electricity consumption growth.

Consumers are expected to further increase consumer awareness in connection with the digitization processes, access to prosumer installations and smart grid solutions. An ever broader range of services based on the smart grid infrastructure, in particular smart meters, is assumed. The role of the demand side management services (DSR / DSM) will also increase, which will largely result from the development of smart technologies and market mechanisms.

Due to the avalanche growth of prosumer installations, there will be a need to further develop transmission systems and distribution grids in order to adapt them to greater load variability, as well as to support bi-directional flows.

In terms of electricity generation, the fast development of renewable energy sources is forecast to continue. A further decrease in the costs of installing renewable energy sources (primarily the photovoltaic ones) and electricity storage facilities will be of significant importance, along with the continuous technology development. Technological changes for wind farms, with favorable regulations, will translate into the repowering of installations, thus increasing the capacity and improving the efficiency of their utilization. The development of energy storage will have a positive effect on the stability of electricity supply. The EU level regulations will further support the development of renewable energy sources and at the same time impose higher and higher costs and restrictions on conventional energy, making it, gradually, permanently unprofitable.

Further intensive development of photovoltaic installations in Poland is estimated to continue. According to the projections related to the National Plan for Energy and Climate the capacity available in PV installations is expected to rise to more than 7 GW in 2030. At the same time, the first off-shore wind farms should be commissioned in 2025. The National Plan for Energy and Climate also envisages an increase in the capacity achievable in off-shore wind installations to almost 4 GW in 2030. The level of on-shore wind farms' installed capacity should be less than 10 GW in 2030.

By 2030, further unprofitable coal fired units will be shut down. The end of the support from the capacity market for many generating units after 2025 is significant. However, there is an opportunity for large, modern conventional power generation units, whose main role will be to stabilize the national power system. However, it is assumed that their operation will be directly dependent on the state of the climate and the environment at the end of the third decade of the century. The expansion of flexible gas-fired units is also taken into account. As a result, it is forecast that the share of coal in the national energy mix will decline, which will be a natural consequence of the rise in the capacity of low and zero-emission sources, including the gas fired sources.

In the medium term, i.e. in the years 2025-2030, TAURON Group is planning to gradually shut down 200 MW coal fired units. Pursuant to the Group's Strategy, the main direction of the expansion of the electricity generation line of business will be investments in low- and zero-emission sources, including an engagement in the development of off-shore wind energy. Thanks to the investments in new generation installations and a reduction in the number of coal fired units, the Group's generation mix will change in 2030, where more than 65% of assets will be low- and zero-emission installations, which is in line with the climate policy aimed at reducing the emissions. Being aware of the prosumer market development, TAURON Group is also planning activities related to offering products and services in line with this market trend.

Long term outlook

It is assumed that the years 2030-2035 will be a period during which a deep review of development scenarios with respect to the climate will be required, depending on the intensity of climate change. If the ultimate temperature increase estimated for that time frame exceeds 2^0C, then we are forecasting a further tightening of environmental standards towards a substantial reduction of the CO_2 emissions and extremely stringent emission standards for nitrogen and sulfur oxides as well as mercury and dust. Tightening climate policy will result in a reduction in the supply of CO_2 emission allowances under the ETS, which will lead to a significant increase of the prices of these allowances.

In the event that global temperature forecasts indicate an increase below 2^0 C, a scenario where high-efficiency profitable coal assets will be maintained is possible, with a simultaneous reduction of emissions through the development of low and zero-emission generation sources and limited development of coal fired assets, conditioned on the demand for coal fuel and the possibility of obtaining it at competitive costs.

In the time frame up to 2050, it is forecast that the biggest challenge will be to ensure stable electricity supply to support the country's economic growth and growing prosperity, while at the same time having to accelerate energy transition through capital expenditures in low-emission technologies. The energy sector is currently the largest single source of carbon dioxide emissions and, irrespective of climate change scenarios and temperature rise, it is extremely important to reduce emissions in this sector.

According to available forecasts, the role of the renewable sources will be consistently growing at the expense of conventional ones in the long term. Renewable energy sources are gaining their share in the global energy system faster than any other fuel in history. The British conglomerate BP, in its Annual Energy Outlook 2019, estimates that by 2040 renewable energy sources will be the main source of energy in the world, and RES and natural gas combined will be responsible for the overwhelming majority of the increase in primary energy supply. Renewable energy will be pushing out coal-based energy over the next two decades and will replace coal as the main source of electricity generation in 2040.

In the long term, there will also be a significant transition of the national energy mix by increasing the share of renewable energy sources, as well as potentially nuclear energy, and, at the same time, a further drop of the share of coal sources. Taking into account the rising costs of coal energy as a result of climate policy, its role will be marginalized.

Strategic decisions with respect to environment and climate protection taken at the European Union level will determine the development of the domestic energy sector in the long term, including in particular the European Union 2050 climate strategy. The European Green Deal proposes an action plan enabling the transition to a zero-emission economy through a more efficient use of resources by moving to a clean circular economy, halting climate change, preventing the loss of biodiversity and reducing the pollution level.

The future of the energy sector will depend not only on its environmental impact, but also on the adaptation to climate change required to be implemented. Changes in climate conditions will not be without an impact on the conditions of electricity distribution or changes in demand for electricity and heat. The infrastructure may require preparation for the effects of extreme weather and climate developments that may cause direct damage (e.g. hurricanes, intense storms, hailstorms, rainstorms and snowfall may damage transmission and distribution lines), as well as indirect losses, which are the long-term consequences of extreme weather and climate conditions (e.g. droughts or floods).

A great opportunity for the energy and district heating sector is the growing awareness of threats to air quality resulting from low emissions and transportation. The manufacturing sector, with the introduction of relevant regulations, may become the largest beneficiary of changes in the way electricity is used for heating and transportation purposes. At the same time, it will be a challenge for the distribution grids and heating networks, which will have to take accommodate the load increases.

The implementation of the European strategy aimed at reaching climate neutrality by 2050 will determine the shape of the Polish energy sector in the long term, which will also be reflected in strategic decisions made by TAURON Group, whose overall goals and actions should constitute a coherent response to the European and national guidelines regarding the sector's shape and model of functioning. TAURON Group will be steadfastly seeking a further diversification of the generation sources in terms of fuel used and a modernization of the generation capacity. In the long term, the possibility of an emergence of breakthrough technologies on the market that can significantly affect the energy business, e.g. fuel cells, should be taken into account. It is assumed that there will be a significant development of energy storage technologies and the development of new transmission technologies. In the scenario where there is a lack of breakthrough technologies, the energy sector will be most likely develop in an evolutionary manner, based on the already known and commercialized technologies.

In the long term, TAURON Group's stable operations will be determined by the approach to the issues related to sustainable development - in addition to the key issue regarding optimized resource management (raw materials, materials, energy, etc.), it will also be important to develop relationships with the stakeholders.

As a summary, Figure 22 illustrates the response of TAURON Capital Group to the changes in the external environment.

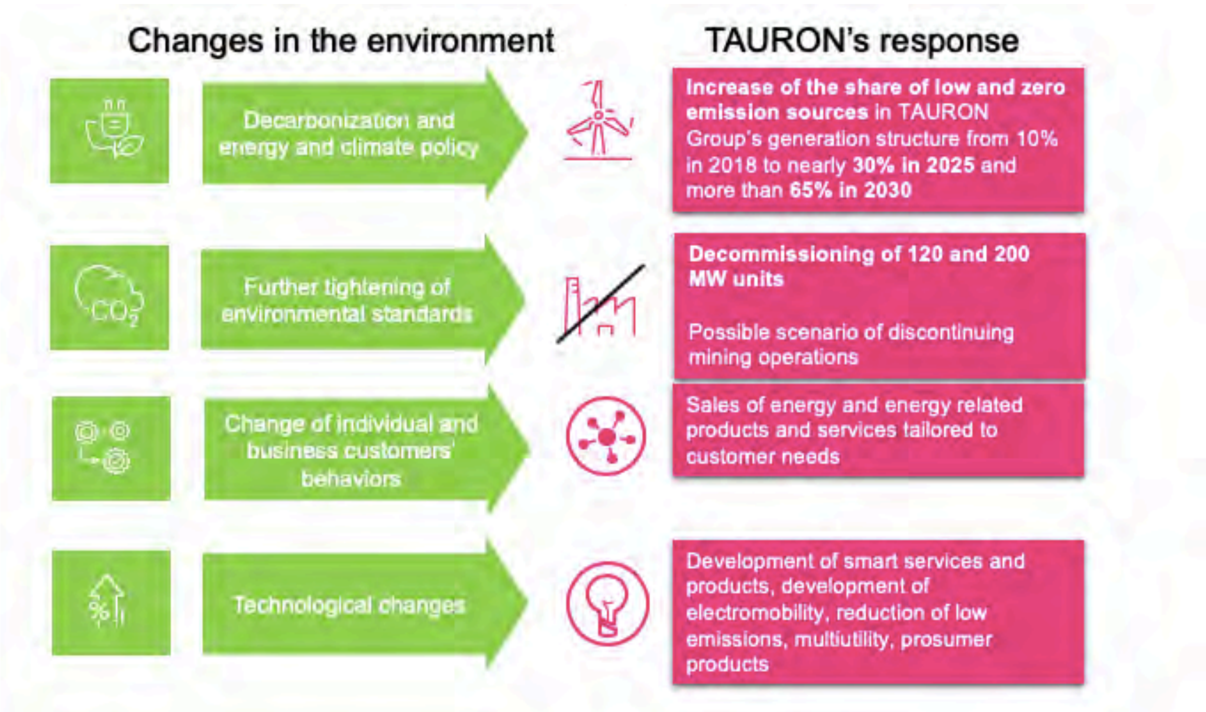


Figure no. 22. TAURON Capital Group's responses to the changes taking place in the external environment

3.4. TAURON Group's Sustainable Development Strategy for 2017-2025

The fundamental assumption of the corporate social responsibility concept at TAURON is to base the enterprise's success on its long-term sustainable development. An indication of a mature approach to management at TAURON is the integration, already at the strategic level, of financial and non-financial factors, including aspects of environmental protection, social impact and corporate governance. This results from the conviction that for a business to exist and develop it needs to be run in a manner allowing for both economic aspects and social or environmental interest, and balance is required between all of them.

Therefore, our development goals constitute a bundle based on the 3P model - referring to economic gains (Profit), individuals associated with the company (People), and care for the environmental aspect of the activity (Planet). At TAURON Capital Group, the stipulation to strive for sustainable development is implemented in practice by TAURON Group's Sustainable Development Strategy for 2017-2025, adopted by the Management Board of TAURON Polska Energia on August 1, 2017.

The Sustainable Development Strategy implemented in 2019 defines five basic areas of activities (directions):

1. <u>Reliability and quality of supply of products and services for the customer</u> - our goal is, above all, to ensure security of electricity supply for our customers and to develop an offering of products and services tailored to their expectations, as well as to promote innovation
2. <u>Orientation towards the customer and his/her needs</u> - the priority is to maintain good relationships with customers, care for the highest standards of customer service as well as comprehensiveness and quality of the offering addressed to the customers. The measures of the effectiveness of our actions include an increase in customer loyalty and satisfaction, or a drop in the number of complaints
3. <u>Environment protection</u> - TAURON Capital Group's goal is to ensure efficient management, recycling and reuse of the resources, implementation of environment management systems (ISO, EMAS), investing in modern technologies, continuous modernization of the production assets, optimization of the production processes, increasing the efficiency of resource utilization, educating the society and setting requirements for the suppliers
4. <u>Work safety, ethical culture and employee engagement</u> - the goal is to develop lasting relationships with employees based on diversity, a sense of security, development opportunities and combining social and professional roles, as well as creating working conditions seeking to minimize the accident rate
5. <u>Social and business partnership</u> - TAURON Capital Group has set itself the goal of setting the highest industry standards with respect to business ethics and environment protection. Activities are focused on conducting projects related to social engagement, promoting CSR topics among stakeholders and encouraging them to act in a responsible manner, as well as conducting a transparent policy with respect to the communication with the stakeholders.

Within each direction, commitments have been set (there are 18 in total), that TAURON Capital Group intends to fulfill by the end of 2025. Key initiatives were formulated for each commitment to support their implementation.

All of the stakeholders of TAURON Capital Group can become acquainted with the reports on the Strategy implementation published annually in the Integrated Report.

3.5. Significant changes to TAURON Group's Sustainable Development strategy

The works on updating the Sustainable Development Strategy, which is a coherent plan of actions related to social responsibility, based on the updated Strategic Directions of TAURON Group and a study of the real needs of all stakeholder groups, were commenced in the third quarter of 2019,

The main objectives of the document, whose adoption is scheduled for the second quarter of 2020, include:

- striving for greater coherence of business and social goals and seeking to achieve the leadership position in CSR and sustainable development in the energy sector in Poland,
- sustainable transition towards becoming a leading, low-emission energy group in Poland,
- clean energy and searching for new development (expansion, growth) paths.

In accordance with the adopted Strategic Directions Update, the sustainable growth of the Group's value will be based first and foremost on:

- regulated and stable Distribution segment,
- development of low and zero emission sources,
- conventional generating assets,

- sales of energy and energy-related products and services tailored to the customers' needs,
- modern management culture and a friendly work environment based on the principles of diversity and compliance,
- building lasting relationships with local communities by developing social and business partnership initiatives.

3.6. Key non-financial capital efficiency ratios (metrics, performance indicators) of the Group with respect to the capitals

In order to make the best use of the value levers (drivers) set as part of TAURON Group's Strategy for 2016-2025 (along with the Strategic Directions Update of 27 May 2019), as well as to ensure efficient (from the point of view of the individual capitals) implementation of TAURON Capital Group's Sustainable Development Strategy, key non-financial efficiency ratios (metrics, performance indicators) related to the Group's operations were defined.

They are presented in Table no. 17, including their values obtained in 2018 and 2019.

Table no. 17. TAURON Capital Group's key non-financial efficiency ratios (metrics, performance indicators), including their values obtained in 2018 and 2019

Area of activity defined in TAURON Capital Group's Sustainable Development Strategy	Key non-financial efficiency ratio (performance indicator)	Name of capital / Element related to capital	Ratio (indicator) nature	GRI reference	Value of the ratio (metric, performance indicator) in the year	
					2019	**2018**
Reliability and quality of supply of products and services for the customer	Number of customers of TAURON Capital Group's Distribution Line of Business	Financial capital / Distribution Segment's RAB Financial capital / Capital expenditures Financial capital / Cash flow from operating activities	Stimulant	EU3	221 335	234 175
	Number of cases of non-compliance and complaints related to products and services of TAURON Capital Group with respect to providing information*	Financial capital / Cash flow from operating activities Financial capital / Net profit Financial capital / Long term rating	Destimulant	417-2	0	0
	Frequency of planned power outages - number of outages / consumer / year	Financial capital / Cash flow from operating activities (minutes) SAIFI	Destimulant	EU 28	0,28	0.33
Orientation towards the customer and his/her needs	Number of individual and business customers of TAURON Capital Group's Supply Line of Business	Financial capital / Sales revenue Financial capital / EBITDA Financial capital / EBITDA margin Financial capital / EBITDA margin Financial capital / Net profit Financial capital / Long term rating	Stimulant	102-6 102-40	5 511 946	5 459 918

	Value of the Customer Satisfaction Index (CSI) for TAURON Capital Group's customers	Social capital / Implemented and applied TAURON Group's PROClient Social Policy	Stimulant		83	81
Environment protection	Percentage share of TAURON Capital Group's RES installed capacity in the Group's total installed capacity	Production capital / Installed capacity in hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant		12%	10%
	Percentage share of TAURON Capital Group's electricity production based on RES in the Group's total electricity production	Production capital / Electricity production by hydro, wind, solar and biomass fired power plants and combined heat and power plants Production capital / Heat production by hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	EU1	11% 6%	7% 5%
	Direct greenhouse gas emissions by TAURON Capital Group – (tCO_2e)	Natural capital / Direct greenhouse gas emissions – CO_2 (tons)	Destimulant	305-1	12 215 945	14 629 722
	Total weight of non-hazardous waste (including UPS and UPW) generated by TAURON Capital Group	Natural capital / Total amount of non-hazardous waste (including UPS and UPW)* (tons)	Destimulant	306-2	1 366 974	3 103 596
	Number of meetings with trade union organizations at the Group's subsidiaries	Intellectual capital / Social capital / Human capital Developing relationships based on dialogue / Organizational culture based on PRO values	Stimulant		329	249
Work safety, ethical culture and employee engagement	Number of employees at TAURON Capital Group	Human capital / Number of employees Human capital / Number of trainings courses conducted by Internal Coaches (Trainers) Intellectual capital / Knowledge and competences of the Group's employees Social capital / Personnel education and development	Nominant	102-8	26 086	25 829
	Accident rate at TAURON Capital Group	Social capital / Organizational culture based on Partnership, Development, Boldness values	Destimulant	403-9	7.8	7.7

	Share of women among TAURON Capital Group's workforce	Human capital / Share of women among the workforce Social capital / Diversity Policy and Respect for Human Rights Policy implemented and applied	Nominant	405-1	21.4%	21.5%
	Number of training session hours at TAURON Capital Group	Human capital / Number of training session hours	Stimulant	404-1	478 000	449 000
Social and business partnership	Number of local and social initiatives that TAURON Foundation has joined	Social capital / Support for local initiatives through TAURON Foundation	Stimulant		158	147
	Number of agreements with respect to corporate social responsibility signed by TAURON Capital Group	Social capital / Implemented and applied TAURON Group's PROClient Social Policy Social capital / Developing lasting relationships and active dialogue with the stakeholders Social capital / Support for local initiatives through TAURON Foundation	Stimulant		11	9
	Number of TAURON Capital Group's meetings with local communities held in order to provide information on the operations conducted and its impact on the residents	Social capital / Implemented and applied TAURON Group's PROClient Social Policy Social capital / Developing lasting relationships and active dialogue with the stakeholders Social capital / Support for local initiatives through TAURON Foundation	Stimulant		Continuously, in line with the ongoing operations	Continuously, in line with the ongoing operations
	Number of sports and cultural events organized by TAURON Capital Group for its employees	Social capital / Implemented and applied TAURON Group's PROClient Social Policy Social capital / Developing lasting relationships and active dialogue with the stakeholders Social capital / Support for local initiatives through TAURON Foundation	Stimulant		18	16

3.7 GRI indices described in this section

- GRI 203-1 Supported infrastructure investments and services for the benefit of society through commercial activities, transfer of goods and pro-bono activities. The impact of these activities on society
- GRI 103-2 The management approach and its components in the areas: environmental, social, human rights, anti-corruption, HR, including indicating material topics in the given area
- GRI 102-2 Activities, brands, products, and services
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes in the organization in the supply chain during the reporting period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 201-1 Value added generated and distributed
- GRI 201-4 Government support - state ownership
- GRI 203-1 Investments in products and services
- GRI 103-2 The management approach and its components in the areas: environmental, social, human rights, anti-corruption, HR, including indicating material topics in the given area
- GRI 102-2 Activities, brands, products, and services
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes in the organization in the supply chain during the reporting period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 201-1 Value added generated and distributed
- GRI 201-4 Government support - state ownership
- GRI 203-1 Investments in products and services

4. TAURON CAPITAL GROUP'S POLICIES AND DUE DILIGENCE PROCESSES AND THE PRESENTATION OF THE RESULTS OF THEIR APPLICATION

In order to systematize the activities conducted, as well as to precisely define the objectives and periodically monitor the degree of their implementation, the Management Board of TAURON Polska Energia adopted the following Policies for use at TAURON Capital Group:

- TAURON Group's Customer Oriented (PRO-customer) Social Policy (PROClient Social Policy),
- TAURON Group's Diversity Policy,
- TAURON Group's Environmental Policy,
- TAURON Group's Climate Policy,
- TAURON Group's Human Rights Respect Policy,
- TAURON Group's Human Resources Policy,
- TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy,
- TAURON Group's Anticorruption Policy,
- TAURON Group's Work Health and Safety (WHS) Policy,
- Strategic Research Agenda,
- TAURON Group's Corporate Purchasing Policy,
- TAURON Group's Subsidiaries Contractors (Counterparties) Code of Conduct Policy,
- Personal Data Protection Policy for TAURON Group entities,
- Policy of Compliance with the Principles of Ethics and Prevention of Mobbing and Discrimination at TAURON Group.

The above mentioned documents ensure compliance of TAURON Capital Group's operations with the requirements specified in art. 49 b, clause 2 and 3 of the Accounting Act. They also represent an important part of conducting a transparent communication policy with the numerous stakeholders of TAURON Capital Group, who may familiarize themselves with the annually published reports on their implementation.

In addition, TAURON Capital Group is implementing TAURON Group's Sustainable Development Strategy for 2017-2025, adopted by the Company's Management Board on August 1, 2017, which was compiled based on the Strategy.

Each of the above documents contains an exhaustive description of actions taken by TAURON Capital Group's subsidiaries to achieve the intended goals in the given area. The following sub-sections present the main principles, methods and tools implemented by TAURON Capital Group under the individual policies and the results of their application in 2019.

4.1. TAURON Group's PROClient Social Policy

Pursuant to TAURON Group's Strategy for 2016-2025 adopted in 2016, we defined a vision according to which we strive to be a company that is best responding to customer needs in the Polish energy industry. Based on the above as well on the assumptions of TAURON Group's Sustainable Development Strategy for 2017-2025, in 2017 the Management Board of TAURON Polska Energia S.A. adopted TAURON Group's PRO Client Social Policy for use.

The document is aimed at developing appropriate organizational and business conditions required to achieve the strategic goals of TAURON Capital Group with respect to customer and market environment relations.

The policy is a collection of main assumptions applied in the customer sales and service process. It also defines measures taken by TAURON Capital Group as part of a dialogue with the customers, highlights the importance of developing long lasting relations both with the customers as well as with the market environment, and it also defines the responsibilities lying on the company's side with respect to this very large (the number of TAURON Capital Group's employees) is presented in Table no. 18) and extremely significant group of stakeholders.

Table no. 18. GRI EU 3. Number of TAURON Capital Group's individual and business customers as of December 31, 2019

Supply group type	Supply Line of Business	Transmission and Distribution
Individual	5 088 339	20 556
Business (including institutions)	423 607	200 779
Total	5 511 946	221 335

Due diligence procedures and internal regulations

By implementing the assumptions of the PRO Customer Social Policy TAURON Capital Group is responding in the best possible manner to customer needs, focusing its efforts on the following principal issues:

- making sure the highest standards are met in the relationships with the customers, based on transparency, mutual respect and trust,
- continuous bi-directional communications, based on a dialogue,
- surveying customer opinions (feedback), experiences and expectations,
- responding to customer needs through a clear offering, satisfying their needs and meeting expectations.

Marketing research

Due diligence procedures implemented as part of the PRO Customer Social Policy include primarily periodic surveys. It is important for us to get to know our customers as much as we can and, based on that, to be able to even more fully respond to their needs. The monitoring of the marketing communications is done in cooperation with market analysts. The summary of such surveys conducted in 2019 is presented in Table no. 19.

Table no. 19. Surveys carried out by TAURON Capital Group in 2010 as part of the due diligence procedures

Subject of the survey	Time when the survey was conducted
Surveys on products / services:	
Survey of satisfaction with the online PZO (hand-over and acceptance protocol) – quantitative	February and March 2019
Survey of the demand for Health (Zdrowie) and Music (Muzyka) products in the SME segment – quantitative	July and August 2019
Product survey for AMI meters – qualitative FGI	September and October 2019
Product survey for AMI meters – quantitative	November 2019
Survey of the Mój TAURON service in the seniors segment – qualitative IDI	September 2019.
Survey of the Mój TAURON service in the target segments – qualitative FGI	November and December 2019
Price positioning for electricity and gas:	
Price positioning on the market for electricity and gas offerings in Q2 2019	June 2019
Price positioning on the market for electricity and gas offerings in Q3 2019	September 2019
Price positioning on the market for electricity and gas offerings in Q3 2019	December 2019
Monitoring of coherence and transparency of the marketing communications, including in particular the communications related to the new products and offerings, including:	
Surveys to check effectiveness of campaigns and campaign spots Loteria TAURONa	November and December 2019

Subject of the survey	Time when the survey was conducted
Surveys to check familiarity with the offering (quantitative surveys): 2 survey groups Survey conducted at Customer Service Centers	3rd group June and July 2019 1st group November December 2019
Survey to check awareness of product possession by a customer (quantitative surveys)	March and April 2019 r.

Meeting the needs of disadvantaged customers and sensitive consumer groups

As part of the due diligence procedures also educational activities addressed to the disadvantaged groups, first of all customers sensitive to energy pricing and seniors, were conducted. The summary of such surveys and their quantity conducted in 2019 is presented in Table no. 20.

Table no. 20. Educational activities carried out by TAURON Capital Group in 2019 as part of the due diligence procedures

Information campaigns	Activities conducted as part of the campaign
GOOD ENERGY IN A GOOD COMPANY! CHECK WHO IS OFFERING YOU ELECTRICITY AND GAS (DOBRA ENERGIA W DOBRYM TOWARZYSTWIE! SPRAWDŹ, KTO OFERUJE CI PRĄD I GAZ) is a campaign conducted jointly with the Association of Energy Trading (Towarzystwo Obrotu Energią - TOE) and implemented in cooperation with the largest energy companies in the country. It aims to promote knowledge of the energy market and raise awareness of the activities of companies that employ unfair market practices.	600 commercial spots on the radio
	8.7 million viewings (hits) in the Internet
	5 million press readers
	16 mobile billboards at 32 parishes
”ACTION – REACTION” (”AKCJA – REAKCJA”) is a warning campaign, conducted in a specific narrow area in response to a problem of unfair commercial practices employed by electricity and gas suppliers observed and reported by customers. Customers, having been misled, sign documents, which later turn out to be sales contracts, or offers that the client misunderstood. As a result, Tauron reports a decrease in the number of active contracts (customers).	Commercial spots on 60 nationwide and regional radio stations
	Press advertisements in 18 papers
	Advertisements in the city transportation company, social media and on YouTube
	Messages in radio spots at 16 radio stations, on posters and in social media

Customer service through the highest quality sales and service channels

Seniors, pregnant women, persons with young children and the disabled are treated as privileged persons in TAURON Capital Group’s stationary contact channel,.

In 2019, for privileged persons, at Customer Service Centers (Punkty Obsługi Klienta - POK):

1. We continued to provide priority service;
2. We maintained the priority service marking:
   - in the form of internal marking in waiting rooms for customers,
   - in the form of marking on queuing machines at POKs with a queuing system,
   - in the form of marking parking spaces for the disabled, at POKs’ parking areas.
3. At newly opened POKs or modernized POKs, we maintained the applicable marking, in line with the priority of service policy:
   - we launched a POK in Żywiec,
   - we moved and modernized the POK in Zabrze.

In the telephone contact channel for the disabled people and seniors we provided:

Telephone support with the filling of the Application to conclude a contract after the death of a party to the contract. A courier was added to the process, who would deliver the completed application to be signed by the new consumer.

In the online channel:

1. We digitized the Handover and Acceptance Protocol (PZO) and the Application to conclude or amend a contract (WOZ) – a customer can conclude / assign the contract without the need to visit the Customer Service Center, as well as without having to download the application from www.tauron.pl, print, scan and ship it.
2. We maintained the functionality of the website: www.tauron.pl, on which it is possible to increase the contrast and font size.

Actions taken and results achieved

Among the activities implemented as part of the PRO Client Social Policy, making sure that we provide clear and transparent communication with clients is of key importance. In order to implement this stipulation, we are conducting the "TAURON speaks the way humans do" project, as well as numerous social campaigns.

TAURON speaks the way humans do

"TAURON speaks the way humans do" (TAURON mówi po ludzku - TMPL) is a project implemented for several years, that involves simplifying formal and legal documents, messages and letters addressed to the customers. In 2017, we started cooperation with Tomasz Piekot's Language Workshop, which trained several hundred people, who are in direct contact with customer service, with respect to simplifying the official language used. We have also selected language consultants who act as ambassadors of simple communication at TAURON Capital Group.

As part of the project, in 2019, we developed Stylobuk (Style book), a handbook for effective communication with customers. It is based on 8 principles, thanks to which we can introduce a simple language to our communication. We have included many examples of our communication with customers in the book, along with suggestions on how to simplify such messages.

As part of the TPML project, in 2019:

- we selected 15 internal trainers who were trained and obtained a certificate of Tomasz Piekot's Language Workshop and can conduct internal training courses in effective communication,
- internal trainers conducted 24 training courses on the principles of effective communication with customers,
- we trained 31 new language consultants,
- we created a project website on the Group's intranet, where users will find: stylobuk (style book), information about consultants and language advice (tips) that our consultants write.

We also conducted e-learning training on the principles of effective communication, addressed to employees of the following subsidiaries: TAURON Polska Energia S.A., TAURON Sprzedaż and TAURON Obsługa Klienta (Customer Service). The goal of the training was to show the principles of effective communication in a simple and accessible way. We also wanted to present the adopted principles to employees who do not communicate with customers on a daily basis. Table 21 shows % of TAURON Group's employees who have successfully passed the final exam.

Table no. 21. Percentage of TAURON Capital Group's employees who completed the training on the principles of effective communication and successfully passed the final exam in 2019

Subsidiary	Percentage of employees who completed the training and passed the final exam
TAURON Obsługa Klienta	70%
TAURON Sprzedaż	62%
TAURON Polska Energia	65%

In 2019, we also worked on simplifying letters addressed to customers - we changed the templates of nearly 70% of them. Their quantities are shown in Figure 23.

Figure no. 23. Number of simplified letters addressed by TAURON SA Capital Group to its customers in 2019

We want our customers to receive reliable information from us about the products and services we are offering, and to communicate in a simple language that each of them would understand. We are trying to verify the level of understanding of our messages by customers from different age groups and with various education levels, and we strive for their maximum simplification.

As a result, in 2019, we did not have any cases of non-compliance of products and services with respect to the information and labeling thereof, as well as any cases of non-compliance regarding marketing communications in the entire TAURON Capital Group.

Responsibility towards the customer

In order to respond to social concerns related to the forecast increase in electricity prices (due to the rising emission allowance prices), in April and May of 2019 we conducted an information campaign on electricity prices being maintained at the 2018 levels. As part of the campaign:

- we prepared and distributed to mailboxes a brochure providing information on stable electricity prices in2019 and on TAURON's current offering (4 300 000 copies),
- we published relevant information on this subject in the press,
- we broadcast radio spots,
- we created a website https://www.tauron.pl/dla-domu/stabilne-ceny-pradu, where customers could learn about the market situation and electricity prices in 2019,
- we made an educational film entitled Explanation of the electricity invoice broadcast on YouTube – 4 500 viewings,
- we compiled informational materials to be distributed at POKs - posters and leaflets, a TV presentation and Wiem (I know) newsletter published in 4 500 copies,
- we conducted communication in the social media - FB: reach of more than 8 000 and nearly 700 reactions, Linkedin: more than 2 000 viewings.

In accordance with the principles arising from the PRO Client Social Policy, we are making sure that the marketing message sent by us and our partners should always be not only in line with the law, but also with good practices. The above is illustrated in tables no. 22 and no. 23.

Table no. 22. GRI 417-2. Cases of non-compliance of TAURON Capital Group's products and services with respect to the information and labeling thereof in 2019

Number of cases of non-compliance with:	TAURON Dystrybucja	TAURON Sprzedaż	TAURON Dystrybucja Serwis	Kopalnia Wapienia „Czatkowice"	Bioeko Grupa TAURON	**TOTAL NUMBER OF CASES**
Regulations - resulting in a fine or penalty	0	0	0	0	0	0
Regulations - resulting in a warning	0	0	0	0	0	0
Internal codes of conduct	0	0	0	0	0	0
TOTAL NUMBER OF CASES	**0**	**0**	**0**	**0**	**0**	**0**

Table no. 23. GRI 417-3. Cases of TAURON Capital Group's non-compliance regarding marketing communications in 2019

Number of cases of non-compliance with	TAURON Dystrybucja	TAURON Sprzedaż	TAURON Dystrybucja Serwis	Kopalnia Wapienia „Czatkowice”	Bioeko Grupa TAURON	**TOTAL NUMBER OF CASES**
Regulations - resulting in a fine or penalty	0	0	0	0	0	0
Regulations - resulting in a warning	0	0	0	0	0	0
Internal codes of conduct	0	0	0	0	0	0
TOTAL NUMBER OF CASES	**0**	**0**	**0**	**0**	**0**	**0**

Handling of complaints

Complaint handling processes are an effective way of obtaining information on the quality of services provided. Thanks to efficient management, they could be used to improve customer service mechanisms and impact customer satisfaction level.

Complaints addressed to TAURON are coming in by traditional mail, e-mail, telephone, using the forms available on the website www.tauron.pl and via eBOK / My TAURON (Mój TAURON). Then, they are registered in the electronic documentation circulation system (SOD). The complaint circulation system in place at TAURON Capital Group in 2019 is shown in Figure no. 24.

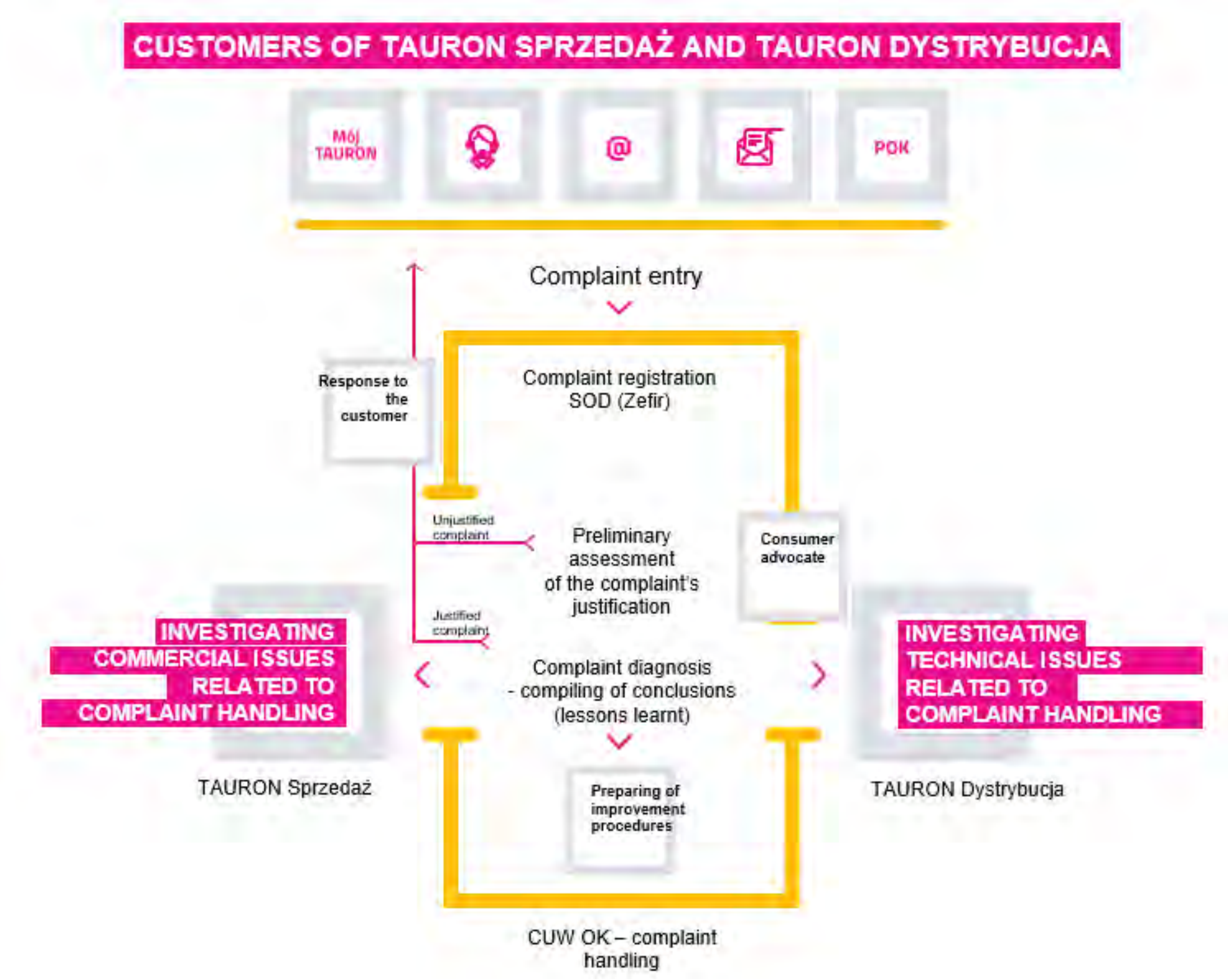


Figure no. 24. Customer complaint circulation system in place at TAURON Capital Group in 2019

We take all comments and complaints seriously - the time and manner of response are determined by precise and stringent internal procedures. According to them, each complaint coming from the customer is thoroughly analyzed in order to correctly and effectively identify the causes of non-compliance and determine their place of origin. The fact of an occurrence of irregularities is reported to the owner of the business process who is responsible for implementing corrective actions, for the purpose of an ad hoc review of the complaint and providing an answer. The end result is the introduction of preventive actions in order to eliminate the identified non-compliance in the future. The diagnosed cases, corrective and preventive actions taken are included in the periodically verified, with respect to the repeatability of complaints, Cards of Diagnosis related to the causes of complaints.

Establishing of uniform complaint management rules ensures their reliable and timely review, as well as allows to define the principles of cooperation between the Complaint Center and business process owners.

In order to best understand the customer's point of view, TAURON Dystrybucja and TAURON Obsługa Klienta (Customer Service) have been conducting periodic workshops, prepared based on the complaints, since 2013. Together with the personnel of the lines of business that the given complaint is applicable to, the causes and potential alternative solutions are analyzed.

This practice contributes to the implementation of a self-learning organization concept.

Customer Satisfaction Index

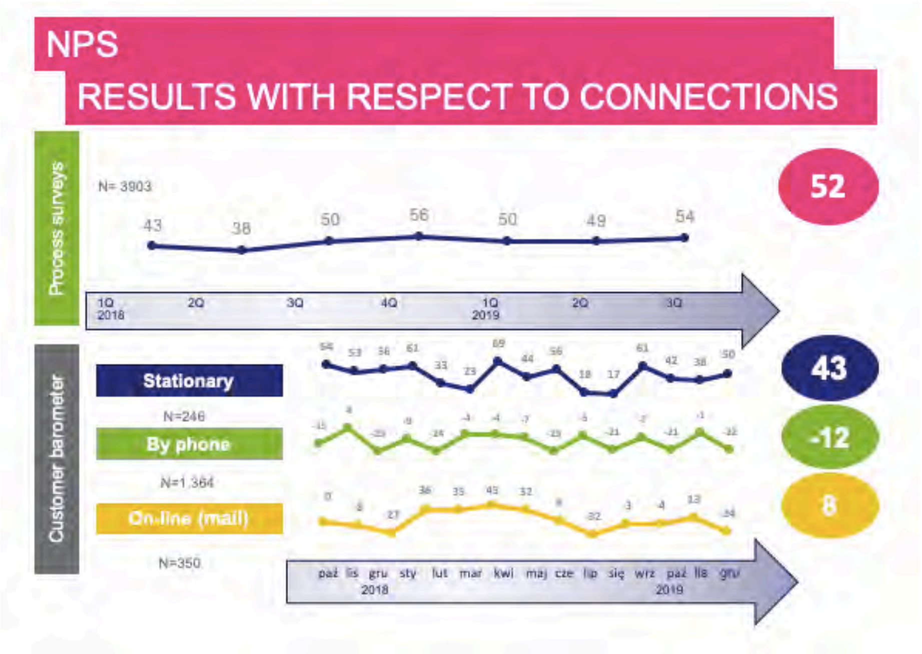
Customer experience, satisfaction and loyalty indicators are among the factors that enable demonstrating the implementation of the provisions of the PRO Customer Social Policy, as well as of the projects and activities stemming from them. As we are interested in obtaining credible assessments of our work, we are measuring these metrics periodically using an independent research agency. The last survey was conducted in September-November 2019 by the agency PBS sp. z o.o.

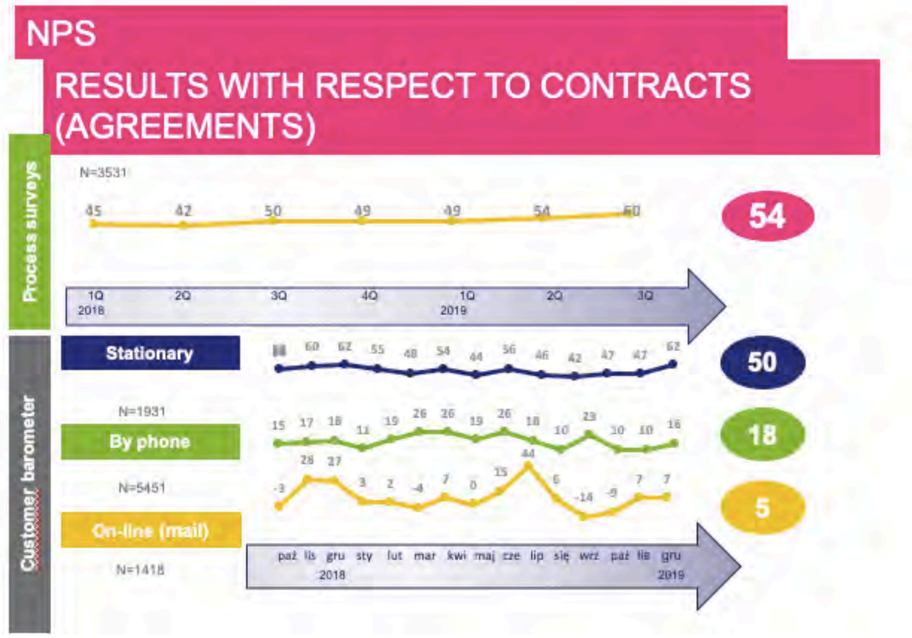
We carry out customer experience surveys in two ways:

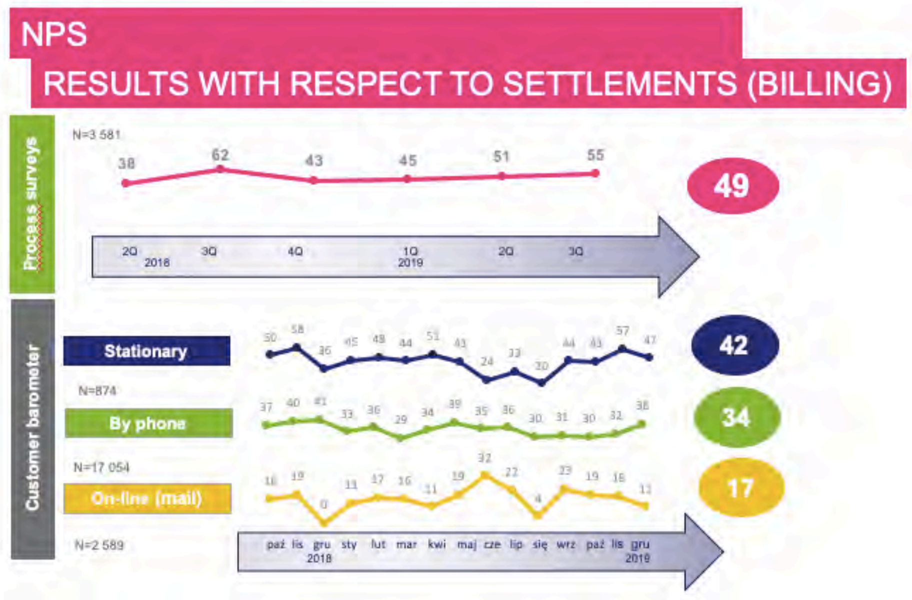
1. We are testing customer experience in areas where the customer is most often dealing with the company directly, i.e. in the process of discussing connections, contracts (agreements), settlements (billing), debt collection and filing a complaint. The research is carried out monthly through online questionnaires and through telephone surveys performed every quarter by a research company

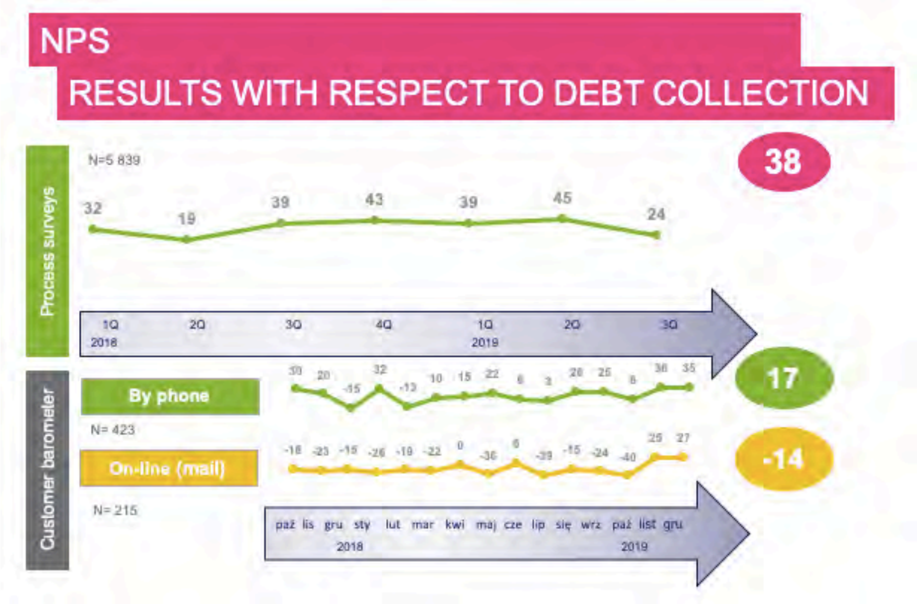
We conduct research on a group of customers who have gone through the process and focus primarily on gathering information about their loyalty level (NPS) having gone through the given process and we examine what effort (CES) the customer has put into getting his case fixed at TAURON.

The charts presented in Figures no. 25 and no. 26 show the loyalty level (NPS) of customers following the given process that they have participated in. The survey results allow for introducing improvements in the customer service, which translates into a higher rating of TAURON's services in customer reviews.




NPS
RESULTS WITH RESPECT TO CONTRACTS (AGREEMENTS)
Process surveys
N=3531
54
Customer barometer
Stationary
N=1931
50
By phone
N=5451
18
On-line (mail)
N=1418
5
2018
2019


NPS
RESULTS WITH RESPECT TO SETTLEMENTS (BILLING)
Process surveys
N=3 581
49
Customer barometer
Stationary
N=874
42
By phone
N=17 054
34
On-line (mail)
N=2 589
17
2018
2019



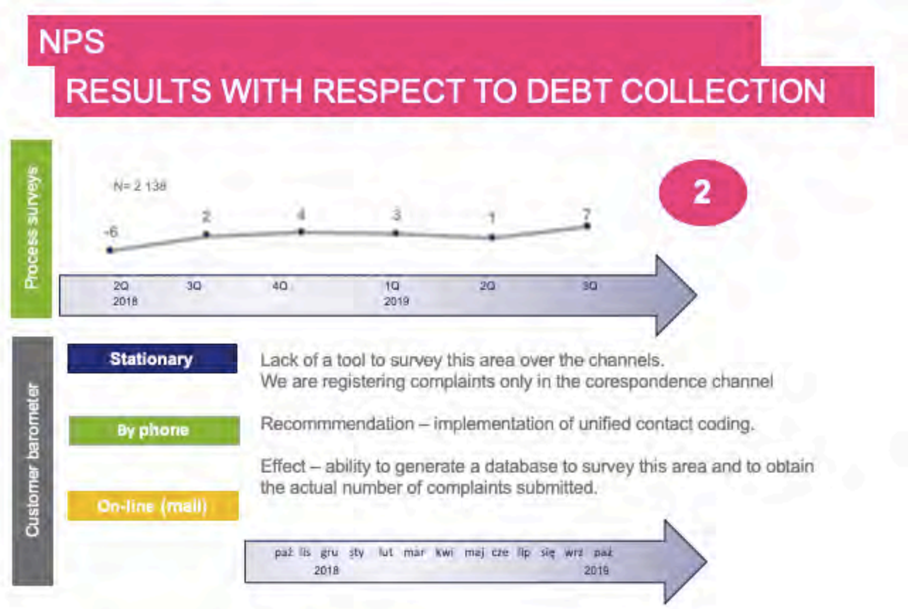
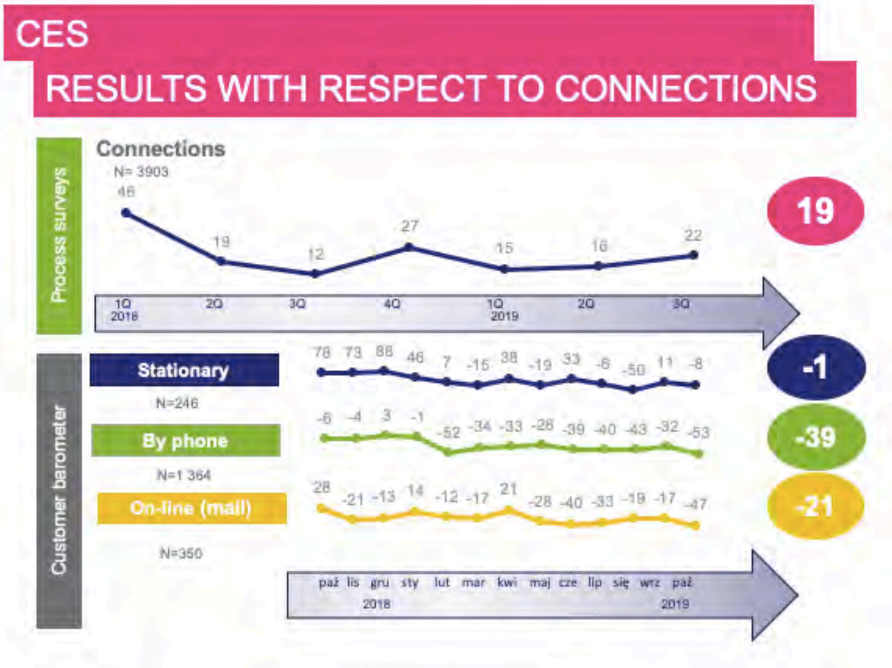


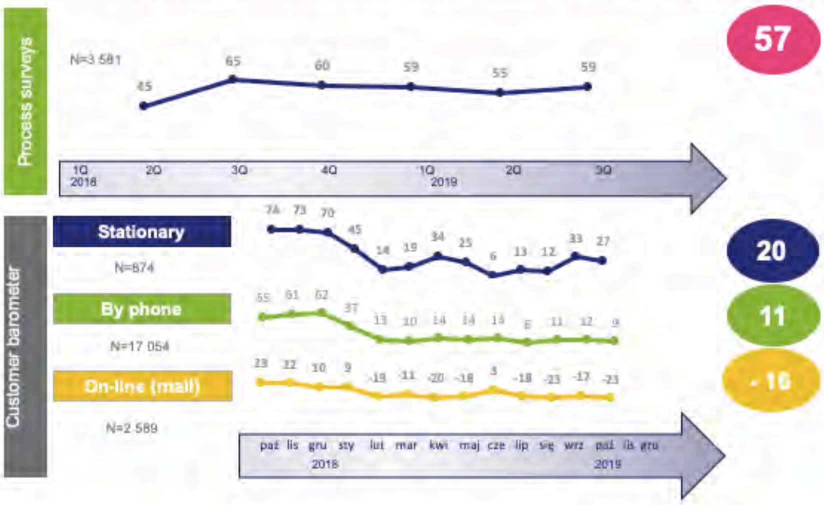
Figure no. 25. Results of the customer loyalty level (NPS) survey among customers from TAURON Capital Group's household segment in 2019, as compared to 2018



CES
RESULTS WITH RESPECT TO CONNECTIONS
Process surveys
Connections
N= 3903
46
19
12
27
15
16
22
19
1Q 2018
2Q
3Q
4Q
1Q 2019
2Q
3Q
Customer barometer
Stationary
N=246
78 73 88 46 7 -15 38 -19 33 -6 -50 11 -8
-1
By phone
N=1 364
-6 -4 3 -1 -52 -34 -33 -28 -39 -40 -43 -32 -53
-39
On-line (mail)
N=350
28 -21 -13 14 -12 -17 21 -28 -40 -33 -19 -17 -47
-21
paź lis gru sty lut mar kwi maj cze lip sie wrz paź
2018
2019

CES
RESULTS WITH RESPECT TO CONTRACTS (AGREEMENTS)
Process surveys
N=3531
38
40
39
31
28
35
42
36
1Q 2018
2Q
3Q
4Q
1Q 2019
2Q
3Q
Customer barometer
Stationary
N=1931
81 80 83 71 14 21 25 19 13 12 20 8 27
18
By phone
N=5451
30 31 39 10 -20 0 -10 -5 -10 -18 -22 -2 -23
-12
On-line (mail)
N=1418
5 17 26 -3 -33 -42 -39 -17 -22 -10 -32 -51 -45
-32
paź lis gru sty lut mar kwi maj cze lip się wrz paź
2018
2019

CES
RESULTS WITH RESPECT TO SETTLEMENTS (BILLING)



CES
RESULTS WITH RESPECT TO DEBT COLLECTION

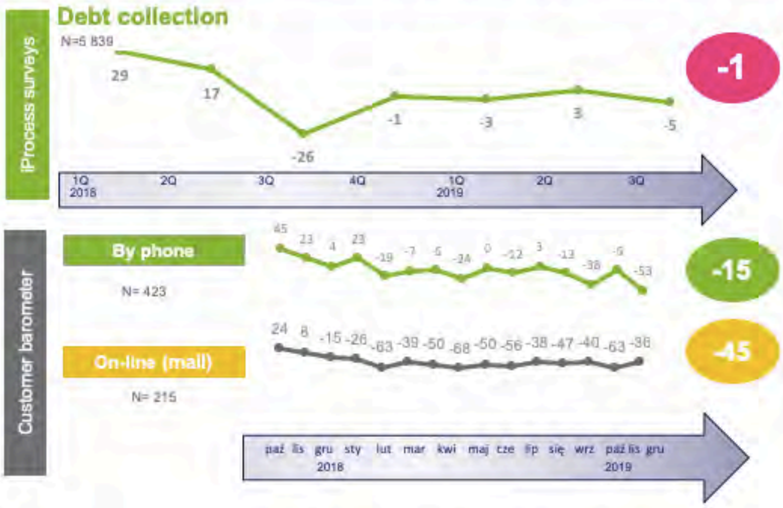


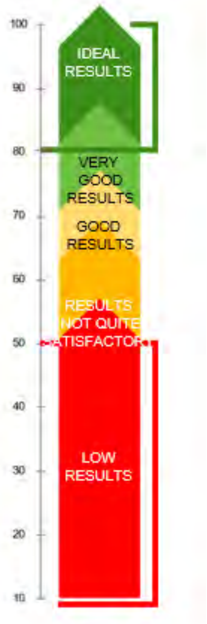
Figure no. 26. Results of the customer effort (CES) survey among customers from TAURON Capital Group's household segment in 2019, as compared to 2018

2 Once a year, through an independent research agency, we analyze customer satisfaction level in the following segments: households, small and medium enterprises, business. As part of this study, it is also important for us to find out how TAURON Group ranks against the competition.

Each time a randomly selected group of TAURON's customers and a group of customers of other energy companies - ENEA, PGE, INNOGY and ENERGA, take part in the survey.

Figure no. 27 presents the results of the customer satisfaction survey conducted in the household segment, as compared to the previous years.

TAURON	2019	2018	2017	2016	2015	2014	2013	2012	2011
Loyalty indicator	82	81	85	86	84	83	77	77	73
CSI indicator	83	81	80	80	79	76	73	73	71
Settlements and payments	88	88	89	89	87	86	80	79	79
Failures and outages	81	82	82	82	80	77	76	75	74
Customer service	79	81	79	82	80	81	78	80	77
Image	79	76	76	78	75	73	69	67	66
Prices and tariffs	71	69	70	70	67	63	57	55	50



Interpretation scale

Figure no. 27. Results of the customer satisfaction survey conducted among customers from TAURON Capital Group's household segment in 2019, as compared to the previous years.

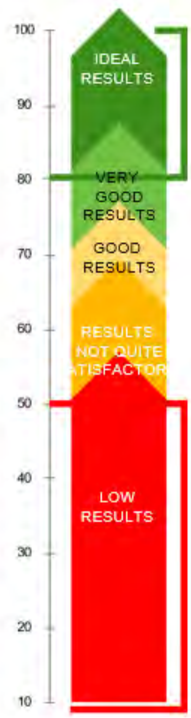
In the household segment, the overall customer satisfaction level and the loyalty level are relatively stable. The highest rated area of cooperation (interaction) are the settlements (billing) and payments (PLS analysis), while the prices and tariffs get the lowest grades (a smaller increase compared to the previous year can be observed here). The most important areas that affect satisfaction and loyalty are currently failures and outages, as well as prices and tariffs.

The level of these two main indicators is one of the best among the electricity suppliers surveyed.

Customer satisfaction indices among business customers

Figure no. 28 presents the results of the customer satisfaction survey conducted among TAURON Capital Group's business customers in 2019, as compared to the previous years. The stabilization of the main satisfaction index can be observed here and a slight increase (as compared to 2018) of the loyalty index.

TAURON	2019	2018	2017	2016	2015	2014
Loyalty indicator	77	74	88	85	76	70
CSI indicator	78	77	77	75	75	72
Invoices and payments	85	88	85	85	86	82
Failures and outages	79	79	80	75	77	72
Products	69	67	69	65	x	x
Image	73	73	73	72	78	72
Prices	63	65	65	63	65	61
Contacts with TAURON	81	83	83	84	83	81
Agreements (contracts)	74	75	75	73	76	70



Interpretation scale

Figure no. 28. Results of the customer satisfaction survey conducted among TAURON Capital Group's business customers in 2019, as compared to the previous years

Customer satisfaction index among small and medium size enterprises

In the SME segment, a significant increase in the level of overall satisfaction of TAURON's customers can be observed, with a slight increase in their loyalty. Prices have the biggest impact on satisfaction and in this edition of the survey they were rated markedly better than in the previous year. The results of the SME customer satisfaction survey are presented in Figure no. 29.

Figure no. 29. Results of the customer satisfaction survey conducted among TAURON Capital Group's customers in the small and medium size enterprises segment in 2019, as compared to the previous years.

4.2. TAURON Group's Diversity Policy

In accordance with the Diversity Policy adopted by TAURON Group (hereinafter: Diversity Policy) in 2017, diversity and openness are an integral part of business operations. The Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees, and in particular to the management bodies and its key managers. The diversity policy is also applied in the cooperation with the external partners of the Group, i.e. companies, universities, schools or other business entities.

Due diligence procedures and internal regulations

The key assumptions and principal premises applied within the Diversity Policy include:

- developing the work environment based on respect, openness, accuracy and fairness (justice),
- ensuring versatility and diversity, in particular with respect to gender, education, age and professional experience,
- building organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),
- preventing discrimination by fostering appropriate work atmosphere as well as building and strengthening positive relationships among the personnel.

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, in combination with the strengthening of the culture of equal treatment regardless of age, gender, appearance, disability, views or beliefs and ensuring equal opportunities in terms of remuneration or professional development, there are regulations ensuring fairness and objectivity with respect to work organization and remuneration, e.g.

- TAURON Group's Compensation Principles,
- regulations with respect to benefits (entitlements),
- implemented flexible forms of work time and ability to work remotely.

and dedicated to women, ensuring equal opportunities for them and support in combining professional life with private life, e.g.

- reduced working time for pregnant women.

Actions taken and results achieved

By implementing the Diversity Policy TAURON Capital Group we are seeking to provide the work environment based on respect and fairness (justice), within which each employee may fully realize his/her individual potential. We are accomplishing this goal through the implementation of numerous training and competence development programs, as well as those supporting the development of each employee.

The most important among them include:

- PM Academy - a project dedicated to investment project management at TAURON Group, as part of which participants were able to develop competences and acquire tools for efficient management of strategic projects from the point of view of TAURON Group;
- Purchasing management in business - a project aimed at improving purchasing, negotiating and commercial qualifications;
- Talent Management Program in place at TAURON Polska Energia S.A., aimed at supporting the employee development process and taking advantage of their potential;
- TAURON Group's Internal Trainers Academy is a form of activities supporting synergy of competences within TAURON Group;
- mentoring program. Magenta meetings as part of the KobiecaMoc (WomenPower) campaign - for women students of electrical engineering faculties, whose aim is to provide support for girls, among others in selecting a career path;
- "Mum works" program:

The participants of the "Mum working" program are women employed at TAURON Group, whose children are under six years of age, and pregnant women. Persons joining the program have the opportunity to perform their job duties outside the place of employment (remotely) as part of a telework arrangement, or take advantage of the individual (customized) scheduling of the working time, depending on the nature of the tasks carried out at a given position. Those who are still on a parental or child care leave receive a newsletter containing information on the life of the company, allowing them to keep in touch with the workplace.

As part of the program, we have also provided convenient solutions for future mothers. Pregnant women can take advantage of the individual (customized) scheduling of the working time or telework, and in addition reduce the working time by two hours a day during the period of pregnancy, while maintaining the amount of remuneration.

The goal of the "Mum works" program is to increase the comfort of work for future and current mothers. The program is to increase the number of women returning to work after having a child, allowing more flexible adaptation of working time to their needs. It is also to ensure that women do not lose contact with the organization during their absence caused by the maternity or child care leave. The percentage of returns to work after parental leave, as well as the retention rate are presented in Table no. 24.

Table no. 24. GRI 401-3. Parental leave at TAURON Capital Group in 2019

	TAURON Group's total	Women	Men
Percentage of returns to work	78%	51%	91%
Retention rate following a parental leave	90%	77%	84%

We are aware of the fact that a diverse work environment is conducive to sharing knowledge, experience and, as a result, is conducive to achieving the intended results. In tables no. 25 and 26 we present the breakdown of the workforce and the management board of TAURON Group by age and gender as well as minorities.

Table no. 25. GRI 405-1. Composition of TAURON Capital Group's workforce broken down by age and gender as well as minorities as of 31.12.2019

	MANAGEMENT BOARD AND DIRECTORS			HIGHER AND LOWER LEVEL MANAGEMENT PERSONNEL			OTHER ADMINISTRATIVE STAFF (WHITE COLLAR POSITIONS)			BLUE COLLAR POSITIONS			TAURON Group		
	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <
Number of employees			180		2 717				9 095			14 094			26 086
	1	94	85	23	1 503	1 191	701	5 057	3 337	1 622	7 022	5 450	2 347	13 676	10 063
Women	0	26	9	3	309	165	343	2 406	1 539	36	329	415	382	3 070	2 128
Men	1	68	76	20	1 194	1 026	358	2 651	1 798	1 586	6 693	5 035	1 965	10 606	7 935
SHARE IN PERCENTAGE (in reference to all of the company's employees)			**1%**		**10%**				**35%**			**54%**			**100%**
Share in percentage (in reference to the number of employees in the given employment category)															
TOTAL	1%	52%	47%	1%	55%	44%	8%	56%	37%	12%	50%	39%	9%	52%	39%
Women	-	14%	5%	0%	11%	6%	4%	26%	17%	0%	2%	3%	1%	12%	8%
Men	1%	38%	42%	1%	44%	38%	4%	29%	20%	11%	47%	36%	8%	41%	30%

Table no. 26. Composition of TAURON Capital Group's Management Board broken down by age and gender as of 31.12.2019

	TAURON Group		
	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <
Number of Management Board employees	42		
TOTAL	0	29	13
Women	0	3	0
Men	0	26	13
Composition of the Management Board in percentages broken down by age and gender [%]			
(percentage share versus entire Management Board) TOTAL	*0%*	*69%*	*31%*
(percentage share versus all women in the Management Board) women	*0%*	*100%*	*0%*
(percentage share versus all men in the Management Board) men	*0%*	*67%*	*33%*

In 2019, we initiated actions aimed at implementing a new human resource management process - Development Conversation. Pilot activities completed at the Group's selected subsidiaries in 2019 demonstrated a number of benefits that open communication and individual approach to employees' needs as compared to the directions of the organization's development bring. In 2020, we will continue to work on implementing the development conversation process into the Group's organizational culture.

One of the important activities undertaken as part of the Diversity Policy is also cooperation with the academic and educational community, which translates into the creation of patronage classes in which students have the opportunity to gain practical experience related to the potential future job. By the end of 2019, TAURON covered 47 classes with its patronage, including 3 classes in 2019. TAURON Group organizes numerous apprenticeships and internships. The programs support the development of skills for young people, and mentors have the opportunity to share their knowledge and experience, which translates into managing the exchange of knowledge within the organization. In 2019, 655 people took part in the internships and programs at TAURON Group. The detailed description of the above activities and projects is provided in the section regarding Human Resources Management Policy.

4.3. TAURON Group's Environmental Policy

Environment protection is a strictly controlled and regulated area in the energy and mining industry. Notwithstanding the applicable general provisions, TAURON Group, taking responsibility for the consequences of using natural resources and adopting in July 2017 a document entitled TAURON Group's Environmental Policy, and TAURON Group's Climate Policy in November 2019, emphasized that it was ready to take actions that went beyond legal obligations.

The Environmental Policy defines TAURON Capital Group's approach to the management of the issues related to the impact made by its operations on the natural environment, including the direction of its environmental activities and the principles it follows in environment related matters. The document is the benchmark for assessing all of the activities of TAURON Capital Group's subsidiaries in the area of environment protection and environmental management.

The Environmental Policy documents the values and the vision followed by TAURON Capital Group with respect to making an impact on the natural environment. The main principle of the Environmental Policy is to limit both the direct, as well as the indirect impact on the environment and to conduct responsible communications, ensuring the understanding of the operations of TAURON Capital Group that may impact the environment.

TAURON Capital Group, in accordance with the regulations and administrative practices in force on the territory of its operations, takes into account the needs related to environmental protection and acts in way that contributes to accomplishing a broader objective, which is sustainable development, and in particular the implementation of the closed circuit economy (the so-called circular economy).

Due diligence procedures

Due to diverse production and service profiles of TAURON Capital Group's subsidiaries, their impact on the environment varies significantly, therefore the principles of TAURON Group's Environmental Policy are addressed in the individual internal documents of the individual subsidiaries in a way corresponding to their role in the group's value system.

Minimizing negative impacts on the environment is effectively implemented taking into account the specifics of the sector, technological development and access to environmentally friendly technologies. The subsidiaries TAURON Wydobycie and TAURON Wytwarzanie have implemented a certified environment management system in accordance with ISO14001, while TAURON Wytwarzanie, representing conventional electricity generation, additionally maintains the European Community's Eco-Management and Audit Scheme (EMAS) (confirmed by completing the applicable registration in the national system).

Due diligence procedures implemented under the Environmental Policy undoubtedly include ongoing monitoring of the main aspects of the direct and indirect environmental impact of the operations. These types of measurements include, for example, the emissions of NOx, SOx compounds and dusts presented in Table no. 27 and no. 27-a.

Table no. 27. GRI 305-7. Emissions of the NOx, SOx compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2018 and 2019

TOTAL		
	2018	**2019**
NOx	12 789 663	10 708 789
SOx	12 938 915	10 385 711
Total dust	772 019	636 538
Other (including CO_2 and methane)	38 161 165	33 521 927
Total aggregate emissions into the atmosphere [kg]	**64 661 762**	**55 252 966**

Table no. 27-a. GRI 305-7. Emissions of NOx, SOx compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2018 and 2019, per individual subsidiaries

	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
NOx	5 210	770	11 169 299	9 394 343	1 577 445	1 275 974	37 709	37 701	**12 789 663**	**10 708 789**
SOx	3 139	32	9 583 254	8 312 491	3 297 267	2 017 940	55 255	55 248	**12 938 915**	**10 385 711**
Total dust	11 713	8 440	482 051	438 670	230 080	139 994	48 175	49 434	**772 019**	**636 538**
Other	0	0	10 012 298	6 121 356	2 010 406	1 755 165	26 138 461	25 645 406	**38 161 165**	**33 521 927**
Total aggregate emissions into the atmosphere [kg]	**20 062**	**9 242**	**31 246 902**	**24 266 861**	**7 115 198**	**5 189 074**	**26 279 600**	**25 787 789**	**64 661 762**	**55 252 966**

Emissions are well below the levels set as maximum permitted annual loads of substances released into the atmoshpere according to permits. The above is due to the fact that all working generating units of TAURON Wytwarzanie and TAURON Ciepło achieve the sulfur dioxide, nitrogen dioxide and dust concentration levels below the current permitted values, and the SO2 and NO2 concentration levels for the 200 MW units and biomass fired boilers (RES) reach a similar level to the new lower limits set out in the BAT conclusions that will apply from 2021.

TAURON Group assumes responsibility for taking care of the natural environment and the consequences of using its resources. The Group's subsidiaries estimate that the amount of charges to be paid for the business use of the environment in 2019 is approximately PLN 32.82 million.

Table no. 28. Estimated charges for the business use of the environment by TAURON Capital Group's subsidiaries due for 2019

#	Subsidiary name	Charges* for the business use of the environment due for 2019 (PLN '000)
1.	TAURON Wytwarzanie	14 882
2.	TAURON Wydobycie	14 856.5
3	TAURON Ciepło	2 838.8
4.	TAURON Dystrybucja	181.5
5.	KW "Czatkowice"	55.1
6.	TAURON Dystrybucja Serwis	< 0.8
7.	TAURON Obsługa Klienta	1.6
8.	TAURON EKOENERGIA	< 0.8
9.	TAURON Sprzedaż	< 0.8
10.	Bioeko Grupa TAURON	4
	Total	**32 820**

** partly estimated data, the annual settlement has not been completed*

Following the principle of resource efficiency, TAURON Group is monitoring and optimizing the consumption of water used for technological purposes on an ongoing basis. In order to reduce the negative impact on the environment, we strive to close water circuits and to recycle water to production processes for reuse. The consumption of water used in the production processes by TAURON Capital Group in 2019 is shown in Table no. 29 and no. 29-a.

Table no. 29. GRI 303-3. TAURON Capital Group's total water consumption per source in 2018 and 2019

[m^3/year]	TOTAL	
	2018	**2019**
rivers	136 432 098	143 447 469
wetlands	0	0
ground water	44 831 312	45 969 125
rain water picked up directly and stored	164 797	163 701
water from the city network	5 643 343	5 359 483
Other	16 472 234	17 752 749
Total volume of water consumed from all sources taken into account	**203 545 802**	**212 692 527**

Table no. 29-a. GRI 303-3. TAURON Capital Group's total water consumption per source broken down by subsidiaries in 2018 and 2019

[m3/year]	TAURON Wydobycie		Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Surface water (rivers, lakes) including water from wetlands												
rivers			22 271	42 556	135 862 454	142 955 276	547 373	449 637			**136 432 098**	**143 447 469**
Wetlands					0	0		0			**0**	**0**
Other:												
ground water	44 324 741	44 883 908	68	89	1 122 751	1 084 646		0	471	482	**45 448 03**	**45 969 125**
rain water picked up directly and stored					164 797	163 701		0			**164 797**	**163 701**
water from the city network	506 571	159 789*	14 084	13 563	3 645 821	4 053 940	1 475 374	1 130 698	1 493	1 494	**5 643 343**	**5 359 483**
Other					15 007 893	16 736 118	1 464 341	1 016 631			**16 472 234**	**17 752 749**
Total volume of water consumed from all sources taken into account	**44 831 312**	**45 043 697**	**36 423**	**56 208**	**155 803 716**	**164 993 681**	**3 487 088**	**2 596 966**	**1 964**	**1 976**	**204 160 503**	**212 692 527**

** Zakład Górniczy Janina (Janina Coal Mine) – Initiative "Increase of the consumption of water from own sources in the technological processes". The objective achieved is the reduction of water purchased from Wodociągi Chrzanowskie Sp z. o.o.*

TAURON Group is continuously optimizing waste water treatment processes. Wastewater treatment methods are also modernized to improve the efficiency of these processes. The quality and quantity of wastewater is subject to ongoing monitoring. The total volume of waste water generated as a result of TAURON Capital Group's operations in 2019, including its utilization method (destination), is shown in Table no. 30 and no. 30-a.

Table no. 30. GRI 306-1. Total volume of TAURON Capital Group's waste water [m^3] in 2018 and 2019 by quality and utilization method (destination)

Waste water dump site taking into account emergency heat dumps	TOTAL m^3	
	2018	**2019**
Waste water discharged into the sewage system (municipal companies)	695 435	842 750
Waste water discharged by means of transportation to the waste water treatment plant	446	515
Waste water discharged to the surface water:		
Rivers	152 505 966	166 320 385
Other	0	0
Total waste water volume	**153 201 847**	**167 163 649**

Table no. 30-a. GRI 306-1. Total volume of TAURON Capital Group's waste water [m^3] in 2018 and 2019 by quality and utilization method (destination), per subsidiary

Waste water dump site taking into account emergency heat dumps	Waste water volume [m^3]											
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Wydobycie		TAURON Ciepło		TAURON Ekoenergia		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Waste water discharged into the sewage system (municipal companies)			94 630	109 395	292 415	291 774	307 311	440 460	1 079	1 121	**695 435**	**842 750**
Waste water discharged by means of transportation to the waste water treatment plant					274	372			172	143	**446**	**515**
Waste water discharged to the surface water:												
Rivers	25 497	28 672	110 155 207	123 329 315	42 136 187	42 801 956	188 622	159 966	453	476	**152 505 966**	**166 320 385**
Other											**0**	**0**
Total waste water volume	**25 497**	**28 672**	**110 249 837**	**123 438 710**	**42 428 876**	**43 094 102**	**495 933**	**600 426**	**1 704**	**1 740**	**153 201 847**	**167 163 649**

Actions taken and results achieved

TAURON Capital Group is undertaking numerous actions aimed at minimizing the negative impact on the environment. We are actively looking for new directions and areas of activity in order to reuse the by-products of our operations. To this end, in accordance with the principles of the circular economy, we are implementing the combustion and mining by-products management processes.

The following tables present the total weight of waste by type and utilization (handling) method.

Table no. 31. GRI 306-2. Total weight of hazardous waste [t] in 2018 and 2019, by waste type and waste utilization (handling) method

	2018	2019
Reuse	6.1	6.1
Recycling	414	137.7
Recovery (including energy recovery)	313	1 086.3
Neutralization	119	186.6
Storage	11	45.5
Other *	48	141.0
TOTAL WASTE WEIGHT	**911**	**1 603**

** The Group does not generate nuclear waste*

Table no. 31-a. GRI 306-2. Total weight of TAURON Capital Group's hazardous waste [t] in 2018 and 2019 by quality and utilization method (destination), per subsidiary

	weight of hazardous waste [tons]													
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Wydobycie		TAURON Ciepło		TAURON Ekoenergia		TAURON Dystrybucja		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Reuse	0.0	0.0	6.1	6.1	0.0	0	0,0	0.0	0.0	0.00	0.0	0.0	**6.1**	**6.1**
Recycling	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.00	414.0	137.7	**414**	**138**
Recovery (including energy recovery)	0.0	0.0	90.7	51.9	7.4	0	13.0	1.1	0.0	0.00	202.0	1 033.4	**313**	**1 086**
Neutralization	0.0	0.0	2.7	5.1	2.9	0	2.0	7.9	0.0	0.00	111.0	173.6	**119**	**187**
Storage	0.0	0.0	6.0	12.0	5.4	1.9	0.0	1.3	0.0	0.00	0.0	30.3	**11**	**46**
Other *	20.4	27.2	0.0	0.0	25.2	38,5	0.0	0.0	2.1	75.35	0.0	0.0	**48**	**141**
TOTAL WASTE WEIGHT	**20.4**	**27.2**	**105.6**	**75.1**	**40.9**	**40.4**	**15.0**	**10.3**	**2.1**	**75.4**	**727.0**	**1 375.0**	**911**	**1 603**

Table no. 32. GRI 306-2. Total weight of non-hazardous waste [t] in 2018 and 2019, by waste type and waste utilization (handling) method

	2018	**2019**
Reuse	0.0	0.0
Recycling	4 852	2 200.1
Recovery (including energy recovery)	2 756 235	1 249 574.6
Neutralization	1 965	1 360.3
Dump (landfill)	4 823	5 539.5
Storage	146 282	104 375.6
Composting	0	0.0
Other	189 439.4	3 924.2
TOTAL WASTE WEIGHT	**3 103 596**	**1 366 974**

Table no. 32-a. GRI 306-2. Total weight of non-hazardous waste [t] in 2018 and 2019 by quality and utilization method (destination), per subsidiary

	weight of non-hazardous waste [tons]													
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Wydobycie		TAURON Ciepło		TAURON Ekoenergia		TAURON Dystrybucja		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Reuse	0	0	0	0	0		0	0	0	0	0	0	**0,0**	**0,0**
Recycling	0	0	180	168	0		0	0	0	0	4 672	2 032	**4 852**	**2 200**
Recovery (including energy recovery)	189	0	1 098 911	184 172	1 370 942	846 401	284 818	218 022	0	0	1 374	979	**2 756 235**	**1 249 575**
Neutralization	0	0	379	169	337		8	8	0	0	1 241	1 183	**1 965**	**1 360**
Dump (landfill)	0	0	4 823	5 540	0		0	0	0	0	0	0	**4 823**	**5 540**
Storage	0	0	656	436	140 356	103 463	5 270	422	0	0	0	55	**146 282**	**104 376**
Composting	0	0	0	0	0		0	0	0	0	0	0	**0**	**0**
Other	243	178	2 965	3 065	186 160	554	0	0	72	127	0	0	**189 439**	**3 924**
TOTAL WASTE WEIGHT	**432**	**178**	**1 107 914**	**193 550**	**1 697 795**	**950 418**	**290 096**	**218 452**	**72**	**127**	**7 287**	**4 249**	**3 103 596**	**1 366 974**

4 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2019, with as much as 51% of that quantity brought to the market as full value products to be used, among others, in the construction, road building, mining or agricultural sector. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization, among others in land reclamation, macro-leveling and filling of the post-mining voids in mining.

Waste generated is used primarily in such sectors as: construction, road building and mining. It is also broadly used by cement and concrete plants. It was also used as the material for reclamation of unfavorably transformed areas.

Figure no. 30 presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019.

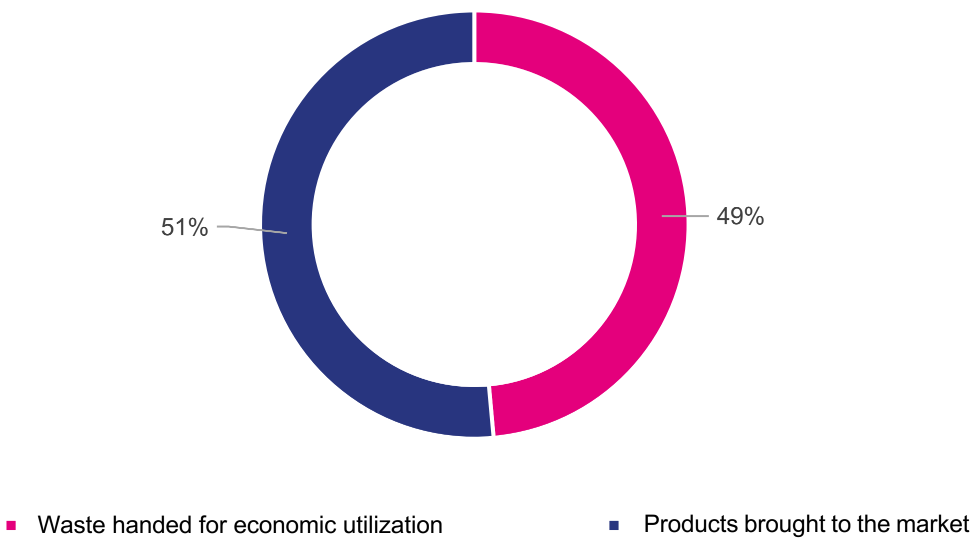


Figure no. 30. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019.

TAURON Capital Group is seeking to implement the model of circular economy. It is planned that the maximum of generated process waste should be used within TAURON Capital Group, thus reducing the consumption of natural resources and the product's carbon footprint.

TAURON Wytwarzanie brought as much as 88% of ashes and boiler slag coming from 6 system power plants to the market as by-products in 2019. They were used in construction, road engineering (building), mining and agriculture. The remaining 12% of the waste is also subject to utilization through the recovery, processing and use in the technological processes applied by the external recipients cooperating with TAURON Group with respect to waste collection.

Gypsum derived from the wet flue gas desulphurization installation, owned by TAURON Wytwarzanie, is a material used in the construction. It is a material with better properties than natural gypsum, because it does not contain mineral impurities found in fossil gypsum. For that reason gypsum, which is a by-product of wet flue gas desulphurization installations, is enjoying particularly high sales in the industrial regions.

Ashes produced by the conventional power generation sector are a valuable raw material used in fire prevention in the coal mines. Ashes from TAURON Group's power plants and combined heat and power plants cover 100% of the demand for ashes to be used for fire prevention at TAURON Wydobycie's coal mines. 108 thousand tons of ash generated at TAURON Group's power plants in 2019 was used in the coal mines.

100% of TAURON Ciepło's waste, i.e. for the year 231 000 tons of ashes, bottom ashes, slag, was also used for business purposes. Almost 0.6 million tons of the fly ash produced by TAURON Group were used as the construction products, in the form of concrete enhancements (additives) improving their plasticity, preventing cracking and increasing the concrete's resistance to chemical corrosion. Ashes are also a substitute for natural aggregates. Without the addition of ash, highly specialized lightweight concrete could not be formed. Ashes produced by TAURON Group are also a very valuable addition to cement production.

TAURON Wydobycie processes post-mining waste, as a result of which high-quality construction and road aggregates are obtained. As a result as much as 569 thousand tons of aggregates and materials produced based on the post-mining waste were brought to the market in 2019.

All of the above activities contribute to reducing the consumption of natural resources, e.g. natural aggregates, sands or gravels.

The reclamation of an energy waste landfill in Blachownia also began in 2019. The applicable decision on the closure of the landfill was obtained in August, including the approval of the method and schedule of its remediation.

Accepting of the waste for landfill was discontinued in January 2014, and its final closure process began in 2019. The furnace waste landfill is an over-ground landfill and covers a total of about 74 ha. The reclamation is carried out in two stages: as the technical and biological reclamation.

The Group has knowledge about the areas that are valuable from the nature point of view, whose locations are subject to the Group's impact, including the NATURA 2000 network areas. One such area is even created as part of the industrial infrastructure of Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine), which was created in order to ensure the hydrotechnical protection of the Upper Vistula against saline underground waters coming from the drainage of hard coal mines. The "Brzeszcze" retention and dosing reservoir, as well as the place of discharge, is located in the Natura 2000 protected area. Special Bird Protection Area "Stawy w Brzeszcze" (Brzeszcze Ponds) PLB 120009, with an area of 3 065.9 ha. This area covers the breeding pond complexes in the upper Vistula valley, located on both sides of the river. Vistula meandering in its valley creates small oxbow lakes. There are about 14 species of birds from Annex I of the Birds Directive (out of 180 contained in the directive) and 5 species from the Polish Red Book (PCK) in the nature refuge. During the breeding season, the area is inhabited by at least 1% of the national population of the following bird species from the Polish Red Book: little bittern, purple heron, white tern, night heron, common moorhen, croaking, red-bellied, black-headed gull, henchard. A relatively high numbers are reached by: bittern, black tern and great crested grebe.

Nature analyses were also carried out in 2019, that were related to the planned investment project, i.e. the construction of a photovoltaic farm in the area of Wrzosowa Street in Stalowa Wola. In order to protect valuable objects, the investment project area was reduced, leaving aside at least the pond and the beaver habitation grounds, and it was declared that the farm would be built in a special way, i.e. preserving the ponds with the reeds and their buffer zone to protect the bumble bee and little bittern, and excluding from the investment project an old, overgrown reservoir with a ditch and beaver dam.

In addition, TAURON Ekoenergia and Kopalnia Wapienia "Czatkowice" are conducting environmental monitoring pursuant to the legal provisions.

4.4. TAURON Group's Climate Policy

TAURON Group pro-climatic activities had begun before the announcement of the Communication 2019 / C 209/01. The Group introduced an Update of the Group's Strategic Directions for 2016-2025 in May 2019, as part of which the so-called TAURON's Green Turn is being implemented.

The Group's management took part in internal workshops in September 2019, whose purpose was to determine the climate materiality and the climate risks for all of the Group's lines of business. The effect of this work was the adoption by the Management Board of TAURON Polska Energia S.A. of the document titled: TAURON Group's Climate Policy, in November 2019.

Effectively counteracting the climate change and the sustainable development are the two main stipulations of the Climate Policy. This document is also in line with the assumptions of the TAURON Green Turn strategic concept.

The goal of the Policy is to set the directions for counteracting climate change and the sustainable development of the Group's Lines of Business, through a just transition towards achieving climate neutrality in the future. The policy constitutes the basis for TAURON Group to manage its operations in such a way so as to mitigate the risks associated with the climate, reduce the Group's negative impact on the climate and maximize the positive effects of the climate change throughout the entire value chain. A comprehensive discussion of the climate-related issues is particularly important due to the diversity of TAURON Group's generation sources (presented in tables 33 and 33a and 34 and 34a).

Table no. 33. GRI EU1. TAURON Capital Group's installed capacity, broken down into main types of the raw material and the regulatory requirements in 2018 and 2019

Installed capacity in MW by the type of fuel used	TOTAL	
	2018	**2019**
Hard coal	6 367	6 361
Natural gas and coke oven gas	160	165

Biomass	381	381
Heating oil	132	129
Wind based electricity	201	381
Hydroelectricity	133	133

The Group also has photovoltaic micro-installations operated for its own needs. TAURON Ekoenergia has panels with the capacity of 12.26 kW installed on the roofs of buildings, operated for the company's own needs are, while in TAURON Dystrybucja has 120 kW of such capacity.

Table no. 33-a. GRI EU1. TAURON Capital Group's installed capacity, broken down into main types of the raw material and the regulatory requirements, per subsidiary in 2018 and 2019

Installed capacity in MW by the type of fuel used	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		New wind based assets Total for 10 companies		TOTAL	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Hard coal	4186 MWe 1071 MWt	4186 MWe 1071 MWt	307 MWe 797 MWt	307 MWe 797 MWt			6				**6 367**	**6 361**
Natural gas and coke oven gas	0	0	160 MWt	164 MWt				1			**160**	**165**
Biomass	105 Mwe 166 MWt	105 Mwe 166 MWt	40 Mwe 70 MWt	40 Mwe 70 MWt							**381**	**381**
Heating oil			132 MWt	129 MWt							**132**	**129**
Wind based electricity					201	201				180	**201**	**381**
Hydroelectricity					133	133					**133**	**133**

Table no. 34. GRI EU1. TAURON Capital Group's installed capacity, broken down into types of generation units in 2018 and 2019

Installed capacity in MW by the type of generation unit:	TOTAL	
	2018	**2019**
Power plants (MWe)	4 625	4 805
Power plants (MWt)	1 237	1 237
Combined heat and power plants (MWe)	347	347
Combined heat and power plants (MWt)	1 014	1 014
Heat plants (MWt)	151	147

Table no. 34–a. GRI EU1. TAURON Capital Group’s installed capacity, broken down into types of generation units, per subsidiary in 2018 and 2019

Installed capacity in MW by the type of generation unit:	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		Kopalnia Wapienia ”Czatkowice”		New wind based assets Total for 10 companies		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Power plants (MWe)	4 291	4 291			334	334				180	**4 625**	**4 805**
Power plants (MWt)	1 237	1 237									**1 237**	**1 237**
Combined heat and power plants (MWe)			347	347							**347**	**347**
Combined heat and power plants (MWt)			1 014	1 014							**1 014**	**1 014**
Heat plants (MWt)			145	146				1			**151**	**147**

One of the most important commitments in this respect is the declaration of support for the measures aimed at reducing the global warming by maintaining the rate of the temperature rise below 2°C relative to the pre-industrial levels.

The policy refers to all kinds of activities and operations carried out within TAURON Group's value chain, the effects of which impact climate change or constitute the implication thereof, including in particular:

- measures aimed at reducing the global warming,
- measures with respect to TAURON Group's adaptation to the climate changes underway.

The Policy is applicable to all of the Group's subsidiaries, although each of them has detailed goals and tasks stemming from the policy.

Due diligence procedures and internal regulations

TAURON's Climate Policy is in accordance with the provisions of the EC Communication 2019 / C209 / 01 and the TCFD Report for the energy sector and fulfills the provisions thereof.

TAURON Group's Climate Policy will be implemented gradually in 2020. Therefore, due diligence procedures that accommodate the climate sensitive issues will be included in:

1) Risk management - process based management of climate risk in the short, medium and long term (2020 - 2025 - 2030) will be implemented starting from 2020;
2) Asset management - adaptation to the climate change, aimed at reducing the impact of the physical risks related to the climate, has been included in TAURON Group's asset management policy since 2020.
3) Human capital, employee training and recruitment management - the Group does not yet have a policy on the employees that would reference the climate change, but is aware of the need to prepare such a policy in 2020 in order to invest in the skills necessary during the transition to the low-emission technologies in the subsequent years.

Due to the fact that two subsidiaries, TAURON Wytwarzanie and TAURON Ciepło, are obligated to participate in the so-called European Emissions Trading System, the climate related issues are included in the operational decision making processes at these subsidiaries.

TAURON Group's Climate Policy Update will be implemented each time there is a change in the general directions of TAURON Group's operations or changes in the priorities to be followed by TAURON Group in the climate related matters.

Adaptation to climate change

TAURON Group's Climate Policy defines the basic priorities with respect to the adaptation to the climate change. The gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in case of the Lines of Business sensitive to the volatility of temperature, rainfall and wind strength, will be implemented, among others, as part of the system approach to Asset Management.

Also for the new operations or investment projects, the risks associated with the climate change are taken into account, as an additional criterion for the assessment thereof, in particular the physical risks when placing (siting) the new investment projects.

On the basis of the Polish Environmental Policy document, regions were identified that were more exposed to the physical risk related to climate to prioritize the adaptation of the assets to climate change in the regions potentially more exposed to acute or long-term physical risk related to climate. The Group's assets are mostly located in southern Poland, which, according to the data disclosed in Poland's environmental policy and in the ISOK system, is less exposed to desertification than the areas of central Poland. Due to their location, the Group's assets are also outside the area that may be transforming due to the forecast sea level rise.

Due to the cooling systems used, TAURON Group's conventional power plants are much less exposed to the need to reduce the production due to the shortage of water than the power plants with the so-called open cooling systems. The above factor puts TAURON at an advantage as compared to the other energy groups operating in Poland and in Europe.

The consequences of the extreme weather conditions are most strongly felt by TAURON Ekoenergia and TAURON Dystrybucja subsidiaries.

At TAURON Ekoenergia, the hydrological drought and uneven precipitation, resulting in longer periods with no rainfall, intermittent abrupt precipitation (torrential rains) periodically lead to the inability to generate electricity. The number of days on which the electricity production at TAURON Ekoenergia did not take place due to the low water level in the river, is presented in Table no. 35.

Table no. 35. The number of days on which the electricity production at TAURON Ekoenergia did not take place in 2019 due to the low water levels in the rivers

River	Power Plant	The number of days in the month with no production												
		January	February	March	April	May	June	July	August	September	October	November	December	Total
Odra	Brzeg	5				4	1	10						20
	Janowice	3				1								4
	Wały Śląskie					1								1
	Wrocław I							29						29
Bóbr	Bobrowice IV	1					1	27	25	30	20	15	12	131
	Bobrowice II						1	29	28	28	21	9	10	126
	Pilchowice II										12			12
Nysa Kłodzka	Opolnica	2	2				15	7	18				1	45
	Bystrzyca					14	3	3	9	2		1	4	36
	Ławica								7			3	4	14
	Olszna									23				23
Wisła	Dąbie					9								9
	Przewóz					3								3
Kamienna	Szklarska Poręba I									22	10	3		35
	Szklarska Poręba II									22	10			32
Potok Bystra	Kuźnice		28	31	3									62

At TAURON Dystrybucja, the increase in the frequency and intensity of hurricanes and strong winds, incidentally accompanied by whirlwinds and lightnings can, in extreme cases, result in mass failures, and consequently, breaking of the power lines, as well as periodic and local flooding. The percentage of this type of failures at TAURON Dystrybucja in 2019 is illustrated in Table no. 36.

Table no. 36. Share of mass failures in total failures at TAURON Dystrybucja in 2019

Share of mass failures in total failures	Number of mass failures
16.4%	2

Failures often result in interruptions in the supply of electricity, the frequency and duration of which are illustrated in tables no. 37 and 38.

Table no. 37. GRI EU 28. Frequency of the interruptions in the supply of electricity to the consumers of TAURON Dystrybucja in 2019

Interruption type	SAIFI * (number of interruptions / consumer / year)
Scheduled	0.28
Unscheduled, excluding the disaster type ones	2.41
Unscheduled, including the disaster type ones	2.41
Total	2.69

** SAIFI (System Average Interruption Frequency Index) – the indicator of the average system frequency of long and very long interruptions, representing the number of consumers exposed to the effects of all these interruptions during the year divided by the total number of consumers served*

Table no. 38. GRI EU 29. Average duration of the interruptions in the supply of electricity distributed by TAURON Dystrybucja in 2019

Interruption type	SAIDI* (minutes / consumer / year)
Scheduled	40.37
Unscheduled, excluding the disaster type ones	138.68
Unscheduled, including the disaster type ones	140.49
Total	180.86

** SAIDI (System Average Interruption Duration Index) - the indicator of the average system duration of a long and very long interruption, expressed in minutes per consumer per year, which is the sum of the products of its duration multiplied by the number of consumers exposed to the effects of this interruption during the year divided by the total number of consumers served.*

Overhead infrastructure is also disadvantaged by the more frequent occurrence of temperatures oscillating around zero degrees Celsius in winter and the weakening of the stands of trees, making trees more susceptible to the damage caused by the wind. This is mitigated by the steps taken, inter alia, aimed at increasing the share of the cable lines as compared to the overhead ones (illustrated in Table no. 39).

Table no. 39. Target regarding the adaptation of the distribution assets to climate change by increasing the share of MV cable lines in relation to the total length of the MV lines (%). cables / overhead lines

Target measure	unit	2019	2020	2025	2030
MV cable length share in relation to the total length of the MV lines (%).	[%]	38.4%	38.70%	41.15%	45.00%

The consequences of the more frequent temperature extremes and the occurrence of milder winters are also felt by TAURON Ciepło, however these are not only the adverse effects.

According to our data and analyses, winters are much milder in the area served by TAURON Ciepło (Silesia-Dąbrowa metropolitan area and Zawiercie and Olkusz) over the last few years. This fact, of course, translates into a reduction in the demand for heat supply for the purpose of heating apartments and buildings.

An additional factor is the thermo-modernization of buildings, which also has an impact on reducing heat demand. The trends of changes during the heating season are shown in Figures no. 32 and 32.

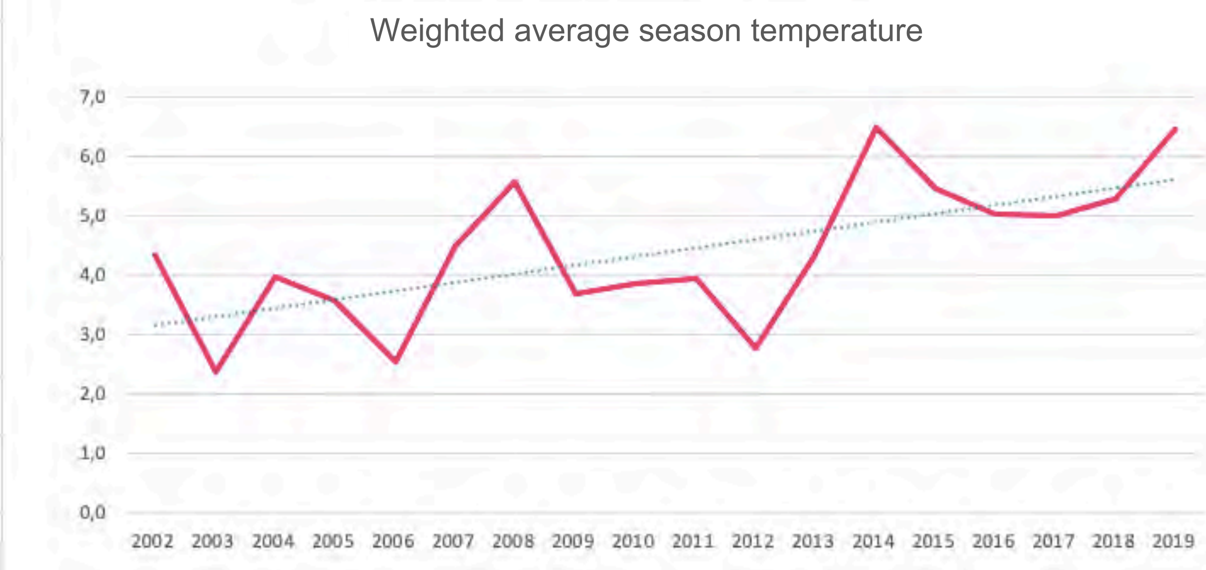


Figure no. 31. Chart of the weighted average air temperature in Poland during the heating season - trend of changes in 2011-2018

In the corresponding period of 2002 to 2018, the length of the heating season was extended by 20 days, which somewhat mitigates the difference resulting from an increase in the season temperature, but this does not make up for an increase in outside temperatures.

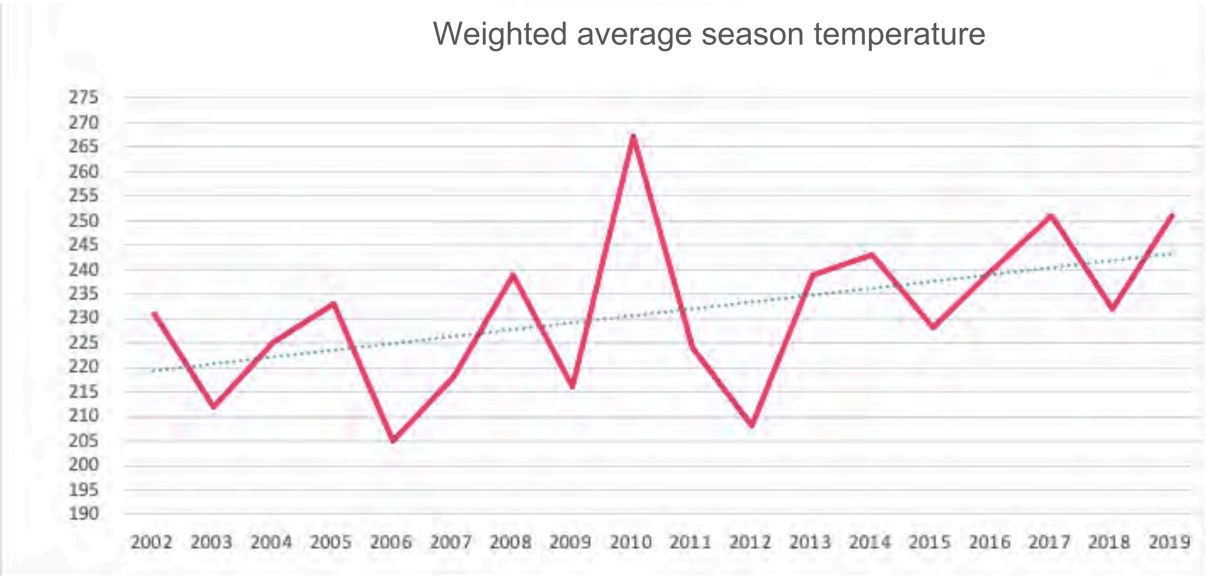


Figure no. 32. Length of the heating season in the years 2002 - 2018. The data is applicable to PEC Katowice in theyears *2002-2011 and TAURON Ciepło in the years 2011-2018*.

Comparing the 2019 data to the 2018 data, TAURON Ciepło saw a noticeable drop in demand for the heat supplies during the heating period in the region of approximately 1.6%.

In addition to the long term reduction plans related to the ultimate change in the Group's fuel mix, the reduction of the greenhouse gas emissions is also achieved through smaller ongoing reduction measures, adequate to the line of business, and such reductions made in 2019 are reflected in Table No. 40.

Table no. 40. GRI 305-5. Reduction of greenhouse gas emissions by TAURON Capital Group in 2019

Initiative		Nature of the initiative mandatory (stemming from legal provisions) / voluntary	Reduction of greenhouse gas emissions [tCO_2]
TAURON Wytwarzanie	conversion of types of fuels used - conversion of a biomass-only boiler (Stalowa Wola, Jaworzno II),	voluntary	413 250
TAURON Ciepło	Change in the type of fuels used	voluntary	52 584
KW "Czatkowice"	The technological process system was modernized and the previous 6 MWt coal fired boiler house was liquidated	voluntary	2116
TAURON Dystrybucja	Jelenia Góra Branch at ul. W. Pola 47 carried out an investment project consisting in the construction of renewable energy sources in the form of ground source heat pumps interworking with the lower source in the form of vertical wells. In connection with the implementation of the above investment project, the existing boiler house was shut down	voluntary	248.2
		TOTAL REDUCTIONS	**467 368**

Actions taken and results achieved

Cooperation with partners to counter climate change

Even before adopting the Climate Policy, TAURON Capital Group was involved in the climate related issues as part of the cooperation with the external partners. The project entitled Urban Adaptation Plans, under which 44 Polish cities, in cooperation with the Ministry of the Environment, took part in a project with a goal to adapt them to the observed and forecast climate change, was completed in January 2019. As part of this project, TAURON Polska Energia's representatives took part in the consultation workshops in selected cities, during which members of the so-called Municipal Teams and the representatives of the city authorities and related entities indicated the energy sector as an area of particular importance for the adaptation process. In addition to TAURON's representatives, the workshops were also attended by the representatives of the emergency rescue services and local government institutions, scientific communities and local organizations representing the residents, as well as the institutions responsible, among others for water management, security, public transportation and health. In addition to directly impacting the final content of the Municipal Adaptation Plan, the workshops enabled the presentation of the results of the analyses conducted by the experts and contributed to building confidence in the activities undertaken under the Project.

TAURON Group is also involved in the public discussion on the subject of energy transition regarding the climate related issues. In November 2019, as part of the cooperation with WWF Polska, TAURON Group hosted meetings and site visits organized as part of the international project Just Transition Eastern and Southern Europe, implemented in Poland, Germany, Greece and Bulgaria by the local WWF branches using the European Climate Initiative (EUKI) funds.

TAURON participates in the works of the working group on energy within the framework of the project Zeroemission Poland 2050. An opportunity for the economy and climate, established based on the initiative of WWF. The project aims to find answers to the questions regarding the key challenges, but also the opportunities facing the national economy striving for climate neutrality. The representatives of various stakeholder groups participate in the meetings: expert organizations, business, non-government organizations and the representatives of the public sector.

Also in November 2019, as part of the so-called TAURON Group Open University, TAURON organized a lecture on the climate change, available to all employees of the subsidiaries. The lecture was conducted by an independent authority and promoter of climate science. The transcript of the lecture is available on a continuous basis in the Group's intranet, and as a consequence all employees have access to professional knowledge regarding the climate issues.

Improving the efficiency of the production processes that have an impact on the climate change

TAURON Group's business model has both a positive as well as a negative impact on the climate. The operations related to the burning of fossil fuels, which are the core business operations of TAURON Wytwarzanie and TAURON Ciepło, as well as unorganized emission of methane into the atmosphere from Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine), owned by TAURON Wydobycie, are important sources of greenhouse gas emissions.

Direct greenhouse gas emissions due to the secondary operations of TAURON Wytwarzanie and TAURON Ciepło as well as the Group's other subsidiaries do not constitute a significant share and, above all, are related to the combustion of fuels in the engines of the production machines and cars. Direct greenhouse gas emissions by TAURON Capital Group in 2019 are presented in tables 41 and 41-a.

Table no. 41. GRI 305-1. Direct greenhouse gas emissions [tCO_2] by TAURON Capital Group in 2018 and 2019

	TOTAL AGGREGATE	
	2018	**2019**
Emission related to electricity generation	13 527 386	11 080 519
Emission related to heat generation	1 075 028	1 114 956
Emissions from gas leaks, including those associated with accidents	512,6	623
Emissions related to the transportation of materials, products and waste	26 796	19 847
Total direct emissions	**14 629 722**	**12 215 945**
Biogenic emission	358 247	471 242

Table no. 41-a. GRI 305-1. Direct greenhouse gas emissions [tCO_2] by TAURON Capital Group in 2018 and 2019, per subsidiary

	Greenhouse gas emissions [tCO_2]											
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		TAURON Dystrybucja		**TOTAL AGGREGATE**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Emission related to electricity generation	0		12 357 821	10 232 576	1 169 565	847 943	0		0	0	**13 527 386**	**11 080 519**
Emission related to heat generation	5 002	8 449	308 881	329 447	761 145	776 801	0			258	**1 075 028**	**1 114 956**
Emissions from gas leaks, including those associated with accidents	0		369,0	500,5	0	0	9,4		134.2	123	**512.6**	**623**
Emissions related to the transportation of materials, products and waste	2 382	3 139	1 677	2 636	11 161	0	1677	1 370	9900	12 701	**26 795.6**	**19 847**
Total direct emissions	**7 384**	**11 588**	**12 668 748**	**10 565 160**	**1 941 871**	**1 624 745**	**1 686**	**1 370**	**10 034**	**13 082**	**14 629 722**	**12 215 945**
Biogenic emission	0		245 420	413 089	112 827	58 152	0		0		**358 247**	**471 242**

On the other hand, TAURON Ekoenergia, whose operations are based on the production of electricity from the renewable sources, have a positive impact on the climate. Tables No. 42 and 42-a show the volume of electricity produced by TAURON Group's units in 2019, broken down into its main sources.

Table no. 42. GRI EU2. Volume of net electricity and heat generated by TAURON Capital Group, broken down into main electricity sources in 2018 and 2019

	Electricity [GWh]		Heat [GJ]	
	2018	**2019**	**2018**	**2019**
Hard coal	13 423	10 921	8 646 762	7 899 203
Sludge	217	193	275 556	337 304
Natural gas and coke oven gas	3.73	5.53	145 073	128 768
Biomass	300	394	491 707	572 312
Wind	381	644	0	0
Hydro	298	356	0	0
Liquid fuels	112	92	70 211	91 319
TOTAL	**14 735**	**12 604**	**9 629 309**	**9 028 906**

Table no. 42-a. GRI EU2. Volume of net electricity and heat generated by TAURON Capital Group, broken down into main electricity sources, per subsidiary in 2018 and 2019

	TAURON Wytwarzanie				TAURON Ciepło				TAURON Ekoenergia				New wind based assets Total for 10 companies				**TOTAL**			
	Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Hard coal	12 018	9 812	2 924 403	2 384 473	1 404	1 108	5 722 359	5 514 730									**13 423**	**10 921**	**8 646 762**	**7 899 203**
Sludge	141	123	128 410	156 756	76	71	147 146	180 548									**217**	**193**	**275 556**	**337 304**
Natural gas and coke oven gas	4	6	37 111	5 077			107 962	123 691									**4**	**6**	**145 073**	**128 768**
Biomass	230	370	237 595	409 379	70	24	254 113	162 933									**300**	**394**	**491 707**	**572 312**
Wind									381	462				182			**381**	**644**		
Hydro									298	356							**298**	**356**		
Liquid fuels	111	91	25 103	35 797	1	1	45 108	55 522									**112**	**92**	**70 211**	**91 319**
TOTAL	**12 503**	**10 401**	**3 352 621**	**2 991 481**	**1 553**	**1 203**	**6 276 688**	**6 037 425**	**679**	**818**				**182**			**14 735**	**12 604**	**9 629 309**	**9 028 906**

Both the assumption of a warming at the level of at most 2 ° C as well as the assumption of a warming by more than 2 ° C will translate into TAURON Group's business model and strategy. However, their expected consequences may be different over time. The so-called energy mix of the electricity produced will have to undergo a gradual change. The Sustainable Development Indices that will reflect the transition process denote: RES Capacity Growth Index (shown in Table no. 43) and the Emission Reduction Index (shown in Table no. 44).

Table no. 43. Goals for the minimum declared average annual increase in RES capacity planned by TAURON Capital Group in 2020-2030

Sustainable Development Index in the given calendar year				
Sustainable Development Index	2020 target	2025 target	2027 target	2030 target
RES Capacity Growth Index	8%	8%	8%	8%

RES Capacity Growth Index denotes the index of the average annual increase of installed capacity in RES, calculated as follows:

$$JWZM_{OZE\_r} = \frac{WM_{OZE\_r}}{(r - 2018)}$$

where:

$JWZM_{OZE\_r}$ [%] denotes the unit index of increasing RES capacity in year r;

WM_{OZE_r} [%] denotes the installed capacity change index;

r denotes calendar year;

2018 is the base year (the calculation was adopted following the adoption of the Climate Policy in November 2019, i.e. before the settlement of 2019 as defined by the emissions trading scheme).

The installed capacity change index is calculated as follows:

$$WM_{OZE\_r} = \frac{M_{OZE\_r} - M_{OZE\_2018}}{M_{OZE\_2018}}$$

where:

WM_{OZE_r} [%] denotes the installed capacity change index;

M_{OZE_r} [MW_e] denotes the installed capacity of RES units in year r, excluding biomass fired units, and the units of TAURON Ciepło Sp. z o.o.

M_{OZE_2018} [MW_e] denotes the installed capacity of RES units in the base year, excluding biomass fired units and the units of TAURON Ciepło Sp. z o.o.

Table no. 44. The minimum declared CO_2 emission reduction rate for gross electricity production planned by TAURON Capital Group in 2018-2030 [Mg CO_2/MWh]

	Sustainable Development Index in the given calendar year			
Sustainable Development Index	2020	2025	2027	2030
Emission Reduction Index	2%	2%	2%	2%

Emission Reduction Index denotes the average annual CO_2 emission reduction index for gross electricity production, calculated as follows (excluding the units of TAURON Ciepło):

$$JWRE_r = \frac{WE_{CO2\_2018} - WE_{CO2\_r}}{WE_{CO2\_2018} \times (r - 2018)}$$

where:

JWREr [%] denotes the average annual CO_2 emission reduction index in year r;

$WE_{CO2\_}r$ [MgCO_2/MWh] denotes the CO_2 emission index in year r, accounted for under the Community Emission Trading Scheme;

WE_{CO2_2018} [MgCO_2/MWh] denotes the CO_2 emission index in the base year, accounted for under the Community Emission Trading Scheme;

r denotes a calendar year;

2018 is the base year (the calculation was adopted following the adoption of the Climate Policy in November 2019, i.e. before the settlement of 2019 as defined by the emissions trading scheme).

The CO_2 emission index is calculated as follows:

$$WE_{CO2\_r} = \frac{E_{CO2(ee)r}}{P_{ee(brutto)r}}$$

where:

WE_{CO2_r} [MgCO_2/MWh] denotes the CO_2 emission index for gross electricity production

$E_{CO2(ee)r}$ [MgCO_2] denotes the CO_2 emissions in year r for gross electricity production from fossil fuels and biomass as well as RES in year r

$P_{ee(brutto)r}$ [MWh] denotes gross electricity production from fossil fuels and biomass as well as RES in year r.

TAURON Group introduced the Update of the Strategic Directions in 2019, thus conducting the first activities as part of the final review and adaptation of the Strategy. The above activities are aimed at reducing the risk associated with the transition of the energy sector and taking advantage of the market expectations related to the climate.

The Group's dependence on the natural capital varies in different lines of business. Mining, Generation and Heat Line of Business depends on the fossil fuel resources, which are not very sensitive to the climate change. As their physical availability is not dependent on the rate of the global warming. TAURON Group's dependence on the individual types of the natural capital in 2018 and 2019 is presented in tables 45-49.

Table no. 45. GRI 302-1. Total consumption of energy from non-renewable sources (own and acquired) in GJ (gross chemical energy of fuels) at TAURON Capital Group in 2018 and 2019

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		Tauron Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
hard coal	129 063 094	107 648 968	19 016 246	15 729 478	0		0		14 650	0	**148 093 990**	**123 378 446**
natural gas and coke oven gas	87 811	65 524	148 967	159 493	0		0		76 146	71 295	**312 924**	**296 313**
Sludge	1 637 419	1 510 651	876 425	853 802	0		0		0	0	**2 513 845**	**2 364 453**
heating oil	1 188 027	1 014 513	73 423	78 864	0		0		0	0	**1 261 450**	**1 093 377**
liquid fuels	22 626	22 209	150 620	162 316	20 121	18 493	1 658	1 960	46 464	42 355	**241 489**	**247 333**
TOTAL	**131 998 978**	**110 261 866**	**20 265 681**	**16 983 953**	**20 121**	**18 493**	**1 658**	**1 960**	**137 260**	**113 650**	**152 423 698**	**127 379 922**

Table no. 46. GRI 302-1. Total consumption of energy from renewable sources in GJ (gross chemical energy of fuels)

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		Tauron Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Biomass	2 704 730	4 478 060	1 067 995	546 983	0		0		0	0	**3 772 725**	**5 025 044**
Wind	0		0	0	0		118 554	120 341	0	0	**118 554**	**120 341**
Hydro	0		0	0	0		18 959	20 155	0	0	**18 959**	**20 155**
TOTAL	**2 704 730**	**4 478 060**	**1 067 995**	**546 983**	**0**	**0**	**137 513**	**140 496**	**0**	**0**	**3 910 238**	**5 165 540**

Table no. 47. GRI 302-1. Total energy consumption (purchased and own) by type in GJ (Energy purchased and generated used for the needs of the organization - heating, cooling, electricity, steam)

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		Tauron Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
electricity	5 051 306	4 441 849	925 654	817 554	1 356 857	1 283 312	150 611	152 277	87 389	82 302	**7 571 817**	**6 777 294**
Heat	820 243	744 191	214 301	200 250	273 316	253 551	993	984	6 832	0	**1 315 685**	**1 198 976**
TOTAL	**5 871 549**	**5 186 040**	**1 139 955**	**1 017 804**	**1 630 173**	**1 536 863**	**151 605**	**153 261**	**94 221**	**82 302**	**8 887 502**	**7 976 270**

Table no. 48. GRI 302-1. Energy supply in GJ (net less own needs)

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
electricity	44 196 612	36 654 304	5 587 389	4 331 014	0		2 444 138	2 944 537	0	0	**52 228 138**	**43 929 855**
Heat	3 352 621	2 991 481	6 276 688	6 037 425	0		0	0	0	0	**9 629 309**	**9 028 906**
TOTAL	**47 549 233**	**39 645 785**	**11 864 077**	**10 368 439**	**0**	**0**	**2 444 138**	**2 944 537**	**0**	**0**	**61 857 447**	**52 958 760**

Table no. 49. GRI 302-1. Total energy consumption by the organization in GJ

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		**TOTAL**	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
total energy consumption by the organization	93 026 024	80 280 182	10 609 555	8 180 302	1 650 294	1 555 356	-2 153 362	-2 648 820	231 481	195 952	**103 363 991**	**87 562 971**

Due to generating electricity in hydropower plants, the RES Line of Business is highly exposed to the risk of outages or reduction of production as a result of prolonged droughts, which translates into a decrease in surface water resources in river basins, where hydropower plants are located. TAURON Ekoenergia is monitoring such developments on an ongoing basis and has an inventory of assets most exposed to such restrictions.

The Group is also regularly monitoring the rate of energy consumption related to its operations, as shown in the indices in Table no. 50.

Table no. 50.GRI 302-3. Energy consumption at TAURON Capital Group in 2019

	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		TAURON Ekoenergia New wind based assets	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Energy consumption rate [%] (energy consumption for own needs / gross energy production)	11.02%	11.60%	8.29% *	8.24% *	5.87%	4.97%	-	2.19%
Energy consumption rate - electricity [%] (electricity consumption for own needs / gross electricity production)	10.62%	11.18%	14.39%	16.22%	5.87%	4.97%	-	2.19%
Energy consumption rate - heat [%] (heat consumption for own needs / gross heat production)	15.96%	16.51%	2.93% *	2.74% *	-	-	-	-

** does not take into account the replenishment of the heat carrier losses in district heating networks*

TAURON Group has, inventoried during inventory audits, potential tasks related to reducing energy consumption. Based on these measures, the targets related to energy consumption were set, as shown in Tables no. 51.51-a, no. 51-b.

Table no. 51. Targets with respect to energy consumption set to be achieved by TAURON Capital Group by 2030

Subsidiary	Target	**2019**	**2020 Target**	**2025 Target**	**2030 Target**
Kopalnia Wapienia ”Czatkowice”	Electricity consumption rate [kWh/t]	22.7	22.7	21.1	20.0
TAURON Wydobycie	Electricity consumption rate* [kWh/t]	70.9	60.0	50.8	48.3

** excluding the additional consumption due to the construction of the Grzegorz Shaft*

Table no. 51- a. Targets with respect to energy consumption set to be achieved by TAURON Capital Group by 2030, per subsidiary

	TAURON Wytwarzanie			TAURON Ciepło		
	2020	**2025**	**2030**	**2020**	**2025**	**2030**
Energy consumption rate [%] (energy consumption for own needs / gross energy production)	10.9%	11.1%	9.1%	8.73% *	8.88% *	8.44% *
Energy consumption rate - electricity [%] (electricity consumption for own needs / gross electricity production)	10.7%	10.8%	10.5%	15.05%	15.61%	17.09%
Energy consumption rate - heat [%] (heat consumption for own needs / gross heat production)	12.6%	13.9%	9.2%	2.77% *	2.98% *	2.89% *

** does not take into account the replenishment of the heat carrier losses in district heating networks. The fluctuations of the rate for TAURON Ciepło in the 2025 and 2030 time frame result from a change in: planned increase in heat demand by approx. 1.6 TJ and commissioning of the new gas fired heat generation sources that will complement the existing infrastructure of high-efficiency coal fired cogeneration (unit emission indices will be reduced)*

Table no. 51- b. Targets for transmission losses set to be achieved by TAURON Dystrybucja by 2030

Subsidiary	Index name	2020 Target	2025 Target	2030 Target
TAURON Dystrybucja	Value of the balancing difference index *	4.14 %	3.91 %	3.88 %

* Index settled as of 31.12 for the last 12 months, as the quotient of energy lost in the grid to the value of energy fed into the grid

Striving for resource efficiency

TAURON Group established a specialized entity - Bioeko Grupa TAURON (formerly Biomasa Grupa TAURON) in 2019, with its operations , in addition to the supply of biomass, which is a solid fuel considered neutral in terms of climate impact, focused on the implementation of the principles of Circular Economy with respect to the by-products of combustion and mining, thus contributing directly to the resource efficiency. As such materials of anthropogenic origin successfully replace the natural materials, reducing the consumption of the minerals such as sand, gravel, gypsum etc. The activities related to the development of new products and services in this field and gaining access to the new markets related thereto began in 2019, also carrying out scientific cooperation with the AGH University of Science and Technology in Cracow.

As part of the steps taken to improve resource efficiency, the activities related to the development of new products and services for local governments, for which TAURON Dystrybucja Serwis is managing the lighting systems, were also started in 2019. The goal for 2020 is to replace at least 28 000 LED fixtures as part of the lighting replacement efforts and install more electric vehicle charging stations so that their total number could reach 100 units in 2020.

TARUON Ciepło took an inventory of its metering network in 2019 in order to prepare the model that would enable quick identification of the district heating network water leaks. The ultimate implementation in the future is directly dependent on the availability of water at the current price and potential possible savings in the operating costs.

The Group's operations contribute little to the deforestation, forest degradation or land use change. Only the operations of KW Czatkowice are directly related to the change in the use of the forest land, however, the adverse development is compensated.

The extraction of the deposit in the newly documented area requires deforestation of approx. 29 ha of forests. To date, approximately 14.5 ha have been gradually deforested. The afforestation of the so-called protection belt to minimize the mining impacts, including compensation for the future deforestation, was begun in 2014. The measure had been taken ahead of the commencement of the exploitation of a new part of the deposit, which took place in 2016. More than 100 000 trees were planted on the protection belt in the years 2014 - 2016, which together with the natural succession formed an area of approx. 33 ha, fully compensating for the deforestations carried out so far, as well as those planned in the coming years. It is believed that when the last batch of forests is cleared for mining, the forest stand on the protection belt will be fully mature and will take over the functions of the land deforested for mining.

Financing investment projects that have an impact on climate change

The summary shown in Table 52 indicates the allocation of the funds from the individual sources of financing of TAURON Group for the purpose of the investment projects aimed at minimizing the impact on the climate. As a rule, TAURON does not take on targeted financing, from which the funds are dedicated directly to the given investment task. In case of the financing from the European Investment Bank, TAURON undertakes to carry out specific tasks, the performance of which is confirmed by the relevant reports submitted to the bank.

Table 52. Summary of the intended use (purpose) and status as of 31/12/2019 of loans obtained by TAURON Capital Group for pro-climate investment projects

Financing entity	financing instrument	loan amount under the contract	debt as of 31.12.2019	financing purpose
European Investment Bank	subordinate bonds	190 000 000.00 EUR	190 000 000.00 EUR	financing of investment projects aimed at expanding and upgrading the power grid infrastructure in Poland in 2016-2020 in accordance with its strategic investment plan
European Investment Bank	subordinate bonds	350 000 000.00 PLN	350 000 000.00 PLN	financing of investment projects in the electricity distribution grid in southern and southwestern Poland in 2018-2020
European Investment Bank	subordinate bonds	400 000 000.00 PLN	400 000 000.00 PLN	financing of investment projects in the electricity distribution grid in southern and southwestern Poland in 2018-2020
European Investment Bank	loan	295 000 000.00 PLN	221 250 000.00 PLN	financing of an investment project composed of two Components with respect to expanding the electricity distribution grid, implementing a smart metering program as well as modernization and repairs of the existing small hydropower plants
European Investment Bank	Loan	900 000 000.00 PLN	388 636 363.75 PLN	financing of the implementation of a 5-year investment program (2011-2015), aimed at strengthening, modernizing and expanding the electrical grids of Tauron Dystrybucja S.A.
European Investment Bank	Loan	300 000 000.00 PLN	60 000 000.00 PLN	financing of the implementation of the project involving the construction and commissioning of a high-efficiency coal fired cogeneration unit of the latest generation (CHP, combined heat and power plant), including the associated infrastructure, located on the site of the existing power plant in Bielsko-Biała in southern Poland
European Investment Bank	Loan	210 000 000.00 PLN	42 000 000.00 PLN	financing of the construction of a new biomass-fired circulation fluidized-bed boiler (150 MWt) to replace one of the existing coal-fired boilers that will be decommissioned as obsolete, as well as the overhaul of the existing steam turbine (50 MWe), including the auxiliary infrastructure on the site of Power Plant Jaworzno III (Unit II) in southern Poland

Intesa Sanpaolo S.P.A. operating via Intesa Sanpaolo S.P.A. Spółka Akcyjna Oddział w Polsce	Loan	750 000 000.00	PLN	0.00	PLN	covering the expenses related to the implementation of investment projects or groups of investment tasks of TAURON Group covering (i) broadly understood power generation based on renewable energy sources and (ii) distribution of electricity, among others the expansion and upgrade of the grid and connecting new customers, as well as refinancing of the existing Financial Debt
WFOŚiGW (Regional Environment Protection and Water Management Fund)	KWC loan	914 000.00	PLN	229 476.60	PLN	Reduction of limestone dust emissions at the raw material landfill at Kopalnia Wapienia "Czatkowice" sp. z o.o.
WFOŚiGW (Regional Environment Protection and Water Management Fund)	TW loan	40 000 000.00	PLN	12 000 000.00	PLN	Construction of a RES Production Unit at PKE S.A. Jaworzno III Power Plant - Power Plant II
WFOŚiGW (Regional Environment Protection and Water Management Fund)	KWC loan	292 955.60	PLN	167 563.00	PLN	Thermomodernization of the Car Service Station at Kopalnia Wapienia "Czatkowice" sp. z o.o.

4.5. TAURON Group's Human Rights Respect Policy

TAURON Group's Corporate Social Responsibility Code of Conduct indicates that TAURON Capital Group is guided by the principle of equal treatment of employees and does not tolerate discrimination on any basis, in particular due to age, gender, race, nationality, religion, sexual orientation, appearance, fitness or different views. The aim of the Policy of Respect for Human Rights is to present the principles of TAURON Capital Group regarding respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect in the workplace.

The policy defines the principles of TAURON Capital Group dedicated to respecting and protecting human rights, including, among others:

- prohibition of mobbing and discrimination,
- prohibition of slavery and forced labor,
- ban on employing children and minors,
- freedom of association,
- observing employment and remuneration conditions,
- work health and safety (WHS),
- employee engagement (commitment),
- countering cases that involve violations of human rights

Furthermore, the regulation also defines TAURON Capital Group's rules dedicated to the human rights respect and protection with respect to interacting with the stakeholders, in particular counterparties (business partners, contractors) and business partners, as well as with respect to local communities

Due diligence procedures and internal regulations

The basic regulations related to the Policy of Respect for Human Rights at TAURON Capital Group are TAURON Group's Corporate Social Responsibility Code of Conduct and the Policy of Compliance with the Principles of Ethics and Prevention of Mobbing and Discrimination at TAURON Group Policy for Countering Mobbing and Discrimination at TAURON Group.

In accordance with the provisions of the Policy of Respect for Human Rights, every employee, counterparty (business partner, contractor) and an external entity / business partner is required to:

- respect and promote respect for human rights and ensure their protection,
- refuse to participate in any situations that may involve a violation of human rights, mobbing and discrimination, and unequal treatment.

Each employee should pay attention to signals and circumstances that may potentially suggest the possibility of unequal treatment. If such doubts arise, employees should report them via communications channels defined in TAURON Capital Group's procedures, in particular in the above mentioned TAURON Group's Corporate Social Responsibility Code of Conduct and the Policy of Compliance with the Principles of Ethics and Prevention of Mobbing and Discrimination at TAURON Group Policy for Countering Mobbing and Discrimination at TAURON Group.

Actions taken and results achieved

In order to comply with ethical principles, the Ethics Committees established at TAURON Capital Group's 15 subsidiaries are appointed to review any potential violations of the rules. The new employees of TAURON Capital Group are informed of the human rights respect issues and of the possibility of reporting violations in this area.

The communications channel enabling employees to provide information in a confidential and anonymous way is the Abuse Reporting Form, available on the website https://www.tauron.pl/tauron/o-tauronie/formularzzgloszenia-naduzycia.

In addition, issues regarding violations of the principles set out in the Corporate Social Responsibility Code of Conduct can be reported to the Compliance Officer in person or in writing, by phone: +48 32 774 22 22, or to the e-mail address: compliance@tauron.pl.

Anonymous reports sent to the Ethics Committee are forwarded for investigation by the Compliance Officer. As part of periodic risk monitoring, the Compliance Team verifies the number of notifications received by the Ethics Committee in matters lying within its competence area.

Several dozen trade union organizations that associate about 70% of employees are operating within TAURON Capital Group. Additionally, in order to ensure proper dialogue and exchange of experience, the Social Council of TAURON Polska Energia SA Capital Group was established, which represents several dozen trade union organizations

The introduction of the Policy of Respect for Human Rights at TAURON Capital Group contributes to raising awareness of respect for human rights and promoting their protection.

4.6. TAURON Group's Human Resources Policy

The Human Resources Management Policy (hereinafter HRM Policy) applied by TAURON Group focuses on acquiring, developing and maintaining competences that are key for organizational efficiency and achieving the Group's strategic goals. Our ambition is to support the management in efficiently implementing the proposed changes and promoting the new initiatives. We create conditions for the development of knowledge and skills and create a work environment based on cooperation and partnership in which innovation and optimization are the foundations of the actions undertaken.

The strategic directions of the activities of the human resource management area at TAURON Group, set by the Policy are:

- seeking to retain and attract employees to the organization with competences in line with the business needs,
- creating a work environment that fosters innovation,
- creating opportunities for the continuous development of competences of the managerial staff and the employees,
- promoting the idea of a learning organization.

Tables 53, 54, 55, 56 present the key data with respect to the area of human resource management, including the number of employees by gender, age and type of labor contract, as well as the percentage of employees covered by the collective bargaining agreements.

Table 53. GRI 102-8-a. Number of TAURON Capital Group's employees by type of labor contract and gender as of 31.12.2019

NUMBER OF EMPLOYEES	TAURON Polska Energia	Kopalnia Wapienia „Czatkowice"	TAURON Ciepło	TAURON Ekoenergia	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Obsługa Klienta	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Dystrybucja	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Serwis	Bioeko Grupa TAURON	Polska Energia Pierwsza Kompania Handlowa	Nowe Jaworzno Grupa TAURON	Wsparcie Grupa TAURON	TAURON Czech Energy	TAURON Serwis	TOTAL
LABOR CONTRACTS																			
TOTAL NUMBER OF EMPLOYEES UNDER LABOR CONTRACTS, INCLUDING:	**487**	**292**	**1 483**	**179**	**6 811**	**2 549**	**2 512**	**315**	**11**	**7 778**	**1 492**	**90**	**122**	**3**	**127**	**1 379**	**14**	**442**	**26 086**
Women	219	44	258	41	612	443	1 817	168	6	1 143	265	33	27	3	7	455	7	32	**5 580**
Men	268	248	1 225	138	6 199	2 106	695	147	5	6 635	1 227	57	95	0	120	924	7	410	**20 506**
INCLUDING:																			
FOR A DEFINITE PERIOD OF TIME (including for a trial period and for a temporary period):	**70**	**46**	**43**	**14**	**536**	**20**	**397**	**77**	**0**	**302**	**6**	**3**	**58**	**0**	**4**	**513**	**1**	**45**	**2 135**
Women	34	10	7	4	38	4	286	32	0	55	1	0	12	0	0	184	0	5	**672**
Men	36	36	36	10	498	16	111	45	0	247	5	3	46	0	4	329	1	40	**1 463**
FOR AN INDEFINITE PERIOD OF TIME:	**417**	**246**	**1 440**	**165**	**6 275**	**2 529**	**2 115**	**238**	**11**	**7 476**	**1 486**	**87**	**64**	**3**	**123**	**866**	**13**	**397**	**23 951**
Women	185	34	251	37	574	439	1 531	136	6	1 088	264	33	15	3	7	271	7	27	**4 908**
Men	232	212	1 189	128	5 701	2 090	584	102	5	6 388	1 222	54	49	0	116	595	6	370	**19 043**

Table 54. GRI 102-8-d. Number of TAURON Capital Group's employees under other contracts than a labor contract by gender and type of labor contract as of 31.12.2019.

NUMBER OF EMPLOYEES	TAURON Polska Energia	Kopalnia Wapienia „Czatkowice"	TAURON Ciepło	TAURON Ekoenergia	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Obsługa Klienta	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Dystrybucja	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Serwis	Bioeko Grupa TAURON	Polska Energia Pierwsza Kompania Handlowa	Nowe Jaworzno Grupa TAURON	Wsparcie Grupa TAURON	TAURON Czech Energy	TAURON Serwis	TOTAL
EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT																			
TOTAL NUMBER OF EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT:	**33**	**14**	**11**	**9**	**192**	**67**	**180**	**17**	**0**	**62**	**17**	**6**	**4**	**5**	**8**	**721**	**1**	**39**	**1 386**
women	12	7	2	3	13	15	147	6	0	24	9	2	0	1	2	171	1	4	419
Men	21	7	9	6	179	52	33	11	0	38	8	4	4	4	6	550	0	35	967
PERSONS UNDER MANAGEMENT CONTRACTS:	**3**	**1**	**2**	**1**	**4**	**4**	**2**	**4**	**0**	**4**	**2**	**2**	**2**	**1**	**3**	**2**	**0**	**1**	**38**
women	0	0	0	0	0	0	1	1	0	0	0	1	0	0	0	0	0	0	**3**
Men	3	1	2	1	4	4	1	3	0	4	2	1	2	1	3	2	0	1	**35**
SELF EMPLOYED PERSONS:	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**6**	**0**	**6**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**12**
women	0	0	0	0	0	0	0	2	0	3	0	0	0	0	0	0	0	0	**5**
men	0	0	0	0	0	0	0	4	0	3	0	0	0	0	0	0	0	0	**7**

EMPLOYEES UNDER THE GROUP'S SUPERVISION:	**0**	**0**	**0**	**0**	**0**	**0**	**174**	**0**	**0**	**0**	**10**	**0**	**0**	**0**	**1**	**0**	**0**	**0**	**185**
women	0	0	0	0	0	0	143	0	0	0	9	0	0	0	0	0	0	0	**152**
men	0	0	0	0	0	0	31	0	0	0	1	0	0	0	1	0	0	0	**33**
PERSONS ON POSTGRADUATE INTERNSHIPS:	**3**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**12**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**15**
women	3	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	**4**
men	0	0	0	0	0	0	0	0	0	11	0	0	0	0	0	0	0	0	**11**
PERSONS PROVIDING SERVICES UNDER A CIVIL LAW AGREEMENT	**18**	**9**	**4**	**3**	**184**	**59**	**0**	**4**	**0**	**36**	**1**	**0**	**0**	**4**	**0**	**716**	**0**	**35**	**1 073**
women	4	6	0	1	13	14	0	3	0	19	0	0	0	1	0	170	0	4	**235**
men	14	3	4	2	171	45	0	1	0	17	1	0	0	3	0	546	0	31	**838**
EMPLOYEES OF THE SUPERVISORY BOARD	**9**	**4**	**5**	**5**	**4**	**4**	**4**	**3**	**0**	**4**	**4**	**4**	**2**	**0**	**4**	**3**	**1**	**3**	**63**
women	5	1	2	2	0	1	3	0	0	1	0	1	0	0	2	1	1	0	**20**
men	4	3	3	3	4	3	1	3	0	3	4	3	2	0	2	2	0	3	**43**

Table 55. GRI 102-8-c. Employment of employees at TAURON Capital Group based on a permanent labor contract type by gender as of 31.12.2019.

NUMBER OF EMPLOYEES	TAURON Polska Energia	Kopalnia Wapienia „Czatkowice”	TAURON Ciepło	TAURON Ekoenergia	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Obsługa Klienta	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Dystrybucja	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Serwis	Bioeko Grupa TAURON	Polska Energia Pierwsza Kompania Handlowa	Nowe Jaworzno Grupa TAURON	Wsparcie Grupa TAURON	TAURON Czech Energy	TAURON Serwis	TOTAL
WORKING UNDER A LABOR CONTRACT, INCLUDING:																			
FULL TIME:	**9**	**291**	**1 482**	**177**	**6 810**	**2 538**	**2 501**	**312**	**7**	**7 749**	**1 490**	**90**	**120**	**3**	**127**	**1 341**	**13**	**439**	**25 499**
women	4	44	258	41	611	438	1 810	167	4	1 126	264	33	27	3	7	423	6	31	**5 297**
Men	5	247	1 224	136	6 199	2 100	691	145	3	6 623	1 226	57	93	0	120	918	7	408	**20 202**
PART TIME:	**478**	**1**	**1**	**2**	**1**	**11**	**11**	**3**	**4**	**29**	**2**	**0**	**2**	**0**	**0**	**38**	**1**	**3**	**587**
women	215	0	0	0	1	5	7	1	2	17	1	0	0	0	0	32	1	1	**283**
men	263	1	1	2	0	6	4	2	2	12	1	0	2	0	0	6	0	2	**304**

Table 56. GRI 102-41. Percentage of TAURON Capital Group's employees covered by collective bargaining agreements as of 31.12.2019

	TAURON Polska Energia	Kopalnia Wapienia „Czatkowice"	TAURON Ciepło	TAURON Ekoenergia	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Obsługa Klienta	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Dystrybucja	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Serwis	Bioeko Grupa TAURON	Polska Energia Pierwsza Kompania Handlowa	Nowe Jaworzno Grupa TAURON	Wsparcie Grupa TAURON	TAURON Czech Energy	TAURON Serwis	**TOTAL**
Total number of persons employed (from 102-8-a)	487	292	1 483	179	6 811	2 549	2 512	315	11	7 778	1 492	90	122	3	127	1 379	14	442	**26 086**
Total number of employees covered by collective bargaining agreements	0	292	1 462	179	6 797	2 549	2 512	315	11	7 762	1 488	90	0	0	127	1 379	0	0	**24 963**
Percentage of employees covered by collective bargaining agreements	0%	100%	98.6%	100%	99.8%	100%	100%	100%	100%	99.8%	99.7%	100%	0%	0%	100%	100%	0%	0%	**95.7%**

Due diligence procedures and internal regulations

In accordance with the vision adopted in the Human Resources Management Policy, the area presented in this part of the report is "to be a professional partner for the management and the employees in building an efficient company, based on clear principles and modern tools." As part of our mission, we "act proactively, create and implement processes and tools that reflect the business needs." In practice, this means that we are actively following and often setting market trends in the energy industry and the human resource management area, contributing to supporting TAURON Group's strategic directions.

The documents supporting the implementation of the goals of TAURON Capital Group's Human Resources Policy include:

- TAURON Group's remuneration principles;
- Regulations for improving the qualifications of the employees, in place at the Group's individual subsidiaries;
- TAURON Group's competency model;
- TAURON Group's regulations of the Internal Trainers Academy;
- Regulations of the Investment Project Management Academy Program - TAURON Group's PM Academy;
- TAURON Group's Principles of Cooperation with Schools and Universities as well as Internships Program;
- Regulations of the "Join" Program – TAURON's internship PROgram;
- Regulations of TAURON Group's Ambassador Program.

One of the due diligence procedures implemented as part of the Human Resources Policy is the ongoing monitoring of the metrics related to the human resources management area at all of TAURON Group's subsidiaries. We place particular emphasis on constructive and open dialogue with the social party. TAURON Group's subsidiaries held 329 meetings of the employers with the trade union organizations in 2019. In total, the trade union organizations had about 18.7 thousand members among TAURON Group's employees (i.e. 72% of the total number of employees) at the end of 2019.

During regular meetings and consultations the representatives of the social party are informed about issues related to:

- TAURON Group's economic and financial situation,
- implementation of the strategic initiatives,
- Voluntary Redundancy Programs implemented at TAURON Group's Subsidiaries,
- issues related to employee matters at the Group

In addition, steps are taken to raise business awareness and promote pro-efficiency and engaging attitudes. Workshops for TAURON Group's social party entitled: Valuable development conversation, were held in 2019.

The procedures also include employee satisfaction surveys conducted every two years. In the second edition of the survey, conducted at the Group's key subsidiaries in April 2019, each of more than 26 000 employees had an opportunity to express his / her opinion on how they assess the individual aspects of work at the subsidiary and at TAURON Group, answering 39 questions in an anonymous survey.

Thanks to the turnout that came in at 55% (i.e. 14 234 votes), opinions on topics related to the work environment, satisfaction, commitment, communication and workplace relations were obtained.

The results of the survey demonstrated that TAURON Group's employees:

- declare very strong commitment to the performance of their tasks and achieving the best possible results of their work (commitment rate - 84%),
- appreciate the atmosphere in the department / team and relationships with the colleagues (employee relationship ratio - 75%),
- positively view the working conditions at their position (safety and working conditions indicator - 70%),
- like their work and are generally satisfied with their job at the company (job satisfaction self-assessment level - 66%),
- positively assess the managerial staff, both in terms of managerial communication, understood as providing feedback on the tasks carried out, or providing relevant information about the company, as well as managerial attitudes, viewed as building lasting and good relationships as well as delivering on the agreements reached jointly (managerial communication and managerial attitudes indicator - 64%).

The results obtained were the starting point for the analyses and working out the plans for further actions together with the managers and employees, thanks to which TAURON Group will be able to meet the requirements of its employees to an even greater extent.

Due diligence procedures also include actions taken to adapt the organization and human capital development directions at the Subsidiaries to the current guidelines of TAURON Group's strategy.

The challenges and objectives of the Human Resources Management (HRM) area, stemming from the changes in the energy sector and the new strategic directions, and in particular the activities facing the Group in connection with the Green Turn of TAURON, were subjected to a verification process. Redefining of the goals and challenges will allow for preparing and effectively responding to the business expectations and the changing business environment of TAURON Group. The result of the joint works of the representatives of the HRM area form the Group's leading subsidiaries was the identification of the priority areas for the development of the organization and human capital.

Figure no. 33. Eight priorities of TAURON Capital Group's Human Resources Management Policy

Identification of eight priorities (presented in Figure no. 33) allowed for determining the direction of the changes that will strengthen the capacity of the HRM area to support the business goals of the organization. The priorities identified include: recruitment and onboarding, training, age and knowledge management, development conversation, potential management, cooperation with the education sector, outplacement, employer branding. The tasks assigned to these priorities will improve the most important, from the point of view of the business goals, HRM processes and strengthen the organization's ability to create and respond quickly to the business changes by ensuring the optimal number and quality of the competences. Specific tasks within the priorities will also give the direction to the activities planned by the HRM area for 2020-2023.

Actions taken and results achieved

Initiatives undertaken with respect to the human resources management at TAURON Group focus on the continuous improvement of the processes in order to adapt them to the changing business environment. A permanent element of the above changes is developing and strengthening such attitudes among employees that are in line with the values of TAURON Group, i.e. Partnership, Development, Boldness. This basic premise allows for building an organizational culture that enables the employees to take on and implement new challenges (projects), search for innovation, increase efficiency as part of their daily tasks and increase the level of job satisfaction.

Development and development supporting activities

Employee development and improvement is permanently inscribed in TAURON Group's strategy, and the implementation of the development activities takes place on the basis of the Regulations for improving the qualifications of the employees, in place at the Group's individual subsidiaries. The regulations are designed to ensure compliance with the rules regarding the financing of the training, while ensuring a close connection with the Group's business objectives.

All the development activities at TAURON Group are implemented according to the 70-20-10 principle. This is the principle of effective learning, according to which:

- 70% of the development activities should be related to gaining experience in the position, among others by delegating new or additional tasks and rights to the employee, broadening the scope of his / her responsibility, participation in the task or project teams;
- 20% of the development activities are based on learning from others, including the ongoing support and regular feedback from your direct superior and colleagues;
- 10% of the development activities involve participation in various forms of educational and training activities (internal and external).

Key statistics on the training carried out at TAURON Group in 2019. are presented in figures no. 34-35.

Figure no. 34. GRI 404-1 - The number of training hours per employee at TAURON Capital Group in 2019

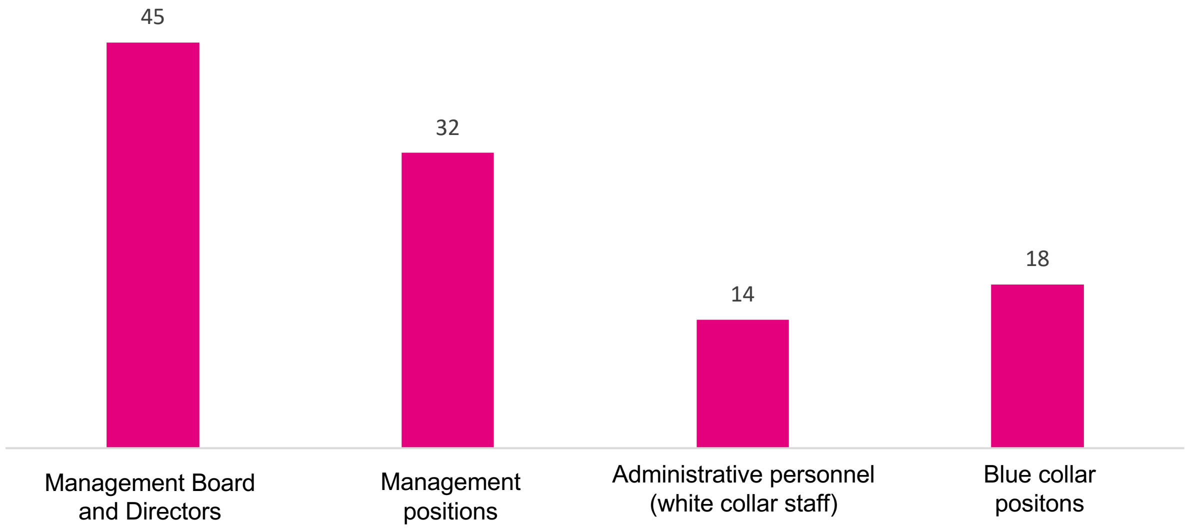


Figure no. 35. The average number of training hours per employee, broken down by job (position) groups at TAURON Capital Group in 2019

In 2019. we initiated actions aimed at implementing a new human resource management process - Development Conversation. The goal of the initiative is the development of the organization by building a culture of dialogue between the superior and the employee, and the ability to focus on the development of employees in accordance with their needs as well as the business capabilities and needs of the organization. The development conversation is based on TAURON Group's Competence Model in place and assumes the need for the continuous development of these competences as the business challenges are changing. Pilot activities completed at the Group's selected subsidiaries in 2019 demonstrated a number of benefits that open communication and individual approach to the employees' needs, in relation to the directions of the organization's development, bring.

The next, third edition of the postgraduate studies organized in cooperation with the Jagiellonian University, entitled Purchase management in business, was launched in 2019. The main assumption of the program is to improve the purchasing, negotiation and commercial (trading) qualifications of the Purchasing Area staff. Participation in the dedicated studies is a proposal addressed to the outstanding employees of TAURON Group. 32 participants are taking part in the current edition.

Taking into account the number of implemented, and above all planned investment projects, there was a need to organize a proprietary annual training program dedicated to investment project management at TAURON Group - PM Academy. As a result, 15 employees from 5 TAURON Group's Subsidiaries expanded their competences in project management in 2019. The Academy's program includes training courses on project management, investment process implementation, IT tools used to support Project Managers, communication, team management, etc.

TAURON Group's employees have continuously had the opportunity to participate in lectures conducted as part of the TAURON Group Open University since 2014.

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The goal of establishing and continuing the concept of the University is to provide employees with access to knowledge and information on the current topics, related to both business as well as personal development. In addition, this initiative allows for the creation of a platform enabling an exchange of views and experiences among the employees from various Subsidiaries and, as a result, increased integration among the workforce.

5 lectures were carried out in 2019, attended by a total of 2 654 employees of TAURON Group. Thanks to enabling the broadcasting of the lectures to various locations, the number of students increased by more than 1 500 employees.

A particularly important event, from the point of view of the Update of TAURON Group's Strategic Directions, was a lecture on climate change, given by an expert in the field of climate science. During the lecture, over 600 employees of the Group had a unique opportunity to learn about the scientific basis of the global warming, find out what its causes are and what problems may arise from the large and rapid climate changes. The participants of the lecture received practical tips on what to do, including in the private sphere, in order to reduce the negative impact on climate change. The lecture also initiated the implementation of a new Climate Policy, adopted by TAURON Group, with its goal to decrease the risk associated with the climate, reduce negative impact on the climate and maximize the positive effects of climate change throughout the Group's value chain.

The Internal Trainers (Coaches) Academy is becoming more and more popular at TAURON Capital Group – an initiative supporting the development of the employees using the internal resources. 83 internal trainers completed a total of 167 training sessions for more than 1 800 of TAURON Group's employees in 2019,.

In addition to the training courses carried out using the traditional method, TAURON Capital Group enables its employees to continuously improve their competences in the form of e-learning training courses. The undisputed advantages of this form of education include the flexibility of its implementation and the ability to adjust it to the individual pace of knowledge absorption of the given employee. The e-learning training formula also significantly reduces the costs of the training courses, while at the same allowing them to be attended by a larger number of employees and allows for better accommodating the pro-ecological aspects as compared to the traditional training formula.

TAURON Group's employees underwent a number of training courses in 2019, including the mandatory ones, among others with respect to internet security, TAURON's services, GDPR regulations, Corporate Social Responsibility Code of Conduct or the principles of preventing mobbing and discrimination, as well as optional specialist ones, including with respect to the use of IT tools to support everyday work, legal and financial aspects, as well as aimed at enhancing interpersonal skills. In total, more than 14 000 employees took advantage of 48 000 hours of e-learning training courses in 2019.

Cooperation with the education sector

TAURON Group has been undertaking a number of initiatives to promote the organization among pupils, students and university graduates for a number of years. We organize internship and apprenticeship programs, we cooperate with student organizations, career offices and research clubs, we organize competitions on topics related to TAURON Group, we take part in scientific symposia and conferences, and we cooperate with the faculty staff at schools and universities.

Student internships constitute a specific development method for TAURON Capital Group, geared towards improving the competences of university students and graduates, that enables combining theoretical knowledge with the practical professional issues. Participation in apprenticeship or internship programs enables acquiring the first experience and prepares pupils and students to enter the labor market. Through internship and apprenticeship programs the Group is implementing its long-term goals related to acquiring the best, from the point of view of business needs and organizational culture, pupils, students and graduates. 655 people took advantage of the apprenticeship and internship programs at TAURON Group in 2019.

TAURON Group's internship program called ”Join” (“Przyłącz się”) also has its permanent place among the initiatives related to the cooperation with the academic community. The goal of the program is to prepare, during 5-month internships, the most talented students of the domestic universities to enter the labor market, enable trainees to obtain comprehensive professional development in the field of modern energy, get to know the enterprise's organization system, as well as the conditions and rules in force at the company, and develop the right attitude towards the tasks performed.

The next, second edition of the program was carried out in 2019, with 20 interns taking part, undergoing internships at 8 of the Group's subsidiaries (TAURON Wydobycie, TAURON Wytwarzanie, TAURON Ciepło, TAURON Polska Energia, TAURON Obsługa Klienta, TAURON Sprzedaż, TAURON Dystrybucja, Kopalnia Wapienia "Czatkowice").

The second edition of TAURON Group's Ambassador Program was continued in 2019.

As part of this edition, 9 Ambassadors from 6 partner universities, carried out their proprietary promotional activities at their universities.

The main goal of the program is to engage students in the process of developing a positive image of TAURON Capital Group in the academic environment and generate interest in the offer of internships, apprenticeships and work among the best students and graduates. As part of the program, we establish cooperation with the students who have innovative and fresh ideas about initiatives promoting the Group, and also provide us with inspiration on how to change and adapt the student-dedicated programs to meet the ever-increasing requirements.

TAURON Capital Group implements its long-term strategy, a part of which is the cooperation with patronage classes, providing education in the professions that are key for the organization, thus promoting employment at TAURON Group's subsidiaries after completing education. These initiatives enable students to learn the profession in a real work environment by organizing practical classes and professional internships, providing support in equipping the schools' workshops that enable practical vocational training and engaging the Group's specialists, with some teaching experience and many years of professional experience at the Group, in the teaching process. By the end of 2019, TAURON included 47 classes in its patronage, including 3 new classes in 2019. As part of patronage classes, education is provided in such professions as, among others: underground mining technician, power sector technician, electrician technician, mechatronics technician, electronics technician and solid mineral processing technician.

TAURON Group was actively involved in the implementation of the project entitled: Developing a model of vocational and practical training program in the energy sector, co-financed from the European Social Fund, in 2018-2019. The goal of the project was to prepare solutions with respect to engaging employers in the organization of practical vocational training, including: developing a quality framework for internships and apprenticeships for students pursuing practical training at enterprises, taking into account the European framework of professional internships and developing model practical vocational training programs for professions at the technician's qualifications level.

Pilot apprenticeship programs were implemented at 4 of TAURON Capital Group's sites (TAURON Wytwarzanie, TAURON Ciepło, TAURON Dystrybucja Branch in Częstochowa and Opole) in the period from March to June 2019. The pilot project covered 103 students from 4 schools providing education in the profession of an electrician technician.

For the second time TAURON Group took part in a local project organized by the Katowice City Hall entitled: Katowice, a City of Professionals. As in the first edition, the main goal of the project was to encourage young people, facing the choice of a further education path, to undertake education in the first level technical and industry vocational schools, to show professional prospects related to the vocational and technical education, and to increase the level of knowledge and public awareness with respect to the dual education system. During the second edition, nearly 300 students from 10 elementary schools in Katowice visited TAURON Group's production plants. As part of the study visits, Katowice's eighth graders had the opportunity to become acquainted with the operations of the Łaziska Power Plant, Jaworzno III Power Plant and Katowice Heat and Power Plant. The whole campaign promoting vocational education is complemented by educational lessons at schools devoted to the topic of choosing a further path of vocational education, as well as visits to the industry and technical schools.

Other initiatives

At TAURON Capital Group, we are aware of the fact that supporting the idea of work-life balance is an inseparable element of efficient human resource management. For the sake of our employees, we invest in medical care and programs encouraging more physical activities, we implement health-promoting initiatives that are more and more attractive and tailored to the needs of the employees, and promote a healthy lifestyle in order to develop healthy habits. A series of campaigns were organized in 2019 to show how to take care of health and prevent occupational or civilization-related diseases, including:

- a photo competition, organized by Wsparcie Grupa TAURON, on sports topics "I am active / I take care of health", aimed at encouraging the employees to share their ways of how to stay fit and healthy;
- a series of workshops organized for TAURON Obsługa Klienta's employees with respect to stress management and prevention of burnout, conducted by a psychologist at the Company's 12 locations;
- conducting lectures for TAURON Obsługa Klienta's employees regarding the so-called "OFFICE diets" ("Diety OFFICE"), combined with the individual diet consultations, with the goal to promote a healthy lifestyle and providing instruction on maintaining the correct posture. The initiative was implemented as part of the "Health full time" campaign.

Training sessions on the pre-medical first aid dedicated to the employees of the individual TAURON Group's Subsidiaries are continuously enjoying great interest. Their goal is to transfer knowledge and practical skills with respect to the behavior and response in the situations that pose a threat to human health and life. Training programs deal with the issues related to the legal grounds and rules of conduct at the place of danger, as well as sets of topics related to the individual types of injuries. The training sessions are conducted by the qualified paramedics with many years of experience.

TAURON Capital Group took part in the Two hours for the family campaign for the sixth time. Symbolic 2 hours are a great excuse to slow down the fast pace of life for a moment and spend time with your family. This year, the theme of the International Family Day celebrations was "Small and large travel" and the attractions accompanying the celebration were related to this theme, i.e. the weekly "Family MegaPower" ("Rodzinna MegaMoc") campaign, as part of which numerous attractions and competitions were prepared for the employees, encouraging them to spend time with their loved ones.

The opening event of the "Family MegaPower" ("Rodzinna MegaMoc") campaign was a lecture held as part of the TAURON Group Open University entitled: How to strengthen the feeling of self-esteem in children and be a good enough parent? During the lecture such topics as the existence of a "perfect parent", basic dilemmas of parenthood, and ensuring a child's sense of security, acceptance and being loved were raised.

As part of the activities focused on age management, TAURON Dystrybucja organized a series of pilot workshops dedicated to the employees in the pre-retirement age. One day workshops called "Before I Retire - Psychological Aspects of Change", for about 40 people, were held at the Branch in Opole.

The goal of the workshop was to provide support for the employees in preparing for a change, i.e. the retirement, and the challenges that are associated therewith. The topics discussed during the meetings covered the psychological aspects of the retirement and the ways of dealing with changes in life. The participants also received the practical hints on how to maintain a sense of contentment and happiness in mature adulthood (at a senior age). Many of them admitted that the workshop had been a good opportunity for personal development and thinking about their plans for the time after the retirement.

4.7. TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy

TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy regulates the standards of the process of recruitment and induction (onboarding, orientation) of the new employees at TAURON Group. The policy also specifies the rules related to filling both vacant as well as the newly created jobs with people with the desired professional qualifications and competences. The policy sets out assumptions regarding the selection of employees, understood as all actions taken to fill the vacancy: from the moment of defining the staffing needs until the moment of completing the adaptation of a newly recruited employee. 1 723 employees were hired by TAURON Group in 2019. The detailed data on the employment structure at TAURON Group is provided in section 4.6 Human resources management policy.

Due diligence procedures and internal regulations

Due diligence procedures employed under the Policy include, first of all, the structured forms of recruitment. In case of TAURON Group the include the following:

- open internal recruitment,
- closed internal recruitment,
- external recruitment.

Priority is given to internal recruitment at TAURON Group, which has a positive effect on the development of human resources within the Group, creates opportunities for promotion or taking an equivalent position in another business unit, and creates natural career paths and encourages employees to further their improvement and development.

Every employee selection process requires an individual approach, depending on the specifics of the given position. The selection of the given recruitment method is preceded by the examination of the internal or external labor market (depending on the selected recruitment form), as well as the analysis of the budget allocated to the given recruitment process.

Employees are selected at TAURON Group using, among others, the following methods:

- open internal recruitment (announcements in TAURON Group's intranet, recommendations (referrals) by employees of other employees as potential candidates, e-mail to all employees),
- closed internal recruitment closed (recommendations (referrals) by employees of other employees as potential candidates, employees with a development potential),
- external recruitment (advertisements in the press, Internet, at universities, recommendations (referrals) by employees of persons from outside TAURON Group's subsidiaries as potential candidates, recruitment agencies).

In order to achieve the best recruitment results with the most optimal cost approach possible, an efficient selection of employees at TAURON Group is based on the following assumptions and principles:

- selecting employees based on the long-term employment and staff development plans, taking into account planned personnel changes (promotions, transfers, layoffs, etc.),
- integration with the human resources management policy conducted at TAURON Group,
- focus on creating choice opportunities through searching for at least several candidates for one job position to be filled,
- standardization of the criteria used in the selection of employees for specific positions and the application of methods, principles and procedures allowing for an objective comparison of individual candidates within one recruitment process,
- reliability, impartiality and professionalism applicable to all participants in the selection process without any exceptions;
- maintaining high standards of contact and communication with the candidates each time (specific rules, among other with respect to inviting the candidates for interviews, forms and scope of providing feedback),
- maintaining standards related to the use of the selection tools,
- ethical behavior towards the candidates, including, for example, meeting deadlines, providing information on the results of the recruitment process,
- ensuring the confidentiality of the recruitment process for the candidates at all the stages thereof.

Actions taken and results achieved

In order to adapt to the changes taking place on the labor market, we undertake a number of initiatives that enhance the image of TAURON Capital Group as a good and desirable employer.

Participation in Job Fairs organized by the universities is a regular element of the activities promoting TAURON Group in the academic community. TAURON Capital Group promoted its job offers, among others, during two editions of the Employers and Entrepreneurship Exchange organized by the Silesian University of Technology in Gliwice and during the Job Fair organized by the University of Economics in Katowice in 2019. Participation in the above initiatives enables us to promote the current job offers, apprenticeships and internships coming from all of the Group's subsidiaries. This form of the employer branding activities also gives us the opportunity to conduct an initial interview with the potential candidates, as well as to promote the organizational culture, attitudes and values that we follow every day in the organization.

The Employee Referral Program was launched at TAURON Group in 2019. This is an additional recruitment activity that allows for reaching more candidates through the involvement of the Group's employees. The goal of the program is to acquire candidates with the required potential, i.e. with the desired professional qualifications and competences, based on the referrals of the people who are already employed by the organization.

The document regulating the implementation of the activities in this area are the Rules for making employee referrals in the recruitment process at TAURON Group. The main benefits of implementing the Program include, among others, the optimization of the recruitment costs, shortening of the duration of the recruitment, as well as strengthening of the involvement of the Group's employees and of the awareness of the impact on shaping the human resources at TAURON Group.

In order to attract the candidates interested in working at TAURON Capital Group, the Recruitment Hotline for job candidates was launched at the end of 2019. The main purpose of the hotline is to encourage people with qualifications that are in line with the Group's current needs to start working for the company. The direct contact with the hotline consultants provides quick access to the information on the available job offers, details of the requirements for the positions offered, the recruitment process and the information about benefits offered by the Group.

The launch of the hotline was accompanied by a wide-ranging campaign promoting the initiative Work at TAURON. Join the group of our specialists (professionals)!

4.8. TAURON Group's Anti-corruption Policy

The basic document regulating the area of preventing corruption at TAURON Capital Group is TAURON Group's Anti-corruption Policy. The overriding goal that guided the creation and implementation of the Policy was to define uniform rules and standards of conduct that allow for the identification, prevention and mitigation of the risk of corruption and other fraud (abuse) at the subsidiaries.

The implementation and compliance with the Anti-corruption Policy is to ensure the compliance of the operations of TAURON Capital Group's subsidiaries with the applicable law, the internal and intra-corporate regulations, as well as the ethical principles, thus ensuring proper protection of the interests, reputation and image of the subsidiaries and TAURON Capital Group, as well as the transparency of actions towards the external entities.

The Policy applies to all of the employees, management board members and supervisory bodies of companies, as well as the proxies and the powers of attorney. The Group also requires compliance with the standards of behavior set out in the Policy by the external entities.

The purpose of the Policy is to counteract not only corruption activities, but also other abuse (fraud), which include, for example:

- theft or misappropriation of company assets (cash, materials, products, tools, equipment) or the property of external entities with which the employee has business relations,
- deliberate falsifying of company documents or entering false information and data into their content,
- managing the company's documentation in an unreliable or untruthful manner, in particular destroying, deleting, concealing, altering or falsifying documents regarding the company's operations,
- deliberate disclosing of information inconsistent with the facts in the financial statements,
- using the company's resources for private purposes.

The areas susceptible to the risk of corruption or other fraud related to the operations of TAURON Capital Group include in particular:

- purchasing proceedings,
- cooperation with the external entities,
- implementation of the investment processes,
- transactions with related entities,
- expenses related to business trips or entertainment,
- representation and advertising expenses, including invitations and gifts,
- expenditures on the marketing and consulting services,
- cash transactions
- donations and sponsorship agreements.

The following ways of implementing the Anti-corruption Policy by TAURON Capital Group were defined:

1. The Group exercises due diligence to ensure that contacts with the external entities are open and transparent, so as to exclude the possibility of corruption and other abuse.
2. The Group undertakes to take appropriate (in particular lawful), adequate and proportionate actions in relation to the occurrences of corruption and other abuse. In particular, the company shall notify law enforcement authorities of any potential violations of the legal regulations in the event of a justified suspicion of such violations.
3. Employees and external entities are encouraged to provide information on the violations of the Policy as well as other irregular behavior.
4. Raising of the employees' awareness with respect to the possibility of identifying corrupt activities and other abuses is ensured through information activities, training, initiatives related to the elimination of corruption events, enabling proper understanding of the Policy and the use of its principles by employees in their daily work.
5. Cooperation with the external entities to eliminate corruption and other abuse.

Due diligence procedures

The standards recommended for the compliance management system with respect to counteracting corruption and protecting whistleblowers at companies listed in the Warsaw Stock Exchange of 08.10.2018 contain the recommendations on how to shape the compliance function at an organization, as well as on the introduction of solutions that minimize the risk of the emergence of unethical behavior, conducive to corruption and conflict of interest. In addition, these standards indicate what actions exhaust the features of the concept of due diligence with respect to shaping the organization's procedures and processes aimed at preventing corruption.

The activities of the Compliance Officer and the Compliance Coordinators at TAURON Capital Group are based on the guidelines presented in the standards set out by the Best Practices of WSE Listed Companies.

TAURON Capital Group's due diligence can be demonstrated based on, among others:

- adoption and application of TAURON Group's Corporate Social Responsibility Code of Conduct,
- adoption and application of TAURON Group's Compliance Policy,
- regulating the compliance management function at TAURON Group,
- adoption and application of the Anti-Corruption Code at TAURON Group,
- adaptation to the recommendations regarding the ban on creating mechanisms to finance property and personal gains,
- conducting compliance training,
- starting the process of implementing anti-corruption clauses for use in the contracts,
- adoption and application of the Rules for accepting and giving gifts at TAURON Group,
- regulating of the sponsorship issues,
- regulating and implementing of the Fraud (Abuse) Reporting System at TAURON Group and conducting of the fact finding investigations,
- implementation and application of the Contractors Credibility Assessment Procedure at TAURON Group,
- implementation and application of the Principles (Code) of Conduct for controls at TAURON Group's subsidiaries.

Actions taken and results achieved

Among the activities undertaken as part of TAURON Group's Anti-corruption Policy, the functioning of the system for reporting, investigating and probing corruption activities and other abuse (fraud) is of key importance.

Each employee is obliged to study the provisions of the Policy, to strictly comply with its content and to sign an appropriate statement.

The data on collecting the statements at TAURON Polska Energia S.A. and TAURON Group's other subsidiaries is provided in Table no. 57.

Table no. 57. Percentage of employees of TAURON Capital Group's individual subsidiaries who signed, as of 31.12.2019, a statement on their familiarity with the Group's anti-corruption policy

Company	% of employees whose statements have been collected	Has the process of collecting the statements been completed or is it underway?
TAURON Polska Energia S.A.	90%	Underway
Kopalnia Wapienia „Czatkowice" sp. z o.o.	95 %	Underway
Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o.	89%	Underway
Spółka Usług Górniczych sp. z o.o.	93% among white collar workers 7 % among blue collar workers	Underway
TAURON Ciepło sp. z o.o.	99 %	Underway (continuation among the new personnel)
TAURON Dystrybucja S.A.	94 %	Underway
TAURON Dystrybucja Pomiary sp. z o.o.	85%	Underway
TAURON Dystrybucja Serwis S.A.	81%	Underway
TAURON Ekoenergia sp. z o.o.	No data as of December 31, 2019	Underway
TAURON Ekoserwis sp. z o.o.	100%	Underway (continuation among the new personnel)
TAURON Obsługa Klienta sp. z o.o.	72%	Underway
TAURON Sprzedaż sp. z o.o.	94%	Underway
TAURON Ubezpieczenia sp. z o.o.	92%	Underway
TAURON Wydobycie S.A.	None	Underway
TAURON Wytwarzanie S.A.	90% among the employees with access to a computer	Underway

Employees are also required to promptly provide information on any justified suspicion of corruption or other fraud (abuse). To this end, TAURON Capital Group provides:

- appropriate communication channels allowing employees and external entities to securely (including anonymously) report potential violations,
- confidentiality of the data of the reporting person and the information provided,
- protection against all forms of retaliation for the individuals who report corrupt activities and other abuse (fraud) in good faith.

Separate communication channels through which you can report any type of irregularity:

a) in person: to the immediate superior or the Compliance Officer or the Compliance Coordinator,
b) in writing, to the following address: Compliance Officer, ul. Ks. Piotra ściegiennego 3, 40 -114 Katowice,
c) by phone: + 48 32 774 22 22,
d) e-mail: compliance@tauron.pl,
e) Abuse (Fraud) Report form available at: https://www.tauron.pl/tauron/o-tauronie/formularz-zgloszenia-naduzycia/,

used to report behavior inconsistent with the applicable law, internal or intra-corporate regulations of TAURON Capital Group or ethical standards set out in TAURON Group's Corporate Social Responsibility Code of Conduct.

External entities, in particular the contractors (counterparties) and other stakeholders of TAURON Group's Subsidiaries, in the case of identifying irregularities within the operations of TAURON Group, have the option of using the Abuse (Fraud) Report Form.

In special cases, notifications can be sent in writing directly to the Company's Supervisory Board.

Specific notification channels comply with the requirements set out in the Public Offering Act.

Superiors who receive reports of potential corrupt activities or other abuse (fraud) should immediately inform the Compliance Officer of this fact, and in case of a company other than TAURON Polska Energia - the Compliance Coordinator.

Compliance Officer, and in a Company other than TAURON Polska Energia S.A. the Compliance Coordinator, upon receipt of the notification, confirms that the person submitting the application has accepted it. With the exception of anonymous reports, he / she verifies its accuracy and undertakes, with due diligence, follow-up actions to clarify the circumstances indicated in the report in accordance with the procedures in force in this respect at TAURON Capital Group.

Compliance Officer, and in a Company other than TAURON Polska Energia S.A. the Compliance Coordinator informs the person submitting the report about the final result of the fact finding investigation or about its extension.

All the reports received are subject to entry in the Fraud Register, and an explanatory report is drawn up for each fact finding investigation.

In the event corruption actions or other abuse (fraud) has been confirmed, the subsidiaries take corrective actions to prevent similar events in the future. Compliance Officer, and in Companies other than TAURON Polska Energia S.A. Compliance Coordinators undertake educational and information activities in order to provide understandable and easily available information on the principles of reporting corrupt activities or other abuse (fraud) at TAURON Capital Group.

TAURON Polska Energia S.A. also monitors the procedures as well as the internal and intra-corporate regulations in force at TAURON Capital Group, also in terms of improving and developing the system of counteracting corruption and other abuse (fraud).

20 notifications were received using the Fraud Report Form at TAURON Group in 2019.

Due diligence procedures functioning as part of the Anti-Corruption Policy also include the Principles of accepting and giving gifts at TAURON Group introduced in January 2019. The rules supplement the applicable TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Anti-Corruption Policy with respect to giving and accepting gifts by persons performing work for TAURON Capital Group's subsidiaries.

The purpose of the described document is to develop awareness among the employees of TAURON Capital Group's subsidiaries regarding the type of gifts (including invitations) that can be received or handed in connection with the performance of official duties, and to define the conditions in which their acceptance or handing is unacceptable. The implementation and compliance with the Rules is to eliminate situations where accepting gifts could affect the business decisions taken by the Group's subsidiaries.

The general rule obligates all of the employees to refrain from accepting gifts from customers or other employees that could result in exerting an influence on the recipient or could give rise to the obligation to take or forego a specific action with respect to the official duties entrusted thereto, or affect current or future business decisions of TAURON Capital Group's subsidiaries.

An employee of TAURON Capital Group may accept a gift only if the criteria specified in the above-mentioned Principles are collectively met. Any doubts regarding the appropriateness of accepting a gift should be consulted with an immediate superior or the Compliance Officer at TAURON Polska Energia.

The rules for accepting and giving gifts at TAURON Group are adapted to the requirements set out in the "Standards recommended for the compliance management system with respect to countering corruption and the whistleblower protection system in place at companies listed on the markets organized by the Warsaw Stock Exchange" adopted on October 8, 2018 by the Warsaw Stock Exchange The standards referred to above contain recommendations on how to shape the compliance function in an organization, as well as on the introduction of solutions that minimize the risk of unethical behavior, conducive to corruption and conflict of interest. In addition, these standards are in line with the proposed changes to such regulations as the Act on the Liability of Collective Entities, indicating what actions exhaust the features of the concept of due diligence with respect to shaping the organization's procedures and processes aimed at preventing corruption.

TAURON Group's anti-corruption campaign

TAURON Capital Group carried out an anti-corruption campaign in 2018 and 2019 under the slogan: Play with us for honest attitudes in our company - learn about Anti-Corruption Policy at TAURON Group!

The goal of the campaign was to:

- inform about zero tolerance policy against corruption and other abuse (fraud),
- promote the principles of fair play (honesty and transparency in action),
- point out dirty play (e.g. theft, misappropriation, falsification),
- inform about possible ways of reporting abuse (fraud).

The information on the campaign was posted on the internal intranet site and distributed to the employees via email.

Compliance Awards 2019 Prize

The jury (board) of the Compliance Awards 2019 competition awarded TAURON Capital Group a prize in the category Compliance Idea of the Year for its anti-corruption campaign. Compliance Awards 2019 is a nationwide competition organized by the Compliance Institute, in which prizes are awarded in three categories: Compliance Officer of the Year, Compliance Idea of the Year, Compliance Advisor of the Year. The award of the prize is decided by the members of the jury (board) who sit on the program board of the Compliance magazine. TAURON Capital Group's anti-corruption campaign was recognized for innovation and unconventional nature, as well as for promoting knowledge on preventing fraud at TAURON Group via a dedicated website, available at https://www.tauron.pl/tauron/o-tauronie/zgodnosc-compliance#slide1

Anti-trust activities

TAURON Capital Group implemented the Procedure for Countering Bid Collusion at TAURON Group in July 2018. The purpose of the document is to define uniform rules of conduct to be applied during the purchase order (contract) award procedure, which will allow for the detection, notification and prevention of bid collusion among contractors entering into procedures organized by the contracting authority.

TAURON Capital Group's purchasing cells are required to take part in training sessions on bid collusion and detection of cartels organized in cooperation with entities dealing with anti-trust protection at least once a year.

In connection with the above, the Power of Attorney, together with the Compliance Team, conducted a dedicated training in May 2019 entitled: Bid collusion and other difficulties in implementing public procurement procedures, including the concept of a new public procurement law for the employees of the purchasing area and the Compliance Coordinators from the entire TAURON Capital Group.

Verification of contractors

In order to ensure protection against the risk of establishing cooperation with entities operating not in accordance with the provisions of law, good customs and commercial practices, and in particular to reduce the risk of participation in the tax fraud and money laundering schemes, TAURON Capital Group has introduced the *Procedure to assess the credibility of contractors (counterparties) at TAURON Group*.

The contractor's credibility is assessed by TAURON Capital Group based on the following information:

- legal and financial characteristics,
- thus far operations,
- contract terms,
- equity (capital) and personal ties.

In addition, TAURON Group has been applying the split payment mechanism since July 2018. It is one of the methods used to combating VAT fraud and scams. The application of the split payment mechanism has been indicated by the Ministry of Finance as one of the prerequisites of the due diligence process to be applied by the buyers of goods in domestic transactions.

To date, around 900 contractor (counterparty) credibility reports have been issued throughout TAURON Group.

4.9. TAURON Group's WHS Policy

The employees of TAURON Capital Group are a key group of stakeholders. The important aspects in this area are issues related to ensuring their safety at the work place. This is reflected in TAURON Group's 2017-2025 Sustainable Development Strategy, as well as in the Work Health and Safety (WHS) Policy established on the basis of that document.

The Work Health and Safety (WHS) Policy is a set of regulations aimed at continued improvement of work (occupational) health and safety standards. By applying the provisions provided therein TAURON Capital Group steadfastly seeks to eliminate work related accidents as well as minimize the occurrence of occupational diseases and the number of potentially accident prone incidents.

The safety of employees, customers, contractors, guests and the other stakeholders is an absolute priority that has a significant impact on the decisions and actions taken by TAURON Capital Group's subsidiaries.

The policy defines the principles of operation, as well as the rules of conduct that serve the implementation of TAURON Capital Group's four basic goals with respect to work health and safety (WHS), i.e.:

- eliminating accidents at work of all employees and employees working for the benefit of TAURON Capital Group's subsidiaries and any other persons in the area where the subsidiaries are conducting their operations,
- ensuring optimal working conditions for all employees and those working for TAURON Capital Group
- improving the qualifications of employees of TAURON Capital Group aimed at increasing competences with respect to improving their safety and the safety of employees and people who are in the area of their work,
- improving an effective work health and safety (WHS) management system.

Due diligence procedures and internal regulations

Work Health and Safety (WHS) Policy is the overarching document describing the uniform system of occupational health and safety at TAURON Capital Group.

As part of the Group's Work Health and Safety (WHS) Policy, each of the subsidiaries, due to the specifics of its operations, has its own regulations in this area, which are fully compliant with the requirements and applicable laws. In addition, the work health and safety (WHS) regulations are adapted to the nature of the work and tasks performed. At companies whose operations profile involves production and distribution, i.e. TAURON Wydobycie, TAURON Wytwarzanie, TAURON Ciepło, Kopalnia Wapienia „Czatkowice", TAURON EKOENERGIA and TAURON Dystrybucja – the issues related to the protection of the health and life of employees have a special meaning, which is expressed in extended safety systems, as well as inspections of working conditions, compliance with the work health and safety regulations and rules at individual work stations.

In accordance with the Work Health and Safety (WHS) Policy the WHS rules are valid for all persons staying at TAURON Capital Group's sites. External entities that carry out work at the Group's subsidiaries are obliged to comply with the applicable procedures, including with respect to health and safety of employees. Employees of external companies (contractors and subcontractors) are also required to have up-to-date medical examinations (clearances) and appropriate qualifications and authorizations for the works performed. Some of TAURON Capital Group's subsidiaries (especially those where work conditions are particularly dangerous) also introduce additional requirements and training for external entities.

The most important documents regulating health and safety at work are the Integrated Work (Occupational) Safety and Health Management System at TAURON Wydobycie, Work (Occupational) Health and Safety Management

Procedures at TAURON Ciepło or the Quality, Environment Protection and Work Safety Policy at TAURON Wytwarzanie

Actions taken and results achieved

Due to the consistent pursuit of a decrease in the number of accidents, activities promoting safe behavior at the workplace are intensified, and the individual subsidiaries run numerous information and educational campaigns. In 2019, at TAURON Group they included, among others:

- "Good to see you" campaign (each employee received a reflective band that improves visibility on the road and thus increases the chances of a safe return home) (at TAURON Ciepło),
- Work Health and Safety campaign "Time to be particularly careful", which was aimed at improving safety and health by making the employees aware of the causes of accidents at work, while the main gadget of this project was a key ring that reminded each employee of safety during the most "accident prone" working hours (key rings together with the ICE card "in case of emergency" were forwarded to each organizational unit) (at TAURON Ciepło),
- art competition related to the topic of the Work (Occupational) Safety and Health "Draw safety". It was a poster competition promoting safe behavior and work organization. The authors of the three best competition entries were awarded with money prizes (at TAURON Ciepło),
- safety calendars hung from January 2019 on employee boards and in the changing rooms (at TAURON Ciepło),
- in 2019, the WHS unit organized the 6th WHS Knowledge Competition, which was an eliminator to the 22nd National Competition on the Knowledge of Work Safety at Power Plants and Combined Heat and Power Plants. The purpose of conducting the in-house Health and Safety Knowledge Competition was to expand the knowledge of all aspects of the safety of TAURON Ciepło employees in the workplace and to promote safety issues in line with the adopted policy (at TAURON Ciepło),
- implementation of the Work Health and Safety Improvement Plan (at TAURON Wytwarzanie),
- promoting the idea of "Zero accidents at work" (at TAURON Wytwarzanie),
- organization of the "WHS Open Doors Day" for the employees, which included, among others expanding the knowledge of the applicable health and safety regulations at TAURON Wytwarzanie, regarding the organization of safe work on power equipment, along with the conclusions, the possibility of conducting additional exercises on resuscitation mannequins, practical aspects of the use of handheld fire-fighting equipment (at TAURON Wytwarzanie and external companies),
- conducting the Work (Occupational) Health and Safety Knowledge Competition for the employees (at TAURON Wytwarzanie),
- training in stress management and prevention of burnout (at TAURON Obsługa Klienta)
- conducting of the Social Reviews of the Working Conditions (in the entire TAURON Capital Group),
- first aid training (in the entire TAURON Capital Group),
- using VR technology as a modern method supporting the training programs, among others for the electricians (at TAURON Dystrybucja).

An important element in promoting work health and safety (WHS) rules is continued raising of the awareness of employees and subcontractors with respect to occupational safety, mainly through dedicated training courses, which are conducted in the form of meetings and workshops, and in an interactive form (e-learning platform training). Due to the fact that the best promoters of safe behavior at the work place are employees themselves, subsidiaries organize internal training courses, information campaigns, as well as work health and safety knowledge contests.

The above actions significantly influence the employee accident rates at TAURON Capital Group.

202 accidents occurred at TAURON Group's subsidiaries in 2019, leading to the total of 206 people getting injured. There were 2 fatal accidents among them. The total number of accidents decreased by 7 incidents as compared to 2018. The number of the most tragic accidents, i.e. fatalities, increased from one incident in 2018 to two cases in 2019. The number of minor accidents decreased from 202 in 2018 to 200 accidents in 2019. As compared to the previous year, no major accidents were recorded in 2019. The accident frequency rate was 7.8 in 2019. The employee accident rate (accident frequency rate) broken down by gender (Injury rate - IR) is presented in Table no. 58.

Table no. 58. GRI 403-9. Employee accident rate (accident frequency rate) broken down by gender at TAURON Capital Group in 2019

	2019
TOTAL NUMBER OF ALL ACCIDENTS	**202**
Women	11

Men	195
NUMBER OF FATAL ACCIDENTS AT WORK	**2**
Women	-
Men	2
NUMBER OF MINOR ACCIDENTS AT WORK	**200**
Women	11
Men	193
NUMBER OF MAJOR ACCIDENTS AT WORK	**-**
Women	-
Men	-
NUMBER OF GROUP ACCIDENTS	**4**
Women	-
Men	8
ACCIDENT FREQUENCY RATE Accident frequency rate = (number of accidents at work x 1000) / average employment in 2018.	**7.8**
Women	0.4
Men	7.5
ACCIDENT SEVERITY RATE Accident severity rate = Total number of days of inability to work of victims of accidents at work / Number of persons injured in accidents at work (excluding fatalities)	**67.2**
Women	46.1
Men	68.4

Due to the steadfast pursuit of a decrease in the number of accidents, activities promoting safe behavior at the workplace are continuously intensified. These include numerous training courses, covering both the employees as well as external entities performing work for TAURON Capital Group's subsidiaries. The percentage TAURON Group's people of trained in 2019 is presented in Table no. 59.

Table no. 59. GRI EU18. Percentage of TAURON Capital Group's employees, contractors and subcontractors that have undergone WHS training in 2019

2019	Kopalnia Wapienia "Czatkowice"	TAURON Ciepło	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Dystrybucja Pomiary
Percentage of employees employed by contractors who underwent the above WHS training	0%	61%	83%	26%	77%

TAURON Group's WHS Rules apply to all persons staying at TAURON Group's plants (sites). External entities performing works at the Group's subsidiaries are obliged to comply with applicable procedures, including with respect to the health and safety of employees. The employees of external companies (contractors and subcontractors) are also required to have valid medical examinations, appropriate qualifications and authorizations to perform work. Some of TAURON Group's subsidiaries (especially those where working conditions are particularly dangerous) also introduce additional requirements and training for the external entities.

At Kopalnia Wapienia "Czatkowice" and TAURON Wydobycie, due to the industry specifics and the nature of the business operations, each employee of an external company undergoes training on the knowledge of the rules and principles of work health and safety, including the safety of performing the tasks entrusted thereto.

At TAURON Ciepło and TAURON Wytwarzanie subsidiaries, pursuant to the internal regulations, training is carried out for the supervision personnel of the external companies with respect to the existing threats to safety and health at the workplace, as well as they are familiarized with the internal regulations in force at the subsidiary. At the same time, contractors (the supervision personnel of the external companies) are required to train persons performing the subject of the contract / order with respect to the existing threats to safety and health on site and during the performance of the works, as well as to familiarize them with the internal normative acts, according to the scope of the works to be performed. As a consequence, 100% of employees of contractors or subcontractors should be trained (indirect training).

4.10. Strategic Research Agenda (SAB)

TAURON Capital Group is carefully analyzing the changes in the environment that affect its entire value chain. Its individual elements determine or are likely to have a significant impact on this chain in the foreseeable future. We see an intense development and potential importance of distributed power generation sources, the advancing digitization of the distribution grids and the change in the role of the electricity consumer, who, from being a passive market participant, is turning into its active player or even the so-called prosumer. We do not perceive the technological progress as a threat, but as an opportunity to become the sector's leader of innovation.

Due diligence procedures and internal regulations

R&D and innovation activities that TAURON Capital Group is placing a strong emphasis on in its Strategy, are reflected in the Strategic Research Agenda (SAB) adopted in 2018 and steadfastly implemented in 2019. Portfolio based management of research and development projects has been introduced by TAURON Capital Group as part of the Research and Development Area, in line with the priority directions of innovative as well as research and development activities.

SAB is a document that precisely describes the directions for the development of innovations and provides a more detailed elaboration of the Strategy. A separate project portfolio has been created for each direction, in which key challenges, development goals and research areas have been identified. Such a structure of the SAB supports the selection of specific projects and rejection of others, as well as allows for an optimal allocation of the financial resources. SAB includes the following portfolios:

- Customer and His / Her Needs;
- Intelligent Grid Services;
- Distributed Power Generation;
- Low Emission Generation Technologies.

Thus, TAURON Capital Group's research and development as well as innovation activities are implemented and expanded based on the complete and detailed strategic assumptions - with the clearly defined goals and results set on the time horizon.

SAB is consistent with and complementary to the other strategic documents, developed or adopted by TAURON Capital Group, including, first and foremost, with respect to the investment (capex) projects or asset management.

Actions taken and results achieved

The implementation of SAB takes place on several levels, forming the so-called innovation ecosystem, including in the pro-climate context. In addition to the traditionally understood research and development activities (research and development projects, cooperation with the scientific units and innovative business partners), the cooperation with start-ups, implemented under the accelerator programs and the Corporate Venture Capital (CVC) – EEC Magenta fund, has also gained significant importance at TAURON Capital Group.

Research and investment projects aimed at ensuring the reliability of electricity supply and promoting sustainable development within the Group and by TAURON Group are illustrated in Table no. 60.

Table no. 60. GRI EU DMA. Research and investment projects in 2019 aimed at ensuring the reliability of electricity supply and promoting sustainable development within and by TAURON Group

	2019		
INVESTMENT PROJECT CATEGORIES	Investment project type – investment project name (broken down into categories in the table)	Description what the given investment project is related to	Costs (incurred in conjunction with the implementation of the investment project) PLN
Renewable energy technologies	Developing a platform that aggregates the generation and control (adjustment) potential of the distributed renewable energy sources and energy storage facilities (units) as well as selected categories of consumers whose demand can be controlled (managed)	Creating an innovative Virtual Power Plant platform (hereinafter referred to as "VPP") - allowing aggregation of the generation and control (adjustment) potential of the distributed renewable energy sources, energy storage facilities (units) and selected categories of controllable loads. Adaptation of the required infrastructure of the Lubachów Hydroelectric Power Plant (Elektrownia Wodna Lubachów) to operate in the Virtual Power Plant mode.	6 124 491.00
TOTAL COSTS IN THE CATEGORY			**6 124 491**
Electricity distribution	Distributed energy 2.0 operating model - self-balancing power grid areas	The goal of the project is to develop technologies enabling setting up of local power grids, called micro grids. The algorithms to be used to control the operation of the system will be developed, and a comprehensive database will be created, while in order to obtain full information on the micro grid's parameters, a number of tests will be carried out to evaluate the correctness of the operation of the individual components and of the technology as a whole. The result of the Project will be a pilot installation and the detailed technical documentation of the solution, that would allow for its implementation both on the Polish as well as the foreign market.	288 536.97
	MV / LV station monitoring system with a functionality enabling detecting events in the medium voltage grid	The goal of the project is to verify the technical assumptions and evaluate the business usefulness of the metering system provided by the company iGrid, selected as part of the startup support accelerator program: Pilot Maker. The system allows for a faster detection of some events occurring in the medium voltage grid, based on the measurements on the 0.4 kV side, as compared to the solution based on the balancing meters, as a result of which it is possible to locate faults in the MV distribution grid faster.	622 655.00
	System for assessing the propagation and improving the electricity quality parameters in the distribution grids (SOPJEE)	The project's goal is to develop a system for assessing the propagation and improving the electricity quality parameters (SOPJEE) in the distribution grids. TAURON Dystrybucja's existing metering infrastructure (more than 220 stationary and more than 200 mobile measurement points) will be used for this purpose, as well as a new, extended system for the monitoring and evaluation of the propagation of electricity quality parameters (JEE) will be built.	578 980.00

TOTAL COSTS IN THE CATEGORY			**1 490 172**
Transmission and distribution technologies	Imaging of the overhead lines	Verification of the ability to employ the new technologies for inventory taking and assessing the technical condition of our LV infrastructure on a larger scale in a comprehensive and efficient manner. The project's goal is also to reduce the time and cost it takes to inspect the grid, increase the quality of the materials and data acquired, and increase the fault detection efficiency. In addition, the verification of the ability to link (share) the obtained data with the systems used by TAURON Dystrybucja (in particular ZMS).	1 286 356.00
	Distribution grid operation automation	Development of an innovative system for effective monitoring and support of the protection devices that meet the DMS (Distribution Management System) assumptions, along with the development of the protection controller prototype (including sirens) in the MV network.	1 210 930.00
	Integrated Grid Diagnostics System	The goal of the project is to conduct R&D works aimed at developing a prototype of an IT system supporting the process of managing the population of HV / MV transformers based on the multi-parameter analysis of the measurement results (ZSDS for short).	751 730.00
TOTAL COSTS IN THE CATEGORY			**3 249 016**
Advanced technologies (storage, recovery, etc.)	Hybrid system for reducing the emissions of acid components and fly ash in the flue gases	The goal of the project is to test, in the conditions of a demonstration installation, a hybrid filter installed to replace an electrostatic precipitator. The hybrid filter responds to the market demand for a universal and flexible solution enabling the modernization of the existing dust removal and treatment systems or the construction of the new ones. In addition, the compactness of the solution allows for the installation of the device in places where the local conditions or the existing infrastructure prevents expansion or modernization.	1 128 313.96
	CO_2 methanation system for storing electricity through the production of SNG	The project involves the conversion of CO_2 into synthetic natural gas. The main goal of the CO_2-SNG project is to develop an advanced flexible methanation reactor and the CO_2-SNG installation, enabling the storage of surplus electricity, e.g. from the renewable sources.	527 204.04
	Flexibility of the existing power generating units with limited capital expenditures	The project focuses on developing a control and monitoring system for improving flexibility (IFCAMS) that would lead to the flexible use of the coal fired generation units. It is expected that the technology developed will allow power plants to be operated efficiently taking into account the new requirements for power (load) ramp (run) up / run back. The use of IFCAMS will shorten the time of the power (load) ramp (run) up and run back and will reduce the operational costs associated with numerous unit failures (due to the reduction of the current technical minimum).	230 710.00

	Development of the industrial design of carbonate fuel cells and ceramic electrolyzers enabling the integration with the power-to-gas installations	The goal of the project is to improve the chemical energy storage process (a substitute for natural gas, SNG), mainly based on the higher efficiency of the high temperature electrolysis and the use of the carbonate fuel cells for CO_2 capture from the flue gases, which does not require the supply of electricity from the power plant to the capture system. In addition, both of the innovations introduced enable their integration on the heat and electricity generation side.	438 230.00
	e-BUS project	Energy storage using the mobile infrastructure	46 280.00
	Energy storage systems for the DSO needs	Demonstration project involving the use of the stationary energy storage system as the grid operation stabilization element, Smart Grid element (ESS Cieszanowice), The uninterruptible power supply system for the consumers in the distribution grids (sESS).	133 083.00
	Development and implementation of a technological process for reducing the HCl emissions in the flue gas from the fluidized bed boilers	The goal of the project is to adapt TAURON Wytwarzanie's Generating Units in an optimal manner to the new environmental and market requirements, in force beyond 2021, related to the Commission Implementing Decision (EU) 2017/1442 of July 31, 2017 establishing the best available techniques (BAT) conclusions for large combustion plants. The works are carried out at the Łagisza, Jaworzno and Siersza power plants.	2 608 200.00
	Developing and testing an adaptive electricity storage system based on the second life of the batteries coming from electric vehicles	The goal of the project is to develop a prototype of a battery storage in two capacity variants, based on the reuse of the lithium-ion batteries from the electric transportation, and to test it, in 3 use cases, including the preliminary definition of the model of the production accompanying processes related to the transformation of the batteries for a new application and supply chain model.	156 000.00
	Development and implementation of a technological process for the processing of waste from the fluidized bed boilers, using CO_2 for the production of a cement substitute	The goal of the project is the construction and commissioning of a demonstration installation for the processing of waste from the fluidized bed boilers, using CO_2 in the production process of the composites for applications in the construction industry and / or in the geo-engineering applications, to fill the post-mining voids in hard coal mining. The project is in line with the assumptions of the Circular Economy.	180 000.00
TOTAL COSTS IN THE CATEGORY			**5 448 021**
Innovative related services (e.g. remote meters)	Development of advanced technology for the monitoring and predictive analysis of the technical condition of the boiler to increase the reliability of the boiler unit	The origin of the project is associated with the need to improve the availability of the 460MWe unit. The technologies being developed should definitely increase the efficiency and reduce the costs of the diagnostics of the heat exchange surface inside the boiler, improving its availability and increasing the economic efficiency of its operation. The goal of the project is to develop two complementary technologies / tools for the advanced diagnostics of the wear of the heat exchange elements inside the boiler. The first solution would be used for the precise (detailed) monitoring of the technical condition of the heat exchange elements inside the boiler, which could operate at high temperatures, the second solution would be used for the analysis and interpretation of the results obtained in the context of the prediction of the erosive wear of the heating surfaces of the boiler's furnace chamber and the required repairs.	301 610.00

	Internet of Things (IOT)	Development of the Internet of Things technology in cooperation with the city of Wrocław. The project's goal is to develop a platform for collecting data and managing a smart city, which will be expanded with the arrival of a new type of sensors of various types, for measuring various quantitative parameters. In the first phase, the project focuses on air quality monitoring, waste management and parking areas management.	1 989 790.00
	HEMS (Home Energy Management System) program	The purpose of the Program, addressed to a retail customer, is to prepare TAURON Group to acquire a new revenue stream for the Group's subsidiaries, by developing a strategy, organization and model for the provision of the services and selling products under HEMS, based on the existing as well as the new products and services.	5 850.00
	Platform for managing data coming from the advanced metering infrastructure (MDM - Meter Data Management)	The goal of the project is to develop a platform for managing data coming from the advanced metering infrastructure. It will enable conducting of advanced analyses of large metering data sets, based on the innovative mathematical and statistical models. This, in turn, will contribute to achieving increased capabilities of observing the distribution grid, making more efficient decisions with respect to the maintenance and development of the grid infrastructure, increasing the operational efficiency and numerous business benefits for the DSOs.	651 330.00
TOTAL COSTS IN THE CATEGORY			**2 948 580**
TOTAL AGGREGATE COSTS			**19 260 280**

4.11. TAURON Group's Corporate Purchasing Policy

TAURON Group's Corporate Purchasing Policy, which has been in force since 2010, implements the priorities set out in the Group Strategy regarding ensuring financial stability.

The main goal of implementing the Corporate Purchasing Policy was the need to create a transparent, competitive and efficient purchasing organization operating within the entire TAURON Capital Group.

TAURON Group's Corporate Purchasing Policy enables the implementation of strategic goals of the Purchasing Area, in particular with respect to:

- improving the efficiency of purchasing processes by implementing efficiency metrics,
- increasing the use of electronic tools in the purchasing, by developing and implementing the assumptions for the functioning and further development of the Purchasing Organization Support System,
- further centralization of the purchasing processes by defining, in the Corporate Purchasing Policy, the rules for determining the consolidated categories as well as the key competences and responsibilities of the purchasing category manager, the rules for developing and creating the Purchase Strategy and accounting for the achievement of the purchase objectives.

Due diligence procedures and internal regulations

Due diligence procedures with respect to the Corporate Purchasing Policy include all actions aimed at the continuous improvement of the purchasing processes, both with regard to acquiring goods as well as the operational purchase order processing. To be able to more fully achieve the above objective, the Purchase Order (Contract) Award Regulations and Purchase Strategies have been implemented.

Purchase Order (Contract) Award Regulations

A single common purchasing regulation was implemented for all of the Group's Subsidiaries in 2015,, along with the tender documentation templates. Regulations define the principles of planning, preparation and the manner of proceeding and awarding Purchase Orders. As a result, the purchasing process in the entire Capital Group is transparent and uncomplicated from the point of view of potential contractors.

Purchase Strategies

Thanks to the prepared Purchase Strategies, it is possible to develop a Knowledge Base in the Purchasing Organization Support System (SWOZ) with respect to purchasing optimizations used for the given purchasing category.

The above actions are primarily aimed at reducing the risk in the supply chain area and gaining access to solutions and innovations used by the suppliers.

The management of categories is inseparably connected with the centralization of purchases, which allows, among others, for strengthening of the purchasing position of the ordering (contracting) party, the ability to directly communicate with the suppliers at the strategic level, standardization of the purchasing processes throughout the organization, unifying the conditions of cooperation with the suppliers across the individual subsidiaries and efficient planning of the needs.

Purchase strategies also facilitate an exchange of knowledge in the event of a potential rotation of the purchase category managers and enable long-term collection of knowledge and experience among them.

Actions taken and results achieved

All of the above activities are aimed at simplifying and standardizing the purchasing process. Increasing competitiveness is a key task for the purchasing area. Competitiveness is a guarantee of the cost reduction, risk reduction in the area of supply chain and access to the best solutions on the market. Higher competitiveness of offers (bids) is also projecting a positive image of the ordering (contracting) party on the market as a transparent and professional entity.

4.12. Code of Conduct for Contractors of TAURON Group's Subsidiaries

An important initiative implemented at TAURON Capital Group as part of a responsible supply chain is the inclusion of the sustainability criteria into the purchasing process management standard. TAURON Group promotes the idea of social responsibility among its suppliers. It expects cooperation with the contractors (counterparties) who respect human rights and act in accordance with the legal regulations, ensure safe and dignified working conditions and apply not only the highest ethical standards, but also take care of the environment and the climate.

The criteria regarding corporate social responsibility were defined and collected in a single document, i.e. the Code of Conduct for Contractors of TAURON Group's Subsidiaries. It has been a mandatory criterion used in the process of qualifying contractors since December 2017. The Code is an applicable standard in the Capital Group, promoting responsibility among stakeholders and encouraging the implementation of responsible practices among the suppliers.

Due diligence procedures and internal regulations

The goal of the Code of Conduct for Contractors of TAURON Group's Subsidiaries is to define uniform standards and transparent rules of conduct as part of their business operations, in particular with respect to the contractors (counterparties). The Code also includes the rules related to the employee (among others work health and safety, discrimination, personnel policy, forced labor, employing children and minors), the natural environment (environment protection, responsible resource management, taking care of the climate), interactions with the stakeholders (among others fair competition, combating fraud (abuse), security and protection of information, investor relations).

The Code is applied in relations with the contractors (counterparties) of TAURON Group's subsidiaries and is applicable to all employees, members of the management board and supervisory bodies of the subsidiaries, as well as proxies and powers of attorney.

The Code is associated with TAURON Capital Group's other policy documents:

- TAURON Group's Corporate Social Responsibility Code of Conduct,
- TAURON Group's Policy of Respect for Human Rights,
- TAURON Group's Anti-Corruption Policy,
- The procedure for assessing the credibility of TAURON Polska Energia S.A.'s contractors,
- TAURON Group's rules for organizing ventures in cooperation with external entities,
- TAURON Group's Purchase Order (Contract) Award Regulations.

Actions taken and results achieved

A contractor (counterparty) who takes part in the proceedings organized by TAURON Capital Group's subsidiaries is obliged to submit a statement confirming that he has studied TAURON Group's Corporate Social Responsibility Code of Conduct and compliance with its provisions. The above statement was posted on the Company's website at: http://swoz.tauron.pl/platform/HomeServlet?MP_module=main&MP_action=publicFilesList.

4.13. Personal data protection policy for TAURON Group's entities

General Data Protection Regulation (GDPR) has been applicable in the European Union since May 25, 2018. The entry into force of this regulation changed the approach to the protection of personal data, imposing a number of new obligations on data controllers, such as the introduction of new data security procedures or informing the Polish supervisory authority (PUODO) and GDPR rights entities (e.g. TAURON Group's customers) about personal data breaches. As part of the GDPR (RODO) project, TAURON Group has undertaken a number of actions aimed at implementing the requirements of the Regulation due to the need to:

- ensure the protection of personal data regardless of the place of its processing,
- appoint a Personal Data Protection Officer at TAURON Group's subsidiaries (IOD),
- ensure mandatory notification of personal data breaches,
- ensure the default protection of personal data and the protection of privacy at the design stage (privacy by design),
- implement the rights of the customers and contractors (counterparties) that the data is applicable to (e.g. "the right to be forgotten"),
- update the content of the information clauses and consents regarding the processing of personal data,
- adapt the IT systems to the new security requirements for personal data processing.

The following principles are enforced at TAURON Capital Group:

- Legality of personal data processing: we process personal data in accordance with the generally applicable law, based on an established legal basis;
- Reliability: personal data is processed in a fair, adequate, appropriate and required manner for the purposes of its processing;
- Purposefulness: personal data is processed for specific purposes;
- Accountability: TAURON Group effectively documents the handling of the given data in order to be fully accountable and prove the fulfillment of the legal obligations regarding its processing;
- Minimization: TAURON Group minimizes the processing of personal data, we provide it only for the required purposes, of which we inform in advance;

- Correctness: we take care of the correctness of data with the utmost diligence, verifying it and enabling its owners (entities subject to GDPR), for example, to update the data;
- Security: we place particular emphasis on the security of personal data processing using IT systems, implementing tools and procedures aimed at increasing cyber security. We implement and update procedures, optimizing the security of personal data, and train staff in this regard.

TAURON Capital Group applies the Personal Data Protection Policy for TAURON Group's entities. Taking into account the processing of personal data, the document sets out the principles and obligations related to the security and confidentiality of such data, as well as regarding access to the information on its processing for the data subjects. In the event that, despite the security measures applied, a breach of personal data protection (e.g. data leakage or loss) has occurred, the Data Protection Controllers (Administrators) at TAURON Group, using the specially prepared forms, inform persons that the given personal data is applicable to, of such an occurrence, doing it in manner in accordance with the legal regulations.

Due diligence procedures and internal regulations

Due diligence procedures provided in this Policy include in particular:

1. General principles for the processing of personal data specified in art. 5 of GDPR. 2. Rules ensuring that data is processed in accordance with the law - art. 6-11 of GDPR. 3.
2. Obligations of the Data Controllers (Administrators) to comply with the rights of persons whose data is processed - art. 12-23 of GDPR.
3. Regulations on the fulfillment of the general obligations with respect to the data processing entrusted with the Data Controller (Administrator) and the Processing Entity (e.g. template of the agreement for entrusting the processing of personal data) - art. 24-31 of GDPR.
4. The necessary security measures for data processing, taking into account the nature of the scope, context and purposes of data processing - Art. 32- 36 of GDPR.
5. Control mechanisms over data processing in the form of monitoring the compliance with the regulations and the accepted processing procedures by the Data Protection Officer - art. 27-43.
6. Requirements for the transfer of data to third countries and international institutions - Art. 44 - 49 of GDPR.

In the Policy, in accordance with art. 24 and art. 32 of the GDPR, while performing the above mentioned obligations with respect to ensuring the compliance, measures taking into account the state of technical knowledge, costs, nature, scope, context, purposes of processing, as well as the risks to which the processed data is exposed, have been implemented.

Actions taken and results achieved

TAURON Capital Group undertook intensive activities In 2019 to demonstrate its care for the security of the personal data processed, by:

1. Ensuring the update of the internal regulations, including the Policy, to the extent related to the changing environment.
2. Keeping the inventory of equipment and software used for processing the information, including their type and configuration, up to date.
3. Performing periodic analyses of the risk of a loss of integrity, availability (accessibility) or confidentiality of the information and taking measures to minimize this risk, pursuant to the results of the analysis completed.
4. Undertaking actions to ensure that the persons involved in the information processing process hold the applicable authorizations and participate in this process to an extent adequate to the tasks and duties carried out by them to ensure the information security.
5. Immediately changing the authorizations in the event of a change in the tasks of the persons referred to in item 4.
6. Providing training for the people involved in the information processing process, with particular regard to such issues as:
    a. threats to information security,
    b. consequences of violating information security rules, including the legal liability,
    c. using measures to ensure information security, including devices and software that minimizes the risk of human errors,
7. Ensuring the protection of the information processed against theft, unauthorized access, damage or interference, by:
    a. monitoring access to the information,
    b. activities aimed at detecting unauthorized information processing activities,
    c. providing measures to prevent unauthorized access at the level of operating systems, network services and applications.
8. Establishment of and compliance with the basic principles guaranteeing security of work in case of mobile processing and remote work.

9. Securing the information in a manner that prevents its unauthorized disclosure, modification, deletion or destruction.
10. Including, in the support services contracts signed with third parties, provisions guaranteeing an appropriate level of information security.
11. Setting the rules for dealing with the information that minimize the risk of a theft of information and the information processing means, including mobile devices.
12. Implementation of an appropriate level of security in the ICT systems, involving, in particular:
    a. taking care of software updates,
    b. minimizing the risk of information loss as a result of a failure,
    c. protection against errors, loss, unauthorized modification,
    d. using cryptographic mechanisms in a manner adequate to the threats or the requirements of a legal provision,
    e. ensuring the security of system files,
    f. reducing the risks arising from the use of the published technical vulnerabilities of the ICT systems,
    g. taking immediate action after noticing the undisclosed vulnerabilities of IT systems to the possibility of security breaches,
    h. checking the compliance of ICT systems with the relevant security standards and policies.
13. Implementation of a system for immediately reporting incidents of the information security breaches in a specific and pre-defined manner, enabling prompt taking of corrective actions.
14. Periodic internal audit with respect to the information security, at least once a year.

The number of justified complaints regarding breaches of customer privacy received by TAURON Group from the external entities decreased by 50% in 2019, as compared to 2018 (measured since May in 2018), however, the number of justified complaints regarding a breach of customer privacy received from the regulatory authorities went up by 100%.

Table No. 61 presents material complaints regarding breaches of customer privacy and loss of customer data at TAURON Group in 2019.

Table no. 61.GRI 418-1. Material complaints regarding breaches of customer privacy and loss of customer data at TAURON Group in 2019

Total number of data leakage, theft or loss of customer data cases found	245
Number of justified complaints regarding breaches of customer privacy received from third parties and recognized by the organization	2
Number of justified complaints regarding breaches of customer privacy received from the regulatory authorities	4
Total number of justified complaints regarding breaches of customer privacy	6

TAURON Sprzedaż and TAURON Sprzedaż GZE are the main centers for the arising of material complaints regarding breaches of customer privacy and loss of customer data in 2019 (92%). The increase in the growth rate of the total number of detected data leaks, thefts or cases of its loss (+ 355%) results from the increase in the scale of the processing of the customers' personal data in 2019, especially in the new projects as compared to 2018.

In 2020, a detailed analysis of the subject structure and growth factors of the said indicators (rates) will be performed, along with the recommendations on how to reduce their magnitude.

4.14. Policy of compliance with the Principles of Ethics and preventing Mobbing and Discrimination at TAURON Capital Group

The policy of compliance with the Principles of Ethics and preventing Mobbing and Discrimination at TAURON Capital Group was implemented in May 2019, replacing the Policy of preventing mobbing and discrimination at TAURON Group in place since 2017. This policy defines the rules for reporting the violations of the Ethics, Mobbing and Discrimination Rules as well as the tasks, rights and obligations of TAURON Group's Ethics Committee.

There are two sub-committees within TAURON Group's Ethics Committee:

- Internal sub-committee, whose members are appointed and dismissed by the Management Board of the given Subsidiary, that at the same time appoints the Chair of the Subcommittee;
- Group sub-committee, composed of eight members, appointed from among the representatives of the trade unions operating at TAURON Group and eight representatives of the Employers, appointed by the Management Board of TAURON Polska Energia S.A.

The employee has been given a choice of which Subcommittee he / she would like to turn to in order to have his / her notification reviewed.

Due diligence procedures and internal regulations

The main assumptions used as part of the Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination at TAURON Group include:

- ensuring compliance with the Principles of Ethics with respect to preventing employee rights violations and conflicts between Employees,
- defining the principles of counteracting Mobbing and Discrimination cases at the workplace and in connection with the performance of work, ensuring the implementation of the labor law provisions,
- undertaking intervention measures and mitigating the effects of identified cases of violations of the Principles of Ethics, in particular the cases of Mobbing, Discrimination,
- taking disciplinary measures against persons committing violations of the Principles of Ethics, in particular regarding Mobbing or Discrimination,
- strengthening positive relations among Employees.

TAURON Group's Corporate Social Responsibility Code of Conduct is a regulation supporting the Policy of Compliance with the Principles of Ethics and counteracting Mobbing and Discrimination, which includes TAURON Group's corporate values and the principles of conduct at TAURON Group in three areas: employee, natural environment and stakeholders. They provide a guidepost on conduct for all employees.

Actions taken and results achieved

The Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination at TAURON Group is implemented through the e-learning training courses aimed at developing and strengthening positive relations among the Employees and preventing the cases of mobbing or discrimination as well as ongoing education of the employees. The e-learning training is a mandatory training for all of the newly hired employees. The other employees are reminded of the Policy rules through the information campaigns and content available on the intranet website.

4.15. TAURON Group's due diligence procedures

4.15.1. Internal control and audit procedure

The internal audit process at TAURON Capital Group is organized in such a way as to ensure broadly understood security of the Group's operations, while supporting the implementation of the Strategy's objectives. As part of its control and audit activities, the Group strives to increase the predictability of achieving strategic goals - including stable achievement of the assumed financial result - by also focusing on the potential risks that may threaten the value levers (drivers) that are key for the implementation of the Strategy.

The main goals of the Audit Area at TAURON Polska Energia S.A. include: planning and implementation of the audit tasks, including advisory and opinion forming activities, as well as the control tasks, including the performance of the ad hoc controls commissioned. As part of the audit activities, the correctness of the audited processes and the effectiveness of the control mechanisms are also verified. If any irregularities are identified, the auditors recommend taking appropriate corrective actions. The implementation of the recommendations is the responsibility of the management of the audited entities, and the degree of the implementation of the audit recommendations is monitored on an ongoing basis. The above tasks are implemented by two teams: the Strategic Audit Team, dealing with the strategic tasks, covering TAURON Capital Group and the Operational Audit Team, carrying out specialized operational tasks at the level of the Group's individual subsidiaries and its lines of business.

Similarly, the control (inspection) activities are organized at the Group level and carried out by the Internal Control Team and at the level of the subsidiaries by the controllers employed by such subsidiaries. In addition, within the Audit and Control Area, there is a unit specializing in the control of the area of IT, OT and security systems. Tasks carried out by these units include both the scheduled audits as well as the ad hoc audits commissioned on an ongoing basis.

The organization of the Area aims to enable covering the entire operations of the organization with the scope of the audits and controls, both from the point of view of the needs of TAURON Capital Group as well as those of the individual subsidiaries. The direct reporting to the President of the Management Board allows the Audit Area to maintain the required independence and objectivity.

The Audit and Control Area conducted 19 scheduled tasks, including 11 audit tasks and 8 control tasks in 2019. In addition, works were carried out to build and develop a model for the periodic assessment of the Internal Control System in place at TAURON Polska Energia S.A. as well in the entire TAURON Capital Group. The Audit and Control Plan for 2020 includes 13 audit tasks, as well as 23 control tasks. The works on the construction and development of the model for the periodic assessment of the Internal Control System will also be continued.

4.15.2. Most important aspects of internal control and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Supervision over application of consistent (uniform) accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statement
In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS) approved by the European Union the Accounting Policy of TAURON Polska Energia S.A. Capital Group (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's stand-alone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements. Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Office and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on TAURON Polska Energia's financial statements and TAURON Capital Group's consolidated financial statements
TAURON Polska Energia has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for the Company's Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements. Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

IT systems as well as financial and accounting processes
TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the coherence (integrity) and timeliness of preparing the consolidation data. TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification. Due to the integration of the accounting functions and the transfer of TAURON Capital Group's material subsidiaries' financial and accounting services to CUW-R (Shared Cervices Center – Accounting) TAURON Capital Group's financial and accounting processes were gradually unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments. TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.

Subjecting TAURON Polska Energia's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor
The Company's full year financial statements are subject to a review by a certified auditor. In 2017, the Company selected an entity authorized to audit and review the financial statements of TAURON Capital Group's material subsidiaries and the consolidated financial statements. The contract with the entity authorized to audit financial statements was concluded for the audit of financial statements for 2017, and then, after the entry into force of the Act of May 11, 2017 on certified auditors, audit companies and public oversight, was adapted to the new provisions in the form of an annex covering the audit of financial statements for 2018 and the full year consolidated financial statements of TAURON Capital Group are subject to an audit by an independent certified auditor. The interim financial statements of the Company and the interim consolidated financial statements of the TAURON Capital Group.

4.16. GRI indices described in this section

- Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. The impact of these activities on society
- GRI 103-2 The management approach and its components in the areas: environmental, social, human rights, anti-corruption, HR, including indicating material topics within the given area
- GRI 102-17 Internal and external mechanisms enabling advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-32 Role of the top management authority in reporting
- GRI 205-1 Operations assessed for risks related to corruption
- GRI 205-2 Communication and training about anti-corruption policies and procedures
- GRI 205-3 Confirmed incidents of corruption
- GRI 403 Occupational health and safety management system
- GRI 403-9 Rates of injury, occupational diseases, lost days and absenteeism, and the number of work-related fatalities by region and gender
- GRI 416-1 Number of accidents
- GRI EU18 Percentage of employees, contractors and subcontractors who underwent health and safety training
- GRI 417 The management approach in marketing and labeling
- GRI 417-2 Cases of non-compliance of products and services regarding information and labeling
- GRI 417-3 Cases of non-compliance regarding marketing communications
- GRI EU 3 Number of individual and business customers
- GRI 418 The management approach to customer privacy
- GRI 418-1 Material complaints regarding breaches of customer privacy and loss of customer data
- GRI EU-DMA The management approach in research and development
- GRI EU DMA Research and investment to ensure reliability of energy supply and promote sustainable development
- GRI 405 The management approach to equality and diversity
- GRI 406-1 Incidents related to discrimination and corrective actions
- GRI 203-1 Investments in products and services
- GRI 206-1 Legal actions for anti-competitive (anti-trust) behavior
- GRI 401 The management approach to employment
- GRI 102-8 Information on employees and other workers
- GRI 405-1 Composition of staff broken down by age and gender and minority
- GRI 401-3 Parental leave
- GRI 102-41 Collective bargaining agreements
- GRI 404-1 Number of training hours per employee
- GRI 404-2 Competence enhancement programs
- GRI 403-1 Number of employees associated in trade unions
- GRI 305-1 Direct greenhouse gas emissions
- GRI 302-1 Total consumption or production of energy from renewable and non-renewable sources
- GRI EU2 Net volume of energy produced, broken down into main energy sources
- GRI 305-7 NOx, SOx and other significant air emissions
- GRI 303-1 Total water consumption by source
- GRI 306-1 Total sewage volume by quality and destination
- GRI 306-2 Total weight of waste by type of waste and methods of waste management
- GRI EU-DMA The management approach in waste management
- GRI 302-3 Energy consumption
- GRI EU18 Percentage of employees, contractors and subcontractors of TAURON Capital Group who underwent work health and safety training
- GRI 305-5 Greenhouse gas emissions reduction
- GRI EU1 Installed generation capacity broken down into main types of raw material and regulatory requirements
- GRI EU 28 Frequency of interruptions in the energy supply to customers
- GRI EU 29 Average duration of interruptions in the supply of distributed energy

5. TAURON CAPITAL GROUP'S MAIN RISKS AND THE MANAGEMENT THERE OF

5.1. What TAURON Group expects as a result of the regulatory and market changes

Due to the changes taking place in the European climate policy as well as social and economic transformations, the energy sector is experiencing a fast rise in the impact of the broadly understood environment on its results and operations. The most important factors affecting the functioning of TAURON Group include regulatory transformations taking place at both the European as well as the national law levels.

In recent years, intense legislative processes on the part of the European Union bodies have been observed. The energy and the environment sectors are among the competence areas that are shared between the European Union and the Member States. Therefore, the majority of the EU's activities in this area will have a significant impact on the operations of TAURON Group.

Recent years have demonstrated a very rapid pace of changes taking place not only in the regulatory environment, but also in the Group's economic, macroeconomic or market environment. In particular, the following factors are observed:

- introducing further and tightening the existing regulations and requirements with respect to the environment protection and counteracting climate change (among others the Winter Package, Grid Codes, ETS Directive, BAT conclusions, the European Commission guidelines on climate impact reporting),
- increase in the volatility of the prices of electricity and related products,
- steadfast change of the energy mix towards low or zero emission electricity generation sources,
- development of the distributed and prosumer energy sector model,
- advancing integration of the European electricity markets,
- increase of the awareness of TAURON Group's stakeholders regarding the environment protection and climate impact.

TAURON Group assumes that the above mentioned trends will continue, aiming at a further transition towards developing an innovative and low-emission economy, and achieving, in the long run, climate neutrality in the European Union.

Due to the above, TAURON Group is actively monitoring both the regulatory environment as well as the market environment in order to prepare an action plan corresponding to the changing conditions for conducting market operations. In particular, the risk management system functioning in this respect at TAURON Group is geared towards implementing appropriate and effective responses to possible threats, as well as towards the possibility of taking advantage of emerging market opportunities.

5.2. Three line defense model

In order to ensure safe functioning of the organization, the so-called three line defense model is in place at TAURON Capital Group and it constitutes an internal control system. It includes:

a) as part of the first line of defense - functional control performed by:
   - lower and middle level management,
   - the Group's other personnel

b) as part of the second line of defense - independent control performed by the following functions:
   - risk management,
   - compliance assurance
   - safety assurance,

c) b) as part of the third line of defense: institutional control performed by the internal audit.

The results of the Internal Audit's activities are reported directly to the senior management and the Audit Committee / Board. The way the so-called three lines of defense are organized is illustrated in Figure no. 36.

Figure no. 36. TAURON Capital Group's three line defense model

5.3. Risk management objective and principles at TAURON Capital Group

At TAURON Capital Group risk is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both negatively (threat), as well as positively (opportunity).

In line with its Strategy TAURON Polska Energia is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, risk management is to ensure increased predictability of TAURON Capital Group achieving its strategic goals, including sustainable generation of its financial results.

TAURON Capital Group's risk management:

1. Covers all elements of the value chain,
2. Provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and coherent risk management principles,
3. Ensures independence of the risk taking function from its control and monitoring
4. Ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
5. Is an active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
6. Is a systematic and continuously improved process which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment,
7. Places a strong emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities,
8. Co-creates at TAURON Capital Group the internal audit system, constituting, along with the compliance and security management functions, an element of the three line defense.

5.4 TAURON Group's risk management strategy

The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring safety (security) of TAURON Capital Group's operations. This system is governed by the document entitled *Enterprise Risk Management Strategy at TAURON Group* (ERM Strategy) that defines TAURON Capital Group's enterprise risk management rules. The goal of the ERM Strategy is to ensure the consistency of managing the individual risk categories that were detailed in separate regulations, aligned with the specifics of the individual threat groups.

As part of the ERM System, the following Specific Risks are identified within TAURON Group, for which separate Policies tailored to the nature and specifics of the given group of threats are defined:

- trading (commercial) risk,
- credit risk,
- financial risk,
- operational risk,
- regulatory risk,
- project risk.

The description of TAURON Capital Group's specific risks in the ERM system is presented in Figure no. 37.

Figure no. 37. Description of TAURON Capital Group's specific risks in the ERM system

The detailed rules for managing TAURON Capital Group's specific risks are described in the Report of the Management Board on the Operations of TAURON Capital Group for 2019.

5.4.1. Risk management system architecture

The center of the ERM System is a risk management process that includes ongoing activities such as risk identification, risk measurement, and developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including

1) Organization of the ERM System.
2) Risk control and monitoring rules.
3) Risk model.
4) Risk management tools.
5) Assessment of the adequacy and functioning of the ERM system.

Figure 38 presents the architecture of the ERM system functioning at TAURON Capital Group. The detailed description of its individual elements is provided in the Report of the Management Board on the Operations of TAURON Capital Group for 2019.

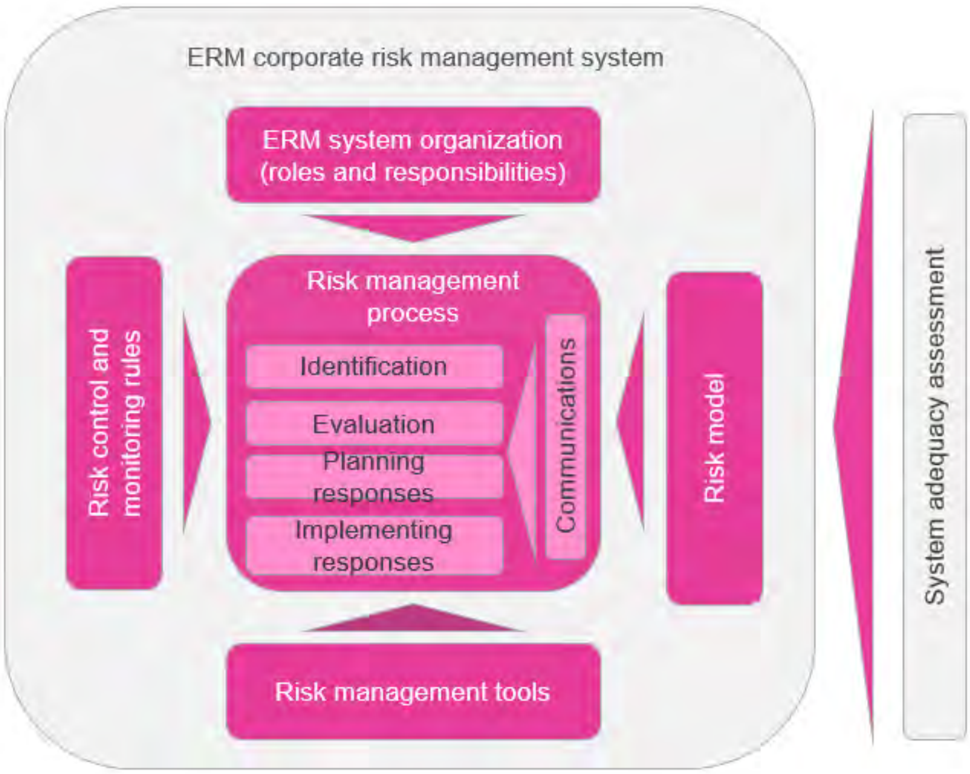


Figure no. 38. Architecture of TAURON Capital Group's ERM system

The rest of the section provides brief descriptions of the elements of the risk management system architecture. The extended descriptions are provided in the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for 2019.

5.4.2. Risk management process

The process of enterprise risk management ensures the comprehensive and consistent risk management rules linked with one another in terms of methodology and information. The process of enterprise risk management means taking continuous measures comprising risk identification, risk assessment, planning of risk response, implementation of the adopted risk response and communication between risk management process participants.

Figure no. 39 presents the risk management process at TAURON Capital Group.

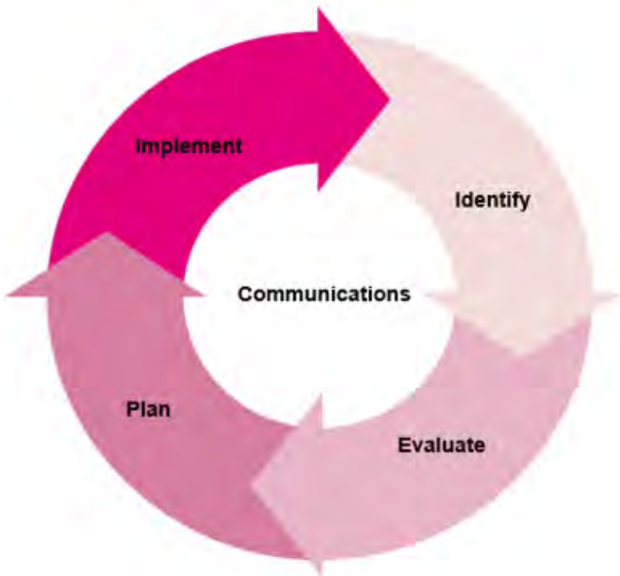


Figure no. 39. Risk management process at TAURON Capital Group

Risk identification consists in determining the potential events that may affect the implementation of business goals of TAURON Capital Group. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated response to the risk identified in order to achieve the desirable results. The planned actions constituting the prepared risk response are dependent and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in practical implementation of the responses to the identified risk, prepared in the planning process. The defined set of actions as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, indicate whether the activities carried out are effective and risk management is bringing the assumed effect of maintaining the value of the EWI indicators EWI within the acceptance range.

Communication consists in a continuous flow of information among the participants of the process, which is to ensure full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodical risk reporting is also an element of this process.

5.4.3. Roles and responsibilities of the risk management system's participants

The key assumption of the risk management system at TAURON Group is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest. In particular, the system guarantees independence of the risk taking function from risk control and monitoring. This is achieved through the centralization of the control function at TAURON Polska Energia S.A. level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the Risk Owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system was placed at TAURON Polska Energia S.A., in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and oversight of the risk management process effectiveness. Within the Risk Committee two separate teams are set up, one for the trading (commercial) risk area and the other for the financial and credit risk area. Oversight of the enterprise risk management system is performed directly by the Risk Committee.

Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail. The detailed description of the roles and responsibilities is provided in table no. 62.

Table no. 62. Description of the ERM System participants' roles and responsibilities at TAURON Capital Group

PARTICIPANT	PARTICIPANT'S ROLES AND RESPONSIBILITIES
TAURON Supervisory Board	1) Assessment of the ERM System, especially of its adequacy and effectiveness. 2) Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities.
Audit Committee, TAURON Supervisory Board	Monitoring the ERM System's effectiveness.

TAURON Management Board	1) Assessment of the ERM System's adequacy, effectiveness and efficiency. 2) Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Management Board will be performing the Risk Owner's function. 3) Approving TAURON Capital Group's risk tolerance and global limits for the key risks. 4) Managing the risks of special importance for TAURON Capital Group's operations
Risk Committee	1) Overseeing TAURON Capital Group's risk management process. 2) Control of (auditing) TAURON Capital Group's risk exposure. 3) Providing opinions and recommending to the Management Board the shape of the individual elements of the risk management infrastructure. 4) Defining TAURON Capital Group's risk tolerance and global limits for the key risks, and also applying to the Management Board for the approval or change thereof. 5) Overseeing the preparation of the quarterly information for the Management Board on all important issues related to TAURON Capital Group's risk.
Executive Director for Risk	1) Coordinating the risk management process on all levels and in all areas (lines of business) of the organization's operations. 2) Responsibility for the development of the ERM System (threat identification, evaluation monitoring and checking methods, processes and procedures). 3) Support and oversight over the system's participants in the risk management implementation and evaluation of its efficiency. 4) Preparing and providing the risk reports to authorized risk management process participants. 5) Actions aimed at developing supportive organizational culture and raising awareness with respect to TAURON Capital Group's risk management.
Executive Director for Internal Audit	Periodic review of the correctness of designing and implementing as well as the effects of actions taken within the ERM System.
Management Board of a subsidiary	1) Responsibility for risk management within a subsidiary. 2) Promoting risk management culture in a subsidiary. 3) Responsibility for the appropriate reactions to risk and the effectiveness thereof. 4) Appointing Risk Owners at the given subsidiary. 5) Approving, in justified cases, plans of response to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded. 6) Taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded
Risk Owner	1) Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in context of an impact on the ongoing operations as well as on the implementation of the strategic, operational and financial goals of the unit. 2) Responsibility for preparing a plan and for implementing a reaction to risk in case its established values are exceeded, and also for the communications and reporting within the risk management implemented.

5.4.4. Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to factors that may have an adverse impact on its functioning. The basic risk control tool is the risk tolerance approved by the Management Board that defines the value of the maximum permitted risk exposure at TAURON Capital Group.

The process of defining the risk tolerance takes into account the specifics and scope of TAURON Capital Group's operations. Its level is defined as a value, and the rules of measurement of individual risks in the organization ensure the consistency of risk measurement with the applied tolerance definition. The risk tolerance constitutes the basis for allocation of its level to the global limits dedicated to a single risk or many specific risks. Subsequently global limits are allocated to operating limits within the specific risk management. The key assumption is to guarantee independence of the risk taking function from risk control and monitoring which guarantees safety of the functioning of the organization.

A supplementary tool used for risk monitoring and control comprises the Early Warning System based on the catalogue of Key Risk Indicators - KRI and Early Warning Indicators - EWI. The system functioning based on the KRI and EWI indicators enables an appropriately early identification of threats by measuring the causes of the individual threats. At the same time this system allows for an appropriately early taking of remedy actions, before the individual threats actually materialize.

5.4.5. Risk management tools

Risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group uses, in particular, the following tools:

1) Risk identification / review questionnaire, i.e. a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
2) Risk card, i.e. a document containing the detailed information on the identified risk.
3) Risk register, i.e. a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations.
4) Risk response plan, i.e. a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to a given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization
5) Risk assessment form, which is a tabular summary of detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of risk measurement parameters (KRI / EWI).

5.4.6. Risk model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories. The main risk categories and sub-categories, in accordance with TAURON Capital Group's Risk Model in place, include:

1) **Operational risk,** within which the following risks are identified:
    - **Environment -** risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Group's goals,
    - **Technology, infrastructure and security** - all events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure,
    - **Employees and organizational culture -** risks related to employee issues and organizational culture,
    - **Compliance Risk** - risks related to non-compliance, internal and external abuse as well as unethical behavior,
    - **Customers and contractors (counterparties)** - risks related to the volatility of the supplies / services market, failure of the customer / contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin**.**
2) **Financial and credit risk**, within which the following risks are identified:
    - **Finance and credit** – risks related to changes in exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on contractual obligations.
3) **Trading (commercial) risk**, within which the following risks are identified:
    - **Trading** - risks determining the market volatility of electricity and related products market prices to which the enterprise is exposed.
4) **Regulatory risk**, within which the following risks are identified:
    - **Regulations** - risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Group

5.4.7. Assessment of the adequacy and the functioning of the risk management system

Risk management is a systematic process subject to continuous improvement which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment. It is also subject to a periodic, internal and independent assessment of adequacy and reviews:

- ERM System is subject to continuous reviews with respect to its adequacy and alignment with the structure and specifics of TAURON Capital Group's operations, as well as to the changing environment,
- not less seldom than once a year the Executive Director for Risk prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee, Executive Director for Audit, as part of performing the institutional (third line of defense), periodically conducts an independent audit of risk management at TAURON Capital Group verifying the appropriate implementation of the rules by the process participants, as well as its adequacy and effectiveness

5.5. Risks related to TAURON Group's sustainable development

Risks related to the sustainable development of TAURON Group are classified in accordance with the Risk Model described in section 5.4.6. The following categories of risks related to the development of TAURON Group have been identified

1) Social risk
2) Risk related to climate change
3) Human capital management risk
4) Work Health and Safety (WHS) risk
5) Internal communication risk
6) Environmental risk
7) Purchasing process risk
8) Legal risk
9) Compliance risk

5.5.1. Social risk

Table no. 63 presents Social Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Social risk is classified in the category: Operational risk / Employees and organizational culture

Table no. 63. Social Risk identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	Social risk	The risk includes the risk of non-compliance with customer service standards, implementation of sales contracts, external communications and marketing activities, as well as the risk related to the protection of personal data. The risk materialization results in a loss of reputation and the customers' trust, disputes with customers, a failure to achieve goals, including sales goals, and possible penalties for non-compliance with the legal requirements regarding personal data protection.	➔	• Adoption and implementation of the PRO Client Social Policy. • Conducting of the dialogue with customers, including customer satisfaction surveys, tailoring the product offering to their needs, ensuring high quality of customer service. • Developing relationships with customers and the market environment. • Responsibility for the product, including for the quality and security of supply, tailoring the product offering to customer expectations. • Protection of privacy and security of the customers' personal data. • Deploying tools supporting the implementation of the client social policy. • Standardization of the draft contracts (contract templates) with customers and their adaptation to the changes in legal regulations as well as the optimization of the sales and service processes. • Implementation of the promotional activities in accordance with the adopted TAURON Brand Strategy and TAURON Group's Sponsorship Strategy for 2018-2025, including respect for human rights and conducting responsible marketing activities.
2.	Corporate social responsibility area management risk	Risk related to the involvement of TAURON Capital Group in activities that do not respond to the needs of stakeholders resulting in a loss of confidence on the part of various stakeholder groups, loss of credibility and messages generated by the company in society	➔	• Implementation and performance of the CSR project plan, which specifies all activities, including the justification thereof, • Approval of the key activities by authorized areas.
3.	Risk of reputation management by shaping the brand image	The risk associated with the use of the TAURON brand in combination with adverse, controversial activities that have a negative impact on the Group's image, which in effect projects the inappropriate image of the company.	➔	• Supervising the process of establishing the methodology for conducting promotional and sponsorship campaigns, approving of the key activities by authorized areas, • Implementing the Visual Identification System, appointing a Team responsible for assessing and approving the image building projects.

5.5.2. Risk related to climate change

Effective fight against climate change and sustainable development are one of the main stipulations implemented as part of TAURON's Green Turn concept. Taking the above into account and being aware of climate change, the risks associated with climate change have also been identified as part of the Risk Model. They include:

- physical risk - resulting from the physical effects of climate change adversely affecting the operations of TAURON Group's subsidiaries, in particular as a consequence of specific events related to the weather (storms, floods, heat waves), climate changes leading to temperature changes or hydrological drought,
- risk related to the transition - including risks resulting from the transition to the low emission economy resilient against climate change; for example, regulatory, financial, social, technological.

5.5.2.1. Physical risk

Table no. 64 presents the Physical Risk related to climate change identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Physical Risk related to climate change has been classified in the category: Operational Risk / Environment; Operational Risk / Technology and infrastructure; Operational Risk / customers and contractors; Trading (commercial) risk / Trading.

Table no. 64. Physical Risk related to climate change identified at TAURON Capital

#	Risk name	Risk description	Risk trend	Response to risk
1.	Short-term physical risk (acute risk)	The risk is related to: - frequent occurrence of extreme temperatures, greater rainfall intensity that can cause floods at any time of the year, uneven rainfall resulting in longer periods of no rainfall, intermittent abrupt rainfall (torrential rain), - increase in the frequency and intensity of hurricanes, strong winds, incidentally accompanied by tornadoes and lightnings causing machinery and equipment failures, distribution grid failures (electricity, heat), more frequent drought occurrences and water restrictions related thereto, as well as an increased risk of fires. The risk materialization also results in: - increased costs of maintaining transmission systems resulting from the costs of fixing failures, a decrease in the volume of electricity and heat sales, a decrease in the volume of production, a deterioration of the electricity distribution quality indicators affecting the regulated revenue - sharp fluctuations of market prices due to the occurrence of extreme temperatures affecting the levels of demand and the ability to satisfy such demand by the supply side. The risk includes the risks identified and managed by TAURON Group: environmental risk (in the context of excessive impact on the climate), weather risk, company assets related risk and market risk.		• Adoption and implementation of TAURON Group's Climate Policy, • Conducting business operations that affect the climate in accordance with the principles of sustainable development. • Maintaining the required level of the pollution reduction devices' performance, • Frequent assessment of compliance of the activities with the legal requirements regarding climate impact, • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's activities on climate change, gradual adaptation of the production assets to the consequences of extreme weather occurrences and the volatility of weather conditions, in particular in the lines of business sensitive to these factors, • Optimization of investment outlays allocated for asset replacement, active monitoring of the condition of the machinery, equipment and installations. • Increasing of the professional qualifications and work culture of employees by organizing courses and training courses. • Responding to an emergency situation by the technical operational personnel and the automated protection systems. • Property insurance against fortuitous events (excluding the underground assets). • Introduction of IT tools with respect to improving the monitoring and management of failure rates. • Gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in the Distribution Line of Business.
2.	Long-term physical risk	The risk is related to: - decrease in the volume of sales of the products offered by TAURON Group's subsidiaries, in particular as a result of a temperature deviation from the planned values, resulting primarily in a loss of revenues in the individual segments of TAURON Group's operations as a consequence of reduced demand,		• Ongoing offering updates, introduction of the multi-packet products for sale, • Conducting marketing activities, acquiring new customers, • Activities focused on retaining current customers and recovering the lost ones, • Daily measurement and reporting of the portfolio positions,

#	Risk name	Risk description	Risk trend	Response to risk
		- reduction, especially in summer, of the water levels in rivers and water reservoirs, and an increase in their temperature, which generates a decrease in the efficiency of the generating units and a decline in the dispatchability of the units during the peak electricity demand periods. The above may lead to a blackout in an extreme scenario, - change of the market conditions for the operations of TAURON Group's subsidiaries, in particular as a result of changes in the weather conditions resulting in a drop of the margin in the Generation Line of Business (CDS / volume) and, in general, an increase of the costs and a decrease of the revenues, - increased failure rate of the machines and devices constituting the assets of TAURON Group's subsidiaries due to permanent climate changes - such as prolonged droughts, global warming, for example. The risk includes risks identified and managed by TAURON Group: volume and margin risk, company assets related risk and market risk.		• Trading (commercial) risk management through a system for assigning and controlling the risk limits (e.g. VaR and stop loss) • Adoption of an optimal trading strategy and implementation of mechanisms used to hedge the trading position, • Optimization of investment outlays for asset replacements, active monitoring of the condition of the machinery, equipment and installations, • Gradual adaptation of the production assets to the climate change.

5.5.2.1. Climate risk related to the transition

Table no. 65 presents the Climate Risk related to the transition identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Climate Risk related to the transition has been classified in the category: Operational Risk / Environment; Regulatory Risk / Regulations; Operational Risk / Customers and Contractors; Trading (commercial) risk / Trading; Financial and Credit Risk / Finance and Credit.

Table no. 65. Risk related to the transition identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	Risk related to the transition	Risk related to the tightening of the European Union's climate policy, the tightening of the environmental requirements resulting from the climate change, the growing awareness of the customers with respect to the climate change, the activities supporting energy efficiency (growth of prosumers, support for thermal insulation, construction of own electricity and heat sources, departure from the coal use as fuel), a change in the conditions of TAURON Group's operations (the need to adapt the company to the challenges of changes resulting from the climate change, including the technological adaptation to the global low-emission solutions). The consequences of the risk include the reputation, technology, policy and regulatory issues, as well as the market issues. In particular, the effects of the risk may be: - decrease in the volume of sales of the products offered by TAURON Group's subsidiaries, in particular as a result of the development of energy efficiency, insulation of buildings, development of prosumers, resulting primarily in a loss of revenue in the individual segments of TAURON Group's business operations resulting from the reduced demand - change of the market conditions for the operations of TAURON Group's		• Applying of TAURON Group's Climate Policy, • Defining and updating as well as implementing of TAURON Group's Strategy, • Update of TAURON Group's Strategic Research Agenda, • Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from the Climate Policy and the Investment Strategy, • Update and implementation of the TAURON Group's Sustainable Development Strategy, • Ongoing analysis of the draft ordinances and acts, • Active participation in the work of teams providing opinions on projects and proposing optimal solutions, • Gradual adaptation of TAURON Group's production assets and energy mix to the production of renewable energy and zero and low-emission electricity generation technologies, • Gradual withdrawal of the anthropogenic sources of greenhouse gas emissions coming from fossil fuels through the development of renewable energy and zero and low-emission electricity generation technologies, • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on the climate change

#	Risk name	Risk description	Risk trend	Response to risk
		subsidiaries, in particular as a result of the tightening of the European Union's climate policy, the growing ecological awareness of the customers, the activities supporting energy efficiency (departure from the coal use as fuel, growth of prosumers, support for thermal insulation, construction of own electricity and heat sources) resulting in a drop of the margin in the Generation Line of Business (CDS / volume) and, in general, an increase of the costs and a decrease of the revenues - difficulties or an increase in the cost of raising capital to finance operations based on fossil fuels, - loss of reputation due to involvement in fossil fuels, - the need to transform the assets and, as a consequence, the need to incur additional expenses as a result of the climate change, - difficulty or an increase in the insurance costs for the assets based on fossil fuels, - an increase in the costs of the environmental fees and the need to incur additional investment outlays to adapt the assets to the environmental requirements - an increase in the price of the CO_2 emission allowances and, as a consequence, a decrease in the margin in the conventional electricity segment - a decrease in demand for electricity as a result of energy efficiency and growth of the prosumers segment, - a decrease of the demand for the products offered thus far by TAURON Group's subsidiaries, - limiting or discontinuing the operations based on fossil fuels and carbonates, - the need to restructure employment resulting from a change in the business operations profile, - impediments to administrative procedures involving the public by non-governmental organizations - a decline in the company value, - inability to meet market expectations due to the lack of the expected products in the portfolio The risk includes risks identified and managed by TAURON Group: climate change, reputation, regulatory, volume and margin, market, obtaining of the financing, company assets, human resources related risks.		

5.5.3. Human capital management risk

Table no. 66 presents the Human capital management risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Human capital management risk has been classified in the category: Operational Risk / Employees and organizational culture.

Table no. 66. Human capital management risk identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	Human capital management risk	Risk related to the employee issues, including diversity, participation, employment and working conditions, relations with the trade unions and respect for the right of freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to climate change, forcing a change of the business operations profile. The materialization of the risk may result in the interruptions or disruptions in the operational work, employee complaints, collective labor disputes, strikes, loss of specialized staff and difficulties in reproducing it.	➔	Adoption and implementation of the Employee Recruitment, Selection and Adaptation Policy. • Adoption and implementation of the Policy of Compliance with Ethics Principles and Counteracting Mobbing and Discrimination. • Taking care of the development of the employees' competences, including through the participation in training courses. • Conducting consultations with social organizations at the TAURON Capital Group. • Implementation of the HR policy based on the Competence Model and the applicable remuneration and labor law regulations (Remuneration Regulations, ZUZP, Labor Regulations). • Adoption and implementation of the Diversity Policy. • Adoption and implementation of the Human Rights Respect Policy.

5.5.4. WHS risk

Table no. 67 presents the WHS risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the WHS risk has been classified in the category: Operational Risk / Employees and organizational culture.

Table no. 67. WHS risk identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	WHS risk	Risk related to ensuring health and safety at work. The materialization of the risk results in employee injury, loss of health or excessive exposure of the employee to factors harmful to health, compensation paid for damage to health.	➔	• Prioritizing the safety of employees, customers, contractors and stakeholders in the business operations undertaken, • Adoption and implementation of TAURON Group's Work Health and Safety Policy, • Ensuring optimal working conditions, • Conducting active monitoring of the working conditions and the correctness of work organization, • Raising employees' qualifications with respect to improving work safety, • Conducting training courses, implementing and improving the WHS management system.

5.5.5. Internal communication risk

Table no. 68 presents the Internal communication risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Internal communication risk has been classified in the category: Operational Risk / Employees and organizational culture.

Table no. 68. Internal communication risk identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	Internal communication risk	Risk related to providing incorrect or unverified information within the organization, formulating an unclear / incomplete message, a failure to provide employees with the information of significant importance, resulting in misleading the recipients of the information or a failure to comply with disclosure obligations resulting in the wrong business decisions being made as a result of a lack of reliable (accurate) information, a loss of trust in the employer or administrative penalties (fines).	➔	• Developing relationships with TAURON Capital Group's social party and close cooperation with the Social Dialogue Ombudsman, • The use and development of available communication tools to provide relevant information to the employees of TAURON Capital Group, • When providing relevant information - organizing direct meetings of the management team with the personnel, • Ongoing monitoring of the situation and events taking place at TAURON Capital Group's subsidiaries that may cause social concerns, • Regular periodic meetings with the representatives of the subsidiaries dealing with the internal communication in order to exchange information, • Developing a communication strategy for the TAURON Group.

5.5.6. Environmental risk

Table no. 69 presents the Environmental risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Environmental risk has been classified in the category: Operational Risk / Technology and infrastructure.

Table no. 69. Environmental risk identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	Environmental risk	Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would make it impossible to prevent excessive (above applicable standards) pollution, damage, disruptions or failures of installations or equipment that have a negative impact on the environment. The risk also involves the possibility of: - a lack of valid environmental decisions, - depositing waste in places not intended for this purpose or not in accordance with the operating conditions of the facilities designated for this, - occurrence of a crisis situation: e.g. fire, displacement of earth masses, extreme weather events, - use of waste not in accordance with the authorized intended used, - a lack of appropriate safeguards limiting the negative impact of TAURON Group's operations on the environment, - release of hazardous substances to the environment, - social protests. The consequence of the materialization of the risk is the degradation of the	➔	• Adoption and implementation of TAURON Group's Environmental Policy, • Conducting business operations that affect the environment in accordance with the principles of sustainable development. • Ongoing supervision over compliance with the conditions of environmental decisions, • Maintaining the required level of the pollution reduction devices' performance, • Frequent assessment of compliance of the activities with the legal requirements with respect to the environment protection, • Implementation of investment projects in the environmental protection area in order to minimize the consequences of adverse impact of mining and processing operations on the environment and climate, • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on climate change.

#	Risk name	Risk description	Risk trend	Response to risk
		natural environment and penalties for a failure to comply with the environmental requirements, the need to fix the deficiencies, reduction of production, delays in the implementation of the investment projects, pollution of water sources in a way that prevents their use, destruction of a valuable natural habitat, site or area - environmental compensation, restrictions on further business development, damage to the GROUP's image, limitation of the use of financial assistance programs. The risk also includes an increase in the environmental requirements stemming from the tightening of the European Union's climate policy.		

5.5.7. Purchasing process risk

Table no. 70 presents the Purchasing process risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Purchasing process risk has been classified in the category: Operational Risk / Customer and contractors.

Table no. 70. Purchasing process risk identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	Purchasing process risk	Risk related to the procurement proceedings conducted, their erroneous implementation, unplanned increase in the purchase costs, taking into account methods employed to prevent violation of human rights by business partners, counteract corruption and abuse in the purchasing process and compliance with the ethical and moral standards during its implementation. The consequences of the materialization of the risk include unfavorable purchase agreements, the need to cancel the tender procedures, damage to the image of TAURON Capital Group and credibility with the stakeholders.	➔	• Adoption and implementation of the Code of Conduct for the Contractors of TAURON Group. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of the Policy of Respect for Human Rights. • Standardization of the rules of conducting proceedings in the purchasing process and its transparency. • Developing lasting relationships with the contractors (counterparties) based on trust and mutual respect. • Expecting the contractors to comply with the legal regulations, ethical standards and good commercial practices, including work health and safety rules, principles of discrimination and unequal treatment, respect for human rights and dignity of employees, transparent personnel policy, environment protection, fair competition, prevention and countering of fraud, and information security and protection. Application of standard contract forms (drafts, templates) and standard clauses to contracts regarding compliance with human rights by TAURON Capital Group's business partners.

5.5.8. Legal risk

Table no. 71 presents the Legal risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Legal risk has been classified in the category: Operational Risk / Environment.

Table no. 71. Legal risk identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	Legal risk	Risk related to the non-compliance with the legal regulations, wrong interpretation of the new laws and	➔	• Continuous monitoring of the legal environment and changes to the legal regulations, including social issues,

#	Risk name	Risk description	Risk trend	Response to risk
		regulations, requirements imposed by the regulator and the supervisory authorities. The consequence of the materialization of risk may result in financial penalties, criminal and civil law liability, damage to the Group's image. .		respect for human rights, anti-corruption, environment protection and employee issues. • Implementation of the changes required to the internal regulations. • Establishing working groups to prepare and implement the changes required due to the legal environment. • Continuous cooperation with the authorities supervising the energy market and the capital market. • Consultations with the organizational units with respect to the planned key regulations for the area of compliance. • Employee training with respect to the knowledge of the legal regulations and the internal regulations.

5.5.9. Compliance risk

Table no. 72 presents the Compliance risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Compliance risk has been classified in the category: Operational Risk / Compliance risk.

Table no. 72. Compliance risk identified at TAURON Capital Group

#	Risk name	Risk description	Risk trend	Response to risk
1.	Internal abuse (fraud) risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, use of official position for personal gain resulting in financial losses, penal and administrative sanctions, criminal and civil law liability.	➔	• Education and training activities among employees, including mandatory e-learning training in TAURON Group's Compliance Management System. • Effective use of the whistleblowing system in the organization, enabling TAURON Group's employees to report potential cases of abuse to their immediate superior, the Ethics Committee, the Compliance Officer / Compliance Coordinator, or via the abuse (fraud) notification form at http://www.tauron.pl/. Conducting fact finding investigations by the Compliance Officer or Compliance Coordinators • Building an organizational culture based on TAURON Group's values and policies. Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of TAURON Group's Corporate Social Responsibility Code of Conduct, • Adoption and implementation of TAURON Group's Rules for accepting and giving gifts .
2.	External abuse (fraud) risk	Risk related to an occurrence of external abuse (fraud) that affects the operations of TAURON Group through: disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attempt and hacker attacks, tax fraud, theft, vandalism, counterfeiting, dirty money laundering, terrorist attempt.	➔	• Raising employee awareness through training and information campaigns on the existing threats of external abuse (fraud), • Adoption and implementation of the Code of Conduct for Contractors of TAURON Group's Subsidiaries. • Implementation of anti-corruption clauses in the contracts with the contractors. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Effective use of a whistleblowing system in the organization, enabling reporting of the potential cases of abuse, the system also allows for reporting of abuse (fraud) by the external entities through the abuse (fraud) reporting form at http://www.tauron.pl/.

#	Risk name	Risk description	Risk trend	Response to risk
				• Monitoring the cooperation with contractors and testing their credibility at TAURON Group. • Promoting best practices, improving procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct, Code of Ethics and functioning of the abuse (fraud) reporting system. • Building an organizational culture based on TAURON Group's values and policies.
3.	Unethical behavior and mobbing risk	The risk includes an occurrence of unethical behavior resulting, in particular, in a lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of employees.	➔	• Raising employee awareness through training and information campaigns on the existing threats of external abuse (fraud). • Adoption and implementation of the Code of Conduct for Contractors of TAURON Group's Subsidiaries. • Implementation of anti-corruption clauses in the contracts with the contractors. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Effective use of a whistleblowing system in the organization, enabling reporting of potential cases of abuse (fraud), the system also allows for reporting of abuse (fraud) by the external entities through the abuse (fraud) reporting form at http://www.tauron.pl/. • Monitoring the cooperation with contractors and testing their credibility at TAURON Group. • Promoting best practices, improving procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct, Code of Ethics and functioning of the abuse (fraud) reporting system.

5.6. GRI profile indices described in this section

- GRI 102-15Key impact, risks and opportunities
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area

6. GRI INDEX

- GRI 101 Reporting principles and basics
- GRI 102-14 Statement from senior decision maker
- GRI 102-40 List of stakeholder groups
- GRI 102-42 Identifying and selecting stakeholders
- GRI 102-43 Approach to stakeholder engagement including the frequency of engagement by type and stakeholder group
- GRI 102-44 Key topics and concerns raised by stakeholders and the response from the organization also by reporting them
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-46 Defining report content and topic boundaries
- GRI 102-47 List of material topics
- GRI 102-49 Changes in reporting (significant changes from previous periods covered by the report regarding material topics and topic boundaries)
- GRI 102-50 Reporting period
- GRI 102-51 Date of most recent report (if published)
- GRI 102-52 Reporting cycle
- GRI 102-54 Claims of reporting in accordance with the GRI Standards using Core or Comprehensive option
- GRI 102-56 External assurance (Confirmation of credibility)
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 102-55 GRI Index
- GRI 102-1 Organization name
- GRI 102-2 Activities, brands, products and services
- GRI 102-3 Location of headquarters
- GRI 102-4 Location of operations - including the number of countries in which the organization operates, along with the names of those countries, where the main operations of the organization are located, or which are particularly important in relation to topics related to sustainable development discussed in the report
- GRI 102-5 Ownership and legal form
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization
- GRI 102-10 Significant changes during the reporting period regarding size, structure, ownership form or value chain
- GRI 102-11 Precautionary principle
- GRI 102-16 Values, ethics code, principles, standards, and norms of behavior
- GRI 102-17 Internal and external mechanisms enabling obtaining advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-18 Governance structure
- GRI 102-22 Composition of the top management authority
- GRI 102-23 Top management authority
- GRI 102-24 Method of selecting the top management authorities
- GRI 102-26 Role of the top management body in the environment, purpose, values and strategy
- GRI 102-28 Evaluation of the results of the top management body
- GRI 102-32 Role of the top management body in reporting
- GRI 102-25 Conflict of interest
- GRI 201-2 Financial implications and other risks and opportunities associated with climate change
- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. Impact of these activities on society,
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area
- GRI 102-2 Activities, brands, products, and services
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes to the organization and its supply chain in the reported period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 201-1 Value added generated and distributed
- GRI 201-4 Government support - state ownership
- GRI 203-1 Investments in products and services

- GRI 205-1 Operations assessed for risks related to corruption
- GRI 205-2 Communication and training about anti-corruption policies and procedures
- GRI 205-3 Confirmed incidents of corruption
- GRI 403 Occupational health and safety management system
- GRI 403-9 Rates of injury, occupational diseases, lost days and absenteeism, and the number of work-related fatalities by region and gender
- GRI 416-1 Number of accidents
- GRI EU18 Percentage of employees, contractors and subcontractors who underwent work health and safety training
- GRI 417 The management approach in marketing and labeling
- GRI 417-2 Cases of non-compliance of products and services regarding information and labeling
- GRI 417-3 Cases of non-compliance regarding marketing communications
- GRI EU 3 Number of individual and business customers
- GRI 418 The management approach to customer privacy
- GRI 418-1 Material complaints regarding breaches of customer privacy and loss of customer data
- GRI EU-DMA The management approach in research and development
- GRI EU DMA Research and investments to ensure reliability of energy supply and promote sustainable development
- GRI 405 The management approach to equality and diversity
- GRI 406-1 Incidents related to discrimination and corrective actions
- GRI 206-1 Legal actions for anti-competitive behavior
- GRI 401 The management approach to employment
- GRI 102-8 Information on employees and other workers
- GRI 405-1 Composition of staff broken down by age and gender and minority
- GRI 401-3 Parental leave
- GRI 102-41 Collective bargaining agreements
- GRI 404-1 Number of training hours per employee
- GRI 404-2 Competence enhancement programs
- GRI 403-1 Number of employees associated in trade unions
- GRI 305-1 Direct greenhouse gas emissions
- GRI 302-1 Total energy consumption or production from renewable and non-renewable sources
- GRI EU2 Net volume of energy produced, broken down into main energy sources
- GRI 305-7 NOx, SOx and other significant air emissions
- GRI 303-3 Total water consumption by source
- GRI 306-1 Total sewage volume by quality and destination
- GRI 306-2 Total weight of waste by type of waste and methods of waste management
- GRI EU-DMA The management approach in waste management
- GRI 302-3 Energy intensity (consumption)
- GRI EU18 Percentage of TAURON Capital Group's employees, contractors and subcontractors who underwent work health and safety training
- GRI 305-5 Direct greenhouse gas emissions
- GRI EU1 Installed generation capacity broken down into main types of raw material and regulatory requirements

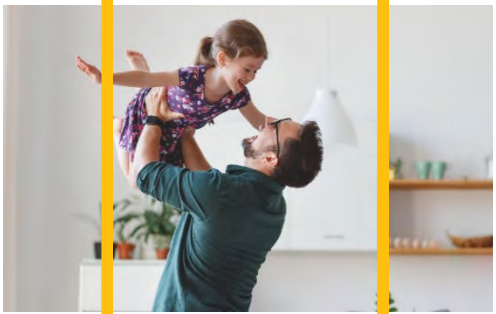
Katowice, March 30, 2020

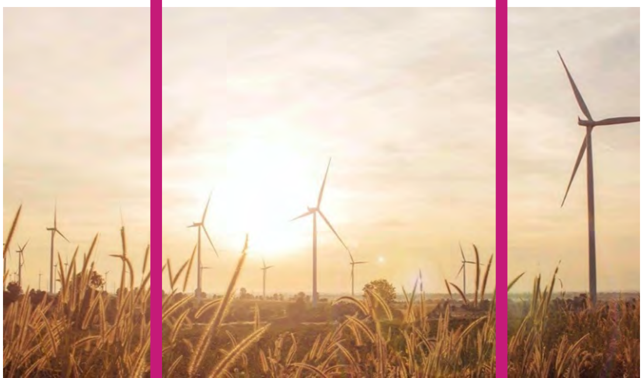
Filip Grzegorczyk - President of the Management Board

Jarosław Broda - Vice President of the Management Board

Marek Wadowski - Vice President of the Management Board

TAURON





REPRESENTATIONS OF THE MANAGEMENT BOARD

of TAURON Polska Energia S.A.

R E P R E S E N T A T I O N

of the Management Board of TAURON Polska Energia S.A.
on the accuracy of the annual consolidated financial statements of
TAURON Capital Group and
of the Management Board's report on the operations of
TAURON Polska Energia S.A. and TAURON Capital Group

Management Board of TAURON Polska Energia S.A. represents that, to the best of its knowledge, the annual consolidated financial statements of TAURON Capital Group and comparable figures were prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of TAURON Capital Group.

Management Board of TAURON Polska Energia S.A. also certifies that the Management Board's annual report on the operations of TAURON Polska Energia S.A and TAURON Capital Group includes a fair review of the development and performance of the business and the position of TAURON Polska Energia S.A and TAURON Capital Group, together with a description of the principal risks and uncertainties that TAURON Polska Energia S.A and TAURON Capital Group face.

Members of the Management Board:

1. Filip Grzegorczyk - President of the Management Board

2. Jarosław Broda - Vice President of the Management Board

3. Marek Wadowski - Vice President of the Management Board

March 30, 2020
date

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

INFORMATION

of the Management Board of TAURON Polska Energia S.A. on the appointment of the audit firm to conduct the audit of the annual consolidated financial statements of TAURON Capital Group in accordance with the applicable regulations

Management Board of TAURON Polska Energia S.A., pursuant to the representation of the Supervisory Board, informs of the appointment of the audit firm to conduct the audit of the annual consolidated financial statements of TAURON Capital Group in accordance with the applicable regulations, including the regulations related to the appointment and the procedure for appointment of auditor and indicates that:

a) the audit firm and members of the team performing the audit met the conditions for preparing an impartial and independent report (opinion) on the audit of the annual consolidated financial statements of TAURON Capital Group in accordance with the applicable regulations, professional standards and professional code of ethics,

b) applicable regulations related to the rotation of the audit firm and the key certified auditor as well as the mandatory rotation periods (engagement term limits) are complied with,

c) TAURON Polska Energia S.A. has a policy in place with respect to the appointment of the audit firm and a policy with respect to the provision, for the benefit of TAURON Polska Energia S.A., by the audit firm, an entity related to the audit firm or a member of its network, of additional non-audit services, including services that are conditionally exempt from the ban on the provision of non-audit services by the audit firm.

Members of the Management Board:

1. Filip Grzegorczyk - President of the Management Board

2. Jarosław Broda - Vice President of the Management Board

3. Marek Wadowski - Vice President of the Management Board

March 30, 2020
Date

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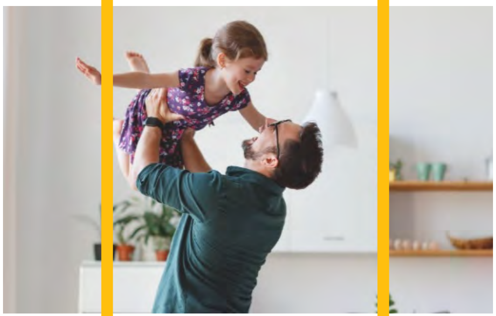
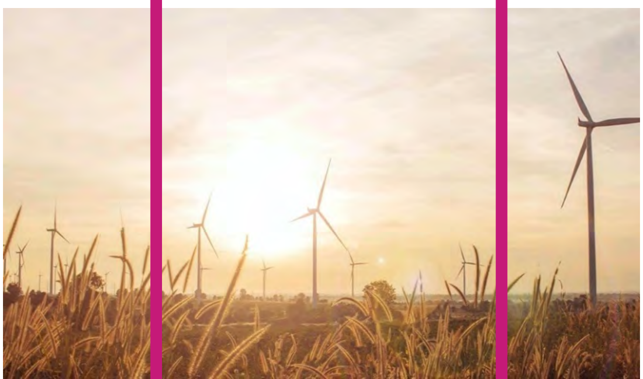




REPRESENTATION OF THE SUPERVISORY BOARD

of TAURON Polska Energia S.A.

REPRESENTATION

of the Supervisory Board of TAURON Polska Energia S.A. on the Audit Committee

Supervisory Board of TAURON Polska Energia S.A. represents that the regulations related to the appointment, composition and operations of the Audit Committee are complied with, including the regulations related to the fulfillment by the members thereof of the independence criteria and of the requirements with respect to the knowledge and skills (qualifications) related to the industry TAURON Polska Energia S.A. is operating in, as well as in the field of accounting or auditing financial statements.

Supervisory Board of TAURON Polska Energia S.A. also certifies that the Audit Committee performed the tasks of an audit committee as set forth in the applicable regulations.

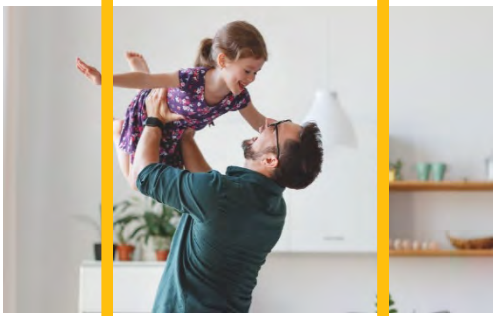
Members of the Supervisory Board:

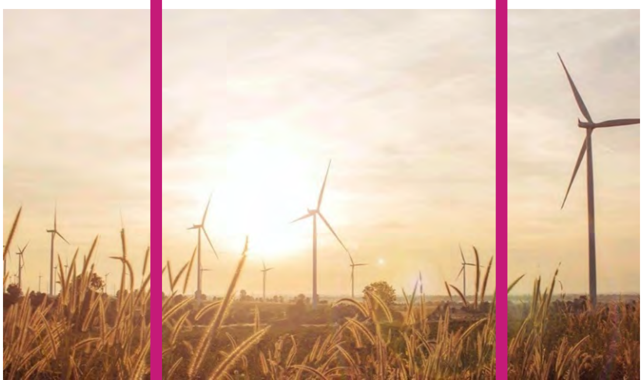
1. Beata Chłodzińska - Chair of the Supervisory Board
2. Teresa Famulska - Vice Chair of the Supervisory Board
3. Jacek Szyke - Secretary of the Supervisory Board
4. Barbara Łasak-Jarszak - Member of the Supervisory Board
5. Grzegorz Peczkis - Member of the Supervisory Board
6. Jan Płudowski - Member of the Supervisory Board
7. Marcin Szlenk - Member of the Supervisory Board
8. Andrzej Śliwka - Member of the Supervisory Board
9. Katarzyna Taczanowska - Member of the Supervisory Board

March 31, 2020
Date

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

TAURON





ASSESMENT BY THE SUPERVISORY BOARD

of TAURON Polska Energia S.A.

Assessment by the Supervisory Board of TAURON Polska Energia S.A., including the justification thereof, of the financial statements and the Management Board's report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2019

The Supervisory Board of TAURON Polska Energia S.A., pursuant to the requirement of art. 382 § 3 of the Code of Commercial Companies and § 70, clause 1, sub-clause 14 and § 71, clause 1, sub-clause 12 of the Ordinance of the Minister of Finance of March 29, 2018 on the current and periodic information to be disclosed by security issuers and the conditions of recognizing as equivalent the information required by the legal regulations of a non-member state, issued a positive assessment of the following documents presented by the Company's Management Board and determined that they were in compliance with the books, documents and the actual status of:

1) Financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2019, prepared in accordance with the International Financial Reporting Standards approved by the European Union,
2) Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2019, prepared in accordance with the International Financial Reporting Standards approved by the European Union,
3) Management Board's report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2019.

The Supervisory Board of TAURON Polska Energia S.A. made an assessment of the financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2019, including: the statement of comprehensive income, the statement of financial position, the statement of the changes in equity, the statement of cash flows and the principles (policies) of accounting and the additional explanatory notes.

The Supervisory Board of TAURON Polska Energia S.A. made an assessment of the consolidated financial statements of TAURON Capital Group for the year ended on December 31, 2019, including: the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of the changes in equity, the consolidated statement of cash flows and the principles (policies) of accounting and the additional explanatory notes.

The Supervisory Board of TAURON Polska Energia S.A. made an assessment of the Management Board's report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2019, that was prepared in accordance with the applicable regulations of the act of September 29, 1994 on accounting and of the Ordinance of the Minister of Finance of March 29, 2018 on the current and periodic information disclosed by security issuers and the conditions of recognizing as equivalent the information required by the legal regulations of a non-member state.

The above statements were the subject of verification, analysis and evaluation by the Audit Committee of the Company’s Supervisory Board that recommended to the Supervisory Board issuing of a positive assessment (opinion).

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the act of September 29, 1994 on accounting, TAURON Polska Energia S.A. drew up a Non-financial Report of TAURON Capital Group for 2019 in the form of a separate document.

The above Report was drawn up in accordance with Article 49b, clause 1 and art. 55, clause 2b-e of the accounting act of September 29, 1994, as subsequently amended, which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of June 20, 2019, including the guidelines on non-financial reporting: Supplement on reporting climate-related information and the Global Reporting Index guidelines - GRI Standards (core level).

The Audit Committee, performing its statutory obligations defined in the act of May 11, 2017, on certified auditors, audit companies and public oversight, oversaw the process of financial reporting, of the effectiveness of the internal control systems and the risk management systems as well as of the internal audit, including performing tasks aimed at ensuring the accuracy of the financial reporting process.

As part of the process related to auditing the financial statements the Audit Committee was attending regular meetings with the representatives of the audit firm conducting the audit of the financial statements of the Company and TAURON Capital Group, monitoring and discussing the course of the audit processes. Furthermore, the Audit Committee studied the reports (opinions) presented by the audit firm on the audits of the financial statements and the supplementary report (additional information) for the financial year 2019 prepared for the Audit Committee and the Company’s management, in accordance with the regulations of Ordinance 537/2014, and also of the Act of May 11, 2017 on certified auditors.

The basis for the issuing by the Supervisory Board of a positive assessment (opinion) of the Financial statements of TAURON Polska Energia S.A. and the Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the financial year 2019 were the reports (opinions) of the independent certified auditor on the audit of the above statements according to which:

1) Financial statements give a true and fair view of the assets, liabilities and the financial position of TAURON Polska Energia S.A. and TAURON Polska Energia S.A. Capital Group as of December 31, 2019, and their financial results for the financial year from January 1, 2019 until December 31, 2019, in accordance with the International Accounting Standards, International Financial Reporting Standards and the interpretations related thereto, published in the form of the regulations of the European Commission and the adopted principles (policy) of accounting,

2) Financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2019, were prepared based on the properly kept accounting records (ledgers),

3) Financial statements are in compliance, with respect to their form and content, with the legal regulations applicable to TAURON Polska Energia S.A. and TAURON Polska Energia S.A. Capital Group, as well as with the articles of association of TAURON Polska Energia S.A.

Furthermore, in the opinion of the certified auditor the Management Board's Report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2019 was prepared in accordance with the applicable legal regulations and is in compliance with the financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2019, and with the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2019.

The above mentioned financial statements were prepared by the deadline specified in the regulations and they are in line with the International Financial Reporting Standards that were approved by the European Union. The accuracy of the said financial statements, with respect to their compliance with the accounting records (ledgers), documents and the actual status, does not give rise to any objections and is confirmed by the information included in the Report of the independent certified auditor on the audit of the above statements.

Katowice, March 31, 2020

1. Beata Chłodzińska - Chair of the Supervisory Board

2. Teresa Famulska - Vice Chair of the Supervisory Board

3. Jacek Szyke - Secretary of the Supervisory Board

4. Barbara Łasak-Jarszak - Member of the Supervisory Board

5. Grzegorz Peczkis - Member of the Supervisory Board

6. Jan Płudowski - Member of the Supervisory Board

7. Marcin Szlenk - Member of the Supervisory Board

8. Andrzej Śliwka - Member of the Supervisory Board

9. Katarzyna Taczanowska - Member of the Supervisory Board