



REPORT OF THE MANAGEMENT BOARD

on the operations of TAURON Polska Energia
S.A. and TAURON Capital Group for the
financial year 2020

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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 Polska Energia S.A. Capital Group in a form of a single document.

At the same time, it is noted 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), TAURON Polska Energia S.A. 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.

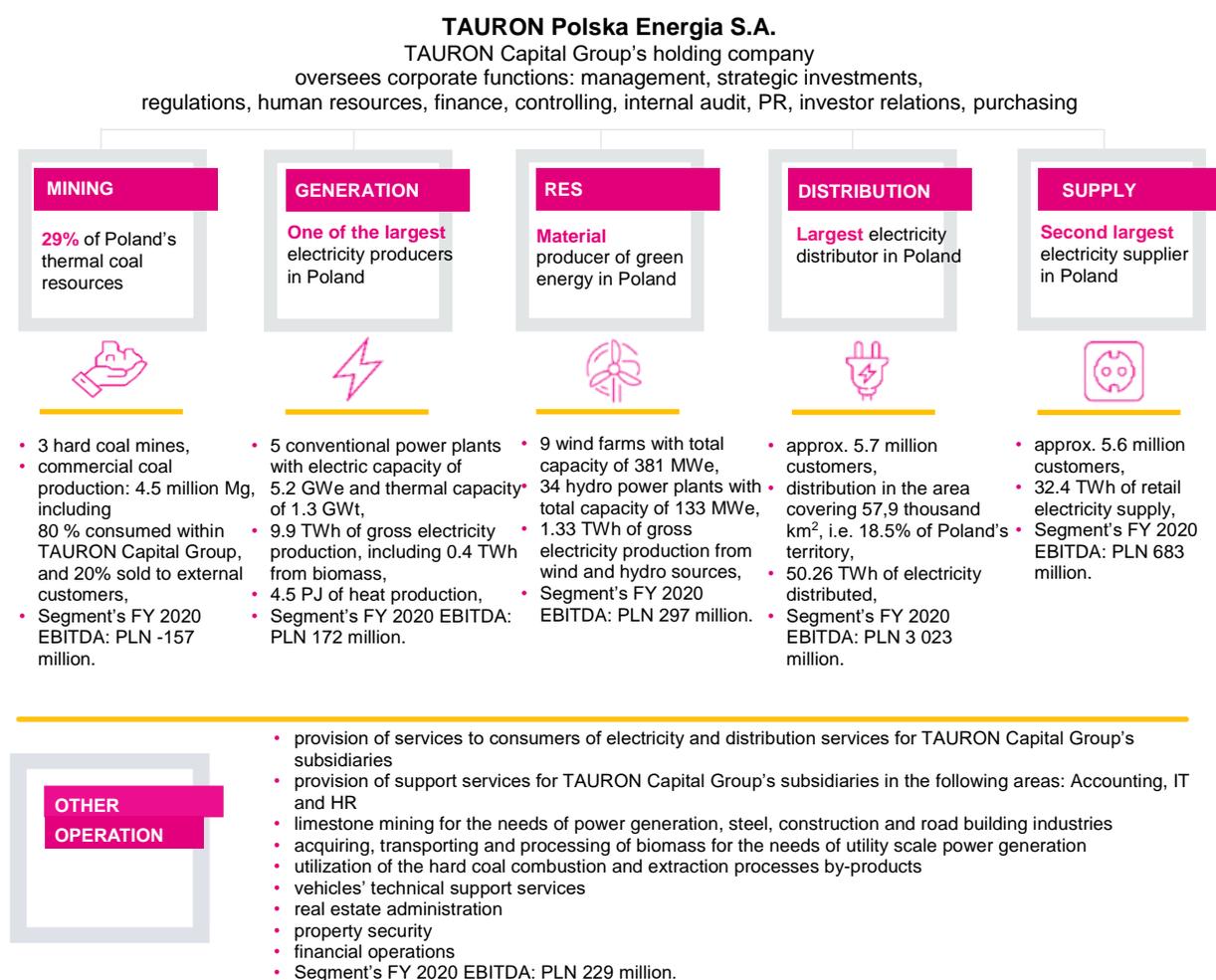
1.1. Basic information

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 TAURON



During the period covered by this report 100% of the shares in TAURON Ciepło sp. z o. o. (TAURON Ciepło) was classified by the Company as held for sale. Due to the above, the operations of TAURON Ciepło are presented in this report as part of the Discontinued Operations (in contrast to the previous presentation as part of the Generation Segment) and thus the comparable data has been adjusted (restated) accordingly only for 2019.

The detailed information on the sale of the shares in TAURON Ciepło is presented in section 2.6. of this report.

1.2. Segments of operations (lines of business)

In accordance with *TAURON Group's Business and Operational Model* (Business Model) in force, TAURON Capital Group's business operations are conducted by the units defined as: Corporate Center and the Lines of Business: Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply as well as Shared Services Centers (Centra Usług Wspólnych - CUW).

The detailed information on the Business Model is provided in section 1.9. of this report.

For the needs of reporting TAURON Capital Group's results the operations of TAURON Capital Group are divided into the following 5 main Segments (Operating Segments), hereinafter also referred to as the Lines of Business:



Mining Segment comprising mainly hard coal mining, cleaning (upgrading) and sales in Poland. The Segment's operations are 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 biomass burning. The Segment also includes heat generation and supply. The Segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) and Nowe Jaworzno Grupa TAURON sp. z o.o. (Nowe Jaworzno Grupa TAURON). The Segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls.



RES Segment comprising electricity generation from renewable energy sources: hydroelectric power plants and wind farms. The Segment's operations are conducted by TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA), Marselwind sp. z o.o., TEC1 sp. z o.o. (TEC1), TEC2 sp. z o.o. (TEC2) and TEC3 sp. z o.o. (TEC3), as well as 10 subsidiaries acquired in September 2019, i.e.: TEC1 sp. z o.o. Mogilno I spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno II spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno III spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno IV spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno V spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno VI spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Sniatowo spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Dobrzyń spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Gołdap spółka komandytowa (limited partnership), TEC1 sp. z o.o. Ino 1 spółka komandytowa (limited partnership). Moreover, starting from the financial statements for the year ended December 31, 2020, the companies AVAL-1 Sp. z o.o. (AVAL-1) and Wind T1 Sp. z o.o. (Wind T1) have been assigned to the RES Segment.



Distribution Segment comprising distribution of electricity using the distribution grids located on the territory of the following voivodeships (regions): Małopolska, Lower Silesia, Opole, Silesia, partly: Świętokrzyskie, Podkarpackie, Łódź, Wielkopolska and Lubuskie. The Segment's operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). TAURON Dystrybucja uses modern technological solutions and has the potential to guarantee security of electricity supply and a high quality standard of the services provided to the customers. In order to ensure the achievement of the strategic goals, it is actively looking for innovative solutions, participating in the research and development works, as well as implementing new technologies, with a particular emphasis placed on the smart grid technology. In addition, it is seeking to build a modern distribution segment by integrating the segment's structures and processes, maintaining the leading position on the Polish market with respect to the grid security (safety) and efficiency as well as preparing the grid infrastructure and organization for the development of the distributed (dispersed) power generation sources. The Segment also includes TAURON Dystrybucja Pomiarów sp. z o.o. (TAURON Dystrybucja Pomiarów) subsidiary, dealing mainly with technical support services related to the 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 the CO₂ emission allowances, property rights arising from the certificates of origin that confirm electricity generation from the renewable sources, in cogeneration and the property rights arising from the energy efficiency certificates, as well as fuels, and, as of January 2019, also the lighting services sales. The Segment's operations are conducted by TAURON Polska Energia S.A., TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE), TAURON Czech Energy s.r.o. (TAURON Czech Energy) and TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) subsidiary providing services for the business and individual customers with respect to, among others, innovative products and services related to the modern Led lighting systems,

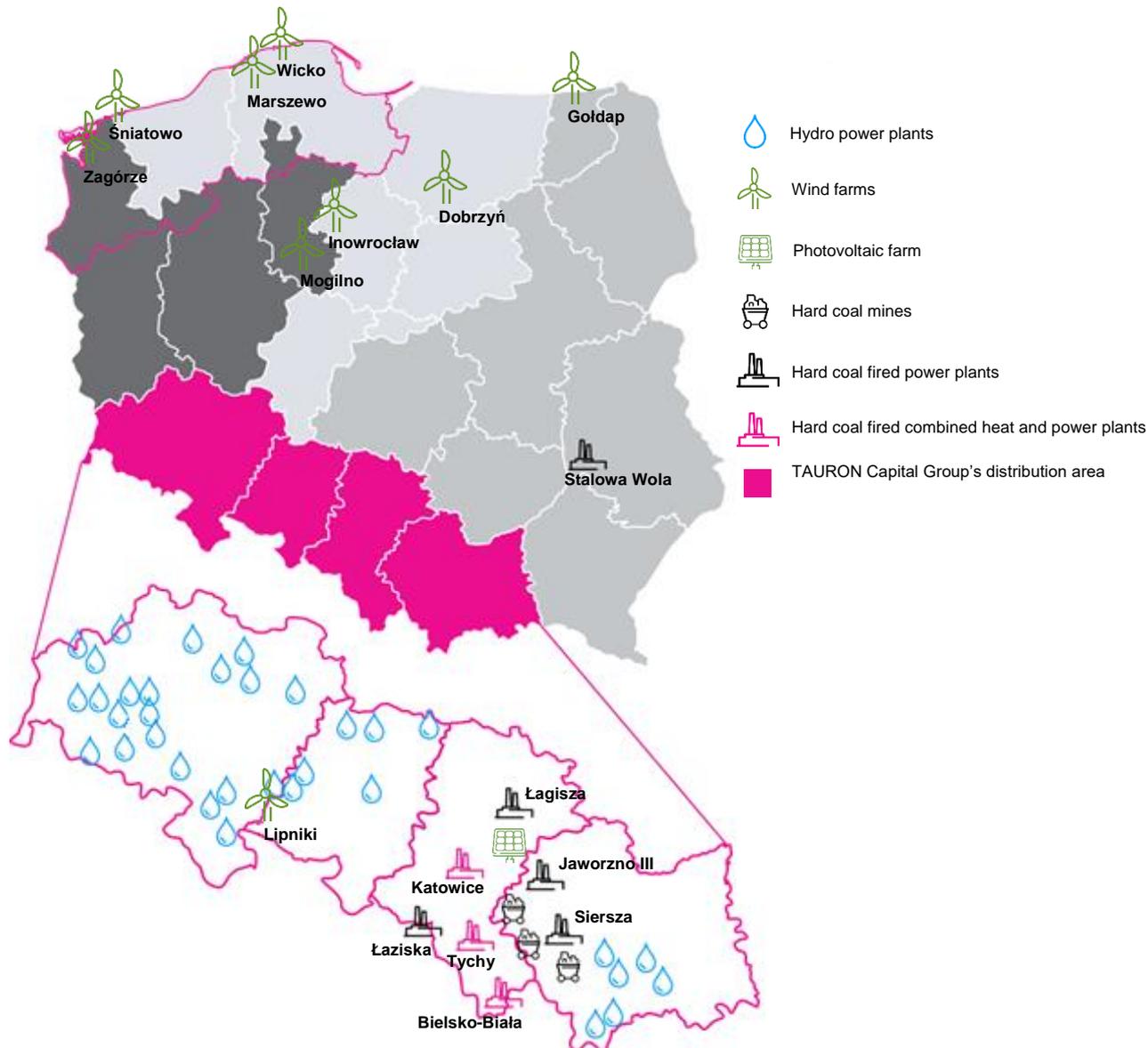
smart city, e-mobility products as well as energy efficiency, operating the MV/LV grids, the construction of electric vehicle charging stations.

Apart from the main Segments of operations, TAURON Capital Group is also conducting the operations presented as part of the **Other operations** that comprise, among others, customer service for TAURON Capital Group's customers, provision of the 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 the operations related to the extraction of stone (rocks), including limestone, for the needs of the power generation, steel making, construction and road building industries, as well as the production of sorbing agents for wet flue gas desulphurization installations and for the use in fluidized bed boilers, carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice) subsidiary. The Other operations also include the following subsidiaries: Finanse Grupa TAURON sp. z o.o. (Finanse Grupa TAURON) dealing with the financial operations, Bioeko Grupa TAURON sp. z o.o. (Bioeko Grupa TAURON) dealing mainly with the utilization (management) of the hard coal combustion and extraction processes' by-products, biomass acquisition, transportation and processing, Wsparcie Grupa TAURON sp. z o.o. (Wsparcie Grupa TAURON) dealing primarily with the 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 operations of TAURON Ciepło (thus far included as part of the Generation Segment) are presented under the **Discontinued Operations**. The core operations of TAURON Ciepło comprise the production, distribution and supply of thermal energy (heat) for the purpose of heating, preparing (conditioning) domestic (tap) hot water and ventilation.

The below figure presents the location of TAURON Capital Group's key assets, as well as the distribution area where TAURON Dystrybucja is conducting operations as the Distribution System Operator (DSO).

Figure no. 2. TAURON Capital Group's key assets



1.3. Organization of TAURON Capital Group and the changes thereof, as well as the entities subject to consolidation

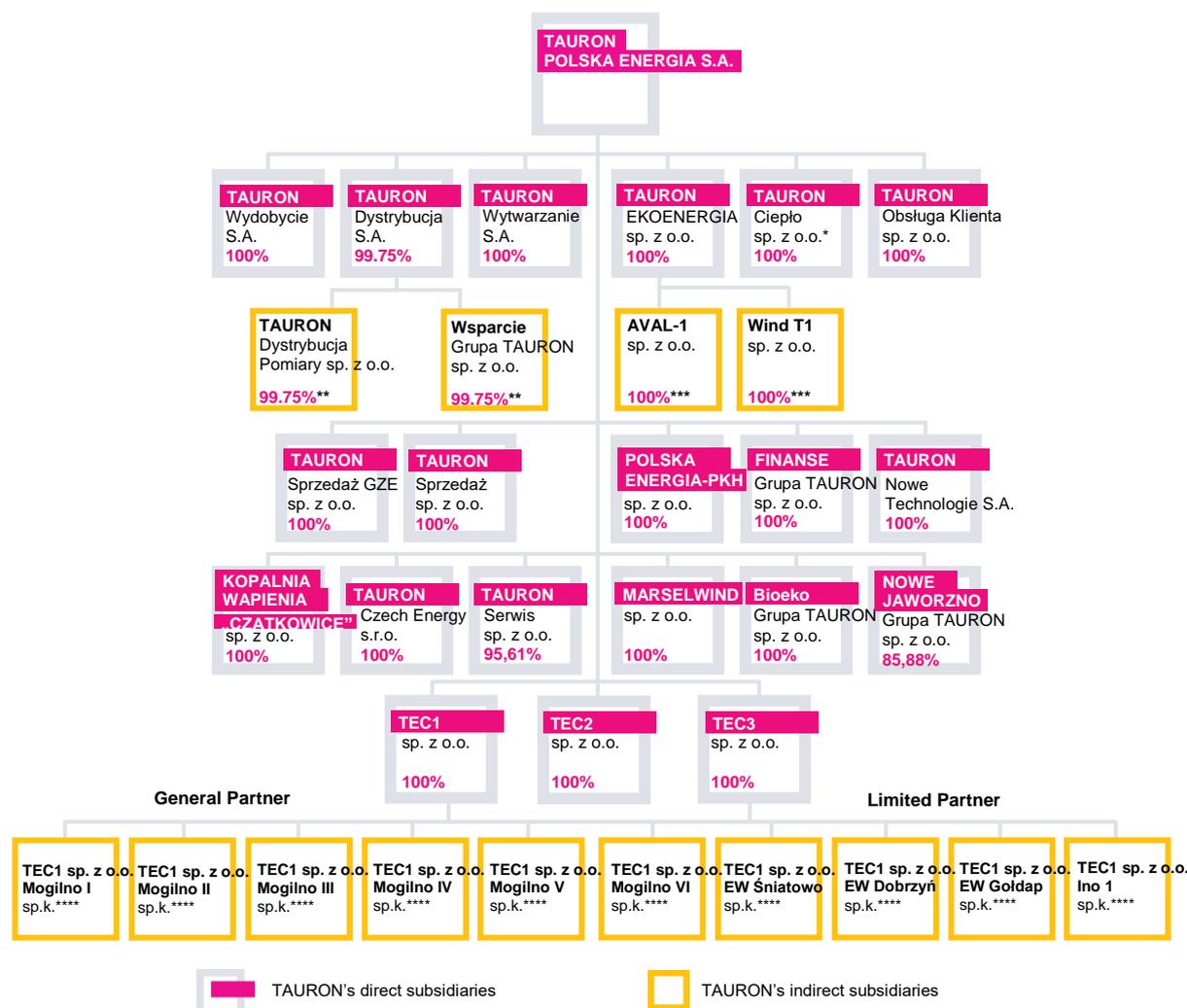
As of December 31, 2020, and as of the date of drawing up this report, TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 34 subsidiaries subject to consolidation, that are listed below.

In addition, as of December 31, 2020, and as of the date of drawing up this report, the Company held, directly or indirectly, shares in the other 38 companies.

Entities subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2020.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2020



*As of December 31, 2020, TAURON Capital Group assessed that in relation to the net assets of the TAURON Ciepło subsidiary, the conditions for classifying the above assets as a group for disposal, classified as held for sale were met.

**The shares in TAURON Dystrybucja Pomiary and Wsparcie Grupa TAURON are held by TAURON Polska Energia S.A. indirectly via TAURON Dystrybucja Pomiary subsidiary, TAURON Polska Energia S.A. is a user of the shares of TAURON Dystrybucja Pomiary.

***The shares in Aval-1 and Wind T1 are held by TAURON indirectly via TAURON Ekoenergia subsidiary.

****In the limited partnerships indicated: TEC1 is the General Partner, TEC3 is the Limited Partner.

Changes to the organization

The following changes to the organization of TAURON Capital Group had taken place in 2020 and by the date of drawing up this information:

Merger of TAURON Dystrybucja Serwis S.A. (currently: TAURON Nowe Technologie 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, the 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 the Acquiring Company and the Extraordinary General Meeting (GM) of the Partners (Shareholders) of the Acquired Company.

As a result of the merger the share capital of the Acquiring Company 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 S.A.

The merger of TAURON Dystrybucja Serwis S.A. 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 (GM) of TAURON Dystrybucja Serwis S.A. adopted a resolution to change the company's name to: TAURON Nowe Technologie S.A.

On June 1, 2020, the District Court for Wrocław – Fabryczna in Wrocław, the 6th Commercial Department of the National Court Register registered the change of the name of the company TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.

Acquisition by TAURON EKOENERGIA sp. z o.o. of 100% of the shares in AVAL-1

On January 2, 2020, TAURON EKOENERGIA acquired 100% shares in 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 photovoltaic farm construction project in the municipality of Choszczno in the West Pomerania Region.

The implementation of the investment project is in line with the assumptions of the *Update of the Strategic Directions in TAURON Capital Group' Strategy for the years 2016-2025* (Update of the Strategic Directions), that provides for an increase of the share of low and zero emission sources in TAURON Capital Group's generation structure (mix) to more than 65% in 2030.

The detailed information on the implementation of the photovoltaic farm construction project in the municipality of Choszczno is provided in section 1.7. of this report

Cessation of the legal existence of German limited partnerships

On April 1, 2020, TEC3 – the limited partner of the below listed companies, acquired from TEC2 – the general partner of the below listed companies, the general rights and obligations of the general partner in the German limited partnerships, i.e.:

1. SCE Wind Mogilno 2008 I GmbH & Co. KG,
2. SCE Wind Mogilno 2008 II GmbH & Co. KG,
3. SCE Wind Mogilno 2008 III GmbH & Co. KG,
4. SCE Wind Mogilno 2008 IV GmbH & Co. KG,
5. SCE Wind Mogilno 2008 V GmbH & Co. KG,
6. SCE Wind Mogilno 2008 VI GmbH & Co. KG,
7. Windpark Sniatowo GmbH & Co. KG,
8. Windpark Dobrzyn 2008 GmbH & Co. KG,
9. Windpark Goldap GmbH & Co. KG,
10. Windpark Ino 1 GmbH & Co. KG.

As a result of completing the above transaction, as of April 1, 2020, the legal existence of the German limited partnerships ceased without conducting the liquidation proceedings (the so-called collapse based on the provisions of the German law), and thus the assets and liabilities of the German limited partnerships were transferred, by way of a universal succession, to TEC3.

The purpose of the above action was to simplify the structure of TAURON Capital Group.

Classifying the net assets of TAURON Ciepło as a group for disposal, classified as held for sale, and the operations of TAURON Ciepło as discontinued operations

As of December 31, 2020, TAURON Capital Group assessed that with respect to the net assets of TAURON Ciepło, the conditions for classifying the above assets as a group for disposal, classified as held for sale, stemming from *International Financial Reporting Standards (IFRS) 5 Fixed assets held for sale and discontinued operations*, were met. In connection with the above, the net assets of TAURON Ciepło were valued, as of December 31, 2020, at fair value (mark to market).

Furthermore, as of December 31, 2020, the Company assessed that with respect to the operations of TAURON Ciepło, the conditions for classifying its operations as discontinued, stemming from *IFRS 5 Fixed assets held for sale and discontinued operations*, were met.

The detailed information on the sale of the shares in TAURON Ciepło is presented in section 2.6. of this report.

Acquisition by TAURON EKOENERGIA sp. z o.o. of 100% of the shares in WIND T1 (WIND T1)

On December 15, 2020, TAURON EKOENERGIA acquired 100% shares in WIND T1 with its registered office in Pieńków, i.e. 100 shares with a nominal value of PLN 50 each and the total nominal value of PLN 5 000.

WIND T1 is implementing a project that includes the preparation, construction and commissioning of two wind farms with a joint name of *Park Piotrków Północ*, i.e. the "Moszczenica" Wind Farm and the "Wolbórz" Wind Farm. The power plant located on the territory of the municipalities of Wolbórz and Moszczenica in the Piotrków Trybunalski county (powiat) in the Łódź voivodeship (region) will be composed of 15 wind farms, each with a capacity of 2 MW (30 MW in total).

The implementation of the investment project is in line with the assumptions of the Update of the Strategic Directions that provides for an increase of the share of low and zero emission sources in TAURON Capital Group's generation structure (mix) to more than 65% in 2030.

The detailed information on the implementation of the wind farm construction project with a joint name of *Park Piotrków Północ* is provided in section 1.7. of this report.

1.4. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.3. of this report, the organizational or equity ties are applicable to the material joint subsidiaries in which the Company held, directly or indirectly, shares as of December 31, 2020 include the companies listed in the below table.

Table no. 1. List of material joint subsidiaries as of December 31, 2020

Company name	Registered office	Main subject of operations	TAURON's share in the company's capital and in the parent company
1. Elektrociepłownia Stalowa Wola S.A.*	Stalowa Wola	Electricity generation	50.00%
2. TAMEH HOLDING sp. z o.o.**	Dąbrowa Górnicza	Central (head office) companies and holding operations	50.00%
3. TAMEH POLSKA sp. z o.o.**	Dąbrowa Górnicza	Electricity and heat generation, transmission, distribution and trading	50.00%
4. TAMEH Czech s.r.o.**	Ostrava, Czech Republic	Production, trading and services	50.00%

*Shares in Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) are held by TAURON indirectly via TAURON Wytwarzanie subsidiary.

**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. and TAMEH Czech s.r.o.

1.5. Major domestic and foreign investments, as well as equity investments

The major domestic and foreign investments, as well as equity investments made in 2020 and by the date of drawing up this report are listed below.

Taking up or acquiring share securities in TAURON Capital Group companies

The below table presents a summary of equity increases in TAURON Capital Group's subsidiaries in 2020 and by the date of drawing up this report.

Table no. 2. Summary of equity increases in TAURON Capital Group's subsidiaries in 2020 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. AVAL-1	PLN 4 500 000	TAURON EKOENERGIA	PLN 45 000	27.02.2020	TAURON EKOENERGIA 100%
2. Nowe Jaworzno Grupa TAURON	PLN 455 100 000	TAURON	PLN 4 551 000	02.03.2020	TAURON 85.88% FIK FIZAN 7.06% PFR IFIZ 7.06%
3. AVAL-1	PLN 11 060 000	TAURON EKOENERGIA	PLN 110 600	10.06.2020	TAURON EKOENERGIA 100%

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
4. PGE EJ 1 sp. z o.o. (PGE EJ 1)	PLN 37 999 923	TAURON	PLN 37 999 923	23.11.2020	TAURON 10%
	PLN 265 999 461	PGE Polska Grupa Energetyczna S.A. (PGE)	PLN 265 999 461		PGE 70%
	PLN 37 999 923	KGHM Polska Miedź S.A. (KGHM Polska Miedź)	PLN 37 999 923		KGHM Polska Miedź 10%
	PLN 37 999 923	Enea S.A. (Enea)	PLN 37 999 923		Enea 10%
5. Nowe Jaworzno Grupa TAURON	PLN 190 000 000	TAURON	PLN 1 900 000	03.12.2020	TAURON 86.29% FIIK FIZAN 6.85% PFR IFIZ 6.85%
6. WIND T1	PLN 50 000 000	TAURON EKOENERGIA	PLN 500 000	21.12.2020	TAURON EKOENERGIA 100%

Making additional contributions to the capital of PEPKH

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) 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 mentioned company in the total amount of PLN 8 016 000. The resolution of the Extraordinary General Meeting (GM) 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.

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) of PEPKH of June 16, 2020, regarding the imposition on TAURON, as the sole shareholder, of the obligation to make additional payments, on June 18, 2020, TAURON made additional contributions to the share capital of the above mentioned company in the total amount of PLN 9 600 000.

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) of PEPKH of March 17, 2021, regarding the imposition on TAURON, as the sole shareholder, of the obligation to make additional payments, on March 24, 2021, TAURON made additional contributions to the share capital of the above mentioned company in the total amount of PLN 10 800 000.

The purpose of the above mentioned contributions was to meet the requirements of the President of the Energy Regulatory Office (ERO) with respect to PEPKH having certain financial resources and to enable PEPKH to continue its business operations with respect to its main subject of operations, based on the granted license for trading in electricity.

Making additional contributions to the capital of KOMFORT Zarządzanie Aktywami sp. z o.o. (KOMFORT Zarządzanie Aktywami)

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) of KOMFORT Zarządzanie Aktywami of June 5, 2020, regarding the imposition on TAURON Dystrybucja Pomiary, as the sole shareholder, of the obligation to make additional payments, on June 9, 2020, TAURON Dystrybucja Pomiary made additional contributions to the share capital of the above mentioned company in the total amount of PLN 35 175.00.

The purpose of the above mentioned contributions to the shares was to enable KOMFORT Zarządzanie Aktywami to continue its business operations.

Making additional contributions to the capital of the company Marselwind

As part of the implementation of the resolution of the Ordinary General Meeting (GM) of Marselwind of September 2, 2020, regarding the imposition on TAURON, as the sole shareholder, of the obligation to make additional payments, by September 8, 2020, the Company made additional contributions to the share capital of the Marselwind in the total amount of PLN 110 000.00.

The purpose of making additional contributions was to cover the losses from previous years, the potential losses in the subsequent years of Marselwind's operations, and maintain the level of the financial resources sufficient for the functioning of the above mentioned company.

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 2020 and by the date of drawing up this report.

Table no. 3. Summary of equity increases in the other companies in which TAURON holds an equity stake in 2020 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 17 200	EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company limited partnership) (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%
	PLN 75 900	EEC Ventures	PLN 759		EEC Ventures 3%
	PLN 1 823 300	PFR Starter FIZ	PLN 18 233	27.08.2020	PFR Starter FIZ 72.1%
	PLN 629 700	TAURON	PLN 6 297		TAURON 24.9%
	PLN 21 000	EEC Ventures	PLN 210		EEC Ventures 3%
	PLN 504 700	PFR Starter FIZ	PLN 5 047	23.12.2020	PFR Starter FIZ 72.1%
	PLN 174 300	TAURON	PLN 1 743		TAURON 24.9%
2. 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 60 200	EEC Ventures spółka z ograniczoną odpowiedzialnością 2 spółka komandytowa (EEC Ventures limited liability company 2 limited partnership) (EEC Ventures 2)	PLN 1 790	04.05.2020	EEC Ventures 2 2.95%
	PLN 2 986 000	PFR NCBR CVC FIZAN	PLN 29 860		PFR NCBR CVC FIZAN 49.02%
	PLN 2 925 800	TAURON	PLN 29 258		TAURON 48.03 %
	PLN 20 500	EEC Ventures 2	PLN 601		EEC Ventures 2 2.95%
	PLN 1 000 000	PFR NCBR CVC FIZAN	PLN 10 000	28.05.2020	PFR NCBR CVC FIZAN 49.02%
	PLN 979 500	TAURON	PLN 9 795		TAURON 48.03 %
	PLN 88 800	EEC Ventures 2	PLN 2 571		EEC Ventures 2 2.95%
	PLN 4 350 000	PFR NCBR CVC FIZAN	PLN 43 500	24.09.2020	PFR NCBR CVC FIZAN 49.02%
	PLN 4 261 200	TAURON	PLN 42 612		TAURON 48.03 %

The other most significant equity investments in the financial assets as of December 31, 2020, include stakes in the following entities:

1. Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (limited liability company) with the balance sheet value of PLN 29 476 000,
2. EEC Magenta 2 ASI with the balance sheet value of PLN 19 116 000,
3. ElectroMobility Poland S.A. (ElectroMobility Poland) with the balance sheet value of PLN 11 026 000.

Investments in financial assets

TAURON Capital Group's investments in financial assets made in 2020 include loan agreements concluded with the below listed companies:

1. PGE EJ 1 in the amount of PLN 4 000 000 with the repayment date of January 30, 2023,
2. PGE EJ 1 in the amount of PLN 6 500 000 with the repayment date of September 1, 2023,

3. EC Stalowa Wola in the amounts of PLN 59 175 000 and PLN 35 000 000 with the repayment dates of June 30, 2033.

All of the loans granted to PGE EJ 1 in the total amount of PLN 18 240 000 PLN, including interest, were repaid on November 25, 2020.

As of December 31, 2020, the loan extended to EC Stalowa Wola for the amount of up to PLN 35 000 000 had been paid out in the total amount of PLN 22 000 000.

Investments in the financial assets were financed using in-house funds and the funds obtained as part of the financing model in place at TAURON Capital Group.

The detailed information on the financing model in place at TAURON Capital Group is provided in section 7.3. of this report.

On February 11, 2020, the Company redeemed all of its participation units in the investment funds worth PLN 26 747 000.

1.6. TAURON Group's Strategy for the years 2016-2025

2020 was the year of the continuation of the implementation of *TAURON Group's Strategy for the years 2016-2025* (Strategy), that had been adopted by the Management Board of TAURON and received a positive opinion of the Company's Supervisory Board 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 and detailed, 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.

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 the years 2016-2025*, 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 that will mainly focus on changing the energy mix of TAURON Capital Group by shutting down obsolete coal fired units and developing low and zero emission sources.

Currently, work is underway on the TAURON Capital Group's new Strategy, taking into account the recent regulatory changes and the prospects for the power sector in Poland.

Mission, Vision and values

Strategy defines the Mission and Vision and specifies 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 business 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.

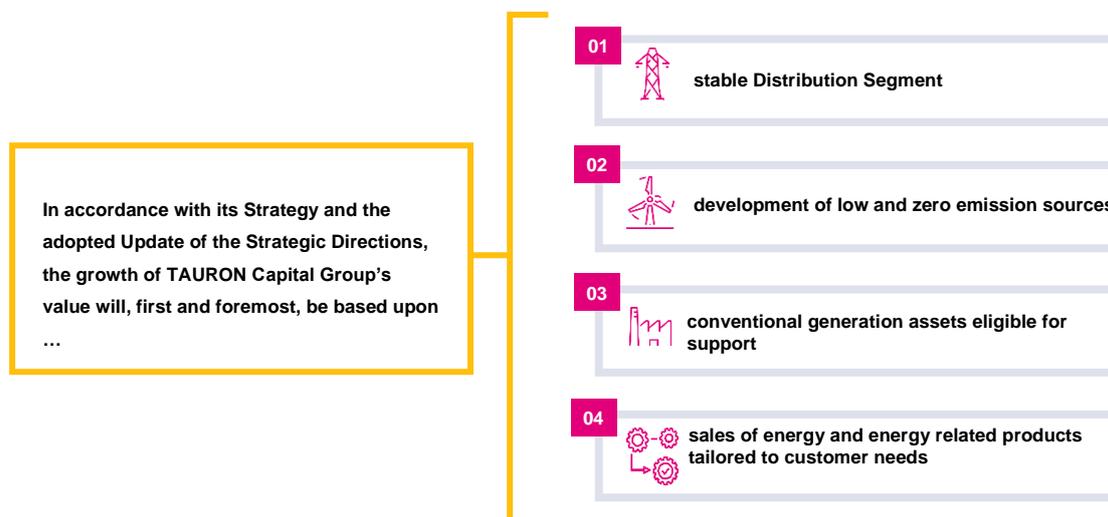
TAURON Capital Group's Strategy

Strategy adopted for the years 2016-2025, and updated in 2019, 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 (RES), which, combined with the changed management philosophy and the orientation towards the customer and his / her needs, allows for the development of TAURON Capital Group that is innovative and open to the new challenges.

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:

1. transition of the energy mix, and a strategic pursuit of a more than 65% share of low and zero emission sources in TAURON Capital Group's installed capacity in 2030,
2. optimization of the coal assets and the capital expenditure (capex) project portfolio.

The overarching goal with respect to the capital expenditures is to adapt the investment project portfolio to the market needs. The update highlighted the need to increase the investment potential aimed at developing the renewable energy sources. The activities will be geared (oriented) towards:

1. optimization of the asset structure in all lines of business operations and adaptation to the environmental requirements,
2. investments in the development and modernization of the distribution grid as well as the low and zero emission generation sources,
3. implementation of the investment projects that guarantee the expected rate of return on capital and are not burdened with material market risks,
4. use of off-balance sheet financing, in particular by involving external partners,
5. investing in the projects in energy related sectors (in particular in services) in order 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	
<p>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.</p> <p>The goals set in the Strategy are implemented through such actions as:</p> <ol style="list-style-type: none"> 1. optimizing the costs and capital expenditures, 2. tri-product processing at Sobieski Coal Mine (ZG Sobieski) and Janina Coal Mine (ZG Janina), 3. expanding the line for packaging eco-pea coal, preparing dedicated fuel for the generating units <p>As part of the Update of the Strategic Directions, a strategic option was adopted that involved conducting a market verification of the sale of ZG Janina. (Janina Coal Mine).</p>	<p>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: <i>Poland's Energy Policy until 2040</i> (draft) and the <i>National Plan for Energy and Climate for 2021-2030</i>. The above-mentioned documents demonstrate 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.</p> <p>The future of the Polish mining industry will depend on the ultimate shape of the government program for the mining industry.</p>
Generation Segment	
<p>The main goals for the Generation Segment include:</p> <ol style="list-style-type: none"> 1. for TAURON Wytwarzanie: to develop an optimal, from the point of view of profitability and risk, generation assets portfolio and the efficient operation thereof, 2. for TAURON Ciepło: to achieve a return on invested capital. <p>The goals set in the Strategy are to be accomplished by:</p> <ol style="list-style-type: none"> 1. optimizing the costs and capital expenditures as well as streamlining employment (headcount), 2. optimizing production assets, 3. selling redundant non-production assets, 4. investment projects that lead to the upgrading of the generation fleet <p>The Update of the Strategic Directions indicated that the priority was 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, the modern conventional units will remain a part of the production portfolio: Łagisza 460 MW and Jaworzno 910 MW.</p> <p>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.</p> <p>As part of the Update of the Strategic Directions, a market verification of the TAURON Ciepło sale (divestment) option was assumed.</p> <p>In addition, the sale of the shares in EC Stalowa Wola and PGE EJ1 is planned.</p>	<p>The tightening energy and climate policy of the European Union (EU), including the further implementation of the <i>European Green Deal</i>, combined with the increase in the prices of the CO₂ emission allowances set the direction of the development of the energy sector. The curtailment of the support systems for conventional energy, the revision of the EU ETS emissions trading system, the works on the implementation of the carbon footprint tax will mean a permanent loss of profitability for such units. The resignation of the financial institutions from financing both coal installations as well as capital groups that own coal assets, and the impact of the <i>EU Taxonomy</i> on the possibility of financing investment projects in the energy sector reduce the economic sense of maintaining conventional assets.</p> <p>The key issue will be ensuring the security of the operation of the National Power System (Krajowy System Elektroenergetyczny - KSE). The capacity market has been introduced in Poland, 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 <i>BAT Conclusions</i> represents an opportunity for the conventional power generation.</p> <p>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 government 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 ever more efficient individual heating devices. The curtailment of the financing and insurance of the coal investment projects should also be taken into account.</p> <p>The ultimate shape of the domestic conventional energy sector will depend on the final provisions of the government program for the energy sector.</p>
RES Segment	
<p>The main goal for the RES Segment is to improve the profitability of its generation assets and the profitable growth of this line of business in wind and PV technologies.</p> <p>The activities undertaken are focused on improving the operational efficiency, while preparing and implementing investment and expansion projects at the same time. Options for expanding RES installations are being prepared by building in-house sources, acquiring existing installations and ready-made projects.</p> <p>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.</p> <p>The involvement in the low and zero emission energy is implemented through:</p> <ol style="list-style-type: none"> 1. investments in on-shore wind farms – the ultimate (target) level of wind based capacity in 2025: approx. 1.1 GW, which represents an 	<p>A strong growth of photovoltaics is observed, associated primarily with the launch of the support programs. According to SolarPower Europe, Poland was ranked fourth in the EU in 2020 in terms of new solar capacity growth. In 2021, another step up increase in new PV capacity is estimated.</p> <p>An additional factor supporting the growth is the possibility of obtaining funds for investments from the dedicated funds.</p> <p>The growth of investments in the renewable energy sources (RES) 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 (the potential amendment of the so-called distance act) will translate into the growth of the line of business repowering of the installations, and thus increasing the capacity and improving the efficiency of the use thereof. At the end of December 2020, the Parliament adopted the <i>Act on promoting electricity generation in offshore wind farms</i>, assuming a two-phase support model and granting,</p>

Strategic goals	Growth prospects
<p>increase by approx.. 900 MW as compared to the level as of the end of 2018,</p> <ol style="list-style-type: none"> investments in photovoltaic farms: the ultimate (target) level of PV based capacity in 2025: approx. 0.3 GW, readiness to take part in off-shore wind farm projects. 	<p>in the first phase, support for wind farms with a total installed capacity of 5.9 GW and conducting the first auctions in 2025.</p>
Distribution Segment	
<p>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.</p> <p>The level of annual capital expenditures in the Distribution Segment stands at PLN 2 billion. Mainly tasks related to connecting new customers to the grid, as well as upgrading and expanding of the grid are carried out.</p> <p>Activities underway are aimed at ensuring the flexibility of the grid and simplifying the procedures related to connecting new customers to the grid. The investment projects underway are adapting the distribution assets to the growing volume of electricity generated by the renewable sources, are aimed at ensuring the timely implementation of the process of connecting micro-installations to the grid and are also preparing the grids to interoperate with the infrastructure for charging electric vehicles.</p> <p>The <i>Single Distribution Program</i>, that was made up of projects aimed at optimizing the company's operational processes, including; activities leading to raising customer satisfaction and improving the company's image, was completed.</p>	<p>The activities aimed at ensuring the reliability of electricity supply and simplifying the procedures related to connecting the new consumers and micro-installations to the grid 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 development of TAURON Capital Group with respect to smart grids and meters will allow for introducing additional functionalities, both on the part of the distributor, as well as the customer. 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.</p> <p>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 Distribution Segment may be a consequence of changes to the energy law. - work is underway to amend the Energy Law regarding smart metering, energy storage and DSO unbundling.</p>
Supply Segment	
<p>The main goal for the Supply 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.</p> <p>A number of initiatives are implemented, i.e.: 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.</p> <p>The Update of the Strategic Directions confirmed the continuation of the development of new energy related products and services, including:</p> <ol style="list-style-type: none"> 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. 	<p>The actions taken by the competition and the rising customer expectations have an impact on developing the product offering and maintaining the highest customer service standards. The 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. The importance of ecology, a change in the customer's approach to the way electricity is consumed and a large increase in the number of prosumers are ever more affecting the needs and expectations of customers. 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 level of digital platforms, as well as that of direct contacts.</p> <p>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.</p>

Key challenges

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 the implementation of the activities aimed at achieving climate neutrality, as well as the successive regulations seeking to tighten the environmental standards and climate targets, the introduction of the quality based regulation model in the distribution segment, the changes to the system of support for the RES installations and the EU's actions aimed at developing a common electricity market. The implementation of the guidelines provided in the *National Plan for Energy and Climate* and in *Poland's Energy Policy until 2040*. Changes in the energy and coal sectors, including work on the government program for energy and mining.



Market

Rising costs of electricity generation, availability and quality of hard coal, demand for electricity, demand for capacity, growing competition on the retail market, increasing level of the cost competitive generation from renewable energy sources (RES), the curtailment or lack of financing of coal-based energy. The expected solutions regarding the shape of the mining sector and the coal-based energy sector in Poland.



Customer

Growing awareness of the customers and the rising requirements with respect to satisfying their needs, as well as the comprehensiveness of the offering, the increasing expectations with respect to customer service quality and availability. An increase in the ecological awareness of the society (public) and a

change of the customer's approach to the way electricity is consumed, including a strong rise in the number of prosumers.



Technology

Falling prices of renewable technologies, rising competitiveness of such sources versus the conventional sources, the growth of the prosumer energy, a change of the role of the distribution service due to the expansion of dispersed (distributed) power generation. The advancement of the smart technologies, microgeneration, energy storage and hydrogen technologies.

The tightening decarbonization policy at the EU level has a significant impact on the functioning of the electricity market in Poland. A permanent change in the structure (mix) of electricity production in connection with the decarbonization of the energy sector is underway. There will be a strong growth of the renewable energy sources (RES) and a change in the national energy mix towards low and zero emission sources at the expense of reducing the importance of the conventional sources.

A transition 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, 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 transition will be geared (oriented) towards performing the function of regulating (adjusting) and stabilizing the power system.

Opportunities and threats

The below table presents the opportunities for and threats to TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2020.

Table no. 5. Opportunities and threats to TAURON Capital Group's operations

Opportunities	Threats
Regulations	
<ol style="list-style-type: none"> 1. Functioning of the dual-product market – additional revenue for maintaining generation capacity. 2. Support for electromobility (growing electricity consumption). 3. Introduction of legal solutions supporting the curtailment of low emissions (e.g. system district heating). 4. Obtained derogations from the <i>BAT Conclusions</i>. 5. Use of the aid funds for the expansion of TAURON Capital Group's operations and the funds allocated to the energy transition and stimulating the economy following the end of the COVID-19 pandemic. 	<ol style="list-style-type: none"> 1. Tightening energy and climate policy of the European Union (EU). 2. Increase of the costs of generating electricity using the conventional sources due to, among others, the ever higher environmental costs and the decarbonization policy. 3. The need to incur additional expenses due to the changes to the energy law. 4. <i>EU taxonomy</i> and its impact on the possibilities of financing investments in the energy sector, the exclusion of the support for the coal assets.
Market	
<ol style="list-style-type: none"> 1. Access to the largest, among Poland's energy companies, customer base. 2. Entry into the energy related services market segments based on the competences held. 3. Commercialization of innovative solutions developed as part of the research and development activities. 4. Solutions related to the shape of the mining sector and the coal-based energy sector in Poland. 	<ol style="list-style-type: none"> 1. Decline of the margin and the deteriorating economic profitability of the coal fired units, along with a simultaneous increase of the cost competitive generation from RES and the growth of the prosumers; lower utilization rate (load factor, workload) of the conventional assets. 2. Loss of volume and profitability of the Supply Segment. 3. Pressure on the electricity prices with the growing cross-border exchange volumes. 4. Curtailment of the financing for the coal related investments as well as for the capital groups with coal assets. 5. Impact of the COVID-19 pandemic on the national economy.
Customer	
<ol style="list-style-type: none"> 1. Competitive advantage with respect to the customer service quality. 2. Customer segmentation and offering of the additional products in line with customer expectations. 3. Growing customer awareness and expectations towards comprehensive, personalized offering of additional services and products. 4. Expanding an offering of services for the customers based on the competences held and trust in the TAURON brand. 5. Developing modern and integrated sales and customer service channels. 6. New competences and business models based on the research and development (R&D) activities. 7. Maintaining of an upward trend in electricity consumption by the final consumers. 8. Developing competences and competitive advantages in the new areas of operations. 	<ol style="list-style-type: none"> 1. Potential loss of customers due to an increase in the number of competitors offering customers similar products and due to the low electricity supply market entry barriers. 2. Decrease of the customer loyalty – intense activities conducted by the competitors. 3. Growing customer awareness and requirements with respect to the customer service quality and product offering. 4. Increase of the ecological awareness of the society (public). 5. Power independence of the consumers (prosumers, energy (power) islands, energy storage facilities, clusters). 6. Energy intensive consumers building in-house generation sources, as a result of the drive to reduce the electricity costs. 7. "Carbon leakage" – moving business operations to other countries due to the cost of energy.

Technologies

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| <ol style="list-style-type: none"> 1. Continued decline of the prices of the renewable technologies. 2. Advancement of the storage technologies, smart technologies and the technologies related to the dispersed (distributed) generation. 3. Additional services for the customers related to the new technologies (internet of things, dynamic tariffs, virtual power plants). 4. Developing and implementing (commercializing) of proprietary innovative solutions that provide a competitive advantage. | <ol style="list-style-type: none"> 1. Growth of prosumer energy, partial energy independence of the final consumers. 2. The need to adapt the grid to the growth of dispersed (distributed) power generation (bi-directional electricity flows). 3. Arrival of the new, cost competitive electricity generation technologies in the countries neighboring with Poland. 4. Growing number of cyberthreats and the infrastructure vulnerable to such attacks. 5. Multitude of the communications standards, problems with providing the expected goals for the projects implemented. |
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Long term financial goals and assumptions of TAURON Group's Strategy

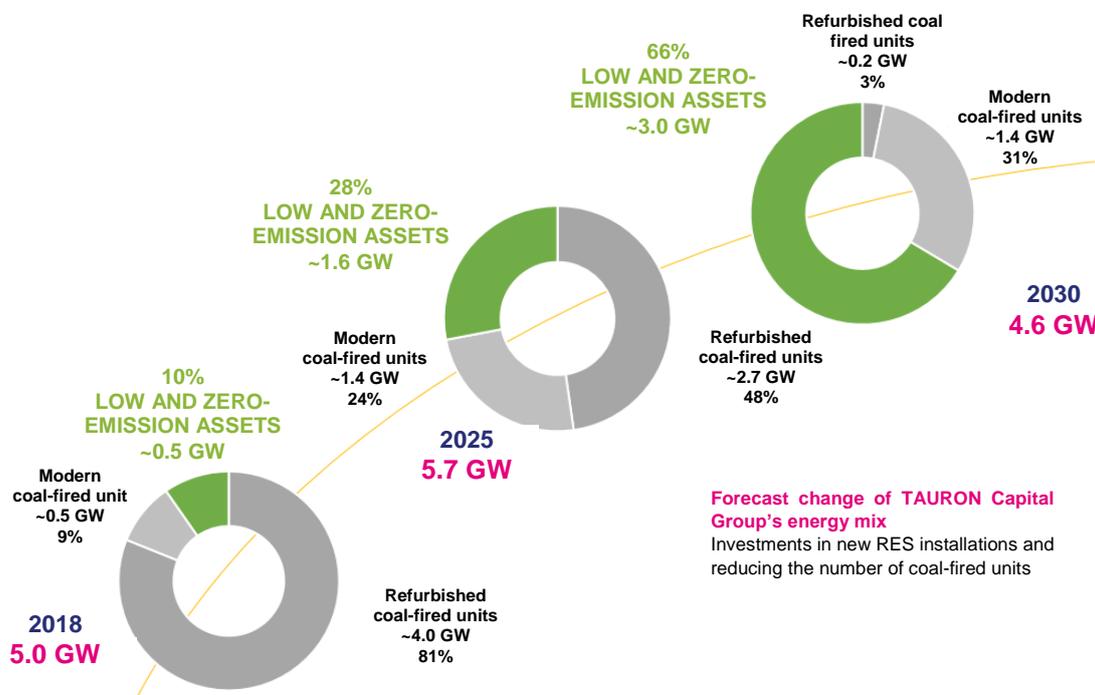
At the stage of preparing the Strategy it was assumed that the activities outlined therein would allow for accomplishing the key goals set for TAURON Capital Group, i.e.:

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| <ol style="list-style-type: none"> 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. | <ol style="list-style-type: none"> 5. Maintaining the customer base. 6. Unit margin leadership among Poland's 4 largest electricity suppliers. 7. New businesses will account for 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 Segment and the Generation Segment, while at the same time maintaining stability in the Distribution Segment.

The Update of the Strategic Directions indicated the ultimate (target) structure of the generating assets of TAURON Capital Group. The assumed ultimate 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.

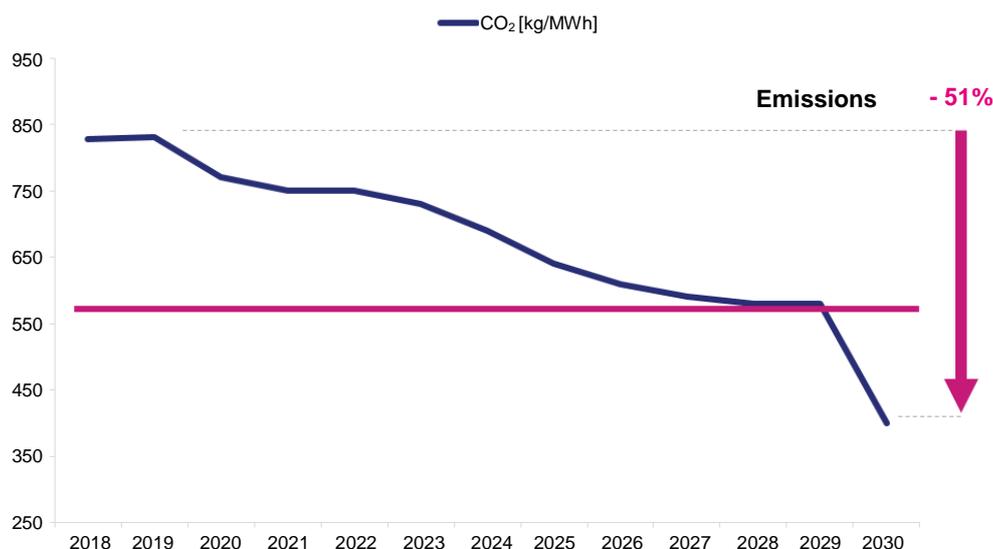
Figure no. 5. TAURON Capital Group's ultimate energy transition



A natural consequence of the change in the structure (mix) of TAURON Capital Group's capacity will be a significant reduction in CO₂ emissions, which will allow the Company to be ranked among the most environmentally responsible energy companies. Ultimately, it is assumed that CO₂ unit emissions well below 550 kg / MWh will be achieved.

The below figure shows TAURON Capital Group's assumed ultimate unit emissions level.

Figure no. 6. TAURON Capital Group's ultimate unit emissions level



The implementation of TAURON Group's Strategy and the strategic priorities in 2020

The activities undertaken and the achieved values (levels) 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 2020.

Table no. 6. TAURON Capital Group's strategic goals realized in 2019

Strategic goal	Realization in 2020
1. EBITDA above PLN 4 billion in 2020.	The goal was realized by the core operations of TAURON Capital Group's business segments. In 2020 EBITDA of PLN 4.2 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 2020 the net debt/EBITDA ratio came in at 2.8x.
3. Maintaining a high Customer Satisfaction Index (CSI)	TAURON Capital Group is an industry leader in customer service quality. The 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 2020 CSI survey were as follows: for households 83 points, for small and medium size enterprises 74 points, and for the business customers 77 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 strategy, as well as the impact of the external environment, both the regulatory one, as well as the market one. The goal was achieved for 3 out of 5 power plants: in 2020, positive flows were obtained at the following power plants: Łagisza, Siersza and Stalowa Wola. The goal for the Łaziska and Jaworzno Power Plants was not achieved. The lack of positive cash flows in 2020 by the Jaworzno and Łaziska branches is due to the accumulation of investments: in 2020 the Jaworzno and Łaziska Branches were implementing the key stages of the program for adapting the units to the <i>BAT Conclusions</i> , incurring investment outlays in the amount of PLN 239 million for that purpose. Taking advantage of the shutdown of those units, major and medium scope overhauls were also carried out for the total amount of PLN 181 million. The revenues resulting from the participation of those units in the new support mechanism on the electricity market, which is the Capacity Market, will have a material positive impact on achieving positive cash flows by TAURON Capital Group's generating units starting from 2021. The revenues expected to be obtained by TAURON Wytwarzanie from that source in the time frame until 2028 have already been contracted as part of the completed capacity auctions.
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 2020, TAURON Capital Group provided services for approx. 5.6 million customers of the Supply Segment and approx. 5.7 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 2020, 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 account for at least 25% of the revenue / margin in 2025

The largest project as part of the implementation of the goal with respect to the New Businesses 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. In 2020, connecting of 100% of schools to the network was completed and the construction of broadband access for households was continued, which was a significant milestone in the implementation of the project. The attractiveness of the project is additionally enhanced by the amount of the subsidy that is ultimately worth PLN 187 million. With respect to the development of eMobility, TAURON Capital Group is building an infrastructure for charging electric cars. As of the end of 2020, after more than 2 years from the commencement of the first activities with respect to electromobility, the charging network of TAURON Capital Group is composed of more than 70 charging stations in operation, which puts it in the 4th place in Poland in terms of size. In 2020, the works related to the construction of the cogeneration engines were continued based on the model assuming the optimization of the use of methane obtained from the mining headings at Brzeszcze Coal Mine (Zakład Górniczy Brzeszcze - ZG Brzeszcze). The commissioning of the units as part of Stage 1 took place at the turn of January and February 2021.

Ensuring TAURON Capital Group's financial stability

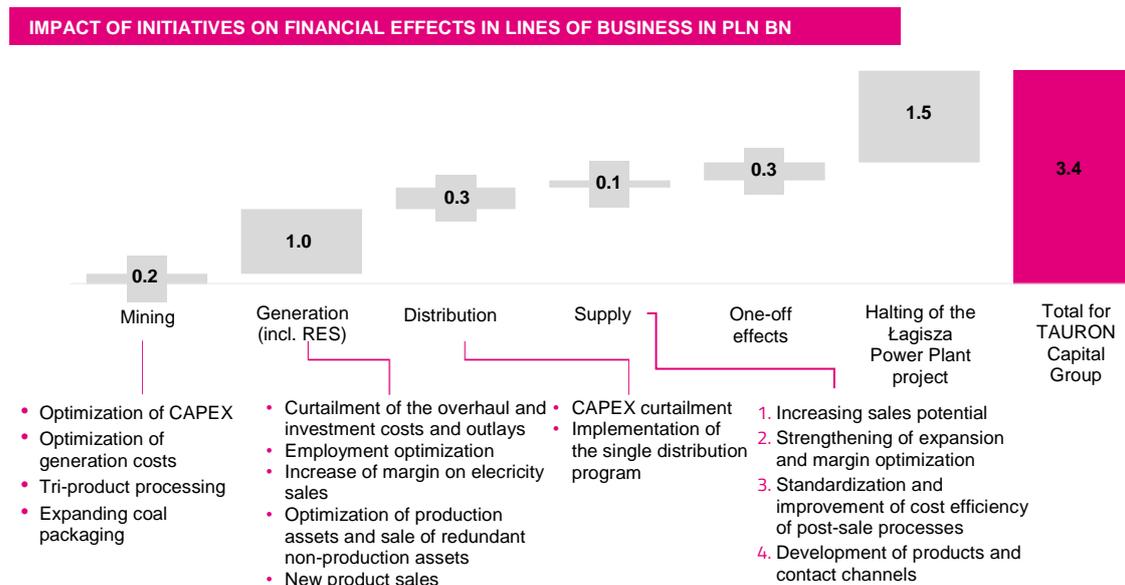
Ensuring TAURON Capital Group's financial stability is achieved through the Efficiency Improvement Program, the implementation of the Strategic Initiatives and the improvement of the investment efficiency.

The implementation of the 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 the years 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 the years 2017-2020.

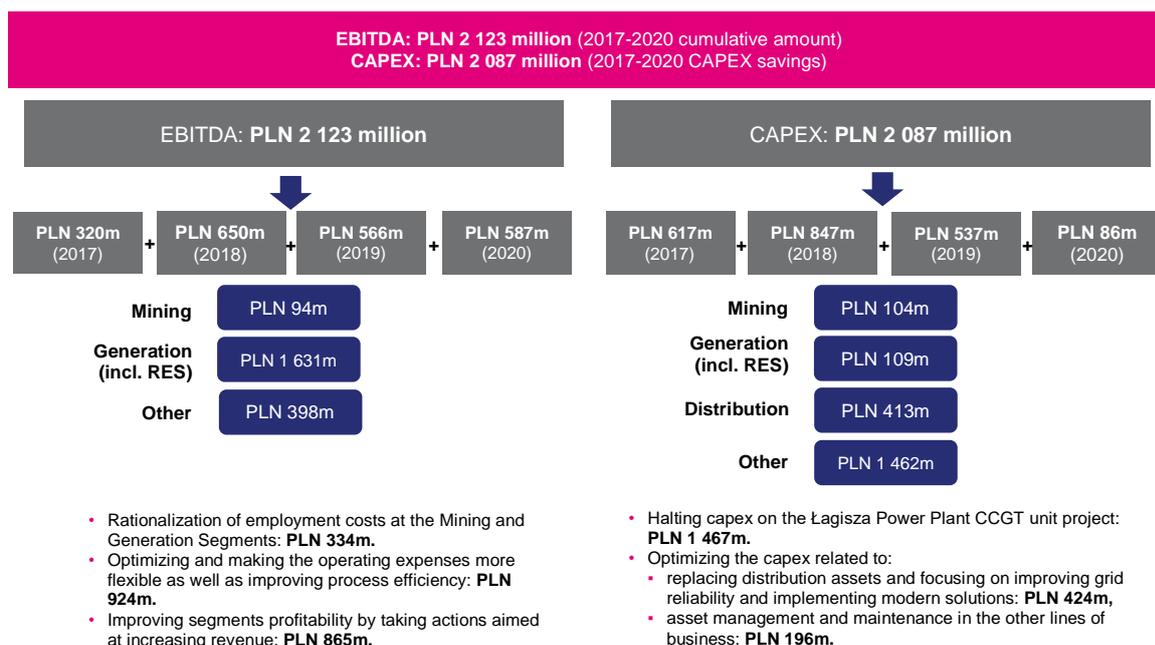
Figure no. 7. Assumptions of the Strategic Initiatives and the CAPEX rationalization in the years 2017-2020



In 2020, the Strategic Initiatives brought a financial effect of PLN 673 million, with PLN 587 million impacting EBITDA, and PLN 86 million having been due to the reduction of the capital expenditures. The Generation and RES Line of Business (PLN 342 million) and the Supply Line of Business (PLN 181 million) made the largest contributions to the savings achieved. The cumulative effects achieved as of the end of 2020 amounted to PLN 4 210 million, with PLN 2 123 million having a positive impact on EBITDA, and PLN 2 087 million coming from the reduction of the investment outlays.

The figure below shows the implementation of the Strategic Initiatives in the years 2017-2020.

Figure no. 8. Implementation of the Strategic Initiatives in the years 2017-2020 (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 in 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 was ended due to the lack of interest in the acquisition of the Janina Coal Mine (ZG Janina). 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. TAURON is continuing its works on making the Mining Segment profitable, among others, by implementing the *Turnaround Program for TAURON Wydobyćie*.

The project involving the sale of the shares in TAURON Ciepło was implemented during 2020. The most advanced talks (exclusive negotiations) were conducted with PGNiG. On January 29, 2021, PGNiG S.A. disclosed the information on the discontinuing of the negotiations aimed at the acquisition of the shares in TAURON Ciepło.

The detailed information on the sale of the shares in TAURON Ciepło is presented in section 2.6. of this report.

Building a strong capital group

TAURON Capital Group is offering a rich product and service portfolio for the customers. 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 distribution grid. TAURON Capital Group invested PLN 1 908 million in total in the Distribution Segment in 2020, while at the same time implementing initiatives aimed at improving the Segment's 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 Segment and the Generation Segment in 2020, thanks to the optimization of the costs and capital expenditures related to the assets that will not generate positive results in the future, the optimization of the production assets and the sale of the redundant non-production assets, the streamlining of the employment (headcount). 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 schedules for the 120 MW and 200 MW unit shutdowns were developed and adopted. As of the end of 2020, all of the 120 MW units were shut down, except for the two units at the Stalowa Wola branch, that were shut down on February 1, 2021 (970 MW in total). In the

years 2026-2030, further units with a total capacity of 2.5 GW will be decommissioned, mainly the 200 MW units. In connection with the implementation of the Strategy, in particular the change of the energy mix, works are underway to launch a comprehensive program for the transition of the Company consisting in the preparation and commencement of the activities aimed at adapting the organizational and production (technical) structure to the above mentioned change, including the competences of organizational units, potential protective programs, method of consultation and communication, and other important issues related to the permanent shutdown of the selected units from the operation and the management (utilization) of the remaining production assets.

As part of the implementation of the assumptions of the new green policy, TAURON Capital Group acquired 5 wind farms in September 2019, with a total installed capacity of 180 MW owned by the in.ventus group, and as a result of the deal its installed capacity in wind based technology was doubled. On December 15, 2020, TAURON EKOENERGIA, through the acquisition of the WIND T1 shares, obtained a 30 MW wind farm project ready for construction (FW Piotrków project).

On January 2, 2020, TAURON EKOENERGIA, through the acquisition of the AVAL-1 shares, acquired the Choszczno photovoltaic farm project with a total capacity of 6 MW (ultimately 14 MW). At the same time, the works related to the preparation for the development of photovoltaic installations on TAURON Capital Group's land (sites) that is not used commercially are in progress. The construction of a 5 MW photovoltaic farm on the land owned by TAURON Wytwarzanie was completed in December 2020.

TAURON declares its readiness to take part in offshore wind farm construction projects. In December 2020, the Company signed a cooperation agreement with OW OFFSHORE S.L., regarding the development of offshore wind farm construction projects in the Polish Exclusive Economic Zone on the Baltic Sea. In January 2021, PGE, TAURON and Enea signed a letter of intent on the cooperation in offshore projects, in which it was agreed that a special purpose vehicle would be established and it would apply for new licenses.

The detailed information on the implementation of the above investment projects in the RES area is provided in section 1.7. of this report.

Introduction of the organizational changes supporting the implementation of the Strategy

The basis of the operational model is process based management and the division of the 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.

1.7. Description of the expansion policy and directions

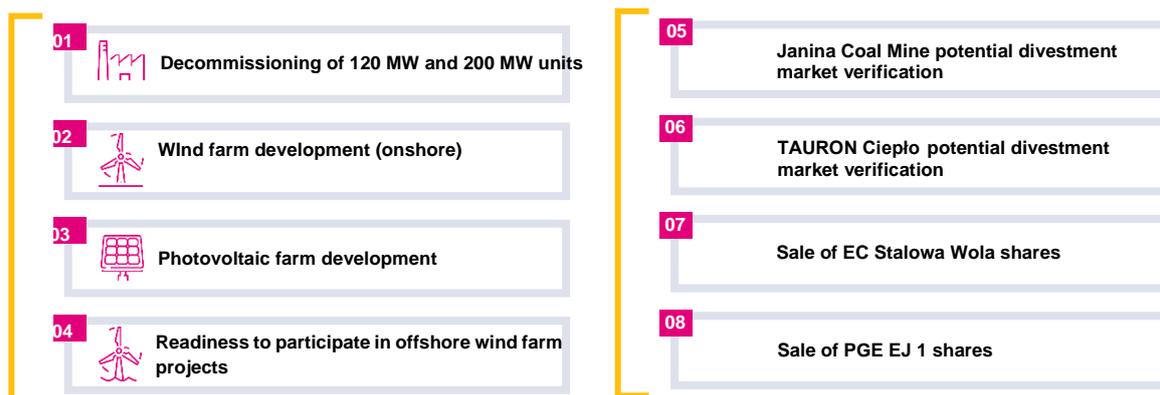
Strategy sets the directions of TAURON Capital Group's short and long term expansion (growth). The priority is to maintain a stable financial position and lay down solid foundations for growth in a changing environment. The Update of the Strategic Directions additionally highlighted the importance of the transition 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, the strategic options to be implemented were adopted as part of the Update of the Strategic Directions.

The below figure presents TAURON Capital Group's adopted strategic options.

Figure no. 9. TAURON Capital Group's adopted strategic options



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 2020 and by the date of drawing up this report in connection with the implementation of the key strategic investment (CAPEX) projects.

Table no. 7. Key strategic investment (CAPEX) projects' work progress in 2020 and by the date of drawing up this report

Investment project	Investment project's work progress
<p>1. Construction of a new 910 MWe supercritical parameters power generation unit in Jaworzno</p> <p>Contractor: RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium</p> <p>Planned project completion date: Q2 2021</p> <p>Work progress: 99%</p> <p>Expenditures incurred: PLN 6 007.6 million*</p>	<p>The trial (test) run of the unit was begun in January 2020 and the trial runs of the auxiliary and accompanying systems (installations) were continued.</p> <p>The contractual deadline for commissioning the unit was January 31, 2020. On January 30, 2020, the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium (General Contractor) provided the information that the unit would be ready for commissioning on February 4, 2020. In February 2020, in the final phase of the unit's test run, a failure occurred, as a result of which the boiler components - dust burners - were damaged. Thus, the General Contractor failed to meet the above mentioned deadline.</p> <p>On March 6, 2020, the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium estimated that the unit's commissioning should take place by July 31, 2020.</p> <p>On May 4, 2020, Nowe Jaworzno Grupa TAURON sp. z o.o., the RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium and E003B7 sp. z o.o. (SPV), RAFAKO'S special purpose vehicle set up to build the unit, signed an Agreement in which the causes of the damage to one of the boiler components were determined. According to the conclusions presented by the fact finding commission composed of the representatives of NJGT, the Consortium and SPV the failure was a consequence of an unfavorable coincidence of circumstances that had occurred during the start-up of the unit. Each of these circumstances, occurring individually, could not have led to an occurrence of the failure. In addition, the fact finding commission has agreed on how to repair the damaged boiler components, which will allow for avoiding similar failures in the future.</p> <p>As part of the agreement, a schedule of actions has also been agreed upon, including procedures aimed at providing protection against the risk of a recurrence of a failure as well as procedures for tuning (adjusting) and the commissioning works related to the unit.</p> <p>On June 10, 2020, an amendment to the Contract was concluded in accordance with the intentions expressed in the above mentioned agreement and the rules for the further implementation of the Contract were established. The new contract implementation schedule was introduced, confirming the date of commissioning the unit as November 15, 2020. The parties also provided for regulating the other mutual relations and settlements in a separate amendment/ agreement.</p> <p>In addition, a permit to use the buildings of the new unit was obtained and the trial (test) run with respect to the auxiliary and accompanying systems (installations) was completed. The fulfillment of the above conditions enabled the Employer to take over, as of February 28, 2020, the auxiliary and accompanying systems (installations).</p> <p>In March 2020, the Supreme Administrative Court (Naczelny Sąd Administracyjny) dismissed the cassation appeal against the ruling of the Voivodeship Administrative Court (Wojewódzki Sąd Administracyjny) in Warsaw of November 21, 2017, regarding the decision granting the integrated permit to Nowe Jaworzno Grupa TAURON. The decision is legally binding (final), which allows Nowe Jaworzno Grupa TAURON to finally operate the new unit in accordance with the applicable <i>BAT Conclusions</i> and the environment protection regulations.</p> <p>In the third quarter of 2020, the assembly (erection) works were continued and the commissioning works were resumed after the effects of the failure of the boiler</p>

elements from February 2020 had been fixed. As part of the commissioning works, the technological process systems were brought back into operation and the boiler was re-fired in July 2020. Subsequently, after the required steam purity had been achieved, the unit was synchronized with the National Power System in August 2020, which enabled the repeated adjustment run of the unit to begin. As part of that run, a program of trials and tests was carried out, including, among others: the rated (nominal) power of the unit was achieved, the performance tests were carried out for the boiler feed water pumps and the unit's power (capacity) adjustment tests were continued.

In accordance with the schedule, in the fourth quarter of 2020, the adjustment and trial runs had been completed, and subsequently, on November 13, 2020, the unit was handed over (commissioned) for operation. In addition, under the contract, the General Contractor is managing the transition period during which the General Contractor is conducting the additional optimizations and tests on the operating facility in order for the unit to meet the changed and new Guaranteed Technical Parameters (Performance Tests).

As part of the implementation of the provisions of the amendment to the contract with the General Contractor concluded on June 10, 2020, regarding the settlement by the parties of the other mutual relations and settlements, Nowe Jaworzno Grupa TAURON, E003B7 sp. z o.o. and the Consortium, including RAFAKO S.A. under restructuring acting with the consent of the supervisor (administrator) of the arrangement under the simplified restructuring proceedings, signed a settlement which is the result of the mediation conducted before the Arbitration Court at the General Counsel to the Republic of Poland (Prokuratoria Generalna Rzeczypospolitej Polskiej) and which regulates, in particular, the following issues:

1. waiver by the parties of their mutual and equivalent claims that had arisen by the date of signing the above mentioned settlement, with the exception of, inter alia, Nowe Jaworzno Grupa TAURON's claims under the statutory warranty or the warranty, as well as the recourse claims against the Consortium for the payment of the claims of further subcontractors and the claims of the Consortium related to the works carried out in accordance with the contract,
2. performance by the Consortium of the additional services for Nowe Jaworzno Grupa TAURON, including the works aimed at optimizing the unit's operation (performance), the results of which will include, inter alia, the reduction of the unit's technical minimum power generation output from 40 percent to 37 percent. In addition, the technical warranty for the boiler's high-pressure part will be extended by 6 months (to 36 months), with respect to which Nowe Jaworzno Grupa TAURON will receive an additional security (bond) issued by the warranty providers..

The settlement entered into force on February 6, 2021, after the decision of the District Court in Katowice of December 17, 2020, on the approval of the settlement, had become final (legally binding) on January 5, 2021.

In connection with the conclusion of the settlement, on November 13, 2020, Nowe Jaworzno Grupa TAURON and the Consortium an annex to the agreement that regulated in detail the agreements between the Parties, specified in the Settlement, with respect to the additional services to be provided by the Consortium, including, among others, the deadlines for the completion thereof and the payment terms related thereto. The conclusion of the settlement and the annex will not lead to the exceeding of the assumed total amount of expenditures that is foreseen for the implementation of this investment project, i.e. PLN 6.2 billion, where the remuneration for the Consortium under the agreement signed and the concluded annexes thereto will, in total, amount to PLN 4.6 billion. Moreover, on the basis of the introduced provisions, the Employer agreed to the implementation of the 72-hour reliable operation run during the transition period.

On January 13, 2021, the Management Board of Rafako S.A. disclosed in the regulatory filing (current report) that it had received from the District Court in Gliwice, the 12th Commercial Division, verbal information on the issuing by the competent court of a decision approving the arrangement under the simplified restructuring proceedings pursuant to the *Act of May 15, 2015, Restructuring Law*. As of the date of drawing up this report the said decision is not final (not legally binding).

In addition, on November 18, 2020, Nowe Jaworzno Grupa TAURON received a notification, from the ERO, of the granting of a license for electricity generation for the period from November 20, 2020, until December 31, 2030.

The generating unit is operating in the Polish power system within the full range of achievable capacity and the schedule of trials and tests envisaged in the transition period is successively implemented, including the trials with the participation of the TSO (PSE).

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 Gliwice – Energopomiar Katowice consortium

In 2020, all of the contractors completed the works at the construction site. The assembly of the steam pipelines, auxiliary installations and the steel structures was completed. The mechanical assembly was also completed. The unit's chemical cleaning was successfully completed.

On March 4, 2020, the first synchronization of the gas turbine with the electricity grid was carried out. The steam purging (blowdown) process was successfully carried out and it was completed in the second week of April 2020. The commissioning group carried out all the necessary tests and commissioning of individual technological (process) systems.

Planned project completion date: Q4 2020

Work progress: 100 %

Expenditures incurred: PLN 1 398.4 million

As a result of the inventory taking carried out by the Contract Manager, the assembly errors were identified, as a consequence of which it was necessary to dismantle the steam pipelines, and subsequently make them anew and reassemble. As a result of the accumulation of the additional activities required to be performed, and not planned in the original schedule, the project schedule was revised and a new date for the unit's commissioning was set, originally in the first quarter of 2020, and subsequently, as a result of another revision, in the third quarter of 2020.

In August 2020, the first synchronization of the steam turbine was carried out.

On September 30, 2020, the unit was commissioned with a capacity curtailment of 300 MWe. The unit's nominal (rated) capacity was achieved in November 2020. The unit's optimization run was completed.

Following its commissioning the unit obtained a license for electricity and heat generation valid until December 31, 2040, as well as the Decisions of the President of the Energy Regulatory Office (ERO) approving the Tariff for heat. The unit is operating commercially in line with the operator's expectations, providing the supply of heat and electricity.

The implementation of the investment project has been completed.

3. Construction of the "Grzegorz" shaft (TAURON Wydobyćie) including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings).

Contractor: Consortium of KOPEX Przedsiębiorstwo Budowy Szybów S.A. (formerly: KOPEX Przedsiębiorstwo Budowy Szybów S.A.), FAMUR Pemug sp. z o.o. (main task – Stage I), LINTER S.A. – contract terminated, the works in this respect have been halted.

Planned project completion date: 2023

Work progress: 50 %

Expenditures incurred: PLN 275.9 million

The passing of the fault on the 540 m level was completed. The works related to the drilling of the horizontal workings towards the shaft in order to merge the longwalls are underway.

At the construction site of the "Grzegorz" Shaft, the construction of the infrastructure required to sink the shaft was completed and more than 80 m of the shaft was bored in the so-called ultimate mine shaft enclosure. TAURON Wydobyćie and the General Contractor are continuing their cooperation. Talks are held to determine the detailed conditions of the further conducting of the investment project. The freezing process is maintained at the construction site.

The site continues to be ready for the continuation of the investment project works.

4. Construction of the 800 m level at the Janina Coal Mine in Libiąż (TAURON Wydobyćie).

Contractor: Consortium of Mostostal Zabrze GPBP S.A. and SIEMAG TECBERG POLSKA S.A. (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: Q3 2021

Work progress: 87 %

Expenditures incurred: PLN 450.0 million

In connection with the COVID-19 pandemic, there was a partial stoppage in the performance of the works related to that investment project. However, the works related to installing the equipment (furnishings) of the hoisting machine and the shaft cage were conducted. A flyover was constructed for the crew to access the newly built tower, which connected the new and the old infrastructure. The installation works related to the heating and ventilation systems, as well as cabling and woodwork (carpentry) in the headframe building have been completed.

Concrete pouring works have been completed and the installing of the shaft equipment (furnishings) has been commenced on the shaft bottom (pit) at the 800 m level.

W IV kwartale 2020 r. rozpoczęto ruch próbny górniczego wyciągu szybowego.

In the fourth quarter of 2020, a trial (test) operation of the mining shaft hoist was begun.

A tender was prepared and announced for the boring of the 800 m level headings, the announcement of which, due to the optimization of the scope thereof, had been postponed until 2020. The opening of the bids took place in February 2021. Due to the submission of two bids, one of which did not meet the criteria and the other significantly exceeded the employer's budget, no contractor was selected. The procedure is being prepared again.

5. Brzeszcze CAPEX Program

Contractors: TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGiBSz Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn

Program completion date: 2020

Work progress: the Program was ended at the work progress of 72% of the planned works

Expenditures incurred: PLN 326.8 million

The extraction of the 510 deposit was conducted in 2020. The works aimed at altering and improving the efficiency of the ventilation system are continued.

By the end of 2020, a total of 7 078.8 m of headings (workings) had been bored and altered as part of the program.

Due to the operational nature of the activities carried out as part of the Program, in December 2020, a decision was made to terminate the Program earlier (originally, the Program's completion date was planned in 2025). Further work will be carried out as part of operating activities.

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)

The steam turbine set refurbishment and the implementation of the heat generation unit including the station's adaptation were completed as part of the Project in the fourth quarter of 2019. The systems were tested, commissioned and handed over for operation in the fourth quarter of 2019

In the first half of 2020, the final task of the thermal insulation works was continued, namely the construction of the peaking and backup boilers. In 2020, the construction of the oil tanks was completed, and subsequently the adjustment run of the boilers was begun.

A test run of the boiler house was carried out and the required tests were conducted.

Investment project	Investment project's work progress
<p>Investment project completion date: Q4 2019 / Q2 2020</p> <p>Work progress: 100%</p> <p>Expenditures incurred: PLN 127.4 million</p>	<p>The boiler room was commissioned in June 2020.</p> <p>The implementation of the investment project has been completed.</p>
<p>7. Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation</p> <p>Contractor: Contractors are being selected to carry out specific work (project) stages.</p> <p>Planned project completion date: 2023</p> <p>Work progress: 23 %</p> <p>Expenditures incurred: PLN 25.8 million</p>	<p>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.</p> <p>The new agreement with the Voivodeship Fund for Environmental Protection and Water Management (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej - WFOŚiGW) was concluded on January 31, 2020, as a result of a new application submitted by TAURON Ciepło to WFOŚiGW in 2019, for the co-financing of the PLNE Program for a new scope of the program's implementation in the form of 22 MWt. The amount of the funding obtained is PLN 32 million.</p> <p>In 2020, the works related to installing the network connections were continued under the network connection agreements concluded and the process of acquiring new customers continued. As part of the planned target for 2020, more than 7.8 MWt of new customers were acquired under the network connection agreements concluded.</p>
<p>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)</p> <p>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)</p> <p>Planned project completion date: 2022</p> <p>Work progress: 38%</p> <p>Expenditures incurred: PLN 116.7 million</p>	<p>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.</p> <p>In January 2020, a contractor for the construction of the backbone network was selected, and the selected contractor completed the works contracted in 2020.</p> <p>All of the contractors had been conducting the works related to the deployment of the fiber optic network and connecting of the schools to the network until the end of 2020.</p> <p>The contractors had been actively connecting the schools and installing the fiber optic line terminal cabinets (racks) until the end of September 2020,</p> <p>In the fourth quarter of 2020, a significant milestone was achieved as 100% of the schools had been connected under the funding agreement.</p> <p>In the next period, the works related to the further expansion of the optical fiber network will be carried out.</p>
<p>9. Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021</p> <p>Contractor: Contractors are being selected to carry out specific projects.</p> <p>Planned project completion date: Q4 2021</p> <p>Work progress: 94%</p> <p>Expenditures incurred: PLN 281.6 million</p>	<p>As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned:</p> <ol style="list-style-type: none"> 1. Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installation. The implementation of the project was halted in the second quarter of 2020 due to the obtained derogations from the <i>BAT Conclusions</i>, which allowed for further operation of the units. The parties are preparing documents that will enable the termination of the contract and the mutual settlements. 2. Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installation In the fourth quarter of 2020, the assembly was completed in all branches for unit 5, the adjustment is underway. The installation for unit no. 1 was commissioned. Unit no. 3 was commissioned, the works related to final acceptance are in progress 3. Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the selective catalytic reduction (SCR) installation. The installation for unit no. 9 and unit no. 10 was commissioned. In the fourth quarter of 2020, the installations for units no. 11 and no. 12 were commissioned. 4. Łaziska Power Plant, units no. 9, 10, 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installation. The installation for units no. 9 and no. 10 was commissioned. In the fourth quarter of 2020, most of the flue gas channel switching (rerouting) tests were completed at the connection of units no. 9, 10, 11 and 12. 5. Łaziska Power Plant – the refurbishment of the sewage treatment plant. The reduced scope of the refurbishment works will be carried out as part of the ongoing overhauls (maintenance) starting from the spring of 2021, the works will be conducted without any impact on the power plant's operation. 6. Siersza Power Plant - the adaptation of the existing flue gas desulfurization (FGD) installations. The implementation of the project was suspended due to the obtained derogations from the <i>BAT Conclusions</i>. 7. Łaziska Power Plant – the construction of the flue gas desulfurization (FGD) installation was substituted by the completion of the dry additives feeding installation. The tender procedure has been carried out. The project implementation has been halted due to the obtained derogations from the <i>BAT Conclusions</i>.

8. Projekt Monitoring - w IV kwartale 2020 r. wykonawca w ramach etapu pierwszego (prace niezbędne do wykonania w elektrowniach) zakończył prace obiektowe dla Elektrowni Łaziska i Elektrowni Jaworzno III. Monitoring Project – in the fourth quarter of 2020 the contractor, as part of the first stage (the works required to be performed at the power plants), completed the field works for the Łaziska Power Plant and Jaworzno III Power Plant/ The contractor handed over the detailed engineering designs for all of the facilities (sites).

*The amount increased by, among others, training, fast wearing parts

Other investment projects

Preparation and implementation of investment projects in the field of renewable energy sources (RES)

In accordance with the assumptions of the Update of the Strategic Directions, that assumes an increase in the share of the low and zero emission sources in the generation mix of TAURON Capital Group to more than 65% in 2030, TAURON Capital Group's subsidiaries have been steadfastly developing projects related to the new RES capacity. 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 getting involved in the construction of off-shore wind farms.

As part of the investments in the field of renewable energy sources (RES), the program of building photovoltaic (PV) farms in the areas that were reclaimed or required rehabilitation as a result of long term industrial activity (*TAURON PV Program*) was continued in the fourth quarter of 2020. The Program includes the construction of the PV farms at several locations (sites), with the total capacity of up to 150 MWp

The civil works, as part of the first project of the TAURON PV Program – the construction of a 5 MW photovoltaic (PV) farm in Jaworzno, were commenced in August 2020. The investment outlays for the construction of the farm amounted to PLN 15 million. The project was co-financed by the Voivodeship Fund for Environmental Protection and Water Management (WFOŚiGW) in Katowice (a loan with an option to redeem up to PLN 3 million). The farm was commissioned in December 2020. The project competed in the RES auction for the installations of > 1 MW in 2020, however, due to the strong competition from the wind sources, it did not receive the support.

The next most advanced project is a photovoltaic farm in Mysłowice with an estimated capacity of approx. 40 MW. The project is currently awaiting the issuance of the Building Permit. Preparations are underway to start the process of selecting the contractor for the farm and the grid connection. The subject matter evaluation of the project is also underway as part of a competition dedicated to Silesia under the Infrastructure and Environment Operational Program.

At other locations (sites) the works currently underway include obtaining the required administrative (zoning) approvals (clearances) and decisions, however the final decisions on their implementation will be taken in the event that the business case (justification) turns out positive. Works are also underway on changing the scope of the *TAURON PV Program* in connection with the possibility of extending the program to cover the new locations.

Apart from the *TAURON PV Program* the PV Choszczno project is also under construction - a complex of 1 MW photovoltaic farms with the total capacity of 6 MW (the first stage). The investment project is implemented as part of the acquisition of the AVAL-1 shares by TAURON EKOENERGIA on January 2, 2020. The construction of the farm was completed in the fourth quarter of 2020, and preparations are currently underway for the commissioning and handing the project over for operation. The investment project received support as part of the 2019 RES auction for the installations of <1 MW. The total budget of the project is approx. PLN 17 million. The second stage of the investment project involves extending the farm by adding another 8 MW. The investment project took part in the RES auction in 2020 for the installations of <1 MW, but did not receive the support. The planned date of its commissioning is the turn of 2021 and 2022.

Apart from developing their in-house projects, TAURON Capital Group's subsidiaries are also looking for the opportunities to acquire advanced RES projects ready for construction on the market. As part of such efforts, on December 15, 2020, TAURON EKOENERGIA, through the acquisition of the WIND T1 shares, acquired a 30 MW wind farm project ready for construction (Piotrków FW project). The first civil works are to begin at the turn of March and April 2021. The total project budget is approximately PLN 200 million. According to the plan, the investment project is to be commissioned in June 2022.

The due diligence analyses of further projects are underway. All of the investment decisions will be made after the detailed analyses of the technical, legal and business risks have been completed, after the positive financial results of the individual projects have been obtained and after the final terms have been agreed upon with the sellers.

Obecnie postępowania dotyczące pozwoleń lokalizacyjnych w polskich obszarach morskich są zawieszane, do czasu przyjęcia w drodze rozporządzenia planów zagospodarowania przestrzennego dla tych obszarów (planowo do dnia 31 marca 2021 r.) Dodatkowo zostały złożone wnioski o wydanie Pozwolenia na układanie i utrzymywanie kabli lub rurociągów na obszarach morskich wód wewnętrznych i morza terytorialnego.

As part of the activities related to TAURON's participation in the offshore wind farm projects, the applications were submitted in the fourth quarter of 2020 for a Permit for the construction of artificial islands as a supplement to the previously submitted applications, that are waiting for a review at the Ministry of Maritime Economy and Inland Navigation. Currently, the proceedings regarding the location (siting) permits in the Polish maritime areas are suspended until the spatial development (zoning) plans for these areas are adopted by way of a regulation (planned by March 31, 2021). In addition, the applications for a Permit for laying and maintaining cables or pipelines in the areas of the internal waters and the territorial sea have been submitted

On December 29, 2020, TAURON concluded a two-year cooperation agreement with OW OFFSHORE S.L. on the development of offshore wind farm construction projects in the Polish Exclusive Economic Zone on the Baltic Sea.

The detailed information on the conclusion of the above agreement is provided in section 12.2.1. of this report.

On January 18, 2021, (an event occurring after the balance sheet date) PGE, Enea and TAURON signed a Letter of Intent, in which they expressed their will to commence strategic cooperation related to the future offshore wind energy investment projects in the Polish Exclusive Economic Zone of the Baltic Sea.

The detailed information on the signing of the above mentioned Letter of Intent is provided in section 2.6. of this report.

Nuclear power plant construction project

PGE EJ 1 was carrying out the project's initial stage scope of works related to conducting environmental and siting studies at Żarnowiec and Lubiatowo-Kopalino sites in 2020. Having collected the appropriate amount of data, the writing of the environmental and siting reports began. Currently, the compiling of both reports is underway.

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 the shares in PGE EJ 1 – a special purpose vehicle responsible for preparing and implementing the 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).

The preparations for the sale of TAURON's shares in PGE EJ1 were commenced in the third quarter of 2020. The content of the Letter of Intent was agreed. The Letter of Intent regarding the sale of the shares was signed by all of the shareholders of PGE EJ 1 and a representative of the State Treasury on October 1, 2020.

On March 26, 2021, (an event occurring after the balance sheet date), the Company signed an agreement with the State Treasury for the sale of the shares in PGE EJ 1.

The detailed information on the signing of the above mentioned Letter of Intent and the conclusion of the above mentioned agreement is provided, respectively, in section 2.6. and section 12.2. of this report.

413 MWe CCGT unit construction project including an approx. 250 MWt heat generation unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin (TAURON Wytwarzanie Oddział Elektrownia Łagisza w Będzinie)

In September 2016, in accordance with *TAURON Group's Strategy for the years 2016-2025* (Strategy), as part of the priority of ensuring TAURON Capital Group's financial stability, the 413 MWe CCGT unit construction project including a heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin (TAURON Wytwarzanie Oddział Elektrownia Łagisza w Będzinie) was halted due to the loss of its business justification. TAURON Capital Group is currently conducting analyses that would enable a potential resumption of the project and other similar projects at TAURON Capital Group subsidiaries locations. Smaller units or batteries of gas engines operating in high-efficiency cogeneration are also considered. The fuel under consideration is natural gas with a much lower emission than coal, also as a transition fuel on the path to the low emission generation. Taking of the investment decision will, on one hand, be based on the assessment of the projects' 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.

Capital expenditures (CAPEX)

TAURON Capital Group's capital expenditures came in at PLN 4 039 million in 2020 and they were 2% lower than the expenditures incurred in 2019 that stood at approx. PLN 4 128 million (excluding equity investments). This is primarily due to the decrease of the outlays in the Mining and Generation Segments and the increase of the outlays in the Distribution, RES and Other Operations Segments.

The below table presents the selected, highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2020.

Table no. 8. The highest by value capital expenditures incurred by TAURON Capital Group's Lines of Business in 2020

Item	Capital expenditures (PLN m)
Distribution	
1. Installation of new grid connections	924
2. Existing grid assets' upgrades (refurbishments) and replacements	827
3. Dispatcher Communications System	52
Generation	
4. Construction of a 910 MWe super critical parameters generation unit in Jaworzno	688
5. Adaptation of TAURON Wytwarzanie generation units to the BAT Conclusions	239
6. CAPEX on replacements and upgrades (refurbishments), as well as components at TAURON Wytwarzanie	187
7. Connecting of new facilities to the grid	33
8. Implementing heat generation module at the Łagisza Power Plant	18
9. Investment projects related to the development (expansion) and maintenance of the district heating networks	16
10. Connecting of the facilities heated using the low emission sources to the district heating networks	9
11. Restoration of the SUW demineralized water preparation (conditioning) station	7
RES	
12. Construction of the PV farm in Choszczno	16
13. Construction of the PV farm in Jaworzno	15
Mining	
14. Preparation of the future production	139
15. Construction of the 800 m level at the Janina Coal Mine (ZG Janina)	41
16. Brzeszcze Coal Mine's (ZG Brzeszcze) Investment Program	32
17. Purchase / modernization of the longwall boring miner system in the 301 deposit	38
18. Construction of the "Grzegorz" shaft at the Sobieski Coal Mine (ZG Sobieski)	17
Supply and Other Operations	
19. Construction of the broadband Internet as part of the POPC III project	102
20. Maintenance and development of the street lighting	43
21. Gas fired engines	10

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.

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 completed analyses with respect to the planned investment outlays and resources 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 the funds generated from the operating activities and by obtaining debt financing, both the corporate as well as the project 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 the ones related to the 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, under which the bonds worth PLN 1 000 000 000 were issued on October 30, 2020, and the agreements concluded in March 2020: a syndicated loan agreement with Intesa Sanpaolo S.P.A. and China Construction Bank (Europe) S.A. as well as a loan agreement with SMBC BANK EU AG.

The detailed information on the conclusion of the above mentioned agreements is provided in section 12.2. of this report.

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 the directions of the R+D+I activities assumed in the Strategy.

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:

1. Customer and His / Her Needs,
2. Smart Grid Services,
3. Dispersed (Distributed) Power Generation,
4. 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.

1.8. Major achievements in the field of research and development

Approx. PLN 40 million was allocated to the R+D+I area in 2020. 10 projects (including 8 start-ups) were launched in various lines of business. As part of four portfolios of the Research and Innovations Area, 54 projects with the total value of almost PLN 109 million were carried out. For the implementation of some of these projects TAURON Capital Group obtained funding from the external sources in the total amount of almost PLN 42 million.

There was a visible decline in the number of projects in 2020, both currently implemented as well as newly launched, which was caused in particular by:

1. COVID-19 pandemic, the impact of which in the Research and Innovation Area results in a reduced number of new initiatives (the effect of delays in the implementation of the works commissioned to the external institutions, in combination with the curtailment of the operations of a number of institutions cooperating with TAURON Capital Group),
2. redefinition of the portfolio of the R&D&I projects at TAURON Capital Group as a result of the *Green Turn of TAURON* (among others, the involvement in the conventional energy projects was significantly reduced).

The below table presents selected R&D projects implemented in 2020 by TAURON Capital Group's subsidiaries, co-financed from the external sources.

Table no. 9. Selected R&D projects implemented in 2020 by TAURON Capital Group's subsidiaries, co-financed from the external sources

Projects / programs / tasks	Co-financing source
1. Development and testing of an adaptive electricity storage system based on the second life of batteries from electric vehicles.	
2. System for assessing propagation and improvement of the quality of electricity in the distribution grids.	
3. Developing a platform allowing for aggregating the generation and regulating (adjustment) potential of the dispersed (distributed) renewable energy sources and energy storage devices (accumulators) as well as the selected categories of the controllable consumers.	
4. Integrated Grid Diagnostics System	
5. Development of the industrial design of the carbonate fuel cells and ceramic electrolyzers enabling integration with the power-to-gas installations	National Research and Development Center (Narodowe Centrum Badań i Rozwoju - NCBR)
6. Flexibility of the existing power generation units with limited capital expenditures.	
7. Development and demonstration of a computer system to be used for the operation control as well as availability and reliability management of industrial infrastructure based on artificial intelligence algorithms.	
8. Dispersed (distributed) energy solutions model 2.0 – self-balancing power grid areas.	
9. Development of an innovative system for effective monitoring and supporting of the protection devices compliant with the DMS assumptions.	
10. 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.	

Projects / programs / tasks	Co-financing source
11. Development of the hybrid system for reducing the emission of acid components and fly ash from flue gases.	
12. 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.	
13. Project TEXMIN - impact of extreme weather conditions on the mining operations.	European Union's Coal and Steel Research Fund
14. 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.	
15. 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
16. 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.	
17. Project GEMINI+ - developing a design of a high temperature gas cooled nuclear reactor (HTGR) for electricity and heat production.	

Project M-GRID 2.0 - "Dispersed (distributed) energy model 2.0 - self-balancing power grid areas"

The project that combines the research and development (R&D) activities of TAURON, TAURON Dystrybcja, TAURON EKOENERGIA and TAURON Sprzedaż. As part of the project, a pilot installation of a power microgrid is being prepared, with the ability to independently cover the local demand for electricity. The pilot installation will be equipped with the generation sources, energy storage facility and the management system, along with the advanced network automation solution. The consumers served will include households and enterprises billed under tariff C. The entire solution will be connected to the existing low voltage grid. The goal of the project is to verify the technology of building local power grids whose the main advantages include the reduction of losses in electricity distribution and the improvement of system reliability and flexibility. The gained knowledge and experience with respect to developing and operating microgrids will allow for offering a new type of services to the external customers of TAURON Capital Group. The tender for the selection of the Contractor for the pilot installation was completed in 2020 and the building permit for the construction thereof was obtained. A number of technical agreements related to the operation of the future installation have also been reached.

So-called Virtual Power Plant platform

The development of the so-called Virtual Power Plant allowing for the aggregation of the generation and regulation (adjustment) potential of the distributed renewable energy sources and energy storage facilities (accumulators) as well as the selected categories of controllable loads (consumers) is the subject of the project implemented by TAURON EKOENERGIA. As part of the project, both the management platform as well as the components were developed to enable the connecting of various types of energy sources, storage and electricity consumers (controllable) and their joint, coordinated management as a single energy facility. The testing and optimization of the solution's functioning were carried out in 2020, and the inclusion of the platform in TAURON Capital Group's offering for the participants of the electricity market is planned in 2021. At the same time, the works on the commercial implementation of the solutions developed are underway.

Project TENNESSEE

The project is one of the significant R&D projects implemented by TAURON Capital Group in 2020. The scope of the project covers high efficiency electrolysis of water vapor supported by fuel cells, in order to increase the efficiency of the green hydrogen storage in the form of synthetic natural gas, with the use of CO₂ captured from the power generating units' flue gas. The purpose of the pilot Power-to-Gas installation is to test innovative, high efficiency technologies for the production of hydrogen and CO₂ capture from boiler flue gas. The CO₂ and hydrogen obtained this way are blended and transformed into synthetic natural gas using the methanation installation. This process will ultimately be powered by the surplus of cheap energy generated from the renewable sources during the so-called load valleys (when the demand is reduced, e.g. at night). The technology is a promising solution for storing electricity from non-controllable energy sources - wind farms (in particular, the planned off-shore farms) or photovoltaic cells. The contractor for the pilot installation was selected in 2020 and the construction thereof began at the Łaziska Power Plant.

Second Life ESS

The goal of the project is to reuse the lithium-ion cells previously used in the urban transportation vehicles. The project is being developed with the support of the consortium of Solaris Bus & Coach Sp. z o.o. and Impact Clean Power Technology S.A. As part of the project, Solaris Bus & Coach Sp. z o.o. will provide batteries with a total capacity of 160 kWh for the construction of the energy storage facility. Before that, rechargeable batteries had been used by one of the PKM Jaworzno electric buses. The solutions developed can also be used as chargers for electric cars, or as an element of the smart energy infrastructure of a business user (e.g. as supplementary or emergency power supply), as well as with respect to the grid solutions - supporting the DSO.

Program HEMS

The program is addressed to the retail customers. The goal of the program is to prepare TAURON Capital Group to obtain 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 works related to the following projects were carried out in 2020:

1. Web site and e-consulting - the first stage of the project was completed, including, among others, the preparation of a website for the HVAC devices,
2. Thermal Comfort Management - the stage of preparing an algorithm for optimizing the operation of the boiler had been completed, which subsequently passed the stage of tests at a research institution,
3. Community of Experts.

Internet of Things

The works related to the Internet of Things were continued in 2020. The activities aimed at developing and implementing services for the needs of a smart city with the use of the above mentioned technology were carried out. The implementation of this type of solutions will be Poland's first undertaking that uses the Internet of Things on the scale of a city with the population of 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, the city authorities and businesses. The data was collected from the infrastructure of sensor devices and the works on the delivery of the ultimate platform for data visualization in selected functional areas of the city were carried out in 2020. The functionalities for measuring air quality along with the pollution prediction module, a smart parking service that helps residents find vacant parking spaces, the functionality of managing smart street lighting are tested, and the functionality of monitoring the level of filling waste bins was verified in order to try to optimize the waste collection process. In addition, the works on the development and testing of the analytical models for monitoring city traffic based on the image from the cameras were undertaken.

OPTI AI UNIT

A project launched in 2020, related to the development and demonstration of a computer system for controlling the operating parameters of the critical industrial infrastructure devices, as well as the construction of the models allowing for the dynamic management of their availability (dispatchability) and reliability. The integration of the control system with the digital models, artificial intelligence and machine learning algorithms will allow for including an additional component to support the decision making process. Solutions developed as part of the project, in line with the assumptions of the so-called Industry 4.0, will allow for, among others, predicting potential failures within the critical industrial infrastructure devices with an appropriate lead time (in advance).

Cooperation with the American Electric Power Research Institute

The cooperation with the American Electric Power Research Institute was continued in 2020 and, as part of that project, TAURON is participating in 2 research programs related to energy storage and identifying electricity consumer needs. The participation in the program of identifying the needs of electricity consumers enables TAURON Capital Group's subsidiaries to identify customer needs faster and precisely, and thus to build a portfolio of energy services and products adapted to the changing market trends. The program will also allow the products and services just being developed in the new business lines, such as electromobility or Smart Home, to be better adapted to the customer expectations.

The energy storage program 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 provide support for implementing TAURON's research and development (R&D) 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 the demand side response (DSR) mechanisms.

Cooperation with start-ups

Activities were continued within TAURON Capital Group in 2020 with respect to the cooperation with startups under external acceleration programs, as well as under the acceleration program of TAURON Capital Group - TAURON Progres. The programs are addressed to 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 extending the current offering of TAURON Capital Group's subsidiaries by adding the new products and services.

Scaleup acceleration programs (PilotMaker Elektro ScaleUp and KPT ScaleUp) announced and co-financed by the Polish Agency for the Development of Entrepreneurship (Polska Agencja Rozwoju Przedsiębiorczości - PARP) provided TAURON with the projects focused on the use of new, innovative technologies and solutions in the following areas: Electromobility, Industry 4.0, Internet of Things, Smart Grid (Network) Services. In 2020, TAURON expanded its cooperation with the startups also as part of its proprietary program, TAURON Progres, that enables

reaching TAURON directly with an innovative idea. In accordance with the assumptions of the program, the participants have the opportunity to test their solutions with the use of TAURON Capital Group's infrastructure and with the participation of experts from TAURON Capital Group's subsidiaries.

Continuing to build the strategic position of TAURON Capital Group in the area of startups, TAURON carried out, in 2020, further investments under EEC Magenta - a CVC type fund created in 2018. EEC Magenta increased its investment portfolio to the amount of PLN 37.1 million in 2020 and currently has 6 innovative startups therein.

As part of the implementation of the activities related to the cooperation with the startups TAURON took part in the Govtech Program for the second time in 2020. The goal of the program is to enable the cooperation among the Ministries, local government authorities, State Treasury companies with the startups and small enterprises, which are selected, by way of a competition, as the ultimate contractors performing the tasks (Challenges) prepared by the contracting parties (employers).

The below table presents the selected projects with the startups carried out in 2020 as part of the acceleration programs, which are the subject of EEC Magenta's investments and undertaken as part of the GovTech initiative.

Table no. 10. Projects with the startups carried out in 2020

Projects	Programs and activities related to cooperation with the startups
<p>1. EV Charge: An electric vehicle charger (for cars and electric bikes) built into a composite street lighting pole, to be used to build an electric vehicles charging stations network based on the street lighting power supply.</p>	Pilot Maker Elektro ScaleUp
<p>2. Born Electric: A charger for the micro-mobility vehicles (electric scooters and bicycles) and the batteries for the light vehicles (scooters) mounted directly on a regular street lighting lamp pole.</p>	
<p>3. MC2 Energy: Greenstock VPP Platform - a trading and clearing (settlement) platform for the RES micro-market for the needs of the green energy exchange, based on the blockchain technology</p>	
<p>4. Nanobots Software: A platform for collecting, managing and standardizing the data coming from the devices located in urban space.</p>	KPT ScaleUp
<p>5. Seedia: A range of urban small architecture products powered by solar energy, dedicated to the cities and municipalities, along with a system enabling remote management of the devices.</p>	
<p>6. Roboticon: Chatbot enabling 24/7 customer service on the tauron.pl portal, acting as a virtual assistant that supports customers in finding the content they are interested in.</p>	
<p>7. Assess24.io: A recruitment platform based on challenges, i.e. the tasks that test the knowledge of the candidates and at the same time constitute the initial stage of the recruitment process.</p>	TAURON Progres
<p>8. NNT: A measuring device designed for quick and non-invasive diagnostics of long steel elements and a diagnostic system that uses magnetostrictive pulses to quickly diagnose damage.</p>	
<p>9. Billon: Durable (Non-volatile) Information Medium - a system based on the blockchain technology that enables reliable and unchangeable publishing of any data, providing a full range of functions for the digital data management.</p>	
<p>10. Cash Director: Digital Financial Assistant (Cyfrowy Asystent Finansowy) – a web application targeted at micro, small and medium sized enterprises, which enables conducting online accounting, as well as providing the accounting service with the used thereof.</p>	EEC Magenta- Companies in the investment portfolio of the CVC-EEC Magenta fund
<p>11. Reliability Solutions sp. z o.o. offering a solution responding to the problem of maintaining the process (operation) continuity in the manufacturing industry and the high costs of production downtime, i.e. the predictive maintenance system, which, through the use of artificial intelligence algorithms analyzing the data collected from the devices, predicts the possibility of an occurrence of a failure.</p>	
<p>12. Take Task S.A. offering a solution responding to the problem of managing dispersed groups of employees, i.e. a platform for mobile communication, creating and distributing tasks, as well as collecting feedback at enterprises where numerous groups of employees do not use computers every day</p>	
<p>13. Sinterit S.A. launching on the market unique solutions with respect to prototyping and production of short series of spare parts and offering high precision 3D printers to distributed designer teams for the price of a consumer product.</p>	GovTech
<p>14. Challengerocket sp. z o.o. offering a solution that responds to a market problem with respect to recruiting top-class computer programmers, i.e. a platform, made available under the SaaS formula, for automatic evaluation of programmers using tests with a self-adapting level of difficulty. Based on the artificial intelligence technology the system enables quick and reliable assessment of the candidates' skills.</p>	
<p>15. ICSec S.A. offering the Scadvance system, composed of software and a hardware probe, enabling the monitoring of the process control networks and the detection of potential threats and anomalies in traffic among the devices of such network using the big data, machine learning and artificial intelligence mechanisms. The system provides comprehensive protection both in the case of ultra-modern factories as well as older types of industrial installations and is dedicated primarily to energy, manufacturing and chemical companies.</p>	
<p>16. Cash Director S.A. developing the Digital Financial Assistant (Cyfrowy Asystent Finansowy) platform enabling the digitization of accounting processes at micro, small and medium sized enterprises, which can replace the traditional accounting services and make it easier for the owners to make optimal financial decisions.</p>	
<p>17. TAURON announced the need to develop a system and application for assessing the ability to build and evaluating the 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 (RES), in particular from the photovoltaic cells, in the total energy balance. This challenge also aims to increase public awareness of the renewable energy sources (RES) and the financial benefits of using such technology. As part of the second stage of the competition, the finalist was selected in 2020, with whom the detailed terms and conditions as well as the scope of the cooperation are agreed upon.</p>	

1.9. 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 business entity (organization), made up of independent commercial law companies, led by TAURON as the parent entity.

TAURON Group's Business and Operational Model in force in 2020 was adopted by the Management Board of the Company on January 23, 2018. In recent years, changes taking place in the external and internal environment of TAURON Capital Group led to the need to undertake works on updating that document in order to take into account the changes that have occurred. The result of the completed review was the adoption by the Management Board of the Company of the updated *TAURON Group's Business and Operational Model* on February 23, 2021.

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.

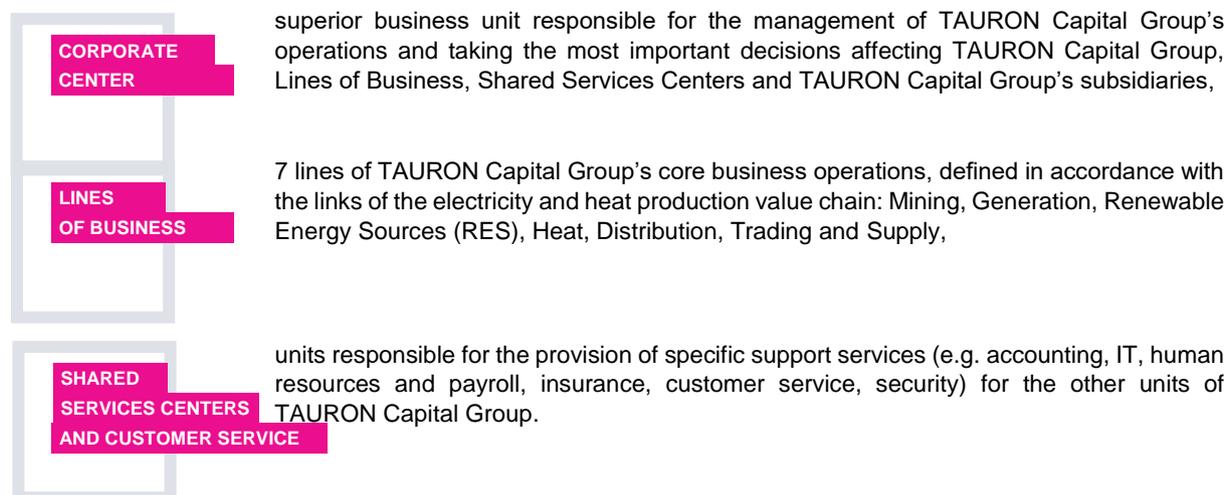
Assumptions of TAURON Group's Business and Operational Model

The works on updating the assumptions of the Business Model were carried out in 2020. The key assumptions of the updated Business Model include support for building the value of TAURON Capital Group in accordance with the Strategy, acting in line with the PRO values, organizational and decision making consistency within TAURON Capital Group, ensuring compliance with the principles of unbundling with respect to the DSO in TAURON Capital Group, clear division of duties and responsibilities, efficient exchange of information, the use of the employees' knowledge, Business Model variability, flexibility, resilience and adaptation to the changes in the external and internal environment.

The Business Model is an element of the implementation of the 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.

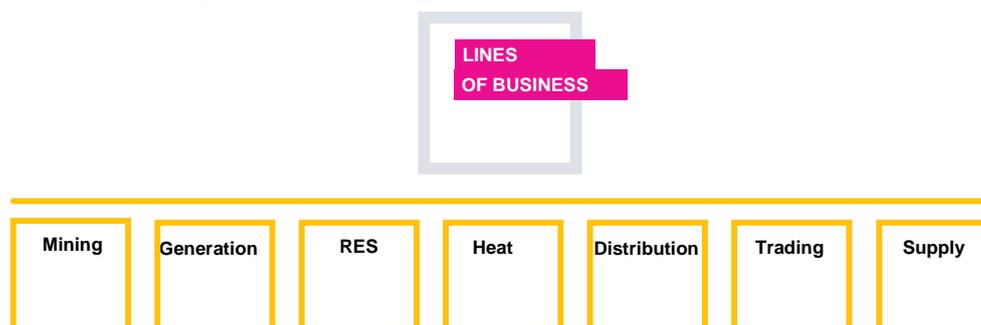
Lines of Business

In accordance with the Business Model in force the division of roles and responsibilities was implemented, based on assigning the process competences to:



The below figure presents the structure of TAURON Capital Group's Lines of Business.

Figure no. 10. 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 the CUWs are placed in: TAURON Obsługa Klienta (CUW IT, CUW HR, CUW R), TAURON Ubezpieczenia sp. z o.o. (CUW Ubezpieczenia) and Wsparcie Grupa TAURON (CUW Ochrona) subsidiaries.

Customer service is provided by TAURON Obsługa Klientów for the Supply Line of Business and, taking into account the ensuring of the independence of the DSO and other unbundling rules, for the Distribution Line of Business.

1.10. Principles of management of TAURON Polska Energia S.A. and TAURON Capital Group and the changes thereof

Principles of management of TAURON Polska Energia S.A.

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia S.A.* (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.* (Company's Articles of Association) to the competence of the General Meeting (GM) 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.

The detailed information on the matters lying within the competence of the Management Board, acting as a collective body, is provided in section 9.8. 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 proxies (power of attorneys), Executive Directors or persons holding other positions reporting directly to the Members of the Company's Management Board.

The Company carries out its tasks through:

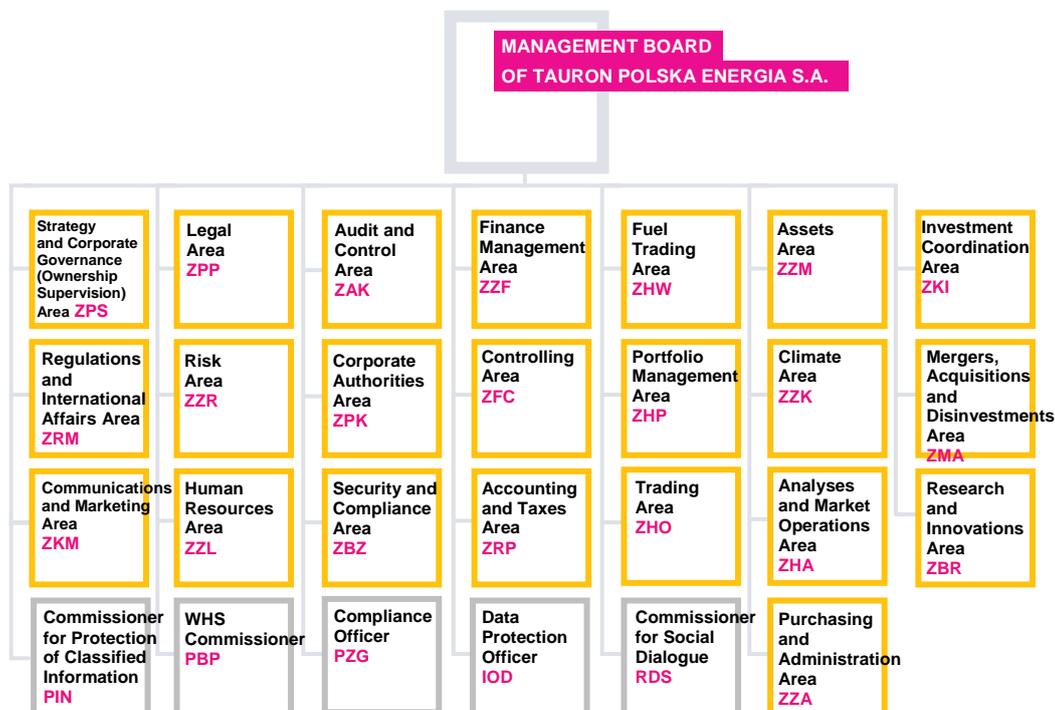
1. separate organizational units (business units):
 - 1) Business areas, comprising independent work positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by the Members of the Company's Management Board directly,
 - 2) Teams, constituting organizational units (business units) reporting to the Executive Directors. The activities of the Team are managed by the Team Leader (Manager),
2. independent work positions:
 - 1) Executive Directors who manage and lead the work of the subordinate Teams or work positions constituting the given business area of the Company,
 - 2) other independent work positions that may be entrusted to, in particular, Power of Attorneys, Inspectors, Spokespersons,
3. temporary organizations – Project Teams set up with the goal to implement tasks and projects of the Company.

Changes to the principles of management of TAURON Polska Energia S.A.

As a result of the progressing transition of the energy sector, which poses new challenges for the entity operating on this market, the gradual change in the situation in the energy sector, mainly due to the broadly understood policy of decarbonizing the economies of the European Union (EU) and the changes taking place in the Company's business environment, the Management Board of TAURON Polska Energia SA adopted the new version of the *Organizational Regulations of TAURON Polska Energia S.A.* on October 20, 2020, which was approved by the Company's Supervisory Board on October 23, 2020.

The below figure presents the organizational diagram of TAURON as of December 31, 2020, and as of the date of drawing up this report.

Figure no. 11. Organizational diagram of TAURON as of December 31, 2020, and as of the date of drawing up this report

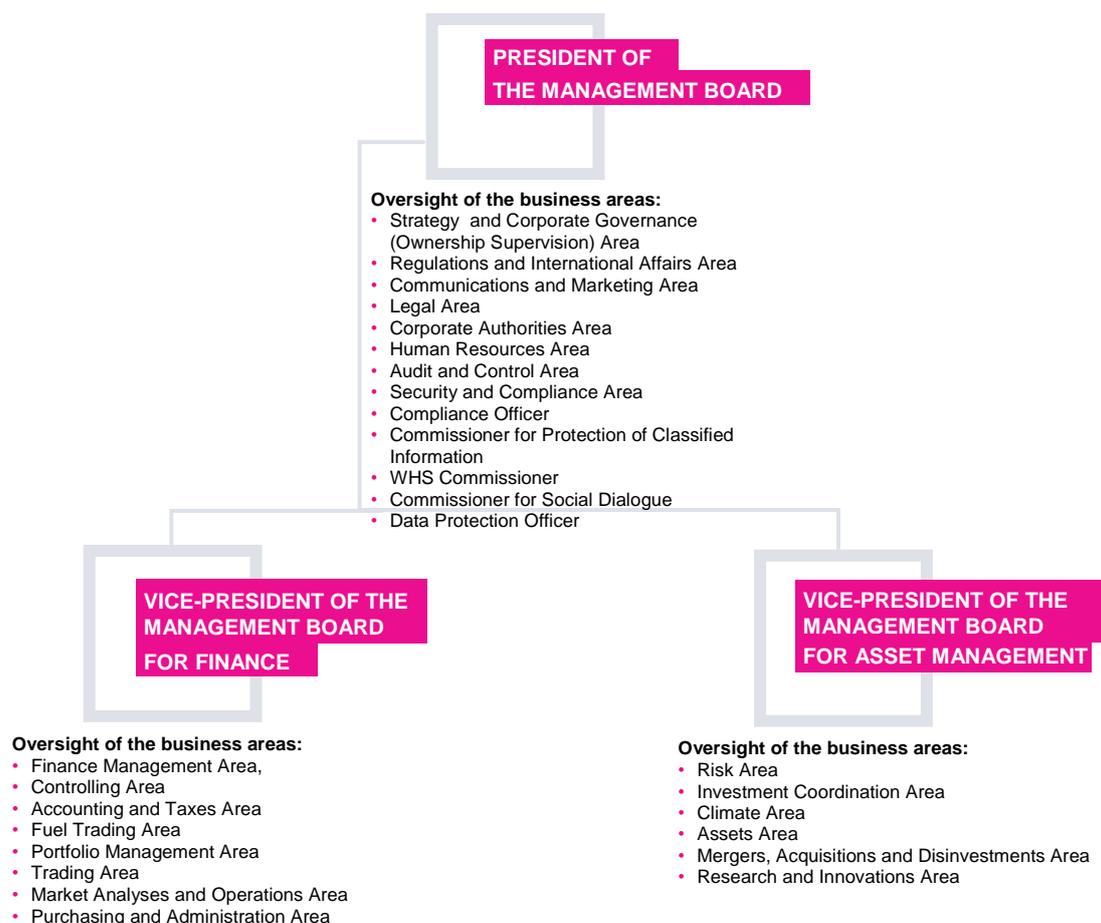


In connection with the new Organizational Regulations, the required modifications of the scopes of functions of the individual Business Areas in the Company's organizational structure were also made.

As of November 3, 2020, the Company's Management Board, by way of a resolution, assigned the individual Business Areas and the independent work positions directly to the Members of the Company's Management Board.

The below figure presents the diagram of the division of responsibilities of the Members of the Company's Management Board as of the date of drawing up this report.

Figure no. 12. Diagram of the division of responsibilities of the Members of the Company's Management Board as of the date of drawing up this report



Principles of management of TAURON Capital Group

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, 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 division of the competences and responsibilities. Processes are subject to appropriate modifications to improve the efficiency thereof 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 consistency of actions taken within TAURON Capital Group's subsidiaries in order 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 indicated TAURON's 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 subsidiaries. The owners of the mega-processes decompose these into lower level processes and appoint the owners thereof. 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 recurring 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. TAURON Group's Liquidity Committee,
6. Sponsoring 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. 13. Structure of TAURON Capital Group's processes (mega-processes)



Changes to the principles of management of TAURON Capital Group

In 2020, works were carried out on updating the Business Model in place thus far, which defines TAURON Capital Group's management model. In order to provide flexibility, resilience and adaptation of TAURON Capital Group to the changes in the environment, in particular those resulting from climate change, the updated Business Model emphasizes the role of ESG (Environmental, Social Responsibility, Corporate Governance) as an increasingly important communication tool with the environment (stakeholders).

The updated Business Model was developed taking into account the requirements related to the unbundling, established in the *Compliance Program - Program for Ensuring Non-discriminatory Treatment of Users of the Distribution System at TAURON Dystrybucja S.A.* approved by the President of the ERO and the generally applicable legal regulations, taking into account the legal, functional and organizational separation of the DSO within the structure of TAURON Capital Group.

Furthermore, the functions and tasks performed within all of TAURON Capital Group's mega-processes were reviewed in 2020, which was done jointly with the owner thereof, and the provisions were updated or the required additional functions and tasks were formulated, assigning the competences to the Corporate Center, Business Areas and Shared Services Centers accordingly.

The process maturity of selected processes of TAURON Capital Group was assessed in 2020, using *TAURON Capital Group's Process Maturity Model*. 555 processes were assessed, which represented 21% of TAURON Capital Group's processes in place. As a result of the assessment completed, TAURON Capital Group achieved, on average, level IV-V of process maturity on an eight-level scale. The maturity assessment will be continued in 2021, based on the plans defined by TAURON Capital Group's subsidiaries.

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

2.1. Core products, goods and services

The core products, goods and services of TAURON Polska Energia S.A.

As the parent entity of TAURON 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, CO₂ emission allowances and certificates of origin of electricity,
2. management of the portfolio of electricity, CO₂ emission allowances and Property Rights,
3. purchasing management,
4. finance management,
5. asset management,
6. corporate risk management,
7. managing the IT model in place,
8. coordinating the research and development (R&D) activities carried out within TAURON Capital Group,
9. advisory services with respect to accounting and taxes,
10. legal support (services),
11. 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. The Company bought and sold 40.7 TWh of electricity in 2020. Electricity sales performed by TAURON during that period were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, with 81.6% of the electricity purchased sold thereto. The above subsidiaries are carrying out the retail electricity supply to the final consumers, and therefore TAURON is not dependent on any single electricity consumer. The other consumers (the trading companies outside TAURON Capital Group, the exchanges) accounted for less than 7.8% of the revenue and none of them exceeded 4% of the total revenue from electricity sales. A decision was made in the third quarter of 2020 to discontinue the trading activities with respect to intersystem exchange. This is due to the situation regarding the restriction of importing options (transmission capacity available), which has been prevailing since the beginning of 2020, the Company's trading strategy, as well as the planned changes with respect to the system for allocating of the transmission capacity for intersystem exchange at the level of the Community electricity market (the planned introduction of the Market Coupling mechanism for the Day-ahead and Intraday markets). In connection with the above, the documents terminating the transmission contracts were submitted to the TSO in Germany (50Hertz Transmission GmbH, TenneT TSO GmbH, Amprion GmbH) in September 2020.

With respect to wholesale electricity trading, as of the end of 2019, the Company took over electricity trading from TAURON Wytwarzanie generation subsidiary, and in April 2020, from TAURON Ciepło, and centralized this activity at TAURON level. The principles of cooperation were defined in the SLA service provision agreements with respect to the trading operations conducted by TAURON for TAURON Wytwarzanie and TAURON Ciepło. Pursuant to those contracts the Company is providing, among others, the *market access* service, as part of which it is operating on the Polish Power Exchange (TGE) on its own behalf for the benefit of TAURON Wytwarzanie and TAURON Ciepło, fulfilling the exchange obligation for those subsidiaries.

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 2020 the Company purchased and sold 4.1 TWh of gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż, with 58.4% of the purchased fuel gas sold thereto.

On September 29, 2020, the President of ERO granted TAURON a license to conduct business operations involving trading in natural gas with foreign entities (counterparties). The new competence will enable TAURON to expand its currently conducted trading operations with respect to natural gas trading on the territory of the Republic of Poland by adding the options of bringing (importing) natural gas from the neighboring markets and the dispatching (exporting) thereof to the neighboring markets that Poland is connected with via the gas transportation (pipeline) system.

In the fourth quarter of 2020, TAURON submitted to the President of ERO applications for an extension of the granted licenses for the conducting of business operations involving trading in natural gas on the territory of Poland and with foreign entities (counterparties) until June 20, 2035. The extension of the above mentioned license is necessary in order to maintain the existing competences with respect to the conducted trading operations related to natural gas trading on the territory of the Republic of Poland and bringing (importing) natural gas from the neighboring markets and the dispatching (exporting) thereof to the neighboring markets that Poland is connected with via the gas transportation (pipeline) system.

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 the sources using agricultural biogas), as well as the property rights related to electricity efficiency certificates. The principles of cooperation are defined in the agreements for the management of the property rights' balance (TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Wytwarzanie, TAURON Ciepło) and in the agreements for the provision of the trading services with respect to the portfolio management of the property rights and guarantees of origin (TAURON Ekoenergia, EW Dobrzyń, EW Śniatowo, EW Inowrocław, EW Goldap, EW Mogilno). The Company did not carry out trading in the property rights in 2020, such trading was carried out by TAURON Capital Group's subsidiaries that were acquiring the individual rights and the subsidiaries obligated to redeem (retire) the above mentioned property rights.

TAURON is a competence center with respect to the management and trading in the CO₂ emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing trading in the 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 CO₂ emission allowances trading, the Company is actively participating in trading on the ICE exchange, the EEX exchange and on the OTC market. In connection with the centralizing of this function, TAURON is responsible for the settlements (clearing) of the subsidiaries' CO₂ emission allowances, securing the subsidiaries' emission needs taking into account the allowances allocated. In the first half of 2020 the Company changed the model of contracting the CO₂ emission allowances under which the CO₂ contracts concluded were transferred from the ICE exchange to the OTC market, while at the same time aligning the settlement (clearing) date of the above mentioned contracts with the retirement (redemption) period.

TAURON also acts as the Market Operator and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for the external customers. These functions are carried out under the transmission agreement concluded with the TSO – PSE (Polskie Sieci Elektroenergetyczne S.A. – Transmission System Operator) and other regulations in this respect (Terms and Conditions for Balancing and the Transmission Grid Code).

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 the generation units for operation, as well as the adequate distribution of the 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 (network) 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. (GAZ-SYSTEM). In July 2015, TAURON, as one of the first entities in Poland, launched a balancing group for the entities carrying out trading transactions on the gas market and is currently conducting the balancing of the trading for two of TAURON Capital Group's entities and the external entities.

In 2020, TAURON conducted, on behalf of TAURON Capital Group's subsidiaries, the general certification of physical units, existing and planned as part of the capacity market. As a result, the physical generating units and the controllable loads (demand reduction units) will be able to take part in the certification process for the main auctions for the delivery year 2025 and for the additional auctions for the individual quarters of the delivery year 2022, and subsequently they will be able to be offered as part of the above mentioned auctions. In the fourth quarter of 2020, the certification process for the main auction for 2025 was completed and the certification process for the additional auctions for the individual quarters of the delivery year 2022 was started and completed in January 2021.

Four additional capacity market auctions were held in the first quarter of 2020, for the individual quarters of the delivery year 2021. The auctions were conducted by Polskie Sieci Elektroenergetyczne S.A. (PSE – TSO) in accordance with the *Act of December 8, 2017, on the capacity market* (in July 2020, the Ministry of Climate presented a draft amendment to the act on the capacity market, which was mainly aimed at adapting the national regulations to the provisions of Regulation No 2019/943 on the internal electricity market, with regard to the emissions limits of the units participating in the capacity mechanisms, Moreover, in order to prepare for the certification for the main auction in the context of the above mentioned restrictions, PSE conducted consultations with respect to the amendment of the Capacity Market Regulations. TAURON Capital Group took an active part in both consultations).

On April 9, 2020, the President of the Energy Regulatory Office (ERO) published the information on the final results of the additional auctions in the Public Information Bulletin (Biuletyn Informacji Publicznej). In accordance with the information, the closing price of each of the four auctions stood at 286.01 PLN/kW/year. TAURON Capital Group's subsidiaries concluded capacity contracts with the volume of:

1. 154.3 MW in the additional auction for the 1st quarter of 2021,
2. 163.3 MW in the additional auction for the 2nd quarter of 2021,
3. 16.0 MW in the additional auction for the 3rd quarter of 2021,
4. 146.3 MW in the additional auction for the 4th quarter of 2021

The total revenue of TAURON Capital Group stemming from the performance of the capacity contracts concluded as a result of the additional auctions will reach PLN 34.3 million.

On December 14, 2020, PSE conducted the main auction for the delivery period falling or starting in 2025. On January 5, 2021, the President of the ERO published information on the final results of the main auction in the Public Information Bulletin (Biuletyn Informacji Publicznej). According to the information, the closing price of the auction was 172.85 PLN/kW/year. TAURON Capital Group's subsidiaries concluded capacity agreements, including one long term agreement for the period of 15 years, with the total volume of 46 356 MW. The implementation of the contracts concluded will allow for obtaining revenues in the amount of PLN 19.8 million in the time frame until 2039.

In the fourth quarter of 2020, the President of the Energy Regulatory Office (ERO) conducted the RES auctions for the purchase of electricity produced by the RES installations. TAURON coordinated TAURON Capital Group's works related to the preparation and submission of the auction bids. TAURON Capital Group's subsidiaries submitted a total of 9 auction bids, including one for the new wind farms and photovoltaic installations with the installed capacity above 1 MW and 8 bids for the new wind farms and photovoltaic installations with the installed capacity of no more than 1 MW. All of the bids were related to the photovoltaic installations.

From February to November in 2020 TAURON was taking part in the so-called guaranteed program of the reduction of electricity demand at the request of PSE, acting as the Aggregator in this respect. Based on the reduction potential, jointly with the customers participating in the program, TAURON was providing readiness to reduce the demand for electricity at selected hours of the day, thus affecting the balancing of the National Power System (KSE) and increasing the security of that system.

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 and secures the fuel position thereof. All of the hard coal for the production needs of TAURON Capital Group is contracted and secured by TAURON. In this respect the Company provides the deliveries of appropriate quality and quantity, guaranteeing that the mandatory reserves of coal are stored at all of the generation units of TAURON Capital Group.

The core products, goods and services of TAURON Capital Group

TAURON Capital Group is conducting its operations and generating its revenue, first and foremost, from electricity and heat supply and distribution, electricity and heat production, as well as hard coal sales.

The detailed information related to the Operating Segments (lines of business) is provided in section 1.2. of this report.

TAURON Capital Group's core products include electricity and heat, as well as hard coal. In addition, TAURON Capital Group is trading in commodities: electricity and energy market products as well as hard 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 thereby.

The below table presents TAURON Capital Group's 2019 - 2020 production and sales volumes.

Table no. 11. 2019 - 2020 production and sales volumes

Production and sales volumes	unit	2019	2020	Change in % (2020 / 2019)
1. Commercial coal production	Mg m	3.78	4.54	120%
2. Coal sales by the Mining Segment	Mg m	3.80	4.08	107%
3. Electricity generation (gross production), including:	TWh	13.88	12.50	90%
4. Electricity generation from renewable energy sources, including:	TWh	1.38	1.94	141%
1) Production from biomass	TWh	0.34	0.57	168%
2) Production of hydro and wind power plants	TWh	1.04	1.37	132%
5. Heat production	PJ	10.85	11.63	107%

Production and sales volumes	unit	2019	2020	Change in % (2020 / 2019)
6. Heat supply	PJ	14.55	14.24	98%
7. Electricity distribution	TWh	51.73	50.26	97%
8. Electricity supply	TWh	45.90	45.62	99%
1) retail	TWh	33.73	32.43	96%
2) wholesale	TWh	12.17	13.19	108%
9. Number of customers – Distribution	'000	5 651	5 715	101%

The amounts corresponding to the sales volumes presented above are provided in section 5 of this report.

2.2. Markets and sources of supply

Markets

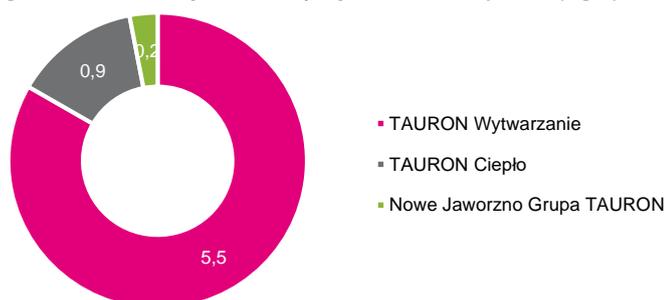
Hard coal sales

At TAURON Capital Group, coal sales are carried out by TAURON, with respect to supplying the generation 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 (hard coal) trading, TAURON continued, in 2020, 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 the TAURON Wydobycie subsidiary.

The below figure presents the summary of the Company's 2020 coal shipments.

Figure no. 14. Summary of the Company's 2020 coal shipments (Mg m)



The detailed information related to the fuel purchasing is provided in section 2.2. 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 Byszczce deposit.

Depending on the hard coal assortment, coal has the following commercial parameters

1. calorific value from 19 MJ/kg to 30 MJ/kg,
2. ash content from 6.5% to 31.5%,
3. sulfur content from 0.2% to 1.2%.

TAURON Wydobycie conducts the sales of hard coal in 2 directions:

1. sales of fine coal (coal dust) and coal sludge to the power plants and combined heat and power 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 the enterprises as well as the individual consumers.

The hard coal sales by TAURON Wydobycie to TAURON Capital Group's Generation Segment companies reached approx. 4.1 million Mg in 2020, including 3.3 million Mg (approx. 80%) to TAURON for the needs of TAURON Capital Group's Generation Segment subsidiaries. It means an 8% increase as compared to 2019 and is due to the higher commercial coal production by the individual coal mines. An increase in the production was recorded at the Janina

Coal Mine (ZG Janina) and the Brzeszcze Coal Mine (ZG Brzeszcze), which was due to a more favorable arrangement of the longwall (coal face) fronts than in 2019. The lower production at the Sobieski Coal Mine (ZG Sobieski) is a consequence of a smaller number of the longwall faces.

Sales of generated electricity and heat

TAURON Capital Group's electricity and heat generation (the operations of the following Segments: Generation, RES and the Discontinued Operations) is performed by:

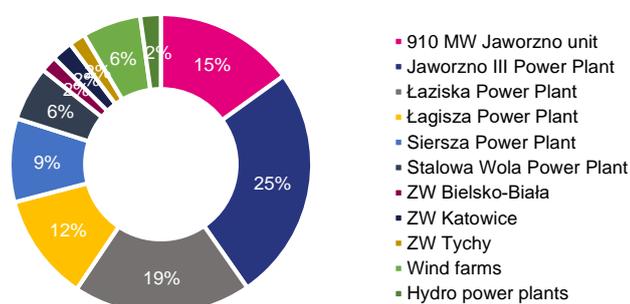
1. hard coal fired and biomass burning power plants and combined heat and power plants
2. hydroelectric power plants,
3. wind farms.

The Discontinued Operations Segment's operations also include trading, distribution and transmission of heat.

The total installed electric capacity of TAURON Group's generation units reached 6.1 GWe of electric capacity and 2.4 GWt of thermal capacity at the end of 2020.

The below figure presents the structure of installed electric capacity as of December 31, 2020 (as compared to 2019, the installed capacity increased by 910 MW_e as a result of the commissioning of the power generating unit in Jaworzno).

Figure no. 15. Structure of the Generation Segment's installed capacity as of December 31, 2020



In 2020 TAURON Capital Group's subsidiaries generated 12.5 TWh of electricity (including 1.9 TWh from RES), i.e. 10% less as compared to 2019 when the production of electricity came in at 13.9 TWh (including 1.4 TWh from RES). It is a consequence of the lower sales of electricity from in-house production year on year and the result of the adopted trading strategy. The higher production from RES is due to the full year of operating the wind farms acquired in September 2019, the more favorable hydrological conditions and the higher production of the biomass fired units.

In 2020 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 subsidiaries (57%), as well as on the balancing market (RB) (PSE Operator) (27%) and on TGE (14%).

Heat sales by TAURON Capital Group's subsidiaries came in at 14.2 PJ in 2020 and it was lower by 2%, as compared to 2019. The share of the heat generated from in-house sources in the total heat sales volume reached 71% in 2020. TAURON Wytwarzanie subsidiary's power plants are selling heat in the 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 supplied mainly via the heat distributors: TAURON Ciepło, SCE Jaworzno III, Przedsiębiorstwo Energetyki Ciepłej (PEC) Tychy and others, and on the Podkarpackie market - Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. and ENESTA sp. z o.o. Small volumes of heat are supplied directly to the consumers located in the vicinity of the generation companies.

On the other hand, TAURON Ciepło's heat supply market - mainly for heating purposes, production of hot water for domestic use, process water, includes diverse consumers: the cooperative sector (48%), the private sector – multi-family buildings (housing communities) and single family houses (15%), the municipal sector (17%), the offices and institutions sector (11%) as well as the industrial sector and others (9%).

In addition, TAURON Capital Group's generation subsidiaries obtain certificates of origin due to the electricity generation from RES, which are subsequently purchased by the Supply Segment subsidiaries 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.

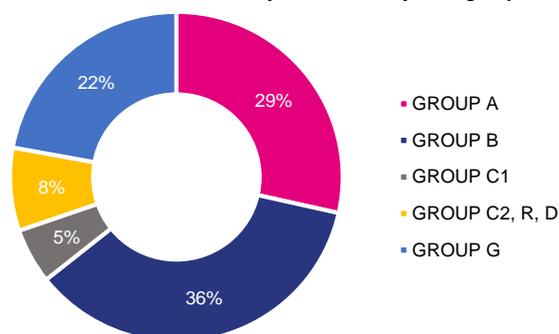
The regulated market on which TAURON Dystrybucja is operating includes the operations of 5 large distribution system operators (DSOs) that are subject to the full regulatory model. Each DSO is operating on the territory defined in the license. Following changes to the law, also more than a hundred of small distribution system operators are operating on this market that have a 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 the distribution operations nationwide is PKP Energetyka sp. z o.o.

TAURON Dystrybucja is providing electricity distribution services for approx. 5 714 000 final consumers. The above company covers with its operations the area of about 57 thousand km², 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 96.7% of the distribution services sales volume. The total electricity volume supplied to the tariff eligible consumers connected to TAURON Dystrybucja's grid in 2020, as part of the sales of distribution services, came in at 50.3 TWh (upward adjusted) and it was lower, as compared to 2019, by approximately 1.5 TWh, i.e. by -2.8%.

The below figure presents structure of electricity distribution by tariff groups in 2020.

Figure no. 16. Structure of electricity distribution by tariff groups in 2020



Sales of the distribution services are carried out on the basis of the comprehensive agreements as well as the 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 CO₂ emission allowances, property rights arising from the certificates of origin of electricity as well as natural gas. Such activities are performed, first and foremost, for the needs of securing the buy and sell positions of TAURON Capital Group's entities.

TAURON was actively participating in daily electricity auctions as part of the inter-system exchange on the Polish-German, Polish-Czech and Polish-Slovak border. The trading on the German market was carried out through the participation in the EPEX Spot exchange. On the other hand, on the Czech and Slovak markets the trading is performed through a subsidiary, TAURON Czech Energy, via which the Company is present on the OTE a.s. (Czech Republic) and OKTE a.s. (Slovakia) exchanges.

Furthermore, on the German market the Company was active with respect to trading in financial instruments, such as futures, through the EEX exchange

The Company is operating on the wholesale markets in Poland and abroad, and it is also trading in all segments of the domestic energy market, i.e. on the intraday market, the day-ahead market and the forward market. The Company is an active participant of TGE (PPX).

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 commodity forward market (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 of access to the hubs is a consequence of the activity aimed at increasing TAURON's gas related competences and access to the 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, protrading 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 takes place. With respect to booking transmission capacity on the Polish market the Company is operating as a participant of the GSA GAZ-SYSTEM Aukcje auction platform.

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 the 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, for example: 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 <i>Act of January 29, 2004, Public procurement law</i> , 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 (subsidiaries) were operating in 2020 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 2020 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 2020, i.e. since the beginning of the electricity market liberalization process, approx. 657 000 households and more than 214 000 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 2020 more than 23 500 consumers of electricity switched their suppliers (including approximately 4 200 institutional customers and approximately 19 400 households). In 2020 the pace of supplier changes in case of households dropped, as compared to 2019, by 2.9%, and in case of institutional entities, by 1.98%.

The offering of TAURON Sprzedaż for the business segment in 2020 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 activities related to the promotion and sale of the "EKO" products - TAURON EKO PREMIUM (TEP), TAURON EKO BIZNES, Guarantees of Origin - were continued. As part of these

activities, the entire volume of the TEP product from the certified sources that were a part of the assets of TAURON Capital Group was sold and the external sources were used. At the end of the year, this product of electricity was sold for the years 2020-2023 in a volume in the order of 1 TWh. The share of the customers buying electricity and gas fuel based on the exchange model came in at 28% of the total volume purchased by the customers this year. An increased interest in the photovoltaic installations was observed, which translated into a significant increase in the customer inquiries for proposals and the implementation of the first photovoltaic projects, such as a contract with a chain of stores, the subject of which was the sale and installation of 50 PV installations, each with a capacity of almost 40 kWp.

The process of mass segment customers (individual customer and small and medium sized enterprises) migrating from the tariff based pricing to the product based pricing, was also observed in 2020. As of the end of 2020, TAURON Capital Group was selling electricity under agreements guaranteeing commercial terms over the specified period to 46% of the segment's customers (loyalty building agreements), while 54% of the customers were buying electricity at tariff based prices.

The key element of the commercial offering for the mass customers in 2020 were the combined products: *Elektryk* and *Serwisant*, based on the assistance functionality, that were used by more than 2 million customers. The assistance products will represent the core of the offering also in 2021.

Furthermore, in 2020 the range of products addressed to the customers was extended by adding specialized products, e.g. *photovoltaics in particular*, with its sales in 2020 reaching almost 1 300, i.e. almost 7 times more than in 2019.

The COVID-19 pandemic was a significant element that has impacted and continues to impact the everyday business operations. The outbreak of the pandemic changed a lot of behaviors in the business space, and the entire segment entered the mode of performing sales activities under epidemic conditions. The pandemic situation had a negative impact on the 2020 results due to the volumes of electricity consumption that were not realized by the customers. The decrease in electricity demand during the lockdown period clocked in at 9-10%, and on an annual basis terms, it came in at approx. 7%.

In 2020 the retail supply of electricity by the Supply Segment companies to almost 5.6 million customers stood at 32.1 TWh, i.e. 96% of the 2019 level when the supply came in at approx. 33.4 TWh. The decline of the supply volume was reported, first and foremost, in the Strategic Customer Segment, which was primarily due to COVID-19 and the change of the valuation, which led to the loss of customers and the fall of the demand from the customers included in the portfolio of TAURON Capital Group's supply companies.

In 2020 the retail supply of electricity by the Supply Segment companies to approx. 5.6 million customers stood at 32.4 TWh, i.e. 96% of the 2019 level when the supply came in at approx. 33.7 TWh. The decline of the supply volume was reported, first and foremost, in the Business Customer Segment, which was due to drop of the demand caused by the COVID-19 pandemic.

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, as well as the number of customers, broken down into individual customer segments, in 2020.

Table no. 13. Volume of retail electricity supplied and the number of customers in 2020

Customer type	Electricity volume supplied (TWh)	Number of customers ('000)
1. Strategic customers	4.4	1
2. Business customers	12.7	200
3. Mass customers, including::	12.0	5 389
<i>households</i>	9.9	5 011
4. Supply to TAURON Dystrybucja to cover the balancing differences	3.0	0,001
5. Other (exports, in-house needs)	0.3	-
Supply Segment	32.4	5 590

In the financial years ended on December 31, 2020, and December 31, 2019, TAURON Capital Group did not identify single customers from outside TAURON Capital Group that would generate revenues from the sales of coal, generated electricity and heat, electricity distribution services, as well as wholesale and retail electricity and gas, accordingly, exceeding the level of 10% of the total sales revenues of TAURON Capital Group.

Supply sources – fuels

Hard coal (domestic market)

TAURON Capital Group is sourcing hard coal solely from the domestic market.

In 2020 TAURON continued hard 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:

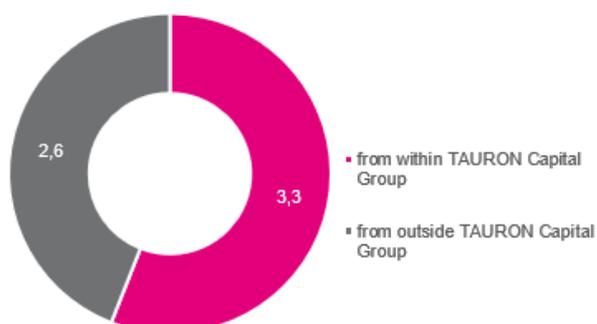
1. Polska Grupa Górnicza Sp. z o.o. (64%[^]),
2. Węglokoks S.A. (15%[^]),
3. Jastrzębska Spółka Węglowa S.A. (14%[^]),
[^]suppliers' shares in the total coal supplies.
4. EP Coal Trading Polska S.A. (5%[^]),
5. TRANSLIS Sp. z o.o. (2%[^]).

In total, the Company bought 2.6 million tons of hard coal from the suppliers outside TAURON Capital Group.

In addition, the Company bought hard coal and coal sludge for the purposes of electricity and heat production by the Generation Segment from TAURON Wydobywanie - a total of 3.3 million tons was delivered.

The below figure presents the quantity of hard coal and coal sludge purchased by TAURON Capital Group in 2020.

Figure no. 17. Coal and coal sludge purchased in 2020 (in Mg m)



56% of the hard coal supplies for the electricity and heat production were satisfied by the hard coal coming from TAURON Wydobywanie's own coal mines in 2020. The remaining part of the demand was covered from the external sources, among which Polska Grupa Górnicza S.A. (PGG) 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 is sourcing fuel gas from the domestic market, via the exchanges.

The Company is an active participant of the gas market managed by TGE, it carries out transactions on the SPOT market, as well as on the RTT forward market products.

TAURON 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. The volume of transactions concluded by the Company on the OTC market is also systematically growing.

By operating on the gas market the Company is securing gas supplies for TAURON Capital Group's entities.

In the financial years ended on December 31, 2020, and December 31, 2019, TAURON Capital Group did not identify single customers from outside TAURON Capital Group that would generate revenues from the sales of coal and gas exceeding the level of 10% of the total sales revenues of TAURON Capital Group.

2.3. Assessment of the factors and non-typical (one-off) events that have a significant impact on the financial result achieved

Internal factors

The operations and earnings of the Company and TAURON Capital Group in 2020 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 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. measures implemented at TAURON Capital Group's subsidiaries in connection with the COVID-19 pandemic, aimed at ensuring the safety of the employees and customers, as well as securing business continuity, including curbing the operating expenses,
5. 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,
6. 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 sulfur and nitrogen compounds as well as chlorine and mercury or obtaining of the derogations,
7. completion of the strategic investment project: the construction of a 910 MWe power generating unit in Jaworzno,
8. loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
9. centralized TAURON Capital Group's financial management area, supported by the use of such tools as: central model of financing, financial liquidity (cash flow) management policy using the *cash pool* mechanism, risk management policy in the financial area, insurance policy,
10. ability to obtain debt financing on the international markets,
11. Tax Capital Group's (Podatkowa Grupa Kapitałowa – PGK) operations, first and foremost aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
12. TAURON's purchasing processes management, in particular, the management of fuel purchases for the needs of TAURON Capital Group's generation entities,
13. geological and mining conditions of hard coal extraction,
14. failures of TAURON Capital Group's equipment, installations and grids,
15. implementation of *TAURON Wydobycie (Mining) Turnaround Program for 2020-2029*
16. postponement of the date of the commissioning of Nowe Jaworzno Group TAURON's 910 MW unit and the operational problems occurring in the commissioning period, which resulted in a reduced consumption of hard coal in relation to the planned volumes.

The detailed information related to the impact of the above mentioned factors on the financial result achieved in 2020 is presented 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 2020. It should be emphasized, however, that due to the current epidemiological situation, in March 2020, TAURON Capital Group's subsidiaries introduced extraordinary preventive measures aimed at ensuring the safety of the employees and the customers, as well as at ensuring the security of the continuity of the critical infrastructure's operation.

The analyses completed as of December 31, 2020, and as of June 30, 2020, carried out as part of the impairment tests related to TAURON Capital Group's assets' carrying amount demonstrated changes with respect to the recoverable carrying value of the fixed assets in the Mining Segment and in the Generation Segment that were due, first and foremost, to the following factors:

1. net market value of TAURON Capital Group's assets remaining at a level below the net balance sheet value of the assets in the long term,
2. changes in the global prices of the energy related commodities, electricity and the prices of the CO₂ emission allowances,
3. high volatility of the electricity prices on the forward market and the persistent problems with the lack of liquidity,
4. decrease in the domestic electricity consumption due to an rise of the temperatures in winter and the impact of the COVID-19 pandemic,
5. regulatory actions aimed at curtailing the increase in the electricity prices for the end customers,
6. increased risks with respect to the production of commercial coal,
7. effects of the results of the RES auctions conducted thus far and the very fast growth of the prosumer and micro-installations subsector in connection with the support programs launched,
8. effects of introducing the provisions of the winter package, including the emissions standard, adversely affecting the possibility of participation in the capacity market by the coal fired units after July 1, 2025,
9. tightening of the emissions standards and persisting unfavorable market conditions from the point of view of the profitability of conventional energy,
10. a decline of the risk free rate

As a consequence, the booking of the impairment charges related to the loss of the carrying value of the tangible and intangible fixed assets in the amount of PLN 3 170 million was recognized in TAURON Capital Group's FY 2020 results in the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020* (Consolidated Financial Statements of TAURON Capital Group)

The analyses completed as part of the impairment tests demonstrated that, in the *Financial statements of TAURON Polska Energia S.A. in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020* (Financial Statements of TAURON):

1. booking of the impairment charges related to the loss of the carrying value of the shares in TAURON Wytwarzanie in the amount of PLN 194 million had been justified,
2. booking of the impairment charges related to the loss of the carrying value of the shares in TAURON EKOENERGIA in the amount of PLN 376 million had been justified,
3. reducing of the carrying amount of the loans granted by the Company to TAURON Wydobycie in the amount of PLN 312 million had been justified,
4. reducing the carrying amount of the loans granted by the Company to Elektrociepłownia Stalowa Wola in the amount of PLN 236 million had been justified.

The amount of the booked write-downs related to the carrying value of the shares and the reduction of the carrying amount of the loans granted with respect to the financial statements of TAURON is PLN 1 118 million, and the total estimated impact on the decrease of the standalone net financial result will reach PLN 1 118 million. Furthermore, the estimate of the amount of the provision for the onerous contract, i.e. the multi-year agreement for the purchase by the Company of the electricity generated by the 910 MW unit in Jaworzno, was recognized in the standalone financial statements of TAURON. The conclusion of the Agreement was related to the transaction that TAURON disclosed in the current reports (regulatory filings) no. 11/2018 of March 28, 2018 and no. 24/2018 of July 26, 2018. The analyses completed demonstrated that setting up of the provision in the standalone financial statements of TAURON for 2020 in the amount of PLN 1.1 billion had been justified.

As of December 31, 2020, and as of June 30, 2020, the Company assessed that with respect to the operations of TAURON Ciepło, the conditions, stemming from *IFRS 5 Fixed assets held for sale and discontinued operations*, for classifying its operations as discontinued operations were met. Furthermore, as of the date the net assets of TAURON Ciepło were reclassified as a group for disposal (sale), classified as held for sale, TAURON Capital Group performed the valuation of the group for disposal (sale) at fair value (mark to market). The fair value, as of December 31, 2020, was estimated at PLN 1 342 000 000, based on the information collected in the course of the market process of selling the shares in TAURON Ciepło. Due to the fact that the fair value of the group for disposal (sale) is lower than its current book value, TAURON Capital Group took an impairment charge due to the loss of the carrying value of the non-financial fixed assets in the amount of PLN 825 798 000.

External factors

The operations and earnings of TAURON and TAURON Capital Group in 2020 were impacted by the following external factors:

1. macroeconomic environment,
2. market environment,
3. regulatory environment,
4. competitive environment (landscape)

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.

The COVID-19 pandemic was the greatest challenge facing all of the world's economies in 2020. The introduced restrictions aimed at curtailing the increase in the number of cases had an impact upon the functioning of the world's economies and, as a consequence, they slowed down (contracted) by 4.3%. According to the forecasts of the World Bank, the growth rate of the global economy will come in at 4% in 2021. The eurozone experienced a recession of 7.5% in 2020. In the coming years the economic growth rate is expected to stand at 3.2% in 2021 and 4% in 2022.

The outbreak of the COVID-19 pandemic, the restrictions imposed and the persistent high uncertainty about how the situation will evolve in the future contributed to a reduction in economic activity and a slowdown of Poland's economic growth at the level of approx. 2.8% (according to data from the Central Statistics Office (GUS)). The National Bank of Poland (Narodowy Bank Polski - NBP) predicts a recovery of the economic growth in the second half of 2021. This will be driven by a gradual increase in private consumption, a moderate improvement of the labor market and the changes in consumer preferences. In its November 2020 forecast the NBP estimated Poland's GDP growth rate to reach 3.1% in 2021 and 5.7% in 2022. The World Bank, on the other hand, forecasts that Poland's GDP growth rate in 2021 will clock in at 3.5% in 2021, and at 4.3% in 2022.

A moderate increase in consumption is forecast over the next two years. Due to the deterioration of the consumers' income situation, private consumption will be characterized by a gradual improvement. The rise of consumption in the public sector will be affected by the increase in health care expenditures related to the COVID-19 pandemic

and the use of the tourist vouchers, while the freezing of wages in the state budget sector in 2021 will have a negative impact. The return to the neutral fiscal policy is not expected until the end of 2022.

There was a collapse of investment outlays in the enterprise sector in 2020, with spending falling by approx. 15%. Currently, one fourth of the enterprises assume that they will rebuild their investment activities later than in a year, while 50% believe that it is difficult to assume anything.

The inflation rate clocked in at approx. 3.5% in 2020, year over year. The increase of the inflation rate was, first and foremost, the result of the strong growth of the prices of services. Over the next two years the inflation rate is expected to come in at approx. 2.5%.

The registered unemployment rate in Poland stood at approx. 6.1% in 2020 (in 2019 it came in at 3%) and is likely to remain at this level in 2021.

The COVID-19 pandemic had a significant impact on the domestic electricity demand and prices on the global coal, electricity and CO₂ markets. The prices of energy related commodities and electricity prices for households are expected to rise faster in 2021.

Market environment

Electricity

The below table presents the volumes of Poland's electricity consumption, production and imports and the average electricity prices on the SPOT market, both in Poland as well as in the neighboring countries in 2020 and in 2019.

Table no. 14. Volumes of Poland's electricity consumption, production and imports and the average electricity prices on the SPOT market, both in Poland as well as in the neighboring countries in 2020 and in 2019

Volume	Unit	2020	2019	Increase/Decrease
1. Electricity consumption	GWh	165 533	169 390	-3 857 (-2.3%)
2. Electricity production by domestic power plants	GWh	152 306	158 767	-6 461 (-4.1%)
3. Electricity production by power plants fired with:				
1) hard coal	GWh	71 547	78 190	-6 643 (-8.5%)
2) lignite	GWh	37 969	41 500	-3 531 (-8.5%)
3) gas	GWh	13 924	12 104	1 820 (+15.0%)
4. Electricity production by wind farms	GWh	14 175	13 903	272 (+2.0%)
5. Electricity imports	GWh	13 224	10 623	2 601 (+24.5%)
6. Average electricity price on the SPOT market in:				
1) Poland	PLN/MWh	208,68	229,31	-20.63 (-9.0%)
	EUR/MWh	47.12	53.48	-6.36 (-11.9%)
2) Neighboring countries (on the example of German)	EUR/MWh	30.47	37.67	-7.20 (-19.1%)

Wholesale electricity price on the Day Ahead Market (RDN) of the Polish Power Exchange (Towarowa Giełda Energii S.A. - TGE) reached 208.68 PLN/MWh in 2020 and it was lower by 20.63 PLN/MWh (-9%) as compared to 2019. The average settlement price on the Balancing Market (RB) came in at 208.34 PLN/MWh in 2020 and it was lower by 26.66 PLN/MWh (-11.3%) as compared to 2019.

The factors behind the falling prices on the Day Ahead Market (RDN) and on the Balancing Market (RB) were: a warm beginning of the year as compared to the previous year, the higher generation from the wind sources and a decrease in the electricity demand, especially intensified in the period from March to June 2020 due to the restrictions imposed as a result of the COVID-19 pandemic.

The lowest spot prices were recorded in April 2020, while the highest prices were observed in December 2020, with the average price coming in at 151.56 PLN/MWh and 254.93 PLN/MWh, respectively. The high prices in December 2020 were driven by the low temperatures prevailing throughout Europe and the higher electricity demand, which also translated into the high spot prices in the neighboring countries.

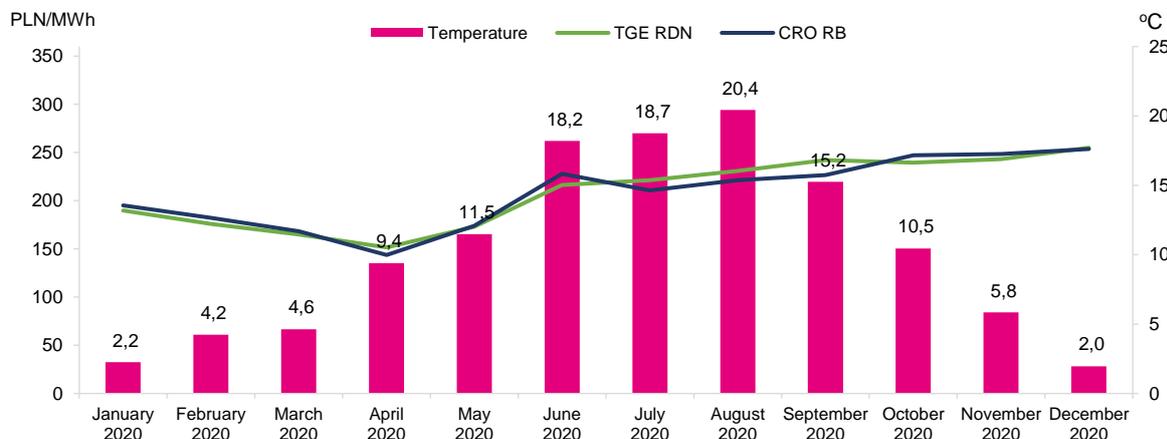
The combination of a decrease in electricity consumption with the volume of electricity imported into the Polish power system (net electricity imports clocked in at 13.22 TWh in 2020) and an increase in electricity production by the wind farms, that came in at 14.18 TWh in 2020, significantly contributed to a curtailment of the electricity production by the conventional sources. In 2020, a decrease in electricity production by the hard coal fired power plants was recorded, down to 71.55 TWh, which led to a large overproduction of the hard coal used by the power plants. The production by the lignite fired power plants was also lower, coming in at 37.97 TWh. The lower electricity

production by the above sources was also the result of the higher production of electricity by the gas fired power plants, whose production rose to 13.92 TWh on an annual basis.

The change in the structure of electricity production in Poland in 2020 and the factors described above caused a strong downward trend of the electricity prices both on the SPOT market as well as on the OTF futures market.

The below figure presents the average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2020.

Figure no. 18. Average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2020



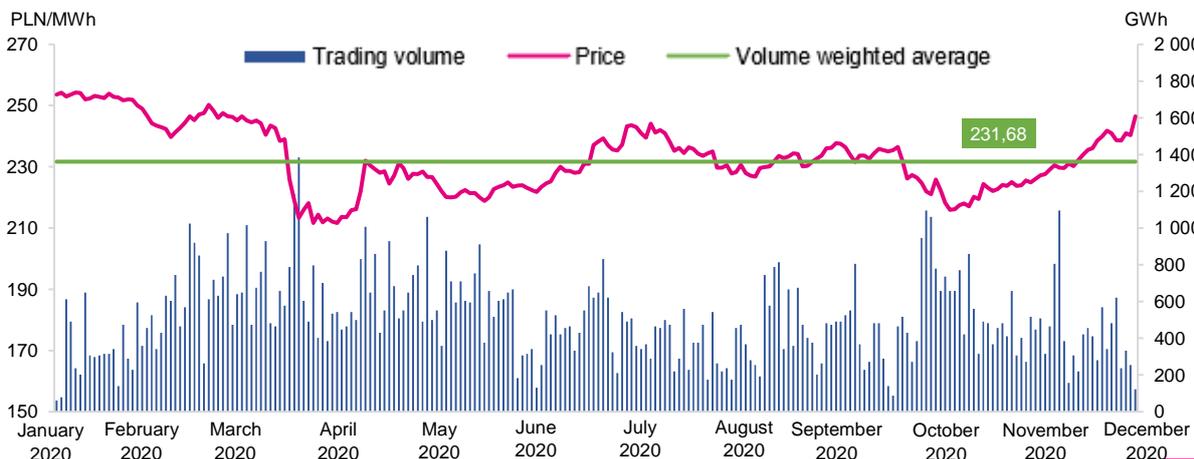
The reference base load contract with the delivery in 2021 (BASE_Y-21) was trending sideways on the electricity futures market for the larger part of 2020. The price changes were in line with the changes in the commodity prices, in particular the prices of the CO₂ emission allowances, the valuation of which depended on the situation related to the COVID-19 pandemic. A particularly sharp drop in prices took place in March 2020, when the contract price reached the level of 211.65 PLN/MWh. There was a significant recovery in prices related to the increase of the prices of commodities, the CO₂ emission allowances and the sentiment improvement in the second quarter of 2020, due to the lifting of the restrictions introduced as a result of the COVID-19 pandemic. Since July 2020, due to the increase in the COVID-19 infections, the prices of the above mentioned contract were declining again. At the end of October 2020, there was an increase in prices due to the announcement by several pharmaceutical companies of the development of the vaccines against COVID-19, increased optimism on the financial markets, a strong surge of the CO₂ prices above the level of 30 EUR/Mg and the recovery of the demand for electricity in Poland and in the other EU countries.

The volume weighted average price of the BASE_Y-21 contract recorded in 2020 was at a level of 231.68 PLN/MWh, and it was lower by 34.78 PLN/MWh (-13.1%) as compared to the BASE_Y-20 contract prices a year ahead of the delivery. The total trading volume of the BASE_Y-21 contracts one year before delivery reached 116.43 TWh, i.e. approx. 0.75 TWh less than the BASE_Y-20 contract trading volume in 2019.

The PEAK5_Y-21 contract price displayed similar volatility patterns, with its trading volume weighted average price a year before delivery reaching 271.98 PLN/MWh, i.e. it and was lower by 51.96 PLN/MWh (-16%) than the average PEAK5_Y-20 contract price recorded in 2019. The lower average price of the PEAK5_Y-21 contract was a consequence 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-21 contract trading price performance.

Figure no. 19. BASE Y-21 contract trading price performance



Crude oil

The average price of Brent crude on the ICE exchange stood at 43.21 USD/bbl in 2020 and it was approx. 21 USD/bbl lower as compared to 2019 (-32.7%). The lowest price of oil was recorded in the second quarter of 2020, while the highest price was observed in the first quarter of 2020, with the average quarterly price coming in at 33.39 USD/bbl and 50.82 USD/bbl, respectively. The total Brent crude trading volume on the ICE exchange clocked in at approx. 60 billion barrels in 2020, while it reached more than 64 billion barrels (-7.2%) a year earlier.

The global events directly related to the COVID-19 pandemic were the main factors that had an impact on the demand and supply on the oil markets. The impact of the pandemic hit the oil industry, which caused - for the first time in history – the WTI oil prices to fall below zero in April 2020. The producers faced a large oversupply (glut) of the commodity and began looking for a place to store the surplus, paying the recipient additional costs for the storage of the commodity. In addition, the global demand for oil dropped sharply.

The price war between Saudi Arabia and Russia also indirectly contributed to the fall in oil prices, which started in March 2020. The dispute ended in April 2020, when OPEC and its allies agreed to reduce the total crude oil production by 9.7 million barrels per day, initially for a period of two months starting from May 2020, and then to limit (cap) its production cuts to 7.7 million barrels per day between July 1, 2020 and December 31, 2020. In November 2020, following the announcement by several pharmaceutical companies of the development of the vaccines against COVID-19, the prices of Brent crude rose on average to approx. 44 USD/barrel. In December 2020, OPEC and its allies announced that they would voluntarily cut production by 0.5 million barrels per day, i.e. from 7.7 million to 7.2 million barrels per day starting from January 2021.

Hard coal

The average price of the continued annual coal contract at ARA ports stood at 57.31 USD/t in 2020 and it was lower by 12.20 USD/t (-17.5%) as compared to the average price of such contract in 2019.

The beginning of 2020 was characterized by weak sentiment on the international coal market largely caused by the COVID-19 pandemic. The entire coal sector in the United States of America (USA) was in a difficult situation, as the restrictions imposed on the manufacturing industry, triggered by the COVID-19 pandemic, significantly reduced the demand for energy in the US and led to the lower volumes of purchase orders for that commodity from other parts of the world.

The Atlantic region was plunged into an increasing stagnation in the first half of 2020. Coal consumption in the West European countries decreased as a consequence of measures introduced to slow down the spread of the COVID-19 pandemic.

Important events that had an impact on the international coal markets in the second half of 2020 included in particular: the decision of the Chinese National Development and Reform Commission, which on several occasions prohibited state owned energy companies to import the Australian thermal coal, which was aimed at increasing the prices of the domestic commodity, the disruptions of the coal supplies from the north-western Russia, from the port of Murmansk, where the railway bridge used to transport the commodity collapsed, the depressed demand from India, the strike in the Cerrejón coal mine in Colombia, lasting 3 months, which led to a reduction in the supply of that commodity in the Atlantic region and the need to secure the hard coal supplies in the autumn before winter, both in Europe as well as in Asia.

At the end of 2020, the hard coal prices began to rise, which was the result of, among others: a decline in wind energy production in Germany, an improving margin on the generation for coal fired electricity production, the rising prices of natural gas and crude oil, as well as a prolonged deadlock regarding the resumption of the production in Colombia.

Natural gas

The volume weighted average price of gas on the Day Ahead Market (RDN) on the Polish Power Exchange (TGE) stood at 57.81 PLN/MWh in 2020 and it was approx. 16.57 PLN/MWh lower than in 2019. The lowest price of the contract with the delivery on the next day was recorded in June 2020, while the highest price was observed in December 2020, with the average volume weighted average monthly price coming in at 27.90 PLN/MWh and 81.29 PLN/MWh, respectively. The reason for the low prices was primarily the COVID-19 pandemic, which translated into the reduced demand for gas fuel as well as the oversupply (glut) prevailing on the global gas markets for most of the year. The lowest price, i.e. 20.09 PLN/MWh, was recorded on May 5, 2020.

The weighted average gas price on the Intraday Market (IDM), was lower by approx. 14.60 PLN/MWh than in 2019, and clocked in at 54.52 PLN/MWh. The lowest contract price on the Intraday Market (IDM) was recorded in June 2020, while the highest price was observed in December 2020, with the volume weighted average price coming in at 28.06 PLN/MWh and 81.59 PLN/MWh, respectively.

The lowest gas price on the OTF futures market was recorded in June 2020, while the highest price was observed in December 2020, with the monthly weighted average prices of some futures contracts coming in at below 30 PLN/MWh and more than 85 PLN/MWh, respectively. The reasons for the low prices were well-stocked storage

facilities, the COVID-19 pandemic and the low prices of the related products, among others the prices of the Brent crude oil and the CO₂ emission allowances.

The lowest aggregate trading volume on the futures market was recorded in June 2020, clocking in at more than 7.4 TWh, while the highest trading volume was reported in September 2020, reaching 12.1 TWh.

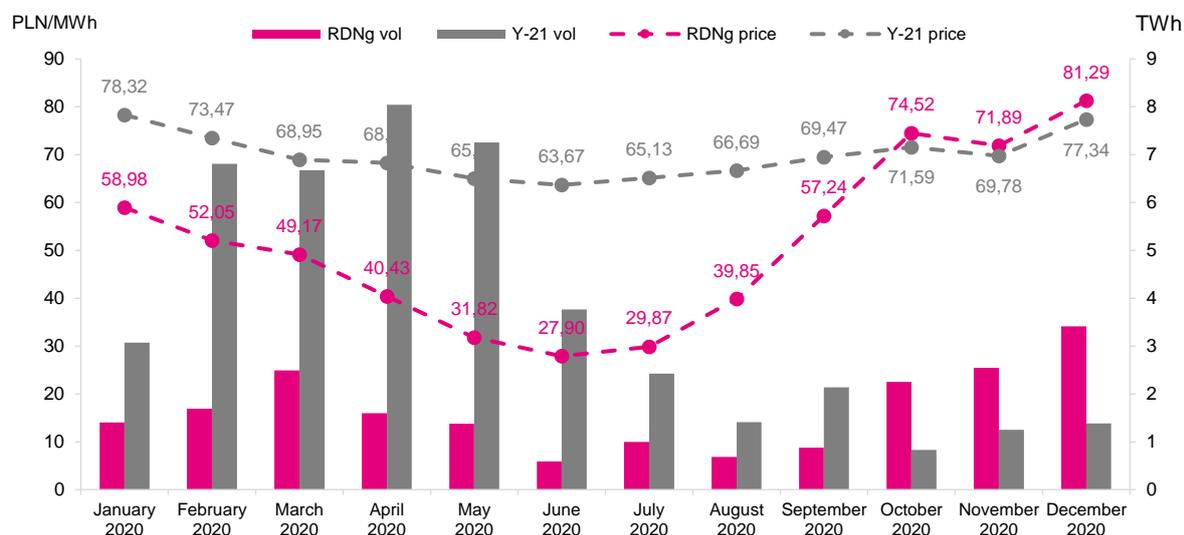
The weighted average price of the reference one year GAS_BASE_Y-21 contract stood at 69.16 PLN/MWh in 2020. The lowest price of that contract was recorded at the beginning of June 2020, while the highest price was observed during the final session in 2020, coming in at 61.70 PLN/MWh and 87.50 PLN/MWh, respectively. The aggregate trading volume on the Polish Power Exchange (TGE) clocked in at more than 151.1 TWh in 2020, as compared to 146.1 TWh in 2019 (+3.4%).

The futures market had the largest share in gas trading in 2020, with a volume generated of more than 125 TWh. On the SPOT market, the total trade in the day ahead contracts came in at approx. 20.0 TWh (+17.6% year on year). The decline was also reported on the Intraday Market (IDM), where the turnover stood at almost 5.9 TWh, as compared to 5.7 TWh in 2019 (+3.3% year on year).

The key events on the gas market in 2020 included, among others, the imposing, by the Polish Office of Competition and Consumer Protection (UOKiK), of a USD 7.6 billion penalty on Gazprom and other investors in the disputed Nord Stream II project, the decision to build a 750 MWe gas fired generating unit in Ostrołęka instead of the construction of a hard coal fired unit, the commissioning of the CCGT unit in Stalowa Wola and the non-completion of the second line of the already mentioned Nord Stream II gas pipeline project.

The below figure presents the average monthly SPOT and Y-21 contract prices on TGE in 2020.

Figure no. 20. Average monthly SPOT and Y-21 contract prices on TGE in 2020



CO₂ emission allowances

The settlement prices of the CO₂ emission allowances for the reference contract with the December delivery (EUA-DEC) were moving within the range between 15.30 EUR/Mg and 33.44 EUR/Mg in 2020. The average settlement price came in at 24.77 EUR/Mg in 2020 and it was lower by 0.11 EUR/Mg as compared to 2019.

The reason for the lower average annual price of the CO₂ emission allowances in 2020 was the sharp correction of the prices in March. The drop in the prices was a consequence of the emergence of the first cases of the COVID-19 infection in Europe and in the US. Having been hit with the news of the shutdowns of international connections and the lockdowns of a number of economies, the investors feared that the supply chains would be broken and the economic slowdown would be severe, and, as a consequence, the demand for the EUA units would decline. Due to the need to maintain financial liquidity, a number of companies were selling off the EUA units to generate additional cash. The situation calmed down in April when the financial stimulus packages rescued many companies from the crisis and led to a sharp rebound of the stock market indices and a recovery of the CO₂ prices.

The increase in the demand was also impacted by the April purchases made in order to settle the CO₂ emissions for 2019. The European Parliament committees were intensely working in the second half of 2020 on the shape of the new European climate law, the goal of which will be to introduce a legally binding target of achieving zero greenhouse gas emissions at the level of the individual EU countries by 2050 - for this purpose, a high price of the CO₂ emission allowances and, ultimately, another revision of the EU ETS system will be necessary.

An important event affecting the CO₂ prices was the announcement in the European Parliament of the proposed new EU emissions reduction target by 2030 at a level of at least 55% as compared to 1990.

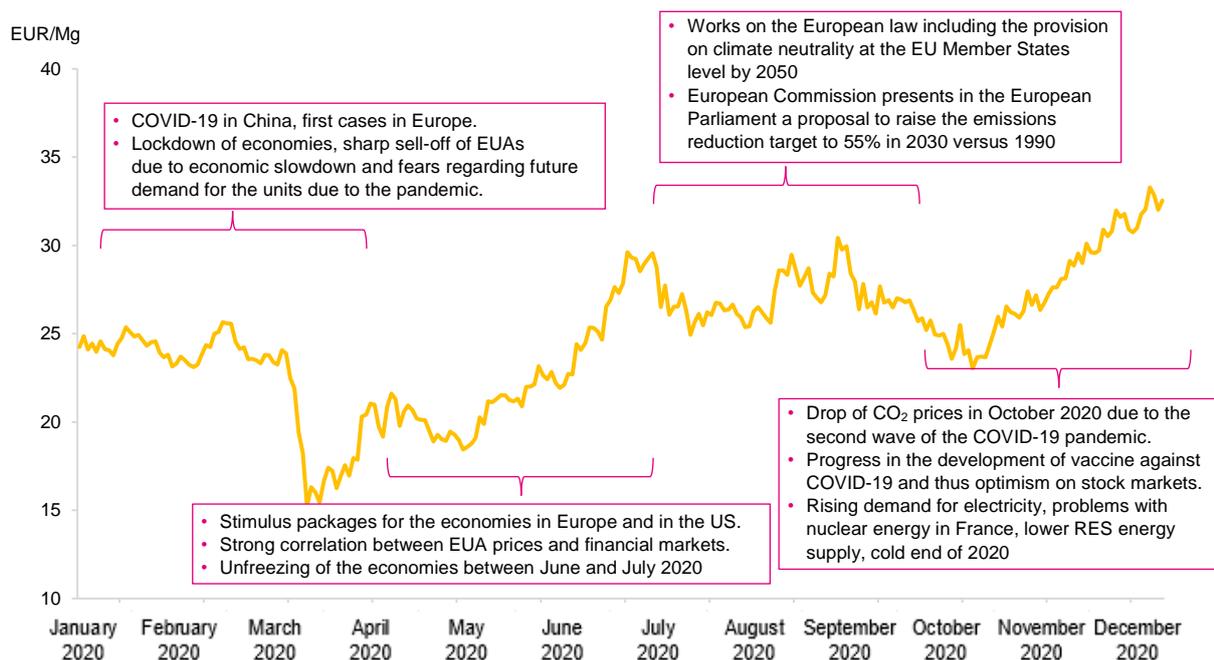
In early October 2020, the number of the COVID-19 infections began to rise again, which, as in March 2020, caused a sell-off on all of the financial markets. The turning point was the announcement of the invention of an effective vaccine against COVID-19, which brought the CO₂ prices again close to the level of 30 EUR/Mg.

At the end of 2020, the prices were also supported by the general approval of the proposal to raise the emissions reduction target to 55% in 2030 by the heads of state and governments of the EU Member States during the European Council Summit on 10-11 December, 2020. The COVID-19 pandemic also translated into problems with the allocation of the free allowances and the calculation of the auction volumes - therefore, the start of the distribution of the allowances through the auction system had to be postponed until January 29, 2021, which also, as a factor limiting the supply of the units, had a direct impact on a strong increase of the CO₂ prices at the end of 2020.

When calculating the price difference between the close of the trading on December 31, 2019 (24.74 EUR/Mg) and on December 31, 2020 (32.72 EUR/Mg), an increase by 33% (+ EUR 8.08 / Mg) was recorded. .

The below figure presents the impact of the political actions and the environment on the EUA SPOT product price in 2020.

Figure no. 21. Impact of the political actions and the environment on the EUA SPOT product price in 2020



Property rights

The lowest prices of the green certificates were recorded in the second quarter of 2020, while the highest prices were reported at the end of the first quarter 2020, coming in at 120.93 PLN/MWh and 151.47 PLN/MWh, respectively. The prices of the green certificates fluctuated within the range between 137.63 PLN/MWh and 143.58 PLN/MWh over the last five months of 2020. The weighted average price of the green certificates stood at 138.22 PLN/MWh in 2020 (an increase by approx. 4.6% year on year) and it was lower than the applicable substitution fee by less than 16.4%. The amount of the substitution fee stood at 165.24 PLN/MWh in 2020, with the obligation to submit PMOZE_A certificates for redemption at 19.5%. The trading volume in this period clocked in at 9 662 GWh and it was lower by almost 14% as compared to 2019. The balance of the PMOZE_A register reached a surplus of 30.2 TWh at the end of December 2020. Taking into account the certificates blocked for redemption, this balance decreased by more than 5.1 TWh, to the level of 25.1 TWh (an increase by 2.38% 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 stood at 300.03 PLN/MWh. The prices of the TGEozebio index fluctuated within the range from 299.62 PLN/MWh to 301.66 PLN/MWh. Ultimately, the weighted average value of the index stood at 300.15 PLN/MWh at the end of 2020 and it was slightly lower (by 0.02%) than the weighted average price for 2019. The total trading volume came in at 490.6 GWh (a drop by almost 4.4% year on year), and the PMOZE_BIO register balance reached the level of 394 GWh as of the end of 2020. Taking into account the certificates blocked for redemption (retirement), this level dropped to 371 GWh.

The white certificates prices were generally trending upward, however the prices of the PMEF contract recorded lower levels in the second half of 2020. The 2020 prices fluctuated between the minimum level of 1 735.61 PLN/toe recorded in January and the maximum price reported in mid-February at the level of 2 000.98 PLN/toe. The highest price levels were observed in May, with the weighted average monthly price coming in at 1 998.80 PLN/toe. The

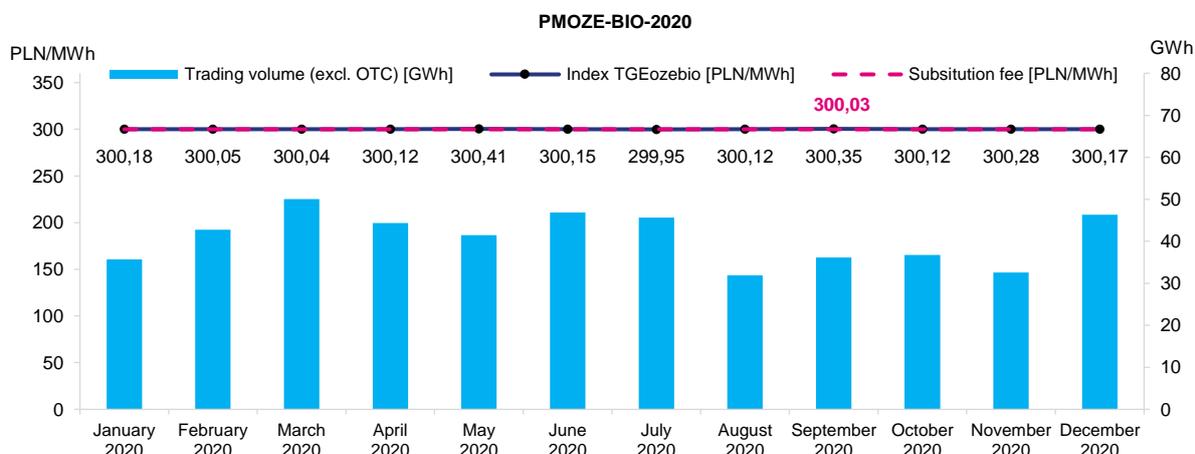
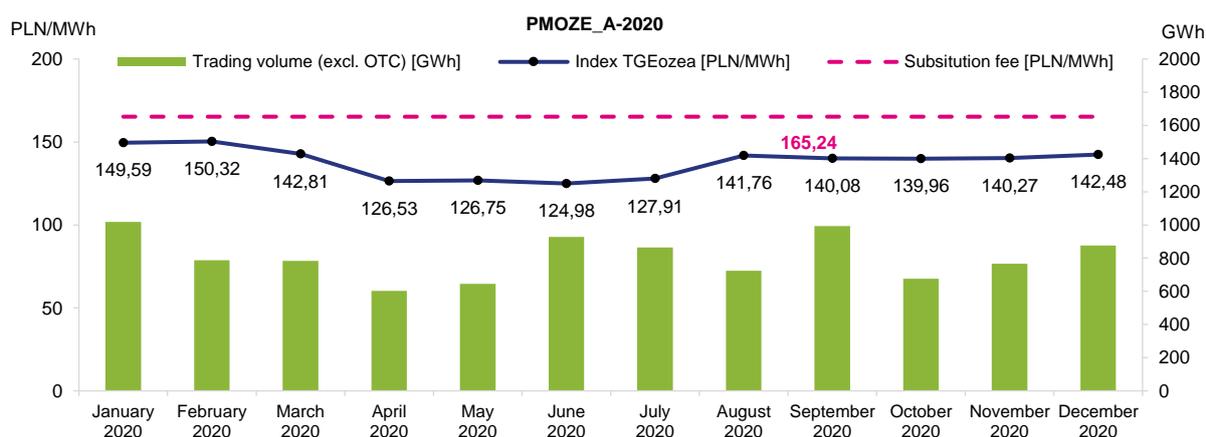
weighted average price for the contract in question for the entire 2020 stood at 1 841.33 PLN/toe and it was higher by almost 82% as compared to 2019. On average, the prices were more than 6% above the substitution fee, which stood at 1 736.44 PLN/toe for the whites certificates in 2020. In contrast to the increase in prices, the trading volume moved in the opposite direction, falling by almost 83% as compared to 2019. It clocked in at 59 001 toe (2019: 342 981 toe) in 2020.

The market performance of the PMEF_F register contracts as well as the PMEF-2020 register contracts was similar in 2020. Only the PMEF-2019 contract, which was traded in the first half of 2020, continued moving in a sideways trend.

The weighted average price of the PMEF_F contract in the year under review was higher by more than 12% as compared to the prices in the same period of 2019 and it came in at 1 824.79 PLN/toe. The weighted average price of the PMEF-2020 contract clocked in at the level of 1 811.66 PLN/toe (the contract was listed only in 2020), while the weighted average price of the PMEF-2019 contract came in at 1 837.40 PLN/toe in the first half of 2020.

The below figures present the property rights indices, the so-called green and blue certificates.

Figure no. 22. Property rights indices



Regulatory environment

TAURON Capital Group is monitoring changes and taking actions in the regulatory area, both on the national as well as on the EU level.

The below table presents the most important changes in the regulatory environment of TAURON Capital Group in 2020 in terms of the adopted and published legal acts that affect TAURON Capital Group.

Table no. 15. Most important changes in the regulatory environment of TAURON Capital Group in 2020 in terms of the adopted and published legal acts that affect TAURON Capital Group

Name of the regulation	Description of the regulation	Status as of 31.12.2020	Impact on TAURON Capital Group
National regulations			
Regulations related to the so-called anti-crisis shield (including the	<ul style="list-style-type: none"> Act of March 2, 2020, on special solutions related to preventing, countering and 	The acts came into force in 2020	The said regulations: <ul style="list-style-type: none"> exclude the possibility of the energy company stopping the supply of electricity or gas fuels to

Name of the regulation	Description of the regulation	Status as of 31.12.2020	Impact on TAURON Capital Group
financial shield) constituting a collection of measures and solutions supporting entrepreneurs and the economy in connection with the negative effects of the COVID-19 pandemic:	<p>combating COVID-19, other infectious diseases and the crisis situations caused thereby (as subsequently amended),</p> <ul style="list-style-type: none"> • Act of March 31, 2020, on amending the act on special solutions related to preventing, countering and combating COVID-19, other infectious diseases and the crisis situations caused thereby, as well as certain other acts (as subsequently amended), • Act of April 16, 2020, on special support instruments in connection with the spreading of the SARS-CoV-2 virus, • Act of June 19, 2020, on the subsidies to the interest rate of the bank loans granted to the entrepreneurs (businesses) affected by the effects of COVID-19 and on the simplified proceedings aimed at obtaining an approval of the arrangement in connection with the occurrence of COVID-19. 		<p>a consumer in the event of illegal consumption of fuels or electricity or a delay in the payment for services by the consumer, in case such a consumer is: the final consumer in a household.</p> <ul style="list-style-type: none"> • Introduce the possibility (option) of concluding transactions on the exchanges and trading platforms by the introduction of the possibility of posting non-cash collaterals to cover the margins securing such transactions in the form of the property rights stemming from the certificates of origin, emission allowances, bank guarantees, as well as sureties issued by the capital group's subsidiaries, • enable entities that have concluded grid connection agreements for the renewable energy source (RES) installations to extend the deadline for delivering electricity to the grid for the first time, provided that such a deadline falls prior to June 30, 2022,
Act amending the act on the proceedings in cases related to public (state) aid	The regulation introduces into the Polish legal order norms (standards) related to the situations when the Court of Justice of the European Union finds the decisions of the European Commission in cases related to public (state) aid to be null and void. The two main solutions implemented include the possibility of continuing to perform the obligation related to public (state) aid, excluding the payout of the funds, and also accumulating the funds due to the beneficiary in the period between the judgment of the Court of Justice of the European Union and the repeated decision of the European Commission.	Entry into force on January 12, 2021	The uncertainty with respect to using the aid funds, stemming from the potential proceedings pending before the Court of Justice of the European Union, has been reduced.
Regulation of the Minister of Climate and Environment of November 13, 2020, amending the regulation on the detailed rules of shaping and calculation of the tariffs and billing (settlements) in electricity trading	<p>The goal of the Regulation is to:</p> <ol style="list-style-type: none"> 4. enable energy companies (electric utilities), conducting business operations with respect to electricity distribution, to establish a tariff group for the consumers using electricity exclusively for the needs of the generally accessible charging stations and the provision of the charging services thereupon, 5. limit the negative effects of the COVID-19 pandemic for the DSOs and the TSOs, manifested in the reduction of electricity consumption by the consumers, by introducing a mechanism to equalize, based on the balance, the actual revenue and the planned regulated revenue, 	Entry into force on December 4, 2020	A mechanism equalizing, based on the balance, the actual revenue and the planned revenue was introduced and the tariffs for the charging stations were established.
European Union (EU) regulations			
European Green Deal including:	<i>European Green Deal</i> was published by the European Commission in December 2019 and is a plan of actions aimed at achieving climate neutrality by the EU states by 2050. In accordance with the above regulation the steps taken by the European Commission (EC) are to cover the entire economy, including the power, agriculture, transportation (land, sea, air) and manufacturing industry sectors. The European Commission (EC) has published a legislative works schedule covering the next several years.	In 2020, the EU institutions implemented some of the activities envisaged in the timetable, including conducting consultations and adopting some legislative proposals. Public consultations of the draft legal acts and the assessments of the effects of the regulations	<i>European Green Deal</i> is a major challenge for all sectors of the economy. It will be possible to evaluate the detailed goals for the power sector after the legislative acts related to the sector have been published.
Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020 establishing a framework to facilitate sustainable investment and amending	<p>The goal of the regulation is to establish a framework to facilitate sustainable investment projects, in order to introduce a classification system, the so-called <i>EU Taxonomy</i>, i.e. the green list for the sustainable economic activities.</p> <p>The European Union (EU), the Member States, financial market participants offering financial</p>	Entry into force from July 12, 2020 The works of the European Commission on	The new principles of sustainable financing defined in the Taxonomy may affect the ability and conditions of obtaining capital for the implementation of the investment projects planned by TAURON Capital Group.

Name of the regulation	Description of the regulation	Status as of 31.12.2020	Impact on TAURON Capital Group
Regulation (EU) 2019/2088 (Regulation with respect to Taxonomy - sustainable financing)	products (through an obligation to disclose information on how and to what extent the investment projects underlying their financial product support an economic activity that meets all of the criteria for the sustainable environment development), financial and non-financial companies covered by the non-financial reporting will be obligated to apply the <i>EU Taxonomy</i> starting from December 2021.	the delegated acts	
Commission Implementing Regulation (EU) 2020/1001 of July 9, 2020 (Regulation on the Modernization Fund)	Regulation laying down the detailed rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards the operation of the Modernization Fund supporting investments to modernize the energy systems and to improve energy efficiency of certain Member States, aimed at defining the general rules for submitting project applications and the cooperation between the Member States and the EU institutions and the European Investment Bank (EIB).	Entry into force on July 30, 2020	The Modernization Fund may constitute significant support for the implementation of investment projects that are a part of the <i>Green Turn of TAURON</i> , and thus have a positive impact on TAURON Capital Group's transition process.
Commission Implementing Regulation (EU) 2020/1294 of September 15, 2020, on the European Union's renewable energy financing facility	The regulation sets out the provisions required for the implementation and operation of the EU's renewable energy financing facility, which will be in place as of January 1, 2021. The goal of the facility is to create a framework and provide support for the new projects in the EU in the field of energy from the renewable sources. Under the facility the Member States will be able to pay voluntary financial contributions, that will be used to submit offers supporting the new RES projects.	Entry into force on October 7, 2020	The facility may constitute support for reducing the cost of capital of the RES projects, achieving the RES target in the energy mix at the national level and tightening the regional cooperation with other Member States.

In the period covered by this report, the legislative works were conducted on amending specific legal provisions, which, if adopted with the assumed content, will have an impact on the operations of TAURON Capital Group.

The below table below presents the most important legislative initiatives in the regulatory environment of TAURON Capital Group in 2020

Table no. 16. Most important legislative initiatives in the regulatory environment of TAURON Capital Group in 2020

Name of the regulation	Description of the regulation	Status as of 31.12.2020	Impact on TAURON Capital Group
National regulations			
Draft act on promoting electricity generation in off-shore wind farms	The goal of the draft act is to create a dedicated support system for the generation of electricity in the off-shore wind farms and to facilitate applying for the documents required in the course of the investment related works conducted for the off-shore wind farms.	The act has been forwarded to the Senate and the President of the Republic of Poland	The act will have an impact on the investment opportunities in the off-shore wind energy and may constitute the basis for further analyses of the investment potential of the electricity generation sector in the off shore wind farms.
Draft act on amending the act on the greenhouse gas emission allowances trading system and certain other acts	The goal of the draft act is to transpose <i>Directive (EU) 2018/410 of the European Parliament and of the Council of March 14, 2018, amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814</i> , in particular, to introduce the National Modernization Fund implementation system to be responsible for co-financing the implementation of investment projects modernizing the national power system and improving energy efficiency.	Past the Committee for European Affairs	The Act, and in particular the introduction of the National Modernization Fund implementation system, will affect the possibility of obtaining funds for investments that fall within the scope for which financing from the Modernization Fund's funds is possible.
Draft act on amending the act on the capacity market	The goal of the draft act is to adjust the content of the Act on the Capacity Market to <i>Regulation (EU) 2019/943 of the European Parliament and of the Council of June 5, 2019, on the internal market for electricity</i> , in particular with regard to limiting the participation in the capacity mechanisms of units emitting more than 550 g of CO ₂ from fossil fuels per kWh of electricity produced and an annual average of more than 350 kg of CO ₂ from fossil fuels per kW of installed capacity. In addition, it aims to introduce a mechanism supporting the implementation of investment projects, in particular in low emission units and mitigating the effects of delays resulting from the COVID-19 pandemic.	Public consultations have been completed	The act will ensure the proper implementation and functioning of the capacity market mechanism despite the negative impact of the COVID-19 pandemic on the investment processes.

Name of the regulation	Description of the regulation	Status as of 31.12.2020	Impact on TAURON Capital Group
Draft regulation of the Minister of Infrastructure on the evaluation of applications (motions) submitted in the resolution (decision-making) procedure	The goal of the draft regulation is to establish detailed criteria to be used to determine the method of selecting, in the resolution (decision-making) procedure, an entity that will obtain a permit to build or use artificial islands, structures and devices in the Polish maritime areas.	Public consultations have been completed	The regulation is required for the initiatives aimed at the development of the maritime areas after the adoption of the spatial development (zoning) plan for the Polish maritime areas. It is particularly important from the point of view of making all decisions regarding investments in offshore wind energy by the entities that have not yet obtained a permit for the construction and use of artificial islands in the Polish exclusive economic zone of the Baltic Sea

European Union (EU) regulations

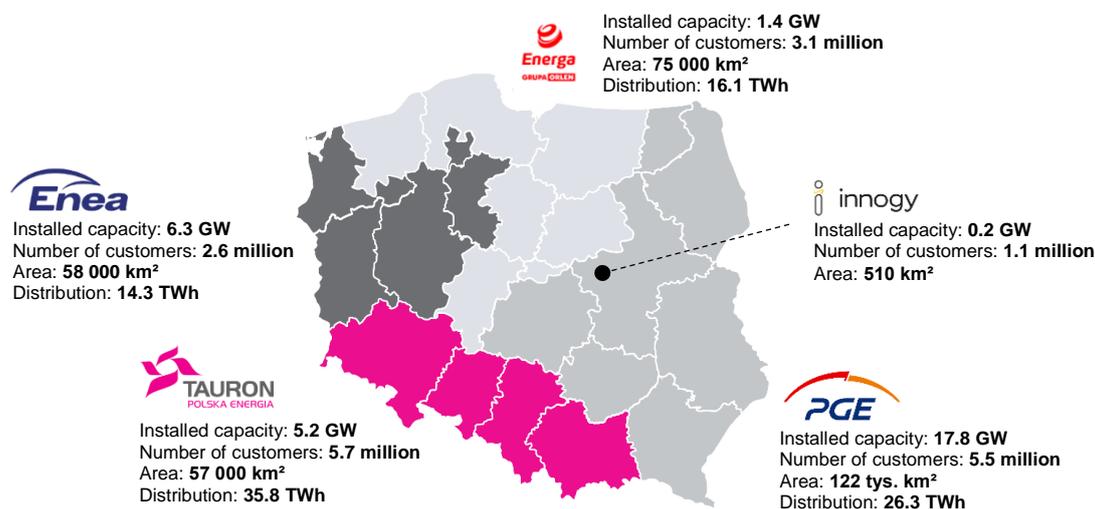
Just Transition Mechanism	<p>The proposed regulation was published by the European Commission in January 2020 as part of implementing the <i>European Green Deal</i>, the Just Transition Mechanism consists of three pillars:</p> <ul style="list-style-type: none"> • 1st pillar - Just Transition Fund, • 2nd pillar - InvestEU Program, • 3rd pillar - Loans for the public sector. <p>In December 2020, the trilogue negotiations among the EU institutions were completed, according to which the Just Transition Fund's budget would total EUR 17.5 billion.</p>	<p>Works on the draft regulations in the European Parliament and the Council of the EU</p> <p>Works on establishing the Just Transition Fund and the InvestEU Program in the European Parliament and the Council of the EU</p>	<p>The regulation may provide support for TAURON Capital Group first and foremost in the following areas:</p> <ul style="list-style-type: none"> • investments in renewable energy sources (RES) (including on the post-industrial or post-mining land), • raising and changing the qualifications of, first and foremost, the personnel employed in mining or hard coal based electricity generation, • research and development of the low emission technologies, • reclamation and management (utilization) of the post-mining and post-industrial land.
European Climate Law	<p>The draft regulation was published by the European Commission in March 2020 and its goal is to establish the framework for achieving climate neutrality (European Climate Law). The draft includes, among others, a proposal of a new target for reducing the greenhouse gas emissions at the EU level by 2030 and the introduction of the EU level greenhouse gas emissions reduction trajectory for 2030 - 2050.</p> <p>In December 2020, the European Council approved a binding target assuming the reduction of the net greenhouse gas emissions in the EU by 2030 by at least 55% as compared to the level of 1990 and called on the European Commission, the European Parliament and the EU Council to take into account the new target and to swiftly adopt the petition related to the European Climate Law.</p>	<p>Works on the draft regulation in the European Parliament and the Council of the EU</p>	<p>Tightening of the target for reducing the greenhouse gas emissions by 2030 to at least 55% may have an impact on the costs of the CO₂ emission allowances and thus on the costs of electricity generation by the conventional units of TAURON Capital Group (TAURON Wytwarzanie, TAURON Ciepło).</p>

Competitive environment (landscape)

Apart from TAURON Capital Group, three large, vertically integrated energy groups are currently operating on the Polish market: PGE, Enea and ORLEN Group's Energa S.A. (Energa). Furthermore, innogy Polska is conducting its operations in Warsaw, managing Warsaw's power grid.

The below figure presents TAURON Capital Group's competitive environment (landscape) based on the available Q1-3 2020 data.

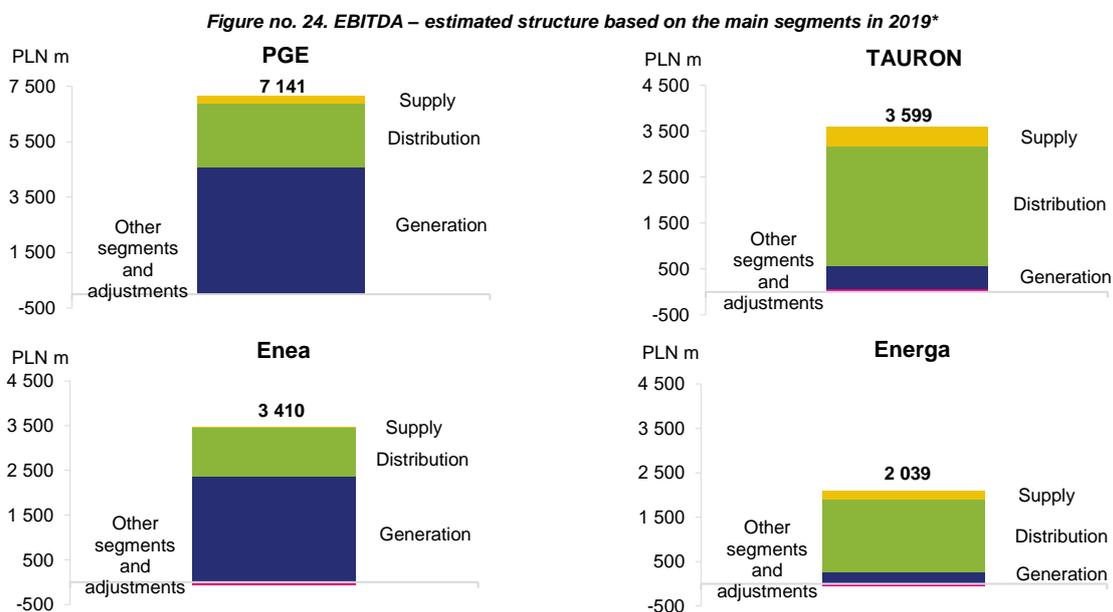
Figure no. 23. TAURON Capital Group's competitive environment (landscape) based on the available Q1-3 2020 data



According to Q1-3 2020 data, the consolidated energy groups (PGE, TAURON, Enea, Energa) held a 67% 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 (scale) 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 is conducting its operations in all of 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.



* In order to make the segments presented comparable the Generation Segment includes also Mining, RES and Heat.
Source: Companies' interim 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, stood at approx. 8% after the first three quarters of 2020. TAURON Capital Group is the third largest electricity producer on the Polish market. TAURON Capital Group's generation assets are concentrated in the south of Poland. The deposits of the hard coal used to fire TAURON Capital Group's power plants and combined heat and power plants are also located in that region. The location of the generating assets in the vicinity of the hard coal deposits allows for the optimization of the costs related to the transportation of this raw material

89% of TAURON Capital Group's generation assets are, as of the end of 2020, hard coal fired units, 25% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity reached almost 6.1 GW as of December 31, 2020, with the renewable energy sources accounting for almost 0.7 GW of that figure. Wind farms' installed capacity represents 6.3%, hydroelectric power plants' installed capacity accounts for 2.2% and biomass fired generating units' installed capacity constitutes 2.3% of TAURON Capital Group's total installed capacity.

TAURON Capital Group produced 12.5 TWh of electricity in 2020, with 1.9 TWh coming from RES.

Nationwide, after the first three quarters of 2020, 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. With respect to the installed capacity of the wind farms, biomass and biogas fired power plants as well as hydro power plants, the share of TAURON Capital Group came in at approx. 6%, 13% and 6%, respectively.

According to the data after the first three quarters of 2020, PGE Group is the largest electricity generator in Poland, with its share in the domestic electricity production market in the third quarter of 2020 standing at approx. 41%, and the installed capacity of 17.8 GW. ENEA is the second largest electricity producer in Poland, with a market share of approx. 16% 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 (RES) on the Polish market and Energa's total installed capacity stands at approx. 1.4 GW. Energa produced 2.2 TWh of electricity in the first three quarters of 2020, with approx. 1.0 TWh (i.e. 47%) coming from RES.

The below figures present information on installed capacity and electricity generated in Q1-3 2020.

Figure no. 25. Gross electricity production - estimated market shares in Q1-3 2020

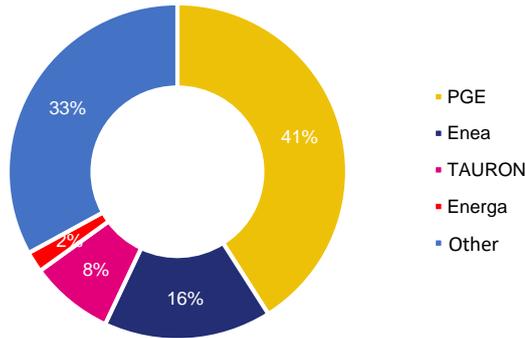
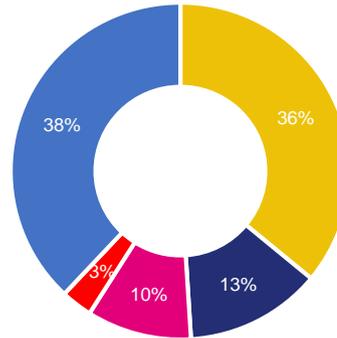


Figure no. 26. Installed capacity - estimated market shares in Q1-3 2020



Source: Agencja Rynku Energii S.A. (ARE), information from the companies published on their websites

Distribution

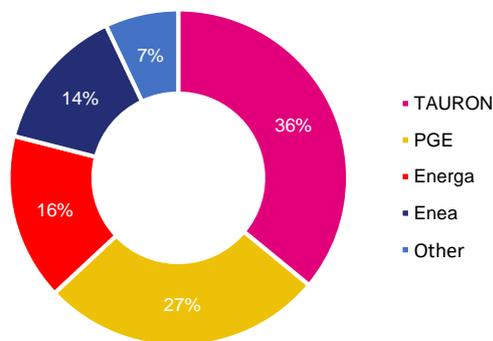
TAURON Capital Group is the Polish market leader in terms of the number of distribution customers and volume of electricity distributed

TAURON Capital Group is Poland's largest electricity distributor. TAURON Dystrybucja's share in electricity distribution to the final consumers reached approx. 36% in the first three quarters of 2020. TAURON Capital Group's distribution grids cover more than 18% of Poland's territory. The volume of electricity delivered to the final consumers came in at approx. 50.3 TWh in 2020. TAURON Capital Group is Poland's largest electricity distributor also in terms of revenue from the distribution operations.

TAURON Capital Group's distribution operations, due to the natural monopoly in the designated area, are a source of a stable and predictable revenue, representing a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution's geographical area on which the Distribution Segment's and the Supply Segment's subsidiaries are historically operating is a heavily industrialized and densely populated area and therefore the distribution grid is very well utilized. The number of the Distribution Segment's customers reached approx. 5.7 million in 2020.

The below figure presents estimated market shares of the individual energy groups in terms of electricity distribution based on the Q1-3 2020 data.

Figure no. 27. Electricity distribution - estimated market shares in Q1-3 2020



Source: ARE, information from the companies published on their websites

Supply

TAURON Capital Group is Poland's second largest electricity supplier

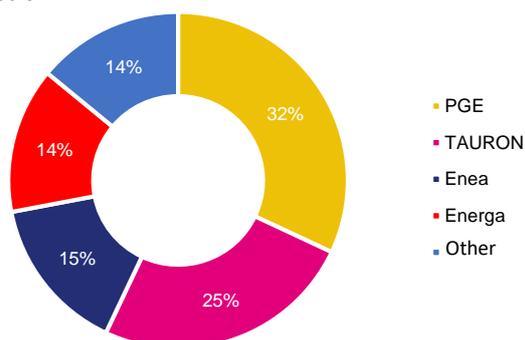
TAURON Capital Group holds a 25% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 32.4 TWh in 2020. The number of customers served by TAURON Capital Group's Supply Segment is 5.6 million.

PGE is the largest retail electricity supplier with a 32% market share. The other two groups, Enea and Energa, hold a 15% and a 14% market share respectively.

In the segment of electricity supply to the households the individual energy groups are geographically linked, first of all, with the areas in which they are acting as an ex officio electricity 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. Such restrictions do not apply to the business and institutional customers. A broader and more open competition exists in those sectors.

The below figure presents estimated market shares of the individual energy groups in terms of electricity supply to the final consumers based on the Q1-3 2020 data.

Figure no. 28. Electricity supply to the final consumers - estimated market shares in Q1-3 2020



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 2020, as well as the domestic market shares.

Table no. 17. Installed capacity, generation, distribution and supply of electricity by energy groups after the first three quarters of 2020

Group	Installed capacity		Generation*		Distribution		Supply	
	Quantity (GW)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)
1. PGE	17.8	36.0	47.1	41.0	26.3	27.0	30.5	32.0
2. TAURON	5.2	10.0	8.7	8.0	35.8	36.0	23.7	25.0
3. Energa	1.4	3.0	2.2	2.0	16.1	16.0	13.9	14.0
4. Enea	6.3	13.0	18.5	16.0	14.3	14.0	14.7	15.0
5. Other	18.6	38.0	38.3	33.0	7.1	7.0	13.8	14.0
Total	49.3	100.0	114.8	100.0	99.6	100.0	96.6	100.0

*Volume of gross electricity generated in the first three quarters of 2020

Source: ARE, information from the companies published on their websites, own estimates in case of the companies publishing the net production

The period under review was characterized by a decrease of the demand for electricity due to the outbreak of the COVID-19 pandemic. The decline of the demand contributed to a decrease of the electricity production in Poland, and thus to a lower level of the distribution and supply volumes.

The analysis of the largest energy groups operating on the domestic market points to various sources of competitiveness in the selected segments of the energy market, depending on the operations conducted thereby.

The below table presents the main sources of competitiveness of TAURON Capital Group in selected Lines of Business (Segments of Operations).

Table no. 18. Sources of competitiveness of TAURON Capital Group in selected Lines of Business (Segments of Operations)

Line of Business	Initiatives	Sources of competitiveness
1. Mining 2. Generation	1. Reducing the fuel price and supply risk 2. Investments in generating units 3. Operating expenses	1. Concluded capacity market contracts. 2. High efficiency generating units with a competitive unit production cost 3. Improvement of operational efficiency
3. RES 4. Heat	1. Operating expenses 2. Investments in district heating networks	1. Improvement of operational efficiency 2. Development of low and zero emission generation sources – <i>Green Turn of TAURON</i> 3. Expanding regulated operations
5. Distribution	1. Operating expenses 2. Investment project efficiency 3. Improvement of grid reliability indicators	1. Implementing the ultimate business model 2. Implemented IT systems, separate processes, clear (transparent) split of responsibilities
6. Supply	Operating expenses	Efficiently allocated operating expenses

2.4. Material factors impacting growth

The following factors will have the most material impact upon the results of TAURON Capital Group's operations over at least the next quarter:

1. macroeconomic situation in Poland 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. market situation in Poland and in the EU, as well as the global economy, including changes of the electricity prices, prices of the CO₂ emission allowances, prices of the raw materials (commodities), etc., affecting the revenues and the level of the costs generated,
3. introduction of the state of epidemic in Poland, as of March 20, 2020, effective until cancelled due to the COVID-19 virus infections which, as a consequence, leads to a decrease of the demand for electricity, and thus a decline of the volume of electricity distributed and supplied, as well as a curtailment of electricity production,
4. possibility of a further tightening of the constraints and trade restrictions as a result of an increase in the number of COVID-19 cases,
5. potential increase of the overdue accounts receivable caused by the deterioration of the financial condition of the counterparties (contractors),
6. extraordinary preventive measures implemented at TAURON Capital Group's subsidiaries due to the state of epidemic, aimed at ensuring the safety of the employees and customers and ensuring the security of the continuity of the operations of the critical infrastructure,
7. political environment 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 (EC),
8. result of the Court of Justice of the European Union (CJEU) proceedings conducted in connection with a complaint submitted by TEMPUS against the European Commission regarding the declaring the decision of the European Commission, deeming the Polish capacity market mechanism to be in line with the internal market, as null and void,
9. changes to the regulations related to the power sector, and also changes in the legal environment, including: tax law, commercial law, environment protection law,
10. changes to the regulations governing the operation of the PPX (TGE), in particular the possibility of abolishing the exchange obligation,
11. change in the policies of the financial institutions with respect to the financing of coal fired electricity generation,
12. possibility of using the European funds supporting the transition of the energy sector and mitigating the effects of the social changes
13. geological and mining factors, as well as the natural hazards that may affect the volume of fossil fuel extraction,
14. start of the functioning, from January 2021, of the generation capabilities compensation mechanism (capacity market), under which the deliveries of electric capacity will be carried out by TAURON Capital Group subsidiaries' generating units and demand side reduction units. The deliveries will be carried out under capacity contracts concluded during the main and additional auctions for the years 2021-2025. The launch of the capacity market results in a simultaneous expiration of the operational capacity reserve and the cold intervention reserve,
15. support system for electricity generation from the dedicated sources (*color certificates*), resulting, on one hand, in the costs of redeeming (retiring) certificates for the suppliers of electricity to the final consumers, and on the other hand, in revenue from the sales of certificates for the generators of electricity,
16. RES support system, the so-called RES auctions,
17. competitive environment (landscape), including the activities and steps taken by the competition on the energy market,
18. further tightening of the EU climate policy, in particular, resulting in the energy transition focused on the RES, as well as in an increase of the prices of the CO₂ emission allowances,
19. ongoing works on the government's solution with respect to the shape of the mining and coal-based energy sector in Poland
20. growth of the prosumer market and its impact on the Supply, Distribution, as well as the Generation and Mining Lines of Business,
21. level of tariff for the electricity and heat supply to the households (tariff group G) approved by the President of ERO,
22. level of tariff for the electricity distribution approved by the President of ERO,
23. environment protection requirements as a consequence of changes to the *Act of April 27, 2001, Environment Protection Law*, the so-called anti-smog resolutions,
24. planned changes to the regulations related to the *Act of August 25, 2006 on the system for monitoring and inspecting fuel quality*, among others, with respect to the quality requirements for the solid fuels,
25. science (research) and technical progress,
26. demand for electricity and the other energy market products, taking into account changes due to seasonality and weather conditions
27. shaping of the personnel policy, including the results of the negotiations with the Social Council of TAURON Group,
28. changes to the schedules, budgets and scopes of the investment projects implemented by TAURON Capital Group,
29. impact of weather conditions (factors), including those of extreme nature, resulting in the impact on the failure rate of the assets of TAURON Capital Group and the seasonality of the revenue generated and the costs incurred,

30. results of the ongoing analyses related to the Heat Line of Business, taking into account the forecast changes in the external environment, including the regulatory and the market environment, and taking

into account the prospects of the Polish heating sector, which may affect further decisions regarding the sale of the shares in TAURON Ciepło or keeping TAURON Ciepło within TAURON Capital Group.

The impact of the above factors on the financial result achieved in 2020 is presented in section 5. of this report. The effects of this impact are visible in both the short term perspective, as well as in the long term outlook.

TAURON Capital Group's operations are characterized by seasonality that is applicable, in particular, to heat production, distribution and supply, electricity distribution and supply to the individual consumers, as well as the hard coal sales to the individual consumers for heating purposes. Heat supply depends on the weather conditions, in particular on outdoor temperature, and it is higher in the autumn and winter season. The volume of electricity supply to the individual consumers depends on the length of day which usually makes electricity supply to this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Hard coal sales to the individual consumers are higher in the autumn and winter season. The seasonality of TAURON Capital Group's other lines of business is low.

2.5. Timeline

The timeline of selected highlights associated with the operations of TAURON and TAURON Capital Group that took place in 2020 is presented below.

JANUARY FEBRUARY	<ol style="list-style-type: none"> 1. Conclusion, by TAURON Dystrybucja and Apator S.A., of the agreement for the supply of the static direct 3-phase electricity meters intended to be used to meter customers of the C1 tariff groups for the purpose of settling the capacity charge. 2. Signing of the agreement by TAURON and PSE, according to which, in case of increased demand for electricity in Poland, TAURON will reduce power consumption by 14 MW under the DSR mechanism. 3. Supplying of all TAURON electric car charging stations with electricity coming solely from RES. 4. Implementation, at TAURON Wydobywanie, of a unique IT system enabling precise monitoring and reporting of equipment failures in the coal mines. 5. Conclusion by TAURON of the agreement for TAURON membership in the TGE (PPX) Organized Trading Platform.
MARCH APRIL	<ol style="list-style-type: none"> 1. Signing by TAURON and the closed-end investment funds, a part of whose investment portfolio is managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund) (PFR) of the memorandum of understanding on the preliminary terms of cooperation between with respect to investments in RES. 2. TAURON commences cooperation with six start-ups (entities operating in the fields of: HR, blockchain, smart city, customer service, non-destructive methods of material testing) selected in the second round of recruitment for the KPT ScaleUp accelerator managed by the Cracow Technology Park (Krakowski Park Technologiczny). 3. Conclusion of a 3-year contract by TAURON Sprzedaż and LOTTE Wedel for the supply of more than 51 GWh of electricity generated from RES as part of the offering addressed by TAURON Sprzedaż to the business customers, regarding the supply of electricity with the certificates. 4. Completion of the OCR application deployment project implemented by TAURON Obsługa Klienta. 5. TAURON Dystrybucja launches an educational channel for children and youth on the YouTube platform aimed at supporting teaching in the form of remote lessons, among others, during the ongoing COVID19 pandemic. 6. Commencement of works by TAURON EKOENERGIA on a system for ultra-fast forecasting of electricity production by the photovoltaic systems, taking into account sudden weather changes, using the Internet of Things technology and the advanced data processing algorithms based on artificial intelligence. 7. Publishing of the FY 2020 financial results of TAURON and TAURON Capital Group 8. Publishing of the multimedia Integrated Report for 2019.
MAY JUNE	<ol style="list-style-type: none"> 1. Registration of the ash, slag and gypsum produced by Nowe Jaworzno Grupa TAURON in the REACH register of the chemical substances brought to the market, kept by the European Chemicals Agency and thus obtaining the possibility of selling such substances on the European market. 2. Publishing of the Q1 2020 financial results of TAURON and TAURON Capital Group. 3. Completion of the 1st stage of the modernization of the hydro power plant in Pilchowice by TAURON EKOENERGIA. 4. Introduction of a new functionality at TAURON Dystrybucja in the form using which TAURON customers report faults and power failures, which sends a text message (SMS) or an e-mail with the feedback indicating the status of the processing the given service request. 5. TAURON Dystrybucja commences the replacement of the meters with modern meters enabling remote reading of the metering data at businesses (entrepreneurs) served by TAURON. 6. TAURON prepares a free e-book on the photovoltaics for a house. 7. Announcing of the qualification procedure for the President and Vice Presidents of the Management Board of TAURON of the 6th common term of office. 8. Signing by TAURON Nowe Technologie and Górnośląskie Towarzystwo Lotnicze (the Upper Silesia Aviation Society) of a letter of intent with respect to the construction of the electric vehicle charging infrastructure. 9. Signing by TAURON and Fundusz Górnośląski (the Upper Silesia Fund) of a letter of intent on the cooperation with respect to: low emission and RES projects, R&D works related to the construction of innovative hybrid systems and the cogeneration projects related to the improvement of energy efficiency, including energy saving lighting systems. 10. Launching by TAURON Dystrybucja of the new Electricity Distribution Grid Browser, which is an application for the contractors who have signed an agreement with TAURON Dystrybucja for the implementation of the medium and low voltage grid connection investment tasks.

**JULY
AUGUST**

1. Conclusion by TAURON of an Agreement with the financial institutions on the eligibility of financing acquired for green investments, under which the debt taken on by TAURON's special purpose vehicles for the implementation of the RES investments can be excluded from the calculation of the net debt to EBITDA ratio.
2. Launching by TAURON Sprzedaż of Cyfrowy Assystent Finansowy (Digital Financial Assistant), i.e. an online platform for the customers from the small and medium sized enterprise sector facilitating the handling of the company's finances.
3. Ordinary General Meeting (GM) of TAURON
4. Appointment of the Company's Management Board of the 6th common term in office.
5. Appointment of the Company's Supervisory Board of the 6th common term in office.
6. Conclusion of the contract by TAURON Sprzedaż and Grupa Santander Bank Polska for the supply of electricity generated from RES as part of the offering addressed by TAURON Sprzedaż to the business customers, regarding the supply of electricity with the certificates.
7. Commencement of operation of a new Water Demineralization Station at the Łagisza Power Plant in Będzin (TAURON Wytwarzanie), aimed at ensuring the continuity of the supplies of appropriate quality water for the operation of the power plant.
8. Publishing of the H1 2020 financial results of TAURON and TAURON Capital Group.

**SEPTEMBER
OCTOBER**

1. TAURON joins the Polish Wind Energy Association (Polskie Stowarzyszenie Energetyki Wiatrowej).
2. Extension by TAURON Wytwarzanie and PSE of the contract for the provision of the cold intervention reserve service.
3. Launching by TAURON Dystrybucja of a new application to counteract electricity theft.
4. Launching of a new railway connection for the coal supplies from the Sobieski Coal Mine directly to the 910 MW unit in Jaworzno, which is the shortest connection of this type in Poland.
5. Conclusion by TAURON with PGE, Enea and KGHM Polska Miedź of a Letter of Intent regarding the sale to the State Treasury of 100% of the shares in PGE EJ 1.
6. Commissioning of the 449 MWe CCGT unit with a heating module with the capacity of 240 MWt in Stalowa Wola.
7. TAURON Obsługa Klienta obtains the approval (clearance) of the Office of Electronic Communications for the framework bid related to the construction of the optical fiber network built by the company.
8. ERO grants TAURON a license to conduct business operations involving trading in natural gas with foreign counterparties.
9. Launching by TAURON of the OPTI AI UNIT project aimed at developing and demonstrating a computer system for controlling the operational parameters of the critical industrial infrastructure devices, as well as building models allowing for the dynamic management of their availability and reliability.
10. TAURON is awarded *The Best of The Best* prize and an honorable mention for the integrated report in *The Best Annual Report 2019* competition organized by the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków).

**NOVEMBER
DECEMBER**

1. Launching by TAURON Obsługa Klienta, as part of its business operations, of a new subpage related to the telecommunications services.
2. Commissioning of the 910 MWe supercritical parameters power generating unit in Jaworzno.
3. Publishing of the Q3 2020 financial results of TAURON and TAURON Capital Group.
4. Modernization of the Document Circulation (Workflow) System by TAURON Obsługa Klienta by implementing a new system architecture, optimizing the current processes implemented in the system and extending the functionality with the use of the latest IBM Case Business Automation Workflow and IBM DataCap technologies in order to increase the standard of customer service in all contact channels.
5. Conclusion of a contract by TAURON Sprzedaż and Panasonic Energy Poland for the supply of electricity generated from RES as part of the offering addressed by TAURON Sprzedaż to the business customers, regarding the supply of electricity with the certificates.
6. Commissioning of one of the largest shaft cages in Poland at the Janina Coal Mine (TAURON Wytwarzanie).
7. Completion of the main phase of the 200 MW units modernization program at the Łagisza Power Plant.
8. Acquisition by TAURON of a wind farm project by acquiring the Wind T1 company, which conducted a construction project with the ultimate capacity of 30 MW on the territory of the Wolbórz and Moszczenica municipalities in the Piotrków county.
9. TAURON provides a new mobile application for electric car users, enabling, inter alia, searching for an available charging station in real time, mapping a route to a selected charging station, starting and ending the charging process and making a payment for the service.
10. Commissioning of a 5 MW photovoltaic farm in Jaworzno.
11. Signing by TAURON and OW OFFSHORE S.L. of the cooperation agreement with respect to the joint implementation of offshore wind farm projects in the Polish Economic Zone.

2.6. Major events ha a significant impact on the operations in 2020 and after the balance sheet date, i.e. December 31, 2020

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that occurred in 2020, as well as by 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, presented in detail in section 12.2. of this report.

Major business events in 2020

Information on the construction of the power generating unit in Jaworzno

The detailed information on the implementation of the construction of the power unit in Jaworzno is presented in section 1.7. of this report.

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, no. 7/2020 of March 6, 2020, no. 19/2020 of May 4, 2020 and no. 53/2020 of November 13, 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 the renewable energy sources (RES). The Company and PFR have agreed that the potential investments in RES 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 a relevant 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 mentioned 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 investments will be 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 related to the specific investment projects.

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.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 11/2020 of March 23, 2020.

Sale of the shares in TAURON Ciepło

In 2019 the Company launched a project aimed at performing the market verification of an option of selling the shares in TAURON Ciepło and the potential continuation of the sale process.

On June 16, 2020, the Management Board of TAURON took the decision to move to the next stage of the process of the sale of the shares in the TAURON Ciepło subsidiary and commence negotiations of the agreement on the sale of the shares in TAURON Ciepło with PGNiG on the condition of exclusivity for the period of six weeks.

The negotiations were aimed at defining the terms of the potential transaction of the sale by the Company of the entire stake held in TAURON Ciepło (i.e. 100% of the shares in that company). TAURON expected that the potential takeover of control over TAURON Ciepło by the investor would take place not earlier than as of January 1, 2021.

The conclusion of the potential transaction were to require, in particular, obtaining the relevant corporate approvals and clearances from the institutions providing the financing for the business operations of TAURON Capital Group. The Company allowed for the possibility of canceling the process leading to the conclusion of the transaction.

On July 28, 2020, the Management Board of TAURON took the decision to extend by 8 weeks the exclusive negotiation period granted to PGNiG in the process of the sale of the shares in TAURON Ciepło.

On September 22, 2020, and on November 30, 2020, the Management Board of TAURON took the decision on further extensions, until November 30, 2020, and then until January 31, 2021, the above mentioned exclusivity period.

On January 29, 2021, (an event occurring after the balance sheet date) PGNiG expressed, in writing, the wish not to continue the negotiations aimed at the acquisition of the shares in TAURON Ciepło.

As the transaction did not materialize, the Management Board of TAURON made a decision to commence analyses related to the Heat Line of Business, taking into consideration the forecast changes in the external environment, including the regulatory and the market environment, and taking into account the prospects for the Polish heat sector, that may have an impact upon further decisions regarding the sale of the shares in TAURON Ciepło or keeping TAURON Ciepło within TAURON Capital Group.

On March 10, 2021, (an event occurring after the balance sheet date) the Management Board of TAURON took a decision to extend the analyses related to the Heat Line of Business to include the option of a potential acquisition of selected assets of ČEZ Group in Poland, with particular emphasis on ČEZ Chorzów.

As of the date of drawing up this report, the above mentioned analyses are continued and no binding decisions have been taken in this regard.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 24/2020 of June 16, 2020, no. 34/2020 of July 28, 2020, no. 42/2020 of September 22, 2020, no. 54/2020 of November 30, 2020, no. 2/2021 of January 29, 2021 and no. 7/2021 of March 10, 2021.

Sale of the shares in PGE EJ 1

On October 1, 2020, the Company signed, as one of the parties, the Letter of Intent with the State Treasury regarding the acquisition by the State Treasury of 100 percent of the shares in the company PGE EJ 1.

The Letter of Intent was signed by all of the entities holding shares in the company PGE EJ 1 (i.e. TAURON, PGE, Enea and KGHM Polska Miedz), an entity responsible for the preparation and implementation of the investment project that involves the construction and operation of Poland's first nuclear power plant. TAURON owns 10 percent of the shares in PGE EJ 1.

The entities signing the Letter of Intent undertook to carry out, in good faith, all of the activities required to prepare and complete a transaction involving the acquisition of the shares in PGE EJ 1 by the State Treasury. The Letter of Intent did not entail the obligation of the parties to follow through with the transaction and the decision to carry out the transaction was made dependent on the results of the negotiations in this regard and the fulfillment of other conditions specified in the legal regulations or corporate documents. The intention of the parties to the Letter of Intent was for the acquisition of the shares to take place by December 31, 2020, however, the parties did not specify the effective term of the Letter of Intent. The works aimed at completing the company's valuation and agreeing upon the content of the transaction documentation had been carried out until the end of 2020.

On March 26, 2021, (an event occurring after the balance sheet date), the Company signed an agreement with the State Treasury for the sale of the shares in PGE EJ 1.

The detailed information on the signing of the above mentioned agreement is provided in section 12.2. of this report.

TAURON disclosed the information on the above events in the regulatory filings (current reports) no. 45/2020 of October 1, 2020 and no. 10/2021 of March 26, 2021.

Major corporate events in 2020

Changes to the composition of TAURON's Management Board

There had been changes to the composition of the Company's Management Board in 2020 and by the date of drawing up this report, which are presented in section 9.11. of this report.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 28/2020 of July 14, 2020, no. 4/2021 of February 19, 2021, and no. 6/2021 of February 24, 2021.

Changes to the composition of TAURON's Supervisory Board

There had been changes to the composition of the Company's Supervisory Board in 2020 and by the date of drawing up this report, which are presented in section 9.11. of this report.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 12/2020 of March 24, 2020, no. 14/2020 of March 30, 2020, no. 16/2020 of April 20, 2020, no. 17/2020 of April 27, 2020, no. 22/2020 of May 25, 2020, no. 23/2020 of June 5, 2020, no. 25/2020 of June 16, 2020, no. 29/2020 of July 15, 2020, no. 35/2020 of August 3, 2020, and no. 3/2021 of February 12, 2020

Recommendation of the Management Board of TAURON Polska Energia S.A. on covering the net loss for 2019 from the supplementary capital and not paying out a dividend from the supplementary capital

On March 30, 2020, the Management Board of TAURON made the decision to recommend to the Ordinary General Meeting (GM) of the Company to cover the loss of PLN 462 830 170.74 for the financial year 2019 from the supplementary capital. In addition, the decision was also taken that the Management Board of TAURON would not recommend to the Ordinary General Meeting (GM) of the Company the payout of the dividend in 2020 from the supplementary capital.

At the same time, the Company confirmed that the dividend policy announced in the current report (regulatory filing) no. 35/2016 of September 2, 2016, with respect to the dividend amount and the conditions that must be met for its payout remained unchanged.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 15/2020 of March 30, 2020.

Signing of the Additional Protocols amending the company collective bargaining agreements at the subsidiaries

In the first half of 2020, the Management Boards of TAURON subsidiaries, i.e. TAURON Dystrybucja, TAURON Dystrybucja Pomiaru, TAURON Obsługa Klienta, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Nowe Technologie, TAURON Ekoenergia, TAURON Ciepło and TAURON, reached agreements with the representative trade union organizations and signed the Additional Protocols amending the company collective bargaining agreements, and in case of TAURON, the relevant amendment to the compensation regulations.

Pursuant to the above mentioned agreements, amendments were introduced with respect to the payouts of the cash equivalent due to the discount for the consumption of electricity by the retirees, pensioners and other eligible persons who were no longer employees of the subsidiaries. The signing of the Additional Protocols and in case of TAURON, the relevant amendment to the compensation regulations, enabled the subsidiaries to dissolve the provisions in the total amount of approx. PLN 533 million, that had been set up for this purpose. The positive impact of the dissolving of the provisions on the EBITDA of TAURON Capital Group was recognized in the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union (EU) for the 6-month period ended on June 30, 2020.*

The above mentioned Additional Protocols came into force upon the entry into the register of the company collective bargaining agreements maintained by the National Labor Inspectorate (Państwowa Inspekcja Pracy).

TAURON disclosed the information on the above events in the regulatory filings (current reports) no. 21/2020 of May 22, 2020, and no. 38/2020 of August 11, 2020.

Ordinary General Meeting of TAURON

The Ordinary General Meeting (GM) of the Company was held on July 15, 2020, and it adopted the resolutions related to, inter alia, the approval of the *Financial Statements of TAURON Polska Energia S.A. for the year ended on December 31, 2019, in accordance with the International Financial Reporting Standards approved by the European Union, the Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2019, in accordance with the International Financial Reporting Standards approved by the European Union, the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2019*, the covering of the net loss for the financial year 2019, the acknowledgement of the fulfillment of duties by members of the Company's Management Board and Supervisory Board, amending the *Articles of Association of TAURON Polska Energia S.A.*, adopting the *Compensation Policy for the members of the Management Board and Supervisory Board at TAURON Polska Energia S.A.*, establishing the number of members of the Company's Supervisory Board and appointing the members of the Company's Supervisory Board of the 6th common term of office.

The decision was taken to cover the Company's net loss for the financial year 2019 in the amount of PLN 462 830 170.74 from the Company's spare (supplementary) capital.

TAURON disclosed the information on convening of the Ordinary General Meeting (GM) and on the content of the draft resolutions in the regulatory filings (current reports) no. 26/2020 of June 18, 2020, and no. 27/2020 of June 18, 2020. TAURON disclosed the information on the adopted resolutions of the Ordinary General Meeting (GM) in the regulatory filing (current report): no. 30/2020 of July 15, 2020.

Registration of amendments and adoption of the consolidated text of the Company's Articles of Association

On July 21, 2020, the District Court Katowice-Wschód in Katowice, the 8th Commercial Department of the National Court Register, registered the amendments to the Company's Articles of Association adopted by the Ordinary General Meeting (GM) of the Company on July 15, 2020.

On August 3, 2020, the Supervisory Board of the Company adopted the consolidated text of the Company's Articles of Association, taking into account the amendments adopted by the Ordinary General Meeting (GM) of the Company on July 15, 2020.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 32/2020 of July 21, 2020 and no. 36/2020 of August 3, 2020.

Other major events in 2020

Petitions of TAURON Sprzedaż for a change of the approved tariff

As of January 1, 2020, pursuant to the decision of the President of the Energy Regulatory Office (ERO) of December 17, 2019, the electricity tariff for the G tariff groups consumers entered into force, resulting in an increase in the payments for the household consumers by 19.9% as compared to the payments incurred in 2018/2019.

Due to the fact that the said decision prevented TAURON Sprzedaż from passing on the justified costs of the activities related to electricity trading, in a letter of January 7, 2020, it submitted to the President of the Energy Regulatory Office (ERO) a petition for a change of the tariff approved for 2020, thus initiating administrative proceedings.

Due to the particularly complex nature of the case and the COVID-19 pandemic, the deadline for resolving the case was set as July 29, 2020.

By way of the decision of July 8, 2020, the President of the Energy Regulatory Office (ERO) did not approve the above mentioned tariff change.

On July 30, 2020, TAURON Sprzedaż filed an appeal to the Court of Competition and Consumer Protection in Warsaw, against the decision of the President of the Energy Regulatory Office (ERO) of July 8, 2020.

On December 31, 2020, TAURON Sprzedaż received the information of the filing, by the President of the ERO, of a motion to the Court of Competition and Consumer Protection in Warsaw to dismiss the above appeal.

As of the date of drawing up this report, TAURON Sprzedaż is waiting for the setting of the date of the hearing.

Ruling of the Regional Court related to PEPKH

On March 6, 2020, 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 PEPKH and Talia, 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 did not agree with the decision.

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.

On August 3, 2020, PEPKH filed an appeal against the above ruling to the court.

On September 8, 2020, the Regional Court in Gdańsk supplemented the above-mentioned partial and preliminary ruling in the form of another ruling in such a way that it determined that the demand for payment of the damages for a failure to perform a long term electricity sales contract concluded on December 23, 2009, between PKH and Talia, had been justified in principle, however the Court did not determine in any way the amount of the potential damages.

The supplementary ruling was issued in the first instance and is not legally binding. PEPKH does not agree with the supplementary ruling.

TAURON disclosed the information on the above event in the regulatory filings (current reports) no. 6/2020 of March 6, 2020, and no. 40/2020 of September 8, 2020.

On September 14, 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. The appeal was filed on March 8, 2021.

Abener Energia's lawsuit against EC Stalowa Wola

On March 20, 2020, EC Stalowa Wola submitted its response to the lawsuit filed on December 20, 2019 by Abener Energia to the Arbitration Court at the Polish Chamber of Commerce in Warsaw, petitioning that the claim be dismissed.

The subject of the claim is the payment by EC Stalowa Wola to Abener Energia of the total amount of PLN 156 446 842.98 and EUR 536 839.02 (which is equivalent to PLN 2 287 148.96 according to the NBP's exchange rate as of December 20, 2019), including the statutory interest for delay, as the compensation resulting from submitting the demand and obtaining by EC Stalowa Wola, at the expense of Abener Energia, of the payment under the contract performance bond or possibly the return of unjust enrichment obtained by EC Stalowa Wola at the expense of Abener Energia in connection with obtaining the payment under the contract performance bond. The bond was issued to EC Stalowa Wola by Abener Energia in accordance with the contract concluded between Abener Energia (general contractor) and EC Stalowa Wola (the ordering party) for the construction of a CCGT unit with a gross electric capacity of approx. 450 MW in Stalowa Wola.

The proceedings are pending.

Revision of the ratings granted by the Fitch Ratings agency

On May 21, 2020, Fitch Ratings agency revised the ratings granted to the Company in such a way that selected ratings were affirmed unchanged, while some ratings were downgraded.

The full list of rating actions:

1. long-term foreign and local currency IDRs were downgraded to "BBB-" from "BBB", stable outlook,

2. short-term foreign and local currency IDRs were affirmed at “F3”,
3. national long-term rating was downgraded to “A(pol)” from “A+(pol)”, stable outlook,
4. foreign currency senior unsecured rating of EUR 500 million Eurobonds was downgraded to “BBB-” from “BBB”,
5. EUR 190 million hybrid bonds (European Investment Bank – “EIB”) rating was downgraded to “BB” from “BB+”,
6. PLN 750 million hybrid bonds (EIB) rating was downgraded to “BB” from “BB+”,
7. PLN 400 million hybrid bond program and hybrid bond issue Bank Gospodarstwa Krajowego S.A. (BGK) rating was downgraded to “BB” from “BB+”, while the national rating of the same program and bonds was downgraded to “BBB(pol)” from “BBB+(pol)”.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 20/2020 of May 21, 2020.

Protective measures for the energy industry in connection with the epidemic

Due to the epidemic situation in the country the government of the Republic of Poland decided to take protective measures for the energy sector as part of the anti-crisis program. The new legal regulations included, inter alia, area of operation of the Warsaw Commodity Exchange Clearing House (IRGiT) that settles transactions concluded on Towarowa Gielda Energii S.A. (TGE – Polish Power Exchange). The scope of the possible forms of non-cash collaterals was expanded, including, in particular, collaterals based on the company's market rating. In addition, the concentration restrictions on the use of non-cash collaterals in the form of property rights stemming from RES production were lifted. These regulations significantly reduced TAURON's margin liabilities in cash.

Obtaining approvals from the financial institutions to change the method of calculating the net debt/EBITDA ratio

With respect to the financing agreements with a covenant in the form of the net debt/EBITDA ratio, TAURON obtained approvals from the financial institutions regarding the exclusion of the financing obtained by selected TAURON's special purpose vehicles (SPV) for the implementation of investments in RES. The changes make it possible to exclude from the calculation of the net debt/EBITDA ratio defined in the loan agreements, the debt financing obtained by the SPVs for the RES projects, while also symmetrically excluding EBITDA generated by such SPVs.

The SPV financing structure, based on the *project finance* formula, assumes obtaining debt financing on the financial market at the level achievable for this type of projects, without a recourse to TAURON. In case TAURON holds a controlling stake in the given SPV, then, from the accounting point of view, the data of such a company (including debt) will be fully included in the consolidated financial statements of TAURON Capital Group, while such data may be excluded from the calculation of the gearing ratio for the needs of the loan agreements.

The possibility of excluding the specific SPVs is at the discretion of an individual decision made by TAURON, i.e. TAURON will indicate the SPVs that will be excluded from the calculation of the net debt/EBITDA ratio at the end of the specific reporting periods. At the same time, a mechanism was implemented to enable TAURON to re-include the SPV in the calculation of the net debt/EBITDA ratio.

The implementation of the strategy described above and the approval of TAURON's financing banks for the exclusion of the SPV results from the calculation of the net debt/EBITDA ratio allows for a faster implementation of the green transition and the achievement of the assumed level of capacity in renewable energy sources (RES).

Calls for TAURON shareholders to submit share documents in order to dematerialize the shares

On August 26, 2020, September 10, 2020, September 25, 2020, October 12, 2020 (an event occurring after the balance sheet date) and October 27, 2020, in accordance with Art. 16 of the *Act of August 30, 2019 amending the Act - Code of Commercial Companies and certain other acts* (Journal of Laws of 2019, item 1798, as amended from Journal of Laws of 2020, item 875), the Management Board of TAURON called on the shareholders holding the Company's shares in the form of a document to submit their documents of the shares to the Company, in order to dematerialize the shares and register them with Krajowy Depozyt Papierów Wartościowych S.A. (The Central Securities Depository of Poland, KDPW S.A.).

Taking into account the current legal status the share documents issued by the Company expired by virtue of law as of March 1, 2021.

TAURON disclosed the information on the above events in the regulatory filings (current reports) no. 39/2020 of August 26, 2020, no. 41/2020 of September 10, 2020, no. 44/2020 of September 25, 2020, no. 47/2020 of October 12, 2020, and no. 50/2020 of October 27, 2020.

On November 10, 2020, the Company filed an application with KDPW (The Central Securities Depository of Poland) to register the Company's ordinary registered shares in the securities depository.

In a statement of December 28, 2020, KDPW (The Central Securities Depository of Poland) informed the Company of the registration of the above mentioned shares in the depository for securities, which were subsequently entered in the dematerialized form in the register of the issue sponsor.

Ruling of the Court of Appeal on the claims of Abener Energia against EC Stalowa Wola

On September 22, 2020, the Court of Appeal in Rzeszów issued a ruling in which the Court of Appeal dismissed the complaint of EC Stalowa Wola S.A. to overturn the ruling of the Court of Arbitration at the Polish Chamber of Commerce of April 25, 2019, pursuant to which EC Stalowa Wola was obliged to pay Abener Energia S.A. the amount of PLN 333 793 359.31. including the statutory interest for delay and the costs of the arbitration proceedings.

The proceedings before the Arbitration Court at the Polish Chamber of Commerce were related to the claim for payment, the petition to establish legal relationship and make the commitment to submit a statement of will (intent) in conjunction with the terminated contract, concluded between Abener Energia (general contractor) and EC Stalowa Wola (the ordering party), for the construction of the CCGT unit in Stalowa Wola.

TAURON declared that before the ruling of the Court of Arbitration is declared enforceable, EC Stalowa Wola will analyze and take measures, as well as exercise its rights in order to limit the negative impact of the above event on the financial position of EC Stalowa Wola.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 43/2020 of September 22, 2020.

On September 25, 2020, EC Stalowa Wola filed with the Court of Appeal in Rzeszów a petition to suspend the enforcement of the ruling until the cassation appeal is examined.

On November 20, 2020, the Court of Appeal in Rzeszów issued a decision to suspend the enforcement of the ruling until the cassation appeal is examined or the deadline for the filing of the cessation appeal has expired.

On December 21, 2020, EC Stalowa Wola filed a cessation appeal

Filing of a lawsuit against Abener Energia by EC Stalowa Wola

On October 19, 2020, EC Stalowa Wola filed a lawsuit with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw against Abener Energia.

The proceedings before the Court of Arbitration at the Polish Chamber of Commerce will be conducted in connection with the contract concluded between Abener Energia (general contractor) and EC Stalowa Wola (the ordering party) for the construction of a CCGT unit with a heating section in Stalowa Wola which was terminated.

The subject of the claim is the payment by Abener Energia to EC Stalowa Wola of the amount of PLN 198 663 931.86 and EUR 461 207.21 (which is equivalent to PLN 2 098 400.56 according to the NBP's exchange rate as of October 19, 2020) including the interest, as the compensation for the damage corresponding to the costs of fixing defects, faults, malfunctions and shortcomings of the works, deliveries and services performed by Abener Energia during the performance of the above mentioned contract.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 48/2020 of October 19, 2020.

The proceedings are pending.

Major events after December 31, 2020

Signing of a Letter of Intent on the cooperation with respect to offshore wind energy in the area of the Polish Exclusive Economic Zone of the Baltic Sea

On January 18, 2021, PGE, TAURON and Enea signed a letter of intent on the cooperation in the field of offshore wind energy in the area of the Polish Exclusive Economic Zone of the Baltic Sea. The goal of the parties of the above letter is to define, as part of the future cooperation, the options, nature and details of the potential joint involvement in the implementation of investment projects in the above mentioned area. The parties see significant potential and an opportunity to achieve synergy when undertaking joint activities aimed at implementing investment projects in the field of offshore wind energy. Such activities will constitute the implementation of the climate goal and are in line with the assumptions of the so-called "green deal" and contribute to increasing the share of renewable energy sources in Poland's energy mix. The cooperation will be an expression of the responsibility of the Parties as the energy sector's entities actively supporting the energy transition process.

2.7. Prizes and accolades (honorable mentions)

TAURON and TAURON Capital Group's subsidiaries received the following awards and accolades (honorable mentions) in 2020:

TAURON awarded special *The Best of The Best* prize for the fourth time and the honorable mention for the continuous high quality integrated report in *The Best Annual Report 2019* competition organized by the Institute of Accounting and Taxes.

TAURON is the only representative of the energy industry holding *The Best of The Best* title

TAURON ranked 11th on *Poland's Largest 500 Companies List* published by the *Rzeczpospolita* daily.

TAURON awarded *Trustworthy Brand 2020* title in the *Energy Supplier for Business* category in the survey conducted among Polish businessmen by Kantar Polska Research Institute, commissioned by the *MyCompany Polska* magazine.

TAURON ranked, for the fourth time, no. 1 in *Best investor relations in 2020 according to retail investors* organized by the Stock Market and Investors newspaper *Parkiet* and the Brokerage Houses Chamber

Honorable mention of 25 best practices, implemented by TAURON in 2019 in the *Responsible business in Poland 2019. Best practice* report issued by the Responsible Business Forum.

TAURON awarded a spot in the top 50 of the best employers in the COVID-19 time, in the ranking published by the *Wprost* weekly.

TAURON awarded *Highest Quality HR Certificate* confirming the highest human resources management standards granted by the Polish Human Resources Management Association.

TAURON ranked 14th among 150 companies surveyed in the ranking of Poland's most attractive employers conducted by Randstad Employer Brand.

TAURON listed among *TOP 100 brands in Poland*, that provide best customer experience, published in *Report CX main goal of business transformation* published by KPMG Advisory sp. z o.o. sp. k.

Honorable mention for TAURON Capital Group in the *Social Reports* competition in the *Integrated Reports* category for the report presenting scenario analyses, and in particular for covering climate topics, including the TCFD guidelines, organized by the Responsible Business Forum and Deloitte.

Honorable mention for TAURON Obsługa Klienta for the most innovative implementation of Infoblox in the energy sector in CEE awarded as part of *Infoblox Exchange 2020* Conference

TAURON Capital Group awarded the 1st prize in the *Two Hours for Family* competition for activities conducted as part of the *Famiy MegaPower* project granted by the Humanitas Institute.

TAURON Sprzedaż awarded *Platinum Megawatts* trophy for the biggest contribution to the guarantee of origin system development in Poland in 2019 granted by Towarowa Giełda Energii.

TAURON Sprzedaż ranked 1st in the *Konsumencki Lider Jakości 2020* program in the *Dostawcy energii elektrycznej* category, organized by Strefa Gospodarki.

Honorable mention for ZG Brzeszcze in *Safe Coal Mine* competition for caring for observing the WHS regulations and rules organized as part of Szkoła Eksploatacji Podziemnej.

Honorable mention for KW Czatkowice in the *EKOopalnia* competition organized by BNP, publisher of *Surowce i Maszyny Budowlane* magazine under honorary patronage of Ministry Climate and Environment.

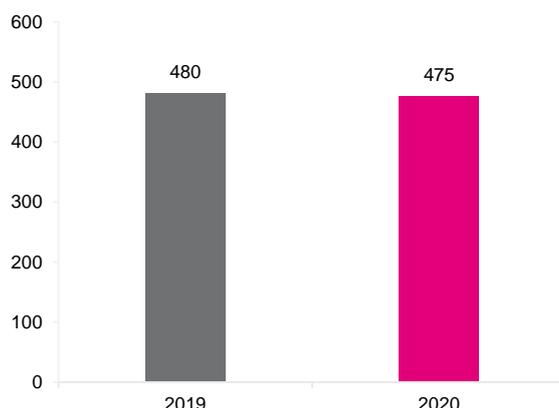
2.8. Information on the employment and employee related issues

Key headcount data

TAURON's average headcount reached 475 FTEs in 2020 which meant a decrease by 5 FTEs versus the headcount in 2019, when the average employment was 480 FTEs.

The below figure presents TAURON's average headcount in FTEs (rounded up to the full FTE) in 2019 - 2020.

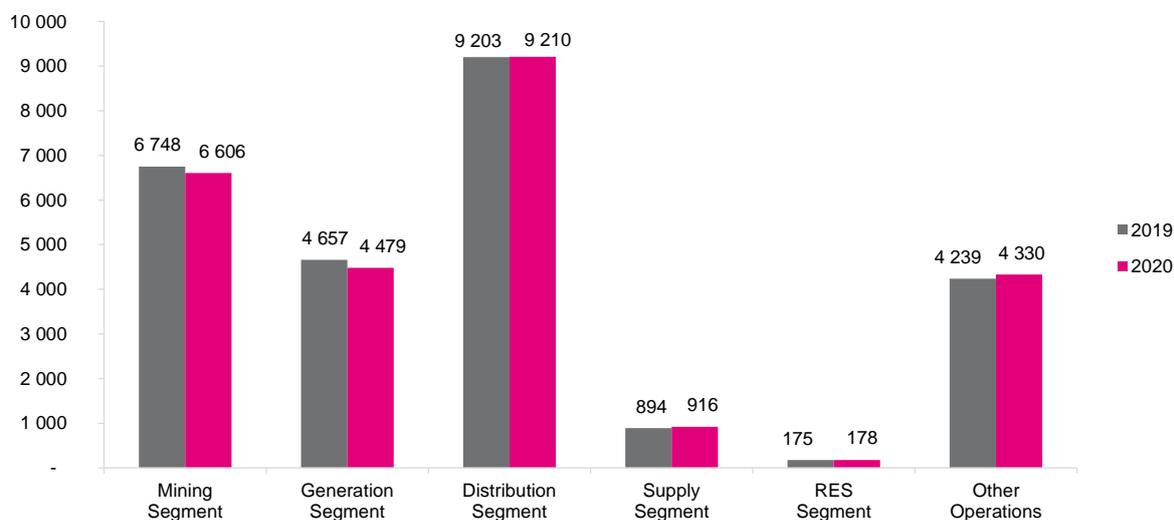
Figure no. 29. TAURON's average headcount in FTEs in 2019 - 2020



TAURON Capital Group's average headcount reached 25 719 FTEs in 2020, which meant a decrease by 197 FTEs versus the headcount in 2019, when the average employment level was 25 916 FTEs. Changes in the level of employment at the individual operating Segments in 2020 as compared to 2019 are due to, among others, the implementation of the strategic initiatives and the Voluntary Redundancy Programs underway in the Generation Line of Business, as well as the employees leaving TAURON Capital Group. Due to allocating TAURON EKOENERGIA to the new RES Segment, the data related thereto was disclosed in that Segment for 2020 and 2019. In the previous reporting periods that data was disclosed in the Generation Line of Business.

The below figure presents TAURON Capital Group's average headcount in FTEs (rounded up to the full FTE) per operating Segment in 2019 - 2020.

Figure no. 300. TAURON Capital Group's average headcount in FTEs per Segment in 2019 - 2020



The below table below presents the key data on employment at TAURON and TAURON Capital Group as of December 31, 2019 and December 31, 2020.

Table no. 19. Key data on employment at TAURON and TAURON Capital Group as of December 31, 2019 and December 31, 2020

Key employment data	unit	TAURON		TAURON Capital Group	
		December 31, 2019	December 31, 2020	December 31, 2019	December 31, 20120
1. Headcount by Segment of Operations, including:	persons	464	487	26 086	25 572*
1) Mining Segment	persons	-	-	6 811	6 458
2) Generation Segment	persons	-	-	4 601	4 426
3) Distribution Segment	persons	-	-	9 270	9 269
4) Supply Segment	persons	487	450	917**	896**
5) RES Segment	persons	-	-	179	179
6) Other operations	persons	-	-	4 308	4 344
2. Headcount by education, including:	%	100	100	100	100
1) College graduates	%	97.5	98.2	33.8	34.8
2) High school graduates	%	2.5	1.8	43.3	43.5
3) Vocational school graduates	%	-	-	20.9	20.0
4) Elementary school graduates	%	-	-	1.9	1.7
3. Headcount by age, including:	%	100	100	100	100
1) Up to 30 years	%	13.8	10.7	9.0	8.7
2) 30 - 40 years	%	38.0	36.9	22.3	22.3
3) 40 - 50 years	%	37.0	37.8	30.1	29.2
4) 50 - 60 years	%	9.0	12.0	32.2	32.5
5) Above 60 years	%	2.3	2.7	6.4	7.2
4. Headcount by gender, including:	%	100	100	100	100
1) Women	%	45.0	44.4	21.4	21.5
2) Men	%	55.0	55.6	78.6	78.5

*including 76 persons hired under a fixed term labor contract to replace an absent employee

**figure includes TAURON's headcount

TAURON Group's Human Capital Management Policy

TAURON Group's Human Capital Management Policy in place at TAURON Capital Group, updated in 2020, focuses on acquiring, developing and maintaining competences that are key for organizational efficiency and achieving TAURON Capital Group's strategic goals. The above Policy, along with the PRO values, is a signpost for the Management Team and the Employees to rise to the new challenges and implement measures aimed at improving efficiency.

TAURON Capital Group's overarching objective is to provide support for the Management Team and the Workforce in creating an environment conducive to dialogue, introducing changes and striving for the development of the organization, taking into account the business factors and the external factors - the environment. TAURON Capital Group provides flexible conditions for the development of knowledge and skills and creates a work environment based on the cooperation and partnership that provides support for the initiatives, independence and development of the personnel.

TAURON Group's Human Capital Management Policy defines the mission and vision in the area of human resource management (HR):

MISSION IN HR AREA

"With passion and commitment we are creating and implementing solutions shaping the organizational culture and work environment that provide support for the implementation of the goals defined in the Strategy"

VISION IN HR AREA

"We are a partner for the Management Team and Workforce in building an efficient company, based on clear rules and modern solutions"

It also sets out TAURON Capital Group's strategic areas of activities that include: organization development, efficiency management, competences and development management.

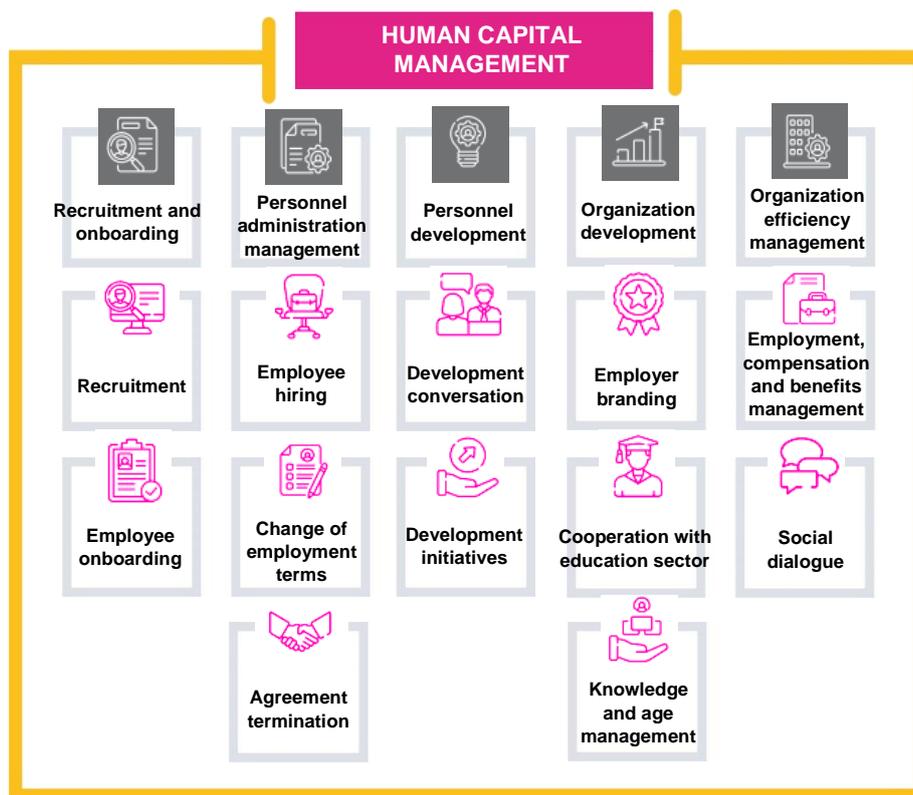
The table below presents specific goals in the area of human capital management.

Table no. 20. Goals in the area of human capital management

Goal	Scope of activities
Organization development	
Implementing and promoting organizational culture that supports TAURON Capital Group's development (growth)	1. Strengthening employee engagement and creating a safe and inspiring work environment: 1) openness to communication with employees, 2) actively obtaining and providing feedback, 3) engaging employees in improving the work environment.
	2. Building the image of TAURON Capital Group as an attractive employer, both inside and outside the organization: 1) surveying the opinions (feedback) of employees, 2) creating tools that allow us to ensure easy and efficient communication with employees, 3) cooperation with universities and schools.
	3. Ensuring an efficient flow of information and creating conditions for a partner dialogue with the workforce: 1) strengthening cooperation among areas and among generations: 2) creating an environment that is friendly to the exchange of knowledge and experience, 3) promoting knowledge sharing.
	4. Building relationships with customers and strengthening awareness with respect to environment protection, climate change, commitment to promoting the <i>Green Turn of TAURON</i> .
	5. Supporting TAURON Group in the process of changes through access to knowledge and market solutions: 1) designing development programs and providing knowledge, 2) monitoring market trends and solutions.
Organization efficiency management	
Focusing on efficiency management	1. Clear and consistent defining of the roles, tasks and required authorizations at work positions.
	2. Creating clear compensation rules, based on market conditions, that motivate people to work efficiently: 1) supporting the implementation of tasks and goals that stem from the Strategy, 2) creating performance related employee compensation systems, 3) building a tool that supports management by objectives.
	3. Minimizing the risks associated with human capital management.
	4. Caring about compliance with the principles of ethics and diversity: 1) conducting educational activities, 2) caring for an environment free from mobbing and discrimination.
	5. Optimizing, standardizing and digitizing the Human Capital Management Area processes, and thus increasing the flexibility and efficiency of the organization.
Competences and development management	
Supporting the development of competences	1. Ensuring that employees' competences are aligned to the needs of the changing energy sector: 1) developing new competences, preparing for change management, 2) focusing on acquiring new qualifications and improving employees' competences.
	2. Creating a culture based on self-development, including supporting the employees through diversified individual development tools.
	3. Ensuring the continuity of competences for the energy sector by educating pupils and students.
	4. Taking care of employee retention: 1) creating opportunities for development for employees and ensuring a motivating atmosphere at work, 2) implementing pro-employee solutions.
	5. Providing knowledge transfer between generations: 1) implementing development programs, 2) implementing internal training programs, 3) caring about the exchange of experiences between generations.
	6. Caring about the development of leadership competences of the Management Personnel.
	7. Creating and improving tools for the development, motivation and evaluation of the Employees' potential..

The below figure presents the human capital management structure.

Figure no. 31. Human capital management structure



The most important initiatives implemented in 2020 in the area of human capital management

A family friendly company. A human friendly company

TAURON Capital Group has been pursuing a consistent policy with respect to human capital management for many years. The dialogue with the workforce, representing each line of business operations, is conducted on an ongoing basis. All of the decisions made are the result of extensive consultations. PRO values constitute the foundation that the strategy is based upon, which is to provide each employee with an opportunity for sustainable development, bringing satisfaction and broadly understood comfort. At TAURON Capital Group great importance is attached to the respect for traditional family values, maintaining ties, respect for the social roles of its employees and co-responsibility for the integration between generations. The company's operations are based on the unconditional compliance with the labor law and providing all of the employees with safe workplaces, both from the point of view of their stability as well as the absolute compliance with the work health and safety (WHS) regulations. Human and family oriented activities are also carried out through a series of campaigns dedicated to strengthening the family and human values.

Remote work

Due to the COVID-19 pandemic, the employees of TAURON Capital Group, in order to join the #stayhome campaign, used the remote work option in 2020, wherever it was possible. The equipment required and access to information was provided. The employees of the production plants of TAURON Capital Group have been provided with the required personal protective equipment. Throughout the year, all of the procedures were strictly followed in accordance with the guidelines related to the epidemic situation.

Development and training

Current market trends and technological development, changes taking place both globally as well as locally, a competitive market and increasing requirements force much faster pace and flexibility in terms of the development activities. Employee development and improvement is permanently inscribed in the Strategy, and the implementation of the development activities takes place based on the regulations for improving the qualifications of the employees, in place at TAURON Capital Group's individual subsidiaries. All of 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 empowerments 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 can choose from a wide range of external development opportunities, among others, in the form of participation in industry conferences, seminars, workshops, specialist training, e-learning training or language courses, as well as the internal development opportunities, that are organized with the use of the knowledge and competences of TAURON Capital Group's personnel.

The below table presents the key data on employee training at TAURON and TAURON Capital Group as of December 31, 2018, and as of December 31, 2020.

Table no. 21. Key data on employee training at TAURON and TAURON Capital Group as of December 31, 2018, and as of December 31, 2020

Key data on employee training	TAURON		TAURON Group	
	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020
1. Average number of training hours per employee by job (position) group, including:	176	57	109	62
1) Management Board and Directors	88	10	45	26
2) Management positions	51	15	32	14
3) Administrative staff (white collar positions)	28	16	14	9
4) Blue collar positions	9	1	18	13
2. Number of training hours per employee by gender, including:	16 766	6 801	477 618	294 945
1) Women	6 624	2 996	79 871	49 704
2) Men	10 142	3 806	397 747	245 240

Initiatives, development activities and development supporting activities

Development Conversation

Actions aimed at implementing a new human resources (HR) management process - 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* and assumes the need for the continuous development of these competences in line with the changing business challenges. The essence of the Development Conversation is based on employee development in relation to the goals pursued thereby and may refer to the manner of fulfilling official duties, attitude, motivation, as well as mutual expectations.

TAURON Group Open University

TAURON Group's employees have continuously had the opportunity to participate in lectures conducted as part of the TAURON Group Open University 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.

Due to the COVID-19 epidemic TAURON Group Open University's lectures were conducted in the remote mode in 2020. 5 lectures were carried out online and they were available online in the form of video files, thanks to which approx. 7 thousand people have been able to see the lectures so far.

Development Squared (Rozwój do Kwadratu)

A new initiative, called *Development Squared*, was launched in 2020 as a response to the difficult situation related to the COVID-19 pandemic that made it impossible to conduct training in a classic form. The initiative is based on a series of weekly webinars conducted by the HR area employees from TAURON Capital Group's selected subsidiaries in four thematic areas, i.e. development, knowledge sharing, cooperation, health. Thanks to Skype and

Office 365 technology, fully interactive meetings, that make participants more active, were possible. 24 webinars were held in 2020, on 14 different topics, conducted by 10 trainers. More than 950 of TAURON Group's employees took part in the initiative. The project will be continued and developed in the next year.

Manager's zone and "#wzMOCnij się" (power up yourself)

A space dedicated to managers was created on the company's intranet in 2020, using which the managerial staff can have constant access to specialist articles on the subject of management. Tools used to support team management, continuously updated interesting on-line events and recommended books are available as part of that zone. In addition, a special initiative "#wzMOCnij się" (power up yourself) was launched, webinars on change management, an on-line training platform and tools to support the development conversation process were made available.

Cooperation with the education sector

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.

A number of initiatives aimed at promoting the organization and the energy industry among pupils, students and university graduates. As part of cooperation with the educational community in 2020, internship and apprenticeship programs were organized, cooperation with student organizations, career offices and research clubs was undertaken, numerous lectures and profession teaching lessons were organized.

The educational offer dedicated to the energy industry is supported by TAURON Capital Group through, among others:

1. scholarships for the best students of patronage classes,
2. modeling of the didactic processes, organization of training courses, educational meetings both for students of the school as well as its teaching staff,
3. participation of TAURON's Employees in conducting qualification exams, e.g. for the profession of a miner; exploitation of deposits and underground mining techniques,
4. possibility for students to participate in subject matter lectures/workshops conducted by TAURON's employees,
5. possibility of students to participate in lectures/workshops aimed at developing students' interpersonal skills,
6. organizing practical classes as well as apprenticeships and internships in real working conditions,
7. equipping laboratories with the equipment required to conduct experiments related to electricity.

As part of TAURON Capital Group's initiative to cooperate with the patronage schools, laboratories equipped with modern equipment were created. In the patronage classes, works are carried out based on the dual education model, focused on competences important for the power industry, but also those relevant in the area of modern IT technologies and related to the *Green Turn of TAURON*.

TAURON Capital Group is cooperating with 12 partner universities: Silesian University of Technology (Politechnika Śląska), Wrocław University of Technology (Politechnika Wrocławska), University of Silesia (Uniwersytet Śląski), Jagiellonian University (Uniwersytet Jagielloński), University of Economics in Katowice (Uniwersytet Ekonomiczny w Katowicach), University of Economics in Kraków (Uniwersytet Ekonomiczny w Krakowie), University of Economics in Wrocław (Uniwersytet Ekonomiczny we Wrocławiu), AGH University of Science and Technology (Akademia Górniczo – Hutnicza), Częstochowa University of Technology (Politechnika Częstochowska), Opole University of Technology (Politechnika Opolska), Warsaw University of Technology (Politechnika Warszawska) and the Cracow University of Technology (Politechnika Warszawska).

Social dialogue

The Management Board of TAURON is conducting a constructive and open dialogue with the social partners (workforce), 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:

1. TAURON Capital Group's economic and financial situation,
2. implementation of the strategic initiatives,
3. Voluntary Redundancy Programs underway at TAURON Capital Group's subsidiaries,
4. issues related to employee matters at TAURON Capital Group.

In addition, steps geared towards increasing business awareness as well as promoting pro-efficiency and engaging attitudes are taken.

As part of the social dialogue conducted, the Management Board of TAURON has repeatedly replied to the correspondence of the trade union organizations and the Ministry of Energy. The ongoing communication is carried out in parallel at TAURON Capital Group's subsidiaries between the management boards and the trade union

organizations operating at the given employer. TAURON is actively participating 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). TAURON Capital Group is also a member of the Polish Power Industry Employers' Union established on March 26, 2020, whose primary objective and task is to represent the interests of the associated members, in particular towards the representatives of state (government) administration, local government authorities, trade unions and other organizations, including non-government and business self-government, both on the territory of the Republic of Poland as well as on the international arena.

2.9. Corporate Social Responsibility (CSR) Policy

Conducting business operations with the principles of social responsibility in mind is in line with the sustainable development goals for 2015-2030 adopted by the United Nations, including Poland. Furthermore, it is aligned with the CSR standards defined by the International Standardization Organization in the ISO 26000 Standard *Guidance on social responsibility*.

The main assumption of TAURON Capital Group's CSR (Corporate Social Responsibility) policy 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 environment protection, social impact and corporate governance. This stems from the conviction that for a business to exist and develop (grow, expand), it needs to be run in a manner taking into account both the economic aspects as well as the social and climate interest, while balance must be struck among all of them.

In view of the above, TAURON Capital Group's development (growth, expansion) 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 operations (Planet).

At TAURON Capital Group, the stipulation to strive for sustainable development is implemented by the Strategy and the *Green Turn of TAURON*, i.e. a series of steps carried out since 2019 the outcome of which is to complete the sustainable transition of TAURON Group towards Poland's leading low emission energy group.

In accordance with the above the growth of TAURON Capital Group's value is based primarily on the stable Distribution Segment, the development of low and zero emission sources in terms of greenhouse gas emissions, the sales of energy and energy related products and services tailored to customer needs. The implementation of the business goals is, in turn, supported by the modern management culture, friendly work environment based on the principles of diversity and compliance, as well as building long term relations with the local communities and developing initiatives in the area of social and business partnership.

Based on the above and in line with the *Best Practice of WSE Listed Companies 2016* (Best Practice 2016), TAURON Capital Group is steadfastly conducting the CSR policy. As part thereof, numerous projects are implemented aimed at improving the organization management efficiency, taking into account the social interest, respect for the stakeholders and the ethical principles, while placing particular weight on transparency of actions taken and open communication in the spirit of dialogue and trust.

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 electricity generation, 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 efficient management of available resources and energy, operating based on the *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)*.

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 circular (closed circuit) economy.

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 the 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 SO₂, NO_x, dust and CO₂ from thermal combustion of fuel for 2020.

Table no. 22. Annual emissions of SO₂, NO_x, dust and CO₂ from thermal combustion of fuel for 2020

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:	5 392,1	6 238,5	282,1	8 528 695
1) Oddział (Branch) Jaworzno III	1 601.8	2 362.8	71.1	3 489 652
2) Oddział (Branch) Łaziska	914.1	1 101.6	78.7	1 773 839
3) Oddział (Branch) Łagisza	1 361.0	1 633.1	59.1	2 292 381
4) Oddział (Branch) Siersza	649.6	504.8	16.9	751 495
5) Oddział (Branch) Stalowa Wola	865.5	636.2	56.3	221 328
2. TAURON Ciepło including:	1 538.2	1 102.3	82.4	1 324 397
1) Zakład Wytwarzania (Generation Plant) Bielsko-Biała	585.5	224.9	15.2	362 828
2) Zakład Wytwarzania (Generation Plant) Kamienna Góra	20.9	16.8	4.6	14 228
3) Zakład Wytwarzania (Generation Plant) Katowice	354.2	431.9	28.0	597 102
4) Zakład Wytwarzania (Generation Plant) Tychy	384.6	343.8	17.2	284 543
5) Centralna Ciepłownia (Central Heating Plant) Olkusz	114.8	42.6	9.4	25 958
6) Centralna Ciepłownia (Central Heating Plant) Zawiercie	65.8	31.9	6.8	30 993
7) Other (local heating plants)	12.4	10.4	1.2	8745
3. KW Czatkowice	0.03	0.7	6.5	5 291
Total	6 930.3	7 341.5	371.0	9 858 383
Decline versus 2019	33%	29%	37%	19%

The emissions of SO₂, NO_x, dust and CO₂ from TAURON Capital Group's fuel combustion are well below the levels set as the maximum permitted annual loads of substances released into the atmosphere according to permits. The above is due to the fact that all of the generating units of TAURON Wytwarzanie and TAURON Ciepło that are in operation achieve the SO₂, NO₂, and dust concentration levels below the permitted values, and the SO₂ and NO₂ concentration levels for the 200 MW units and the biomass fired boilers are already at a level close to the limits defined in the *BAT Conclusions*.

In 2020, despite the COVID 19 pandemic, almost all of the investment tasks related to the modernization of the air protection installation at Łaziska and Jaworzno III Power Plants, scheduled for this period, were completed, and thanks to that the unit emissions of the pollutants emitted will be additionally reduced in the subsequent years. All of the coal and biomass fired units planned for further operation, which are also the participants of the capacity market, will be prepared by August 2021 for the new environmental requirements that will then become effective.

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 30.5 million in 2020 (less by approx. PLN 2.4 million than in 2019).

The below table presents the estimated charges for the business use of the environment and the water services at TAURON Capital Group's selected subsidiaries due for 2020.

Table no. 23. Estimated charges for the business use and the water services of the environment due for 2020

Subsidiary name	Charges* for the business use of the environment and the water services due for 2020 (PLN '000)
1. TAURON Wytwarzanie	11 520
2. TAURON Wydobywanie	14 973.5
3. TAURON Ciepło	2 393
4. TAURON Dystrybucja	199.9
5. KW Czatkowice	60.0
6. TAURON Nowe Technologie (formerly: TAURON Dystrybucja Serwis)	< 0.8***
7. TAURON Obsługa Klienta	2.2
8. TAURON EKOENERGIA	543.3***
9. TAURON Sprzedaż	< 0.8***
10. Bioeko Grupa TAURON	4.4
11. Nowe Jaworzno Grupa TAURON	785****
12. Wsparcie Grupa TAURON	2.9
Total	30 484.2

* partly estimated data, the annual settlement has not been completed

** the fee for water consumption by the hydropower plants, assessed at the rate of PLN 1.24 per 1 MWh of electricity produced by the hydropower facilities in 2020 is PLN 543.3 thousand.

*** the extent of the use of the environment does not generate fees, as their amount is below the threshold starting from which fees are due

**** in total for 2020 from the start-up period and after commissioning

Circular economy

TAURON Capital Group is actively looking for solutions implementing the Circular Economy concept that is based on:

1. taking care of natural environment,
2. reducing the environmental burden (harm) stemming from the waste produced,
3. maximizing the use of the by-products of thermal combustion or hard coal mining,
4. minimizing the costs related to the neutralization of the environmentally harmful waste.

As part of TAURON Capital Group's operations, the cycles (circuits) of the use of the substances produced by TAURON Capital Group are getting closed and the reuse of the combustion and mining by-products in the economy and the manufacturing industry is becoming more widespread. The reuse of the substances is contributing to the protection of natural resources and the reduction of the amount of waste deposited at landfill sites.

The idea of reusing the combustion and mining by-products in the economy and the manufacturing industry is in line with the circular economy being implemented in the EU countries, with the concept assuming the closing of the life cycle of products and the minimizing of the environmental impact of products created through such a selection of the components (ingredients) and the design thereof that will enable their reuse.

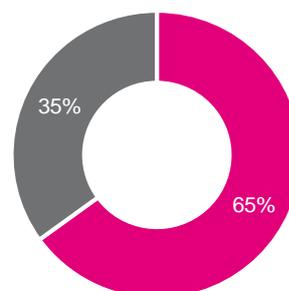
4.3 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2020, with as much as 65% of that quantity brought to the market as the full value products to be used, among others, in the construction, road building, mining or agricultural sector. This means that in 2020 the share of by-products in waste increased by 14% as compared to 2019. 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 figures present the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019 and in 2020.

Figure no. 32. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019



Figure no. 33. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020



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 100% of fly ashes and boiler slag as by-products coming from 6 system (utility scale) power plants to the market in 2020, to be used in construction, road engineering (building), mining and agriculture. The fly ash and slag from the new 910 MW Jaworzno unit are of such good quality that they have been introduced to the market as by-products since the unit's commissioning in November 2020, thus obtaining the status of the full value, certified building materials.

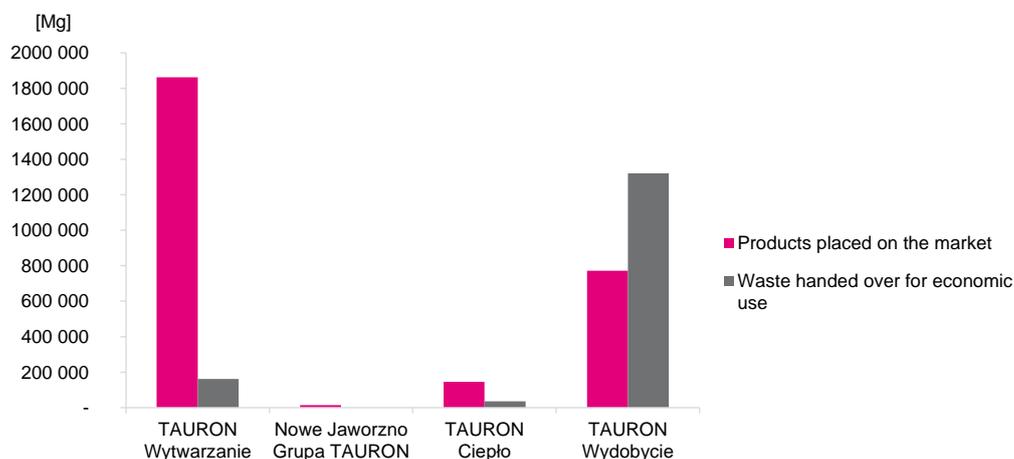
TAURON Capital Group's power plants produced 132 thousand Mg of ashes in 2020 that was used as valuable raw material in fire prevention by the coal mines. The ashes from TAURON Capital Group's power plants and combined heat and power plants cover 100% of the demand for ashes to be used for fire prevention at TAURON Wydobycie's coal mines

100% of TAURON Ciepło's waste, i.e. 181 thousand Mg, was reused in various industries.

TAURON Wydobycie processes the post-mining waste, as a result of which full value construction and road aggregates are obtained. 772 thousand Mg of aggregates and materials produced from the post-mining waste were placed on the market in 2020. Very good quality parameters of the aggregates produced by the Brzeszcze Coal Mine (ZG Brzeszcze) allowed for changing the status thereof to by-products without the need to subject them to any additional processing.

The below figure presents the structure (composition) and the quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2020.

Figure no. 34. Structure (composition) and the quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2020



TAURON Capital Group focuses on local cooperation and the use of waste materials, using the waste stored in settling tanks and at waste dump (landfill) sites.

All of the above activities contribute to reducing the consumption of natural resources, e.g. sand or gravel.

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 promote 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 promoting 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.

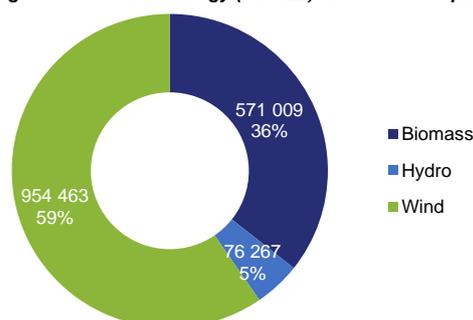
In 2020, TAURON Wytwarzanie completed the first photovoltaic farm implementation project with the capacity of 5 MW in Jaworzno, built on the site where the Jaworzno I Power Plant (Elektrownia Jaworzno I) had formerly been located. The project is in lined with the expected transition of the energy sector.

Also in 2020, a new generating unit with a capacity of 910 MW was commissioned in Jaworzno that will ultimately replace 8 of the 120 MW units with a much higher unit emissions starting from 2021.

An example of the measures implemented, as part of the Climate Policy, at TAURON Capital Group's subsidiaries to curtail or not increase fuel and energy consumption were the initiatives related to the improvement of energy efficiency of the processes. As part of these activities, the PMEF property rights in a total amount corresponding to 715 toe were acquired in 2020.

The below figure presents the structure of certificates of origin for renewable energy (PMOZE) at TAURON Capital Group in 2020.

Figure no. 35. Structure of certificates of origin for renewable energy (PMOZE) at TAURON Capital Group in 2020 (MWh)



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 pace 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 curtailments 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.

2.10. Key non-financial efficiency ratios (metrics, performance indicators)

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, the key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations in the following areas defined in *TAURON Group's Sustainable Development Strategy for the years 2017-2025*, adopted by the Company's Management Board in 2017, were defined:

1. reliability and quality of supply of products and services for the customer,
2. orientation towards the customer and his/her needs,
3. environment protection,
4. work safety, ethical culture and employee engagement,
5. 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 2019-2020.

Table no. 24. Key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2019-2020

Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
				2019	2020
Reliability and quality of supply of products and services for the customer					
1. <i>Number of individual and business customers of TAURON Capital Group's Distribution Line of Business</i>	Financial capital / Distribution Segment's Regulatory Asses Base (RAB), capital expenditures, cash flow from operating activities	Stimulant	number	221 335	216 551
2. <i>Number of cases of non-compliance and complaints related to products and services of TAURON Capital Group with respect to providing information</i>	Financial capital / Cash flow from operating activities, net profit, long term rating	Destimulant	number	0	0
3. <i>Frequency of planned power outages - number of outages / consumer / year (SAIFI)</i>	Financial capital / Cash flow from operating activities	Destimulant	minutes	0.28	0.19
Orientation towards the customer and his / her needs					
4. <i>Number of individual and business customers of TAURON Capital Group's Supply Line of Business</i>	Kapitał finansowy / przychody ze sprzedaży, EBITDA, marża EBITDA, zysk netto, długoterminowy rating	Stimulant	number	5 511 946	5 590 108
5. <i>Customer Satisfaction Index (CSI) for TAURON Capital Group's customers</i>	Social capital / Implemented and applied TAURON Group's PROClient Social Policy	Stimulant	-	83	83
Environment protection					
6. <i>Percentage share of TAURON Capital Group's RES installed capacity in TAURON Capital Group's total installed capacity</i>	Production capital / Installed capacity in hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	12	10.5
7. <i>Percentage share of TAURON Capital Group's electricity production based on RES in TAURON Capital Group's total electricity production</i>	Production capital / Electricity production by hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	11	17
	Production capital / Heat production by biomass fired combined heat and power plants and power plants	Stimulant	%	6	9
8. <i>Direct greenhouse gas emissions by TAURON Capital Group - tCO₂e</i>	Natural capital / Direct greenhouse gas emissions	Destimulant	Mg	12 215 945	10 093 648
9. <i>Total weight of non-hazardous waste (including combustion and mining by-products) generated by TAURON Capital Group</i>	Natural capital / Total amount of non-hazardous waste	Destimulant	Mg	1 366 974	1 729 672
10. <i>Number of meetings with trade union organizations at TAURON Capital Group's subsidiaries</i>	Intellectual capital, Social capital, Human capital / developing relationships based on dialogue, organizational culture based on PRO values	Stimulant	number	329	334
Work safety, ethical culture and employee engagement					
11. <i>Number of TAURON Capital Group's employees</i>	Human capital / Number of employees, Number of trainings courses conducted by Internal Coaches (Trainers)	Nominant	number	26 086	25 572

Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
				2019	2020
	Intellectual capital / Knowledge and competences of the Group's employees Social capital / Personnel education and development				
12. <i>Accident rate at TAURON Capital Group</i>	Social capital / Organizational culture based on the PRO values	Destimulant	-	7.8	8.3
13. <i>Share of women among TAURON Capital Group's workforce</i>	Human capital / Share of women among the workforce Social capital / TAURON Group's Diversity Policy and TAURON Group's Respect for Human Rights Policy implemented and applied	Nominant	%	21.4	21.5
14. <i>Number of training session hours at TAURON Capital Group</i>	Human capital / Number of training session hours	Stimulant	'000	478	295
Social and business partnership					
15. <i>Number of local and social initiatives that TAURON Foundation has joined</i>	Social capital / Support for local initiatives through TAURON Foundation	Stimulant	number	158	144
16. <i>Number of projects with respect to corporate social responsibility implemented by TAURON Capital Group</i>		Stimulant	number	11	18
17. <i>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</i>	Social capital / Implemented and applied TAURON Group's PROClient Social Policy, developing lasting relationships and active dialogue with the stakeholders, support for local initiatives, including through TAURON Foundation	Stimulant	number	Regular, in accordance with the ongoing operations	Regular, in accordance with the ongoing operations
18. <i>Number of initiatives implemented by TAURON Capital Group for the employees and communities, related to counteracting COVID-19</i>		Stimulant	number	-	11

2.11. Sponsoring activities

TAURON Capital Group is a leader among Polish energy groups in terms of sponsoring activities. The projects implemented by TAURON demonstrate very high equivalence. Research conducted by specialized research companies indicates that each zloty spent generates a 10-fold return. TAURON Capital Group had contracts covering 10 sponsoring projects in place in 2020. The preliminary data on the advertising equivalents achieved for the activities completed in 2020 demonstrate that the best results were achieved by the activities undertaken by the Polish Volleyball League (Polska Liga Siatkówki).

The main objective of TAURON Capital Group's sponsoring activities is to support its business goals defined in the Strategy and the continuous strengthening of the brand's position as compared to the competition. TAURON Capital Group's sponsoring activities in 2020 were conducted based on *TAURON Group's Plan of Conducting Sponsoring Activities in 2020* adopted by the Management Board of the Company and granted a positive opinion by the Supervisory Board of the Company.

The sponsoring activities were carried out in 2020 based on the negotiated agreements, containing standardized provisions. Each sponsoring agreement concluded includes provisions that obligate the contractors (counterparties) to pay special attention to the business effect (the so-called *success fee rule*).

In connection with the COVID-19 pandemic, there was a need to abandon some of the projects in 2020, amend the current contracts and thus reduce the value of projects, as well as introduce replacement services. Most of the events took place without the participation of the audience, based on the on-line formula, i.e. for example the successive edition of the TAURON Nowa Muzyka (New Music) music festival. A large number of the projects planned under the already concluded contracts were replaced with other proposals, while some of them were canceled, which led to the decision to reduce the value of some contracts, e.g. the contract related to the implementation of the TAURON Arena Kraków project.

The Company's sponsoring activities are monitored, analyzed and reported on an on-going basis to the Company's Management Board and Supervisory Board, among others based on the detailed reports on the implementation of the sponsoring contracts. The surveys and analyses are conducted in quarterly, 6-month and annual cycles by the specialized external entities and the internal oversight. In accordance with the procedures implemented at TAURON Capital Group, the effectiveness of the activities conducted is assessed on a regular basis based on the opinion polls, by 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 2020. By comparing the summarized value obtained this way to the total of all expenditures arising from the relevant sponsoring contracts, 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 9.03 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 9.

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 2020*, according to which TAURON is ranked 7th overall among the TOP 10 sponsors. Several hundred brands were classified in the ranking, which was the result of the opinion polls and TAURON's spot in the ranking was a very good result. Taking into consideration the relatively low level of sponsorship spending by TAURON Capital Group, the position in this ranking can be regarded as high.

3. TAURON CAPITAL GROUP'S RISK MANAGEMENT

3.1. Risk management objective and principles

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, TAURON Capital Group's risk management is to ensure increased predictability of achieving its strategic goals, sustainable (stable) generation of its financial results, the protection of TAURON Capital Group's current economic value (preventive function), as well as support for the decision-making processes.

TAURON Capital Group's risk management:

1. is based on the risk management process that provides comprehensive and consistent rules for identifying, measuring and responding to risk,
2. covers all elements of the value chain,
3. provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and consistent risk management principles,
4. ensures independence of the risk taking function from its control and monitoring,
5. ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
6. is a pro-active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
7. 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,
8. places a strong emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities,
9. co-creates TAURON Capital Group's internal audit (control) system, constituting, along with the compliance and security management functions, an element of the Three Line Defense Model.

3.2. Risk management strategy

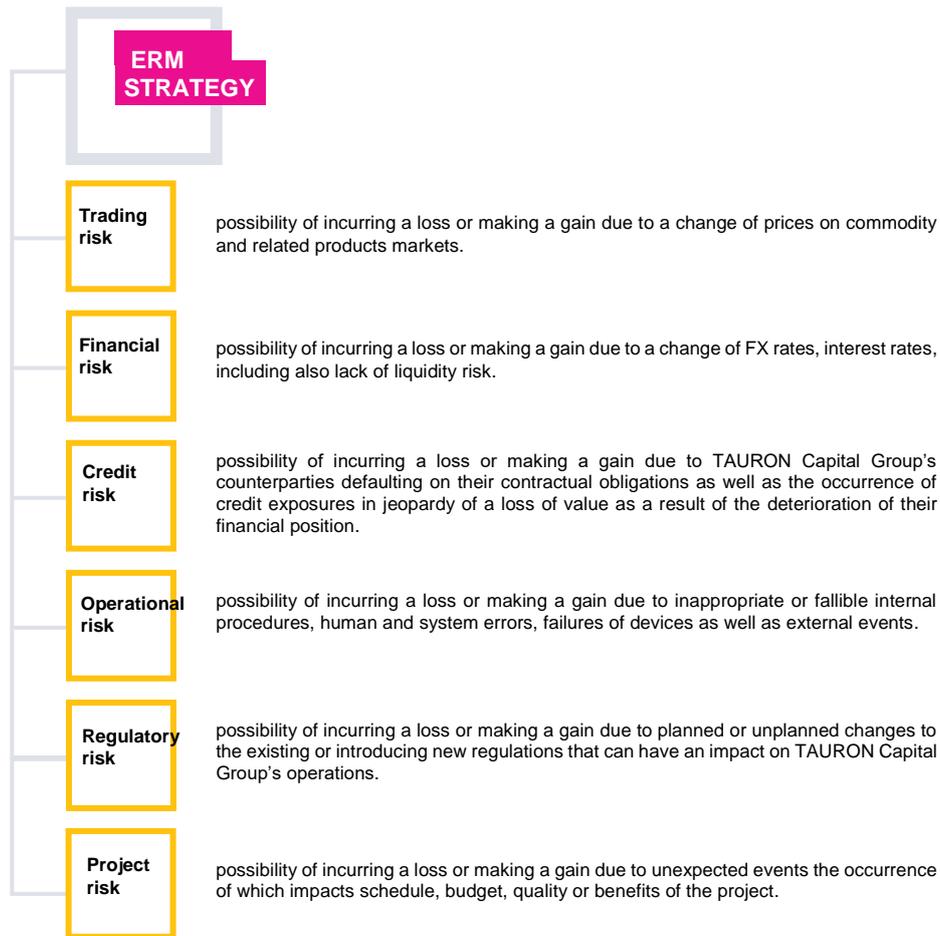
The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring safety (security) of TAURON Capital Group's operations. This system is governed by the document entitled *TAURON Group's Enterprise Risk Management Strategy* (ERM Strategy) that defines TAURON Capital Group's enterprise risk management framework and rules, and its objective is to ensure the consistency of managing the individual risk categories that are 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.

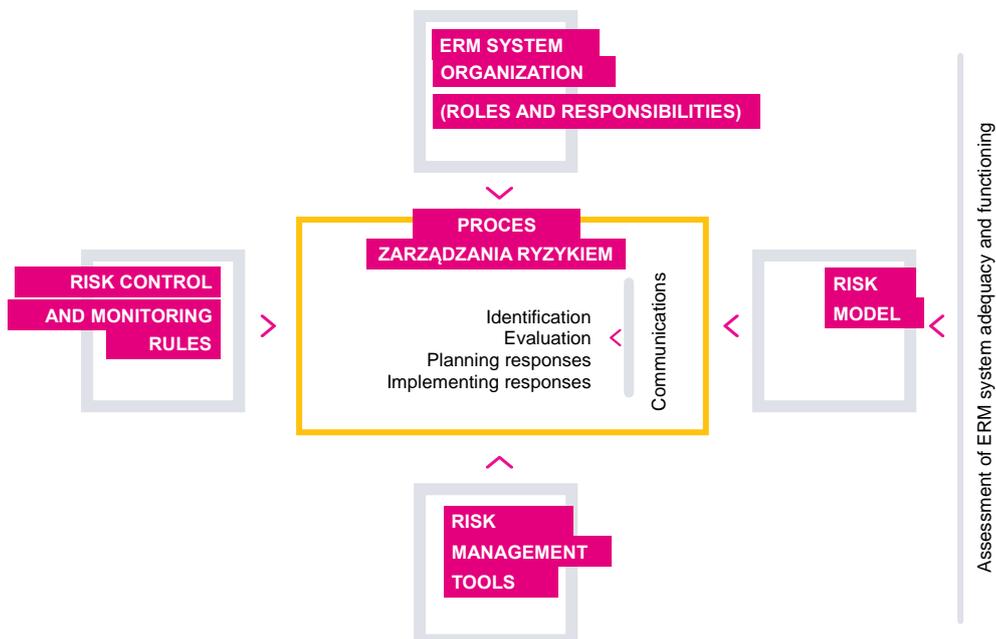
Figure no. 36. Basic classification of the enterprise risk



The core (central) element 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 and the 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

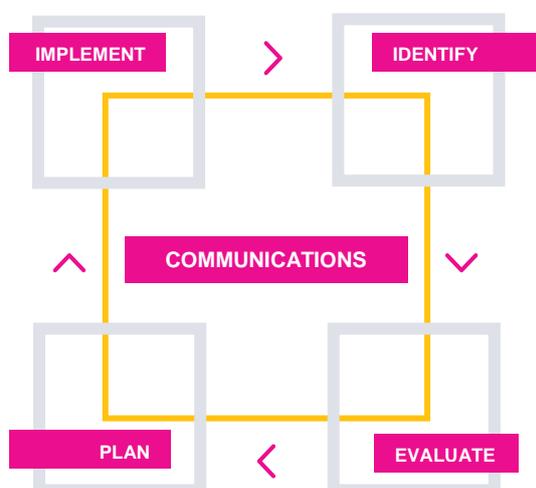


Risk management process

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 among the 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 responses 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 response 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, inform whether the activities carried out thus far are effective and if risk management is bringing the assumed effect of maintaining the value of the EWI indicators 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.

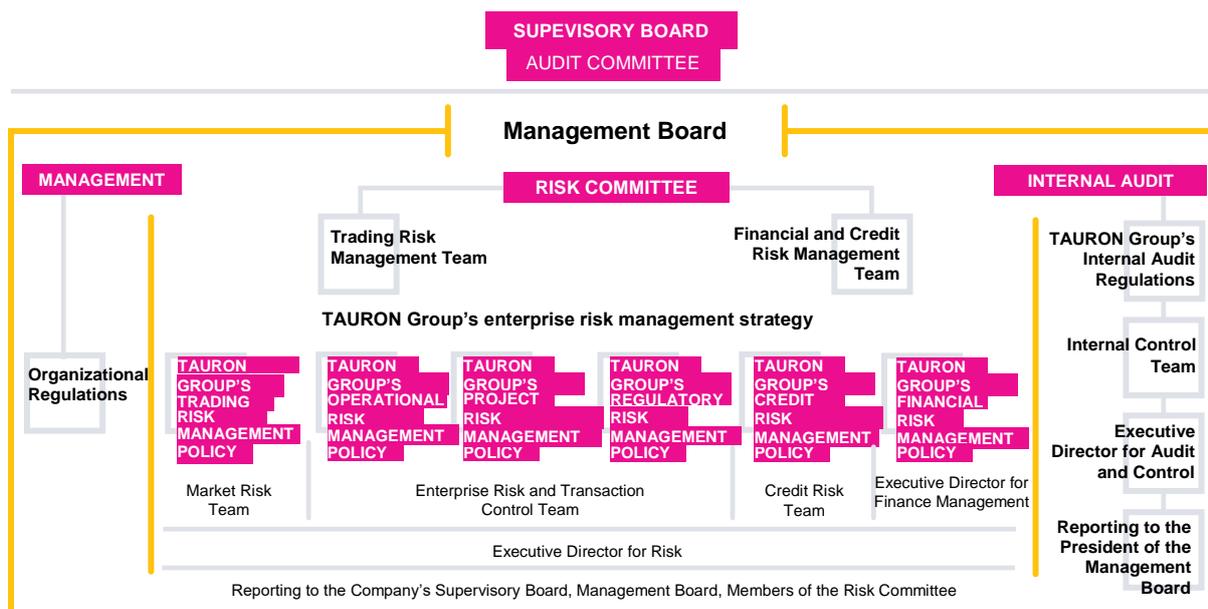
Organization of the risk management system (roles and responsibilities)

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.

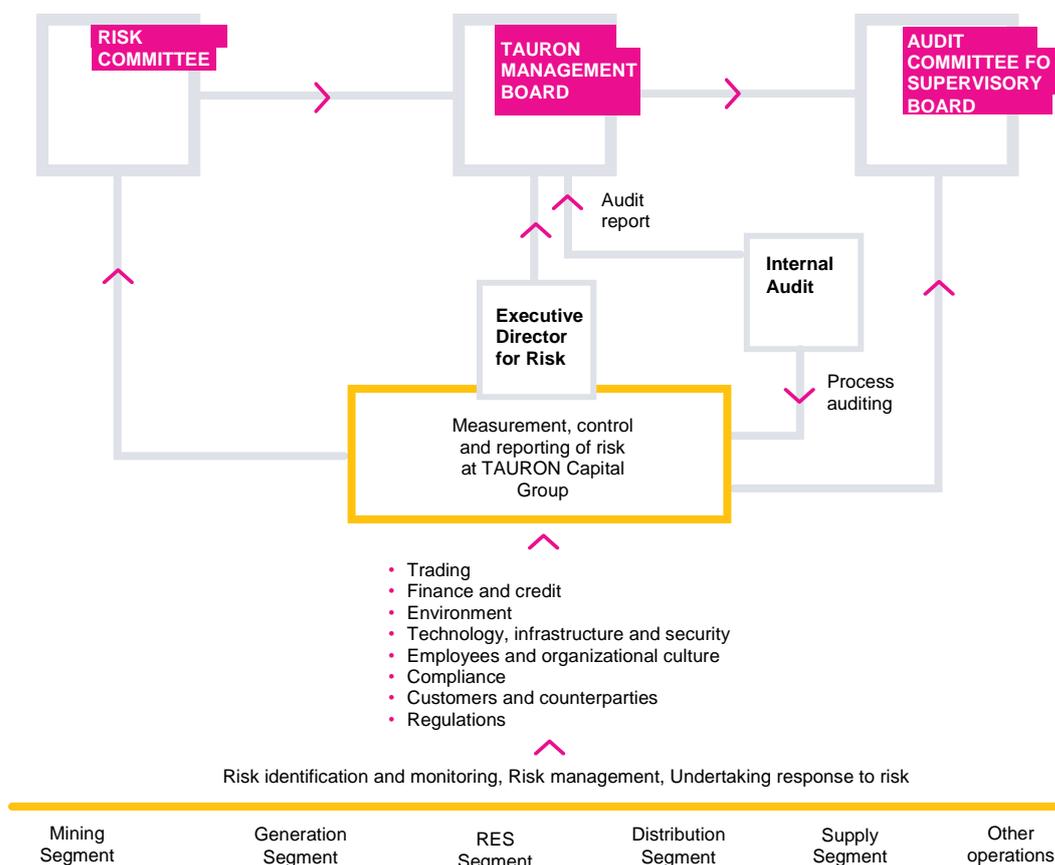
Table no. 25. Description of the ERM System participants' roles and responsibilities

Participant	Participant's roles and responsibilities
1. TAURON Supervisory Board	<ol style="list-style-type: none"> 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.
Audit Committee of TAURON Supervisory Board	Monitoring the ERM System's effectiveness.
3. TAURON Management Board	<ol style="list-style-type: none"> 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 appetite and risk tolerance, including the global limits for the specific risks. Managing the risks of special importance for TAURON Capital Group's operations. Providing adequate resources for the needs of the ERM System.
4. Risk Committee	<ol style="list-style-type: none"> Overseeing the correct flow of TAURON Capital Group's risk management process. Auditing (controlling) TAURON Capital Group's risk exposure. 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 appetite and risk tolerance, including the global limits for the specific risks, and also applying to the Company's Management Board for the approval or change thereof. Approving the operational limits constituting the allocation of the adopted risk tolerance. Overseeing the preparation of the information for the Company's Management Board on all material issues related to TAURON Capital Group's risk
5. Executive Director for Risk	<ol style="list-style-type: none"> 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 (risk identification, evaluation, monitoring and control 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 the authorized risk management process participants. Activities aimed at developing organizational culture and raising awareness with respect to TAURON Capital Group's risk management.
6. Executive Director for 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	<ol style="list-style-type: none"> Responsibility for risk management efficiency within a subsidiary. Promoting risk management culture in a subsidiary. Responsibility for the adequate responses to risk and the effectiveness thereof. Appointing Risk Owners at the given subsidiary. Approving plans of response to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded.

Participant	Participant's roles and responsibilities
8. Risk Owner	<ol style="list-style-type: none"> 1. Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in the 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 response to risk, and also for the communications and reporting within the risk management performed. 3. Responsibility for meeting (compliance with) the imposed operational limits.

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



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 Appetite, approved by the Company's Management Board, that defines the basic framework used by TAURON Capital Group for risk management. In accordance with the adopted approach, TAURON Capital Group's priority is to maintain the maximum security at the level allowing for the implementation of TAURON Capital Group's strategic goals.

Based on the Risk Appetite, the Risk Tolerance is approved, that specifies TAURON Capital Group's maximum permitted risk exposure value, in particular taking into account the specifics and scope of the operations thereof. The Risk Tolerance level is expressed in the form of a set of metrics and boundary conditions limiting the risk exposure. The Risk Tolerance is a practical translation of the Risk Appetite, in particular taking into account the division into key categories of the Specific Risks and the Global Limits related thereto.

Based on the adopted risk tolerance value as well as the approved global limits, the Risk Committee approves sets of operational limits dedicated to the individual risks or the groups thereof. The individual risk owners are responsible for meeting the operating limits, and the Executive Director for Risk is responsible for controlling the consumption thereof. The basic assumption is to guarantee the independence of risk taking from risk control, which guarantees the safety (security) of the functioning of the organization. Such independence is ensured in particular by the appropriate positioning of the Executive Director for Risk within the organizational structure of the Company in a way that eliminates the emergence of a conflict of interest, as well as by ensuring direct reporting lines to the Company's Management Board and the Company's Supervisory Board.

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 said KRI and EWI indicators enables an adequately early identification of threats by measuring the causes of the individual threats. At the same time, that system allows for an adequately early taking of remedy actions, before the individual threats actually materialize.

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 plans** - 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).

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.

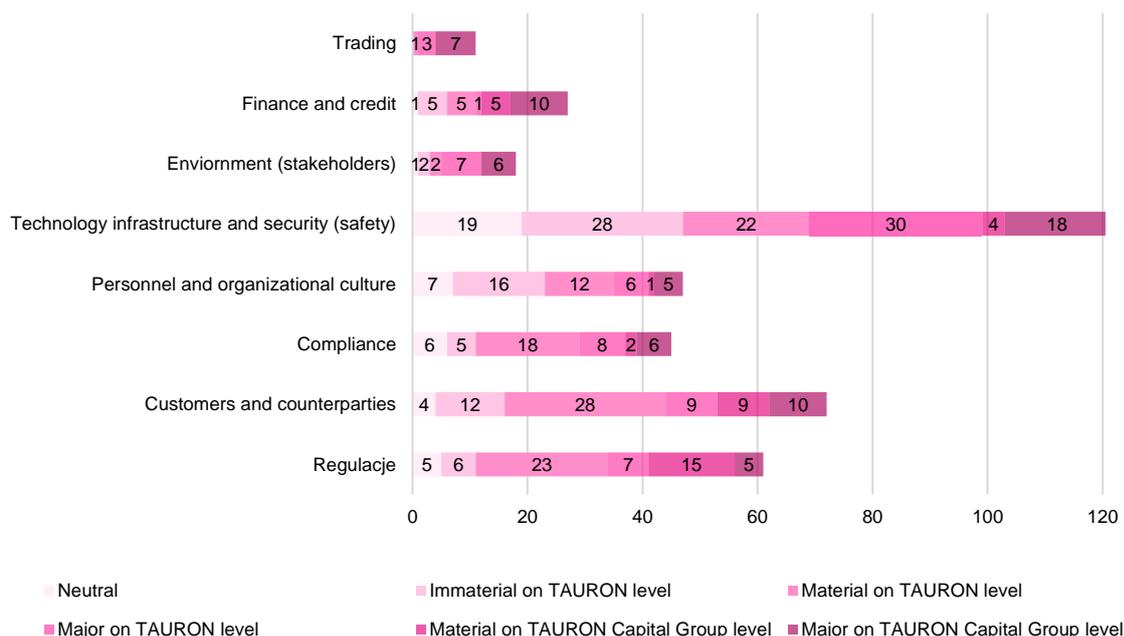
The below table presents the main risk categories and sub-categories, in accordance with the Risk Model in place.

Table no. 26. 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		Risks related to the volatility of electricity and related products market prices to which the enterprise is exposed.
2. Financial and credit risk		Risks related to the fluctuations 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 Capital Group's goals, including in particular the macroeconomic and reputational risks.
	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, including also the pandemic risk.
	Compliance	Risks related to the cases of non-compliance with the legal regulations, internal and intra-corporate regulations, internal and external abuse as well as unethical behaviors and violations of the social norms (standards).
	Customers and contractors (counterparties)	Risks related to the volatility of the supplies / services market, a 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		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 Capital Group.

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 and their impact on TAURON Capital Group



Assessment of the adequacy and the functioning of the risk management system

TAURON Group's 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 fast changing environment. That process is also subject to an internal and independent assessment of adequacy and reviews, in particular based on:

1. ongoing assessment by the Executive Director for Risk and the Risk Committee with respect to its adequacy and alignment with the changes to the structure and specifics of TAURON Capital Group's operations, as well as with the changing environment,
2. periodic evaluation conducted by the Executive Director for Risk who, not less seldom than once a year, prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee,
3. periodic evaluation conducted by the Executive Director for Audit and Control, as part of performing the institutional (third line of defense), conducts an independent audit of TAURON Capital Group's risk management with respect to the appropriate implementation of the rules by the process participants, as well as its adequacy and effectiveness.

3.3. Key risks management

The Company is actively managing all risks, seeking to eliminate or to the maximum degree reduce their potential negative impact, in particular on TAURON Capital Group's financial results.

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, including also the RES Line 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 that group of risks the trading risk management system was established, tied with respect to the organizational structure and information flow, 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 based on the Risk Tolerance approved by the Management Board.

The basic operating measure of TAURON Capital Group's market risk is Value at Risk (VaR), defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk (VaR) 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 strategic measurement of market risk is conducted based on the mechanism of Hedge Curves, which are to ensure the maximum level of security by optimizing open trading positions exposed to the volatility of price factors in the individual areas of TAURON Capital Group's operations.

The organizational structure of the trading risk management system envisages a strict division of competences, where the risk supervision (steering) and 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 adequate supervision over one of the main business processes conducted by TAURON Capital Group.

The below figure presents a.

Figure no. 42. Breakdown of TAURON Capital Group's trading operations



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* and the Risk Tolerance approved by the Management Board, the Global Financial Risk Limit including the decomposition thereof into individual financial risk types. The main goal of managing such 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.

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. As part of efforts aimed at minimizing 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. This means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging for such financing by accumulating 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 the need to take on new liabilities under unfavorable market conditions. TAURON's policy also covers the standardizing of the covenants and the provisions of the financing agreements in the key elements of the documentation.

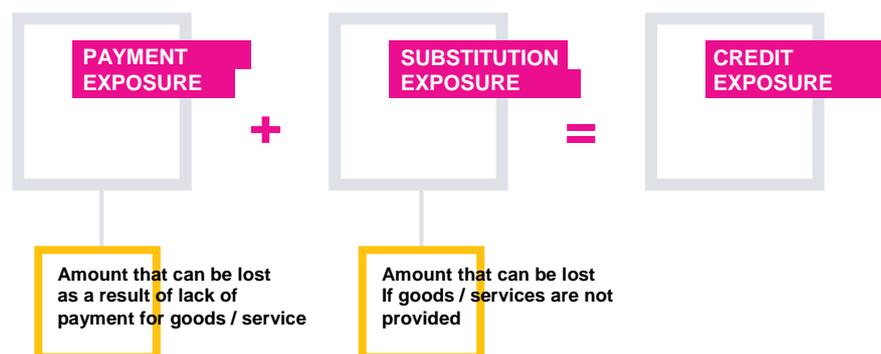
Credit risk management

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 trading 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 that 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 substitution exposure.

The below figure presents credit exposure components.

Figure no. 43. Credit exposure components



Based on the exposure value and the synthetic measure of evaluation of the financial standing of specific customers, the global 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. This measure is the basic operational limit of credit risk, which represents the allocation of the Risk Tolerance approved by Management Board.

Operational risk management

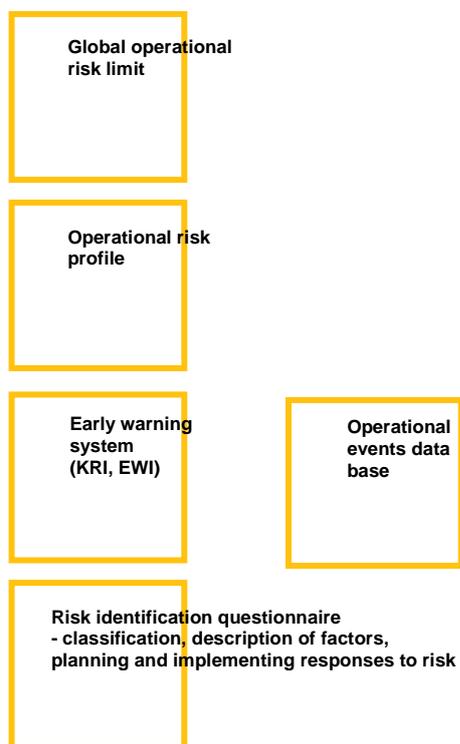
Operational risk, in accordance with *TAURON Group's Operational Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to inappropriate or fallible internal procedures, human and system errors or as a consequence of external events. It also includes 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, the operational risk profile the early warning system functioning on a broad scale, operational events database, and the related operational limits system. In particular, based on the approved Risk Tolerance, operational limits are determined for the individual operational risks (or their groups)

aimed at the pre-emptive control of TAURON Capital Group's vulnerability to the individual operational risk factors and the implementation of advance mitigation actions.

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 in particular the 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 cautionary 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.

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 the 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 with respect to a specific regulation.

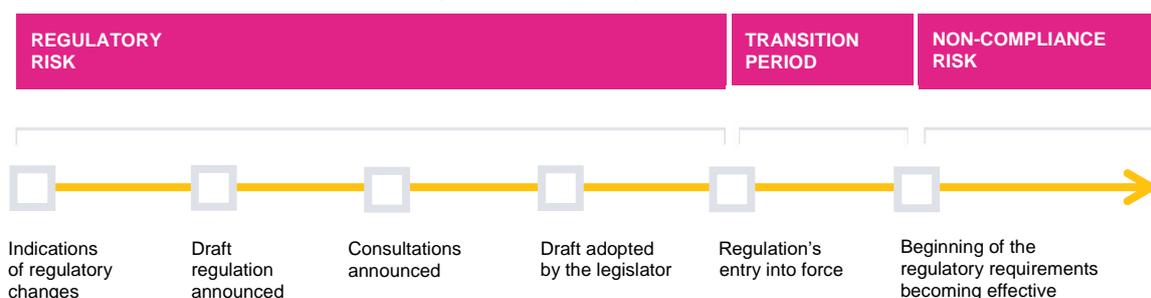
The main goal of the regulatory risk management at TAURON Capital Group is to minimize losses and maximize gains from the planned or unplanned changes to the existing regulations or the introduction of the new regulations that may affect the operations of the organization. As a result, it allows for reducing the potential threats to a level

that would be possibly favorable for 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. The regulatory risk management does not cease when a specific regulation which is frequently expected to provide executive regulations that specify its implementation method comes into force 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 non-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*, 13 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, environment protection and climate change as well as corporate management.

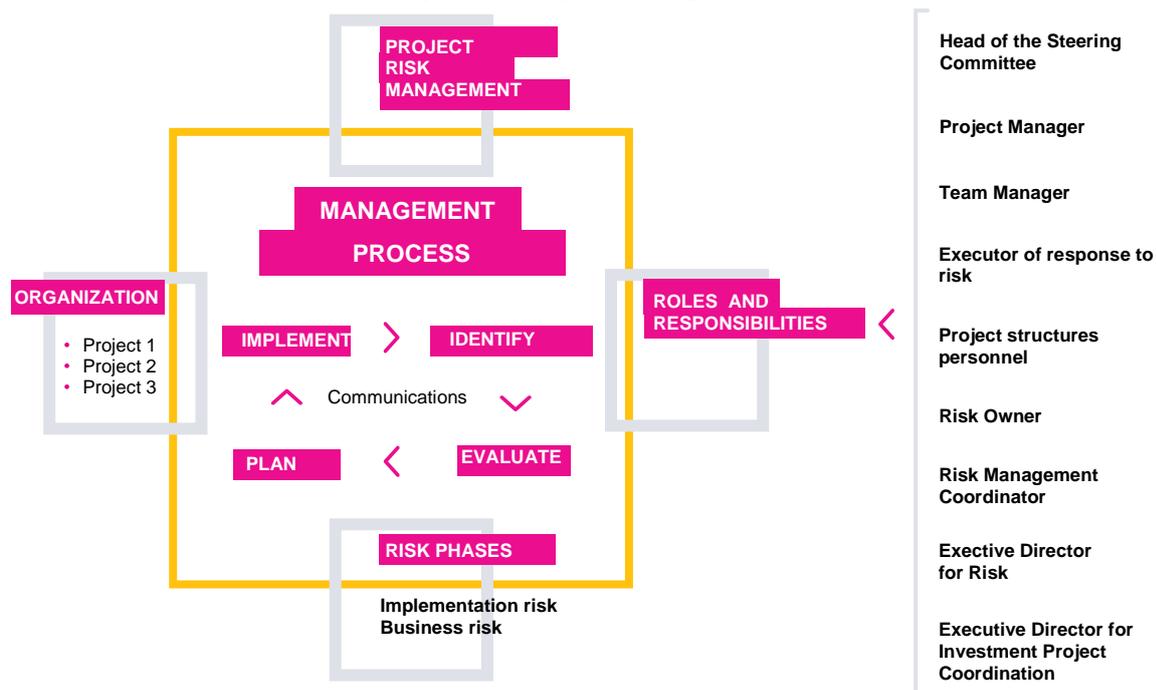
Project risk management

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 (risk) that may have an impact on the schedule, budget or quality of the final products. Systematic application 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. That regulation, in particular, defines the basic principles of project risk management, ensuring consistency, comprehensive approach and unequivocal understanding in that 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 obtained. 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 that have 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 that have an impact on the organization, Plans of Responses to the Risk and Back-up (Contingency) 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

The below table presents the most material risk categories identified for TAURON Capital Group.

Table no. 27. Most material risk categories identified for TAURON Capital Group

Risk name	Risk description	Risk trend and materiality	Reaction to risk
Trading			
1. Market risk	The risk related to unfavorable changes in prices on the wholesale electricity market and the energy related product markets, which adversely affect the financial results.	↗ ■	<ol style="list-style-type: none"> Daily measurement and reporting of portfolio positions. Ongoing monitoring of the result level and the risk level (VaR, Stop Loss, open positions). Use of tools that minimize the formation of open trading positions (position limits and the Hedge Curve tolerances).. Taking advantage of the synergy effect among TAURON Capital Group's individual lines of business (central trading risk management). Adoption of an optimal trading strategy. Implementing pre-emptive position hedging mechanisms. Granting and control of the compliance with risk mandates with certain limits. Preparation and periodic verification of the price forecasts in the short, medium and long term
Finance and credit			
2. Interest rate risk	Risk related to an unfavorable impact of interest rates on TAURON Capital Group's financial results.	↗ ■	<ol style="list-style-type: none"> 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.	↗ ■	<ol style="list-style-type: none"> Ongoing monitoring of risk exposure vulnerable to the FX rate risk. Use of risk limits for TAURON Capital Group's operational FX position (Value at Risk). Transfer of the FX rate risk through the use of the hedging transactions in accordance with the adopted <i>TAURON Group's Financial Risk Management Policy</i>.
4. Liquidity risk	Risk related to the lack of TAURON Capital Group's ability of to pay its liabilities on an ongoing basis and difficulties in accessing capital, changes in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	↗ ■	<ol style="list-style-type: none"> Diversification of the sources of financing including arranging guaranteed financing programs as well as securing alternative sources of financing. Analyzing the market and the availability of the sources of financing. Ongoing communications with the financial institutions. Arranging financing agreements 12-24 months in advance of the date the funding is needed. Monitoring of the financial liquidity and planning the use of the available sources of financing.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company.
5. Financing risk	Risk related to the difficulties in accessing capital, changes in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	→ ■	<ol style="list-style-type: none"> 1. Diversification of the use of the available sources of financing by using the financing instruments that reduce the risk of breaching the covenant in the form of the net debt / EBITDA ratio (e.g. hybrid bonds, factoring). 2. The use of instruments without financial covenants and limiting the number of conditions that breach such covenants. 3. Ongoing communications with the financial institutions. 4. Pre-emptive activities with respect to obtaining approvals from the financial institutions to carry out transactions or activities specified in the financing agreements. 5. Identification of events that may potentially affect the breach of the financial contracts and taking advance actions to mitigate the negative impact of the occurrence of such an event. 6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company. 7. Taking actions aimed at reducing the net debt and/or increasing EBITDA based on the decisions of the Risk Committee or the Management Board of the Company.
6. Tax risk	Risk related to incorrect or untimely payment of the tax obligations.	→ ■	<ol style="list-style-type: none"> 1. Activities in accordance with legal regulations (Corporate Income Tax Act). 2. Issuing opinions on the economic events by TAURON Capital Group's tax advisors. 3. Jointly agreed positions at TAURON level. 4. Applying uniform accounting principles for companies within the PGK (Tax Capital Group). 5. 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.	↗ ■	<ol style="list-style-type: none"> 1. Regular monitoring of the counterparties (business partners, contractors) financial standing. 2. Periodic customer scoring, credit rating of each customer prior to submitting an offer / concluding a contract. 3. 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.	→ ■	<ol style="list-style-type: none"> 1. Continuous monitoring of the Company's external and internal threats. 2. Media monitoring, developing contacts and relationships with the media within TAURON Capital Group. 3. Preparing procedures for the Company's communications with the external and internal environment (stakeholders). 4. Striving to change the business profile to zero and low emission (carbon). 5. Adoption and implementation of: <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>, <i>TAURON Group's Anti-corruption Policy</i>, <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i>, <i>TAURON Group's Diversity Policy</i>, <i>TAURON Group's Respect for Human Rights Policy</i>
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.	→ ■	<ol style="list-style-type: none"> 1. Ongoing control of the correct performance of the licensing obligations. 2. Monitoring changes to the legal acts with respect to the licensing obligations. 3. 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.	↗ ■	<ol style="list-style-type: none"> 1. Diversification of the revenue sources. 2. 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 operations (the	↗ ■	<ol style="list-style-type: none"> 1. Application of <i>TAURON Group's Climate Policy</i>. 2. Defining, updating and implementing the Strategy. 3. Update of <i>TAURON Group's Strategic Research Agenda</i>. 4. Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from <i>TAURON Group's Climate Policy</i> and Investment Strategy. 5. Update and implementation of <i>TAURON Group's sustainable development strategy</i>.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
	need to adapt the company to the challenges of change resulting from the climate change). The implications of the risk include: difficulties or increase in the cost of raising capital to finance operations based on the fossil fuels, 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, declining demand for the products offered by TAURON Capital Group's subsidiaries.		
Technology, infrastructure and security (safety)			
12. Environmental risk	<p>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 conditions), the use of the waste not in accordance with the authorized destination (intended use), 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.</p> <p>The implications of the risk include: 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.</p> <p>The risk also includes an increase in the environmental requirements due to the tightening of the EU's climate policy.</p>	→ ■	<ol style="list-style-type: none"> 1. Adoption and implementation of <i>TAURON Group's Environmental Policy</i>. 2. Conducting business operations that affect the environment in accordance with the principles of the sustainable development. 3. Ongoing supervision over compliance with the conditions of the environmental decisions. 4. Maintaining the required efficiency of the devices reducing the emission of pollutants. 5. Frequent evaluation of the compliance of the activities with the legal requirements with respect to environment protection. 6. 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. 7. 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	<p>Risk related to the more frequent occurrence of the weather anomalies, including relatively high temperatures 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.</p> <p>The implications of the risk include, in particular: a decrease of the volume of electricity and heat supply, a decline of the production volume, the deterioration of the quality indicators and an impact on the regulated revenue.</p>	→ ■	<ol style="list-style-type: none"> 1. Upgrading (refurbishing) the hydroelectric structures aimed at optimizing the utilization of the water resources. 2. Preparing of the plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works. 3. Continuous monitoring of the wind conditions and icing on the wind farms' blades. 4. Continuous technical oversight over the operation of the individual wind farms, conducted by the companies operating the farms. 5. Monitoring and analyzing new technological solutions that reduce the impact of the adverse weather conditions on the volume of the electricity generated. 6. Gradual adaptation of the production assets to the consequences of the extreme weather conditions and the variability of the weather conditions, in particular in the Lines of Business sensitive to these factors.

Risk name	Risk description	Risk trend and materiality	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 the operation thereof, but also 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. The materialization of the risk affects the availability of the assets and results in downtime related to the asset failures, increased costs of the rectification thereof. In addition, it may also be a failure to meet the capacity obligation, resulting in the need to conclude transactions on the secondary market or the payment of the financial penalties to the TSO (PSE).	→ ■	<ol style="list-style-type: none"> 1. Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of the machines, devices and installations. 2. Raising professional qualifications and work culture of the personnel by organizing courses and training. 3. Responding to an emergency situation by the technical personnel and automatic process safety interlocks (safeguards). 4. Insuring assets against fortuitous events (excluding underground assets). 5. Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios). 6. Continuous monitoring of the availability (dispatchability) of the generation units and the demand reduction, as well as shifting the capacity obligations that require reserving to the dedicated intra-group reserve units or external entities. 7. Updating the activities related to the handling of the group reserve, with particular emphasis on the analyses of the functioning of the secondary market starting from January 2021. 8. Updating TAURON Capital Group's maintenance (overhaul) shutdowns (outages). 9. 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.	→ ■	<ol style="list-style-type: none"> 1. Developing and maintaining plans aimed at ensuring continuity of the IT infrastructure's operation. 2. Periodic identifying and categorizing of the IT resources based on the service restoration targets. 3. 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). 4. Planning and conducting training courses on the IT infrastructure's continuity of operation and security. 5. 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.	→ ■	<ol style="list-style-type: none"> 1. Monitoring the implementation of the developed plans to protect the facilities that are subject to mandatory protection. 2. Maintaining and updating contingency procedures / plans. 3. Oversight over compliance with the information security rules in force. 4. 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	→ ■	<ol style="list-style-type: none"> 1. Making test drillings for the better intelligence on the positioning of the coal deposits. 2. 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.	→ ■	<ol style="list-style-type: none"> 1. Conducting public consultations regarding the planned changes. 2. Conducting a policy of dialogue with the social partners (workforce). 3. Preparing and implementing motivational solutions for the personnel. 4. Standardizing the tasks and requirements towards the personnel. 5. Developing organizational culture based on values. 6. Conducting active internal communications on personnel matters
19. Human resources risk	Risk related to the employee issues, including also diversity, participation, employment and labor 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	→ ■	<ol style="list-style-type: none"> 1. Adoption and implementation of <i>TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy</i>. Adoption and implementation of <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>. 2. Taking care of developing personnel competences through the participation in the training courses 3. Conducting consultations with the social organizations at TAURON Capital Group 4. Implementation of the human resources policy based on <i>TAURON Group's Competence Model</i> and the applicable remuneration and labor law regulations (Compensation Regulations, Company Collective Bargaining Agreement, Labor Regulations). 5. Adoption and implementation of <i>TAURON Group's Diversity Policy</i> and <i>TAURON Group's Respect for Human Rights Policy</i>.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
	specialized staff and difficulties in recreating it.		
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.	→ ■	<ol style="list-style-type: none"> 1. Implementation of <i>TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy</i>, 2. Systematic periodic employee training, 3. Analysis of the recurring cases of errors and mistakes of the employees, taking systemic remedial actions. 4. Implementation of the Internal Control (Audit) System and the control (audit) mechanisms for the processes conducted in TAURON Capital Group.
21. Pandemic risk	Risks related to the persistence of the pandemic disrupting Poland's economic system and administration and causing significant changes in the market environment, impacting the operating conditions of TAURON Capital Group's subsidiaries. The increase in the number of infection cases leads to the curtailment of the economic activity, affecting the level of demand for the products offered by TAURON Capital Group's subsidiaries, including, in particular, the electricity distribution and supply volumes.	↗ ■	<ol style="list-style-type: none"> 1. Monitoring the state (condition) of the epidemiological threat (risk) at TAURON Capital Group. 2. Collecting information on the threats and identification of the potential threats to the safety of the workforce of TAURON Capital Group's subsidiaries. 3. Developing and recommending solutions aimed at reducing the level of threat to the resources of TAURON Capital Group. 4. Ongoing monitoring of the risk related to the availability of the employees and services provided by TAURON Capital Group's subsidiaries. 5. Recommending solutions aimed at curbing the effects of the materialization of the threat to the resources of TAURON Capital Group. 6. Preparing and providing opinions (feedback) on the content of the messages to be disseminated at the level of TAURON Capital Group and the Company. 7. Use of the screening tests. 8. Preparing of the contingency plans in the event of the loss of key employees of TAURON Capital Group. 9. Developing backup business continuity plans. 10. Undertaking trading activities in order to balance the buy position on an ongoing basis in relation to the observed drops in the volume of electricity sales. 11. Taking advantage of market opportunities to hedge the position in the Generation Line-of-Business (buy-backs). 12. Taking advantage of the anti-crisis shield mechanisms.. 13. Increasing the frequency of monitoring the overdue accounts receivable. 14. Introducing additional guidelines with respect to taking credit risk and extending the scope of the customer financial condition examination (vetting). 15. Introduction of a mechanism for monitoring and curbing spending.
22. 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 employee to factors harmful to health, the compensation paid out for personal injury.	→ ■	<ol style="list-style-type: none"> 1. Prioritizing safety of the employees, customers, contractors and stakeholders in the business activities undertaken 2. Adoption and implementation of <i>TAURON Group's WHS Policy</i>, 3. Ensuring optimal labor conditions, 4. Conducting active monitoring of the working conditions and the correctness of its organization, 5. Raising the employees' qualifications with respect to improving work safety, 6. Conducting training courses, implementing and improving the WHS management system
23. Communications risk	Risk related to providing inaccurate, untrue information or a lack of information disclosure at specific time.	→ ■	<ol style="list-style-type: none"> 1. Building relationships with the social partners (workforce) of TAURON Capital Group and close cooperation with the Social Dialogue Ombudsman. 2. Use and development of the available communications tools to provide relevant information to the employees of TAURON Capital Group. 3. When providing the relevant information – organizing the direct meetings between the management and the employees. 4. Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social anxiety. 5. Regular periodic meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange information. 6. Developing the Communications Strategy for TAURON Capital Group
Compliance			
24. 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.	→ ■	<ol style="list-style-type: none"> 1. Educational and training activities for the employees, including the mandatory e-learning training with respect to the TAURON Group's Compliance Management System. 2. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 3. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			<ul style="list-style-type: none"> 4. Building the organizational culture based on TAURON Capital Group's values and principles. 5. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>. 6. Adoption and implementation of <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i>. 7. Adoption and implementation of <i>TAURON Group's Rules for accepting and giving gifts</i>.
25.	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.	→ ■	<ul style="list-style-type: none"> Raising the employees' awareness through training and information campaigns related to the existing threats of external fraud (abuse). Adoption and implementation of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries</i>. Introduction of the anti-corruption clauses to the contracts with the contractors (counterparties). Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>. 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 <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and the functioning of the abuse (fraud) reporting (whistleblowing) system. Building the organizational culture based on TAURON Capital Group's values and principles.
26.	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.	→ ■	<ul style="list-style-type: none"> 1. Adoption and implementation of <i>TAURON Group's Respect for Human Rights Policy</i>. 2. Adoption and implementation of <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>. 3. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization 4. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators with respect to the anonymous reports of mobbing and discrimination. 5. Reviewing of the reports of mobbing or discrimination by the Ethics Committee. 6. Promoting of the best practices, improving the procedures, conducting training courses and applying <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and the functioning of the abuse (fraud) reporting (whistleblowing) system. 7. Building the organizational culture based on TAURON Capital Group's values and principles. 8. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>. 9. Adoption and implementation of <i>TAURON Group's Rules for accepting and giving gifts</i>.
27.	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.	→ ■	<ul style="list-style-type: none"> 1. Adoption and implementation of <i>TAURON Group's Compliance Policy</i>. 2. 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. 3. Monitoring of the implementation process or implementing of the changes to the internal regulations required by the law. 4. Setting up or participating in the working groups tasked with adapting the organizations to the changes stemming from the legal environment. 5. Consultations with the relevant organizational units with respect to the planned key regulations for the area of compliance. 6. Training of the personnel with respect to the changes to the legal regulations and the internal regulations.
28.	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).	→ ■	<ul style="list-style-type: none"> 1. Updating and adapting the contract templates to the legal changes. 2. Monitoring of the complaints and proceedings of the Energy Regulatory Office (URE) / Office of Competition and Consumer Protection (UOKiK). 3. Process optimization.
29.	Personal data protection risk Risk related to inadequate storing and processing of personal data resulting in an undesirable leak or violation of the rights of data subjects related to personal data protection	→ ■	<ul style="list-style-type: none"> 1. Identifying and implementing the appropriate technical or organizational measures to ensure the adequate level of security of personal data. 2. Monitoring the compliance with the legal regulations related to personal data protection.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			<ol style="list-style-type: none"> 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)			
30.	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.	→ ■	<ol style="list-style-type: none"> 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. Continuous raising of the customer service standards.
31.	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.	→ ■	<ol style="list-style-type: none"> 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.
32.	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 (growth), 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.	↗ ■	<ol style="list-style-type: none"> 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.
33.	Purchasing process risk Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, including the 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.	→ ■	<ol style="list-style-type: none"> Adoption and implementation of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's subsidiaries</i>. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>. Adoption and implementation of <i>TAURON Group's Respect for Human Rights Policy</i>. Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof. Building lasting relationships with the contractors (counterparties) based on trust and mutual respect. Expecting the contractors (counterparties) to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of 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			
34.	Regulatory risk Risk related to the change of the existing regulations 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	↗ ■	<ol style="list-style-type: none"> 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.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
	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.		

■ Low materiality
■ Moderate materiality
■ Medium materiality
■ High materiality

3.5. Risk classification in the individual operating Segments

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) adequately 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 materially affected by the climate policy that 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. The level of demand for hard coal is also impacted by the issues related to the volume of electricity imported to Poland, observed in recent years, as well as the situation associated with the COVID-19 pandemic and the decrease in demand in the Polish Power System (KSE). 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 investment projects in the Mining Segment.

Generation Segment

The Generation Segment is exposed, in particular, to the market risk, regulatory risk as well as the technical and organizational risks that will have a significant impact on the Segment's results in the coming years.

As part of the market risk, the material 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 material 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 much higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be declining. A decrease in electricity demand is also observed in 2020, as a result of the epidemic in Poland. The above factors, in turn, lead to the decrease in demand for hard coal, resulting in a reduction in its purchases from the external suppliers.

With respect to the operational factors, the most material threat is the risk of not achieving the planned availability (dispatchability) 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.

A failure to meet the planned availability rate of the units may also result in the inability to meet the capacity obligation, which, if it is not possible to reserve capacity, may result in the assessing of penalties on the Generation Segment's subsidiaries.

The Generation Segment's operations are also materially impacted by the climate factors, including the EU's climate policy, that assumes the ultimate departure from the coal fired generation technology in order to reduce pollution, which, as a consequence, 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, in turn, 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.

Currently the material risk factors 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 leads 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 (dispatchability) 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.

RES Segment

The RES segment is exposed, in particular, to the market risks, risks related to the weather factors affecting the volume of electricity generation, in particular hydro, wind and solar based, and the regulatory risks, the impact of which significantly affects the results of the RES Segment and its expansion opportunities.

The volume of electricity produced by the hydropower plants is dependent on the hydrological conditions, including the quantity and frequency of rainfall both in winter as well as during the rest of the year. Warm winters are reported more and more often, without sufficient snowfall which melts in the spring and feeds watercourses where hydro power plants are located. In case of wind energy, we are observing greater predictability of the volume produced, and thus the stability of the planned production volumes. The market risk related to the high volatility of the prices of electricity and related products has an equally significant impact on the results of the RES Segment, which translates into the amount of margin obtained on the operations conducted.

It should be noted as well that the results of the RES Segment are also impacted by the efficiency rates of the assets and the risk of its failure related thereto, and thus the temporary outages of some assets from use.

Taking into account the RES Segment's expansion opportunities and expectations, including those stemming from the climate policy, the regulatory restrictions related, in particular, to the construction of the new wind farms, as well as uncertainty with respect to the taxation of the RES assets, should be noted.

Distribution Segment

One of the most important threats to the Distribution Segment is the distribution services sales volume risk related to the electricity supply volume decline, and, as a consequence, a drop of the revenue 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 of the demand for electricity due to the economic slowdown, the epidemiological situation and the COVID-19 impact, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing energy consumption intensity and the rapid growth of the prosumer energy.

An equally material 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 balancing difference, not being covered by the tariff during the tariff period.

With respect to the operational factors, a material 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 amount of the capital expenditures, the balancing 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.

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 material 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, the restrictions due to COVID-19 and the volatility 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 facing the market risk due to the high volatility of the electricity, gas and related products prices. Such 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.

A material threat (risk) to the Supply Line of Business is also posed by the credit risk understood as a failure of the counterparties (contractors) to meet their obligations arising from the electricity and gas sales. In 2020, an increase in credit risk was observed, to a large degree as a result of the restrictions introduced due to the COVID-19 pandemic. This situation may cause a significant increase in the insolvency of the counterparties (contractors) of TAURON Capital Group. In order to cap (limit) the potential financial losses, stricter criteria of credit risk management are applied and the activities related to the monitoring of the accounts receivable and debt collection have been intensified.

The most important regulatory risks in the Supply Segment include the tariff risk, in particular related to the curbing 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 such risk include the curtailment of the planned revenue, profitability and funds for the development of the company's potential. A material regulatory risk is also posed by the introduced and announced changes in the functioning of the balancing market, which may affect the costs of balancing changes in the supply volume to the customers of the Supply Segment's customers.

In the long run, the climate factors, and in particular the rapid expansion 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, as well as a loss of the supply volume and the planned margin on electricity supply.

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, the 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.

With respect to the regulatory risk, attention should be paid to a recent trend that has emerged towards the tightening of the EU climate policy, related to a greater reduction of the CO₂ emissions and the support for the RES investments, which leads to an increase in the variability in terms of the national sector regulations, and this in turn translates into an increase in the number of regulatory risks of strategic importance for TAURON Capital Group.

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. of this report.

Table no. 28. Classification of risks based on TAURON Capital Group's operating segments

Risk	Term			Operating Segment*					
	Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
1. Market risk	x	x	x	3	5	5	3	5	0
2. Interest rate risk	x	x	x	2	2	2	4	2	3
3. FX rate risk	x	x	x	1	3	2	1	0	3
4. Liquidity risk	x	x	x	4	4	2	2	2	2
5. Financial risk	x	x	x	5	5	3	3	3	3
6. Tax risk	x			3	3	3	3	3	3

Risk	Term			Operating Segment*					
	Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
7. Credit risk	x	x		1	1	1	3	4	1
8. Reputational risk	x	x	x	1	1	1	2	2	1
9. License risk	x	x	x	3	3	3	3	3	0
10. Macroeconomic risk	x	x	x	4	4	3	4	4	2
11. Climate change risk	x	x	x	5	5	4	4	4	4
12. Environmental risk	x			2	2	2	1	0	0
13. Weather risk	x			1	3	3	3	2	0
14. Company asset failure risk	x			5	5	4	4	0	1
15. IT risk	x			3	3	1	3	3	4
16. Asset (property) security and protection risk	x			2	3	2	3	1	2
17. Geological risk	x			5	0	0	0	0	0
18. Social dispute risk	x			4	4	2	4	3	2
19. Human resources risk	x	x		3	2	1	3	2	2
20. Risk of the lack of the employees' due diligence	x			2	2	2	2	2	2
21. Pandemic risk	x	x	x	4	5	3	5	2	3
22. Work Health and Safety (WHS) Risk	x			3	3	2	3	1	1
23. Communications risk	x			2	2	1	2	2	2
24. Internal fraud risk	x			2	2	2	2	2	2
25. External fraud risk	x			3	3	3	3	3	3
26. Risk of unethical behavior and mobbing	x			2	2	2	2	2	2
27. Legal risk	x			3	3	2	3	3	2
28. Risk of a breach of the contractual provisions (default)	x			2	2	2	2	2	2
29. Personal data protection risk	x			2	2	2	3	3	3
30. Customer service risk	x			1	1	0	3	3	1
31. Risk related to performance of agreements by contractors and subcontractors	x			2	2	2	2	1	2
32. Volume and margin risk	x	x		5	4	4	5	5	2
33. Purchasing process risk	x			2	2	2	3	1	2
34. Regulatory risk	x	x	x	5	5	3	4	4	2

*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 THE FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A.

4.1. Overview of the 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 2019-2020, drawn up in accordance with the IFRS.

Table no. 29. Annual standalone statement of comprehensive income in 2019-2020 drawn up in accordance with the IFRS

Statement of comprehensive income drawn up in accordance with the IFRS (PLN '000)	2019	2020	Change in % (2020 / 2019)
Sales revenue	10 680 577	11 340 464	106%
Own cost of goods, materials and services sold	(10 431 139)	(12 101 520)	116%
Gross profit (loss) from sales	249 438	(761 056)	-
Cost of sales	(24 036)	(20 829)	87%
Overheads	(121 636)	(117 509)	97%
Other operating revenues and costs	(2 664)	(10 509)	394%
Operating profit (loss)	101 102	(909 903)	-
<i>Operating profit margin (%)</i>	<i>0.9%</i>	<i>(8.0)%</i>	<i>-</i>
Financial revenue	1 490 670	1 407 278	94%
Costs of interest on debt	(407 866)	(409 623)	100%
Revaluation of stocks and shares	(94 920)	(589 010)	621%
Revaluation of bonds and loans	(1 394 812)	(1 453 476)	104%
Revaluation write-down to fair value of fixed assets classified as held for sale	0	(1 393 432)	
Other financial revenues and costs	(40 381)	(179 464)	444%
Pre-tax profit (loss)	(346 207)	(3 527 630)	1019%
<i>Pre-tax profit margin (%)</i>	<i>(3.2)%</i>	<i>(31.1)%</i>	<i>960%</i>
Income tax	(116 623)	(62 025)	53%
Net profit (loss)	(462 830)	(3 589 655)	776%
<i>Net profit margin (%)</i>	<i>(4.3)%</i>	<i>(31.7)%</i>	<i>730%</i>
Other net comprehensive income	11 171	(95 367)	-
Total comprehensive income	(451 659)	(3 685 022)	816%
EBITDA	114 198	(894 391)	-
<i>EBITDA margin (%)</i>	<i>1.1%</i>	<i>(7.9)%</i>	<i>-</i>

The Company reported an operating loss of PLN (910) million in 2020, the result posted was lower than the result achieved in 2019, primarily as a consequence of the need to set up the provision for the onerous contract, i.e. the multi-year agreement for the purchase of the electricity generated by the 910 MW unit in Jaworzno in the amount of PLN 1 110 million.

In 2020, similar as in 2019, impairment charges related to the carrying value of the stocks and shares in the subsidiaries were recognized in the financial results, due to the completed impairment tests related to the loss of the carrying amount of the stocks and shares in the subsidiaries as well as the bonds and loans as of June 30, 2020 and as of December 31, 2020. The detailed information is provided further on in this report.

The Company disclosed the information on the above event in the regulatory filings (current reports): no. 37/2020 of August 5, 2020 and no. 5/2021 of February 23, 2021.

Revenue

The below table presents the Company's sales revenue in 2019-2020.

Table no. 30. Company's sales revenue in 2019-2020

Item (PLN '000)	2019	2020	Change in % (2020 / 2019)
Total revenue	12 248 381	12 918 150	105%
Sales revenue	10 680 577	11 340 464	106%
Revenue from sales of goods and materials:	10 526 854	11 199 496	106%
Electricity (without excluding excise tax)	9 468 482	10 513 901	111%
Gas	347 631	333 414	96%
Greenhouse gas emission allowances	701 607	339 632	48%
Other	9 134	12 549	137%
Revenue from sales of services:	153 723	140 968	92%
Trading services sales	110 256	107 672	98%
Other	43 467	33 296	77%
Revenue from other operations	2 089	6 242	299%
Revenue from financial operations	1 565 715	1 571 444	100%
Revenue from dividend	1 100 861	1 082 031	98%
Revenue from bonds and loans interest	389 809	325 195	83%
Other financial revenue	75 045	164 218	219%

Revenue from the sales of goods and materials represents 87% of the total revenue, while financial revenue represents 12%, which is a consequence of the implemented Business Model and centralizing of the 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 CO₂ 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 pool* mechanism put in place at TAURON Capital Group, which allows for efficient management of the finances of all of TAURON Capital Group's subsidiaries.

In the reporting period ended on December 31, 2020, the Company generated sales revenues that was 6% higher than the revenue posted in 2019, which is the result of the following factors:

1. higher revenue from the sales of electricity by 11% as a result of the higher electricity sales prices (6%), as compared to 2019 and the higher sales volume (5%),
2. decrease of revenue from the sales of the CO₂ emission allowances by 52% which is the result of the sale in 2019 of a larger volume of the allowances for the redemption needs of TAURON Wytwarzanie and TAURON Ciepło subsidiaries than in 2020. The above decrease is the result of a change in the Company's strategy with respect to securing the redemption needs related to the CO₂ emission allowances in the Generation line of business, therefore the sale of the CO₂ emission allowances due to the 2020 redemption obligation took place in part in 2020, but a significant volume will be sold in March 2021,
3. decrease by 28% in revenue due to the use of the trademark by TAURON Capital Group's subsidiaries, The Company's operations are, to a large extent, conducted on the territory of Poland. Sales to the foreign customers came in at PLN 22 723 000 and PLN 35 974 000, , in the years ended on December 31, 2020 and December 31, 2019, respectively.

Due to its holding operations the Company is reporting material financial revenue. It stood at 1 571 million in 2020 and it was comparable to the level achieved in 2019. The financial revenue includes dividends (69%), interest on the bonds and loans (21%), other financial revenue (10%), including the valuation of the derivative instruments and the profit from the disposal (divestment) of entities.

Costs

The below table presents the level and structure of the costs incurred by the Company in 2019-2020.

Table no. 31. Level and structure of the costs incurred by the Company in 2019-2020

Item (PLN '000)	2019	2020	Change in % (2020 / 2019)
Total costs	(12 594 588)	(16 445 777)	131%
Cost of goods, materials and services sold	(10 431 139)	(12 101 520)	116%
Costs of sales and overheads	(145 672)	(138 338)	95%
Costs of other operations	(4 753)	(16 749)	352%
Costs of financial operations	(2 013 024)	(4 189 170)	208%

The total costs of the Company's operations in 2020 represented 131% of the amount of its costs in 2019. The increase in the Company's costs was primarily affected by the recognition, in the financial costs in 2020, of the effects of booking the impairment charges related to the carrying amount of the subsidiaries' stocks and shares and the loans granted to the subsidiaries. The surplus of the impairment charges related to the carrying amount of the subsidiaries' stocks and shares and the revaluation of the loans granted to the subsidiaries in 2020 amounted to a total of PLN 2 042 million, as compared to PLN 1 520 million in 2019.

The cost of goods, materials and services sold came in at PLN 12 102 million and it was higher by 16% as compared to 2019, with the setting up of the provision for the onerous contract, i.e. the multi-year agreement for the purchase of the electricity generated by the 910 MW unit in Jaworzno, in the amount of PLN 1 110 million, having the biggest impact thereupon. The analyses completed demonstrated that the setting up of the provision in the Company's financial statements had been justified. Moreover, higher electricity purchase costs were recorded in 2020, due to the increase in the volume, with higher electricity purchase prices. Another factor was the costs of the other operating activities, which amounted to PLN 17 million, as compared to PLN 5 million in 2019, and were mainly incurred for the donations, including for the fight against the COVID-19 pandemic, the construction of the temporary hospitals at the request of the Ministry of the State Assets, and the setting up of a balance sheet provision related to the claim from TAURON Capital Group against the Company with regard to the mandatory repurchase of the shares (squeeze).

The costs of sales and overheads in the amount of PLN 138 million were lower by 5% as compared to 2019, which was, to a large degree, due to the dissolving (release) of the provision related to the energy relief, the lower level of the implementation of the tasks related to promotion and marketing, as well as of the project activities, caused by the limitations stemming from the COVID-19 pandemic.

The costs of the financing activities came in at PLN 4 189 million and they were higher by 108% as compared to 2019, which was to, the largest extent, due to the following events:

1. recognition of the write-down, related to the revaluation to fair value (mark to market) of the fixed assets classified as held for sale, in the amount of PLN 1 394 million, in connection with classifying the above assets as held for sale.
2. recognition of the impairment charge related to the carrying amount of the stocks and shares in TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o., which is a consequence of the impairment tests conducted as of December 31, 2020, in accordance with IAS 36 Impairment of assets, that demonstrated impairment of the carrying value of the stocks and shares in such companies (subsidiaries),
3. surplus of the negative FX exchange differences over the positive ones in the amount of PLN 303 million, which is related to the valuation of the Company's liabilities due to the debt denominated in EUR, i.e. a loan received from a subsidiary, subordinated bonds and the EURO bonds. The euro exchange rate went up from 4.2585 PLN/EUR to the level of 4.6148 PLN/EUR in the reporting period,. In the comparable period, the surplus of the positive FX exchange differences over the negative ones amounted to PLN 29 million.

In addition, the Company recognized the net cost of the revaluation of the loans in the amount of PLN 1 453 million, which is a slightly higher amount than the cost recognized in the income statement for 2019. The costs of this item resulted from:

1. valuation of the loans granted to the TAURON Wydobycie subsidiary, and as a consequence the financial result of the Company was charged with the negative valuation in the total amount of PLN 1 159 million,
2. valuation of the loans granted to the Elektrociepłownia Stalowa Wola S.A. joint venture in the total amount of PLN 222 million, resulting mainly from the credit risk analyses with respect to the loans granted, conducted as of the balance sheet date, which led to a decrease of their carrying amount in the total amount of PLN 235 million,

- recognition, in accordance with *IFRS 9 Financial Instruments*, of a loss due to the modification of financial instruments in the amount of PLN 62 million due to the change in the contractual provisions related to the intra-group loans.

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. 32. Company's 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, 2020	Change in % (2020 / 2019)
ASSETS			
Fixed assets	27 010 590	24 498 483	91%
Stocks and shares	21 844 183	20 152 633	92%
Bonds and loans granted	5 047 552	4 233 601	84%
Current assets	3 474 539	4 209 659	121%
Inventory	149 364	394 031	264%
Accounts receivable due to deliveries and services	1 727 952	1 383 873	80%
Bonds and loans granted	265 202	1 147 350	433%
Cash and equivalents	923 728	643 134	70%
TOTAL ASSETS	30 485 129	28 708 142	94%
EQUITY AND LIABILITIES			
Equity	14 808 177	11 123 155	75%
Long term liabilities	10 947 500	13 074 803	119%
Liabilities due to debt	10 909 597	12 117 294	111%
Short term liabilities	10 947 500	13 074 803	119%
Liabilities due to debt	3 607 266	2 772 339	77%
Liabilities towards suppliers and other liabilities	697 230	997 195	143%
TOTAL EQUITY AND LIABILITIES	30 485 129	28 708 142	94%

As of December 31, 2020, the fixed assets accounted for the biggest share of the total assets (85%), where the dominating item is the value of the stocks and shares (70% of the total assets) as well bonds as loans granted (15% of the total assets).

The following events had the biggest impact on a decrease of the value of the stocks and shares by 8% year on year:

- reclassifying of the shares in TAURON Ciepło as assets held for sale PLN (1 760 million),
- increasing of the share capital of Nowe Jaworzno Grupa TAURON in the amount of PLN 645 million,
- increasing of the share capital of TAURON Nowe Technologie in the amount of PLN 9 million,
- increasing of the share capital of EEC Magenta 2 ASI in the amount of PLN 12 million.

The additional factor that contributed to a change of this balance sheet item are the impairment charges related to the stocks and shares that were booked as a result of impairment tests conducted due to the loss of the carrying value of the stocks and shares in subsidiaries. The impairment tests conducted as of June 30 and December 31, 2020, demonstrated the legitimacy of booking or increasing the already booked write-downs in the following subsidiaries: TAURON Wytwarzanie in the amount of PLN (194) million and TAURON EKOENERGIA in the amount of PLN (376) million.

As of December 31, 2020 and as of December 31, 2019, the equity represented, respectively, 39% and 49% of total equity and liabilities.

The liabilities of the Company due to debt, as of December 31, 2020, were related to:

- bonds issued under the bond issue program worth PLN 6 749.6 million, including the subordinated hybrid bonds in the amount of PLN 1 998.4 million,
- loans obtained from the consortium of banks in the amount of PLN 3 162.8 million,

3. loans obtained from BGK in the amount of PLN 998.2 million,
4. loans from related entities drawn under the *Agreement on the provision of the cash pool service* in the amount of PLN 1 386.4 million,
5. loans obtained from the European Investment Bank (EIB) in the amount of PLN 540.3 million (along with the interest),
6. loans obtained from Intensa Sanpaolo S.p.A. in the amount of PLN 752.1 million (along with the interest),
7. loans obtained from SMBC Bank EU AG in the amount of PLN 498.9 million (along with the interest),
8. loan from a subsidiary in the amount of PLN 770.5 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 30.7 million, related to the right of perpetual usufruct of land, leases of office premises 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. 33. Statement of cash flows drawn up in accordance with the IFRS (material items)

Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2019	2020	Change in % (2020 / 2019)
CASH FLOW FROM OPERATING ACTIVITIES			
Pretax profit / (loss)	(346 207)	(3 527 630)	1019%
Adjustments	(152 063)	4 435 076	-
Net cash from operating activities	(498 270)	907 446	-
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of stocks and shares	(863 047)	(690 623)	80%
Purchase of bonds	(420 000)	-	0%
Loans granted	(1 281 444)	(1 933 932)	151%
Redemption of bonds	1 190 000	-	0%
Repayment of loans granted	15 600	216 558	1388%
Dividends received	1 100 861	1 082 031	98%
Interest received	335 316	226 638	68%
Net cash from investing activities	74 699	(1 088 538)	-
CASH FLOW FROM FINANCING ACTIVITIES			
Redemption of debt securities	(2 420 000)	(60 400)	2%
Repayment of loans / credits	(862 318)	(4 401 918)	510%
Interest paid	(405 881)	(379 871)	94%
Issue of debt securities	500 000	1 000 000	200%
Loans taken	5 150 000	3 360 000	65%
Net cash from financing activities	1 934 525	(512 772)	-
Increase / (decrease) in net cash and equivalents	1 510 954	(693 864)	-
Net FX differences	(239)	2 803	-
Cash opening balance	(1 560 034)	(49 080)	3%
Cash closing balance	(49 080)	(742 944)	1514%

The balance of cash received from the operating, investing and financing activities of the Company for 2020, taking into account the opening cash balance, stood at PLN (742.9) 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 643.1 million stems from the adjustment of cash by the balance of loans granted and drawn under the *cash pool* transactions, due to the fact that they do not constitute cash flows from the 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 2020. 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. 34. Key financial ratios of TAURON

Item	Definition	2019	2020	Change in % (2020 / 2019)
1. Gross Profitability	Gross profit / sales revenue	(3.2)%	(31.1)%	960%
2. Net Profitability	Net profit / sales revenue	(4.3)%	(31.2)%	721%
3. Return on equity	Net profit / equity as of the end of the period	(3.1)%	(31.9)%	1019%
4. Return on assets	Net profit / total assets	(1.5)%	(12.3)%	813%
5. EBIT (PLN '000)	Operating profit	101 102	(909 903)	-
6. EBIT margin	(EBIT / sales revenue)	0.9%	(8.0)%	-
7. EBITDA (PLN '000)	Operating profit before depreciation	114 198	(894 391)	-
8. EBITDA margin	EBITDA / sales revenue	1.1%	(7.9)%	-
9. Current liquidity ratio	Current assets / short term liabilities	0.73	0.93	127%

The lower EBIT achieved by the Company in 2020, as compared to 2019, is mainly due to the need to set up the provision for the onerous contract, i.e. the multi-year agreement for the purchase of the electricity generated by the 910 MW unit in Jaworzno, in the amount of PLN 1 110 million.

The 2020 pre-tax and net financial results were impacted by the booked and reversed impairment charges related to the stocks and shares in the subsidiaries, the revaluation of the loans granted and the write-downs related to the revaluation to fair value (mark to market) of the fixed assets classified as held for sale.

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 2020.

4.4. Principles of preparing annual financial statements

The Financial Statements of TAURON 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 of TAURON have been drawn up with the assumption of the continuation of business operations by TAURON in the foreseeable future, i.e. over the time frame not shorter than 1 year from the balance sheet date. As of the date of the approval of the Financial statements of TAURON for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON.

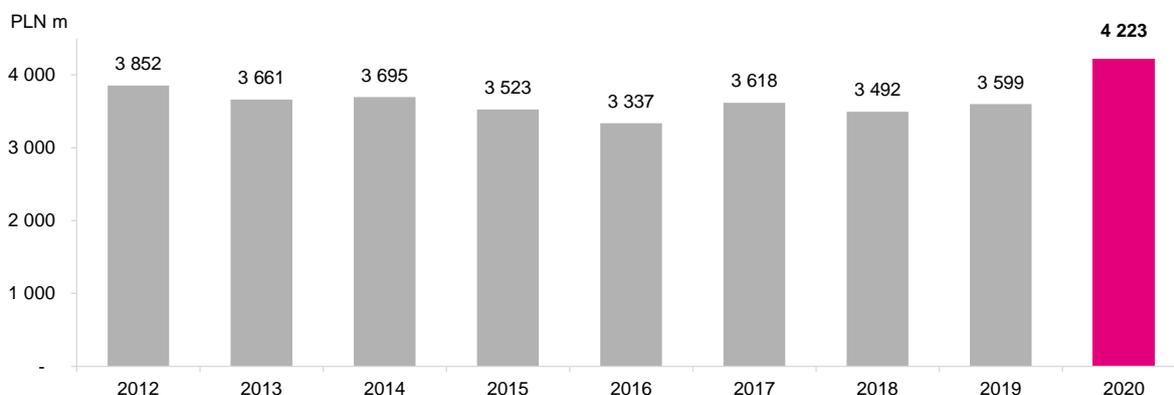
The accounting principles (policy) adopted for drawing up of the Financial Statements of TAURON are presented in note 6 to the *Financial Statements of TAURON*.

5. ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL RESULTS

5.1. TAURON Capital Group's financial results

The below table presents TAURON Capital Group's EBITDA in 2012-2020.

Figure no. 47. TAURON Capital Group's EBITDA in 2012-2020



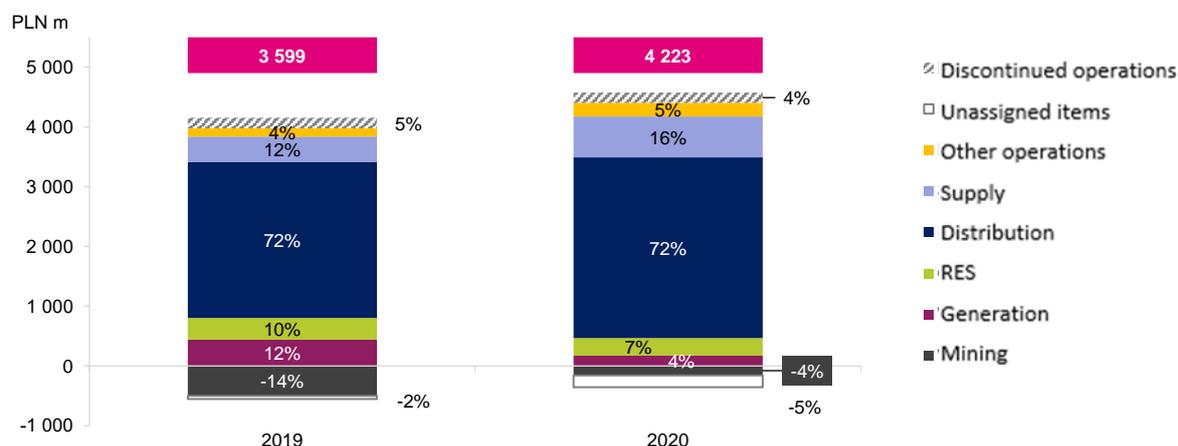
The below table presents TAURON Capital Group's 2019-2020 EBITDA broken down into individual lines of business (segments). Data for the individual segments do not include the consolidation exclusions.

Table no. 35. TAURON Capital Group's 2019-2020 EBITDA broken down into individual lines of business (segments)

EBITDA (PLN '000)	2019	2020	Change in % (2020 / 2019)	Change (2020 - 2019)
Mining	(499 865)	(157 321)	31%	342 544
Generation	438 114	172 145	39%	(265 969)
RES	368 213	296 852	81%	(71 361)
Distribution	2 605 808	3 023 006	116%	417 198
Supply	428 577	683 352	159%	254 775
Other operations	136 186	229 314	168%	93 128
Unassigned items	(55 792)	(195 741)	351%	(139 949)
EBITDA on continued operations	3 421 241	4 051 607	118%	630 366
Discontinued operations	178 126	171 119	96%	(7 007)
Total EBITDA	3 599 367	4 222 726	117%	623 359

The below figure presents TAURON Capital Group's 2019-2020 EBITDA structure (composition).

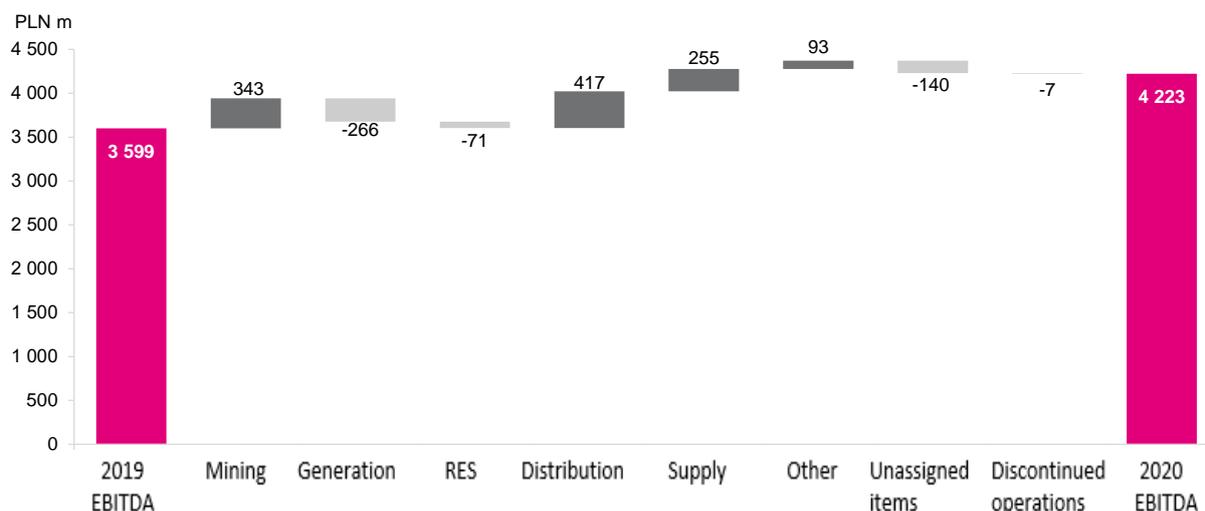
Figure no. 48. TAURON Capital Group's 2019-2020 EBITDA structure (composition)



The 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 2019-2020.

Figure no. 49. Change in TAURON Capital Group's EBITDA in 2019-2020



5.2. TAURON Capital Group's financial results by operating Segments (Lines of Business)

Mining Segment

The below table presents the Mining Segment's 2019-2020 results

Table no. 36. Mining Segment's 2019-2020 results

Item (PLN '000)	2019	2020	Change in % (2020 / 2019)	Change (2020 - 2019)
Sales revenue	944 433	1 051 923	111%	107 490
coal - coarse and medium assortments	236 506	235 829	100%	-677
thermal coal	658 630	769 327	117%	110 697
other revenue	49 296	46 767	95%	-2 529
EBIT	-1 391 949	-886 665	-	505 284
Depreciation and write-downs	892 084	729 344	82%	-162 740
EBITDA	-499 865	-157 321	-	342 544

The Mining Segment's revenue was 11% higher in 2020, as compared to 2019, as a consequence of the higher coal volume sold, which was due to the higher production of the commercial coal by TAURON Wydobywanie mining subsidiary's coal mines. Janina Coal Mine (ZG Janina) and Brzeszcze Coal Mine (ZG Brzeszcze) reported the biggest increase, which was due to the more favorable configuration of the longwall fronts than in 2019. The lower extraction output of the Sobieski Coal Mine (ZG Sobieski) was a consequence of a smaller number of the longwalls for mining.

The Mining Segment's 2020 EBITDA and EBIT were higher in 2020 as compared to the same period of 2019. The achieved results were impacted by the following factors:

1. an increase of the sales volumes of the large and medium size grain products by 8% and of the thermal coal by 10%,
2. an increase of average coal price by 7%, i.e. from 237,25 PLN/Mg to 247.60 PLN/Mg, which was mainly due to an increase of the price of the coal dust (fine grained product) from 221.35 PLN/Mg to 234.85 PLN/Mg,
3. a decline of the variable unit cost by 7%, i.e. from 47.31 PLN/Mg to 44.11 PLN/Mg, primarily due to the lower unit cost of the preparatory works,
4. receiving of the funding under the government's anti-crisis shield program,
5. others - mainly due to the fact that some of the coal produced and not sold had been recognized as assets in the balance sheet in 2020 and one-off events affecting the 2019 result,

In addition, the Segment's higher EBIT was impacted by the lower impairment charge than in the same period of 2019.

TAURON Capital Group recognized, in the 2020 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 560 million in 2020, which is a lower figure than the amount recorded in the same period of last year, i.e. PLN 694 million.

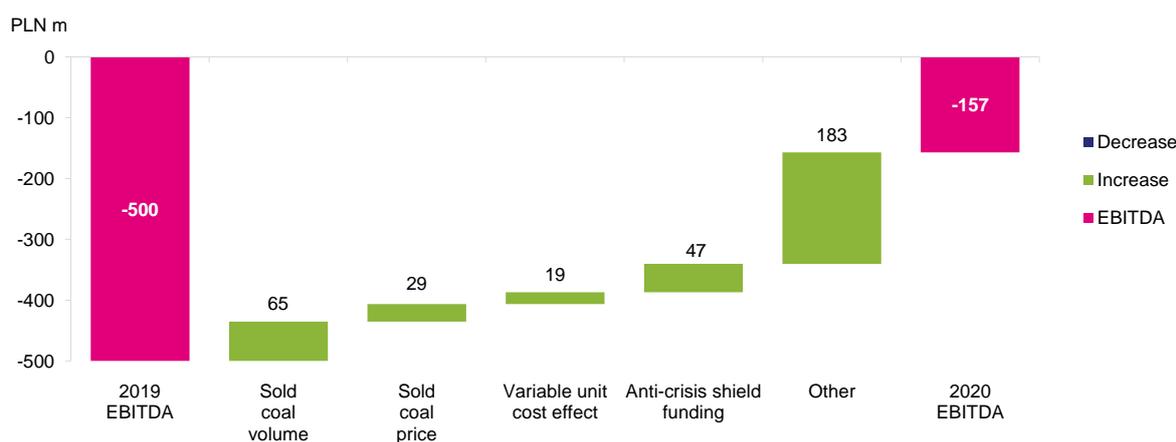
The below figure presents the Mining Segment's 2019-2020 financial data.

Figure no. 50. Mining Segment's 2019-2020 financial data



The below figure presents the Mining Segment's EBITDA, including the material factors affecting the change year on year.

Figure no. 51. Mining Segment's EBITDA



Major investments (CAPEX)

The Mining Segment's total capital expenditures came in at PLN 345 million in 2020, including the outlays on the following investment projects:

1. PLN 41 million on the construction of the 800 m level at Janina Coal Mine (ZG Janina),
2. PLN 38 million on the purchase/upgrade of the longwall mining system in the coal seam 301,
3. PLN 32 million on the Brzeszcze Coal Mine's (ZG Brzeszcze) capex program,
4. PLN 17 million on the construction of the "Grzegorz" shaft, including the construction of the infrastructure and the accompanying headings,
5. PLN 139 million of outlays on the preparation of future production.

The 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).

Generation Segment

The below table presents the Generation Segment's 2019–2020 results.

Table no. 37. Generation Segment's 2019–2020 results

Item (PLN '000)	2019	2020	Change in % (2020 / 2019)	Change (2020 - 2019)
Sales revenue	3 428 637	3 493 387	102%	64 750
electricity	3 212 208	3 202 512	100%	(9 696)
heat	114 636	148 246	129%	33 610
property rights related to certificates of electricity origin	52 196	91 538	175%	39 342
other revenue	49 597	51 092	103%	1 495
EBIT	(509 635)	(2 712 856)	-	(2 203 221)
Depreciation and write-downs	947 749	2 885 001	304%	1 937 252
EBITDA	438 114	172 145	39%	(265 969)

The Generation Segment's sales revenue was higher by 2% in 2020, as compared to the same period of 2019, primarily due to the higher heat and RES property rights sales revenue (higher sales volume).

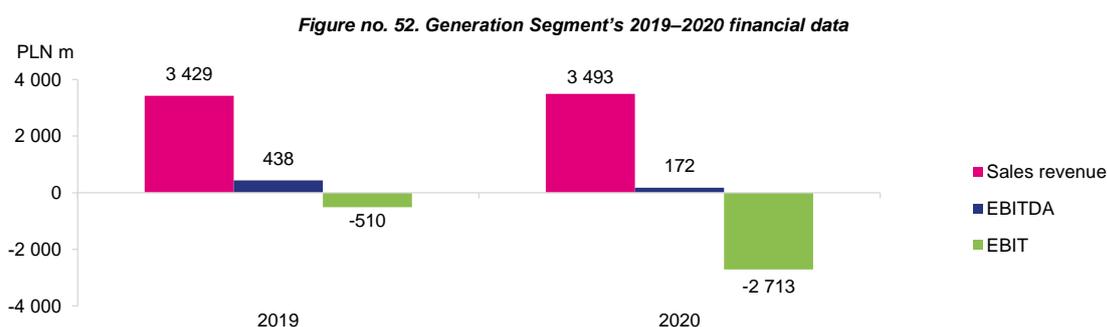
Generation Segment's 2020 EBITDA and EBIT were lower than the 2019 results. The following factors had an impact on the results achieved:

1. lower margin on electricity (coal fired units) - mainly due to the lower CDS year on year and the decline of the electricity sales volume. The recognition of the provision set up in connection with the obligation to present the CO₂ 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. commissioning of the 910 MWe in Jaworzno in November 2020,
3. higher margin on electricity (biomass fired units) - due to the higher PMOZE prices, higher electricity prices as well as the higher production volume,
4. a swap of the CO₂ emission allowance purchase contracts, in the first quarter of 2020 TAURON Capital Group made a decision to change the hedging strategy related to securing the Generation Segment's retirement needs, involving a one-time swap of the exchange traded contracts with the delivery date in December 2020 to the OTC contracts with the delivery date in March 2021. All of the new transactions concluded on the OTC market will be used for the purpose of performing the retirement obligation by TAURON Capital Group's generation subsidiaries. The above transactions led to a charge to the Generation Segment's EBITDA result in the amount of PLN 111 million. At the same time, the completed purchase of the volume with the delivery date in March 2021 from the counterparties on the OTC market, taking into account the decrease of the CO₂ emission allowances prices at the time of the transaction, led to the reduction of the costs of TAURON Capital Group setting up a provision for the CO₂ emission liabilities for 2020,
5. receiving of the financing aid as part of the government anti-crisis shield package program,
6. other - mainly: the lower TAMEH result, higher property insurance costs, higher result on the sale of non-financial fixed assets and changes in the provisions year on year.

In addition, the Segment's lower EBIT was impacted by the higher impairment charges year on year.

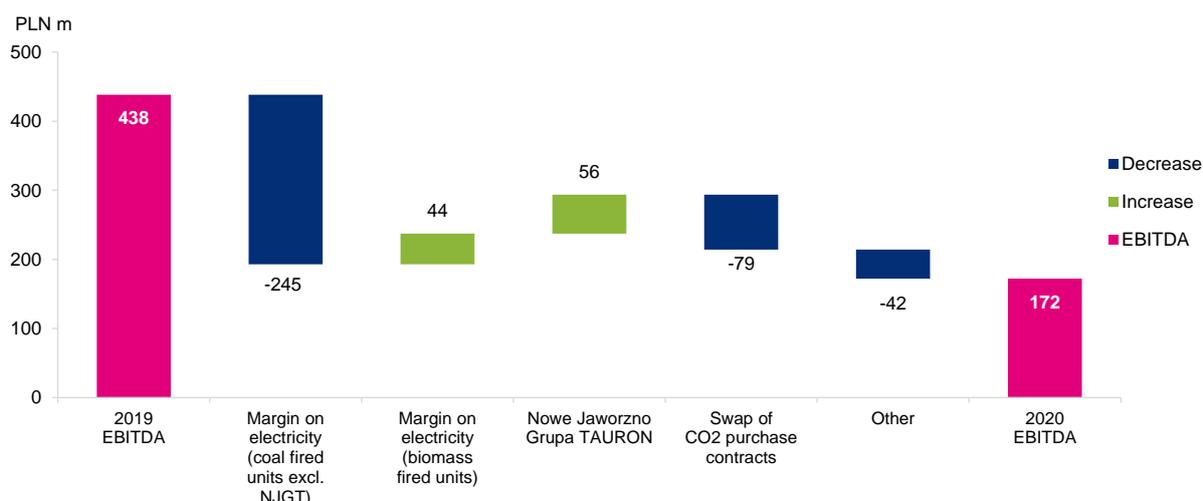
TAURON Capital Group recognized, in the 2019 and 2020 results, the booking and reversing of the impairment charges related to the loss of the carrying amount on the balance sheet of the Generation Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 635 million and PLN 2 618 million, respectively.

The below figure presents the Generation Segment's 2019–2020 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 1 336 million in 2020, including the outlays on the following strategic investment projects:

1. PLN 688 million on the construction of the new 910 MWe unit in Jaworzno,
2. PLN 239 million on the adaptation of TAURON Wytwarzanie's generating units to the *BAT conclusions*,
3. PLN 187 million on the replacement expenditures and overhaul components at TAURON Wytwarzanie
4. PLN 18 million on the implementation of the heat unit at Łagisza Power Plant,

In addition, the financial costs account for approx. PLN 205 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, was completed. TAURON and PGNiG hold a 50% stake each in the special purpose vehicle that implemented the project that included 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, the contract manager formula (EPCM) was chosen. among others due to the project's advancement level. Energopomiar Gliwice - Energoprojekt Katowice consortium was selected to implement the EPCM project. The project's implementation was completed in September 2020 and since October 2020 Elektrociepłownia Stalowa Wola S.A. has been operating a CCGT unit with a heating unit and a back-up heat source. The capital expenditures incurred on the project (excluding the financial costs) amount to PLN 1.4 billion.

RES Segment

The below table presents the RES Segment's 2019–2020 results.

Table no. 38. RES Segment's 2019–2020 results

Item (PLN '000)	2019	2020	Change in % (2020 / 2019)	Change (2020 - 2019)
Sales revenue	433 911	615 558	142%	181 647
electricity	253 058	305 505	121%	52 447
certificates of origin of electricity	177 906	309 971	174%	132 064
other	2 947	82	3%	(2 865)
EBIT	284 346	145 801	51%	(138 545)
Depreciation and write-downs	(83 867)	(151 051)	180%	(67 184)
EBITDA	368 213	296 852	81%	(71 361)

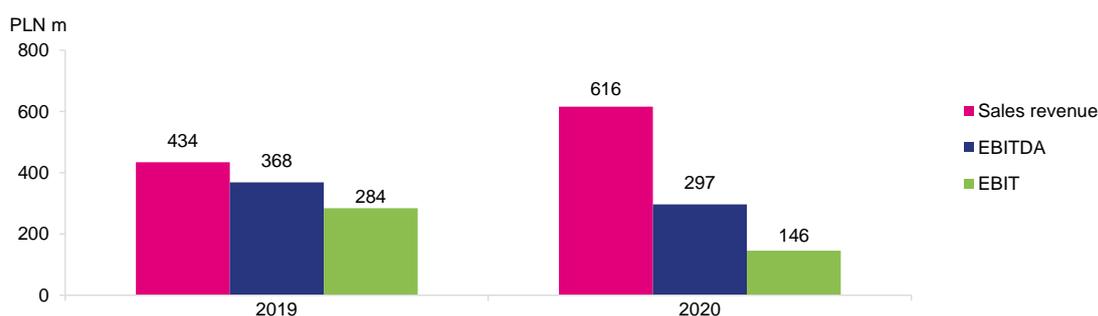
RES segment's EBITDA and EBIT were lower in 2020 than in the same period of 2019. The results posted were affected by the following factors:

1. recognition of the opportunistic acquisition of 5 wind farms from the in.ventus group in the 2020 result,
2. a higher margin on electricity sales - mainly due to the electricity production by the wind farms acquired in September 2019,
3. higher revenues from the certificates of origin of electricity, which is a consequence of the higher prices and the certificates obtained as a result of the electricity production by the wind farms acquired in September 2019,
4. higher fixed costs as a result of setting up, in June 2020, of the provision for the real estate tax as a result of the judgement of the Constitutional Tribunal of July 2020 with respect to the constitutionality of the definition of a building structure and the costs of operating the wind farms acquired in September 2019.

In addition, the depreciation costs rose in 2020 in the RES Segment, as a result of an increase in the value of assets as a result of the wind farm acquisition transaction in September 2019.

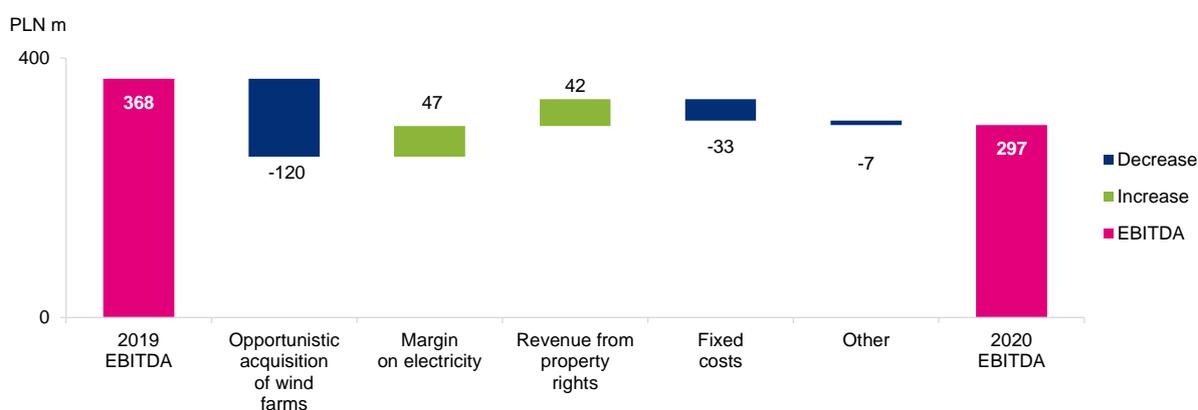
The below figure presents the RES Segment's 2019-2020 financial data.

Figure no. 54. RES Segment's 2019-2020 financial data



The below figure presents the RES Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 55. RES Segment's EBITDA



Major investments (CAPEX)

The RES Segment's total capital expenditures came in at PLN 40 million in 2020, including the outlays on the following strategic investment projects:

1. PLN 16 million on the construction of the Choszczno PV farm,
2. PLN 15 million on the construction of the Jaworzno PV farm.

Distribution Segment

The below table presents the Distribution Segment's 2019-2020 results.

Table no. 39. Distribution Segment's 2019-2020 results

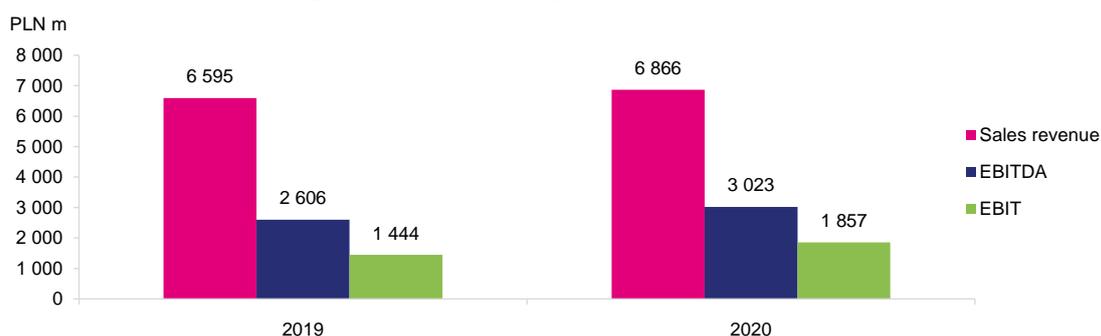
Item (PLN '000)	2019	2020	Change in % (2020 / 2019)	Change (2020 - 2019)
Sales revenue	6 594 864	6 866 354	104%	271 490
distribution and trading services	6 299 847	6 577 492	104%	277 645
grid connection fees	80 885	83 319	103%	2 434
Revenue due for fixing power line collisions	45 058	37 446	83%	(7 612)
other revenue (rent, goods and materials, construction and assembly services)	169 074	168 097	99%	(977)
EBIT	1 443 741	1 857 009	129%	413 268
Depreciation and write-downs	1 162 067	1 165 997	100%	3 930
EBITDA	2 605 808	3 023 006	116%	417 198

The Distribution Segment reported a 4% sales revenue increase, while EBIT and EBITDA went up by, respectively, 29% and 16% in 2020, as compared to 2019. The changes to the results posted were affected by the following factors:

1. an increase of the average rate for the distribution service sales to the final consumers,
2. a decline of the total electricity delivery by 1 464 GWh, including to the final consumers by 1 381 GWh, first of all in the B and C tariff groups, as a result of the economic slowdown and the visible impact of the COVID-19 pandemic on the economy,
3. higher costs of purchasing the transmission and distribution services,
4. an increase of the other revenue from the distribution operations, i.e. due to the passive energy off-take exceeding the contractual connection capacity (power) and the grid connection fees,
5. an increase of the costs of purchasing electricity to cover the balancing difference as a result of the higher volume, the higher purchase price,
6. dissolution, in 2020, of the provision for the payment of the equivalent for electricity,
7. a rise of the other fixed costs, including the labor costs as a result of the wages agreements signed, as well as an increase in the benefits in connection with the applicable regulations and the costs of the taxes on the grid assets due to the increase of the value of the assets as a result of the investment projects conducted.

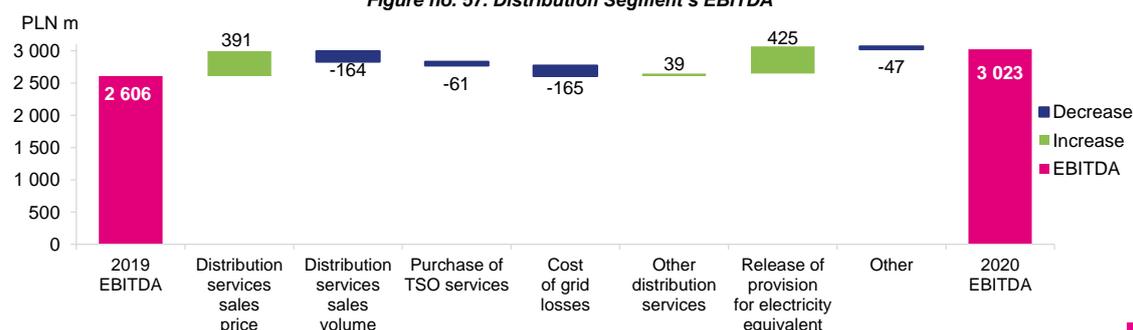
The below figure presents the Distribution Segment's 2019-2020 financial data.

Figure no. 56. Distribution Segment's 2019-2020 financial data



The below figure presents the Distribution Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 57. Distribution Segment's EBITDA



Major investments (CAPEX)

The Distribution Segment's total capital expenditures came in at PLN 1 908 million in 2020. The main capex directions included:

1. PLN 924 million on the investment projects related to connecting new consumers to the grid
2. PLN 827 million on the investment projects related to the grid upgrades (refurbishments) and replacements
3. PLN 52 million for the construction of a dispatcher communications system.

In addition, the expenditures in the total amount of approx. PLN 103 million were also incurred on: communications and IT, buildings and structures, means of transportation, in 2020.

Supply Segment

The below table presents the Supply Segment's 2019-2020 results.

Table no. 40. Supply Segment's 2019-2020 results

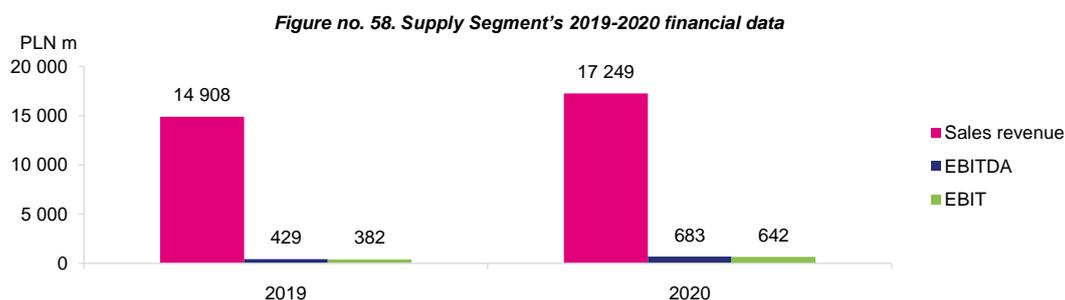
Item (PLN '000)	2019	2020	Change in % (2020 / 2019)	Change (2020 - 2019)
Sales revenue	14 907 937	17 249 258	116%	2 341 321
electricity, including	9 488 091	11 685 519	123%	2 197 428
revenue from retail electricity supply	7 479 056	9 575 392	128%	2 096 336
greenhouse gas emission allowances	701 607	339 632	48%	(361 975)
fuel	1 396 300	1 754 270	126%	357 970
distribution service (transferred)	3 117 588	3 242 716	104%	125 128
other revenue, including trading services	204 351	227 121	111%	22 770
Compensations	952 650	66 448	7%	886 202
EBIT	382 185	641 648	168%	259 463
Depreciation and write-downs	46 392	41 704	90%	(4 688)
EBITDA	428 577	683 352	159%	254 775

The Supply Segment's sales revenue was 16% higher in 2020, as compared to the same period of 2019, mainly due to the higher electricity sales revenue (higher electricity sales price) and the higher fuel sales revenue (higher coal and gas fuel sales volumes).

The Supply Segment's EBITDA and EBIT were higher in 2020 than in the same period of 2019. The results posted were affected by the following factors:

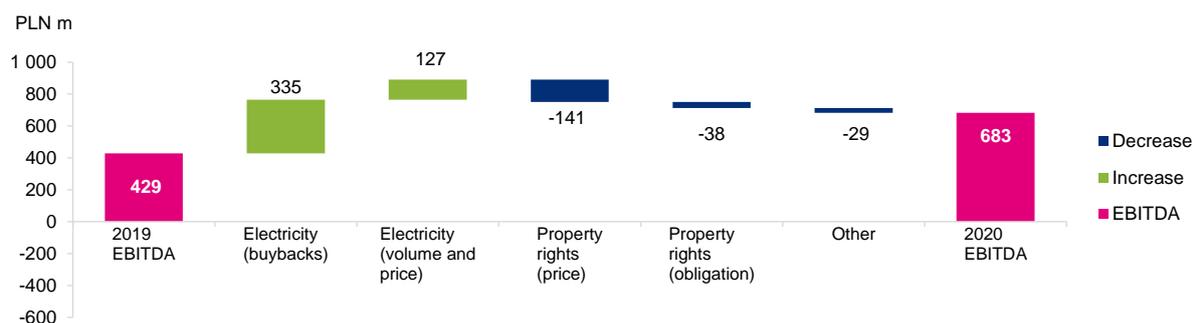
1. electricity (buybacks) – a positive impact on the result is brought about by the result generated on the electricity wholesale trading due to the performance of the buybacks of the volume contracted for the 910 MW unit in Jaworzno and the performance of the electricity buybacks for EC Stalowa Wola,
2. electricity volume and prices – a positive impact on the result is mainly due to an increase of retail electricity sales prices (an increase of the tariff and price lists) and the purchase of electricity generated by the 910 MW generating unit commissioned in Jaworzno in November 2020 in accordance with the adopted multi-year purchase agreement by TAURON at a price calculated in accordance with the net transaction margin method,
3. property rights prices – a negative impact on the result due to an increase of the prices of the *green certificates* (PMOZE),
4. obligation to retire the property rights – a negative impact on the result is a consequence of an increase of the obligation related to the *green certificates* (PMOZE) from 18.5% to 19.5%,
5. other – the recognized result on the sale of the other market (commercial) products, street lighting, the higher costs of sales and the balance of the other operations

The below figure presents the Supply Segment's 2019-2020 financial data.



The below figure presents the Supply Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 59. Supply Segment's EBITDA



Major investments (CAPEX)

The Supply Segment's total capital expenditures came in at PLN 61 million in 2020, mainly by TAURON Nowe Technologie, for the activities related to the maintenance and expansion of the street lighting in the amount of PLN 43 million and PLN 10 million for the construction of the gas engines .

Other operations

The below table presents the Other Operations Segment's 2019-2020 results.

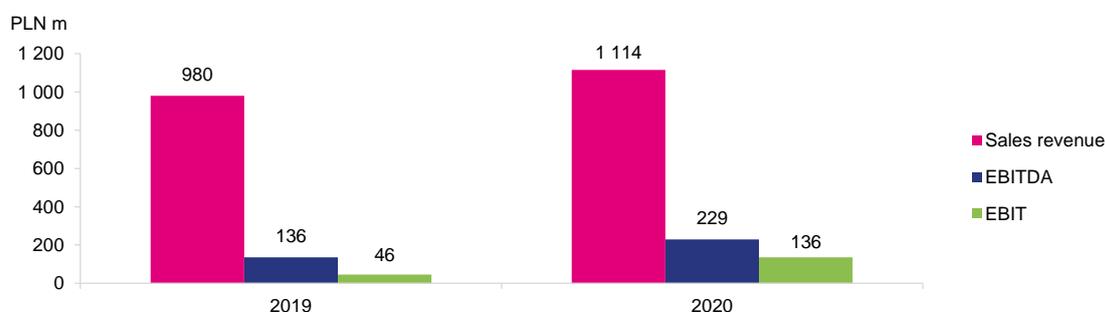
Table no. 41. Other Operations Segment's 2019-2020 results

Item (PLN '000)	2019	2020	Change in % (2020 / 2019)	Change (2020 / 2019)
Sales revenue	979 911	1 114 493	114%	134 582
customer service services	215 785	237 279	110%	21 494
support services	481 000	511 646	106%	30 646
biomass	118 546	156 472	132%	37 926
aggregates	106 573	104 173	98%	-2 400
other revenue	58 007	104 923	181%	46 916
EBIT	46 152	136 174	295%	90 022
Depreciation and write-downs	90 034	93 140	103%	3 106

The Other Operations Segment's subsidiaries revenue was 14% higher in 2020, as compared to 2018, which was primarily due to an increase of the revenue from the higher sales of biomass to TAURON Capital Group's subsidiaries and the sales of the other services, including, among others, the sales of the by-products of the combustion and extraction.

The below figure presents the Other Operations Segment subsidiaries' 2019-2020 financial data.

Figure no. 60. Other Operations Segment subsidiaries' 2019-2020 financial data



Major investments (CAPEX)

The Other Operations Segment subsidiaries' capital expenditures came in at PLN 248 million in total in 2020 and they included mainly outlays related to the IT systems, including PLN 101 million for the broadband internet construction project as part of the POPC III program.

Discontinued operations

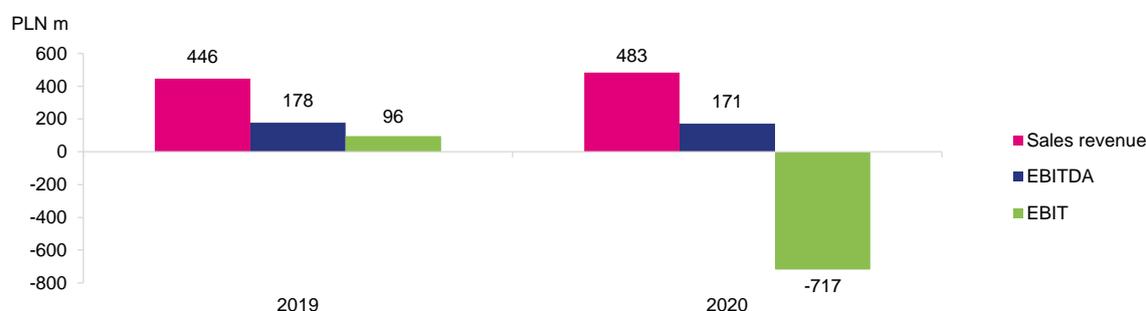
The below table presents the results posted as part of the Discontinued operations in 2019-2020.

Table no. 42. Discontinued operations' 2019-2020 results

Item (PLN '000)	2019	2020	Change in % (2020 / 2019)	Change (2020 / 2019)
Sales revenue	445 957	482 608	108%	36 652
EBIT	96 406	(717 342)	-	(813 748)
Depreciation and write-downs	81 720	888 461	1087%	806 741
EBITDA	178 126	171 119	96%	(7 007)

The below figure presents the Discontinued operations' 2019-2020 financial data.

Figure no. 611. Discontinued operations' 2019-2020 financial data



As of the date of placing TAURON Ciepło's net assets in the group for disposal, classified as held for sale, TAURON Capital Group performed a valuation of the group for disposal at fair value (mark to market). The fair value was, as of the balance sheet date, determined to stand at PLN 1 342 000 000. In connection with the fact that the fair value of the group for disposal is lower than its current book value (carrying amount), TAURON Capital Group took an impairment charge related to the loss of the carrying value of the non-financial fixed assets in the amount of PLN 822 009 000.

Major investments (CAPEX)

In terms of the discontinued operations, the main capital expenditures in 2020 are related to the outlays incurred by TAURON Ciepło subsidiary that clocked in at PLN 101 million, including spending on the following investment projects:

1. PLN 33 million on connecting of the new facilities to the grid,
2. PLN 16 million on the investment projects related to the development and maintenance of the district heating networks,
3. PLN 9 million on connecting of the facilities heated thus far from the low emission sources to the district heating networks.

5.3. 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. 43. Structure of the annual consolidated statement of financial position

Consolidated statement of financial position	As of December 31, 2019	As of December 31, 2020
ASSETS		
Fixed assets	83.6%	80.5%
Current assets	16.4%	19.5%

Consolidated statement of financial position	As of December 31, 2019	As of December 31, 2020
TOTAL ASSETS	100.0%	100.0%
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the parent entity	43.4%	39.4%
Non-controlling stakes	2.1%	2.3%
Total equity	45.5%	41.6%
Long term liabilities	35.7%	39.8%
Short term liabilities	18.8%	18.6%
Total liabilities	54.5%	58.4%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%
Financial liabilities	11 394 246	11 515 873
Net financial liabilities	10 129 572	10 594 528
Net debt / EBITDA ratio	2.8x	2.5x
Current liquidity ratio	0.87	1.05

The below figures present the structure of assets as well as equity and liabilities.

Figure no. 62. Structure of assets

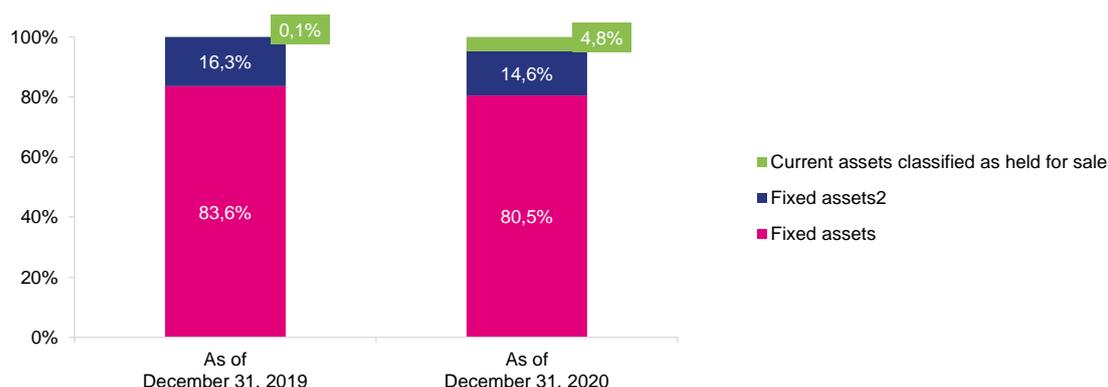


Figure no. 63. Structure of equity and liabilities



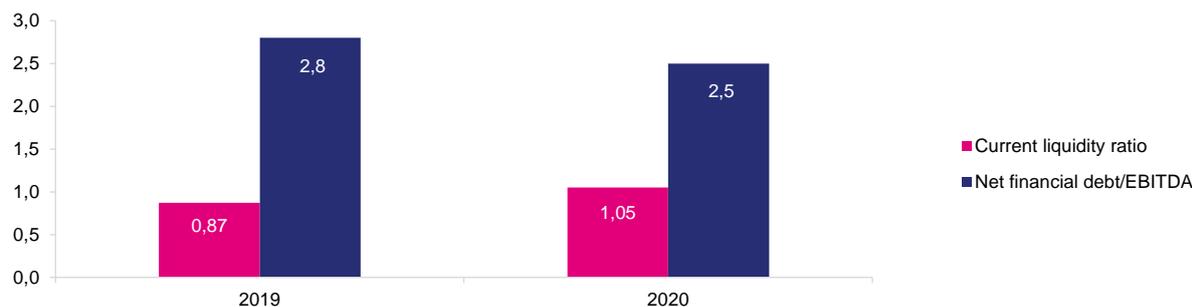
As of December 31, 2020, similar as in 2019, the value of the fixed assets constitutes the largest share in the structure of assets: 80.5%, which is less by 3.1 pp than in 2019.

As of December 31, 2020, the liabilities represent the largest share in the structure of equity and liabilities: 54.5%, with their share rising by 3.9 pp, as compared to 2019.

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 2019-2020.

Figure no. 64. Current liquidity ratio and the net debt to EBITDA ratio in 2019-2020



The below table presents the annual consolidated statement of financial position – **assets**.

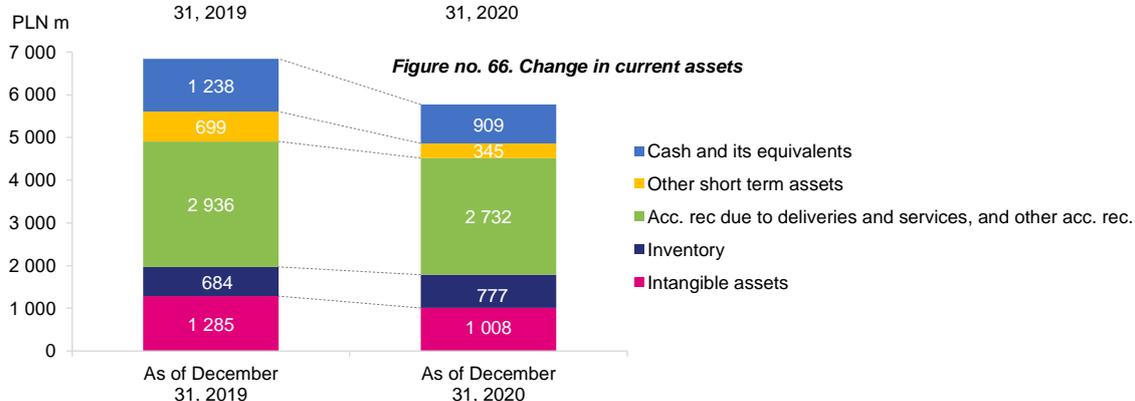
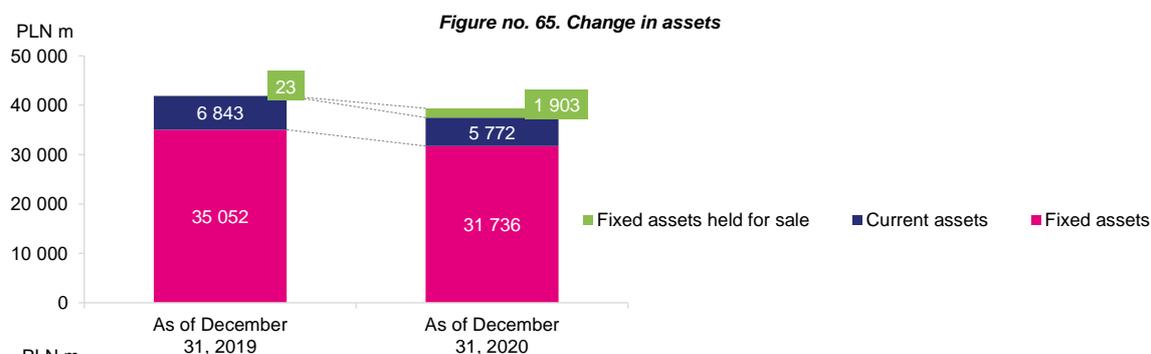
Table no. 44. Annual consolidated statement of financial position - assets (material items)*

Statement of financial position (PLN '000)	As of December 31, 2019	As of December 31, 2020	Change in % (2019 / 2018)
ASSETS			
Fixed assets	35 052 287	31 736 391	91%
Tangible fixed assets	31 099 071	27 926 615	90%
Current assets	6 865 478	7 674 673	111%
Cash and equivalents	1 237 952	909 453	73%
Fixed assets classified as held for sale	22 710	1 903 076	8 276%
TOTAL ASSETS	41 917 765	39 411 064	94%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

As of December 31, 2020, the statement of the financial position of TAURON Capital Group indicates the balance sheet total lower by 6%.

The below figures present the change in the level of assets and current assets.



In 2020, TAURON Capital Group, having taken into account the following factors:

1. long term (persistent) hovering of the net market value of Company's assets at a level below the net balance sheet carrying amount of the assets,
2. changes to the commodity, electricity and CO₂ emission allowances prices on the worldwide markets;
3. high volatility of electricity prices on the futures market and the continued problems with a lack of liquidity;
4. decline in domestic electricity consumption due to the rising winter temperatures and the impact of the COVID-19 pandemic,
5. regulatory actions aimed at curbing an increase of electricity prices for the final consumers,
6. rising risk related to the commercial coal production,
7. effects of the results of the RES auctions held thus far and the very fast growth of the prosumer and micro-installations subsector in connection with the support programs launched,
8. 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,
9. tightening of the emissions standards and continued adverse market conditions from the point of view of the conventional power generation's profitability,
10. decrease of the risk free rate,

recognized (booked) impairment charges in the Generation and Mining Segments for the total amount of PLN 3 170 million as a result of the impairment tests conducted as of December 31, 2020 and as of June 30, 2020, of which the Company disclosed information in the regulatory filings (current reports) no. 5/2021 of February 23, 2021, correction of no. 5/2020 of February 26, 2021, and no. 37/2020 of August 5, 2020. It should be mentioned that in 2019 TAURON Capital Group recognized the impairment charges in the Generation and Mining Segments and dissolved (reversed) in part the previously booked write-downs in the Generation segment, which is the result of the impairment tests carried out as of December 31, 2019, and June 30, 2019, in the total amount of PLN 1 305 million.

After excluding the impairment charges, the value of the fixed assets as of December 31, 2020, was lower by PLN 1 450 million, i.e. by 4%, which was a consequence of the changes in the following items of the Statement of the Financial Position:

1. tangible fixed assets (excluding the impact of the impairment charges related to the carrying amount of the fixed assets) - a decline by 4% as a consequence of:
 - 1) classifying of TAURON Ciepło's net assets as held for sale and recognizing them in the financial statements under the current assets item,
 - 2) investment projects implemented by TAURON Capital Group's subsidiaries,
 - 3) depreciation charges related to TAURON Group's assets,
2. right to use the assets – a drop by 2% as a consequence of depreciation charges,
3. certificates of origin of electricity and greenhouse gas emission allowances to be redeemed (retired) – an increase by 7% which is the result of the reclassifying of the certificates of origin of electricity and the CO₂ emission allowances as the current assets in connection with the fulfilment of the conditions for the redemption (retirement) of the said assets and the purchase thereof towards the obligation in the subsequent years.
4. loans granted to the joint ventures – a drop by 60% due to the update of the valuation of the loan valued at fair value (marked to market),
5. other intangible assets – a rise by 15%,
6. other financial assets – a drop by 12%,
7. other non-financial assets – a drop by 58%,
8. deferred income tax assets – an increase by 80%.

The following factors had an impact on the increase in the value of the current assets by PLN 809 million, i.e. by 12%:

1. recognition (booking) of the net assets of TAURON Ciepło classified as assets held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Ciepło subsidiary and the potential continuation of the sale process,
2. balance of cash on hand and its equivalents – a decline by 27%,
3. certificates of origin of electricity and the CO₂ emission allowances to be redeemed (retired) – a drop by 22% which is the result of the postponement of the purchase of the CO₂ emission allowances to be redeemed (retired) in 2020 until March 2021,
4. inventory – an increase by 14% mainly due to the rise of the hard coal inventory,
5. accounts receivable from the consumers – a rise by 3%,
6. accounts receivable due to income tax – a slump by 67% in connection with the inflow, received in 2020, due to the settlement of the corporate income tax for 2019 and the recognition, as of December 31, 2020, of the accounts receivable due to income tax, which is mainly due to the PGK's accounts receivable,

7. accounts receivable due to the other taxes and fees – a fall by 27%, mainly due to the settlement of the VAT which was the result of the transaction to purchase the CO₂ emission allowances by the Generation Segment subsidiaries from the parent entity,
8. other financial assets – a drop by 52%, which is the result of:
 - 1) a decrease in the accounts receivable due to the compensations for the trading companies as a result of the settling by the Manager of the settlements of the accounts receivable recognized as of December 31, 2019, and the recognition, as of December 31, 2020, of the accounts receivable stemming from the applications for an adjustment, submitted on September 28, 2020, by the trading companies, of the amount of the difference between the price and the financial compensation for the entire 2019,
 - 2) lower value of the tender deposits (margins), security deposits (margins, pledges) provided as a result of the lower value of the collaterals provided by the Generation segment's subsidiary to PSE S.A. as a collateral for the proper performance of the contract for the provision of the electricity transmission services and the collaterals provided by the Company as part of the system of guaranteeing the settlements with IRGiT (Warsaw Commodity Exchange Clearing House),
 - 3) a decline of the initial margins – which is mainly due to the Company's positions (exposures) on the exchange as of December 31, 2020, and the changes of the prices of the allowances,
 - 4) a decrease in the value of the variation margins,
 - 5) sale of the investment funds' participation units in 2020.
9. other non-financial assets – a decrease by 22%, under which TAURON Capital Group recognizes accruals and prepayments, the advances towards the fixed assets under construction, the intangible assets and inventory that is not discounted as non-monetary assets, as well as the contract acquisition costs and the discount costs. The contract acquisition costs are capitalized, if TAURON Capital Group expects that they will be recovered.

The below table presents the annual consolidated statement of financial position – **equity and liabilities**.

Table no. 45. Annual consolidated statement of financial position – equity and liabilities (material items)*

Statement of financial position (PLN '000)	As of December 31, 2019	As of December 31, 2020	Change in % (2020 / 2019)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	18 192 226	15 518 642	85%
Non-controlling stakes	900 434	893 623	99%
Total equity	19 092 660	16 412 265	86%
Long term liabilities	14 963 274	15 687 376	105%
Liabilities due to debt	11 830 183	13 108 449	111%
Short term liabilities	7 861 831	7 311 423	93%
Liabilities due to debt	2 484 093	1 478 550	60%
Total liabilities	22 825 105	22 998 799	101%
TOTAL EQUITY AND LIABILITIES	41 917 765	39 411 064	94%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figures present the change in the amount of liabilities and equity attributable to the majority shareholders.

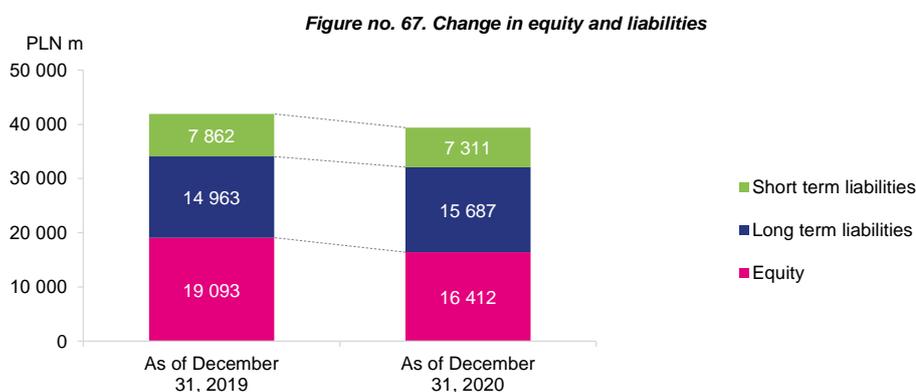
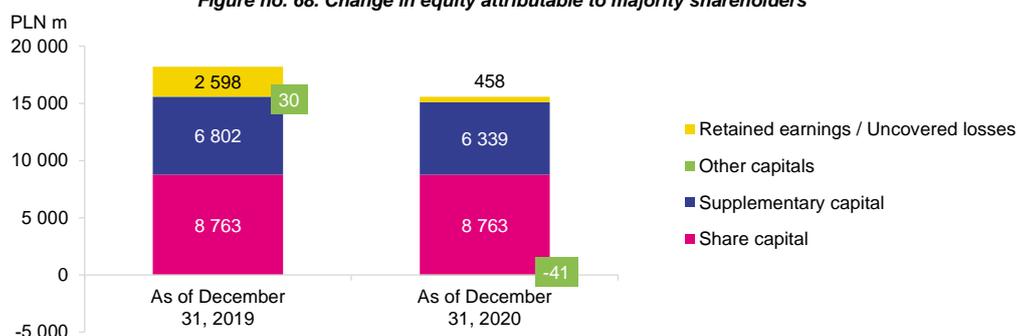


Figure no. 68. Change in equity attributable to majority shareholders



Equity was a material source of financing the assets in 2020 and its share in the total equity and liabilities stood at 41.6%.

The below figures present the change in the amount of short term and long term liabilities.

Figure no. 69. Change in long term liabilities

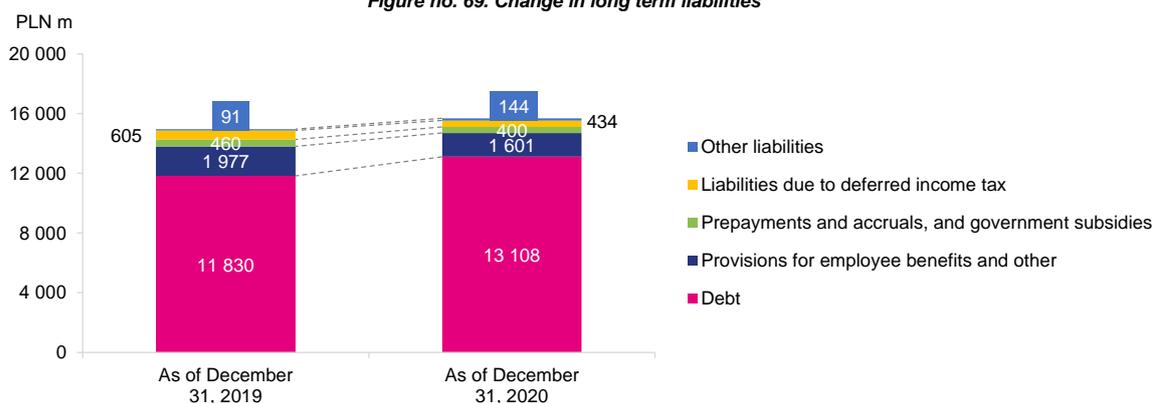
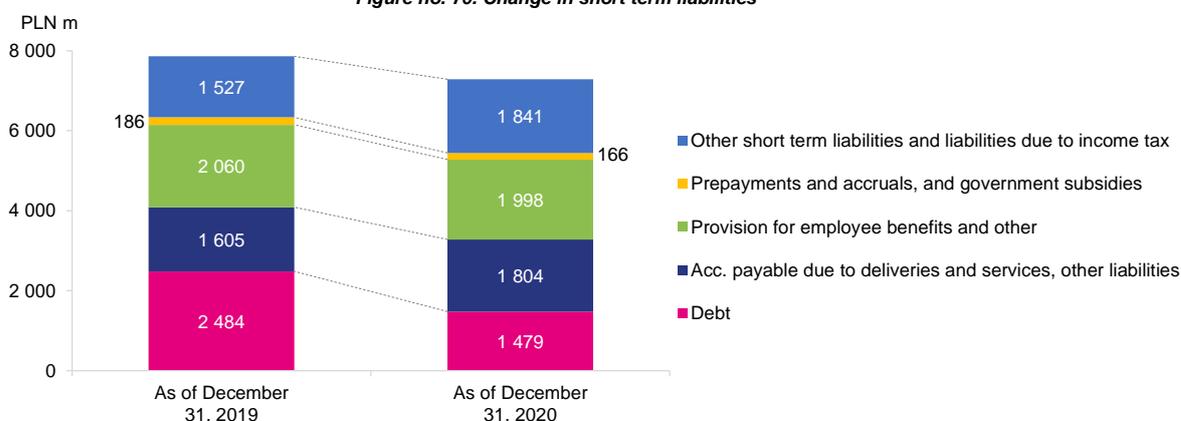


Figure no. 70. Change in short term liabilities



The amount of TAURON Capital Group's long term liabilities went up by PLN 724 million, i.e. by 5%, 2020, which was a consequence of the following factors:

1. reclassifying of some liabilities as liabilities related to the assets classified as the net assets of TAURON Cieplo held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Cieplo subsidiary and the potential continuation of the sale process,
2. liabilities due to debt – an increase by 11% as a result of taking out loans worth PLN 3 369 million in 2020, an issue of the bonds worth PLN 1 billion, an update of the valuation of the bonds issued in a foreign currency as a result of a rise of the FX rate as of December 31, 2020, as compared to the FX rate as of December 31, 2019, as well as reclassifying of some liabilities as short term liabilities,
3. liabilities due to the deferred income tax – a drop by 28%, which is mainly due to the reduction of the difference between the tax value and the balance sheet value (carrying amount) of the tangible fixed assets, intangible assets and the rights to use the assets,
4. provisions for the employee benefits – a drop by 29% in connection with the dissolution (release) of the provisions for the employee tariff which is an effect of the agreement concluded in May 2020 and the signing of the additional protocols between the management boards of the subsidiaries and the workforce that amended the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout

of a cash equivalent due to the discount for the consumption of electricity by the retirees, pensioners and other eligible persons who were no longer employees of the above mentioned subsidiaries.

The amount of TAURON Capital Group's short term liabilities went down by PLN 550 million, i.e. by 7%, which was primarily a consequence of the following factors:

1. reclassifying of some long term liabilities as liabilities related to the assets classified as the net assets of TAURON Ciepło held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Ciepło subsidiary and the potential continuation of the sale process,
2. liabilities due to debt – a drop by 40%, which is related to the repayment of the loans received in the amount of PLN 4 407 million, reclassifying of some long term liabilities as short term liabilities and an update of the value of the bonds issued in a foreign currency as a result of a rise of the FX rate as of December 31, 2020, as compared to the FX rate as of December 31, 2019,
3. accounts payable towards the suppliers – an increase by 14% and the investment commitments – a rise by 11%,
4. provisions for the employee benefits – a drop by 14% in connection with the dissolution of the provisions for the employee tariff,
5. provisions for the obligations due to the certificates of origin of electricity and the CO₂ emissions – a rise by 18%, which is mainly due to an increase of the prices of the green certificates (PMOZE) and the prices of the CO₂ emission allowances in 2020, as compared to the prices in 2019, as well as an increase of the obligation related to the certificates of origin of electricity, the so-called green certificates (PMOZE) from 18.5% to 19.5%,
6. other provisions – a decrease by 51%, which stems from the consumption of the provision for onerous contracts set up at the end of December 2019 by the Supply Segment's subsidiary, and which was mainly related to the households, including the customers who were using the tariff based prices approved by the President of the ERO ("G tariff") and the individual customers who were using the product based price lists offered by the Company ("GD price lists"). The need to set up the above provision for the G tariff stemmed from the adoption, for the calculation of the sales price for such consumers for 2020, of the parameters specified in the request (summons) of the President of the ERO, the approval of which in December 2019 results in the lack of the ability to generate revenue from the supply of electricity in the amount covering the justified costs of conducting the business operations in this regard. The price level approved by the decision of the President of the ERO for the G tariff group for 2020 was also a significant reason for the losses on the GD price lists, for which the provision was set up. Some of the product based contracts in the household segment link the rates for the electricity with the G tariff price, and therefore also make it impossible to generate sales revenue in the amount that would cover the full variable costs of the business operations conducted. At the same time, the TAURON Sprzedaż subsidiary submitted, on January 7, 2020, an application for the approval of a change of the electricity tariff for the G tariff groups' customers for 2020, which aims to pass on (cover) all of the justified costs that were not accepted in the application approved in December 2019. By way of the decision of July 8, 2020, the President of the ERO refused to approve the change in the electricity tariff for such customers. On July 31, 2020, the Management Board of TAURON Sprzedaż filed an appeal with the Competition and Consumer Protection Court against the Decision of the President of the ERO of July 8, 2020. At the same time, as of December 31, 2020, the Company updated the remaining part of the provision for onerous contracts. This provision is applicable, first and foremost, to the GD price lists. However, as of December 31, 2020, there was no need to set up a provision for onerous contracts in respect of the G tariff. On the basis of the tariff for the households for 2021 approved by the President of the ERO in December 2020, the Company will be generating revenue from the supply of electricity that will fully cover the justified costs of conducting the business operations in this regard,
7. accounts payable due to taxes and fees – a drop by 33%, which is the result of the lower accounts payable due to the VAT tax, the accounts payable due to the social security and the personal income tax. The decrease of the accounts payable due to the VAT tax is primarily the result of the settlement, within the period of the six months ended on June 30, 2020, of the liability due to the VAT tax as of December 31, 2019, stemming from the transaction involving the sale by the Company of the CO₂ emission allowances to the Generation Segment subsidiaries.

5.4. Discussion of the economic and financial figures disclosed in the annual consolidated financial statement

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 2 years

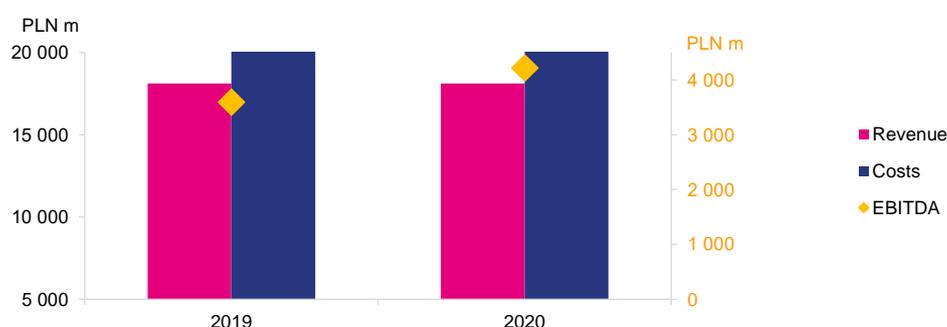
Table no. 46. Annual consolidated statement of comprehensive income for 2019-2020*

Statement of comprehensive income (PLN '000)	2019	2020	Change in % (2020 / 2019)
Sales revenue	19 112 336	20 367 400	107%
Compensations	952 650	66 448	7%
Own cost of sales	(20 059 039)	(21 802 547)	109%
Other operating revenues and costs	145 154	338 299	233%
Share in the profits of the joint ventures	47 947	15 765	33%
Operating profit	199 048	(1 014 635)	-
Cost of interest on debt	(248 781)	(283 456)	114%
Other financial revenue and costs	(63 011)	(357 577)	567%
Pre-tax profit (loss)	(112 744)	(1 655 668)	1 469%
Income tax	18 547	(77 882)	-
Net profit (loss) on the continued operations for the period	(94 197)	(1 733 550)	1 840%
Net profit (loss) from the discontinued operations for the period	82 514	(754 327)	-
Net profit (loss) for the period	(11 683)	(2 487 874)	21 295%
Total income for the period	(113 536)	(2 675 883)	2 357%
Net (profit) attributable to:			
Shareholders of the parent entity	(10 908)	(2 485 115)	22 782%
Non-controlling stakes	(775)	(2 762)	356%
EBIT and EBITDA			
EBIT	295 454	(1 731 977)	-
EBITDA	3 599 367	4 222 717	117%

* Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figure presents TAURON Capital Group's 2019-2020 financial results.

Figure no. 71. TAURON Capital Group's 2019-2020 financial results



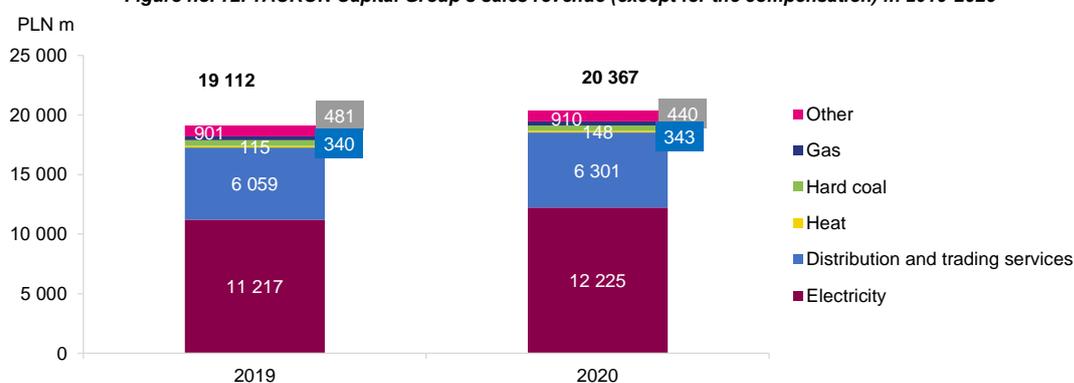
TAURON Capital Group generated PLN 20 367 million of revenue from the continued operations in 2020, i.e. higher by 7% as compared to the amount generated in 2019, which is the result of the following factors:

1. higher revenue from electricity sales by 9%, which is the result of obtaining the higher average electricity sales price as a consequence of an increase of the tariff and the higher electricity sales prices on the market as well as the decline of TAURON Capital Group's electricity supply volume,
2. higher revenue from the distribution and trading services sales by 4% as a consequence of the increase of the distribution service rate along with the simultaneous decline of the distribution service volume,
3. higher revenue from the heat supply by 29% due to the higher sales volume which is related to the implementation of the heat unit no. 10 at the Łagisza Power Plant,
4. lower revenue from the hard coal sales by 8% as a consequence of the lower coal sales volume and obtaining of the lower prices.

In addition, in 2020 TAURON Capital Group recognized the revenues from the compensation in the amount of PLN 66 million as a result of the submitted applications for the correction (adjustment) of the Amount of the Price Difference and the Financial Compensation for the entire 2019, which is a consequence of the recognition of the revenue from the compensations in 2019 in the amount of PLN 953 million based in part on the estimated data. Pursuant to Art. 9 of the amended *Act on amending the Excise Duty Act and certain other acts*, on September 28, 2020, TAURON Sprzedaż and TAURON Sprzedaż GZE submitted applications for the correction (adjustment) of the Amount of the Price Difference and the Financial Compensation for the entire 2019. The corrected (adjusted) Amount of the Price Difference and the Financial Compensation is based on the actual volumes and the prices used in the calculation thereof.

The below figure presents the structure of TAURON Capital Group's sales revenue (except for the compensation) in 2019-2020.

Figure no. 72. TAURON Capital Group's sales revenue (except for the compensation) in 2019-2020*



*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

TAURON Capital Group's continued operations' operating expenses came in at PLN 21 803 million in 2020, i.e. they were higher by 9% than the costs incurred in 2019.

One of the reasons for the increase in the costs was the recognition (booking) of the impairment charges in the Generation and Mining Segments, related to the tangible fixed assets as a result of the impairment tests for the assets' carrying amount carried out as of December 31, 2020 and June 30, 2020, of which the Company disclosed information in the regulatory filings (current reports) no. 5/2021 of February 23, 2021, correction of no. 5/2020 of February 26, 2021, and no. 37/2020 of August 5, 2020. The total impact on the financial result of TAURON Capital Group in 2020 amounted to PLN 3 170 million, while the tests carried out in 2019 showed the legitimacy of recognizing the impairment charges in the amount of PLN 1 305 million (excess of impairment charges taken over the impairment charges reversed).

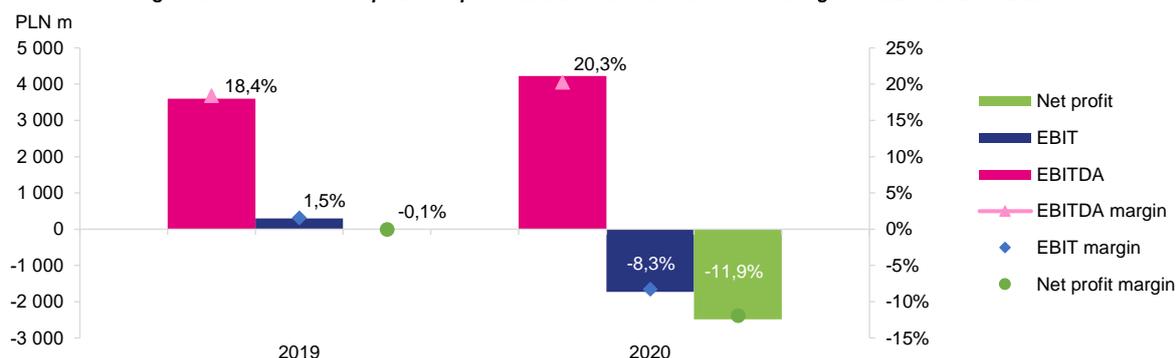
Apart from the above one-off events, the following factors had an impact upon the level of the costs of TAURON Capital Group in 2020:

1. an increase of the depreciation costs, mainly as a result of:
 - 1) an increase in the value of the assets as a result of the transaction to acquire the wind farms in September 2019,
 - 2) an increase in the value of the assets as a result of converting of the auxiliary systems of the 910 MW unit in Jaworzno into assets in March 2020,
 - 3) an increase in the value of the assets as a result of the commissioning, in November 2020, of the 910 MW unit in Jaworzno,
 - 4) updating of the depreciation rates as a result of the booked or updated impairment charges related to the carrying amount of the assets in connection with the impairment tests conducted in 2019 and as of June 30, 2020,

2. higher costs of electricity sold, as a consequence of an increase in the purchase price year on year and, at the same time, the lower volume of electricity purchased on the market,
3. charging the value of goods and materials sold item with the resale transactions of the futures positions with the delivery date in December 2020 held on the power exchange, while at the same time purchasing the same volume in contracts with the delivery date in March 2021 from the counterparties on the OTC market. The above action was a consequence of a change in the hedging strategy involving a change of the method used to secure the Generation Segment's retirement needs. As a result of the above, a one-time swap of the exchange traded contracts with the delivery date in December 2020 to the OTC contracts with the delivery date in March 2021 was made. The decision to change the strategy was made taking into account the current market circumstances, difficult to predict at the time of the transaction, including: the rising costs of maintaining a position on the exchange, significantly higher than at the time of concluding the contracts, which is related to, among others, to the need to make ongoing margin payments; a change of the legal and market circumstances in the area of trading in the CO₂ emission allowances related to Brexit and the COVID-19 virus pandemic. Implementing the above mentioned strategy change, all of the new transactions concluded on the OTC market will be used for the purpose of performing the retirement obligation by TAURON Capital Group's generation subsidiaries,
4. higher costs of the greenhouse gas emission allowances, which is the result of an increase in the price of the allowances and the lower CO₂ emissions by the generating units due to the lower production of electricity from the conventional sources. In addition, in the first quarter of 2019, TAURON Capital Group retired (settled), instead of the CO₂ emission allowances, the certified emission reduction (CER) units in the amount of 883 000, whose purchase price was much lower than the price of EUA,
5. lower labor costs, as a result of:
 - 1) recognition in the current period of the effects of the dissolution (release) of the actuarial provisions by TAURON Capital Group's subsidiaries in connection with the amendment to the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout of a cash equivalent for the discounted use of electricity by the current employees of TAURON Capital Group who would acquire the rights to the tariff upon retirement or upon receiving a disability pension and other entitled persons,
 - 2) lower headcount,
 - 3) reduction of the working time in accordance with the signed agreement with the workforce, as a consequence of the COVID-19 pandemic,
 - 4) change in the discount rate from 2.1% to 1.5%, which led to an increase of the actuarial provisions,
 - 5) increase of the minimum wage,
 - 6) higher costs of the contribution to the Company's Social Benefits Fund, which is related to a 22% increase of the basis for its assessment,
 - 7) dissolution (release) in 2019 of the provision related to the Voluntary Redundancy Program,
6. higher costs of the distribution services, which is due to an increase in the tariff for the distribution services for PSE (TSO), that entered into force on April 6, 2019 and January 1, 2020,
7. lower overhaul costs mainly due to the lower number of the maintenance and support (overhaul) services purchased for the mining assets, which is related to the shorter length of the roadways bored,
8. higher costs of the other external services, which is the result of:
 - 1) higher rates for the purchased postal services, courier services and the multimedia customer service, as well as an increase in the number of calls made as part of customer service,
 - 2) lower costs of the transportation of the production related fuels due to the lower electricity production,
 - 3) lower number of the mining services purchased, which is related to the shorter length of the roadways bored,
9. higher costs of taxes and fees, mainly due to the recognition of the real estate taxes assessed on the wind farms acquired in September 2019, the provision set up for the real estate tax in connection with the judgement of the Constitutional Tribunal of July 2020, an increase in the value of the grid assets as a basis for calculating the real estate tax and the higher real estate tax rates,
10. lower costs of the consumed materials and energy mainly as a result of a decrease in the costs of the consumed fuels, which is due to the lower electricity production in 2020 than in the same period of 2019 and the reduction of the share of the fuel purchased on the market. In addition, TAURON Capital Group booked in the current reporting period the costs of the hard coal used to start up the 910 MW unit in Jaworzno.
11. an increase in the hard coal inventory levels as well as in the prepayments and accruals mainly as a result of a rise of the value of the hard coal inventories at TAURON Wydobywanie and the Generation Segment Subsidiaries as an effect of allocating the costs of the hard coal produced but not consumed to the balance sheet items which is related to the lower demand for the hard coal from the counterparties (contractors) from outside TAURON Capital Group and the lower electricity production due to the COVID-19 epidemic,
12. higher value of the costs of services for in-house needs, which is the result of the recognition of a part of the operating costs of the 910 MW unit in Jaworzno as a capital expenditure in connection with its start-up, and a lower value of the mining costs allocated to the balance sheet, which is the result of the smaller number of reinforced longwall coal faces and the smaller number of meters of the length of the investment and production mining workings completed.

The below figure presents TAURON Capital Group's financial results and the level of margins realized from the continued and discontinued operations.

Figure no. 73. TAURON Capital Group's financial results and the level of margins realized in 2019-2020*



*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The EBITDA margin generated in 2020 came in at 20.3% and it was higher by 1.9 pp than the margin posted in 2019. As a result of the impairment charges taken, the value of which in 2020 was higher than the impairment charges booked in 2019, the EBIT margin and the net profit margin were lower in the reporting period than the figures posted in the previous year and came in at (8.3)% and (-11.9)%, respectively. Had the effects of the impairment charges not been taken into account, the EBIT margin and the net profit margin would have clocked in, respectively, at 6.9% and 0.4% in 2020, and, respectively, at 8.2% and 5.3% in 2019.

In accordance with the consolidated statement of comprehensive income presented, the total comprehensive income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in the value of the hedging instruments, the FX differences arising from the conversion of a foreign unit and the other income, after tax, stood at PLN (2 675.9) million in 2020, as compared to PLN (113.5) million generated in 2019.

Statement of cash flows

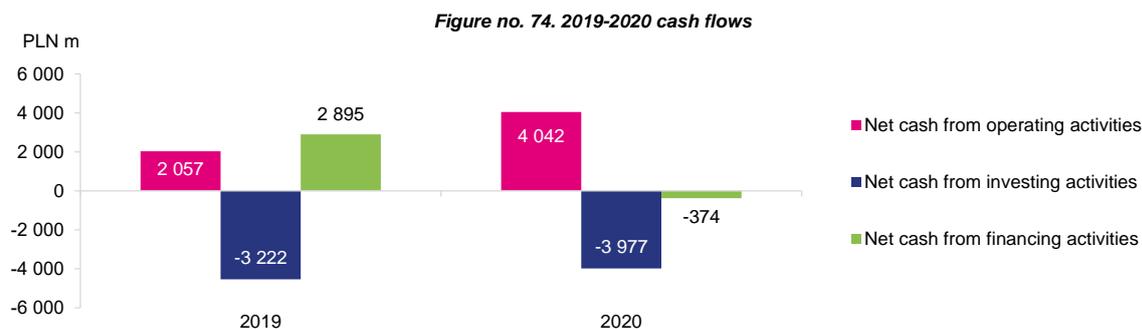
The below table presents the statement of cash flows.

Table no. 47. Statement of cash flows (material items) in 2019-2020*

Statement of cash flows (PLN '000)	Year ended on December 31, 2019	Year ended on December 31, 2020	Change in % (2020 / 2019)
CASH FLOW FROM OPERATING ACTIVITIES			
Pre-tax profit / (loss)	(15 368)	(2 374 123)	15 448%
Adjustments	2 050 943	6 416 102	313%
Net cash from operating activities	2 035 575	4 041 979	199%
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets and intangible assets	(4 035 132)	(3 907 608)	97%
Net cash from investing activities	(4 534 738)	(3 976 568)	88%
CASH FLOW FROM FINANCING ACTIVITIES			
Redemption of debt securities	(2 420 000)	(60 400)	2%
Issue of debt securities and proceeds from taking out credits / loans	500 000	1 000 000	200%
Repayment of loans / credits	(867 360)	(4 406 813)	508%
Interest paid	(212 556)	(215 946)	102%
Net cash from financing activities	2 894 792	(373 635)	-13%
Increase / (decrease) in net cash and equivalents	395 629	(308 224)	-79%
Cash opening balance	807 972	1 203 601	149%
Cash closing balance	1 203 601	895 3770	74%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The below figure presents the 2019-2020 cash flows.



The realized positive value of cash flow from the operating activities in 2020 was higher by PLN 2 006 million than the cash flow realized in 2019. The following factors had an impact on the cash flow from operating activities:

1. EBITDA generated in the amount of PLN 4 223 million,
2. a negative change of the working capital in the amount of PLN 119 million, which is the result of:
 - 1) a positive change of the balance of the accounts receivable in the amount of PLN 200 million, mainly due to the financial accounts receivable as a result of the settling of the margins related to the exchange settlements
 - 2) a negative change of the inventory level, in the amount of PLN 181 million, mainly as a result of an increase in the coal inventories at the storage yards of the Generation and Mining segments' subsidiaries
 - 3) a positive change of the balance of the accounts payable, except for the credits and loans, in the amount of PLN 5 million,
 - 4) negative change in the balance of the provisions in the amount of PLN 456 million, which is the result of:
 - release (dissolving) of the provision for the employee tariff in the amount of PLN 533 million,
 - setting up and consumption of a provision for onerous contracts in the total amount of PLN 157 million,
 - release (dissolving) or use of the provision for the court litigations, claims from the counterparties and other claims in the total amount of PLN 169 million,
 - an increase by PLN 245 million of the amount of the provision for the obligations due to the CO₂ emissions and due to the obligation to present the certificates of origin of electricity, mainly as a result of a rise of the prices of the CO₂ emission allowances and the certificates of origin as well as an increase of the obligation related to the PMOZE certificates of origin from 18.5% to 19.5%,
 - a negative change in the other provisions in the total amount of PLN 156 million.
 - 5) a positive change in the balance of the other long and short term assets in the amount of PLN 361 million, which stems from the postponement of the purchase of the CO₂ emission allowances as a result of a change of the strategy of securing the redemption (retirement) needs of the Generation Line of Business,
 - 6) a negative change in the prepayments and accruals as well as the government subsidies in the amount of PLN 48 million,
3. payment of the income tax in the total amount of PLN 60 million,
4. other factors in the amount of PLN -2 million.

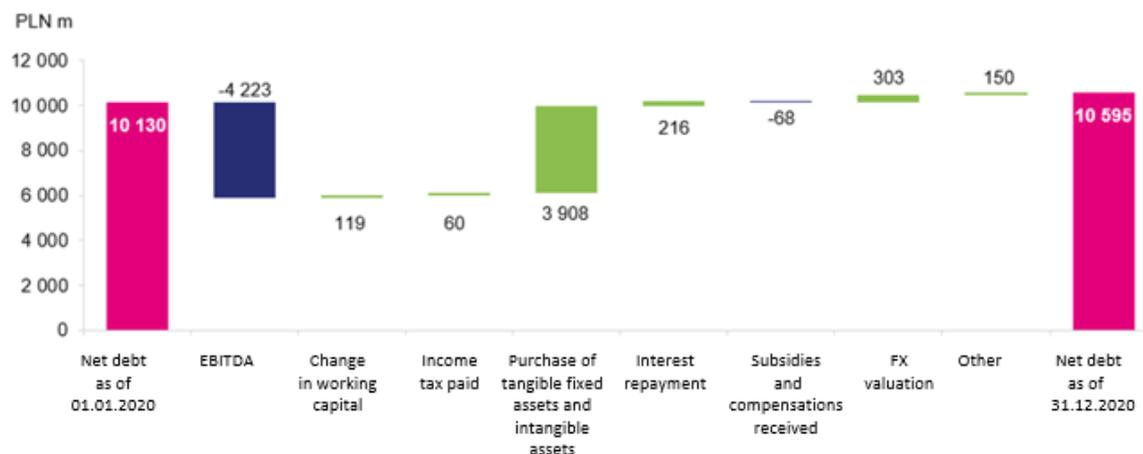
The expenditures related to the purchase of the tangible fixed assets have the biggest impact on the cash flow from investing activities and they came in at PLN 3 908 million in the reporting period and were lower by PLN 128 million than the outlays incurred in 2019. The largest expenditures were incurred by the Distribution Segment and the Generation Segment.

The negative value of cash flow from the financing activities is primarily due to the higher amount of the expenditures realized due to the repayments of the financial liabilities than the inflows received due to obtaining the financing. The amount of the repaid loans and credits as well as the redeemed bonds came in at PLN 4 467 million, while the loans and credits taken out at the same time clocked in at PLN 4 368 million in total. In addition, TAURON Capital Group paid back its liabilities due to leases worth PLN 102 million in 2020. The total amount of the interest paid by TAURON Capital Group, mainly on the financial liabilities, came in at PLN 216 million, while the subsidies and the compensations received amounted to PLN 68 million.

TAURON Capital Group is maintaining its market position. The current liquidity ratio and the net debt to EBITDA ratio continue to stand at a safe level.

The below figure presents TAURON Capital Group's 2020 cash flows.

Figure no. 75. TAURON Capital Group's 2020 cash flows



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pool* mechanism in order to minimize the potential cash flow disruptions and the risk of liquidity loss. TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from the environmental funds, bond issues.

5.5. Material off-balance sheet items

Material off-balance sheet items of TAURON Capital Group, as of December 31, 2020, include:

1. lawsuits related to the termination of the long term contracts,
2. claims against PGE EJ1,
3. claim of Huta Łaziska S.A. (Huta Łaziska),
4. lawsuit brought by ENEA,
5. proceedings initiated by the President of ERO,
6. proceedings initiated by the President of UOKiK,
7. use of the real estate without a contract,
8. claim for the reimbursement of expenses for securing the facility against the effects of mining operations,
9. recognition (inclusion) of the Closed-End Investment Funds' (Fundusze Inwestycji Zamkniętych) involvement in Nowe Jaworzno Grupa TAURON,
10. claim regarding the amendment to the agreement for the construction of the Grzegorz shaft at TAURON Wydobycie.

The detailed information related to the off-balance sheet items both in the subjective and objective terms, as well in terms related to the value thereof is presented in notes 54 and 55 to the *Consolidated financial statements of TAURON Capital Group*.

5.6. 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 2020. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

5.7. Key financial ratios and the Alternative Performance Measures

The below table presents the key financial ratios of TAURON Capital Group, which may constitute an important source of information for the investors about the financial and operational standing of TAURON Capital Group. The Alternative Performance Measures presented below as defined by the ESMA Guidelines on the Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding TAURON Capital Group's financial results. They constitute standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial efficiency, cash flows and debt of TAURON Capital Group.

Table no. 48. Key financial ratios of TAURON Capital Group for the continued and discontinued operations*

Ratios	Definition	2019	2020
PROFITABILITY			
EBIT Margin	Operating profit / Sales revenue	1.5%	
EBITDA Margin	EBITDA / Sales revenue	18.4%	20.3%
Net Profitability	Net profit/ Sales revenue	(0.1)%	(11.9)%
Return on Equity (ROE)	Net profit/ Equity at the end of the period	(0.1)%	(15.2)%
LIQUIDITY			
Current liquidity ratio	Current assets / Short-term liabilities	0.87	1.05
DEBT			
Total debt ratio	Total obligations/ total liabilities	0.54	0.58
Net financial debt/ EBITDA	(Financial liabilities - Cash)/ EBITDA	2.8x	2.5x
OTHER RATIOS			
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	(0.01)	(0.12)

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

TAURON Capital Group's net profitability ratio came in at the level of (11.9)% in 2020, as a consequence of recognizing of the balance of the impairment charges related to the carrying amount of the assets, in the 2020 results, in the amount higher than in 2019 and the higher costs of interest on debt.

The current liquidity ratio was higher as of December 31, 2020, than as of December 31, 2019, which demonstrates that the financial standing of TAURON Capital Group continued to be stable.

The total debt ratio and the net debt to 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, along with the EBITDA amount, is the basis for calculating the net debt to EBITDA ratio.

Table no. 49. Net financial debt reconciliation

Item (PLN m)	2019	2020
Cash and equivalents	1 265	921
Cash and equivalents – balance acc. to balance sheet	1 238	909
Short term investments with the maturity of up to 1 year	27	12
Long term financial debt	8 982	10 162
Long term credits and loans, and other	4 728	4 840
Long term liabilities due to bonds issued	4 255	5 323
Short term financial debt	2 412	1 354
Short term credits and loans, and other	2 323	1 474
Short term liabilities due to bonds issued	89	201
Total financial debt	11 394	11 516
Net financial debt	10 130	10 595

The below table presents the reconciliation of the result at the EBITDA level.

Table no. 50. Reconciliation of the result on the EBITDA level

Item (PLN m)	2019	2020
Net profit (loss)	(12)	(2 488)
Net profit (loss) on discontinued operations	(83)	754
Income tax charged to the financial result	(19)	78
Financial costs	(95)	(193)
Financial revenue	407	834
EBIT	199	(1 015)
EBIT on discontinued operations	96	(717)
Depreciation charged to the financial result	1 992	1 954

5.8. Most significant financial and operating data 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 2020 – 2016 period.

Table no. 51. Financial and operating data for 2020-2016*

Key information	unit	2016	2017	2018	2019	2020	Change in % (2020 / 2019)
STATEMENT OF COMPREHENSIVE INCOME							
Sales revenue	PLN m	17 646	17 425	18 122	19 558	20 850	107%
Operating profit	PLN m	802	1 879	791	295	(1 732)	-
Financial revenue (total)	PLN m	125	191	83	95	193	203%
Financial expenses (total)	PLN m	(418)	(313)	(11)	(407)	(834)	205%
Pre-tax profit (loss)	PLN m	509	1 758	505	(113)	(1 656)	-
Income tax	PLN m	(139)	(375)	(298)	19	(78)	-
Net profit (loss) on continued operations	PLN m				(94)	(1 734)	-
Net profit	PLN m	370	1 383	207	(12)	(2 488)	-
attributable to shareholders of the parent entity	PLN m	367	1 381	205	(11)	(2 485)	-
attributable to non-controlling shares	PLN m	3	2	2	(1)	(3)	-
EBITDA	PLN m	3 337	3 618	3 492	3 599	4 223	117%
STATEMENT OF FINANCIAL POSITION							
Fixed assets	PLN m	29 148	31 049	32 542	35 052	31 736	91%
Current assets	PLN m	4 309	4 786	4 556	6 865	7 675	112%
Total equity	PLN m	16 679	18 068	18 428	19 093	16 412	86%
Total liabilities	PLN m	16 778	17 767	18 669	22 825	22 999	101%
Long-term liabilities	PLN m	11 969	12 740	11 382	14 963	15 687	105%
Short-term liabilities	PLN m	4 809	5 027	7 287	7 862	7 311	93%
Net financial debt ²	PLN m	7 704	8 047	8 572	10 130	10 595	105%
Capital expenditures	PLN m	3 817	3 474	3 838	4 128	4 039	98%
CASH FLOW ACCOUNT							
Net cash from operating activities	PLN m	3 064	3 559	2 223	2 036	4 042	199%
Net cash from investing activities	PLN m	(3 627)	(3 872)	(3 387)	(4 535)	(3 977)	88%

Key information	unit	2016	2017	2018	2019	2020	Change in % (2020 / 2019)
Net cash from financing activities	PLN m	590	760	1 171	2 895	(374)	-
Cash closing balance	PLN m	355	801	808	1 204	895	74%
RATIOS							
EBIT Margin	%	5%	11%	4%	2%	(8)%	-
EBITDA Margin	%	19%	21%	19%	18%	20%	110%
Net financial debt/ EBITDA	multiple	2..3x	2.2x	2.5x	2.8x	2.5x	89%
Net earnings per share	PLN / share	0.21	0.79	0.12	-0.01	-1.42	-
OPERATING DATA							
Commercial coal production	Mg m	6.37	6.45	5.01	3.78	4.54	120%
Gross electricity production	TWh	16.8	18.41	16.21	13.88	12.5	90%
Electricity production from RES	TWh	1.32	1.3	0.97	1.38	1.94	141%
Heat production	PJ	11.52	12.2	11.29	10.85	11.63	107%
Retail electricity supply	TWh	32.04	34.94	34.52	33.73	32.43	96%
Distribution of electricity	TWh	49.68	51.37	51.97	51.73	50.26	97%
Number of customers (Distribution)	m	5.47	5.53	5.60	5.65	5.71	101%

*The values presented for the years 2016-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments that took place in 2020, i.e. the separation of the RES Segment from the Generation Segment and the presentation of the TAURON Ciepło data as part of the discontinued operations.

The below table presents TAURON Capital Group's EBITDA for the last 5 years, i.e. for the 2020 – 2016 period.

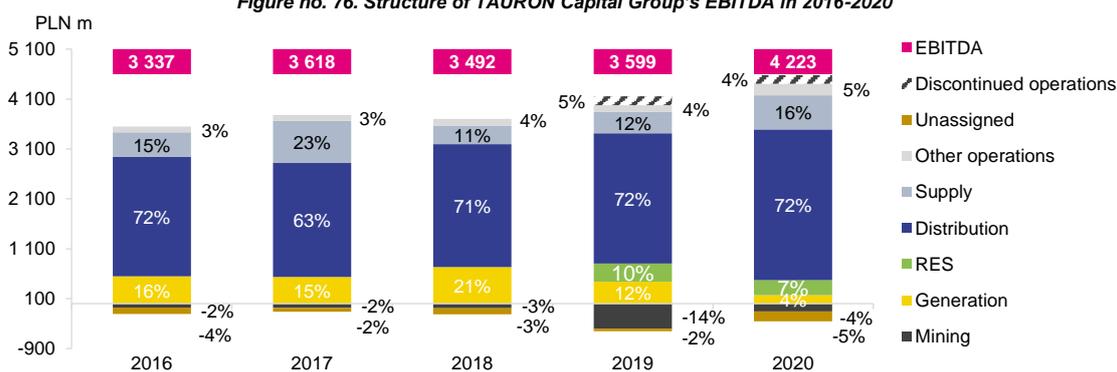
Table no. 52. TAURON Capital Group's EBITDA, broken down into Segments of Operations (Lines of Business) *

EBITDA (PLN m)	2016	2017	2018	2019	2020	Change in % (2020 / 2019)	Change (2020 - 2019)
Mining	(82)	(83)	(90)	(500)	(157)	-	343
Generation	545	537	731	438	172	39%	(266)
RES				368	297	81%	(71)
Distribution	2 395	2 283	2 466	2 606	3 023	116%	417
Supply	490	841	372	429	683	159%	255
Other operations	115	118	135	136	229	168%	93
Unallocated items	(126)	(78)	(122)	(56)	(196)	-	(139)
Discontinued operations				178	171	96%	(7)
Total EBITDA	3 337	3 618	3 492	3 599	4 223	117%	624

*The values presented for the years 2016-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments that took place in 2020, i.e. the separation of the RES Segment from the Generation Segment and the presentation of the TAURON Ciepło data as part of the discontinued operations

The below figure presents the structure of TAURON Capital Group's EBITDA in 2016-2020.

Figure no. 76. Structure of TAURON Capital Group's EBITDA in 2016-2020



Key information for 2016-2020 by Segments

The below figures present the 2016 - 2020 financial data by Segments of Operations (Lines of Business).

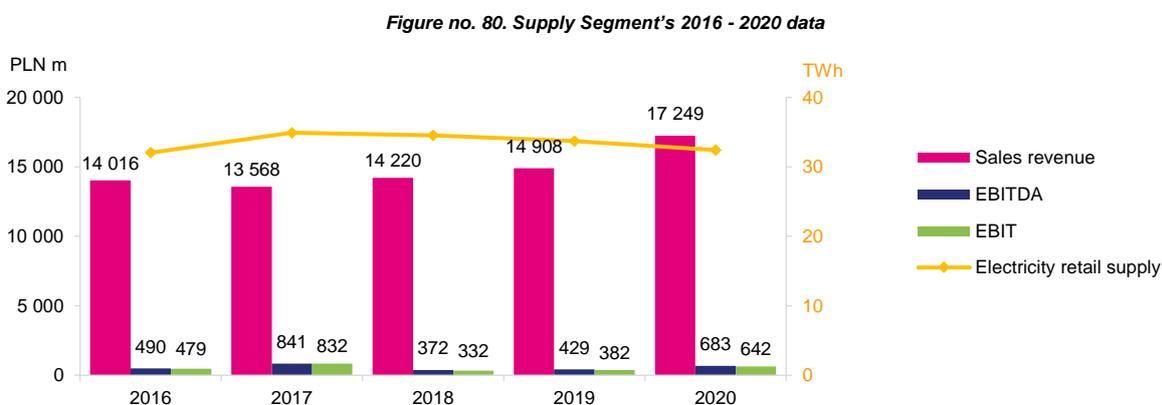
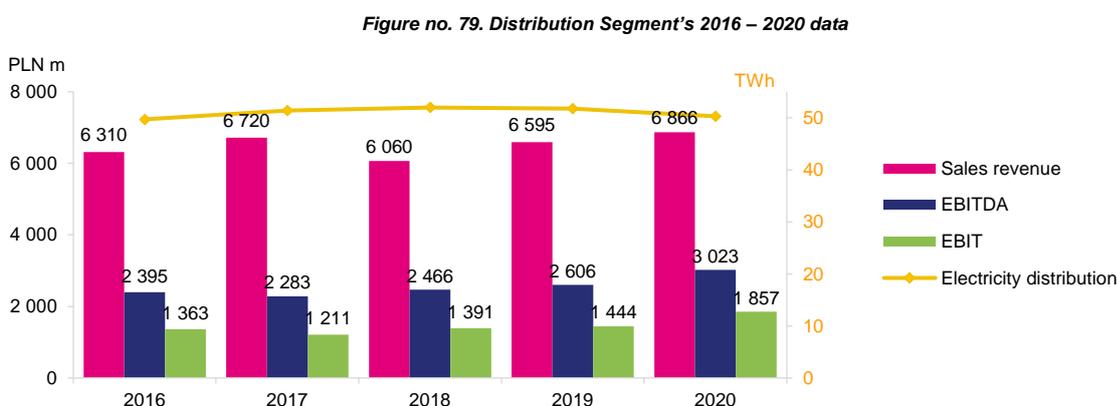
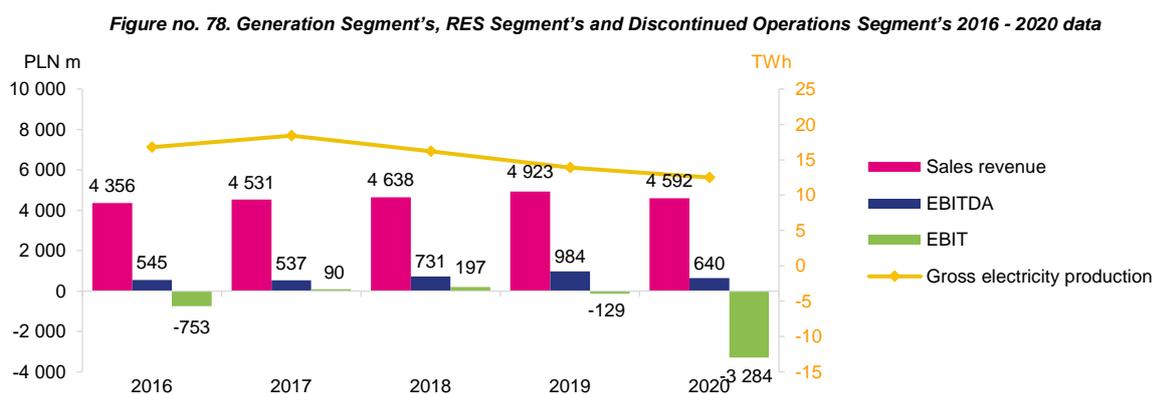
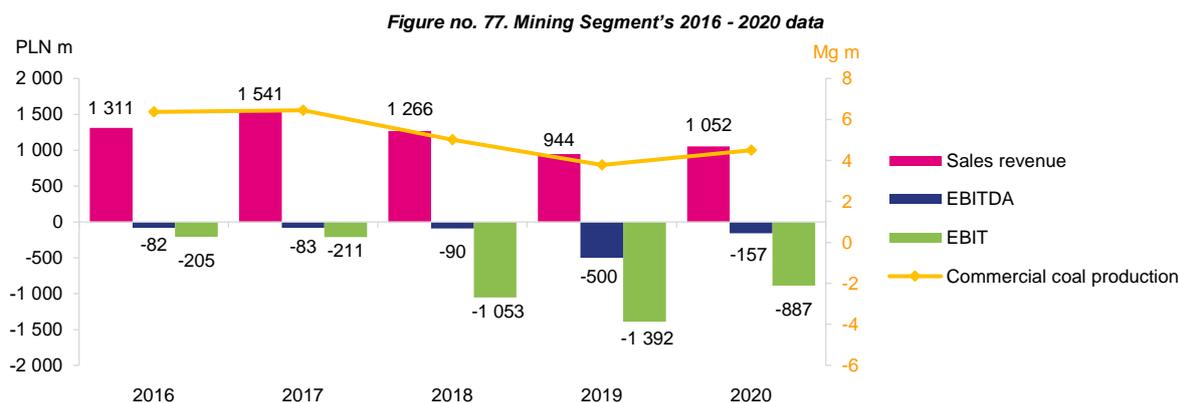
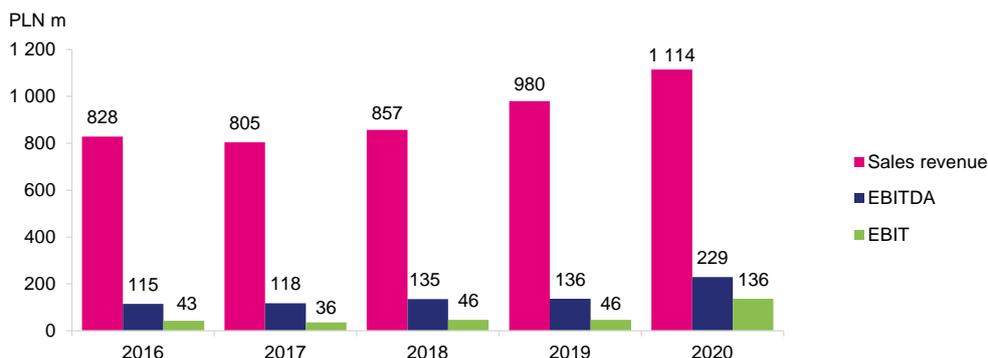


Figure no. 81. Other Operations Segment's 2016 - 2020 data



5.9. What can we expect in 2021

According to the forecasts of the World Bank, published at the end of 2020, the world economies recorded a slowdown of 4.3% in 2020, as a consequence of the COVID-19 pandemic. It is assumed that the recovery from the crisis brought about by the COVID-19 pandemic will take place already in 2021. With respect to Poland the GDP growth rate is forecast to reach 3.6%. Poland's return to the moderate growth will be possible thanks to the easing of the restrictions related to the COVID-19 pandemic, the return to normality of a number of sectors of the economy, government aid programs, as well as a slow recovery of the major trade partners.

According to the forecasts of the NBP, published at the end of 2020, a 3.5% Poland's GDP growth rate decline was recorded in 2020, as a consequence of the COVID-19 pandemic. It is assumed that the GDP will grow at a 4.9% clip in 2021, while the elevated uncertainty and the restrictions on the activities of the companies related thereto will remain a factor hindering the recovery of the demand for investments over the time frame covered by the projection. In the opinion of the NBP believes that the economic recovery in 2021-2022 is conditional upon the assumed, slow normalization of the epidemic situation, the recovery of the economic activity abroad and an improvement in the prospects for the private sector's demand (consumption). The projection scenario assumes a relatively low rate of economic growth in the years 2021-2022, taking into account the significant scale of the decline in the economic activity in 2021. The projections indicate that the pace of the recovery in the domestic economic activity will be curbed by the probably recurring increases in the number of infections resulting in the reintroduction of the temporary constraints on the functioning of the economy and postponing of the lifting of the epidemic restrictions in force. Also, high uncertainty related to the further course of the COVID-19 pandemic will remain a factor curtailing the growth in the household spending and the capital expenditures over the time frame covered by the projection.

The additional information on the forecasts for 2021 is presented in section 2.3. of this report.

5.10. 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 the internal factors as well as the 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** over 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 of the segment the activities aimed at improving the cost efficiency thereof will be continued throughout the entire line of business. On the other hand, the demanding market situation and the continuing upward trend of the CO₂ emission allowances' prices carry the risk of the degradation of the 1st degree margin on electricity and heat.

It is expected that the financial results of the **RES Segment** will be stable in the coming years. In line with the analysts' forecasts, an increase in the domestic electricity production from the renewable energy sources is assumed, which is related to the observed fast development of the photovoltaics systems underway in Poland, associated, first and foremost, with the launch of the support programs, including the ones addressed to the prosumers. According to SolarPower Europe, Poland was ranked in the fourth place in the EU in 2020 in terms of the growth of the new photovoltaic capacity. It is also estimated that the wind farm and PV capacity will increase and the prosumer sector will grow in the coming years. The strong interest in the RES area will translate into the growth of investments in the renewable generation sources, this will also be applicable, apart from the PV, to the

onshore wind farms, as well as, in the long term, to the offshore wind farms. An additional factor supporting the growth of the renewable energy sources (RES) is the possibility of obtaining funds for the investment projects from the dedicated funds envisaged for the years 2021-2030.

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 in impacting the operating result. The updating of the regulatory model will have a significant impact on the results in the coming years, and in particular 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, curbing the emissions 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 the customers lost in the previous years, has to be kept in mind in the coming years, and also the threats (risks) related to the level of the electricity tariffs approved by the ERO. The challenges faced by the Supply Segment subsidiaries include the activities undertaken by the competitors, the growing awareness and expectations of the customers, as well as the growth of the prosumer market. The above factors will have an impact on the increase of the requirements in terms of both, the products offered, as well as the speed and quality of service.

Other operations: the main consumers of the shared services provided include, first and foremost, 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 the real estate management services. Such activities enable achieving synergy effects across TAURON Capital Group and improve cost efficiency.

5.11. Principles of preparing annual consolidated financial statements

The Consolidated financial statements of TAURON Capital Group 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, AVAL-1, WIND T1 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 *Act of September 24, 1994, on accounting*.

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 of TAURON Capital Group have been drawn up with the assumption of the continuation of business operations by TAURON Capital Group's subsidiaries in the foreseeable future, i.e. over the time frame not shorter than 1 year from the balance sheet date. As of the date of approval of the Consolidated financial statements of TAURON Capital Group 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 of TAURON Capital Group are presented in note 6 to the Consolidated financial statements of TAURON Capital Group.

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 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 (ERO) for the years 2021 and 2022.

In connection with the changes in the organization of TAURON Capital Group that took place last year and were described in the report for the year 2019, 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 had 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 had 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 curtailment 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 presented in the below table.

Table no. 53. 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, 2020 (PLN '000)	Year ended on December 31, 2019 (PLN '000)
1. Mandatory audit, including:	1 323	1 318
4) consolidated financial statements	147	147
5) standalone financial statements of the parent entity	175	175
6) standalone financial statements of the subsidiaries	1 001	996
2. Other certifying services provided to TAURON Capital Group, including reviews of financial statements	937	967
3. Tax advisory services	0	0
4. Other services (including training) provided for TAURON Capital Group	0	0
Total	2 260	2 285

7. FINANCIAL RESOURCES AND INSTRUMENTS

7.1. Proceeds from security issues

Series A bond issue

As part of the program Agreement of February 6, 2020, the Company issued, on October 30, 2020, the bonds with the total nominal value (par value) of PLN 1 billion with the redemption date falling on October 30, 2025.

The proceeds from the issue of the bonds are dedicated to finance the costs of developing / acquiring RES projects, finance the distribution operations, as well as TAURON Capital Group's general corporate operations related to RES or energy transition to zero emission, and to 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 the new and existing coal fired units, the operations of TAURON Wytwarzanie and the operations of TAURON Wytwarzanie (in case of other undertakings than the ones indicated above)

The detailed information on the bonds issued and unredeemed, as of December 31, 2020, by TAURON Capital Group is presented in note 39.2 to the *Consolidated financial statements of TAURON Capital Group*.

7.2. Financial instruments

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 2020 TAURON Capital Group continued to hedge the risk of volatility in cash flows resulting from its debt based on the WIBOR reference rate by entering into interest rate swap (IRS) hedging transactions.

Moreover, in 2020 TAURON hedged its FX exposure arising from the trading operations (mainly due to the purchase of the CO₂ emission allowances) by concluding the forward contracts. In 2020 TAURON was also continuing the strategy of hedging its foreign currency exposure generated by the interest payments on the financing obtained in EUR by concluding the forward contracts. The goal of such transactions was to hedge against the risk of cash flow volatility resulting from the FX rate fluctuations.

With respect to hedging the credit risk, TAURON Capital Group did not use any financial instruments.

As part of the efforts aimed at eliminating the price risk (loss of margin), the contracting of the electricity sales is followed by the contracting of the CO₂ emission allowances. Such a method of hedging the positions allows for minimizing the risk of the CO₂ costs not being covered by the contracted electricity price. The basis for determining the CO₂ sales price for the emission allowances volume defined this way is the CO₂ price on the exchange from the time when the CO₂ volume is contracted.

On the other hand, as part of the liquidity loss risk management, the instruments referred to in section 7.3 of this report are used.

Objectives and methods of financial risk management

The detailed information on the objectives and methods of the financial risk management at TAURON and TAURON Capital Group is presented in section 3.3 of this report.

7.3. Assessment of financial resources management

TAURON is conducting centralized financial management policy and as a result of that effective management of the finances of entire TAURON Capital Group is possible. The main tools enabling effective management include adequate internal corporate regulations as well as the *cash pool* service and the intra-Group loans. In addition, the adopted financial management model is supported by the central policy with respect to TAURON Capital Group's financial risk management and the central Insurance policy of TAURON Capital Group. In these areas the Company is performing the function of the management body (manager) and the decision maker with respect to the directions of the measures undertaken, enabling the setting of 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. The 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 that are reporting the need for the financing.

The conducted policy of acquiring the funding sources enables, first of all, to increase the possibility of obtaining the financing for the general corporate purposes and capital expenditures (CAPEX), decrease the cost of the external capital, curtail the establishing of the number and form of the collaterals (pledges) on the assets of TAURON Capital Group as well as the covenants required by the financial institutions, and also leads to the reduction of the administrative (overhead) costs. The central corporate financing model also enables acquiring the funding sources that are not available for the individual subsidiaries. The Company is also considering implementing the method of acquiring funding using the *project finance* formula with respect to the RES projects. In 2020, the Company obtained approvals from the financial institutions regarding the exclusion of the financing obtained by TAURON's selected special purpose vehicles (SPV) for the implementation of the RES investment projects from the net debt / EBITDA ratio. In case of the *project finance* solutions, the funds will be obtained directly by the companies implementing the investment projects in the field of renewable energy sources (RES) in cooperation with TAURON - TAURON will be performing the arrangement (organizational) functions. The above action should enable greater use of debt financing as part of the green turn strategy implemented by TAURON.

Another key element impacting the financial management efficiency is the financial liquidity management policy, implemented, among others, through the determination of the liquidity position and implementation of the liquidity controlling processes. TAURON Capital Group manages cash flows efficiently, maintains adequate liquidity of TAURON Capital Group by optimizing the level of expenses and cash balances at the subsidiaries. The above activities lead to improving the selection of the moment of fund raising and determining the maturity date, as well as maintaining an adequate level of the liquidity reserve, and also cause the reduction of the financial costs.

In order to optimize TAURON Capital Group's financial liquidity management and the decision making processes, in particular with regard to the total working capital and approving the liquidity position of TAURON Capital Group's subsidiaries for the given year, as well as for the purpose of the ongoing monitoring and developing the management guidelines for the subsidiaries, the Liquidity Committee was set up at TAURON Group.

The liquidity management is supported by the implemented *cash pool* mechanism. Its overarching goal is to ensure TAURON Capital Group's ongoing financial liquidity, while at the same time curbing the costs of the short term external financing and minimizing the financial costs related to maintaining cash surpluses on the bank accounts. Owing to the functioning of the *cash pool* 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 curtailment or loss of 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 Company is pursuing a policy of diversifying the 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 the current and future liabilities in the short and long term.

Moreover, TAURON Capital Group has dedicated agreements in place to provide the collateral for the liabilities towards IRGiT (Warsaw Commodity Exchange Clearing House) and the bank guarantee programs, under which it is possible to issue guarantees to provide the collateral for the liabilities of TAURON Capital Group's subsidiaries within the centralized bank limits. The above mentioned measure curtailed the costs of the guarantees acquired and curbed the total number of actions required to obtain a guarantee.

In 2020 the Company and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.

8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

8.1. Shareholding structure

As of December 31, 2020, and as of the date of drawing up this report the Company's share capital, in accordance with an entry in the National Court Register, stood at 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 ordinary BB series shares, which, as of March 1, 2021, were dematerialized under the *Act of August 30, 2019, on amending the Act - Code of Commercial Companies and certain other acts* (Journal of Laws of 2019, item 1798, as amended acc. to Journal of Laws of 2020, item 875).

The below figure presents the shareholding structure as of December 31, 2020 and as of the date of drawing up this report.

Figure no. 82. Shareholding structure as of December 31, 2020 and as of the date of drawing up this report



The detailed information regarding the shareholding structure (composition) is presented in section 9.4. of 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.

On March 30, 2020, the Management Board of TAURON recommended to the Ordinary General Meeting (GM) of the Company to cover the loss for the financial year 2019 from the supplementary capital and did not recommend the payout of the dividend in 2020 from the supplementary capital.

8.3. Number and nominal value of TAURON Polska Energia S.A.'s shares, as well as of the shares in the related units, held by the Members of the Management Board and the Supervisory Board

As of December 31, 2020, and as of the date of drawing up this report, the Members of the Management Board and the Members of the Supervisory Board did not hold any TAURON shares, nor they held any shares in the units related to the Company.

From the date of disclosing the previous periodic report, i.e. from November 18, 2020, to the date of disclosing this report, there had been no changes in the ownership of TAURON shares or rights thereto by the Members of the Management Board of the Company and the Members of the Supervisory Board of 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 2020 and as of the date of drawing up this report, TAURON Dystrybcja held its own shares that had been purchased by the company in order to be redeemed (retired) under the procedure of the mandatory buy-back of the company's shares pursuant to Art. 418¹ Code of the Commercial Companies. In 2020 TAURON Dystrybcja purchased for redemption a total of 2 854 680 of its own shares with a total nominal value of PLN 57 093.60, that amounted to 0.01% of the share capital, which, as of December 31, 2020, stood at PLN 560 575 920.52.

The above 2 854 680 of the company's own shares were acquired at the gross price of PLN 0.45 per share, which gave the total payment of PLN 1 284 606. The company's own shares acquired in 2020 have not been redeemed and as of December 31, 2020, and as of the date of this report, they accounted for approx. 0.01% of TAURON Dystrybcja's share capital.

In 2020 and as of the date of drawing up this report, TAURON and the other subsidiaries did not hold their own shares.

8.6. Employee stock award programs

In 2020 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 0.82 and PLN 3.26 (at the closing prices) in 2020. During the last session of 2020 the share price stood at PLN 2.72, while as of the end of 2019 the price reached PLN 1.64.

The investors' sentiment on the WSE in 2020 was influenced by the effects of the COVID-19 pandemic, which had a negative impact on most sectors of the economy. This translated into the GDP growth rate achieved by the Polish economy, which, according to the estimates of the Central Statistics Office (GUS), decreased (contracted) by 2.8%.

The WIG index fell by 1.4%, and the WIG20 index by 7.7% in 2020. The negative trend observed in 2020 on the Polish stock market was also a consequence of the external factors, such as the trade restrictions between the United States and China as well as the uncertainty related to the US presidential elections.

On the other hand, the investors had a positive view of the companies operating in the energy sector, which translated into a 4.3% rise of the WIG-Energia index. It should be noted that the rate of return on the investment in TAURON shares in 2020 clocked in at almost 66% (PGE: -18.34%, ENEA: -17.4%, ENERGA: + 11.3%).

The transition towards RES launched by the Company had a positive impact on the performance of TAURON shares' price in 2020. In line with the strategic assumptions, TAURON Capital Group is seeking to increase the share of RES in the generation mix and reduce the CO₂ emissions. As a consequence, by 2030, the reduction of the emissions should exceed 50%. By 2030 TAURON will be producing more than 65% of electricity based on RES.

In 2020, the prices of the energy sector companies were supported by the information about the commencement of the process of the transition of the energy sector and the hard coal mining industry, as part of which it is planned that the coal assets owned by the Polish energy groups will be transferred to a separate entity and a social agreement will be concluded, which would define, inter alia, the shutdown plan for the coal mines. The implementation of such measures would significantly facilitate the financing of the process of the transition of the Polish energy sector towards renewable energy sources (RES).

As of December 31, 2020, TAURON shares were included in the following stock exchange indices:

1. **WIG** – an index that includes all companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in WIG: 0.99 percent,
2. **WIG-Poland** – a national index that groups solely shares of domestic companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in WIG-Poland index: 1.01 percent,
3. **WIG20** – an 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: 1.40 percent,
4. **WIG30** – an index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG30 index: 1.29,
5. **WIG-Energia** – a 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: 24.27 percent,

6. **WIG-ESG** – an index that includes the shares of companies considered 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: 0.89 percent.

The below table presents the key data on the Company's shares in 2011-2020.

Table no. 54. Key data on the Company's shares in 2011-2020

Year	Share price high (PLN)	Share price low (PLN)	Last share price (PLN)	Market capitalization at the end of the period (PLN m)	Market capitalization at the end of the period (%)	Book value (PLN m)	Price / Earnings
2011	6.81	4.65	5.35	9 376	2,1	15 922	8.1
2012	5.61	4.08	4.75	8 325	1,59	16 839	5.5
2013	5.39	3.85	4.37	7 659	1,29	17 675	5.5
2014	5.69	4.04	5.05	8 850	1,5	18 107	7.8
2015	5.29	2.37	2.88	5 047	0,98	18 837	4.2
2016	3.19	2.31	2.85	4 995	0,9	16 349	-
2017	4.12	2.75	3.05	5 345	0,8	17 880	3.02
2018	3.28	1.67	2.19	3 838	0,66	18 967	3.7
2019	2.44	1.43	1.64	2 874	0,52	19 168	13.9
2020	3.26	0.82	2.72	4 770	0,89	18 071	-

Year	Price / Book Value	Rate of return ytd* (%)	Dividend yield (%)	Trading volume (PLN m)	Trading volume share (%)	Average volume per session (pcs)	Average number of transactions per session (pcs)
2011	0.59	-16.73	2.8	5 575	2.21	3 721 539	1 373
2012	0.49	-5.03	6.5	3 199	1.7	2 667 725	960
2013	0.43	-3.64	4.6	3 104	1.41	2 793 020	1 022
2014	0.49	20.07	3.8	3 135	1.53	2 489 329	1 106
2015	0.27	-40.78	5.2	3 063	1.5	3 190 195	1 431
2016	0.31	-1.04	-	3 199	1.69	4 662 087	1 465
2017	0.31	7.02	-	2 737	1.16	3 261 765	1 323
2018	0.2	-28.2	-	3 104	1.52	5 622 737	1 769
2019	0.15	-25.11	-	2 001	1.04	4 508 965	1 699
2020	0.26	65.98	-	3 233	1.09	6 807 622	2 523

*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 Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

Source: Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

The below graphs present the historical TAURON share price performance and trading volumes, including against the backdrop of the WIG20 and WIG-Energia indices.

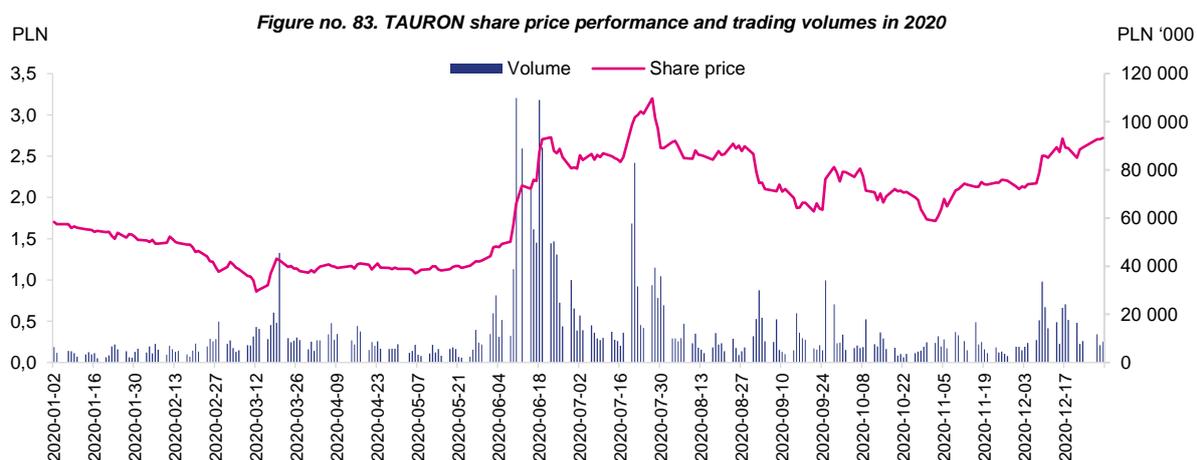
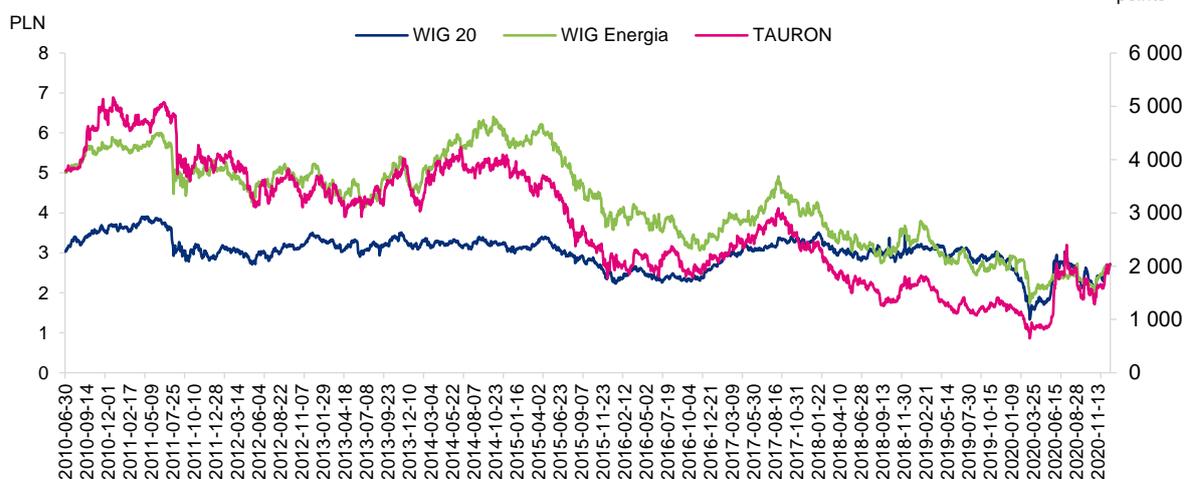


Figure no. 84. TAURON share price and trading volumes since the market debut until December 31, 2020



Figure no. 85. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2020



Recommendations for the shares of TAURON Polska Energia S.A.

Analysts from brokerage houses and investment banks issued, in total, 18 recommendations for TAURON shares in 2020, including:



12

"buy" recommendations



2

"hold" recommendations



4

"sell" recommendations

The below table presents a list of recommendations issued in 2020.

Table no. 55. Recommendations issued in 2020

Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
05.02.2020	Societe Generale	Hold / PLN 1.70
12.02.2020	Citi	Buy / PLN 1.70
12.02.2020	Dom Maklerski (Brokerage House) PKO BP	Sell / PLN 1.38
13.02.2020	Santander Biuro Maklerskie (Brokerage House)	Hold / PLN 1.60
04.03.2020	Santander Biuro Maklerskie (Brokerage House)	Buy / PLN 1.50
08.04.2020	Santander Biuro Maklerskie (Brokerage House)	Sell / PLN 1.00
06.05.2020	Societe Generale	Hold / PLN 1.20
15.05.2020	Erste	Hold / PLN 1.20
10.06.2020	Santander Biuro Maklerskie (Brokerage House)	Buy / PLN 4.30
25.06.2020	IPOPEMA	Buy / PLN 4.03

Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
08.07.2020	Erste	Buy / PLN 3.11
17.07.2020	TRIGON Dom Maklerski (Bokerage House)	Buy / PLN 3.10
29.07.2020	Santander Biuro Maklerskie (Bokerage House)	Buy / PLN 4.00
06.08.2020	Citi	Buy / PLN 3.20
01.10.2020	Dom Maklerski (Bokerage House) PKO BP	Buy / PLN 3.10
05.10.2020	Societe Generale	Buy / PLN 2.90
27.11.2020	Santander Biuro Maklerskie (Bokerage House)	Buy / PLN 4.20
14.12.2020	Santander Biuro Maklerskie (Bokerage House)	Buy / PLN 5.70

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 (current reports), but it is also supplemented via many additional activities and tools addressed directly to all of the stakeholders. 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.

Analysts, journalists and shareholders had access to a wide spectrum of information about TAURON Capital Group in 2020, using various communication tools. Due to the epidemic related restrictions, the meetings with the journalists, investors and analysts were held online.

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 markets and media. Such events were simultaneously interpreted into English. It was also possible to follow (replay) them at a later date. As a result, all interested parties were guaranteed equal access to the information. Furthermore, the Company organized 4 chats with the representatives of the Management Board, dedicated to the individual investors.

Apart from the meetings accompanying the publication of the periodic reports, the Members of the Management Board and the representatives of the Investor Relations Team took part in more than a dozen conferences in 2020, during which several dozen meetings with investment fund managers and capital market analysts were held. During the 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 the outlook for the energy sector.

In 2020, similar as in the previous years, TAURON also participated in the events addressed to the individual investors. The Company was, inter alia, a strategic partner of the "WallStreet" conference organized by the Individual Investors Association (Stowarzyszenie Inwestorów Indywidualnych).

In connection with the growing importance of the online channels and the social media, the Company is placing a lot of weight on their development with respect to the communications with the investors. Broadcasts of events important for the investors were provided via the YouTube service, for example, earnings conferences or the GMs. TAURON also has a corporate profile on Twitter where entries related to, among others, the investor relations are posted. 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 care 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 the conferences summarizing the financial results.

The activities with respect to investor relations are regularly appreciated by the capital market participants and investors.

The detailed information on the awards and accolades (honorable mentions) received by TAURON and TAURON Capital Group's subsidiaries is presented in section 2.7. of this report.

The below table presents a timeline of the investor relations highlights and activities that took place in 2020.

Table no. 56. Timeline of the investor relations highlights and activities that took place in 2020

Date	Highlight (event)
01.04.2020	Full year 2019 standalone and consolidated earnings reports published
02.04.2020	Meeting with analysts and fund managers to present FY 2019 earnings
02.04.2020	Chat for individual investors as part of cooperation with the Individual Investors Association.
13.05.2020	Q1 2020 consolidated earnings report published
14.05.2020	Meeting with analysts and fund managers to present Q1 2020 earnings
14.05.2020	Chat for individual investors as part of cooperation with the Individual Investors Association
15.07.2020	Company's Ordinary General Meeting.
19.08.2020	H1 2020 consolidated earnings report published.
20.08.2020	Meeting with analysts and fund managers to present H1 2020 earnings
20.08.2020	Chat for individual investors as part of cooperation with the Individual Investors Association
07.09.2020	Participation in the <i>17th Annual Emerging Europe Investment Conference</i> , Pekao Investment Banking.
30.09.2020	Participation in the conference <i>Metals & Energy</i> , PKO BP Securities.
07.10.2020	Participation in the conference <i>The Finest CEElection 2020</i> , Erste Group.
08-09.10.2020	Roadshow related to the bonds.
18.11.2020	Q3 2020 consolidated earnings report published
19.11.2020	Meeting with analysts and fund managers to present Q3 2020 earnings
19.11.2020	Chat for individual investors as part of cooperation with the Individual Investors Association
03.12.2020	Participation in the <i>WOOD's Winter Wonderland - Emerging Europe Conference</i> , WOOD&Company.

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 periodic 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 2020.

9.1. Applied set of corporate governance rules

In 2020 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 that the Company is subject to is published on the GPW website at the address: <https://www.gpw.pl/dobre-praktyki>.

9.2. Set of abandoned rules of corporate governance

In 2020 the Company did not apply the following detailed rules provided in the Best Practice 2016:

1. IV.Z.2. – the rule concerning the provision of the publicly available real-time broadcasts of the GM. The Company is monitoring, on an ongoing basis, the shareholding structure (composition) and in case changes take place that would justify the need to provide the publicly available real-time broadcasts of the general meeting, the Company will take relevant actions in order to provide the broadcast,
2. VI.Z.1. – the rule 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. That rule was not applied due to the compensation and bonus system applicable at TAURON in relation to members of the Management Board of the Company and its key managers that 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. - the rule 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 2 years That 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 that does not provide that compensation should be tied to instruments linked with the Company shares.

In 2020 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 - That rule was not applied to the Company due to the fact that the Company had a separate internal audit unit within its organizational structure.

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 the address: <https://www.tauron.pl>.

Information concerning abandonment of the recommendations provided in Best Practice 2016 for application

In 2020 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. The Company is monitoring, on an ongoing basis, changes in the shareholding structure (composition) that could affect the way the communication is conducted during the general meeting. In addition, if the Company receives requests from the shareholders to conduct a general meeting using the electronic means of communication, the Company will verify the technical possibilities that would ensure a safe conduct of the general meeting for the shareholders and the Company, and in the absence of any contraindications, the Company will take actions in accordance with this recommendation.

The other recommendations provided in the Best Practice 2016 were applied by the Company in 2020.

9.3. Main characteristics of internal controls and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

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:

LEVEL I
General principles of of the Company's and TAURON Capital Group's management

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 Mega-process 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.

LEVEL II
Risk management

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 and Transaction Risk, 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 drawing up 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, which as an expert team, on a permanent basis and continuously, initiates, analyzes, monitors, controls and supports the functioning of TAURON Capital Group's risk management system.

The detailed information on the risk management system is presented in section 3.2. of this report.

LEVEL III
Internal audit

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 the Internal Audit Team carrying out the audit tasks both on the strategic level, covering TAURON Capital Group, as well as the specialized operational tasks on 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 on the group level by the Internal Control Team and on the level of the subsidiaries by the inspectors employed by such subsidiaries. In addition, the Internal Control Team carries out specialist audits (controls) of the IT, OT and security systems. 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 December 2020, the Audit and Control Area completed the design works aimed at building and developing a model for a periodic assessment of the Internal Control System functioning at the Company as well as at entire TAURON Capital Group. The results of the assessment of the Internal Control System are presented to the Company's 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 (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 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 standalone 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 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 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.

The detailed information on the composition, competences and description of the operations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. is presented in section 9.11. 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 prepared using an IT tool used to consolidate financial statements, providing system control with respect to the consistency (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 Services 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 drawing up 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

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to an audit by a certified auditor. In 2018, the Company selected an entity authorized to audit and review the financial statements of the Company and of TAURON Capital Group's material subsidiaries, as well as the consolidated financial statements. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2019-2021, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2019, June 30, 2020 and June 30, 2021.

The rule related to changing the audit firm of the Company and TAURON Capital Group

In 2020, the Audit Committee of the Company's Supervisory Board updated, on October 5, 2020, the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.*, which included the following rule:

1. maximum duration of continuous audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. after the 10-year duration of the mandate (engagement) 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

Until October 5, 2020, the maximum continuous duration of audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, could not have exceeded 5 years.

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 via subsidiaries, substantial blocks of the Company's shares.

Table no. 57. Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2020 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 (Polish Copper)	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 periodic report, i.e. since November 18, 2020, until the date of drawing up this report the Company had not received 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, person), 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, person) that does not hold the company's shares, and in particular to a user, lien holder, party (entity, person) 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, person) 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, person):
 - 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 (subsidiary company) controlling influence 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, person) or other parties (entities, persons) 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 the 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 reduction mentioned in 1) above, 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, person) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Company's 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, person) 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, person) shall be null and void.

9.7. Restrictions on transfer of the ownership right to securities

As of December 31, 2020, 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 certain 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, in accordance with the *Regulation of the Council of Ministers of December 23, 2019, on the list of entities subject to protection and their competent control bodies* (Journal of Laws of 2019, item 2501, as subsequently amended), an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – the competent Minister of the State Assets of its intention to do so, unless such obligation rests on other entities.

9.8. Rules on appointing and dismissing the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., and the powers thereof

Management Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing the Members of the Company's 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 Company's Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. Each of the Members of the Management Board can be dismissed or suspended in office by the Company's Supervisory Board or the GM.

In order to recruit a person with whom an agreement on providing the management services at the Company, the Company's Supervisory Board announces a 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 Company's 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 Minister competent to exercise the rights related to the State Treasury's shares. The Company notifies the shareholders of the results of the qualification procedure.

Competence of the Company's Management Board

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 (GM) of Shareholders or the Supervisory Board, shall be within the scope of competence of the Company's 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 Company's Management Board, in particular, the following issues listed in the below table, as of December 31, 2020, and as of the date of drawing up this report.

Table no. 58. Competence of the Company's Management Board as of December 31, 2020, and as of the date of drawing up this report

Matters that require a resolution of the Company's Management Board	
1.	Company's Management Board by-laws,
2.	Company's enterprise 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 <i>Act of September 29, 1994 on accounting</i> , including granting guaranties and sureties by the Company as well as issuing bills of exchange, subject to § 20 clause 2 items 3 and 4 of the Company's Articles of Association,
8.	making donations, cancelling interest or releasing from debt, subject to § 20 clause 2 items 12 and 13 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 1 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 2 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 4 items 9 and 10 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 Company's Management Board refers to the Company's Supervisory Board or the Company's General Meeting of Shareholders for review

Supervisory Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing members of the Company's Supervisory Board

Supervisory Board of the Company shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association members of the Company's 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 within the meaning of § 10 clause 5 of Company's 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 shall be entitled to appoint and dismiss Members of the Company's Supervisory Board in the number equal to half of the maximum number of members of the Company's Supervisory Board defined in the Company's 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 of the Company's Supervisory Board that would correspond to the maximum number of Members of the Company's Supervisory Board defined in the Company's Articles of Association in case such a motion is submitted to the Company's 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 Company's Supervisory Board, including independent members of the Company's

Supervisory Board; this shall not, however, apply to the case when the Company's Supervisory Board cannot act due to its membership being smaller than required by the Company's 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 Company's Supervisory Board in accordance with the distribution of seats in the Company's Supervisory Board defined in this section,

2. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10 clause 5 of the Company's 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 exercise the rights related to the State Treasury's shares, shall be entitled to appoint and dismiss one member of the Company's Supervisory Board,
3. appointing and dismissing members of the Company's 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 Company's Supervisory Board shall meet the criteria of independence.

Independent Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on compliance with the independence criteria mentioned in the Best Practice 2016.

The detailed information on the independence of the Members of the Company's Supervisory Board is presented in section 9.11. of this report.

Competence of the Company's Supervisory Board

Supervisory Board of the Company shall continuously oversee the Company's activities in all areas of its operations.

In accordance with the Company's Articles of Association the Company's Supervisory Board's tasks and competences shall include in particular the matters listed in the below table, as of December 31, 2020, and as of the date of drawing up this report.

Table no. 59. Competence of the Company's Supervisory Board as of December 31, 2020, and as of the date of drawing up this report

Matters that require a resolution of the Company's Supervisory Board

Competences related to providing opinions

1. evaluate the Company's 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 the books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements,
2. evaluate the Company's 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 the activities referred to in clauses 1 and 2 above,
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 the internal audit functions, including all significant control mechanisms, in particular, those related to the financial reporting and operations
 - 2) report on the activities of the Company's Supervisory Board comprising at least information concerning: the composition of the Company's Supervisory Board and its Committees, compliance with the independence criteria by the Members of the Company's Supervisory Board, the number of meetings of the Company's Supervisory Board and its Committees and the completed self-assessment of the Company's Supervisory Board's work,
 - 3) assessment of the method of fulfilment of the information (disclosure) obligations by the Company, in relation to the application of the corporate governance principles defined in the Regulations of the Exchange and the provisions related to the current and periodic information (disclosures) filed by the issuers of securities,
 - 4) assessment of the rationality of the sponsoring, charitable policy, or other similar policy pursued by the Company, or the 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 Company's 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 the sponsoring activities,
8. provide opinions on the annual plan of conducting the sponsoring activities as well as on the annual report on the implementation thereof,
9. provide opinions on the reports drawn up, by the Company's Management Board, on the entertainment expenses, the expenditures on legal services, marketing services, public relations and social communications services as well as advisory services related to management,
10. provide opinions on the Company's Management Board's motions regarding the matters referred to in § 35 of the Company's Articles of Association, excluding the motions regarding the members of the Company's Supervisory Board
11. provide opinions on the changes of the rules of divesting fixed assets, defined in § 38¹ 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 Company's Management Board,
3. approving the Company's and the Capital Group's material and financial plan by the Company's Management Board
4. adopting the consolidated text of the Company's Articles of Association, drawn up by the Company's Management Board,

Matters that require a resolution of the Company's Supervisory Board

5. approving the Company's 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, on accounting*, 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, on accounting*, 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,
9. disposing of fixed asset components, within the meaning of the *Act of September 29, 1994, on accounting*, classified as intangible and legal assets, tangible fixed assets or long term investments, including making a contribution to a company or cooperative if the market value of such components exceeds PLN 20 000 000 or 5% 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, 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, where the handing over of such components for use in 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 shall be understood as 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 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 shall be understood as 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 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 with 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) 5% of the total assets within the meaning of the *Act of 29 September 29, 1994 on accounting*, 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 transactions 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 the 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 (cap) 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 within the meaning 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 (Partners) 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 pledge (property right) thereupon them if their value exceeds the PLN equivalent of EUR 5 000 000,
 - 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 enterprise or its organized part and establishing a limited pledge (property right) thereupon,
 - 6) redeeming (retiring) of shares,
 - 7) setting the compensation of members of the Management Boards and Supervisory Boards,
 - 8) provision related to the claims for remedying damage inflicted when setting up the company or performing the management or supervision,
 - 9) matters mentioned in art. 17 of the *Act of December 16, 2016, on the principles of state assets management*, subject to § 15, clause 4 of the Company's Articles of Association, with the exception of the matters relating to the 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 Company's Management Board,
2. establish the rules of compensation and the amounts of compensation for the Members of the Company's Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Company's Management Board from office for important reasons,

Matters that require a resolution of the Company's Supervisory Board

4. delegate members of the Company's Supervisory Board to temporarily perform duties of the Members of the Company's 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 Company's Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Company's Management Board shall not exceed the compensation established for the Member of the Company's Management Board to replace whom the Member of the Company's Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Company's Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions (services) in the Company shall be concluded and conclude such agreement to perform the management board functions (services) in the Company,
7. grant a permission to the Members of the Company's Management Board to take positions in governing bodies of other companies

Other competences of the Company's Supervisory Board

1. approve the Company's 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 Company's 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 Company's 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 Chairman of the Council of Ministers (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 Company's Supervisory Board's procedures.

Pursuant to the *Act of July 29, 2005 on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies*, the competences of the Supervisory Board of the Company include, in addition, the preparation of a report on the compensation received by the Members of the Management Board and the Supervisory Board of the Company in the last financial year. The report on the compensation of the Members of the Management Board and the Supervisory Board is subject to an assessment (opinion) by a certified auditor with respect to including therein of the information required under art. 90 g, clauses 1-5 and 8 of the above mentioned Act on the public offering and presented to the Ordinary General Meeting of the Company.

Report on the compensation of the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for the years 2019-2020 will be published on the Company's website at the address: <https://www.tauron.pl>.

9.9. Procedure of amending 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: an amendment to the Company's Articles of Association shall take place by way of a resolution of the GM, passed by the majority of 3/4 of the votes, and shall, subsequently, require issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including the amendments passed by the General Meeting, shall be adopted by the Supervisory Board by way 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. General Meeting of TAURON Polska Energia S.A. and the shareholders' rights

General Meeting of TAURON Polska Energia S.A.

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 the Company

General Meeting (GM) shall be convened by a notice published on the Company's website and in a manner defined for providing the current information by the public companies. In case the General Meeting (GM) is convened by an entity or a body other than the Management Board on the basis of the regulations of the Code of Commercial Companies, as convening a General Meeting 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 the General Meetings that take place either at the Company's registered office or in Warsaw.

General Meeting shall be opened by the Chairperson of the Company's Supervisory Board, and in case he/she is absent, the following persons shall be entitled to open the General Meeting in the given order: Vice Chairperson of the Company's Supervisory Board, President of the Company's Management Board, a person designated by the Company's Management Board or the shareholder who registered at the General Meeting such a number of shares

that grant the right to exercise the highest number of votes. Subsequently, the chairperson of the General Meeting shall be elected from among the persons entitled to participate in the General Meeting.

General Meeting 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. A General Meeting 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 the reasons presented by a shareholder requesting the announcement of the break.

The GM resolution concerning a break shall clearly indicate the date of the resumption of the session, however, such a date must not create a barrier for participation of the majority of shareholders in the resumed meeting, including the minority shareholders.

Competence of the General Meeting of the Company

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting (GM) of the Company as of December 31, 2020, and as of the date of drawing up this report.

Table no. 60. Competence of the General Meeting of the Company as of December 31, 2020, and as of the date of drawing up this report

Matters that require a resolution of the General Meeting of the Company
<ol style="list-style-type: none">1. reviewing and approving the financial statements of the Company and the consolidated financial statements of the Capital Group 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 Group2. 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 Company's Supervisory Board,5. suspending members of the Company's Management Board in performance of their duties,6. establishing the amount of compensation for the Members of the Company's 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 the Members of the Company's Management Board taking into account the provisions of the <i>Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies</i>,8. adopting the compensation policy for the Members of the Management Board and the Supervisory Board of the Company, taking into account the requirements of the <i>Act of July 29, 2005 on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies</i>,9. selling and leasing out the Company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon,10. 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,11. increasing and decreasing the Company's share capital,12. issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling the holder thereof to subscribe or acquire the shares,13. purchasing of own shares in cases required by the regulations of the Code of Commercial Companies,14. mandatory buyback of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies,15. setting up, using and liquidating reserve capitals,16. using supplementary capital,17. provisions related to claims to repair damage caused while establishing the Company or performing the management or supervision functions,18. merger, transformation and division of the Company,19. redemptions (retirements) of shares,20. amendment to the Company's Articles of Association and change of the subject of the Company's operations,21. 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.

Pursuant to the *Act of July 29, 2005 on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies*, the competences of the General Meeting of the Company include, in addition, the preparation of an opinion on the compensation received by the Members of the Management Board and the Supervisory Board of the Company in the last financial year,

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 in accordance with the Company's Articles of Association, Code of Commercial Companies and the Regulations of the General Meeting.

Table no. 61. Description of the Company's shareholders' rights related to the General Meeting of the Company

Shareholders' rights	Description of shareholders' rights
1. Convene a General Meeting (GM)	Shareholders representing at least 1/20 of the share capital, may request convening of an Extraordinary General Meeting. Such a request should include a concise justification. It may be submitted to the Company's 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 <i>Investor Relations</i> tab. Shareholders representing at least a half of the share capital or at least half of all of the votes in the Company may convene an Extraordinary General Meeting (GM) and appoint a chairperson of such General Meeting.
2. Include matters (items) in the agenda of the General Meeting	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. Such a request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Company's Management Board not later than 21 days prior to the set date of the General Meeting 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's date. 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	Only persons who are Shareholders 16 days before the date of the General Meeting (date of registering to participate in the General Meeting) shall have the right to take part in the General Meeting. 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 to an investment (brokerage) company running their securities account. Such a request should be submitted not earlier than following the announcement on convening of the General Meeting and not later than on the first weekday following the day of registering to participate in the General Meeting.
5. Represent a shareholder by a proxy (power of attorney)	Shareholders may take part in the General Meeting 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 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	Shareholders shall elect the Chairperson of the General Meeting from among the persons entitled to take part in the General Meeting. Each of the participants of the General Meeting shall have the right to propose one candidate. Chairperson shall 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, and vote for maximum 3 candidates.
8. Submit a draft resolution	During the General Meeting 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, 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 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 an objection is raised later, which however shall not take place later than by the time the General Meeting 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. Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof

Management Board of TAURON Polska Energia S.A.

The current 6th term of office of the Company's Management Board began its run on July 15, 2020.

The Company's Supervisory Board dismissed all Members of the Company's Management Board of the 5th common term of office on July 14, 2020, effective as of the end of the day and appointed, as of July 15, 2020, the Members of the Company's Management Board of the 6th common term of office.

In accordance with the Company's Articles of Association the common term of office shall last 3 years.

The composition of the Company's Management Board as of December 31, 2020

1. Wojciech Ignacok - President of the Management Board,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management,
3. Marek Wadowski - Vice President of the Management Board for Finance.

The composition of the Company's Management Board as of the date of drawing up this report

1. Marek Wadowski - acting as the President of the Management Board / Vice President of the Management Board for Finance,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The changes to the composition of the Company's Management Board in 2020 and by the date of drawing up this report

As of January 1, 2020, the Management Board of the 5th common term of office was composed of the following persons: Filip Grzegorzczak (President of the Management Board), Jarosław Broda (Vice President of the

Management Board for Asset Management and Development) and Marek Wadowski (Vice President of the Management Board for Finance).

The Company's Supervisory Board dismissed all Members of the Company's Management Board of the 5th common term of office on July 14, 2020, effective as of the end of the day and appointed, as of July 15, 2020, Wojciech Ignacok, Jerzy Topolski and Marek Wadowski to be the Members of the Company's Management Board of the 6th common term of office.

On February 19, 2021, Wojciech Ignacok submitted a statement of resignation, as of February 28, 2021, from the position of the President of the Company's Management Board of the 6th common term of office for health reasons.

On February 24, 2021, the Company's Supervisory Board entrusted Marek Wadowski with the duties of the President of the Company's Management Board from March 1, 2021, until the appointment of the Company's President of the Management Board.

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 the Members of the Company's Management Board who continue to hold their positions in the Company's Management Board as of the date of drawing up this report

Marek Wadowski – acting as the President of the Management Board / Vice President of the Management Board for Finance



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 Ingénierie 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.

Since January 29, 2016, he has been holding the position of the Vice President of the Management Board of TAURON Polska Energia S.A. and overseeing the operations of the following business areas: finance management, controlling, accounting and tax policy, analytics, procurement and administration, IT, market operator and trading services, trading, fuel trading, portfolio management, as well as the Personal Data Protection Inspector.

In 2008 - 2015 he had been associated with Jastrzębska Spółka Węglowa S.A. capital group (JSW). In 2008 - 2009, as the Vice President of the Management Board – the Director for Finance of Polski Koks S.A. (a JSW subsidiary), he had been responsible for structuring commercial transactions, implementing the currency risk hedging policy, reducing financial costs, liquidity management. In 2009 - 2012, as the Vice President of the Management Board of JSW for Economic Affairs, he had been involved in the company's IPO (implementation of the International Accounting Standards, modification of the management information system, drafting of the IPO prospectus, talks with investors). In 2012 - 2015, as the Vice President of the Management Board - Director for Economic Affairs of Spółka Energetyczna Jastrzębie S.A. (a JSW subsidiary), he had been involved in the implementation of the Power Sector 2016 (Energetyka 2016) investment program, as part of which he has been dealing with the business plan development as well as structuring and acquisition of financing from the consortium of banks in the form of a bond issue program. He had also been implementing the risk management procedures related to interest rates, CO₂ and prices of certificates of origin, as well as developing and implementing the liquidity management policy.

In 2005 - 2008 he had worked at Huta Cynku Miasteczko Śląskie S.A., where he had held the positions of: the management board's plenipotentiary for restructuring, the Director for Economics and Finance, a Member of the Management Board - the Director for Economics and Finance, the President of the Management Board - General Manager.

In 1999 - 2005 he had worked as a consultant at BRE Corporate Finance S.A., responsible for the due diligence projects and enterprise valuations.

Jerzy Topolski - Vice President of the Management Board



A graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Cracow. He also completed the postgraduate studies in the field of energy enterprise management and new techniques in power engineering management.

He has professional experience with respect to the operations of the power sector, including management of the development of the distribution grid and the provision of electricity distribution services. He was involved in setting up the organization of the electricity market in Poland.

From the beginning of his professional career, he had been associated with the energy industry and TAURON Group or its legal predecessors, i.e. ENION S.A. and Zakład Energetyczny Kraków S.A.

Since 2016, he was the Vice President of the Management Board for Operator at TAURON Dystrybucja S.A. (Issuer's subsidiary), where he was responsible, among others, for the development of the distribution grid, provision of electricity distribution services, metering and grid operation management.

In addition to the above mentioned position, in 2016 he was the Director of TAURON Dystrybucja S.A. Cracow and Tarnów branches. In 2015-2016 he had worked as a coordinator and had been responsible, among others, for customer service quality. From 2013 to 2014 he had been the chief specialist, and in 2011-2012 he had been the head of the Office of Tariffs and the Energy Regulatory Office (URE) Relations.

In 2010 - 2011 he had been holding the position of the Director of the Tariff Department at ENION S.A. and had been responsible in particular for regulated revenue management. In 2007 - 2010 he had been the Director of the Distribution Services Department and had been responsible for ensuring profitability of the distribution services sales. From 2005 to 2007, he had been the President of the Management Board, in 2004 - 2005 - a Member of the Management Board for Trading, and until 2004 - a Member of the Management Board and the Director of Energy Trading.

In 1989 - 2000 he had been holding the following positions at Zakład Energetyczny Kraków S.A.: the director of the high voltage region; deputy head of the high voltage region for technical affairs as well as the grid foreman and engineer.

Description of the procedures of the Company's Management Board

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 the Members of the Company's Management Board shall be acting in accordance with the principles provided 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.

The 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. The 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 registered office on the date set by the person that convened the meeting. In justified cases the meetings of the Management Board may be held outside the Company's registered office. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board

The 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.

The 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. The 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 the 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. The 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 division, among the 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 the organizational units reporting directly to the Executive Directors, whose work is managed (supervised) by the Members of the Company's Management Board, is defined by the Company's Management Board Resolution No. 351/V/2020 of November 3, 2020 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. that replaced 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.

The structure of the Company's business areas reporting to the individual Members of the Company's 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 1.10. of this report and posted on the Company's web site at the address: <https://www.tauron.pl>.

Supervisory Board of TAURON Polska Energia S.A.

The current, 6th term of office of the Company's Supervisory Board, began on July 15, 2020, 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 Company's Supervisory Board of the 5th term, i.e. for the financial year 2019.

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 Company's Supervisory Board as of December 31, 2020

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Barbara Piontek - Member of the Supervisory Board.

The composition of the Company's Supervisory Board as of the date of drawing up this report

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board.

The changes to the composition of the Company's Supervisory Board in 2020 and by the date of drawing up this report

As of January 1, 2020, the Company's Supervisory Board of the 5th common term of office was composed of the following members: Beata Chłodzińska (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Barbara Łasak – Jarszak (Member of the Supervisory Board), Grzegorz Peczkis (Member of the Supervisory Board), Jan Płudowski (Member of the Supervisory Board), Marcin Szlenk (Member of the Supervisory Board), Katarzyna Taczanowska (Member of the Supervisory Board) and Agnieszka Woźniak (Member of the 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, dismissed Agnieszka Woźniak from the Company's Supervisory Board of the 5th common term of office and appointed Andrzej Śliwka to be a member of the Company's Supervisory Board of the 5th common term of office.

On April 20, 2020, Jacek Szyke and Marcin Szlenk submitted statements on their resignations from the membership of the Company's Supervisory Board of the 5th common term of office, without providing the reasons for their resignations.

On April 27, 2020, Beata Chłodzińska submitted a statement on her resignation from the membership of the Company's Supervisory Board of the 5th common term of office, without providing the reasons for her resignation.

On May 22, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed Andrzej Kania to be a member of the Company's Supervisory Board of the 5th common term of office.

On May 25, 2020, the Company's Supervisory Board appointed Andrzej Kania to be the Chair of the Company's Supervisory Board of the 5th common term of office and Katarzyna Taczanowska to be the Secretary of the Company's Supervisory Board of the 5th common term of office.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płudowski from the Company's Supervisory Board of the 5th common term of office and appointed Barbara Piontek to be a member of the Company's Supervisory Board of the 5th common term of office.

On June 16, 2020, Andrzej Śliwka submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office, without providing the reasons for his resignation.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Company's Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board of the 5th common term of office expired.

On July 15, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed Andrzej Kania, Ryszard Madziar and Barbara Piontek to be Members of the Company's Supervisory Board of the 6th common term of office.

On July 15, 2020, the Ordinary General Meeting (GM) of the Company, acting pursuant to § 22, section 1) of the Company Articles of Association, appointed Grzegorz Peczkis and Katarzyna Taczanowską to be Members of the Company's Supervisory Board of the 6th common term of office.

On August 3, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed Teresa Famulska to be a Member of the Company's Supervisory Board of the 6th common term of office.

On August 3, 2020, the Company's Supervisory Board of the 6th common term of office elected Andrzej Kania to be the Chair of the Company's Supervisory Board of the 6th common term of office, Teresa Famulska to be the Vice-Chair of the Company's Supervisory Board of the 6th common term of office and Katarzyna Taczanowska as the Secretary of the Company's Supervisory Board of the 6th common term of office.

On February 12, 2021, Barbara Piontek submitted a statement on her resignation, as of February 28, 2021, from the membership of the Company's Supervisory Board of the 6th common term of office, in connection with assuming the position of the President of the Management Board of Jastrzębska Spółka Węglowa S.A. from 1 March 2021.

No other changes to the composition of the Company's Supervisory Board had taken place by the date of drawing up this report.

Information on the independence of the Members of the Supervisory Board

In accordance with the Best Practice 2016 at least two members of the Company's Supervisory Board shall meet the criteria of independence.

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 the additional criteria indicated in the Best Practice 2016.

Independent Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's 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 inform the Company promptly thereof.

Information on the fulfillment by the Members of the Supervisory Board of the independence criteria is posted on the Company's website at the address: <https://www.tauron.pl>.

The table below presents the 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. 62. Fulfillment by the Members of the Company's Supervisory Board of the independence requirements, as of December 31, 2020 and as of the date of drawing up this report

First and last name	Fulfillment of the independence requirements	
	as of December 31, 2020	as of the date of drawing up this report
1. Andrzeja Kania	Does not meet independence requirements	Does not meet independence requirements
2. Teresa Famulska	Meets independence requirements	Meets independence requirements
3. Katarzyna Taczanowska	Does not meet independence requirements	Does not meet independence requirements
4. Ryszard Madziar	Does not meet independence requirements	Does not meet independence requirements

First and last name	Fulfillment of the independence requirements	
	as of December 31, 2020	as of the date of drawing up this report
5. Grzegorz Peczkis	Meets independence requirements	Meets independence requirements
6. Barbara Piontek	Meets independence requirements	-

Experience and competences of the Members of the Supervisory Board who continue to hold their seats on the Company's Supervisory Board as of the date of drawing up this report

Andrzej Kania - Chair of the Supervisory Board

A graduate of the Rzeszów University of Technology (Politechnika Rzeszowska), where he completed his studies in 1991. Andrzej Kania is also a graduate of the National School of Public Administration in Warsaw (Krajowa Szkoła Administracji Publicznej) and the doctoral studies that he completed at the Warsaw School of Economics (Szkoła Główna Handlowa)

He has held important positions at public institutions. He was a Department Head at the Energy Regulatory Office and the Director of the Energy Department at the Ministry of Economy. He also held the position of the Office Director of the Polish Electricity Association.

Andrzej Kania has extensive experience with respect to investment project evaluation and implementation based on measurable results in the management of large scale and high risk investment projects.

He also served as a Member of the Supervisory Board at six companies operating in the energy and infrastructure sector. He was a Member of the Supervisory Board of Polimex Mostostal S.A. from November 30, 2017, until March 15, 2020.

He is currently holding the position of the Director of the Department of Security and Crisis Management at the Ministry of State Assets.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since May 22, 2020.

In the Company's Supervisory Board of the 6th common term of office he is the Chair of the Company's Supervisory Board and the Head of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice (currently the University of Economics in Katowice). She holds a title of 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 is a professional tax advisor.

Since graduation she has been associated with the University of Economics in Katowice. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998 - 2013 she had been working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of more than 150 domestic and foreign publications in the field of finance, mainly public finance 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 conducted numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff. In 2007 - 2018 she had worked for three consecutive terms at the State Examination Commission on Tax Advisory Services, where, since 2010, for two consecutive terms based on the Minister of Finance's appointment, she was the Head of the Commission. In 2007 - 2019 a member of the Financial Education Committee of the Polish Academy of Science, where, in 2011 - 2015, she was a member of the Board of the Committee. Furthermore, she is a member of the Polish Finance and Banking Association (since 2004, a member of the Board), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries and Polish Economic Society.

In the period from May 29, 2017, until July 14, 2020, she had been a member of the Supervisory Board of TAURON Polska Energia S.A., holding the position of the Vice Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

She was awarded the following orders and accolades: Silver Cross of Merit, Silver Medal for Long Term Service, Medal of the Commission of National Education, awards of the Minister of National Education and of the President of the University of Economics in Katowice.

In the Company's Supervisory Board of the 6th common term of office she is the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. of the 6th common term of office since August 3, 2020, holding the position of the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

Katarzyna Taczanowska - Secretary of the Supervisory Board

A graduate of the Faculty of Law of the University of Warsaw, registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

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 had been 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 Katarzyna Taczanowska has been holding the position of 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 Company's Supervisory Board of the 6th common term of office she is the Secretary of the Company's Supervisory Board and a member of the Audit Committee of the Company's Supervisory Board.

Ryszard Madziar - Member of the Supervisory Board

A graduate of the faculty of political science of the University of Warsaw. He holds an MBA degree obtained at the Warsaw Management University (Wyższa Szkoła Menedżerska w Warszawie).

He has an extensive experience in public administration. He has held the following positions: the Mayor of Wołomin, the Head of the Political Cabinet of the Vice Chairman of the Council of Ministers, and prior to that, the Deputy Director of the Mazovian Regional Office of the Agency for Restructuring and Modernization of Agriculture (Agencja Restrukturyzacji i Modernizacji Rolnictwa).

He is a member of the Supervisory Board of, among others, Totalizator Sportowy.

Currently, he is the Head of the Political Cabinet of the Vice Chair of the Council of Ministers (Deputy Prime Minister) in the Chancellery of the Prime Minister.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since July 15, 2020.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's 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.

Grzegorz Peczkis 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 holding the position of the Vice Chair of the Supervisory Board of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Patent Office of the Republic of Poland.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019.

In the Company's Supervisory Board of the 6th common term of office he is the Head of the Strategy Committee of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board and a Member of the Nominations and Compensation Committee of the Company's Supervisory Board.

Description of the procedures of the Company's Supervisory Board

Supervisory 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 *Regulations of the Supervisory Board of TAURON Polska Energia S.A. 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 the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2016.

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. The meetings of the Company's Supervisory Board shall be convened by the Chairperson of the Supervisory Board or the 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.

The 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 Company's 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. 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. The Supervisory Board of the Company shall meet on as needed basis, however not less frequently than once every 2 months. The 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 Company's 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 Company's 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 Company's 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.

The 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 to carry out the work, obligating the Company's Management Board to conclude an applicable agreement.

The 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 of the Supervisory Board. For important reasons, with the consent of the majority of the Members of the Supervisory Board present at the meeting, the person 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 Company's Supervisory Board. The Supervisory Board shall make decisions in the form of resolutions. The Supervisory Board's resolutions shall be passed mainly during the meetings thereof. The Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all of its members have been invited in the appropriate manner defined in the Regulations of the Supervisory Board. 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 the 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:

1. at the request of at least one member of the Supervisory Board,
2. 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 a way shall require a prior notification of all Members of the Supervisory Board of the content of the draft resolution and the participation of at least half of the Members of the Supervisory Board in passing the resolution. The Supervisory Board may pass resolutions this way in the personnel related matters, as well as in other matters the resolution of which requires a secret ballot vote

as long as no Member of the Supervisory Board raises an objection. When voting on a resolution in the above mentioned way a Member of the Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution with a note that it has been passed in writing or by voting using the 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.

Participation in a meeting of the Company's Supervisory Board using the means of direct remote communications, i.e. a conference call or a video conference, shall be allowed. In case the Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using the means of direct remote communications, the resolutions shall be passed if at least half of the Members of the Company's Supervisory Board participate in the vote.

The Members of the Supervisory Board shall take part in the meetings and exercise their rights and responsibilities in person, and while performing their duties they shall be obliged to act with due diligence. The 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.

The Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision actions on their own for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform the duties of the 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 Company's Supervisory Board, submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

The Company's Supervisory Board may appoint from among its members permanent or temporary (ad hoc) working groups, committees to perform specific actions. The standing committees of the Company's Supervisory Board 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).

The composition, tasks and rules (procedures) of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Audit Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2020 the Audit Committee was composed of 3 to 5 members.

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2020, the Company's Supervisory Board also made changes to the membership of the Audit Committee.

Composition of the Audit Committee as of December 31, 2020 and as of the date of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Grzegorz Peczkis - Member of the Audit Committee,
3. Katarzyna Taczanowska - Member of the Audit Committee.

The changes to the composition of the Audit Committee in 2020 and by the date of drawing up this report

As of January 1, 2020, the Audit Committee was composed of the following members: Teresa Famulska (Head of the Audit Committee), Jan Płodowski, Marcin Szlenk, Jacek Szyke and Katarzyna Taczanowska.

On April 20, 2020, Jacek Szyke and Marcin Szlenk submitted statements on their resignations from the membership of the Company's Supervisory Board of the 5th common term of office. This way, they ceased to be the members of the Audit Committee.

On May 25, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Audit Committee by appointing Grzegorz Peczkis and Andrzej Śliwka to be the members thereof.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płodowski from the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Audit Committee.

On June 16, 2020, Andrzej Śliwka submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Audit Committee.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Company's Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board of the 5th common term of office expired. This way, Teresa Famulska, Katarzyna Taczanowska and Grzegorz Peczkis ceased to be the members of the Audit Committee.

On August 3, 2020, in connection with the appointment of the Members of the Company's Supervisory Board of the 6th common term of office, the Company's Supervisory Board appointed, from the members thereof, Teresa Famulska, Grzegorz Peczkis and Katarzyna Taczanowska to be the members of the Audit Committee.

On August 3, 2020, the Audit Committee elected Teresa Famulska to hold the position of the Head of the Audit Committee.

No other changes to the composition of the Audit Committee had taken place by the date of drawing up this report.

Information on the independence of the members of the Audit Committee

Pursuant to the *Act of May 11, 2017, on certified auditors, audit companies and public oversight*, the majority the members of the audit committee, including its head, should be independent and at least one member of the audit committee should have knowledge and skills with respect to accounting or auditing financial statements and at least one member of the audit committee should have knowledge and skills in the industry that the company operating in.

In 2020 the membership (composition) of the Audit Committee was in compliance with the requirements defined in the above mentioned act. The evaluation of the independence and the statutory requirements with respect to the knowledge and skills of the individual members of the Audit Committee was made by the Company's Supervisory Board based on the relevant statements submitted by the members of the Audit Committee.

The below table presents the information on the fulfillment, in 2020, by the Members of the Audit Committee of the independence requirements and the requirements with respect to the knowledge and skills held.

Table no. 63. Fulfillment, in 2020, by the Members of the Audit Committee of the independence requirements and the requirements with respect to the knowledge and skills held

First and last name	Period of performing the function (tenure) in the Audit Committee	Fulfillment of the independence requirements and the requirements with respect to the knowledge and skills held
1. Teresa Famulska	01.01.2020 - 15.07.2020 03.08.2020 - 31.12.2020	<ul style="list-style-type: none"> Meets independence requirements Has knowledge and skills in the field of accounting and auditing of financial statements
2. Grzegorz Peczkis	25.05.2020 - 15.07.2020 03.08.2020 - 31.12.2020	<ul style="list-style-type: none"> Meets independence requirements Has knowledge of the industry that the Company is operating in
3. Katarzyna Taczanowska	01.01.2020 - 15.07.2020 03.08.2020 - 31.12.2020	<ul style="list-style-type: none"> Does not meet independence requirements
4. Jan Pludowski	01.01.2020 - 05.06.2020	<ul style="list-style-type: none"> Meets independence requirements Has knowledge of the industry that the Company is operating in
5. Marcin Szlenk	01.01.2020 - 20.04.2020	<ul style="list-style-type: none"> Meets independence requirements Has knowledge and skills in the field of accounting and auditing of financial statements
6. Jacek Szyke	01.01.2020 - 20.04.2020	<ul style="list-style-type: none"> Meets independence requirements Has knowledge of the industry that the Company is operating in
7. Andrzej Śliwka	25.05.2020 - 16.06.2020	<ul style="list-style-type: none"> Does not meet independence requirements

The detailed information on the way the Members of the Audit Committee, that continue to hold their seats in the Audit Committee, as of the date of drawing up this report, have gained the knowledge and skills to the extent defined in the *Act of May 11, 2017, on certified auditors, audit firms and public oversight* is presented in section 9.11. of this report.

Tasks and competences of the Audit Committee

In 2020 the Audit Committee was performing the tasks and competences defined in the currently applicable legal regulations 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 9 meetings in total during the period covered by this report.

The tasks and competences of the Audit Committee as of December 31, 2020, and as of the date of drawing up this report, are presented in the below table.

Table no. 64. Competences of the Audit Committee as of December 31, 2020, and as of the date of drawing up this report

Competences of the Audit Committee
<ol style="list-style-type: none">1. monitoring:<ol style="list-style-type: none">1) Company's financial reporting process,2) effectiveness of the internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting3) performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and findings of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company2. controlling and monitoring of the independence and impartiality of the chartered accountant (certified auditor) and the audit company, in particular in case other services than an audit are provided for the benefit of the Company by the audit company,3. performing the evaluation of the independence of the certified auditor and expressing consent for the performance thereby of the permitted services that do not constitute an audit within the Company,4. developing the policy for selecting the audit company to perform the audit,5. developing the policy for performing by the audit company conducting the audit, entities related to such audit company and the members of the audit company's corporate network, of the permitted services that do not constitute an audit,6. defining the procedure for selecting the audit company by the Company,7. presenting to the Supervisory Board, for the purpose of selecting the audit company responsible for performing the statutory audit or review of financial statements, of the recommendation, referred to in Art. 130, clauses 2 and 3 of the <i>Act of May 11, 2017 on certified auditors, auditing companies and public oversight</i> and in Art. 16, clause 2 of the <i>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</i>, in line with the policies referred to above in items 4 and 5,8. informing the Supervisory Board of the audit results and explaining how the audit contributed to the accuracy (fairness) of the Company's financial reporting, and also what the role of the Audit Committee in the audit process was,9. presenting the recommendations aimed at ensuring accuracy (fairness, reliability) of the Company's financial reporting process,10. performing other activities vested with the audit committees pursuant to the <i>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</i>.

Permitted non-audit services provided by an audit company

The following permitted non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries in 2020 by an audit firm auditing the financial statements:

1. confirmed in writing verification of the annual and interim standalone consolidation 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 Dystyrbucja subsidiary in connection with the requirement to estimate the Regulatory Asset Base (RAB) and the Regulatory Asset Base (RAB) for the AMI System for the needs of determining the justified return on capital employed by the President of ERO.

In connection with the provision of the above services, the Audit Committee performed an evaluation of the threat to and the safeguards of the independence of the audit company Ernst & Young Audyt Polska and expressed its consent for the provision of the above services.

Main assumptions of the policy for appointing an audit company to conduct the audit and the policy of providing the permitted non-audit services by entities related to such audit company and by a member of the audit company's network

The Audit Committee adopted the following regulations on October 16, 2017, prepared in connection with the coming into force of the *Act of May 11, 2017, on certified auditors, auditing companies and public oversight*:

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.*
3. *Policy for the provision of the permitted 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.*

On October 5, 2020, the Audit Committee adopted the new version of the *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.*, as well as the *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.*

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 (entity), 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 most important 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 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 the certified auditors. The procedure defines in detail and accurately the individual stages of the process to select the audit firm, including indicating the corporate authorities (bodies) 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 made 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 the permitted services, the principles of the Audit Committee conducting an assessment of the threats to and safeguards of the independence of the audit firm, as well as the 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 the threats to and safeguards of the independence of the audit firm and expressing consent for the provision of the 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 (selection) of the audit firm

The Audit Committee did not recommend an appointment of the audit firm to the Supervisory Board of TAURON in 2020.

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. The Supervisory Board selected the audit company based on the recommendation of the Audit Committee which met the applicable conditions and was made 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 such 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 is provided in the Report on the activities of the Supervisory Board submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Nominations and Compensation Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2020 the Nominations and Compensation Committee was composed of 2 to 4 members.

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2020, the Company's Supervisory Board also made changes to the membership of the Nominations and Compensation Committee.

Composition of the Nominations and Compensation Committee as of December 31, 2020

1. Andrzej Kania - Head of the Nominations and Compensation Committee,
2. Ryszard Madziar - Member of the Nominations and Compensation Committee,
3. Barbara Piontek - Member of the Nominations and Compensation Committee.

Composition of the Nominations and Compensation Committee as of the date of drawing up this report

1. Andrzej Kania - Head of the Nominations and Compensation Committee,
2. Ryszard Madziar - Member of the Nominations and Compensation Committee,
3. Grzegorz Peczkis - Member of the Nominations and Compensation Committee.

The changes to the composition of the Nominations and Compensation Committee in 2020 and by the date of drawing up this report

As of January 1, 2020, 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 of the 5th common term of office. This way, she ceased to be the member of the Nominations and Compensation Committee.

On April 20, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Andrzej Śliwka to be a member thereof.

On April 27, 2020, Beata Chłodzińska submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, she ceased to be the member of the Nominations and Compensation Committee.

On May 25, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Andrzej Kania and Jan Płudowski to be the members thereof.

On May 25, 2020, the Nominations and Compensation Committee elected Andrzej Śliwka to hold the position of the Head of the Nominations and Compensation Committee.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płudowski from the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Nominations and Compensation Committee.

On June 16, 2020, Andrzej Śliwka submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Nominations and Compensation Committee.

On June 18, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Teresa Famulska to be a member thereof.

On June 18, 2020, the Company's Supervisory Board of the 5th common term of office elected Andrzej Kania to hold the position of the Head of the Nominations and Compensation Committee.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Company's Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board of the 5th common term of office expired. This way, Barbara Łasak-Jarszak, Andrzej Kania and Teresa Famulska ceased to be the members of the Nominations and Compensation Committee.

On August 3, 2020, in connection with the appointment of the Members of the Company's Supervisory Board of the 6th common term of office, the Company's Supervisory Board appointed, from the members thereof, Andrzej Kania, Ryszard Madziar and Barbara Piontek to be the members of the Nominations and Compensation Committee.

On August 3, 2020, the Audit Nominations and Compensation Committee elected Andrzej Kania to hold the position of the Head of the Nominations and Compensation Committee.

On February 12, 2020, Barbara Piontek submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 6th common term of office. This way, he ceased to be the member of the Nominations and Compensation Committee.

On February 19, 2020, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Grzegorz Peczkis to be a member thereof.

No other changes to the composition of the Nominations and Compensation Committee had taken place by the date of drawing up this report.

Tasks and competences of the Nominations and Compensation Committee

The tasks and competences of the Nominations and Compensation Committee did not change in 2019.

The tasks and competences of the Nominations and Compensation Committee, as of December 31, 2020 and as of the date of drawing up this report, are presented in the below table.

Table no. 65. Competences of the Nominations and Compensation Committee, as of December 31, 2020 and as of the date of drawing up this report

Competences of the Nominations and Compensation Committee
<ol style="list-style-type: none">1. recommending to the Supervisory Board a recruitment procedure for the positions of the Members of the Company's Management Board,2. evaluating candidates for the 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 the agreements to be concluded with the members of the Management Board,4. recommending to the Supervisory Board a compensation and bonus system for the 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 the 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 an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Strategy Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2020 the Strategy Committee was composed of 2 to 5 members.

Due to the changes to the membership of the Supervisory Board of the Company, introduced in 2020, the Company's Supervisory Board also made changes to the membership of the Strategy Committee.

Composition of the Strategy Committee as of December 31, 2020

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Ryszard Madziar - Member of the Strategy Committee,
3. Barbara Piontek - Member of the Strategy Committee.

Composition of the Strategy Committee as of the date of drawing up this report

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Andrzej Kania - Member of the Strategy Committee,
3. Ryszard Madziar - Member of the Strategy Committee.

The changes to the composition of the Strategy Committee in 2020 and by the date of drawing up this report

As of January 1, 2020, the Strategy Committee was composed of the following members: Jacek Szyke (Head of the Strategy Committee), Beata Chłodzińska, Grzegorz Peczkis, Jan Płudowski 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 of the 5th common term of office. This way, she ceased to be the member of the Strategy Committee.

On April 20, 2020, Jacek Szyke submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Strategy Committee.

On April 27, 2020, Beata Chłodzińska submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, she ceased to be the member of the Strategy Committee

On May 25, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Strategy Committee by appointing Andrzej Kania to be a member thereof.

On May 25, 2020, the Strategy Committee elected Jan Płudowski to hold the position of the Head of the Strategy Committee.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płudowski from the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Strategy Committee.

On June 19, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Strategy Committee by appointing Barbara Łasak-Jarszak to be a member thereof.

On June 26, 2020, the Strategy Committee elected Grzegorz Peczkis to hold the position of the Head of the Strategy Committee.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Company's Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board of the 5th common term of office expired. This way, Grzegorz Peczkis, Andrzej Kania and Barbara Łasak-Jarszak ceased to be the members of the Strategy Committee.

On August 3, 2020, in connection with the appointment of the Members of the Company's Supervisory Board of the 6th common term of office, the Company's Supervisory Board appointed, from the members thereof, Ryszard Madziar, Grzegorza Peczkis and Barbara Piontek to be the members of the Strategy Committee.

On August 3, 2020, the Strategy Committee elected Grzegorza Peczkis to hold the position of the Head of the Strategy Committee.

On February 12, 2020, Barbara Piontek submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 6th common term of office. This way, he ceased to be the member of the Strategy Committee.

On March 1, 2020, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Andrzej Kania to be a member thereof.

No other changes to the composition of the Strategy Committee had taken place by the date of drawing up this report.

Tasks and competences of the Strategy Committee

The tasks and competences of the Strategy Committee did not change in 2020.

The tasks and competences of the Strategy Committee as of December 31, 2020 and as of the date of drawing up this report are presented in the below table.

Table no. 66. Competences of the Strategy Committee as of December 31, 2020 and as of the date of drawing up this report

Competences of the Strategy Committee
<ol style="list-style-type: none">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 the planned and currently undertaken strategic investment projects on the Company's assets' position,4. monitoring the implementation of the strategic investment tasks,5. evaluating activities related to the use of the Company's material assets,6. providing opinions on the 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 an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Description of the activities of the Committees of the Supervisory Board of TAURON Polska Energia S.A.

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 Company's Supervisory Board structure and perform the support and advisory functions for the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements related to the scope of their tasks to the Supervisory Board, by way of the resolutions passed. 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).

The meetings of the Committees of the Supervisory Board 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 Head of the given Committee may invite the Members of the Company's Supervisory Board, who are not members of the specific Committee, the members of the Management Board and the employees of the Company as well as other persons working or cooperating with the Company to take part in the meetings of the Committees. The Head 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 half of their members are present at the meeting and all of the 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 the means of direct remote communication.

The Members of the Committees of the Supervisory Board may also participate in the meetings of the Committees and vote on the resolutions being passed by using the means of direct remote communication, i.e. tele- or videoconferences.

The Company's Management Board shall be informed of the 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, via the Company, on their memberships, the number of meetings held and the participation in the meetings during the year, as well as on their main activities.

The Company's Management Board provides the individual Committees with possibility of using the services of the external advisers to the extent required to perform the obligations of the Committees.

9.12. TAURON Group's Diversity Policy

TAURON Group's Diversity Policy (Diversity Policy), put in place in 2017, was in force at the Company and TAURON Capital Group in 2020, with its goal to strengthen the awareness and organizational culture open to diversity.

In accordance with the above Diversity Policy the 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 with respect 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. *TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination,*
2. *Policy of Respect for Human Rights* defining the principles of respect for human rights and actions taken to prevent the violation thereof 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 fostering the development of each employee,
4. Regulations ensuring fairness and objectivity with respect to work organization and compensation, including among others:
 - 1) *TAURON Group's Compensation Principles,*
 - 2) *TAURON Group's Human Resources Management Policy,*
 - 3) regulations with respect to benefits (entitlements),
 - 4) 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.:
 - 1) reduced working time for pregnant women,
 - 2) *Mum works (Mama pracuje)* program put in place in the distribution line of business, with the goal to build a friendly work environment for mothers,
 - 3) *Magenta meetings (Magentowe spotkania)* program as part of the *Women's Power (Kobieca Moc)* campaign dedicated to women students of the 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 activities undertaken, 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 the Members of the Company's Management Board are appointed by the Company's Supervisory Board, while the Members of the Company's Supervisory Board are appointed by the Company's GM and the Minister competent to exercise the rights related to the State Treasury's shares, acting within the statutory powers of the State Treasury.

The Members of the Company's Management Board are appointed by the Company's Supervisory Board after conducting a qualification procedure designed to verify and assess their qualifications and select the best candidate. The notice of the qualification process is published on the Company's website at the address: <https://www.tauron.pl> and in the Public Information Bulletin (Biuletyn Informacji Publicznej) of the Minister competent to exercise the rights related to the State Treasury's shares. The competition is open to any person that meets the requirements provided in § 16 clauses 3 and 4 of the Company's Articles of Association. As there are no special requirements related to, among others, gender, education profile, age and professional experience, the Company's Supervisory Board is able to ensure comprehensive and diverse approach when assessing and selecting the candidates for Members of the Company's Management Board.

As of December 31, 2020, the Company's Management Board was composed of 3 men, and the Company's Supervisory Board included 3 women and 3 men. The age structure of the Members of the Company's Management Board was as follows: over 40-50 years - 2 persons, over 50-60 years - 1 person, while in case of the Company's Supervisory Board: over 40-50 years - 4 persons, over 50-60 years - 1 person, above 60 years - 1 person.

Information on the qualifications and professional experience of persons appointed as members of the Management Board and the Supervisory Board of TAURON 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 *Act of September 29, 1994, on accounting* (Journal of Laws of 2021, item 217), instead of the statement on non-financial information, the Company drew up a Non-financial Report of TAURON Capital Group for 2020, 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, clauses 1-8 and art. 55, clauses 2b-e of the *Act of September 29, 1994, on accounting* (Journal of Laws of 2021, item 217), 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, with the 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 the Members of the Management Board and the key managers

General information on the adopted compensation system for the Members of the Management Board of TAURON Polska Energia S.A.

The principles of compensation for the Members of the Company's Management Board in force at TAURON are in line with the regulation of the *Act of June 9, 2016, on the principles of determining the compensation of persons managing certain companies* (Journal of Laws of 2020, item 1907).

The principles of compensation for the Members of the Company's Management Board defined in the Resolution of the Extraordinary GM of TAURON November 21, 2019, *on the principles of determining the compensation of the Members of the Management Board and waiving resolution no. 5 of the Extraordinary General Meeting of the Company under the name: TAURON Polska Energia S.A. of December 15, 2016, on the principles of determining the compensation of the Members of the Management Board and waiving resolution no. 36 of the Ordinary General Meeting of the Company under the name: TAURON Polska Energia S.A. of May 29, 2017, on the amendment of resolution no. 5 of the Extraordinary General Meeting of December 15, 2016 and waiving resolution no. 26 of the Ordinary General Meeting of the Company under the name: TAURON Polska Energia S.A. of May 8, 2019 on the amendment of resolution no. 5 of the Extraordinary General Meeting of December 15, 2016*, were in force at the Company in 2020.

The principles of determining the compensation were specified in detail in the resolution of the Company's Supervisory Board of December 19, 2016 *on determining the compensation of the Members of the Management Board of TAURON Polska Energia S.A.*, as subsequently amended

The Policy of compensation for the members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A., adopted by the Company's Supervisory Board on October 23, 2017, had been in force at TAURON until July 14, 2020.

With a view to complying with the provisions of the *Act of October 16, 2019, on amending the Act on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies and certain other acts*, the General Meeting of the Company adopted a resolution on July 15, 2020, *on the adoption of the " Policy of Compensation for Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A."* (Compensation Policy).

The Compensation Policy, along with the resolution of the General Meeting of the Company on the adoption thereof has been published on the Company's website at the address: <https://www.tauron.pl>.

The overarching objectives of the Compensation Policy include:

1. ensuring a consistent and motivational compensation system for the Members of the Company's Management Board,
2. linking the compensation rules with the monitoring of the implementation of the adopted strategic plans, long term interests of the Company and the implementation of the financial plans,
3. setting the level of compensation for the Members of the Company's Management Board 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 system translating into the implementation of the Company's business strategy and the directions of its expansion,
6. ensuring the stable growth of the Company.

The model of compensation covered by the Compensation Policy assumes a two-component system for determining the compensation of the Members of the Company's Management Board, where the total compensation of a Member of the Company's Management Board is composed of a fixed part constituting the monthly base compensation and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management objectives (KPI).

The system of compensating the Members of the Company's 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 compensation system, of the dependence of the compensation's variable part on achieving the management goals set to be accomplished is aimed, in particular, at implementing the adopted

Strategy, the directions of the Company's expansion and the financial plans taking into account the Company's long term interests. Furthermore, it shapes a new organizational culture of the Company.

Taking into account the applicable regulations, the level of compensation of the Members of the Company's Management Board is determined by the Company's Supervisory Board within the range determined by the Company's GM.

The variable compensation of the Members of the Company's Management Board 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.

The variable compensation for achieving the financial management objectives is granted based on the data from the audited consolidated financial statements of the Company for the given financial year. The variable compensation for achieving the 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 Company's 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 the investment projects related to BAT in 2020-2021,
7. sales of the new products (sales of products that include electricity and products that are synergic with electricity and gas),
8. improving the quality indicators related to 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 the funds allocated for this purpose.

The Members of the Management Board of the Company are neither covered by the bonus program based on the capital (equity) of the Company (stock awards), nor do they receive any compensation or bonuses due to the performance of their functions in the governing bodies (authorities) of TAURON Capital Group's subsidiaries.

General information on the adopted System of Compensation for the Members of the Management Board of TAURON Capital Group's Subsidiaries

At 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*, (Journal of Laws of 2020, item 1076, as subsequently amended), the principles of compensation for the members of the management authorities (bodies) are applied in accordance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907). The above was defined in the *Policy for determining the compensation for the members of the authorities of the Subsidiaries* adopted by the Management Board of TAURON, and in the *Principles of the compensation for the members of the corporate authorities of the Subsidiaries*.

The principles of compensation for the 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 to be accomplished is of major importance in TAURON Capital Group's management process and is aimed at prioritizing the directions of the 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 results;
2. achieving or changing the production or sales volume;
3. amount of the revenue, in particular revenue from sales, from the operating activities, from the other operating or financing activities;
4. cutting down losses, reducing the overhead costs or the costs of the business operations conducted (operating expenses);
5. implementation of the strategy or the 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.

General information on the adopted System of Compensation for the Key Managers

The principles related to 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.

Principles of Compensation at TAURON Group were in force at TAURON Capital Group in 2020, 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 condition 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 optimal 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 compensation (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 compensation (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 work 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 managers on attaining the objectives aimed at implementing the Strategy, as well as the strategic objectives and expansion directions of TAURON Capital Group's individual subsidiaries. Such a 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 positioned 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 linking 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 by 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, that translate into 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 Company's Management Board with the objectives set for the given year for the key managers of the Company. An initial assessment of the accomplishment of the objectives takes place after the elapse of the first 6 months, while the Members of the Company's Management Board make the final assessment of the accomplishment of the objectives by the key managers after the year has ended.

In addition, there is a bonus system for the trading area (and the units directly cooperating therewith), the purpose of which is to motivate to achieve higher revenues for TAURON Capital Group. The trading bonus covers the key managers from the trading area, where the bonus mechanism awards them an additional bonus only after exceeding their designated annual trading plans.

11.2. Principles, conditions and amount of compensation for the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group

Compensation of the Members of the Management Board of TAURON Polska Energia S.A.

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 the salaries, bonuses and benefits received in cash, in kind or in any other form, due or paid by the Company to the Members of the Company's Management Board in 2020 reached the gross amount of PLN 2 834 000.

The compensation of the Members of the Company's Management Board in 2020, broken down into components, is presented in the below table.

Table no. 67. Compensation of the Members of the Company's Management Board in 2020, broken down into components

#	First and last name	Period of holding the position in 2020	Compensation* (PLN '000)	Variable compensation* (PLN '000)	Other benefits ¹ (PLN '000)	Total (PLN '000)
1.	Wojciech Ignacok	15.07.2020 - 31.12.2020	361	0	12	373
2.	Jerzy Topolski	15.07.2020 - 31.12.2020	343	0	12	355
3.	Marek Wadowski	01.01.2020 - 31.12.2020	742	443	56	1 241
4.	Filip Grzegorzczak	01.01.2020 - 14.07.2020	399	0	19	418
5.	Jarosław Broda	01.01.2020 - 14.07.2020	427	0	20	447
Total			2 272	443	119	2 834

*excluding markups (surcharges)

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 1 320 000 was paid out in 2020 due to the payment of the compensation for refraining from performing competing activities (the non-compete clauses), variable compensation and the other benefits. In addition, the amount of the severance payments came in at PLN 383 000 in 2020.

The 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 2020.

All Members of the Company's Management Board received compensation in 2020, in accordance with the applicable contract for the provision of the management services in accordance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907) and the Compensation Policy.

The detailed information on the compensation model for the Members of the Company's Management Board and the Compensation Policy is presented in section 11.1. of this report.

Information on the obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature.

Compensation of the 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 (bodies).

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>.

11.3. Agreements concluded with the 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 consequence 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 due thereto.

The Members of the Company's Management Board had not held the positions of the Members of the Management Boards of TAURON Capital Group's subsidiaries prior to being appointed as the Members of the Company's Management Board, except for Jerzy Topolski who had held the position of the Vice President of the Management Board for the Operator's affairs at TAURON Dystrybucja.

11.4. Non-financial components of the compensation due to the Members of the Management Board of TAURON Polska Energia S.A. and the key managers

Non-financial components of the compensation of the Members of the Company's Management Board

Members of the Company's 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.

Starting from February 1, 2020, the Members of the Company's Management Board have been covered by the Employee Pension Program in accordance with the rules applicable to all the Employees of TAURON.

In addition, in the event of the permanent residence at a considerable distance from the registered office of the Company, a Member of the Management Board of the Company is entitled to a housing allowance in the gross amount of PLN 2 500.00 per month, that constitutes an additional benefit.

Non-financial components of the compensation of the key managers

The personnel 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. 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. medical package financed with the Company's funds,
3. company car allocated for their exclusive use,
4. housing allowance in the gross amount of PLN 2 500.00 per month in case the availability of the employee is required due to the nature of his / her work and scope of responsibilities.

11.5. Information on the changes to the compensation policy during the last financial year

With a view to complying with the provisions of the *Act of October 16, 2019, on amending the Act on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies and certain other acts*, the General Meeting of the Company adopted a resolution on July 15, 2020, *on the adoption of the " Policy of Compensation for Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A. "*.

The description of the Compensation Policy is presented in section 11. of this report.

11.6. 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 the 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 motivational and consistent system is provided, linked with the monitoring of the annual financial plans and the adopted Strategy and the 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 the Members of the Company's Management Board.

The form, structure and level of the compensations 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 the Members of the Company's 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 provide the motivational function for the Company's Management Board.

The disbursement of the variable components of the compensation is linked to the pre-defined, measurable results based criteria that support the long term stability of the Company and TAURON Capital Group and they also include the non-financial criteria, related to the generation of long term value 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 the 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 condition of the Company and TAURON Capital Group over one year period.

11.7. System of Compensation for the Members of the Supervisory Board

The system of compensation for the 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 the Members of the Supervisory Board*, as subsequently amended, was in force, adopted as the implementation of the provisions of the *Act of June 9, 2016, on the principles for determining compensation of the management personnel of certain companies*, was in force in 2020.

Policy of compensation for the members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A., adopted by the Company's Supervisory Board on October 23, 2017, had been in force at TAURON until July 14, 2020.

With a view to complying with the provisions of the *Act of October 16, 2019, on amending the Act on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies and certain other acts*, the General Meeting of the Company adopted a resolution on July 15, 2020, *on the adoption of the "Policy of Compensation for Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A."* (Compensation Policy).

The Compensation Policy, along with the resolution of the General Meeting of the Company on the adoption thereof has been published on the Company's website at the address: <https://www.tauron.pl>.

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:

1. for the chairperson of the Supervisory Board – 1.7
2. 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 meetings convened.

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, and the absence was not excused. The decision on excusing or a failure to excuse the absence of a Member of the Company's Supervisory Board at its meeting is taken by the Company's Supervisory Board by way of a resolution.

The Company covers the costs incurred in connection with the performance of the functions entrusted with 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's Committee, the costs of the individual supervision and the costs of accommodation and board.

11.8. Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.

The total amount of compensation understood as the value of the compensations due or paid by the Company to the Members of the Company's Supervisory Board in 2020 reached the gross amount of PLN 565 000.

The compensation of the Members of the Company's Supervisory Board in 2020 is presented in the below table.

Table no. 68. Compensation of the members of the Company's Supervisory Board in 2020.

First and last name	Period of holding the position in 2020	Compensation (PLN '000)
1. Andrzej Kania	22.05.2020 - 31.12.2020	54
2. Teresa Famulska	01.01.2020 - 15.07.2020 03.08.2020 - 31.12.2020	78
3. Katarzyna Taczanowska	01.01.2020 - 31.12.2020	82
5. Ryszard Madziar	15.07.2020 - 31.12.2020	37
5. Grzegorz Peczkis	01.01.2020 - 31.12.2020	82
6. Barbara Piontek	05.06.2020 - 31.12.2020	45
7. Beata Chłodzińska	01.01.2020 - 27.04.2020	32
8. Jacek Szyke	01.01.2020 - 20.04.2020	27
9. Barbara Łasak - Jarszak	01.01.2020. - 15.07.2020	46
10. Jan Płudowski	01.01.2020 - 05.06.2020	37
11. Marcin Szlenk	01.01.2020 - 20.04.2020	27
12. Andrzej Śliwka	24.03.2020 - 16.06.2020	18
13. Agnieszka Woźniak	01.01.2020 - 24.03.2020	21
Total		565

The Members of the Company's Supervisory Board do not perform functions (hold positions) in the authorities of the subordinated units.

Information on the obligations towards the former Members of the Company's Supervisory Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's 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 2020.

Table no. 69. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2020

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
Proceedings involving TAURON	
1. Plaintiff: Huta Łaziska S.A. Defendants: TAURON (as a legal successor to GZE) and State Treasury represented by the President of ERO	<p>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.</p> <p>Value of the object of litigation: PLN 182 060 000.00</p> <p>Initiation of the proceeding: the lawsuit of March 12, 2007</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On May 28, 2019, the Regional Court in Warsaw issued a ruling on the dismissal of Huta Łaziska S.A.'s lawsuit in whole and ruled that Huta Łaziska S.A. shall refund each defendant the costs of the proceedings. The ruling is not legally binding.</p> <p>Huta Łaziska S.A. filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole.</p>
2. Authority conducting the investigation: Head of the Mazovian Customs and Tax Office Party: TAURON	<p>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 April 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. and Virtuse Energy sp. z o.o.</p> <p>Value of the object of litigation (deducted VAT amount): PLN 54 371 306.92, including: Castor Energy sp. z o.o. – PLN 52 494 671.92, Virtuse Energy sp. z o.o. – PLN 1 876 635.00</p> <p>Date of initiating the proceeding: October 2014, August 2016, December 2016</p> <p>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 sp. z o.o. and Virtuse Energy sp. z o.o.</p> <p>On October 7, 2020, the Company received the decision of the Head of the Mazovian Customs and Tax Office as the final result of one of the audit proceedings, specifying the amount of its VAT tax liability for the following months: October, November, December 2013 and the first quarter of 2014, which resulted in the obligation for the Company to pay additional VAT for that period in the total amount of PLN 51 818 354, along with the interest on the tax arrears. The Company filed an appeal against the decision on October 20, 2020.</p> <p>On November 12, 2020, as part of the second audit proceedings, a protocol from the audit of the books was drafted, in which the authority stated that the Company had not been eligible for the deduction of the tax assessed in the invoice issued by Castor Energy sp. z o.o. in April 2014, and thus overestimated the amount of the tax assessed by PLN 677 815.39. On December 10, 2020, the Company submitted its objections to the protocol. On January 15, 2021, a decision was issued in which the Authority stated that the Company had not been eligible to deduct the VAT assessed from the invoice issued by Castor Energia Sp. z o.o. in April 2014, and thus the Company overstated the amount of VAT assessed recognized in the tax statement filing for the second quarter of 2014 by the amount of PLN 677 815.39. On February 12, 2021, the Company filed an appeal against the decision.</p> <p>The third audit proceedings in which the transactions with Virtuse Energy sp. z o.o. were scrutinized, ended on October 27, 2020, with a positive outcome for the Company, i.e. the Authority found no irregularities as a result of the audit.</p>
3. Plaintiff: Enea Defendant: TAURON	<p>Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment (benefit) in connection with the settlements related to the imbalance of the Balancing Market with PSE between January and December 2012</p> <p>Value of the object of litigation: PLN 17 085 846.49</p> <p>Initiation of the proceeding: the lawsuit of December 10, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 22, 2021, the Regional Court in Katowice dismissed Enea's lawsuit in full and ruled on Enea's obligation to reimburse the Company for the costs of the proceedings. The ruling is not final (legally binding).</p>
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	

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
4. Plaintiff: Dobiesław Wind Invest sp. z o.o. Defendant: TAURON	<p>Object of litigation: lawsuit for payment of damages and determination of liability for the future.</p> <p>Value of the object of litigation: PLN 72 217 997.00</p> <p>Initiation of the proceeding: the lawsuit of June 30, 2017</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 37 471 305.05 or (a potential claim) PLN 35 969 662.07.</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit..</p>
5. Plaintiff: Gorzyca Wind Invest sp. z o.o. Defendant: TAURON	<p>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.</p> <p>Value of the object of litigation: PLN 97 651 840.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 57 933 516.55 or (a potential claim) PLN 62 666 188.65.</p>
6. Plaintiff: Pękanino Wind Invest sp. z o.o. Defendant: TAURON	<p>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.</p> <p>Value of the object of litigation: PLN 44 817 060.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 16 347 985.20 or (a potential claim) PLN 11 894 096.96.</p>
7. Plaintiff: Nowy Jarosław Wind Invest sp. z o.o. Defendant: TAURON	<p>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.</p> <p>Value of the object of litigation: PLN 57 763 340.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 30 755 239.47 or (a potential claim) PLN 32 175 239.15.</p>
8. Plaintiff: in.ventus sp. z o.o. Mogilno I sp. k. Defendant: TAURON	<p>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.</p> <p>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).</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2018</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>The proceeding was suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding pursuant to 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. By way of the letter of June 5, 2020, the Plaintiff withdrew the lawsuit and waived the claim. In connection with the withdrawal of the lawsuit, by way of the decision of August 6, 2020, the court discontinued the proceedings in the above mentioned case. The court's ruling is legally binding (final).</p>
9. Co-participation on the plaintiff's side: Amon and Talia Defendant: TAURON	<p>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.</p> <p>Value of the object of litigation: Amon – PLN 47 556 025.51; Talia – PLN 31 299 182.52</p> <p>Initiation of the proceeding: the lawsuit of April 30, 2018</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
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	
10. Plaintiff: Gorzyca Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o., Dobiesław Wind Invest sp. z o.o. Defendant: PEPKH	<p>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.</p> <p>Value of the object of litigation: Gorzyca Wind Invest sp. z o.o.– PLN 112 353 945.05; Pękanino Wind Invest sp. z o.o. PLN 64 116 908.85</p> <p>Initiation of the proceeding: Gorzyca Wind Invest sp. z o.o. – May 18, 2015, Pękanino Wind Invest sp. z o.o. – May 20, 2018, Dobiesław Wind Invest sp. z o.o. – May 18, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
11. Plaintiff: Dobiesław Wind Invest sp. z o.o.	<p>Object of litigation: plea to award damages and liquidated damages.</p> <p>Value of the object of litigation: PLN 76 559 461.18</p>

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
Defendant: PEPKH	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.
12. Plaintiff: Nowy Jarosław Wind Invest sp. z o.o. Defendant: PEPKH	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.
13. Plaintiff: Amon Defendant: PEPKH	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: <ol style="list-style-type: none">determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon, 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 complaint on October 25, 2019. Proceedings regarding the procedural issues are ongoing. The case is pending.
14. Plaintiff: Amon Defendant: PEPKH	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. The case was suspended by a court decision until the Regional Court in Gdańsk has reviewed an appeal against the judgment in the lawsuit brought by Amon against PEPKH, referred to in item 4 above. The court's decision is not legally binding (final).
15. Plaintiff: Talia Defendant: PEPKH	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, supplemented by the court on September 8, 2020, in the case in which the Court: <ol style="list-style-type: none">determined that PKH's statements on the termination of long term agreements, concluded between PEPKH and 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 (final). PEPKH disagrees with the ruling. PEPKH filed an appeal against the ruling with the court.
16. Plaintiff: Mogilno III, Mogilno IV, Mogilno V, Mogilno VI Defendant: PEPKH	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. The parties filed a motion for the resumption of the proceedings in order for the plaintiff to withdraw the lawsuit along with the waiver of the claim. By way of the decision of July 3, 2020, the court discontinued the proceedings in the above mentioned cases. The court's decision is legally binding (final).

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
17. Plaintiff: Mogilno I, Mogilno II Defendant: PEPKH	<p>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.</p> <p>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</p> <p>Initiation of the proceeding: the lawsuits of November 7, 2018</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>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. The parties filed a motion for the resumption of the proceedings in order for the plaintiff to withdraw the lawsuit along with the waiver of the claim. By way of the decision of July 3, 2020, the court discontinued the proceedings in the above mentioned cases. The court's decision is legally binding (final).</p>

12.2. Agreements that are material for TAURON Capital Group's operations

Agreements that are material for the operations of TAURON Capital Group in 2020 and by the date of drawing up this report are listed below.

Series A bond issue program established

On February 6, 2020, TAURON concluded, with Santander Bank Polska S.A., a program agreement, pursuant to which a bond issue program was established, under which TAURON has an option to issue bonds up to the maximum amount of PLN 2 000 000 000.

The proceeds from the bond issue are to 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:

1. finance the costs of developing / acquiring renewable energy sources (RES) projects,
2. finance the distribution, as well as TAURON Capital Group's general corporate operations related to RES or the energy transition to zero emission,
3. finance the costs of developing or acquiring projects where biomass or gas is used as fuel,
4. refinance TAURON Capital Group's debt taken on in order to finance the above undertakings.

The terms of the bond issue, including the purpose of the issue, the maturity date, as well as the amount and manner of paying out interest, will be defined for the specific series of the bonds being issued.

On October 30, 2020, as part of the program agreement TAURON issued series A bearer bonds with the total nominal value (par value) of PLN 1 000 000 000 with the maturity date of October 30, 2025. The bonds were introduced to the alternative trading system operated by the WSE.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 3/2020 of February 6, 2020, no. 46/2020 of October 5, 2020, no. 49/2020 of October 23, 2020 and no. 51/2020 of October 30, 2020.

Signing of the loan agreement with SMBC BANK EU AG

On March 16, 2020, TAURON concluded a loan agreement with SMBC BANK EU AG worth PLN 500 000 000, 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.

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.

The loan was disbursed in the full amount in March 2020, and its repayment falls in March 2025.

Signing of the syndicated loan agreement

On March 25, 2020, TAURON concluded a syndicated loan agreement worth PLN 500 000 000 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 interest rate is 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 mix.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 13/2020 of March 25, 2020.

The loan was disbursed in the amount of PLN 160 000 000 in September 2020. The availability of the loan and its repayment date is March 2025, with an option to extend the agreement term, twice, each time by a year, i.e. up to 2027 maximum, agreed between the parties.

Termination of the coal supply agreement

On December 22, 2020, TAURON served the company PGG a notice of the termination of the hard coal sale agreement concluded on January 18, 2018, by TAURON as the buyer and PGG as the seller, with a six month notice, effective as of the end of the calendar month, i.e. as of June 30, 2021.

Pursuant to the above agreement PGG delivers thermal (steam) coal to TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON.

PGG is a strategic partner of TAURON with respect to hard coal supply. TAURON purchased 2.52 million tons of hard coal from PGG in 2019, which accounted for 38 percent of the total purchases of that fuel made by the Company while 44 percent of the supply of hard coal used to produce electricity and heat by TAURON Capital Group was met with the hard coal coming from the coal mines that are part of TAURON Capital Group.

The economic conditions that have a direct impact on TAURON's business operations have undergone a material change. The Company has experienced excessive difficulties with the ongoing receiving of the hard coal deliveries as a consequence of curtailed electricity production and sales stemming from both the market situation as well as the prevailing weather conditions.

The above circumstances and the lack of an agreement between TAURON and PGG with respect to the changes to the terms and conditions of the cooperation, in particular regarding the hard coal unit prices and the annual coal supply quantities, that TAURON had been requesting since December 2019, led to TAURON submitting the above statement

The statement includes a caveat that in case the Company's notice of the termination of the agreement with the six month notice period is ineffective, that statement should be considered as the termination of the agreement submitted with a two year notice period, effective as of the end of the calendar year in which the notice period has expired, i.e. as of December 31, 2022. The action indicated above will enable the Company to avoid the negative financial consequences resulting from the further implementation of the agreement.

In spite of the termination of the agreement, TAURON expressed its intention to continue the long term cooperation with PGG on the jointly defined new terms and conditions, adapted to the current market conditions on the coal contracting market.

The termination of the Agreement should not disturb the business operations of TAURON Capital Group. Any potential additional demand for the coal fuel will be met in particular by the production of the hard coal by the coal mines that are part of TAURON Capital Group.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 55/2020 of December 22, 2020.

Signing of a cooperation agreement with respect to the joint implementation of offshore wind farm projects in the Polish Exclusive Economic Zone on the Baltic Sea

On December 29, 2020, a cooperation agreement was concluded between TAURON and OW OFFSHORE S.L. with its registered office in Madrid, Spain. (OW OFFSHORE), regarding the development of offshore wind farm construction projects in the Polish Exclusive Economic Zone on the Baltic Sea. The above agreement covers the following solutions:

1. TAURON's intention is to acquire 50 percent of the shares in the companies whose sole owner is OW OFFSHORE. The agreement is related to the projects that do not have a permit for the erection and use of artificial islands, structures and devices in the Polish Exclusive Economic Zone, issued by the Minister of Maritime Economy and Inland Navigation, provided that OW OFFSHORE is the only applicant for the permits for the areas where the implementation of the projects referred to above is planned,
2. the intention of OW OFFSHORE is to acquire 50 percent of the shares in special purpose vehicles to which TAURON Capital Group will, having acquired the permits, contribute projects that involve the construction of offshore wind farms in the Polish Exclusive Economic Zone. As of the date of concluding the agreement, TAURON Capital Group does not hold any permits, however, it has filed appropriate applications in order to obtain the permits as a result of the conclusive procedure, i.e. for an area in case of which an application was also filed by another entity (other entities),.

3. TAURON and OW OFFSHORE have undertaken to conduct, in good faith, negotiations of the agreements for the sale of the shares in the special purpose vehicles referred to above, along with the investment agreement regulating the obligations of the parties as partners (shareholders). The duration of these negotiations should, as a principle, not exceed six months from the date of concluding the agreement,
4. with respect to the above items 1. and 2., TAURON and OW OFFSHORE have undertaken to act on an exclusive basis. The exclusive cooperation can be expanded to additional areas under the condition that the share purchase agreement and the investment agreement is concluded.

The term of the agreement is 2 years.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 56/2020 of December 29, 2020.

Signing of the subordinated bond issue program agreements with BGK

On March 11, 2021 (an event occurring after the balance sheet date), the documentation of the program of the subordinated bond issue up to the amount of PLN 450 000 000 was signed between the Company and BGK.

The issue of the subordinated bonds may be carried out by the Company in several series, within 24 months from the date of signing the documentation. The period of financing is 12 years from the issue date, and in accordance with the characteristics of the hybrid financing, the first period of financing was defined as 7 years (the so-called non-call period), during which TAURON will not be able to redeem the subordinated bonds early and BGK will not be able to sell them earlier to third parties (in both cases subject to the exceptions specified in the documentation). The agreement also provides for an option to defer the payment of interest on the bonds, until the date of the redemption thereof at the latest. Due to the subordinated nature of the hybrid bonds, in the event of bankruptcy or liquidation of TAURON, the liabilities under the bonds will have priority to be satisfied only over the liabilities of TAURON shareholders. A potential issue of the subordinated bonds will have a positive impact on TAURON's financial stability, as they are excluded from the calculation of the leverage ratio, which is a covenant used in some of TAURON's financing programs.

The Company had not issued any bonds as part of this program by the date of drawing up this report.

Signing of an agreement for the sale of the shares in PGE EJ 1 to the State Treasury.

On March 26, 2021, (an event occurring after the balance sheet date), the Company signed an agreement with the State Treasury for the sale of the shares in PGE EJ 1.

The agreement was signed by all of the entities holding shares in PGE EJ 1, i.e. TAURON, PGE, Enea and KGHM Polska Miedź.

Pursuant to the above agreement, the Company sells to the State Treasury 532 523 shares of PGE EJ 1, constituting 10% of the share capital and representing 10% of the votes at the General Meeting of the shareholders (partners) of PGE EJ 1. After the transaction is closed, TAURON will not be holding any shares in PGE EJ 1.

The sale price for 100% of the shares is PLN 531 362 000, of which PLN 53 136 200 is attributable to the Company. The payment for the shares in PGE EJ 1 will take place no later than on March 31, 2021. The sales price will be subject to an adjustment based on the PGE EJ1 valuation updated as of the transaction closing date. In the opinion of the Company, a potential adjustment will not have a significant impact on the final sale price.

The sale of the shares in PGE EJ 1 is the implementation of one of the strategic directions announced by TAURON on May 27, 2019.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 10/2021 of March 26, 2021.

12.3. 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 56 to the Consolidated financial statements of TAURON Capital Group.

12.4. Concluded and terminated credit and loan agreements

TAURON concluded 2 loan agreements for the total amount of up to PLN 1 000 000 000 in 2020.

The detailed information related to the above agreement is provided in section 12.2. of this report.

In 2020, as part of financing its ongoing operations, the Company concluded an amendment to the overdraft agreement for the amount of up to EUR 45 000 000, concluded with BGK in 2015, extending it by 12 months. The term of the above agreement was extended until December 31, 2021. The loan is intended to be used for financing the margin deposit and the transactions related to the purchase/ sale/ exchange of the CO₂ emission allowances, trading in electricity and gas made on the European exchanges,

The following financial agreements were concluded within TAURON Capital Group in 2020:

1. intra-Group loans, which is described more broadly in section 12.5. of this report,
2. loan agreement between TAURON Wytwarzanie and WFOŚiGW for the amount of up to PLN 11 318 000 for the purpose of co-financing the construction of a photovoltaic farm in Jaworzno. The interest rate on the loan is based on a fixed rate and the debt repayment date is November 30, 2025.

The detailed information on the credit and loan agreements is provided in note 39.1 to the Consolidated financial statements of TAURON Capital Group.

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2020.

12.5. Loans and sureties granted as well as sureties and guarantees received

Loans granted

TAURON granted financing to the related companies in the form of the intra-Group bonds in the total amount of PLN 4 102 346 000 in 2020. In addition, as part of the intra-group financing, TAURON extended the maturity dates of the existing loans in the total amount of PLN 1 915 000 000. As of December 31, 2020, the total nominal amount of the intra-group loans granted was PLN 7 907 654 000.

In 2020, TAURON continued the financing, in the form of loans, of the co-subsidiary EC Stalowa Wola and PGE EJ 1. The loans granted to PGE EJ 1 were repaid on November 25, 2020, as a result of a netting agreement and TAURON's acquisition of the newly created shares in PGE EJ 1.

The below table presents a summary of the loans extended to the jointly controlled subsidiaries and associated companies granted by TAURON in 2020 and the level of debt due to such loans as of December 31, 2020.

Table no. 70. Summary of the loans extended to the jointly controlled subsidiaries and associated companies granted by TAURON in 2020 and the level of debt due to such loans as of December 31, 2020 (listed in the order according to the maturity date)

Parties to the agreement	Interest rate	Date of agreement	Repayment date	Loan principal amount as of December 31, 2020 (PLN '000)
1. PGE EJ 1 - TAURON	Fixed rate	30.01.2020	25.11.2020	0
2. PGE EJ 1 - TAURON	Fixed rate	03.09.2020	25.11.2020	0
3. EC Stalowa Wola - TAURON	Fixed rate	20.02.2020	30.06.2033	59 175
4. EC Stalowa Wola - TAURON	Fixed rate	16.10.2020	30.06.2033	22 000

As of December 31, 2020, the total nominal amount of the loans extended to the jointly controlled subsidiaries and associated companies came in at PLN 415 186 000.

Apart from the loans mentioned above, the Company did not grant any other loans in 2020.

After the balance sheet date, the intra-group loans for the total amount of PLN 820 000 000 were launched within TAURON Capital Group

Sureties and guarantees granted

TAURON Ekoenergia granted a corporate guarantee (bond) for the trade liabilities of the Wind T1 company towards a third party in the amount of EUR 24 600 000 in 2020, effective until July 2022. After the balance sheet date, the guarantee amount was increased to EUR 30 258 000.

In addition, in 2020 TAURON extended the effective terms of:

1. surety granted to TAURON Sprzedaż for the trade liabilities up to the amount of PLN 20 000 000, until November 30, 2021,
2. surety granted to EC Stalowa Wola up to the amount of USD 3 664 until October 31, 2020, for the financial liabilities that had expired on October 27, 2020.

As of December 31, 2020, the total nominal amount of the sureties and corporate guarantees (bonds) granted came in at PLN 888 031 000.

On January 28, 2021, (an event occurring after the balance sheet date), a guarantee agreement was concluded by the Company, PGNiG and EC Stalowa Wola, under which the Company granted a corporate guarantee of up to PLN 6 750 000 for the liabilities of EC Stalowa Wola under the contracts for the sale of electricity, electricity transmission or distribution services. The guarantee is effective until February 15, 2022.

As part of the framework (master) agreements in force, at the instruction of the Company, bank guarantees were issued in 2020 for the liabilities of TAURON Capital Group's subsidiaries, which, as of December 31, 2020, amounted to PLN 741 808 000.

The detailed information on the sureties and guarantees (bonds) granted is provided in note 55 to the *Consolidated financial statements of TAURON Capital Group* and in note 43 to the *Financial statements of TAURON*.

Sureties and guarantees received

As of December 31, 2020, the Company and its subsidiaries held the transaction collaterals received from the counterparties (contractors) in the form of guarantees granted to TAURON Capital Group's subsidiaries, bills of exchange issued by the counterparties (contractors), pledges on mortgage and freezes (blocks) of the funds on bank accounts. The most important guarantees granted to TAURON Capital Group's subsidiaries were concerned Nowe Jaworzno Grupa TAURON and were related to the construction of the 910 MW unit in Jaworzno.

12.6. The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in 2020

An increase in the number of COVID-19 infection cases was observed in Poland in 2020. Therefore, a number of restrictions aimed at preventing the spread of the SARS-CoV-2 virus causing the COVID-19 infections were introduced in the country. This situation led to the disruptions in the economic and administrative system in Poland and worldwide. As a result, the epidemic significantly curbed the economic activity, affecting the operations of the manufacturing plants and the small and medium sized enterprise segment companies. As a consequence, in the medium and long term it should be expected that the epidemic will continue to affect the condition of the national, the European, as well as the global economy, making a negative impact on the economic growth in Poland in 2021 and in the subsequent years.

The COVID-19 related situation had a material impact upon the level of demand for electricity in the Polish Power System (KSE) and, as a consequence, on TAURON Capital Group's electricity distribution and supply volumes. In the second half of 2020, the impact of the COVID-19 pandemic on the domestic demand was milder than in the first half of 2020. The steepest decline in electricity consumption in Poland took place in the second quarter of 2020, clocking in at as much as 8.5%, while the annual consumption of electricity in the country decreased by approx. 2.3%, as compared to the corresponding period of 2019. The changes in the demand for electricity resulted in a drop of the revenues, mainly in the electricity distribution and supply lines of business. TAURON Capital Group estimates that in the Distribution Segment the negative impact of the pandemic on EBITDA stood at PLN 47 876 000, which was due to the loss of a part of the sales volume to the consumers other than the households. With respect to the Supply Segment, the estimated negative impact of the pandemic on EBITDA came in at PLN 77 179 000, which was due to the loss of margin related to the decline in electricity supply and the need to balance the buy position. The pandemic situation observed also led to a fall of the production volume in the conventional generation line of business and, consequently, to a drop of the demand for hard coal and an increase in its inventory levels. Because of such developments the negotiations with the coal suppliers were undertaken in order to renegotiate the coal purchase contract terms related to the pricing and quantities. In order to curtail the negative impact of the pandemic on TAURON Capital Group, at TAURON Wytobycie subsidiary an agreement was signed between the Management Board of the company and the social partners (workforce) limiting the working time and reducing the compensation of the Management Board and the employees of the company by 20% for the period of three months, starting from May 1, 2020. On the other hand, at TAURON Wytwarzanie subsidiary an agreement signed between the Management Board of the company and the social partners (workforce) reduced the working time and the compensation of the Management Board and the employees of the company by 10% in the same period of time. The above agreements made it possible to cut down the costs and obtain funds under the solutions provided under the anti-crisis shield due to the reduced working time of the employees.

The customers of TAURON Capital Group, i.e. private individuals, small and medium sized enterprises, as well as large entities, can be expected to experience financial disturbances in connection with the effects of the pandemic, which may lead to problems with the payment of their current accounts payable for electricity, heat and gas. In particular, an increase in the number of customer requests for an extension of the payment or splitting the payment into installments can be observed. Also an increase in the overdue accounts receivable is visible, resulting from the introduction of the restrictions in the operations of the businesses in the period from March to May. In order to reduce the above risk, the credit risk management criteria have been tightened and the soft debt collection activities have been intensified.

Disruptions in the economic activity in Poland brought about financial difficulties for the customers and contractors (counterparties, business partners) of TAURON Capital Group. The situation was mitigated by the regulatory actions taken with respect to the introduction of the successive anti-crisis shields, which were aimed at maintaining liquidity and protecting jobs at Polish businesses. In the period from March to December 2020, the changes in the balance of the overdue accounts receivable were observed in the first weeks of the pandemic's spread. Later in the year, the balance of the overdue accounts remained basically constant, with an increased migration of the balance of the accounts receivable to the successive overdue by time frames observed. In order to limit potential credit losses, the

extended credit risk management criteria are applied, the monitoring of the accounts receivables has been enhanced and the debt collection activities have been intensified. The impact of the COVID-19 pandemic on the write down (charge) related to the accounts receivable in 2020 clocked in at 19 628 000. The COVID-19 pandemic also resulted in the need to book additional impairment charges related to the expected losses on the credit related financial instruments and to change the fair value of the loans granted. This led to a rise in the operating expenses of the Company by PLN 5 020 000 and in the financial costs by the amount of 50 526 000.

In terms of the market environment, increased volatility of the prices of the commodity related instruments was observed, in particular with respect to electricity and the CO₂ emission allowances, which translated into an increase in the required margins and, consequently, the level of funds allocated for that purpose. In order to improve its liquidity position, the Company concluded agreements on the guarantee limits allowing it to provide to IRGiT (Warsaw Commodity Exchange Clearing House) the required collateral in a non-cash form instead of cash. The Company also took advantage of the anti-crisis shield package by filing a declaration of voluntary submission to debt recovery with IRGiT (Warsaw Commodity Exchange Clearing House), thus reducing the level of the margins to be deposited, both in the form of cash, as well as the bank guarantees set up (this solution, in accordance with the Act, expired on September 30, 2020). In order to further reduce the liquidity risk, the Company aligned the delivery dates for the concluded futures contracts for the CO₂ emission allowances with the dates of their redemption and decided to conclude new contracts only on the OTC market. A system of capping (curtailing) the expenses of TAURON Capital Group was also introduced,

With respect to the financial instruments, a weakening of the Polish zloty and a decline of the interest rates was observed, including an emergency lowering of the NBP's reference (prime) interest rate.

The change in the FX rates affects the costs of purchasing the CO₂ emission allowances, as well as the valuation of the Company's debt denominated in the foreign currencies. On the other hand, the changes in interest rates may affect the costs resulting from the financing agreements concluded based on a floating (variable) interest rate.

As a result of the outbreak of the COVID-19 pandemic, also certain difficulties in the implementation of the strategic investment projects carried out by TAURON Capital Group have taken place. In case of the 910 MW power generating unit construction project in Jaworzno and the EC Stalowa Wola unit construction project, such disruptions occurred in the initial period of the pandemic as a result of the introduction of strict access control to the infrastructure and the additional security procedures. With regard to the construction of the 910 MW unit, the COVID-19 pandemic was one of the reasons for the amendment of the agreement with the Rafako S.A. and Mostostal Warszawa S.A. Consortium, as well as the contractor's claims related to the additional works, which is also presented in note 59 to the Consolidated financial statements of TAURON Capital Group. In order to minimize the consequences of the disruptions to the projects that have occurred, all of the contractors implementing the investment projects have been cooperating, closely and on an ongoing basis, with TAURON Capital Group's subsidiaries responsible for the investment projects who are monitoring the status of the projects and reacting adequately to the situation, using the tools available.

The situation related to the COVID-19 pandemic has also had an impact upon the operational activities of the lines of business due to the increased employee absenteeism and an increase in the operating costs resulting from the need to meet the epidemiological conditions. In this regard, TAURON Capital Group has taken a number of preventive measures with respect to the organizational and material (tangible) solutions aimed at protecting the employees of TAURON Capital Group's individual subsidiaries and maintaining the continuity of the critical infrastructure operations. In order to coordinate the efforts related to ensuring safety related to the risk (threat) of falling ill with COVID-19, the dedicated Crisis Teams have been established at the level of both the parent company as well as the individual Subsidiaries.

TAURON Capital Group is estimating that the negative impact of the above risk factors on the full year 2020 EBITDA clocked in at approx. PLN 144 683 000.

TAURON Capital Group, being aware of the threats related to the epidemiological situation, was undertaking in 2020 and continues to undertake active measures aimed at minimizing the impact of the current and the expected economic situation, as well as providing protection against the extreme events. It should be emphasized, however, that the situation related to the COVID-19 pandemic is highly volatile and the future effects and the scale of the pandemic are currently difficult to precisely estimate. The duration of the pandemic, its severity and scope, as well as the impact on the economic growth in Poland in the short, medium and long term will be important. The Management Board of the Company, being aware of the threats stemming from the pandemic, is monitoring the impact on an ongoing basis and will be taking all possible steps in order to mitigate any negative effects of the COVID-19 pandemic on TAURON Capital Group.

12.7. Other information that could be material for the evaluation of TAURON Capital Group's personnel, assets, financial position, financial result and changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations

On July 15, 2020, the TSO commenced the consultation process related to the changes to the Balancing Conditions. After the consultation process had been completed on September 9, 2020, the TSO sent the proposed changes for approval by the President of ERO, who finally approved them on December 1, 2020. As part of the changes introduced, starting from January 1, 2021, the services *Intervention Cold Reserve* and *Operational Capacity Reserve* were removed from the system services catalog, which was required by the provisions contained in the pre-notification decision of the European Commission of February 7, 2018, allowing the setting up of the Capacity Market in Poland, provided that other mechanisms considered to be the "capacity" mechanisms and the Operational Capacity Reserve are removed from the system services catalog. In addition, changes aimed at supporting the development of the IDM (Intraday Market) were introduced, requiring the adaptation of the Market Operator's activities in the IT and organizational area.

Apart from the events indicated in this report, no other events occurred in 2020 that were material for the evaluation of the personnel, assets, financial position and the financial result of TAURON Capital Group and the changes thereof, as well as for the evaluation of the ability of TAURON Capital Group to meet its obligations.

Katowice, March 29, 2021

Marek Wadowski - acting as the President of the Management Board / Vice President of the Management Board

Jerzy Topolski - 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. (Joint Stock Company) with its registered office in Campus Palmas Altas (Sevilla).
2. Update of the Strategic Directions	Document entitled the <i>Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on May 27, 2019, constituting a supplement to the document entitled <i>TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on September 2, 2016.
3. Amon	Amon sp. z o.o. (Ltd.) with its registered office in Łebcz.
4. ARA	Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports
5. ARE	Agencja Rynku Energii S.A. (Energy Market Agency) with its registered office in Warsaw.
6. AVAL-1	AVAL-1 sp. z o. o. (Ltd.) with its registered office in Szczecin.
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. (Ltd.) with its registered office in Stalowa Wola.
10. B+R	Research and Development (R&D).
11. B+R+I	Research, Development and Innovations.
12. CAPEX	Capital Expenditures.

Abbreviation and trade term	Full name / explanation
13. Cash pool	True real time (online) <i>cash pool</i> structure, implemented under the cash management agreement, is based on the daily limits. As a result of the implementation of the <i>cash pool</i> mechanism, cash transfers are made between the accounts of the service participants and the Pool Leader's account.
14. 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.
15. CER	Certified Emission Reduction
16. 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. white - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors) 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,
17. COVID-19	Coronavirus Disease 2019 - acute respiratory system contagious disease caused by the SARS-CoV-2 virus infection. The disease was first diagnosed and described in November 2019 in central China in the city of Wuhan, Hubei Province.
18. 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.
19. CSI	Customer Satisfaction Index
20. CSR	Corporate Social Responsibility
21. CUW	Shared Services Center (Centrum Usług Wspólnych - CUW) - separate organizational units responsible for providing a specific range of support services (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services, CUW Insurance, CUW Protection).
22. CVaR	Credit Value at Risk – a measure of risk determining the maximum potential loss due to credit risk with the given probability and within a specified time horizon.
23. 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.
24. DMS	Distribution Management System
25. Best Practices 2016	<i>Best Practices of WSE Listed Companies 2016</i> , in force as of January 1, 2016
26. DSM	Demand Side Management
27. DSR	Demand Side Response). A mechanism that involves a temporary reduction of electricity consumption by the consumers or a postponement of its consumption at the request of the transmission system operator.
28. EIB	European Investment Bank with its registered office in Luxembourg.
29. EBIT	Earnings Before Interest and Taxes.
30. EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
31. EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with its registered office in Stalowa Wola.
32. EEC Magenta ASI	EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw.
33. EEC Magenta 2 ASI	EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw
34. EEC Ventures	EEC Ventures limited liability company limited joint stock partnership with its registered office in Warsaw
35. EEC Ventures 2	EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw
36. 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.
37. ElectroMobility Poland	ElectroMobility Poland S.A. with its registered office in Warsaw.
38. EMAS	EcoManagement and Audit Scheme.
39. ENEA	ENEA S.A. with its registered office in Poznań.

Abbreviation and trade term	Full name / explanation
40. ENERGA	ENERGA S.A. with its registered office in Gdańsk.
41. EPCM	Engineering Procurement Construction Management - construction, engineering and procurement management service (Contract Manager).
42. ERM	Enterprise Risk Management.
43. ESG	Environmental, Social and Governance - environmental, social and corporate governance factors used in the investment decision making process.
44. ESS	Energy Store System.
45. EU ETS	European Union Emission Trading System.
46. EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO ₂) equivalent to the air, within the meaning of Article 2 section 4 of the <i>act of July 17, 2009 on the management system of emissions of greenhouse gases and other substances</i> , which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>Act of April 28, 2011 on the system of greenhouse gases emission allowances trading</i>
47. EUR	Euro - a common European currency introduced in some EU member states
48. EWI	Early Warning Indicator.
49. Finanse Grupa TAURON	Finanse Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Katowice.
50. FIJK	Fundusz Inwestycji Infrastrukturalnych – Kapitałowy (Infrastructure Investment Fund – Equity).
51. 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
52. FIT	Feed-in tariff - guaranteed tariff system, which is a form of support for the generation of electricity from renewable energy sources
53. FIZ	Fundusz Inwestycyjny Zamknięty (Closed-end investment fund)
54. FIZAN	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end private equity investment fund)
55. GAZ-SYSTEM	Transmission Pipelines Operator (Operator Gazociągów Przesyłowych) GAZ-SYSTEM S.A. with its registered office in Warsaw.
56. GPW	Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A.) with its registered office in Warsaw.
57. TAURON Capital Group	TAURON Capital Group Polska Energia S.A.
58. GUS	Central Statistical Office (Główny Urząd Statystyczny) (Statistics Poland)
59. GZE	Górnośląski Zakład Elektroenergetyczny S.A. with its registered office in Gliwice.
60. HEMS	Home Energy Management System.
61. HVAC	Heating, Ventilation, Air Conditioning.
62. 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.
63. IOS	Flue gas desulphurization installation
64. IRGiT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with its registered office in Warsaw.
65. IRS	Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market
66. KGHM Polska Miedź (Polish Copper)	KGHM Polska Miedź S.A. (Polish Copper Mining Company) with its registered office in Lubin.
67. Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A..
68. Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
69. Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
70. 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. 2017/1442 of July 31, 2017 (
71. KPI	Key Performance Indicators – key financial and non-financial indicators used as ways to measure progress of achieving goals of an organization.
72. KRI	Key Risk Indicators.
73. KSE	National Power System (Krajowy System Elektroenergetyczny)

Abbreviation and trade term	Full name / explanation
74. Ksh	<i>Act of September 15, 2000, Code of Commercial Companies</i>
75. KW Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. (Ltd.) with its registered office in Krzeszowice.
76. Magenta Grupa TAURON	Magenta Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Katowice.
77. Marselwind	Marselwind sp. z o.o. (Ltd.) with its registered office in Katowice.
78. Ministry of State Assets	Ministry of State Assets with its registered office in Warsaw.
79. Mg	Mega gram - million grams (1 000 000 g), i.e. a ton.
80. Business Model	Document entitled <i>TAURON Group's Business and Operational Model</i> (which is an update of <i>TAURON Group's Business Model</i> adopted by the Management Board on May 4, 2016).
81. IFRS	International Financial Reporting Standards.
82. NBP	National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw.
83. NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.
84. Nowe Jaworzno Grupa TAURON	Nowe Jaworzno Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Jaworzno.
85. NOx	Nitrogen oxides.
86. 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
87. OCR	Optical Character Recognition - software for recognizing characters and entire texts in a scanned paper or electronic document.
88. OPEC	Organization of the Petroleum Exporting Countries with its registered office in Vienna.
89. DSO (OSD)	Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD)
90. TSO (OSP)	Transmission System Operator (Operator Systemu Przesyłowego - OSP)
91. OTC (OTC market)	Over The Counter Market – European OTC market.
92. OTF (OTF market)	Organized Trading Facility.
93. OW OFFSHORE	OW OFFSHORE S.L. with its registered office in Madrid, Spain - a joint venture in which EDP Renovaveis SA with its registered office in Lisbon, Portugal, and ENGIE SA based in Paris, France, each hold 50% of the shares.
94. RES (OZE)	Renewable Energy Sources (Odnawialne Źródła Energii - OZE)
95. 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.
96. PEC Tychy	Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. (Ltd.) with its registered office in Tychy.
97. PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (Ltd.) with its registered office in Warsaw.
98. PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund) with its registered office in Warsaw.
99. PFR IFIZ	PFR Inwestycje Fundusz Inwestycyjny Zamknięty (PFR Investments Closed-end Investment Fund)
100. PGG	Polska Grupa Górnicza S.A. (Polish Mining Group) with its registered office in Katowice
101. PGE	PGE Polska Grupa Energetyczna S.A. with its registered office in Warsaw.
102. PGE EJ 1	PGE EJ 1 sp. z o.o. (Ltd.) with its registered office in Warsaw.
103. PGK	Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK).
104. PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil and Gas Company) with its registered office in Warsaw.
105. GDP (PKB)	Gross Domestic Product (Produkt Krajowy Brutto)
106. PLN	Polish zloty currency symbol - zł
107. PMEf	Property rights related to the energy efficiency certificates
108. PMOZE	Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009

Abbreviation and trade term	Full name / explanation
109. PMOZE_A	Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009
110. PMOZE-BIO	Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
111. POPC	Digital Poland Operational Program.(Program Operacyjny Polska Cyfrowa – POPC).
112. PRO	Partnership, Development, Boldness (Partnerstwo Rozwój Odwaga – PRO) - key corporate values reflecting the way TAURON Capital Group wants to achieve its business goals.
113. PSE	Polskie Sieci Elektroenergetyczne S.A. with its registered office in Konstancin-Jeziorna .
114. RB	Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced.
115. 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.
116. RDN	Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery.
117. 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..
118. REACH	Registration, Evaluation and Authorization of Chemicals - register of chemical substances placed on the market. Regulation of the European Parliament and of the Council governing the use of chemicals through the registration and evaluation thereof and, in some cases, the granting of authorizations and imposing trading restrictions.
119. ROI	Return on Investment - profitability ratio used to measure efficiency.
120. 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.
121. SAIFI	System Average Interruption Frequency Index
122. SARS-CoV-2	Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease.
123. SCE Jaworzno III	Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (Ltd.) with its registered office in Jaworzno.
124. SCR	Selective Catalytic Reduction - flue gas denitrification system.
125. 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 5 main Segments: Mining, Generation, RES, Distribution and Supply, as well as, additionally, Other Operations.
126. SLA	Service Level Agreement
127. SOx	Sulfur oxides.
128. Consolidated Financial Statements of TAURON Capital Group	Document under the title <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020.</i>
129. Financial Statements of TAURON	Document under the title <i>Financial statements of TAURON Polska Energia S.A. in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020.</i>
130. 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.
131. Company	TAURON Polska Energia S.A. with its registered office in Katowice.
132. Company's Articles of Association	Document entitled <i>Articles of Association of TAURON Polska Energia S.A.</i>
133. Strategy	Document entitled <i>TAURON Group's Strategy for 2016-2025</i> adopted by the Management Board on September 2, 2016, which is supplemented by the <i>Update of Strategic Directions in the TAURON Group's Strategy for 2016-2025</i> , adopted by the TAURON Management Board on May 27, 2019.
134. Sustainable Development Strategy	Document entitled <i>TAURON Group's Sustainable development strategy for 2017-2025</i> , adopted by the Management Board on August 1, 2017, which is an update of the document entitled <i>TAURON Group's Sustainable development strategy for 2016-2018 with an outlook until 2020.</i>
135. TAMEH HOLDING	TAMEH HOLDING sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
136. TAMEH POLSKA	TAMEH POLSKA sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
137. TAMEH Czech	TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic).

Abbreviation and trade term	Full name / explanation
138. TAURON	TAURON Polska Energia S.A. with its registered office in Katowice.
139. TAURON Ciepło	TAURON Ciepło sp. z o.o. (Ltd.) with its registered office in Katowice.
140. TAURON Czech Energy	TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic).
141. TAURON Dystrybucja	TAURON Dystrybucja S.A. with its registered office in Cracow.
142. TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. (Ltd.) with its registered office in Tarnów.
143. TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. (Ltd.) with its registered office in Jelenia Góra.
144. TAURON Nowe Technologie	TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) with its registered office in Wrocław.
145. TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. (Ltd.) with its registered office in Wrocław.
146. TAURON Serwis	TAURON Serwis sp. z o.o. (Ltd.) with its registered office in Katowice.
147. TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. (Ltd.) with its registered office in Cracow.
148. TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. (Ltd.) with its registered office in Gliwice.
149. TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. (Ltd.) with its registered office in Katowice.
150. TAURON Wydobycie	TAURON Wydobycie S.A. with its registered office in Jaworzno.
151. TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with its registered office in Jaworzno.
152. TCFD (TCFD Guidelines)	Task Force on Climate-related Financial Disclosures - A Task Force on Climate-Related Disclosures established by the G20 Financial Stability Board, which issued recommendations in June 2017 to encourage financial institutions and non-financial companies to disclose information on the climate related risks and opportunities. These recommendations are considered to be the authoritative (credible) guidance on the financial reporting of the climate related information.
153. TEC1	TEC1 sp. z o.o. (Ltd.) with its registered office in Katowice.
154. TEC2	TEC2 sp. z o.o. (Ltd.) with its registered office in Katowice.
155. TEC3	TEC3 sp. z o.o. (Ltd.) with its registered office in Katowice.
156. TGE (POLPX)	Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw.
157. TGEozebio	Property rights that confirm the production of electricity from renewable energy sources using agricultural biogas.
158. TU	Towarzystwo Ubezpieczeń (Insurance Company)
159. EU (UE)	European Union (Unia Europejska - UE)
160. UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK)
161. Unbundling	Separation of the operations with respect to transmission or distribution of electricity from the operations that involve the production and delivery (supply) of this electricity to the final consumers.
162. ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki - URE)
163. USA	United States of America.
164. USD	United States Dollar - US dollar's international acronym
165. 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.
166. WACC	Weighted Average 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.
167. WFOŚiGW	Regional Environment Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) in Katowice or in Cracow .
168. Wind T1	Wind T1 sp. z o. o. . z o.o. with its registered office in Pieńków.
169. Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów.
170. GM (WZ/ZW)	General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW)
171. ZG	Coal Mine (Zakład Górniczy - ZG) (Janina Coal Mine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze).

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