

# REPORT OF THE MANAGEMENT BOARD

on the operations of  
TAURON Polska Energia S.A.  
and TAURON Capital Group  
for the financial year 2018

## TABLE OF CONTENTS

1. TAURON POLSKA ENERGIA I TAURON CAPITAL GROUP .....	6
1.1. Basic information on TAURON Polska Energia S.A. and TAURON Capital Group.....	6
1.2. Business segments (lines of business).....	7
1.3. TAURON Capital Group's organization and structure.....	8
1.3.1. Units subject to consolidation.....	8
1.3.2. Changes to TAURON Capital Group's organization.....	9
1.3.3. Organizational or equity ties with other entities.....	10
1.3.4. Major domestic and foreign investments as well as equity investments .....	11
1.4. Strategy and strategic priorities of TAURON Capital Group.....	13
1.4.1. TAURON Capital Group's mission, vision and values.....	13
1.4.2. TAURON Capital Group's 2016-2025 Strategy.....	14
1.4.3. Key challenges for TAURON Capital Group.....	18
1.4.4. Opportunities and threats.....	19
1.4.5. Long term financial goals and assumptions of the Strategy .....	21
1.4.6. Implementation of the Strategy and priorities of TAURON Capital Group in 2018 .....	22
1.5. Description of TAURON Capital Group's expansion policy and directions .....	25
1.5.1. Implementation of the strategic investment projects.....	26
1.5.2. Evaluation of the capability to complete the intended investment projects.....	31
1.5.3. Directions for advancing innovations as well as research and development activities .....	31
1.5.4. Major achievements in the field of research and development .....	32
2. OPERATIONS OF TAURON POLSKA ENERGIA AND TAURON CAPITAL GROUP .....	37
2.1. Factors and non-typical events that have a significant impact on earnings achieved .....	37
2.1.1. Internal factors and the assessment thereof.....	37
2.1.2. External factors and the assessment thereof .....	37
2.1.2.1. Macroeconomic environment.....	38
2.1.2.2. Market environment .....	38
2.1.2.3. Regulatory environment.....	45
2.1.2.4. Competitive environment (landscape).....	49
2.2. Material growth impacting factors .....	54
2.3. Core products, goods and services .....	55
2.4. Markets and sources of supply.....	57
2.4.1. Markets .....	57
2.4.2. Supply sources – fuel .....	62
2.5. Timeline.....	64
2.6. Key events and TAURON Capital Group's accomplishments with a significant impact on its operations .....	65
2.7. Prizes and accolades (honorable mentions).....	71

2.8.	Information on the employment at TAURON Polska Energia S.A. and TAURON Capital Group .....	72
3.	RISK MANAGEMENT AT TAURON CAPITAL GROUP .....	73
3.1.	Objective and the key risk management principles (rules) at TAURON Capital Group .....	73
3.2.	Enterprise risk management .....	73
3.3.	Managing TAURON Capital Group's key risks .....	79
3.3.1.	Commercial (trading) risk management .....	79
3.3.2.	Financial risk management.....	80
3.3.3.	Credit risk management.....	81
3.3.4.	Operational risk management .....	81
3.3.5.	Project risk management .....	82
3.4.	Description of the most significant risks related to TAURON Capital Group's operations.....	83
4.	ANALYSIS OF FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A. ....	87
4.1.	Overview of economic and financial data disclosed in the annual financial statements .....	87
4.2.	Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier .....	92
4.3.	Key financial ratios .....	92
4.4.	Principles of preparing annual financial statements .....	93
5.	ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL POSITION AND ASSETS .....	94
5.1.	TAURON Capital Group's financial results.....	94
5.2.	TAURON Capital Group's financial results by line of business .....	95
5.2.1.	Mining Segment.....	95
5.2.2.	Generation Segment.....	96
5.2.3.	Distribution Segment.....	99
5.2.4.	Supply Segment.....	100
5.2.5.	Other operations .....	102
5.3.	Overview of economic and financial data disclosed in the consolidated annual financial statements.....	103
5.3.1.	Characteristics of the structure of assets and liabilities in the consolidated statement of financial position 103	
5.3.2.	Consolidated statement of comprehensive income.....	108
5.3.3.	Statement of cash flows.....	111
5.4.	Material off-balance sheet items.....	113
5.5.	Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier .....	116
5.6.	Key financial ratios .....	116
5.7.	Most significant financial and operating data of TAURON Capital Group for the last 5 years .....	117
5.8.	What can be expected in 2019 .....	121
5.9.	Current and forecast financial and assets situation (financial and assets outlook) .....	121
5.10.	Principles of preparing annual consolidated financial statements.....	122
6.	INFORMATION ON THE AUDIT FIRM .....	123

7. FINANCIAL RESOURCES AND INSTRUMENTS .....	125
7.1. Proceeds from security issues .....	125
7.2. Financial instruments .....	126
7.2.1. Application of financial instruments in order to eliminate price changes, credit risk, material disruptions of cash flows and loss of financial liquidity .....	126
7.2.2. Objectives and methods of financial risk management .....	127
7.3. Assessment of financial resources management .....	127
8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A. ....	129
8.1. Shareholding Structure .....	129
8.2. Dividend policy .....	129
8.3. Number and nominal value of the Company's shares, as well as of the shares in units related to the Company, held by members of the Management Board and the Supervisory Board .....	130
8.4. Agreements related to potential changes to the shareholding structure .....	130
8.5. Own shares buybacks .....	130
8.6. Employee stock award programs .....	130
8.7. Shares performance on the Warsaw Stock Exchange (WSE) .....	130
8.8. Investor relations .....	134
9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE .....	137
9.1. Indication of applied set of corporate governance rules .....	137
9.2. Indication of abandoned rules of corporate governance .....	137
9.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial .....	138
9.4. Shareholders holding substantial blocks of shares .....	140
9.5. Holders of securities providing special control rights .....	141
9.6. Restrictions on exercising the voting right .....	141
9.7. Restrictions on transfer of the ownership right to securities .....	142
9.8. Rules on appointing and dismissing managing and supervising persons and their powers .....	143
9.8.1. Management Board .....	143
9.8.2. Supervisory Board .....	144
9.9. Description of the procedure of amendment of the Company's Articles of Association .....	147
9.10. Procedures of the General Meeting of Shareholders, its fundamental powers and description of shareholders' rights and the manner of exercising thereof .....	148
9.11. Composition of the Company's management and supervision bodies and their committees, its changes and the description of their operations .....	150
9.11.1. Management Board .....	150
9.11.2. Supervisory Board .....	154
9.11.3. Audit Committee .....	160
9.11.4. Nominations and Compensation Committee .....	164
9.11.5. Strategy Committee .....	165

9.11.6.	Description of the activities of the Committees of the Supervisory Board .....	165
9.12.	Description of the policy of diversity applied to the governing bodies of the Company .....	166
10.	COMPENSATION POLICY WITH RESPECT TO THE MANAGEMENT AND SUPERVISORY PERSONNEL.....	168
10.1.	Compensation system for members of the Management Board and key managers .....	168
10.1.1.	General information on the adopted compensation system for members of the Management Board .....	168
10.1.2.	General information on the adopted compensation system for key managers.....	170
10.1.3.	Agreements concluded with management personnel that envisage compensation in case of their resignation or dismissal from the position held, without a material reason, or if their dismissal or resignation takes place as a result of the merger of the Company through takeover .....	172
10.1.4.	Non-financial components of compensation due to members of the Management Board and key managers 172	
10.1.5.	Assessment of the functioning of the compensation policy in terms of the fulfilment of its objectives, in particular the long-term growth in shareholders' value and stability of the company's performance .....	172
10.2.	Compensation system for members of the Supervisory Board.....	173
11.	STATEMENT ON NON-FINANCIAL INFORMATION .....	175
11.1.	TAURON Group's Business and Operational Model.....	175
11.1.1.	TAURON Group's Business and Operational Model's assumptions .....	175
11.1.2.	Company management principles.....	176
11.1.3.	TAURON Capital Group management principles .....	176
11.1.4.	TAURON Capital Group's Lines of Business.....	178
11.1.5.	Changes to the principles of the Company's and TAURON Capital Group's management.....	179
11.2.	TAURON Group's 2017-2025 Sustainable Development Strategy.....	181
11.3.	Key non-financial performance (efficiency) indicators related to TAURON Capital Group's operations.....	183
11.4.	Description of TAURON Capital Group's key policies applied in 2018 and the results of the application thereof 189	
11.5.	Key CSR projects implemented at TAURON Capital Group in 2018.....	203
11.6.	Sponsoring activities.....	204
11.7.	Description of material risks related to TAURON Capital Group's operations that may have an adverse impact on the policies applied by TAURON Capital Group, as well as the description of the management of such risks.....	205
12.	OTHER MATERIAL INFORMATION AND EVENTS.....	208
12.1.	Material proceedings pending before the court, competent arbitration authority or public administration authority	208
12.2.	Information on agreements concluded by TAURON Capital Group's subsidiaries .....	211
12.2.1.	Agreements significant for TAURON Capital Group's operations .....	211
12.2.2.	Transactions with related entities on terms other than at arm's length.....	214
12.2.3.	Signed and terminated credit and loan agreements .....	214
12.2.4.	Loans and sureties granted as well as sureties and guarantees received.....	216
	Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS .....	221
	Appendix B: INDEX OF TABLES AND FIGURES .....	225

# 1. TAURON POLSKA ENERGIA TAURON CAPITAL GROUP

Pursuant to art. 55 clause 2a of the September 29, 1994 act on accounting (Journal of Laws of 2018, item 395) and § 71 clause 8 of the Ordinance of the Minister of Finance of March 29, 2018 on current and periodic information to be disclosed by securities issuers and conditions for recognizing as equivalent the information required by the legal regulations in force in a non-member state (Journal of Laws of 2018, item 757), TAURON Polska Energia S.A. drew up the report of the Management Board on the operations of TAURON Polska Energia S.A. and the report of the Management Board on the operations of TAURON Capital Group in a form of a single document.

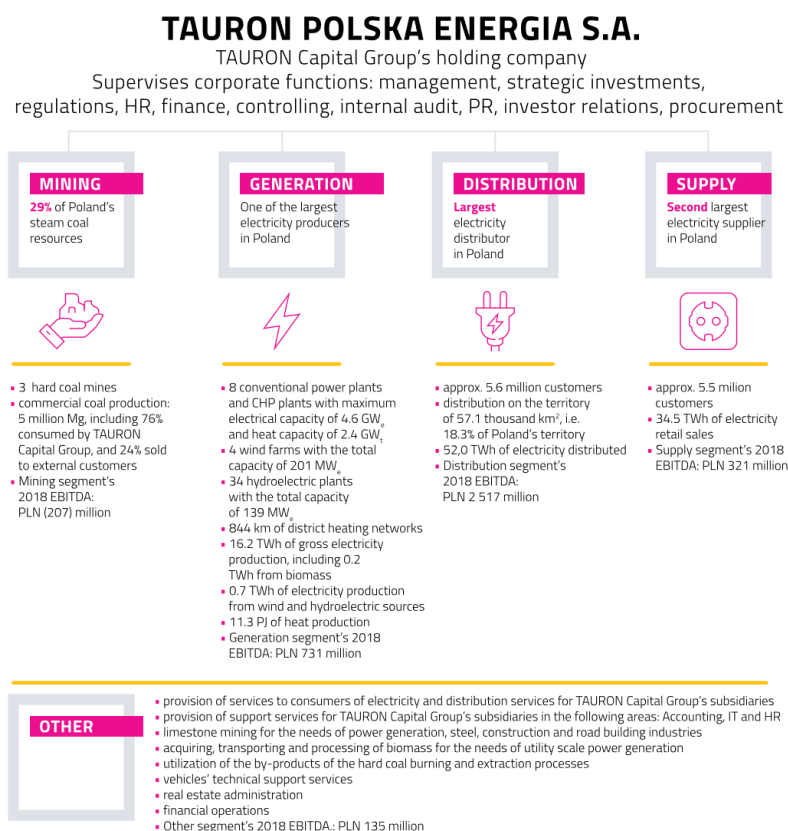
## 1.1. Basic information on TAURON Polska Energia S.A. and TAURON Capital Group

TAURON Capital Group's parent (holding) company is TAURON Polska Energia S.A. (hereinafter called the Company or TAURON), that was established on December 6, 2006 as part of the Program for the Power Generation 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.

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.

The company does not have any branches (plants).

Figure no. 1.  
TAURON Capital Group



## 1.2. Business segments (lines of business)

Business operations, in accordance with TAURON Group's Business and Operational Model (Business Model) in force, are conducted by units defined as: Corporate Center, seven Lines of Business, i.e. Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply as well as Shared Services Centers (CUW). The detailed information on the Business Model is provided in section 11.1. of this report.

For the needs of reporting TAURON Capital Group's results from operations TAURON Capital Group's operations are split into the following five Segments, hereinafter also referred to as Lines of Business:



**Mining Segment**, comprising mainly hard coal mining, enriching and selling in Poland with the operations conducted by TAURON Wydobycie S.A. (TAURON Wydobycie).



**Generation Segment**, comprising mainly electricity generation using conventional sources, including co-generation, as well as electricity generation from renewable energy sources, including biomass burning and co-firing, and hydroelectric power plants and wind farms. The segment also includes heat generation, distribution and supply. This segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). The segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls and Nowe Jaworzno Grupa TAURON Sp. z o.o. (Nowe Jaworzno GT) company responsible for the construction of the new power generation unit at Jaworzno as well as Marselwind sp. z o.o.



**Distribution Segment**, comprising electricity distribution using the distribution grids located in southern Poland. The operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This segment also includes the following subsidiaries: TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) and TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary).



**Supply Segment**, comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of CO<sub>2</sub> emission allowances, property rights arising from certificates of origin that confirm electricity generation from renewable sources, in cogeneration and property rights arising from energy efficiency certificates as well as fuels. The operations in this Segment are conducted by the following subsidiaries: TAURON Polska Energia S.A. (TAURON or the Company), TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).

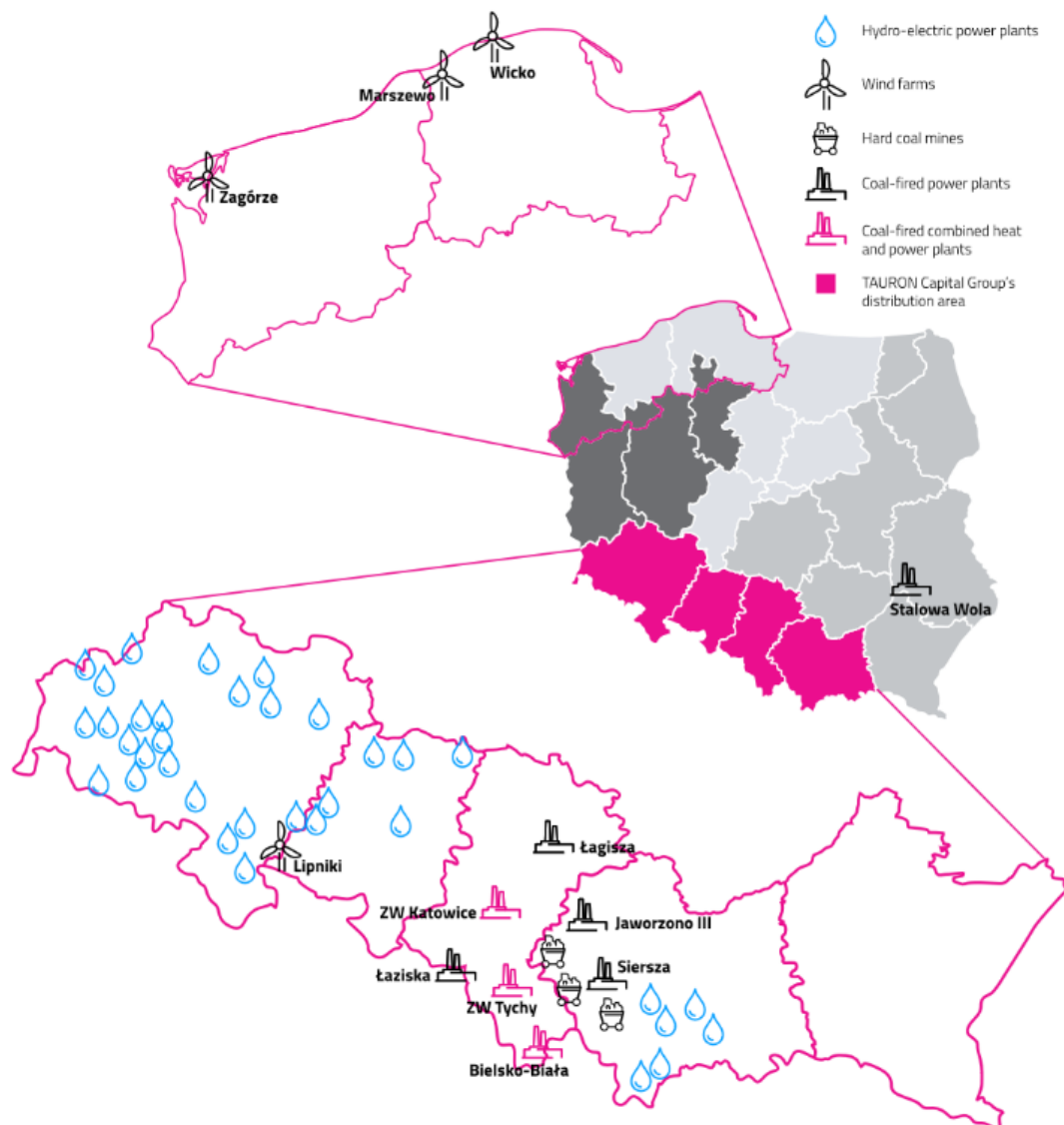


**Other operations**, comprising, among others, customer service for TAURON Capital Group's customers, provision of support services for TAURON Capital Group's subsidiaries with respect to accounting, HR and ICT, conducted by TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) subsidiary, as well as operations related to extraction of stone, including limestone, for the needs of power generation, steel, construction and road building industries as well as production of sorbing agents for wet flue gas desulphurization installations and for use in fluidized bed boilers, carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice) subsidiary. This segment also includes the following subsidiaries: TAURON Sweden Energy AB (publ) (TAURON Sweden Energy), dealing with financial operations, Bioeko Grupa TAURON sp. z o. (Bioeko Grupa TAURON, formerly: Biomasa Grupa TAURON), dealing mainly with the utilization of the by-products of hard coal burning and extraction, biomass acquisition, transportation and processing, Wsparcie Grupa TAURON sp. z o.o. (Wsparcie Grupa TAURON), dealing primarily with real estate administration, property security as well as the technical support of vehicles and Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (PEPKH).

TAURON Capital Group conducts its operations and generates its revenue mainly from electricity and heat supply and distribution, electricity and heat generation, as well as from hard coal sales.

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

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



### 1.3. TAURON Capital Group's organization and structure

As of December 31, 2018 TAURON Capital Group's key subsidiaries, besides the TAURON parent company, included 19 subsidiaries subject to consolidation, listed in section 1.3.1. of this report.

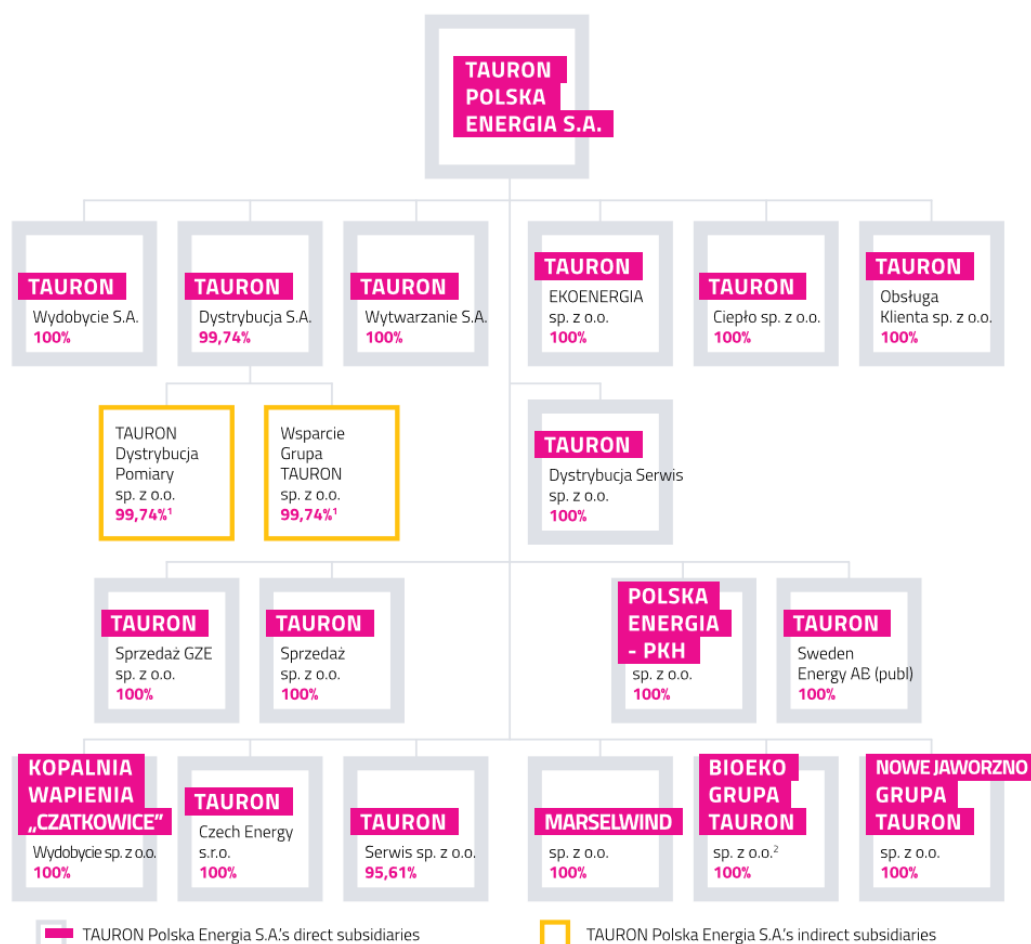
Furthermore, the Company held, directly or indirectly, shares in the other 39 subsidiaries.

#### 1.3.1. Units subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2018.



Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2018



<sup>1</sup>The shares in TAURON Dystrybucja Pomiarów sp. z o.o. and Wsparcie Grupa TAURON sp. z o.o. are held by TAURON Polska Energia S.A. indirectly via the subsidiary TAURON Dystrybucja S.A. TAURON Polska Energia S.A. is a user of the shares of TAURON Dystrybucja Pomiarów sp. z o.o.

<sup>2</sup> On October 8, 2018 Biomasa Grupa TAURON sp. z o.o. changed its name to Bioeko Grupa TAURON sp. z o.o.

After the balance sheet day the following companies were established: Finanse Grupa TAURON sp. z o.o. and EEC Magenta limited liability company 2 ASI limited joint stock partnership, TEC1 sp. z o.o., TEC2 sp. z o.o. and TEC3 sp. z o.o.

### 1.3.2. Changes to TAURON Capital Group's organization

The following changes to the organization of TAURON Capital Group had taken place in 2018 and by the day of drawing up this report:

#### Restoring the share capital of TAURON EKOENERGIA sp. z o.o. to the level before the split of the company

On January 30, 2018, the District Court for Wrocław – Fabryczna in Wrocław, 9th Commercial Department, registered in the National Court Register a change in the share capital of TAURON EKOENERGIA restoring its value to the level before the split of the company by way of spinning off and transferring selected assets constituting an organized part of the enterprise to the company Marselwind sp. z o.o. and the lowering of the share capital of TAURON EKOENERGIA related thereto passed by the Extraordinary GM of the company on February 9, 2015. Due to the restoration of the share capital to the level before the split of the company the share capital was increased from PLN 444 888 000 to PLN 573 423 000, i.e. by PLN 128 535 000, and the number of shares held by the sole shareholder of the company – TAURON Polska Energia S.A. increased from 444 888 shares to 573 423 shares.

### Change of the name of "Biomasa Grupa TAURON sp. z o.o." to "Bioeko Grupa TAURON sp. z o.o."

On October 8, 2018, the change of the name of Biomasa Grupa TAURON sp. z o.o. with its seat in Stalowa Wola to Bioeko Grupa TAURON sp. z o.o. was registered in the National Court Register.

### Establishing of the company Finanse Grupa TAURON sp. z o.o.

On February 15, 2019 the company Finanse Grupa TAURON sp. z o.o. with its seat in Katowice, that had been established on January 23, 2019, was registered in the National Court Register.

The company's share capital is PLN 100 000 and is split into 2 000 shares with the nominal value of PLN 50 per share that were taken up in whole by TAURON.

Furthermore, the following changes related to the entities in which TAURON has an equity stake but which are not a part of TAURON Capital Group had taken place in 2018 and by the day of drawing up this report:

### Establishing of the companies TEC1 sp. z o.o., TEC2 sp. z o.o. and TEC3 sp. z o.o.

On March 4, 2019 TAURON established the following companies: TEC1 sp. z o.o., TEC2 sp. z o.o. and TEC3 sp. z o.o., all with their seats in Katowice.

The share capital of each of the above mentioned company is PLN 25 000 and is split into 500 shares with the nominal value of PLN 50 per share that were taken up in whole by TAURON.

As of the day of drawing up this report the above mentioned companies had not been registered in the National Court Register (KRS) yet.

### Establishing of limited joint stock partnerships

On October 26, 2018 TAURON established the following companies:

1) EEC Magenta limited liability company ASI limited joint stock partnership with its seat in Warsaw (EEC Magenta ASI).

TAURON took up 12 450 shares in the company with the nominal value of PLN 1 per share in exchange for a cash contribution equal to the nominal value of the shares taken up, i.e. PLN 12 450.

TAURON's share in the share capital and in the votes at the company's GM is 24.90%.

EEC Magenta ASI was registered in the National Court Register by the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register on December 21, 2018.

2) EEC Magenta limited liability company 2 ASI limited joint stock partnership with its seat in Warsaw (EEC Magenta 2 ASI).

TAURON took up 24 015 shares in the company with the nominal value of PLN 1 per share in exchange for a cash contribution equal to the nominal value of the shares taken up, i.e. PLN 24 015.

TAURON's share in the share capital and in the votes at the company's GM is 48.03%.

EEC Magenta 2ASI was registered in the National Court Register by the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register on January 9, 2019.

Establishing of the above mentioned companies by TAURON is in line with TAURON Group's 2016-2025 Strategy and its goal is to expand TAURON Capital Group's cooperation with innovative companies as well as with the science sector and research and development (R&D) institutions, and also providing support for the new business development.

### 1.3.3. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.3.1 of this report material co-subsiaries subject to consolidation in which the Company held, directly or indirectly, shares as of December 31, 2018 include the companies listed in the below table.

Table no. 1. List of material co-subidiaries subject to consolidation as of December 31, 2018

#	Company name	Seat	Main subject of operations	TAURON's share in company's capital and in the parent company
1.	EC Stalowa Wola S.A. <sup>1</sup>	Stalowa Wola	Electricity generation	50.00%
2.	TAMEH HOLDING sp. z o.o. <sup>2</sup>	Dąbrowa Górnicza	Central (head office) companies and holding operations	5,00%
3.	TAMEH POLSKA sp. z o.o. <sup>2</sup>	Dąbrowa Górnicza	Electricity and heat generation, transmission, distribution and trading	50.00%
4.	TAMEH Czech s.r.o. <sup>2</sup>	Ostrava, Czech Republic	Production, trading and services	50.00%

<sup>1</sup> Shares in EC Stalowa Wola are held by TAURON indirectly via TAURON Wytwarzanie subsidiary.

<sup>2</sup> Companies form a capital group. TAURON holds a direct stake in the share capital and in the parent company of TAMEH HOLDING sp. z o.o. that holds a 100% stake in the capital and in the parent company of TAMEH POLSKA sp. z o.o. and TAMEH Czech s.r.o.

### 1.3.4. Major domestic and foreign investments as well as equity investments

#### Taking up or acquiring share securities in TAURON Capital Group companies

The below table presents a summary of share capital increases in TAURON Capital Group subsidiaries in 2018 and by the day of drawing up this report.

Table no. 2. Summary of share capital increases in TAURON Capital Group subsidiaries

Subsidiary	Share capital increase (total price for taking up shares) (PLN)	Company taking up shares	Nominal value of shares taken up (PLN)	Date of passing the resolution by the GM	Structure of the share capital following the increase
	350 000 000	TAURON	3 500 000	29.03.2018	TAURON – 100%
	350 000 000	TAURON	3 500 000	11.10.2018	TAURON – 100%
	360 000 000	TAURON	3 600 000	18.12.2018	TAURON – 100%
		Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund)			TAURON – 97.89%
Nowe Jaworzno GT	100 000 000	Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund)	1 000 000	20.12.2018	FIKFIKAN – 2.11%
		Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund)			TAURON – 92.86%
	256 925 000	Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund)	2 569 250	25.02.2019	FIKFIKAN – 7.14%
TAURON Wydobycie	340 000 000	TAURON	3 400 000	26.04.2018	TAURON – 100%
TAURON Dystrybucja Serwis	439 317 000	TAURON	4 393 170	18.06.2018	TAURON – 100%
TAURON Wytwarzanie	780 000 000	TAURON	7 800 000	09.08.2018	TAURON – 100%
Łągisza Grupa TAURON sp. z o.o.	100 000	TAURON Wytwarzanie	1 000	11.01.2019	TAURON Wytwarzanie – 100%

#### Additional contributions to the share capital of PEPKH

Implementing the resolution of the Extraordinary GM of PEPKH of March 1, 2018, related to imposing on TAURON, as a sole shareholder of the company, the obligation to make additional contributions to the share capital, on March 7, 2018 TAURON made additional contributions to the share capital of the above mentioned company in the total amount of PLN 6 000 000. The resolution of the Extraordinary GM was passed in order to provide financing for the operations of PEPKH.

### Taking up or acquiring share securities in the other companies in which TAURON holds an equity stake

The below table presents a summary of share capital increases in the other companies in which TAURON holds an equity stake in 2018 and by the day of drawing up this report.

Table no. 3. Summary of share capital increases in the other companies in which TAURON holds an equity stake

Company	Share capital increase (total price for taking up shares) (PLN)	Company taking up shares	Nominal value of shares taken up (PLN)	Date of passing the resolution by the GM	Structure of the share capital following the increase
ElectroMobility Poland S.A.	5 000 000	TAURON	5 000 000	03.01.2018	TAURON – 25%
	5 000 000	PGE	5 000 000		PGE – 25%
	5 000 000	ENEA	5 000 000		ENEA – 25%
	5 000 000	ENERGA	5 000 000		ENERGA – 25%
	10 000 000	TAURON	10 000 000	04.10.2018	TAURON – 25%
	10 000 000	PGE	10 000 000		PGE – 25%
	10 000 000	ENEA	10 000 000		ENEA – 25%
	10 000 000	ENERGA	10 000 000		ENERGA – 25%
PGE EJ 1	41 999 811	PGE	41 999 811	09.08.2018	PGE – 70%
	5 999 973	TAURON	5 999 973		TAURON – 10%
	5 999 973	KGHM	5 999 973		KGHM – 10%
	5 999 973	ENEA	5 999 973		ENEA – 10%
EEC Magenta ASI 2	99 557	EEC Ventures limited liability company 2 limited partnership	2 933	25.01.2019	EEC Ventures s limited liability company 2 limited partnership – 2.95%
	4 874 200	PFR NCBR CVC Non- public Assets Closed-end Investment Fund	48 742		PFR NCBR CVC Non- public Assets Closed-end Investment Fund – 49.02%
	4 775 100	TAURON	47 751		TAURON – 48.03%
EEC Magenta ASI	107 200	EEC Ventures limited liability company limited partnership	1 072	15.01.2019	EEC Ventures limited liability company limited partnership - 3%
	2 577 600	PFR Starter FIZ	25 776		PFR Starter FIZ – 72.1%
	890 200	TAURON	8 902		TAURON – 24.9%

The other most significant equity investments in financial assets as of December 31, 2018 include stakes in the following entities:

- 1) Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (SCE Jaworzno III) with the balance sheet value of PLN 30 989 000,
- 2) Przedsiębiorstwo Energetyki Ciepłej Tychy sp. z o.o. with the balance sheet value of PLN 23 754 000,
- 3) PGE EJ 1 sp. z o.o. (PGE EJ 1) with the balance sheet value of PLN 18 651 000,
- 4) Energetyka Cieszyńska sp. z o.o. with the balance sheet value of PLN 14 697 000,
- 5) ElectroMobility Poland S.A. with the balance sheet value of PLN 17 500 000,

- 6) Magenta Grupa TAURON Sp. z o.o. with the balance sheet value of PLN 9 500 000.

### Major investments in financial assets

TAURON Capital Group's major investments in financial assets include:

- 1) Continuation by TAURON of participation units in investment funds. As of the balance sheet day the value of participation units in investment funds reached PLN 26 062 000.
- 2) Granting by TAURON of loans to the EC Stalowa Wola S.A. (EC Stalowa Wola) joint subsidiary. As of the balance sheet day the amount of loans granted to EC Stalowa Wola reached PLN 329 036 000.
- 3) Granting by TAURON of a loan to PGE EJ1 in the amount of PLN 4 800 000. As of the balance sheet day the amount of loans granted to PGE EJ1 reached PLN 7 740 000.

Investments in financial assets were financed using own funds and the funds obtained as part of the central financing model functioning at TAURON Capital Group.

## 1.4. Strategy and strategic priorities of TAURON Capital Group

2018 was the continuation of the implementation of TAURON Group's 2016-2025 Strategy (Strategy), adopted by the Management Board of TAURON on September 2, 2016 and positively evaluated by the Supervisory Board. The Strategy was prepared as a response to the challenges stemming from the current and forecast, as of the day of passing thereof, situation on the electricity market and in the power sector. In the process of preparing the Strategy a thorough analysis was conducted of the macroeconomic, market and regulatory environment and forecasts on the directions of the sector's growth were developed, including translating them into opportunities and risks facing TAURON Capital Group over the next ten years, i.e. until 2025. TAURON Capital Group's ability to finance the current and planned investment projects was reviewed in detail with a view that their completion could be achieved using funds generated from operations and debt financing.

Since the date of adopting the Strategy some of its assumptions have changed, first of all the regulations that have a material impact on TAURON Capital Group's operations have become more specific, among others, the act on the capacity market, the act on promoting high efficiency cogeneration electricity, the change of the energy law act, the act on electromobility, the regulations related to quality requirements for solid fuels. At the same time, works on adopting the State Energy Policy until 2040, that sets the directions of transforming the entire power sector in Poland, are coming to an end. Another significant strategic document will be the National Plan for Energy and Climate for 2021-2030, being processed by the European Commission. Based on the above, at the end of 2018, TAURON undertook works aimed at preparing an update of the Strategy that would take into account the impact of the above mentioned policies and key regulatory changes, developed at the European and national level, on TAURON Capital Group.

### 1.4.1. TAURON Capital Group's mission, vision and values

Strategy defines the Mission and Vision and defines the key values of TAURON Capital Group:



Mission and vision best describe the strategic intentions of TAURON Capital Group that sees a large growth potential in developing sales of products and services



that are tailored to customer needs. TAURON Capital Group is adjusting its profile in order to ensure full focus on the customer, appreciating the potential of new

products, compatible services, modern contact channels as a response to customer needs.

The key values that support the implementation of the Strategy include "Partnership", "Development" and "Courage". The values reflect the way in which TAURON Capital Group wants to accomplish its goals. What is important as part of the partnership is customer

orientation, development of sustainable relationships and engagement. Development means focus on innovations, developing competences, skills and knowledge as well as seeking ever better solutions, meeting customer needs and improving the quality of services. Courage means boldness and openness, determination as well as engagement and passion in achieving common goals.

## 1.4.2. TAURON Capital Group's 2016-2025 Strategy

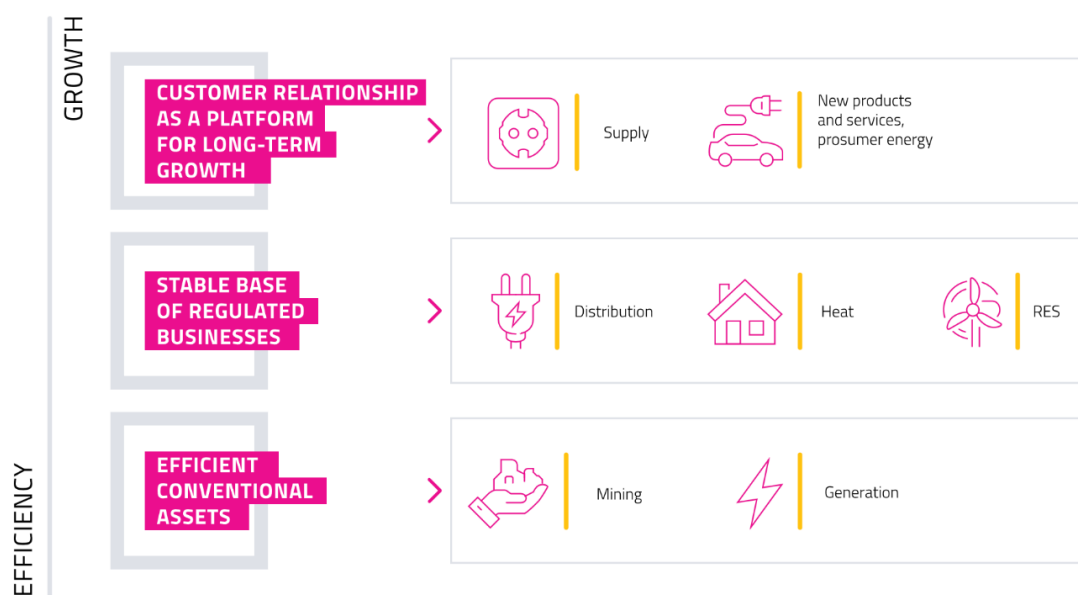
2016-2025 Strategy adopted presents an optimal expansion path that will ensure financial stability and growth, while at the same time providing support for ensuring stability of the power system. It is assumed that the long term growth will be driven by solutions based on customer relationships. The mission and vision reflect such management philosophy and are in line with the customer-oriented growth concept.

Strategy describes the approach to developing individual segments of TAURON Capital Group's operations, dividing them into segments that TAURON Capital Group

is planning to strongly expand, segments that will constitute the foundation of the financial stability and segments where strong emphasis on cost efficiency is required. The above reflects a changed management philosophy and emphasizes a pivot towards the customer and his/her needs as well as towards developing an innovative, open to new challenges TAURON Capital Group.

The below figure presents the prospects of TAURON Capital Group's individual segments.

Figure no. 4. Prospects of TAURON Capital Group's individual segments

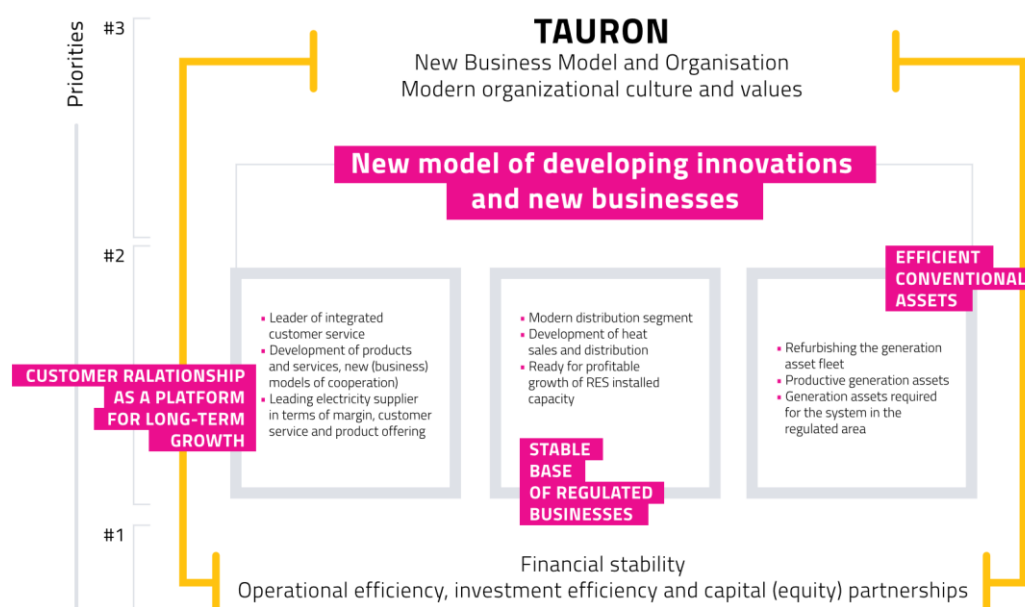


Strategy sets three priorities that will transform TAURON Capital Group into an innovative, aligned to market and customer needs, growing energy company, ultimately providing a return on invested capital for its shareholders.

1. Ensuring TAURON Capital Group's financial stability
2. Building a strong capital group
3. Implementing organizational changes supporting implementation of the Strategy that will transform TAURON Capital Group into a modern and innovative organization.

The below figure presents implementation of the priorities based on the pillars of TAURON Capital Group's Strategy.

Figure no. 5. Implementation of the priorities based on the pillars of TAURON Capital Group's Strategy

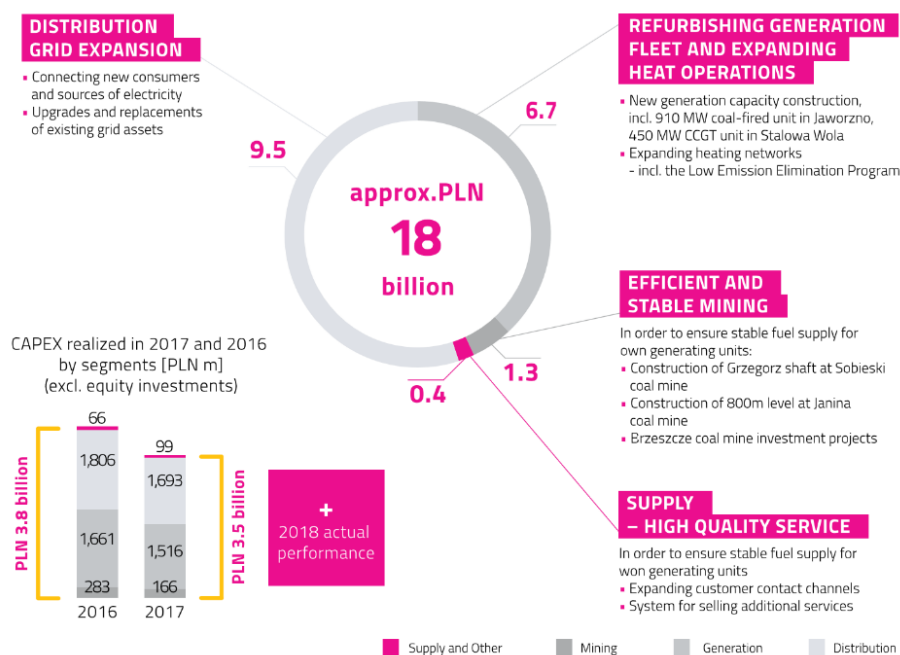


When adopting the Strategy for implementation in September 2016 it was assumed that its implementation would allow for increasing EBITDA from PLN 3.5 billion in 2015 to more than PLN 4 billion in 2020 and to more than PLN 5 billion in 2025.

As part of optimizing (streamlining) CAPEX the outlays initially planned for 2016-2020 were reduced from PLN 20.2 billion to approx. PLN 18 billion. The Strategy assumes that the commenced and well advanced investment projects will be continued, including the construction of the 910 MWe super critical parameters unit at Jaworzno Power Plant, the construction of the 449 MWe CCGT unit including the 240 MWt heat unit at Stalowa Wola, the investments in the heating networks, the expansion and upgrades of the distribution grid, the construction of the 800 m level at the Janina Coal Mine (ZG Janina) in Libiąż, the construction of the "Grzegorz" shaft including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings) at the Sobieski Coal Mine (ZG Sobieski) as well as the planned investment projects at the Brzeszcze Coal Mine (ZG Brzeszcze).

The below figure presents capital expenditures assumed in the Strategy by individual segments in 2016-2020.

Figure no. 6.  
Capital expenditures  
by segments in 2016-2020



Strategy indicates that the overall objective in terms of CAPEX is to align the investment portfolio to the market needs. It has been assumed that the actions to be undertaken will be aimed at:

1. Optimizing the asset structure in all lines of business and achieving compliance with the environmental requirements.
2. Carrying out only those investment projects that guarantee the expected return on capital and are not burdened with material market risks.
3. Using off-balance sheet forms of financing, in particular by engaging third party partners.
4. Reviewing investment projects in the conventional generation segment, provided mechanisms that guarantee revenue are introduced (e.g. capacity market or another form of regulation).
5. Investing in projects in sectors that are related to the power industry (in particular, services) in order to complement the value chain that TAURON is operating in, and also developing a high margin services offering.

Directions of investments beyond 2020 outlined in the Strategy include first of all the regulated segments of the power sector (i.e., among others, electricity distribution, heat generation and distribution) and the new power industry (i.e. e-mobility, distributed heat and electricity generation, power generation by prosumers, Smart Home, Smart City solutions and energy related services).

The below figure presents the Strategy, strategic priorities and growth prospects in the individual Lines of Business.

Table no. 4. Strategy, strategic priorities and growth prospects in the individual Lines of Business

#### Mining

##### Strategic goals

The main goal for the Generation Segment, defined as part of the Strategy, is to provide a stable supply of cost competitive and appropriate quality fuel for TAURON Capital Group as well as to expand its product offering and maximize the margin on the sales of the other products.

The goals set in the Strategy are to be accomplished by carrying out investment projects and implementing strategic initiatives, including, among others: optimizing the costs and capital expenditures, tri-product enrichment at ZG Sobieski and ZG Janina as well as expanding the line for packaging eco-pea coal, preparing dedicated fuel for the generating units.

Strategy assumes that the strategic initiatives planned and the investment projects implemented will allow the Mining Segment to strengthen its position and to provide coal fuel for TAURON Capital Group subsidiaries, thus mitigating the risk of coal price hikes on the external market.

##### Growth prospects

The current situation in the hard coal mining industry, logistical and the impact of geological factors brought about a decline of hard coal extraction output which led to low hard coal inventory levels at the coal mines stockpiles and an increase of hard coal prices in 2018. The low level of hard coal supply on the local market may lead to a rise in hard coal imports, which will also impact price levels.

The near future will be a difficult and demanding period due to the adverse prospects for this fuel in the European Union's (EU) energy policy. The introduction of further restrictions with respect to environment protection, quality of solid fuels offered on the market, taxes and local government regulations (including anti-smog regulations) represents a challenge for the sector. The energy and climate related regulations result in successive declines of the competitiveness of coal-fired power generation. The directions of the mining industry's growth will also be strongly correlated with the guidelines outlined in the government's documents: State Energy Policy until 2040 and the National Plan for Energy and Climate for 2021-2030. The drafts of the above mentioned present the growing importance of RES and new technologies, however coal will continue to be the key energy driver in Poland.

#### Generation

##### Strategic goals

The main goals for the Generation Segment, defined as part of the Strategy, are:

- 1) for TAURON Wytwarzanie: to develop an optimal, from the point of view of profitability and risk, generation assets portfolio and its effective operation,

##### Growth prospects

Available forecasts and analyses for the coming year assume an increase of the domestic electricity production output, including the generation from RES.

An increase of RES generation capacity on the market is forecast which represents a challenge for the grid and stability of electricity



### Strategic goals

2) for TAURON EKOENERGIA: to improve the profitability of its generation assets and prepare options for the profitable growth of this line of business,

3) for TAURON Ciepło: to achieve return on invested capital as a result of market growth and rising customer satisfaction.

The goals set in the Strategy are to be accomplished by implementing strategic initiatives, including, among others: optimizing the costs and capital expenditures, streamlining employment, optimizing production assets and selling redundant non-production assets as well as carrying out investment projects that lead to upgrading the generation fleet.

The main strategic direction set for the Generation Segment's conventional assets is achieving economic efficiency or permanent decommissioning.

In the RES line of business options for developing RES installations are being prepared assuming a favorable support system is put in place and a profitable model of their operation is developed.

In the heat generation, distribution and trading line of business significant actions include developing heat generation, distribution and supply, in particular eliminating low emissions, looking for solutions in the co-generation area, including the multi-fuel co-generation, as well as improving the rate of utilizing the existing infrastructure.

## Distribution

### Strategic goals

The main goal for the Distribution Segment, defined as part of the Strategy, is to maintain its leadership position on the Polish market in terms of the security and efficiency of the grid operation.

The assumed goal is to be accomplished by implementing the key strategic initiatives: "One Distribution" Program that is made up of projects aimed at optimizing the company's operational processes, including; actions leading to raising customer satisfaction and, at the same time, improving the company's image. The Distribution Segment is carrying out important investment projects related to connecting new consumers as well as upgrading and replacing the grid assets.

### Growth prospects

supply. Strong interest in the RES, supported by the EU policy, may translate into a rise of investments in renewable energy sources.

The key issue in the coming years will continue to be ensuring the security of the operation of the National Power System (Krajowy System Elektroenergetyczny - KSE), primarily by the conventional units. The capacity market has been introduced in Poland for that purpose, which will allow for obtaining an additional revenue source. The support mechanism introduced is one of the elements supporting the transformation of the Polish power sector. Obtaining derogations from the requirements to adapt to the BAT conclusions and ability to acquire funds for investments from the dedicated funds envisaged for 2021-2030 will represent an opportunity for the conventional power generation.

On the heat market Poland's policy, aimed at providing support for the co-generation and improving air quality, may lead to an increase of investments and the growth of this area. An important factor impacting the growth of the system heat solutions is rising social awareness, the battle against smog waged by the local governments and the national aid programs.

### Growth prospects

The Distribution Segment should adapt its investment projects to the requirements defined by the President of ERO with respect to the quality of the services provided. Actions aimed at ensuring the reliability of electricity supply and simplifying of the procedures related to connecting new consumers will be continued. The investment projects carried out are to allow for adapting TAURON Capital Group's distribution assets to the growing volume of electricity generated by the distributed renewable sources, and also for preparing the grid to interoperate with the infrastructure to be used for charging electricity vehicles. The expansion of TAURON Capital Group with respect to implementing smart grid and smart meter solutions will allow for introducing additional functionalities, both on the distributor's side, as well as on the customer's side. The 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 activities. The above challenges will be faced on a regulated market that makes the segment's operations dependent on the new elements of the regulatory policy towards the Distribution System Operators introduced by the President of ERO and the risks related thereto, i.e. the updated approach to the weighted average cost of capital, the adjustment coefficients (factors) related to improving the utilities' efficiency with respect to operating expenses and the level of the balancing difference, the continuation of the quality based regulation, and even the

tightening thereof. Significant changes to the functioning of the segment may be a consequence of changes to the energy law. The implementation of the smart metering at 80% of the consumers by 2026 should be regarded as one of the key changes.

## Supply

### Strategic goals

The main goal for the Generation Segment defined as part of the Strategy, is to achieve the leadership position in the relationships with the customers based on the high quality customer service as well as product leadership.

The goals set in the Strategy are to be accomplished by implementing strategic initiatives, including, among others: increasing the sales potential by transforming the customer service channels into integrated customer contact channels geared towards product sales and product advisory services, 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, and also to the business customers, enhancing the expansion and optimization of sales margins in the business segments.

### Growth prospects

Growing competition with respect to electricity supply, as well as the demanding situation on the electricity wholesale market leads to the decline of sales volumes and to the margin erosion.

The actions taken by the competition and growing customer expectations have an impact on developing the product offering and maintaining the highest customer service standards. Growing customer awareness has an impact on the rising requirements, both with respect to the products offered, as well as the speed and quality of the customer service. In this area TAURON Capital Group is systematically expanding its product offering, tailoring it to the expectations of individual and business customers, and developing communications channels, both on the digital platforms level, as well as direct contacts. Upgrading and expanding the traditional customer service network is a response to the expectations of that part of the society that is not ready for IT technologies.

Competing companies are also offering a broad product portfolio on the market and their products are often very similar the products offered by the Supply Line of Business. With similar price offerings the competition for a customer will take place at the level of innovative product and service proposals, in particular on the level of customer communications platforms and customer service quality.

### 1.4.3. Key challenges for TAURON Capital Group

Strategy is TAURON Capital Group's response to the challenges posed by the business environment and the requirements of the energy sector's customers. The fast changing situation in the regulatory area was a challenge that had been taken into account in the Strategy, while the specific regulations that took the shape of the legal acts published are the key reason for its forthcoming update in 2019.

Strategy took into account the impact of the following external factors on TAURON Capital Group that continue to be valid:



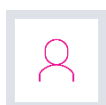
#### Regulations

Introduction of the dual-product market – capacity market, the European Union's (EU) decarbonization policy and successive regulations aimed at reducing emissions, introduction of the quality based regulation model in the distribution segment, changes to the support for the RES installations and EU actions aimed at developing a common electricity market.



#### Market

Changing forecasts of electricity and hard coal prices, hard coal availability, demand for electricity, demand for capacity, growing competition on the retail market, rising level of RES generation along with the simultaneous withdrawal of the European players and the curtailment of the financing for the conventional power generation.



#### Customer

Growing awareness of the customers and the requirements with respect to satisfying their needs as well as comprehensiveness of the offering, increased expectations with respect to customer service quality and availability.



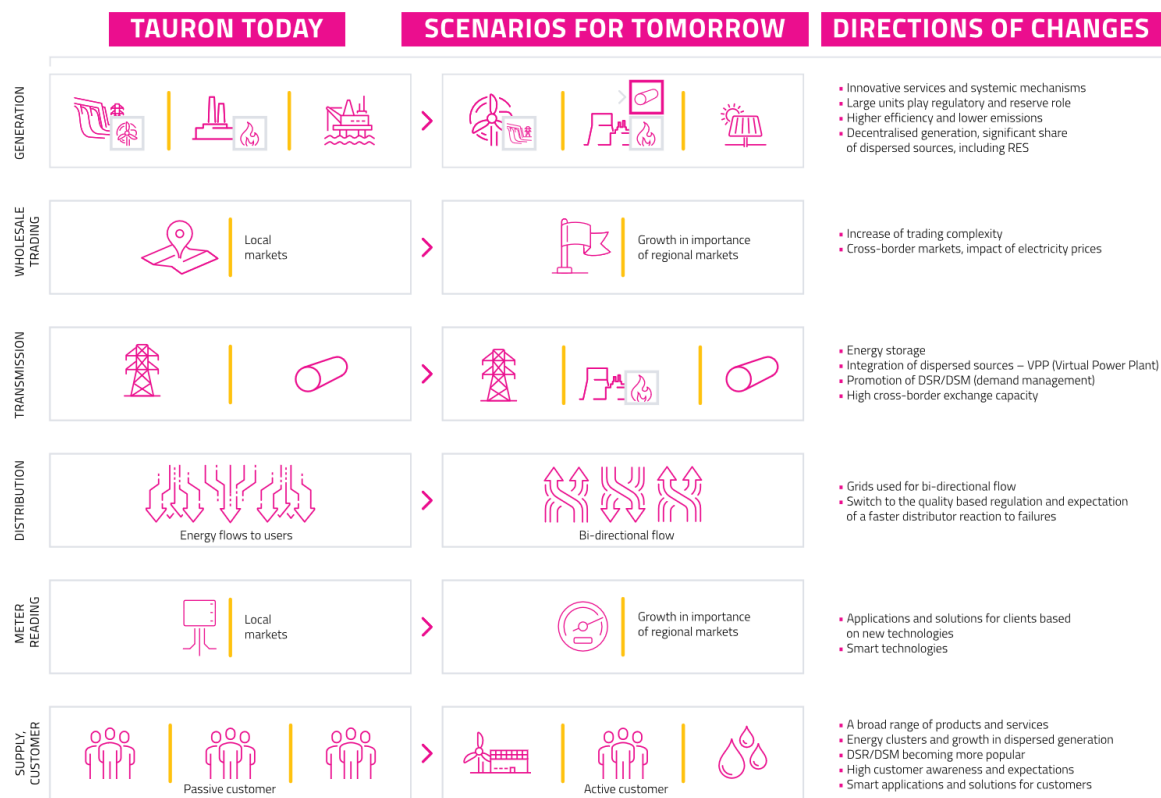
## Technology

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

In the long term profound changes to the entire power sector, geared towards the so-called "power industry of tomorrow", are important. A transformation of the system power sector towards decentralized generation, increased role of transborder connections, energy storage and new energy services, such as for example "virtual power plants", demand side management or dispersed generation. The above direction affects both, the Distribution Segment that must deal with smart technologies, electric vehicle charging infrastructure, distributed generation, including prosumers and the bi-directional flows, while at the same time increasing the quality and security of supplies, as well as the Generation Line of Business with respect to electricity generation from the conventional sources, whose transformation will be oriented towards performing the function of adjusting and stabilizing the power system.

The below figure presents the forecast transformation of the power sector that poses a challenge facing TAURON Capital Group.

Figure no. 7. Forecast transformation of the sector



### 1.4.4. Opportunities and threats

The defined key challenges facing TAURON Capital Group create both opportunities as well as threats for TAURON Capital Group's operations.

The below table presents opportunities and threats for TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2018.

Table no. 5. Opportunities and threats for TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2018

## Regulations

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Introduction of the dual-product market – additional revenue for maintaining generation capacity. Auctions won on the capacity market and contracting of the Group's conventional units.</li> <li>• Support for electromobility (growing electricity consumption).</li> <li>• Introduction of legal solutions supporting the curtailment of low emissions (e.g. system district heating, increasing the share of eco-pea coal in the sales).</li> <li>• New regulations related to the support for the cogeneration beyond 2018.</li> <li>• Use of the aid funds for the expansion of the Group's operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of electricity prices due to, among others, environmental costs and the decarbonization policy, rise of the fuel prices.</li> <li>• New EU regulations related to the common energy market.</li> <li>• Lack of stability and predictability of the regulations for the RES sources, including the costs of maintaining wind farms and hydro-electric power plants, as well as uncertain future of the RES sources based on the biomass burning and co-firing technology.</li> <li>• The need to incur additional expenses due to the changes to the energy law.</li> </ul>

## Market

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Cost effective, own mining assets, allowing for the stabilization and predictability of the fuel cost.</li> <li>• Access to the largest, among Poland's energy companies, customer base.</li> <li>• Entry to the energy related services market segments based on the competences held.</li> <li>• Commercialization of innovative solutions developed as part of research and development activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Decline of the margins and lower utilization rate (load factor) of conventional assets (deteriorating profitability, required outlays for refurbishments or the need to shutdown old generating units due to the new high efficiency units entering the system and due to the BAT requirements).</li> <li>• Loss of volume and profitability of the Supply Segment, in particular in the B2B area.</li> <li>• Pressure on electricity prices with the growing cross-border exchange volumes.</li> <li>• Increase of the costs and limited availability of financing.</li> <li>• Increase of the prices of goods and services negatively impacting investment efficiency.</li> </ul>

## Customer

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Competitive advantage with respect to the customer service quality.</li> <li>• Customer segmentation and offering the additional products in line with customer expectations.</li> <li>• Growing customer awareness and expectations towards comprehensive, personalized offering of additional services and products (greater customer product saturation).</li> <li>• Expanding an offering of services for customers based on the competences held and trust in the TAURON brand.</li> <li>• Growth based on the focus on a customer that is not generating large capital investments.</li> <li>• Developing modern and integrated sales and customer service channels.</li> <li>• New competences and business models based on the research and development activities.</li> <li>• Maintaining an upward trend in electricity consumption by the final consumers.</li> <li>• Developing competences and competitive advantages in the new areas of operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential loss of customers due to an increase in the number of competitors offering customers similar products and due to low electricity supply market entry barriers, and also due to the curtailment in developing a personalized offering as a result of implementing the EU regulations related to personal data protection (GDPR).</li> <li>• Decrease of the customer loyalty – intense activities conducted by the competitors.</li> <li>• Greater customer awareness and requirements with respect to the customer service quality and product offering.</li> <li>• Power independence of the consumers (prosumers, energy (power) islands, energy storage facilities, clusters).</li> <li>• Tendency of the energy intensive consumers to build their own generation sources, as a result of the drive to reduce the electricity costs.</li> <li>• "Carbon leakage" – moving business operations to other countries due to the cost of energy.</li> <li>• Incurring of high expenditures to implement the new customer service platforms and develop the contact channels.</li> <li>• Rising costs of operations due to, among others, the financial expectations of the workforce, problems with ensuring the appropriate service quality.</li> </ul>

## Technologies

Opportunities	Threats
<ul style="list-style-type: none"> <li>Continued and noticeable decline of the prices of renewable technologies.</li> <li>Advancement of the storage technologies, smart technologies and the technologies related to dispersed (distributed) generation.</li> <li>Additional services for the customers related to the new technologies (internet of things, dynamic tariffs, virtual power plants).</li> <li>Developing and implementing (commercializing) of own innovative solutions that provide a competitive advantage.</li> </ul>	<ul style="list-style-type: none"> <li>The need to adapt the grid to the growth of dispersed (distributed) power generation (bi-directional flows).</li> <li>Arrival of the new, cost competitive electricity generation technologies in the countries neighboring with Poland.</li> <li>Growing number of cyberthreats and the infrastructure susceptible to such attacks.</li> <li>Multitude of the communications standards, problems with providing the expected goals for the projects implemented.</li> </ul>

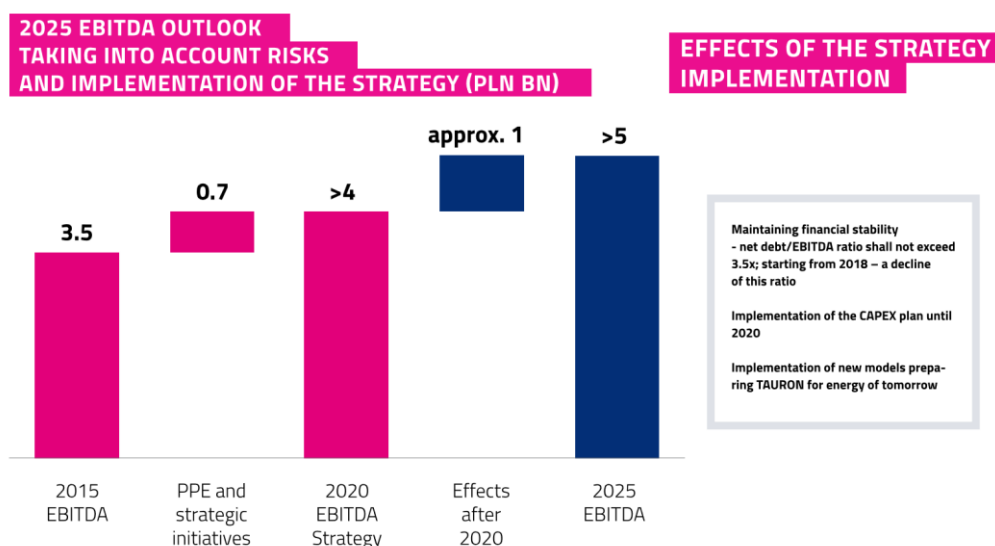
### 1.4.5. Long term financial goals and assumptions of the Strategy

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

1. EBITDA above PLN 4 billion in 2020
2. Maintaining the net debt/EBITDA covenant below 3.5x
3. Maintaining a high Customer Satisfaction Index (CSI)
4. Power plants generating positive cash flows by 2020
5. Maintaining the customer base
6. Unit margin leadership among Poland's 4 largest electricity suppliers
7. New businesses are to represent at least 25% of the revenue/margin in 2025

The below figure presents the 2025 EBITDA outlook taking into account the risks and the implementation of the Strategy as well as the effects of the implementation of the Strategy.

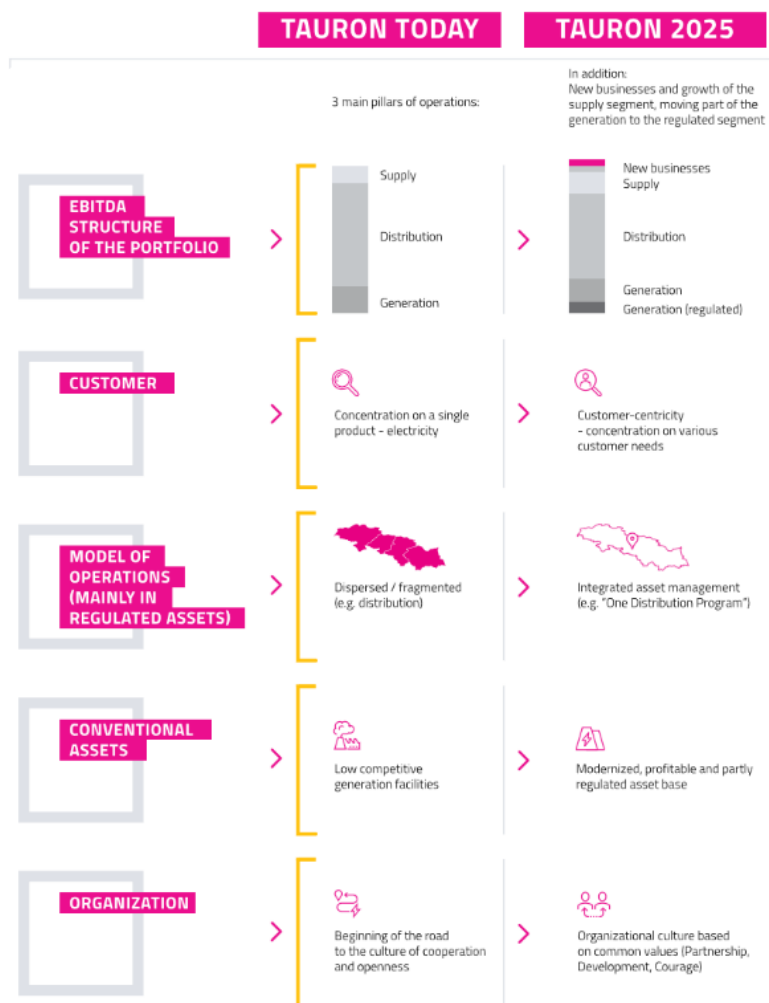
Figure no. 8. 2025 EBITDA outlook taking into account the risks and the implementation of the Strategy as well as the effects of the implementation of the Strategy



Actions planned for the coming years will allow for arresting the profitability decline. This will be achieved by optimizing the operations in the Mining and Generation Segments, while at the same time maintaining stability in the Distribution Line of Business.

The below figure presents TAURON Capital Group's 2025 vision.

Figure no. 9.  
TAURON Capital Group's 2025 vision



#### 1.4.6. Implementation of the Strategy and priorities of TAURON Capital Group in 2018

Strategy sets the priorities under which the simultaneously undertaken activities are transforming TAURON Capital Group towards the "power industry of tomorrow". The activities undertaken and the achieved values of the strategic goals, the Efficiency Improvement Program and the Strategic Initiatives are the result of the implementation of the Strategy.

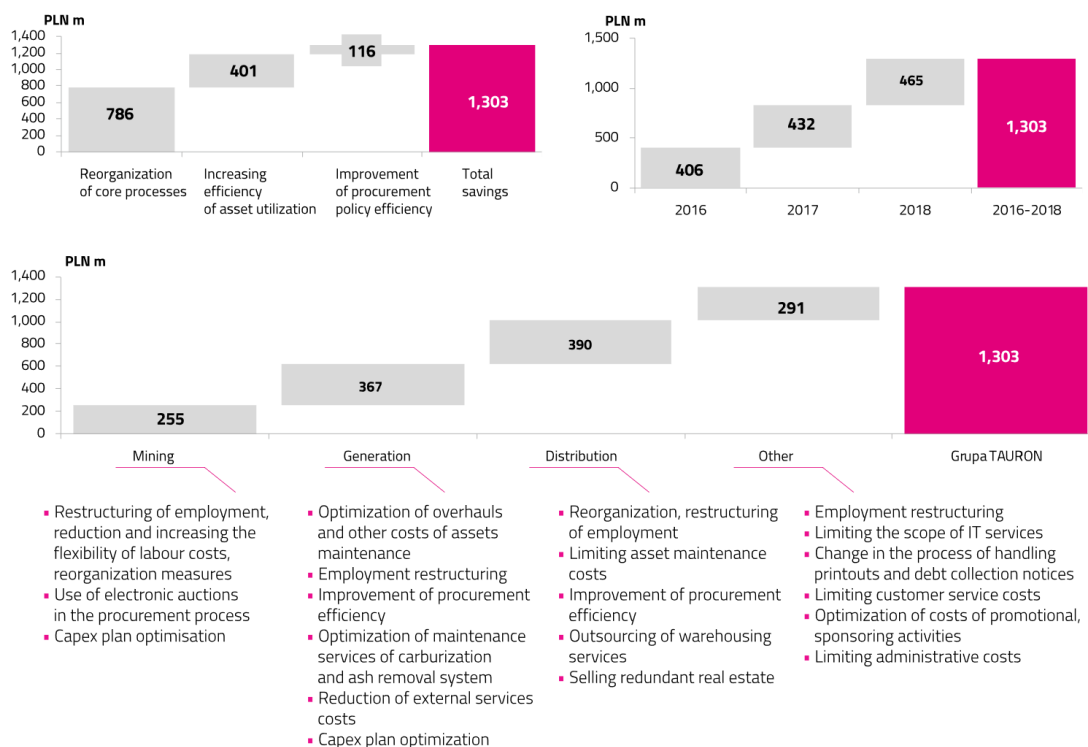
2018 was another period during which the priorities assumed in the Strategy were implemented:

##### Ensuring TAURON Capital Group's financial stability

Ensuring TAURON Capital Group's financial stability is achieved through the Efficiency Improvement Program, the implementation of the Strategic Initiatives and the improvement of the investment efficiency. The implementation of the 2016-2018 Efficiency Improvement Program was completed in 2018.

The below figure presents the assumptions of the 2016-2018 Efficiency Improvement Program.

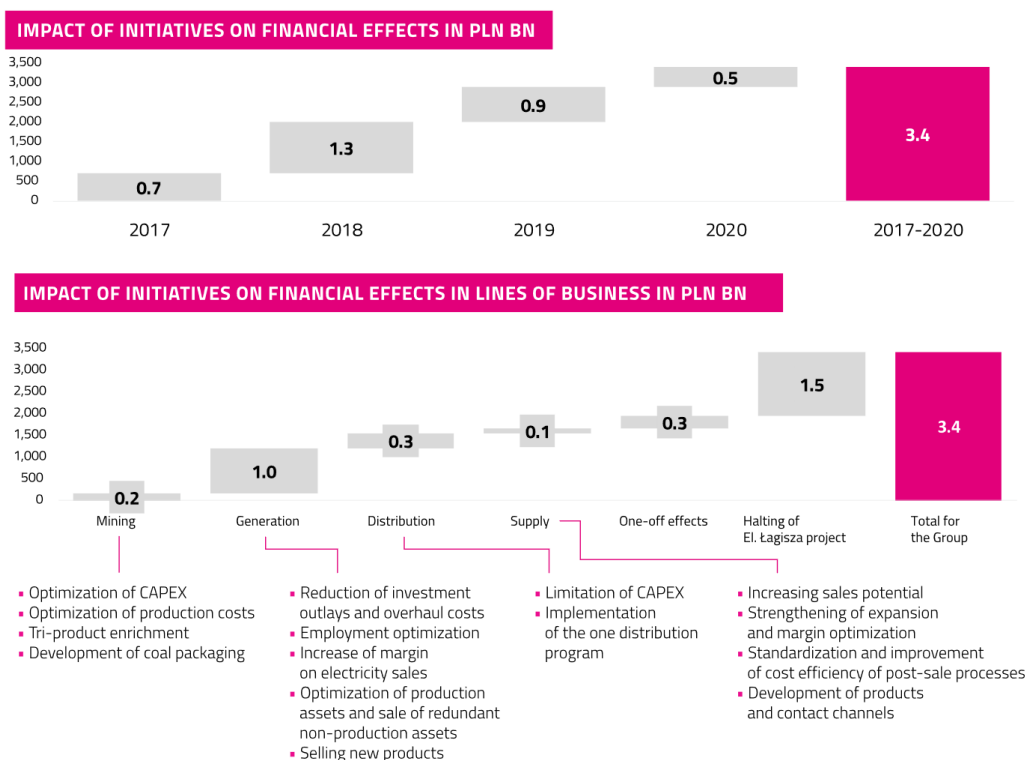
Figure no. 10. Assumptions of the 2016-2018 Efficiency Improvement Program



TAURON Capital Group's Efficiency Improvement Program brought, in 2016-2018, savings of PLN 1 719 million which represents 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. The largest contribution to the savings achieved came from the Generation Line of Business.

The below figure presents the assumptions of the Strategic Initiatives and the CAPEX rationalization in 2017-2020.

Figure no. 11. Assumptions of the Strategic Initiatives and the CAPEX rationalization in 2017-2020



In 2018 the Strategic Initiatives brought a financial effect of PLN 1 498 million, with PLN 651 million impacting EBITDA and PLN 847 million having been due to the reduction of the capital expenditures (including PLN 613 million as a consequence of halting the construction of the 413 MWe combined cycle power plant with the heat generation unit at Łągisza Power Plant in Będzin). The largest contribution to the savings achieved came from the Generation Line of Business (PLN 688 million) and the Distribution Line of Business (PLN 89 million). The cumulative effects achieved as of the end of 2018 reached PLN 2 435 million, with a PLN 970 million positive impact on EBITDA and PLN 1 464 million coming from the reduction of the capital expenditures.

### Building a strong capital group based on three pillars

TAURON Capital Group is offering the most comprehensive product and service portfolio for the customers among Poland's electric utilities. In 2018 TAURON Capital Group was granted an award for the development of electromobility. Actions aimed at developing the Supply Segment are also supported by the dedicated projects as part of the Strategic Research Agenda (Strategiczna Agenda Badawcza (SAB)). 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 in the field of electricity and heat distribution are an important link in TAURON Capital Group's value chain. A significant portion of the capital expenditures is spent on the construction and refurbishment of the grid. In 2018 TAURON Capital Group invested PLN 2 044 million in total in the Distribution Segment, while at the same time implementing initiatives improving the cost and organizational efficiency of this Segment as part of the implementation of the "One Distribution" program. The main activities involved unifying the processes and systems as well as implementing an optimal and coherent structure of TAURON Dystrybucja. In the Mining and Generation Segments actions improving the cost and investment efficiency were continued in 2018. The capital expenditures, that cumulatively reached PLN 1 547 million in total for the Mining and Generation Segments by the end of 2018, were optimized. At the same time, the strategic investment projects are implemented, in line with the Strategy. In 2018 the preparations of investment projects were continued 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 for the readiness to deliver electricity.

### Introduction of the organizational changes supporting the implementation of the Strategy

The basis of the operational model is process based management and the split of tasks and responsibilities among the defined units: Corporate Center, Lines of Business and Shared Services Centers. TAURON Capital Group's cooperation with start-up companies has become important as part of the innovative culture, apart from the traditionally understood research and development activities.

The below table presents TAURON Capital Group's strategic goals realized in 2018.

Table no. 6. TAURON Capital Group's strategic goals realized in 2018

Strategic goal	Realization in 2018
EBITDA above PLN 4 billion in 2020	The goal is being realized through the core operations of TAURON Capital Group's business segments and the implementation of the Strategic Initiatives and the Efficiency Improvement Program. In 2018 EBITDA of PLN 3.4 billion was achieved.
Net debt/EBITDA covenant below 3.5x	Maintaining the covenants is both an effect of actions leading to improved financial results as well as actions aimed at improving 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. At the end 2018 the net debt/EBITDA ratio reached 2.4x
Maintaining a high Customer Satisfaction Index (CSI).	TAURON Capital Group is an industry leader in customer service quality. Annual customer satisfaction surveys performed by an external company confirm a high satisfaction level of TAURON Capital Group's customers. The results of the November 2018 CSI survey were as follows: for households 81 points, for small and medium size enterprises 73 points, and for business customers 77 points.



Strategic goal	Realization in 2018
Power plants generating positive cash flows by 2020	Achievement of this goal will be the result of a number of actions undertaken within TAURON Capital Group, among others: optimizing the costs and outlays related to the generating units, TAURON Capital Group's trading (commercial) strategy, as well as the impact of the external environment, both the regulatory one, as well as the market one (capacity market, support for RES and cogeneration, fuel prices, property rights prices, electricity prices) The guaranteed revenue obtained as part of the won main auctions of the capacity market that took place in 2018 will have a significant, positive impact on achieving positive cash flows by TAURON Capital Group's generating units starting from 2021.
Maintaining the customer base	TAURON Capital Group is Poland's largest distributor and the second largest electricity supplier. Maintaining the customer base represents for TAURON Capital Group a long term growth platform and is implemented by both, actions improving the quality of services provided, among others an expansion of customer communications channels, as well as a broad product offering. At the end of 2018 TAURON Capital Group provided services for almost 5.5 million customers of the Supply Segment and 5.6 million customers of the Distribution Segment.
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 9 months of 2018 TAURON Capital Group maintained the leading position among Poland's 4 largest utilities, calculated as the Supply Segment's EBITDA attributed to the electricity supplied to the final consumers.
New businesses are to represent at least 25% of revenue/margin in 2025	TAURON is actively preparing to take part in the new markets and areas of operations. The activities focused on the new businesses are supported by the implementation of SAB and the cooperation with start-ups. TAURON got involved in the project with the goal to deploy broadband internet access in seven regions in the south of Poland as part of the Operational Program Digital Poland (Program Operacyjny Polska Cyfrowa - POPC). The attractiveness of the project is additionally enhanced by the amount of the subsidy worth PLN 187 million. In November 2018 TAURON commissioned a network of terminals for charging electric vehicles made up of four fast charging stations (DC) and 19 accelerated charging stations (AC). Additionally, the eCar from TAURON application that allows for renting an electric vehicle was launched.

## 1.5. Description of TAURON Capital Group's expansion policy and directions

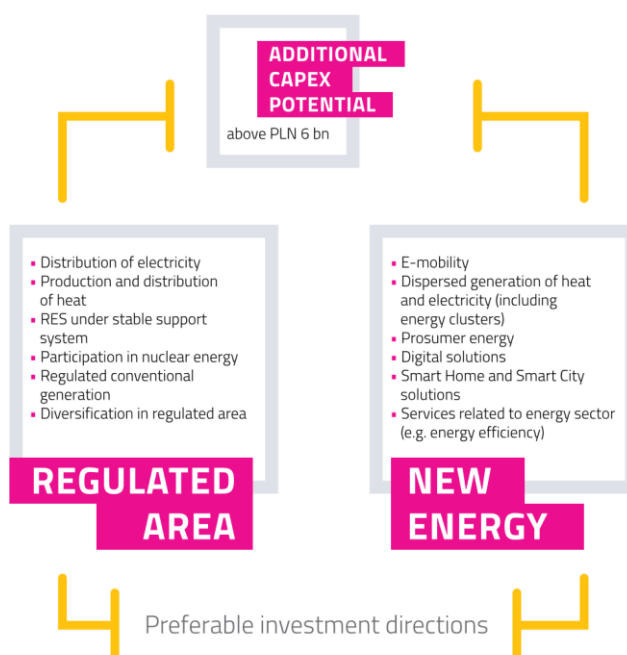
Strategy sets the directions of TAURON Capital Group's short and long term expansion. The tasks for TAURON Capital Group's individual Lines of Business are defined in detail until 2020 and the financial effects of such tasks are set. The priority is to maintain a stable financial position and lay down solid foundations for growth in a changing environment. TAURON Capital Group's growth means the need to incur capital expenditures.

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. Strategy assumes that beyond 2020 TAURON Capital Group's CAPEX potential will, first of all, be used for projects in the regulated areas such as: electricity distribution heat distribution and generation, RES (on the condition of a stable support system), regulated conventional generation and in the new power sector (e.g. electromobility), dispersed (distributed) electricity and heat generation, as well as smart solutions.

The below figure presents the outlook for the CAPEX directions beyond 2020.

Figure no. 12. Outlook for the CAPEX directions beyond 2020



TAURON Capital Group’s main competitive advantage is the base of 5.6 million customers (Distribution Segment). The most important actions in the short and long term will be relatively low capital intensive actions related to an expansion of the product and service offering for the consumers and developing new operations based on TAURON Capital Group’s competences.

### 1.5.1. Implementation of the strategic investment projects

#### Key strategic investment projects underway

The below table presents the activities carried out by TAURON Capital Group in 2018 in connection with the implementation of the key strategic investment projects.

Table no. 7. Key strategic investment projects’ work progress

#	Investment project	Investment project’s work progress
1.	<p>Construction of a new 910 MW<sub>e</sub> supercritical parameters power generation unit at Jaworzno Power Plant</p> <p>Contractor: RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium</p> <p>Planned project completion date: 2019</p> <p>Work progress: 85%</p> <p>Expenditures incurred: PLN 4 321 million</p>	<p>In the first half of 2018 the focus was on installing the parts related to the unit’s technological process and continuing the construction works. The boiler’s pressure test was successfully completed within the boiler island. The erection works on the air and flue gases ducts and the dust mixture ducts were underway as well as the electrical branch and building insulation works were continued. The turbine and the furnishing of the ion exchange regeneration station, the condensate polishing station and the GRP plastic piping were installed in the machine hall.</p> <p>In the second half of 2018 the commissioning works were commenced. The first stage, namely the cold startup was commenced by energizing the coupling transformer connecting the Jaworzno II Power Plant’s household mode of operation power supply systems with the new 910 MW<sub>e</sub> unit. Also the back-up and startup transformer providing the power supply to the unit</p>

#	Investment project	Investment project's work progress
		<p>installations. The successfully completed SAT (site) tests of the distributed control system allowed for commencing the operations to connect with the unit's installations and devices as well as the tests thereof.</p> <p>After completing the pressure tests operations and after rinsing the entire raw water piping the stage of installing the water connection was completed and the operation of rinsing of the site pipings and installations. The hand-overs of the process nodes for commissioning were underway. The commissionings of the ultimate water treatment station, the carburization system, the compressor station and the ignition oil installation were also continued.</p>
<p>2. Construction of a 449 MW<sub>e</sub> CCGT unit, including a 240 MW<sub>t</sub> heat generation unit at Stalowa Wola (Project implemented jointly with the strategic partner - Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).</p> <p>Contractor: the contract with Abener Energia S.A. was terminated. The project's completion is envisaged under the EPCM formula (contract manager). EPCM – Energoprojekt Katowice – Energopomiar Gliwice consortium</p> <p>Planned project completion date: 2019</p> <p>Work progress: 86%</p> <p>Expenditures incurred: PLN 1 061.8 million</p>	<p>The works related to the micro tunneling drilling as part of the construction of the cooling water ducting were completed and the negotiations with the suppliers and subcontractors of the main devices were conducted in 2018.</p> <p>ECSW announced, with the support of EPCM, all the 16 proceedings aimed at selecting the contractors for the combined cycle power plant, including, among others, for: the works related to completing the installation of the gas turbine set, the installation of the steam turbine set, the general construction works in order to complete the construction of the unit and other. As a result of the tenders announced the selection was completed in 9 proceedings. The selected contractors commenced the works on site.</p> <p>The startup (commissioning) group is systematically testing and commissioning the individual systems of the combined cycle power plant that were completed by the previous contractor, while at the same time pointing out any potential installation errors.</p> <p>The contractor to complete the construction of the Backup Heat Source was selected in August 2018. The design works were completed and the earthworks were commenced.</p>	
<p>3. Construction of the "Grzegorz" shaft (TAURON Wydobyćie) including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings).</p> <p>Contractor: KOPEX Przedsiębiorstwo Budowy Szybów S.A., FAMUR Pemug sp. z o.o. (main task - Stage I), LINTER S.A. Consortium</p> <p>Planned project completion date: 2023</p> <p>Work progress: 30%</p> <p>Expenditures incurred: PLN 164.8 million</p>	<p>The drilling of the headings on the 800 m level was commenced.</p> <p>967 m long headings were drilled to the "Grzegorz" shaft on the 540 m level, after passing the fault the drilling will be continued.</p> <p>As part of the shaft deepening works 42 freezing holes were drilled and the active freezing down to the depth of 485 m was commenced. The shaft was plumbed to the depth of 20 m and the panel enclosure was installed. The deliveries of the materials for the construction of the headframe were commenced.</p>	
<p>4. Construction of the 800 m level at the Janina Coal Mine in Libiąż (TAURON Wydobyćie).</p>	<p>The drilling of the horizontal headings on the 800 m level is underway.</p>	

#	Investment project	Investment project's work progress
	<p>Contractor: Mostostal Zabrze GPBP S.A. and SIEMAG TECBERG POLSKA S.A. Consortium (Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft mine shaft elevator), KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (task completed – shaft drilling)</p> <p>Planned project completion date: 2021</p> <p>Work progress: 63%</p> <p>Expenditures incurred: PLN 327.7 million</p>	<p>As part of the works related to the construction of the ultimate infrastructure the General Contractor completed the piling for the headframe and built the shaft collar. As part of the project the 20-2 mm class Coal Processing Plant was upgraded with a new jig.</p>
5.	<p>Brzeszcze CAPEX Program</p> <p>Contractors: TRANS-JAN, FAMUR and KOPEX Machinery Consortium, FAMUR and KPRGiBSz Consortium, MAS and Carbospec Consortium, Elektrometal Cieszyn</p> <p>Planned project completion date: 2025</p> <p>Work progress: 42%</p> <p>Expenditures incurred: PLN 224.5 million</p>	<p>The extraction of the 510 deposit is continued with the use of the longwall system purchased as part of the program. In accordance with the program's plan the decision was taken to become independent, as of the end of 2018, of Spółka Restrukturyzacji Górnictwa S.A. with respect to the coal mine's ventilation. The works related to the construction of the small sales facility, the brine water channel and with respect to the alteration of the ventilation excavations as well as boring of the new headings aimed at providing access to the 405/1 deposit were continued. The construction of the primary compressor station and the water and ash mixture dumping station was completed.</p>
6.	<p>Implementing the heat production at unit no. 10 and the construction of the peaking and backup boilers at Łągisza</p> <p>Contractor:</p> <ul style="list-style-type: none"> <li>• GE Power – steam turbine set upgrade</li> <li>• Mostostal Warszawa - implementing the heat production unit including upgrading the heat production part</li> <li>• SBB Energy – construction of the peaking and backup boilers</li> </ul> <p>Planned project completion date: 2019</p> <p>Work progress: 21%</p> <p>Expenditures incurred: PLN 5.18 million</p>	<p>The project's goal is to adapt unit no. 10 at the Łągisza Power Plant to produce heat by upgrading the turbine, installing heat-producing heaters at unit no. 10's turbine in order to heat the heating water with the steam picked up from the turbine's flow through section and upgrading the heating station. The heat supply during the peak demand and/or a scheduled or emergency shutdown of unit no. 10 will be secured by the peaking and backup boilers being built.</p> <p>In June and September 2018 the agreements were signed with the contractors for the full scope of the project's implementation, to carry out:</p> <ul style="list-style-type: none"> <li>• steam turbine set upgrade,</li> <li>• implementing the heat production including the station's adaptation</li> <li>• construction of the peaking and backup boilers</li> <li>• All the Contractors are carrying out the project works.</li> </ul>
7.	<p>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 stages.</p> <p>Planned project completion date: 2023</p> <p>Work progress: 13%</p>	<p>The program is carried out on the territory of the following cities: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice.</p> <p>The scope of the project includes the construction and alteration of the district heating networks: transmission networks, housing estate networks and connections, as well as the construction of heating nodes to the extent required to connect the heat consumers. Connecting of 183 MWt of thermal capacity to the</p>

#	Investment project	Investment project's work progress
	Expenditures incurred: PLN 9.93 million	<p>district heating network as well as an expansion of the heat supply and distribution is planned. The program's goal is to reduce smog in the Silesia and Dąbrowa conurbation.</p> <p>TAURON Ciepło subsidiary signed 8 funding agreements for the amount of approximately PLN 141 million. The total funds envisaged to carry out the program amount to approximately PLN 250 million.</p> <p>As part of the program marketing campaigns aimed at raising the awareness of the inhabitants with respect to the harmful impact of smog were conducted. Talks with the representatives of the local government units on connecting public utility buildings to the network were conducted.</p> <p>The current total contracted capacity is approx. 20 MWt.</p> <p>Due to TAURON Ciepło's failure to meet the conditions required to launch the construction works by the deadline, on March 22, 2019 TAURON Ciepło terminated all the funding agreements concluded with the Regional Fund for Environmental Protection and Water Management (WFOŚiGW) in Katowice. Termination of agreements should enable the abovementioned company participation in new grant competitions to gain funds for low emission elimination.</p>
8.	<p>TAURON Internet (POPC) – implementation of the project in the areas awarded</p> <p>Wykonawca: proceedings to select General Contractors for individual scopes underway</p> <p>Planned project completion date: 2022</p> <p>Work progress: 2%</p> <p>Expenditures incurred: PLN 0.0 million</p>	<p>The POPC program involves implementing the infrastructure enabling high throughput 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. TAURON Obsługa Klienta subsidiary received funding for this purpose for the implementation of 7 projects in the following areas: Rybnik, Katowice and Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec. On August 24, 2018 the agreements on the projects funding were signed between TAURON Obsługa Klienta and Centrum Projektów Polska Cyfrowa. The project value is PLN 280.2 million with PLN 187.8 million obtained as a subsidy. The process to select the general contractors is underway.</p>

### Other investment projects

#### Nuclear power plant construction project

In 2018 PGE EJ 1 was carrying out the scope of works related to conducting environmental and siting research at Żarnowiec and Lubiатовo-Kopalino sites.

In accordance with the provisions of the Partners' (Shareholders') Agreement concluded on September 3, 2014 by TAURON, ENEA S.A. (ENEA) and KGHM Polska Miedź S.A.(KGHM) (Business Partners) with PGE Polska Grupa Energetyczna S.A. (PGE), governing the rules of cooperation in the implementation of Poland's first

nuclear power plant construction project, TAURON, as of the day of drawing this report, acquired and took up 263 020 shares in the share capital of PGE EJ 1, constituting 10% of the share capital in exchange for the cash contribution in the amount of PLN 32 543 760.

Additionally, TAURON granted PGE EJ1 loans for the total amount of PLN 7 739 991. The detailed information on the loans granted is provided in section 12.2.4. of this report.

In November 2018 TAURON received a letter from PGE in which PGE expressed preliminary interest in acquiring all of the shares in PGE EJ 1 owned by TAURON. In response to the letter TAURON expressed preliminary interest in selling all of its shares in PGE EJ 1

#### Coal gasification project

On April 20, 2017 TAURON signed a letter of intent with Grupa Azoty S.A., defining the general rules of commencing cooperation aimed at implementing the coal gasification project. The validity of the letter of intent expired on December 31, 2017, nevertheless the parties continued working on the project.

On May 18, 2018 the parties signed an agreement on the handover of the documentation prepared by Grupa Azoty S.A. (Documentation) the subject of which was to conduct the PreFEED stage and the acquiring by TAURON of a stake in the property copyrights to the Documentation. The results of the Project Feasibility Study handed over indicate that the project is feasible and can be implemented (technically and economically) both in the ammonia as well as the methanol production variant. The findings indicated a large potential for the implementation of the technology to utilize the hard coal for the chemical industry purposes.

On November 20, 2018, as part of joint actions, the parties signed the Term sheet, defining the general rules of further cooperation and the conditions of signing the Partners' Agreement and the Shareholder's Agreement. On November 19, 2018 the Management Board of TAURON expressed its consent for the signature of the Partners' Agreement and for further actions in the Coal2Gas project aimed at signing the Shareholder's Agreement and establishing a Special Purpose Vehicle (SPV).

The subject of the operations of the SPV will be the performance of studies and analyses (continuation of the PreFEED stage for Option III – coal gasification in order to produce methanol) of the project that are to bring about the obtaining of the recommendations related to the ability of the parties (partners) to make the decision on continuing or abandoning the project.

#### 413 MWe CCGT unit construction project including an approx. 250 MWt, heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin

In September 2016, in accordance with the Strategy, as part of the priority to ensure 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 was halted due to the loss of its business justification. Currently TAURON Capital Group is conducting analyses, as well as works that would enable a potential resumption of the project, for example related to updating of the applicable documents. Taking of the investment decision will, on one hand, be based on the assessment of the project's profitability, and, on the other hand, on TAURON Capital Group's financial standing. Due to the planned

in 2019 capacity market auction for 2024 TAURON Capital Group assumes that the final decision on the resumption of the project's implementation will be made in 2019.

Project related to adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021.

On August 17, 2017 the Commission's (EU) Executive Decision no. 2017/1442 of July 31, 2017, establishing the conclusions related to the Best Available Technologies (BAT), was published.

TAURON Wytwarzanie is planning to ensure operation for 12 generating units after August 17, 2021 when the BAT conclusion come into force. The implementation of the projects related to the adaptation to the BAT conclusions or obtaining derogations from the BAT conclusions will allow for achieving compliance with the requirements related to the emissions to the atmosphere, wastewater and monitoring of the pollutants (emissions of SO<sub>2</sub>, NO<sub>x</sub>, dust and HCl to the atmosphere).

On November 15, 2018 the main auction of the capacity market was held as a result of which TAURON concluded capacity contracts for the period of 5 years, starting from 2021, for the following generating units: Jaworzno II Power Plant unit no. 2

and no. 3, Jaworzno III Power Plant unit no. 1, no. 3 and no. 5, Siersza Power Plant unit no. 1 and no. 2, Łagisza Power Plant unit no. 10 and Łaziska Power Plant unit no. 9.

For units no. 11 and 12 of Łaziska Power Plant one year capacity market contracts for years 2021, 2022 and 2023 were concluded.

#### Capital expenditures

In 2018 TAURON Capital Group's capital expenditures reached PLN 3 672 million and were approx. 6% higher than the expenditures incurred in 2017 that stood at approx. PLN 3 474 million. This is primarily due to the higher outlays in the Distribution and Mining Segments.

The below table presents selected capital expenditures, the highest outlays by value, incurred by TAURON Capital Group's Lines of Business in 2018.

Table no. 8. Capital expenditures, the highest outlays by value, incurred by TAURON Capital Group's Lines of Business in 2018

Item	Capital expenditures (PLN m)
<b>Distribution</b>	
Grid assets' upgrades (refurbishments) and replacements	1 118
Construction of new connections	676
<b>Generation</b>	
Construction of a new 910 MWe super critical parameters generation unit at Jaworzno	991
CAPEX on replacements and upgrades (refurbishments) as well as components at TAURON Wytwarzanie	76
Connecting new facilities	28
Investment projects related to the maintenance and development of district heating networks	17
<b>Mining</b>	
Brzeszcze Coal Mine's (ZG Brzeszcze) Investment Program	87
Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	68
Construction of the 800 m level at the Janina Coal Mine (ZG Janina) in Libiąż	34

The detailed information on the capital expenditures incurred in the individual segments of TAURON Capital Group's operations is provided in section 5 of this report. .

#### 1.5.2. Evaluation of the capability to complete the intended investment projects

TAURON Capital Group's strategic investment projects and the financing thereof are centrally managed at the Company level. Based on the analyses completed the Company's Management Board assesses that TAURON Capital Group is able to finance the current and future intended investment projects included in the Strategy using funds generated from the operations and by obtaining debt financing.

#### 1.5.3. Directions for advancing innovations as well as research and development activities

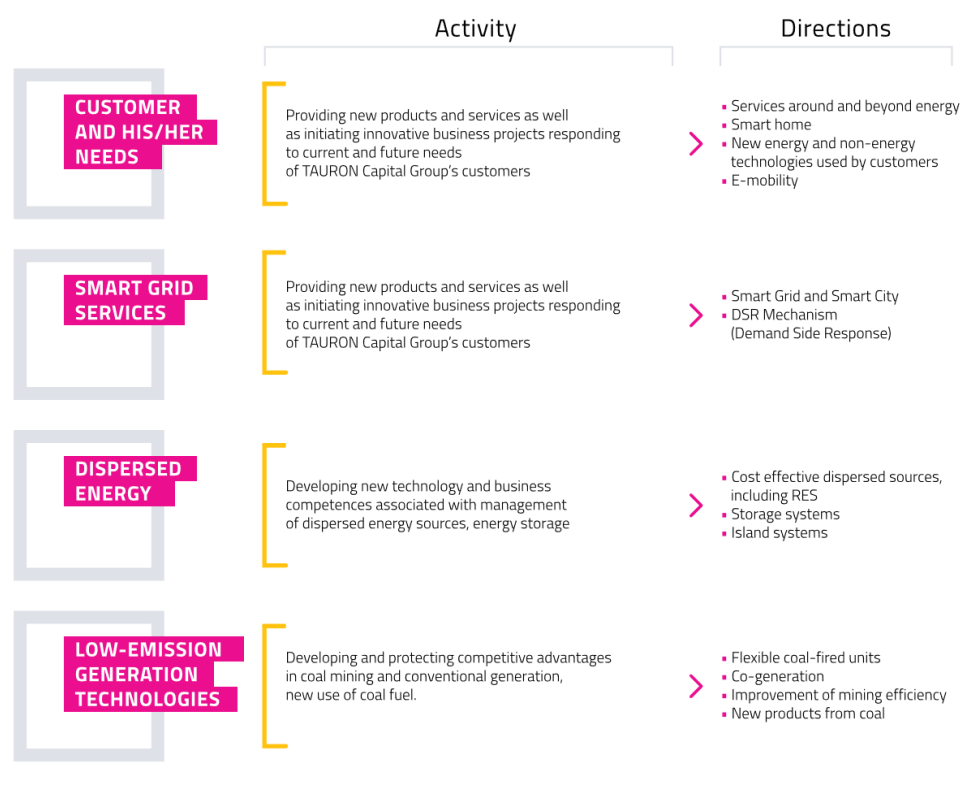
The research and development as well as innovations related activities that TAURON Capital Group is placing its bet on in the Strategy are reflected in the Strategic Research Agenda (SAB) adopted in 2018.

As part of the research and development as well as innovations Line of Business (R+D+I) TAURON Capital Group introduced portfolio based management of research and development projects in accordance with the priority directions of innovations as well as research and development related activities.

SAB is in line with four directions of innovations as well as research and development related activities assumed in the Strategy.

The below figure presents the priority directions of innovations as well as research and development related activities.

Figure no. 13. Priority directions of innovations as well as research and development related activities



Allocation of minimum 0.4% of consolidated revenue for R+D+I as of 2017, growth based on, inter alia, CVC and long-term return on the portfolio, annual revision based on the financial situation

SAB is the 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 SAB supports selecting specific projects and rejecting others, and it will also allow for an optimum allocation of the financial resources. SAB includes the following portfolios: Customer and His/Her Needs, Smart Grid Services, Dispersed Power Generation and Low Emission Generation Technologies. This way TAURON Capital Group's innovations as well as research and development related 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.

SAB is in line with and complementary to the other strategic documents, prepared or adopted by TAURON Capital Group, including, first of all, in the capex or asset management area.

#### 1.5.4. Major achievements in the field of research and development

In 2018, in accordance with the assumptions defined in the Strategy, approx. 0.4% of the consolidated revenue was allocated to the R+D+I line of business. 16 new projects (including one start-up) were launched in all lines of business. As of the end of 2018 four portfolios of the Research and Innovations Line of Business included 57 projects with the total value of more than PLN 261 million. For the implementation of some of these projects TAURON Capital Group obtained funding from external sources in the total amount of almost PLN 45 million.

The below table presents selected research and development projects implemented in 2018 by TAURON Capital Group's subsidiaries, co-financed from external sources.



Table no. 9. Research and development projects implemented in 2018 by TAURON Capital Group's subsidiaries, co-financed from external sources

#	Projects/programs/tasks	Co-financing source
1.	<p>Projects co-financed using KIC InnoEnergy funds:</p> <ul style="list-style-type: none"> <li>• CO<sub>2</sub>-SNG project involving chemical accumulation of energy through the production of methane from captured CO<sub>2</sub>,</li> <li>• POLYGEN project the concept of which is based on the use of the polygeneration processing system in the process of gasifying the locally available fuels (e.g. selected waste fractions).</li> </ul>	<p>Wspólnota Wiedzy i Innowacji (Community of Knowledge and Innovations) KIC InnoEnergy (KIC InnoEnergy)</p>
2.	<p>Programs and tasks co-financed using the NCBR funds:</p> <ul style="list-style-type: none"> <li>• system for assessing propagation and improvement of the quality of electricity in distribution grids,</li> <li>• Developing a platform allowing for aggregating the generation and regulatory potential of the dispersed (distributed) renewable energy sources and energy storage devices as well as the selected categories of controllable consumers,</li> <li>• integrated Grid Diagnostics System,</li> <li>• development of the industrial design of carbonate fuel cells and ceramic electrolyzers enabling integration with the power-to-gas installations,</li> <li>• flexibility of the existing power generation units with limited capital expenditures,</li> <li>• system for optimizing the operation of conventional generating units aiming to increase their adjustability in order to ensure ongoing stability of the power system and long term conditions for further integration of renewable energy sources,</li> <li>• platform for managing data from advanced metering infrastructure,</li> <li>• dispersed (distributed) power solutions model 2.0 – self-balancing power grid areas model,</li> <li>• production of demineralized water to supplement the water and steam circulation using electromembrane methods,</li> <li>• development of an innovative system for effective monitoring and supporting of the protection devices compliant with the DMS assumptions,</li> <li>• development and implementation of the technological process for processing waste from fluidized bed boilers with the use of CO<sub>2</sub> for the production of cement substitute,</li> <li>• development of the hybrid system for reducing the emission of acid components and fly ash from flue gases,</li> <li>• 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.</li> </ul>	<p>National Research and Development Center (Narodowe Centrum Badań i Rozwoju - NCBR)</p>
3.	<p>Project co-financed using the European Union's Coal and Steel Research Fund:</p> <ul style="list-style-type: none"> <li>• CERES project aimed at introducing a number of technology improvements in order to reduce the risk related to the mining waste produced.</li> </ul>	<p>European Union's Coal and Steel Research Fund</p>
4.	<p>Projects co-financed using the Horizon 2020 (Horyzont 2020) funds:</p> <ul style="list-style-type: none"> <li>• ICP4Life project related to developing integrated collaboration platform for managing the technology and product services life cycle,</li> <li>• MOBISTYLE project related to technology solutions that will allow for positively influencing customer behavior by raising the consumers' awareness and feeling of ownership,</li> <li>• UtilitEE project aimed at 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,</li> <li>• GEMINI+ project aimed at developing a design of a high temperature gas cooled nuclear reactor (HTGR) for electricity and heat production.</li> </ul>	<p>Horizon 2020 (Horyzont 2020): Framework Program with respect to scientific research and innovations</p>

The project that combines the research and development activities of TAURON, TAURON Dystrybucja, TAURON EKOENERGIA and TAURON Sprzedaż is M-GRID 2.0 - "Dispersed (distributed) power solutions model 2.0". As part of the project a demonstration of the self-balancing power grid area is prepared. The project's goal is to develop the technology to be used to build local power grids with the main advantages being the reduction of transmission losses, improvement of the reliability and flexibility of the system. Gained knowledge and experience with respect to developing and operating microgrids will allow for offering a new type of TAURON services to external customers, and also for applying the solution within TAURON Capital Group.

One of the more important research and development projects implemented in 2018 by TAURON Capital Group is the CO<sub>2</sub>-SNG project, related to converting CO<sub>2</sub> arising in the process of fuel combustion in industrial installations into synthetic natural gas (SNG). The project is carried out by an international consortium grouping Polish and French entities, with TAURON Wytwarzanie as the consortium leader. The process being developed involves CO<sub>2</sub> reacting with hydrogen coming from the electrolysis process, powered using cheap surplus electricity coming from RES (in the power system's load valleys). The project assumes that this can be the method used to store electricity surplus from renewable sources, and at the same time a future-proof solution for utilizing CO<sub>2</sub> produced by TAURON Capital Group's installations. In 2018 the construction of the pilot installation located at Łaziska Power Plant was completed and the research campaign with the use of CO<sub>2</sub> captured from the flue gases of a 200 MW hard coal-fired unit was commenced.

Funding from the EIT InnoEnergy funds was obtained to implement the project. The CO<sub>2</sub>-SNG project also constitutes the basis for other projects: POLYGEN and TENNESSEE.

The goal of the POLYGEN project is to develop an environmentally friendly thermal waste and alternative fuel processing for small and medium size applications. The project's product will be the development of a technology to produce heat, electricity and synthetic natural gas based on gasifying alternative fuels such as municipal waste, sewage sediments or biomass.

The goal of the TENNESSEE project is to improve energy storage process in the chemical form – natural gas substitute, aimed at improving the operating parameters of the ultimate installation, mainly based on the higher efficiency of the high temperature electrolysis and the use of carbonate fuel cells to capture CO<sub>2</sub> from flue gases. As a result it will be possible to substantially reduce the volume of electricity supplied from the power plant to the capture system. In particular the project will contribute to the lowering of the energy intensity per a unit of SNG produced.

In the Supply Line of Business the key research and development project is PROmoc - active management of the energy balance and customer preferences in order to optimize the use of the potential for adjusting (controlling) demand for electricity. The project's task is to obtain benefits from efficient electricity consumption management for three market participants: customer, utility company contracting electricity and the entity managing the national power system's security.

The final product of the PROmoc project is to be a prototype of the tool supporting active management of the power balance and preferences of the customers of TAURON Capital Group.

In 2018 TAURON intensified its works related to the so-called Internet of Things. On May 24, 2018 TAURON and Ericsson sp. z o.o. (Ericsson) signed a consortium agreement with the goal to jointly implement smart city services with the use of the Internet of Things (IoT) technologies. The implementation of this type of solutions will be Poland's first undertaking that uses Internet of Things on the scale of a city with several hundred thousand inhabitants.

The implementation assumes a comprehensive optimization of the use of and developing new services based on the city, municipal, power and telecommunications infrastructure. It will be possible due to the use of a network of sensors providing information facilitating management of the individual functions of the metropolitan area. Appropriately selected modern technology solutions will enable safe and efficient management of street lighting or parking spots, making the city more comfortable for the inhabitants. The existing distribution infrastructure of TAURON Capital Group will be used to provide advanced technology solutions for the inhabitants and businesses.

In 2018, apart from the traditionally understood research and development activities the cooperation with start-up companies became very important for TAURON Capital Group. In March 2018 the Pilot Maker program, implemented in cooperation with TechBrainers, was completed. The above initiative, as part of the Pilot Maker competition organized by the Polish Agency for Enterprise Development (PARP), obtained funding in the amount of almost PLN 6 million.

128 ideas were submitted as part of the Pilot Maker program and 36 start-ups were qualified to the program. As part of the subsequent stages 28 start-ups commenced cooperation with TAURON Capital Group's subsidiaries.

The outcomes of the Pilot Maker program include specific innovative projects, tested and implemented by TAURON Capital Group. In the smart home area a system of devices enabling a customer to monitor electricity consumption at home is being developed. A communications platform that uses a virtual voice assistant, supporting selected customer service processes, is also being created. Technology that enables customers to collect meter readings, providing them with a solution with the use of a smartphone is also being developed.

A solution that monitors low voltage outflows at the MV/LV transformer substations is being developed with an idea to upgrade distribution grids. As part of another project a solution that enables remote measuring of the distance between a MV (HV) power line and the ground using a sensors and transmitting the measurements completed across long distances using wireless ultra-energy efficient data communications technology is being prepared.

Pilot Maker is also one of the paths for TAURON Capital Group's entry into the electromobility area – in cooperation with a start-up a solution for dynamic power balancing in the electric vehicles charging stations network is being developed.

Continuing the cooperation model developed as part of the Pilot Maker program TAURON also got involved in the Pilot Maker Elektro ScaleUp program, launched in 2018, dedicated to the solutions in, among others: electric vehicle, scooter or bicycle carsharing, developing and managing their charging stations, alternative vehicle power supply systems, big data, dynamic service valuation and billing (settlement) systems.

In order to build a strategic position of TAURON Capital Group in the start-ups area on June 13, 2018 TAURON, the Polish Development Fund (Polski Fundusz Rozwoju – PFR) and the National Center for Research and Development signed an agreement on establishing a Corporate Venture Capital (CVC) type fund, set up with a view to focus on designing innovative solutions for the power sector that will respond to market challenges arising on the territory of TAURON Capital Group's operations. The new EEC Magenta fund is the first entity of this type on the Polish market.

TAURON will be a participant of two funds established as part of the PFR Starter – FIZ and BRIDGE VC / PFR NCBR CVC programs. This will enable TAURON to provide a multi-stage support for innovative companies, among others by enabling participation in acceleration programs, investing in businesses at an early stage of their development under the PFR Starter FIZ program or providing successive rounds of financing as part of the PFR NCBR CVC program. The ultimate capitalization of the fund established as part of the PFR Starter FIZ program will reach PLN 50 million, while the capitalization of the fund established as part of the PFR NCBR CVC program will come in at PLN 160 million. TAURON's participation in the funds will not surpass, respectively, 25% and 49%.

In the first quarter of 2018 TAURON began cooperation with the American Electric Power Research Institute and as part of that project TAURON will be participating in two research programs related to energy storage and identifying electricity consumers needs carried out by that company.

The selected areas of cooperation are of particular importance for TAURON Capital Group and stem directly from the technological challenges identified by TAURON Capital Group. Energy storage is one of the most important challenges for electricity distribution and effective dispersed power generation. On the other hand, understanding customer needs provides support for customer relations that are of key importance from the point of view of TAURON Capital Group's Strategy.

The energy storage project uses modern tools that allow for estimating the costs of installing and operating energy storage facilities or software that enables verifying the benefits and requirements in specific energy storage cases. Such solutions will constitute the basis for implementing TAURON's research and development projects, i.e. the construction of an energy storage facility in order to provide uninterrupted power supply to electricity consumers, the second life for batteries, microgrids or demand side response (DSR) mechanisms.

Participation in the electricity consumers' needs identification program will enable TAURON Capital Group's subsidiaries to identify customer needs faster and more precisely, and, what follows, to develop a portfolio of energy services and products aligned with the changing market trends. The program will also allow for tailoring, to a larger degree, products and services that are just being developed in the new lines of business, such as electromobility or smart home, to customer expectations.

In 2018 TAURON, submitted further applications for project funding as part of continuing activities related to the Pan-European Horizon 2020 (Horyzont 2020) program. Up to now more than 20 applications have been submitted in various types of international consortia as part of the program. In 2018 TAURON Capital Group launched its already fourth project co-financed under the Horizon 2020 (Horyzont 2020) program.

In 2018 TAURON Capital Group was also carrying out works as part of KIC InnoEnergy, in particular the Polish node of InnoEnergy Central Europe sp. z o.o. with its seat in Kraków (one of six in the EU). Within the structures of KIC InnoEnergy TAURON holds the Associated Partner status. One of TAURON's areas of interests are the so-called clean coal technologies. At the same time conducting of tests and coordinating of activities in this area are the main tasks of InnoEnergy Central Europe sp. z o.o., with TAURON as one of its shareholders. In 2018 TAURON's representatives were also engaged in the works of KIC InnoEnergy related to evaluating projects/initiatives proposed to be implemented by other partners operating within the structures of KIC InnoEnergy, both on the national, as well as on the international level.

## 2. OPERATIONS OF TAURON POLSKA ENERGIA AND TAURON CAPITAL GROUP

### 2.1. Factors and non-typical events that have a significant impact on earnings achieved

#### 2.1.1. Internal factors and the assessment thereof

The operations and earnings of the Company and TAURON Capital Group in 2018 were impacted, among others, by the following internal factors:

1. steadfast implementation of the Strategy and achieving the assumed financial and non-financial effects,
2. actions with respect to optimizing processes taken by all of TAURON Capital Group's subsidiaries,
3. implementation of TAURON Capital Group's 2016-2018 Efficiency Improvement Program, including the consolidation and restructuring projects, the Voluntary Redundancy Programs for the workforce,
4. decisions with respect to the implementation of the key investment projects,
5. developing and 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. resolution of the tenders related to the investment projects with respect to adapting TAURON Capital Group's power plants to the so-called BAT conclusions by reducing, starting from 2021, emissions of sulphur and nitrogen compounds as well as chlorine and mercury,
7. loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
8. centralizing TAURON Capital Group's financial management, supported by the use of such tools as: central model of financing, cash flow (financial liquidity) management policy using the cash pooling mechanism, risk management policy in the financial area, insurance policy,
9. ability to obtain debt financing on the international markets,
10. Tax Capital Group's operations, primarily aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
11. TAURON's procurement management, in particular, management of fuel purchases for the needs of TAURON Capital Group's generation entities,
12. geological and mining conditions of hard coal extraction,
13. failures of TAURON Capital Group's equipment, installations and grids.

The impact of the above mentioned factors on the financial result achieved in 2018 is described in sections 4 and 5 of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

No material, non-typical (one-off) internal events that would have a significant impact on the financial result achieved occurred in 2018.

#### 2.1.2. External factors and the assessment thereof

The operations and earnings of TAURON and TAURON Capital Group in 2018 were impacted by the following external factors

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

### 2.1.2.1. Macroeconomic environment

TAURON Capital Group's core business operations are conducted on the Polish market and TAURON Capital Group takes advantage of the positive trends occurring thereupon as well as it is affected by the changes thereof. The macroeconomic situation, both in the individual sectors of the economy as well as on the financial markets, is a significant factor impacting the earnings generated by the Company and TAURON Capital Group

2018 was a positive period for the world economy. Consumer demand and rising investments were catalysts for economic growth. However, at the end of 2018 the differentiation of the GDP growth rates among the world's leading economies increased, as demonstrated by the decline of the main economic indicators, i.e. PMI, industrial production output indicators and the world trade growth rates, which may represent the first signs of a slight slowdown of the economic activity growth rates in the future growth.

Poland's GDP growth rate continues at a relatively high level - approx. 5% year on year, similar to the levels observed over several recent quarters. The main growth driver for the Polish economy is internal consumption. Such factors as increased public investments (financed using the EU funds) and rising investments in the large and medium size enterprises sector, which is a consequence of accelerated growth of exports and growing imports, also have a positive impact.

In spite of Poland's strong economic growth the consumer prices are stable as compared to other European countries. According to the preliminary data published by the Central Statistics Office (GUS) the inflation rate in November 2018 came in at 1.2% year on year, versus 1.75% year on year in October 2018.

GDP growth has an impact on the increase of wages and the decrease of the unemployment rate (registered jobless rate stood at 5.7% in November).

According to the data published by Polskie Sieci Elektroenergetyczne S.A. (PSE, TSO) gross domestic electricity consumption rose to 170.93 TWh (+1.66% year on year) in 2018. This demand was satisfied by the domestic power plants' production that reached 165.22 TWh (-0.38% year on year) and the record breaking imports from the neighboring countries - at the level of 5.72 TWh (+150%).

### 2.1.2.2. Market environment

#### Electricity

Wholesale electricity price on the Day Ahead Market (RDN) of the Polish Power Exchange (Towarowa Giełda Energii S.A. - TGE) reached 223.22 PLN/MWh in 2018. As compared to 2017 the price went up by 41% (+65.38 PLN/MWh). The average settlement price on the Balancing Market (RB) came in at 227.95 PLN/MWh in 2018, i.e. up 37% (+61.52 PLN/MWh) versus the year ago. The factors behind the rising prices were: increases of CO<sub>2</sub> emission allowances prices and of the commodity (coal, oil and gas) prices, tight capacity balance, hot and unusually dry summer as well as an emergency shutdown of the 485 MW combined cycle power plant at Włocławek. Based on the analysis of the average monthly RDN prices January was the cheapest month, with its average price at 161.12 PLN/MWh, while September was the most expensive month, with its average price at 272.24 PLN/MWh.

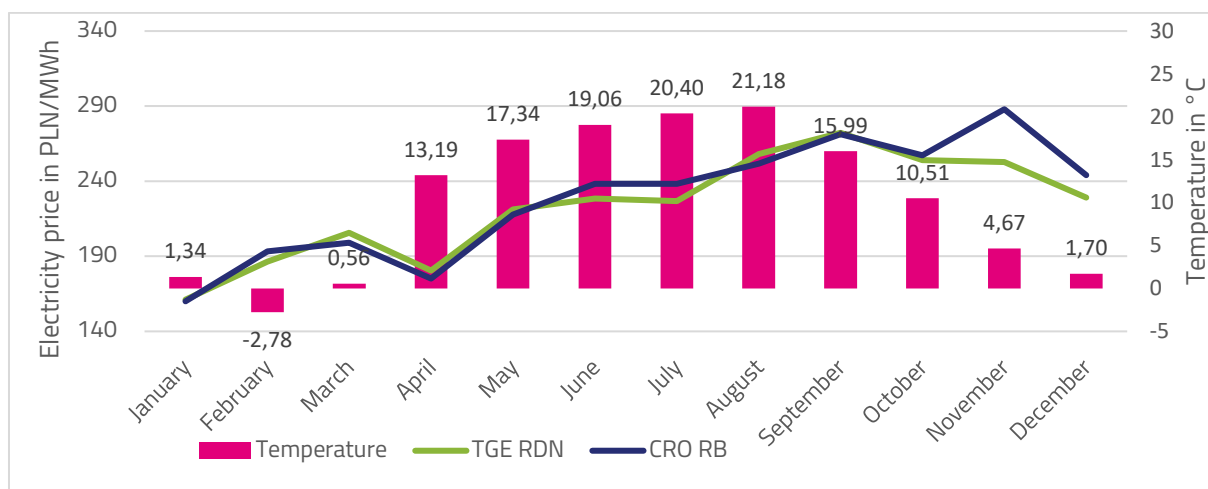
The impact of the rising electricity consumption on the increase of electricity prices was to a certain extent offset by the record volume of electricity imported into the Polish National Power System.

In 2018 the generation output from hard coal fired power plants rose to 82.38 TWh (+3.14% year on year). However the lignite fired power plants' production declined (to 49.07 TWh, i.e. 2.91 TWh less than in 2017), primarily due to the permanent shutdown of the Adamów power plant with the installed capacity of 600 MW.

The rising demand in the National Power System (KSE) was satisfied by increased production at more expensive power, for example, the gas-fired ones, the output from which, on an annualized basis, went up by 2.42 TWh - to 9.59 TWh. Electricity generation from wind farms reached 11.68 TWh (down by 15.71% year on year) in 2018.

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

Figure no. 14. Average monthly electricity prices on the SPOT and RB markets, as well as average temperatures



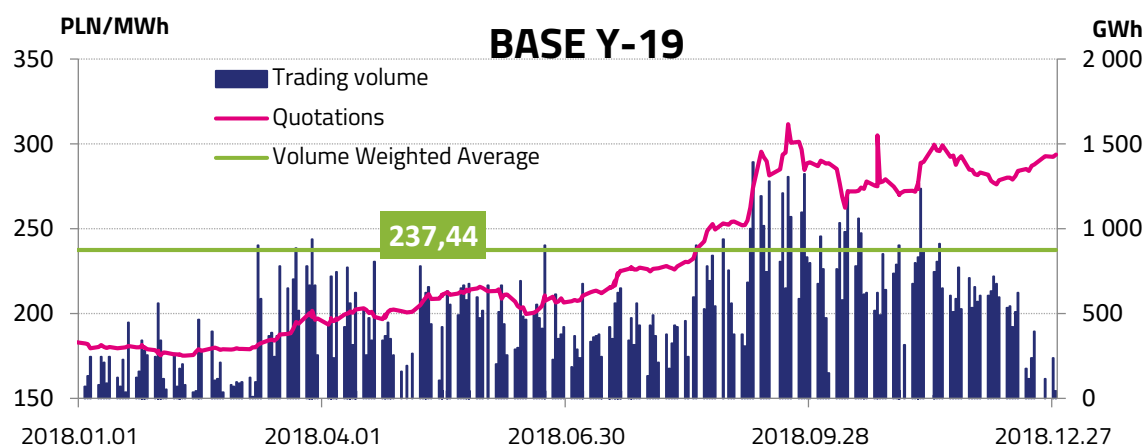
The reference base load contract with the delivery in 2019 (BASE\_Y-19) was in a clear upward trend on the futures market almost throughout 2018. BASE\_Y-19 contract prices fluctuated within a range with the low of 175.13 PLN/MWh (February 8, 2018) and the high of 311.56 PLN/MWh (September 20, 2018) last. The prices of the above contract in the first two months of the year were stable and moved within the 175-182 PLN/MWh range. In the subsequent months of the first half of the year the prices were in an upward trend that was broken only momentarily at the beginning of June. In July and August the BASE\_Y-19 contract prices returned to a stable growth trend.

Between September 5 and September 10, 2018 the prices of the above contract went up by 40.50 PLN/MWh. It was caused by the rising CO<sub>2</sub> emission allowances prices (the multi-year high, of 25.97 EUR/MgCO<sub>2</sub>, was reached on September 10, 2018), and also by the news of the emergency shutdown of the CHP Włocławek's new combined cycle power plant. The final days of the last month of 2018 brought a small, technical correction and a drop of the BASE\_Y-19 prices to the average level of 281 PLN/MWh. The average trading volume weighted BASE\_Y-19 contract price reached 241.53 PLN/MWh, i.e. it was higher by almost 75 PLN/MWh (+44.6%) as compared to the BASE\_Y-18 contract price in 2017. The total BASE\_Y-19 contract trading volume came in at 133.2 TWh, i.e. it was more than two times higher than the BASE\_Y-18 contract trading volume.

The PEAK5\_Y-19 contract displayed similar volatility patterns, as in January and February 2018 its volatility was low (224 - 230 PLN/MWh), while starting from the beginning of March its prices were gradually rising, similar to the prices of the main base load contract. In September PEAK5\_Y-19 reached its historic high of 429.50 PLN/MWh. The average trading volume weighted PEAK5\_Y-19 contract price reached 341.25 PLN/MWh and it was higher by as much as 126.01 PLN/MWh (+58.5%) than the average contract price last year (PEAK5\_Y-18).

The below figure presents the BASE Y-19 contract performance.

Figure no. 15. BASE Y-19 contracts performance



## Crude oil and coal

In case of Brent oil the first three quarters of 2018 brought a continuation of the 2016-2017 upward trend. In October 2018 the price reached the highest level since 2014, reaching 86.74 USD/bbl. The last quarter of 2018 brought a correction – the prices dropped to the level slightly below 50 USD/bbl. Finally, the year came to a close with the price of 53.8 USD/bbl, down 19.13% as compared to the opening price.

In the US, in the first half of 2018, the oil extraction output went up by 1 million bpd, while over the full 2018 on average it rose by 2 million bpd - from 9.7 million bpd in December 2017 to 11.7 million bpd in December 2018.

A significant event impacting the oil price was the withdrawal of the US, in May 2018, from the nuclear agreement related to the control over the Iranian nuclear weapon development program concluded in July 2015 between Iran and six superpowers: US, Russia, Great Britain, France, China, Germany and additionally the European Union. US unilaterally announced the imposition of economic sanctions on Iran, including the total ban on oil exports. The ban was to come into force as of November 15, 2018 and it was to totally restrict trading in the Iranian commodity. At the same time the US President was persuading the existing consumers of the Iranian oil to stop purchasing it, while at the same time urging OPEC to increase its oil production output again in order to replace the lower production volume. Finally, the US administration agreed that the Iranian oil could continue to be imported by such countries as, for example, Japan, North Korea, Turkey, China. As a result of this situation the oil oversupply (glut) reemerged on the market and the oil inventory levels began to rise.

Another important event was the levying of trade tariffs by the US on some goods imported from China. The other party responded reciprocally. The parties of the conflict declared the will to cooperate in order to work out a compromise.

The above mentioned factors caused a decline of oil prices. Brent oil price dropped by approx. 42% only in the last quarter of 2018. Finally the year closing price reached 53.8 USD/Mg.

The growth trend on the coal market began in 2016 and continued in 2017-2018. A correction occurred in the first quarter of 2018 – during that period ARA coal prices with the delivery in 2019 dropped by approx. 20% - to 72.5 USD/Mg. Subsequently, between April and October 2018 the prices were rising quite fast. The one year contracts price in October 2018 broke through a psychological barrier reaching 100.45 USD/Mg, which meant an approx. 38% increase versus the low price observed at the end of March 2018.

High coal prices were related to the supply and demand situation in the world, mainly in the Pacific region. Starting from April 2018 China experienced very high temperatures which reduced the supply of electricity from hydroelectric plants, while the electricity consumption and demand for electricity produced from coal were higher than usually at this time of year. Strong demand for the imported commodity came also from such countries as India, Japan, Vietnam and South Korea. Hot weather and adverse hydrological situation continued also in Europe.

Only in the last quarter of 2018 the demand and supply balance improved. Indonesia and China increased coal extraction output substantially. Electricity generation from hydroelectrical power plants rose, and the demand for coal dropped due to a warm fall and the beginning of winter. In the last quarter of 2018 ARA coal prices declined by approx. 15% - to 85 USD/Mg.

According to the preliminary data published by the Chinese customs agency, coal imports to China rose 3.9% in 2018 as compared to 2017.

In Europe, as a result of the record low level of water in the rivers, Rhein in particular, coal transportation over rivers became impossible. ARA ports inventory levels rose to record levels – approx. 7 million Mg in December 2018.

Poland experienced a negative supply balance on the coal market which, in combination with high coal prices on the world market, led to an increase of domestic coal prices. Polish Steam Coal Market Index (PSCMI1) rose to 10.94 PLN/GJ in the January to November 2018 time frame, while the 2017 average was 9.26 PLN/GJ, which meant a 19% increase year on year.



The coal price index for sales to industrial and municipal heat plants (PSCMI2) reached 12.41 PLN/GJ in the January to November 2018 time frame, rising versus the 2017 price by approx. 23%.

Coal extraction output dropped in the January to November 2018 time frame by approx. 2% as compared to the same period of 2017, reaching 58.65 million Mg. As of the end of November 2018 the hard coal inventory level was 2.43 million Mg, i.e. it was approx. 0.9 million Mg higher than at the beginning of the year.

During the 2017/2018 winter season there was a serious threat of the strategic coal inventory level being not achieved by utility scale power plants. Because of this situation, in 2018, increased coal imports could be observed, including also to utility scale power plants. It is estimated that in the first three quarters of 2018 approx. 16 million Mg of coal was imported to Poland.

### Natural gas

2018 brought price increases on the gas market as compared to 2017. The average price on the Day Ahead Market for gas on the Polish Power Exchange (TGE) reached 106.29 PLN/MWh in 2018 and it was approx. 22 PLN/MWh higher than in 2017. Contracts with the delivery on the day ahead were particularly high priced at the beginning of March 2018 and then the year's high of 208,39 PLN/MWh was reached. The reasons were very low air temperatures that were observed for several days in a row, numerous shutdowns of nuclear units in France (which led to larger generation from the sources using the gas fuel), and also low gas inventory levels. On the other hand, in January, April and May 2018 the average weighted price for the given month was below 100 PLN/MWh – these were the cheapest months on the gas RDN in 2018.

On the gas RDB market the weighted average price was approx. 25 PLN/MWh higher than in 2017. The maximum weighted average price was also reached at the beginning of March 2018, and the cheapest months on the RDBg market were, similar as in case of the RDNg market, January, April and May 2018.

For the RDNg and RDBg markets the most expensive month was September 2018, subsequently shipments of material quantities of LNG to Europe commenced and the prices in the following months, instead of rising, which stems directly from the seasonality factor, began to drop.

On the futures commodity market (RTT) the most expensive month for gas was September 2018, when the prices of individual monthly and quarterly contracts reached highs above 130 PLN/MWh. The cheapest month was February 2018. Some contracts reached then their lowest prices (below 80 PLN/MWh). Analyzing the total trading volume on RTT, the lowest total volume was recorded in April 2018 (below 4 million), with the highest volume observed in September and October 2018 (18.6 and 19,5 million, accordingly).

The weighted average reference price of the GAS\_BASE\_Y-19 contract in 2018 came in at 106.02 PLN/MWh. The maximum value was reached at the end of September 2018, coming in at 124.09 PLN/MWh. The total trading volume on TGE in 2018 reached more than 143.3 TWh versus 138.5 TWh in 2017, which meant an increase by 3.4% year on year.

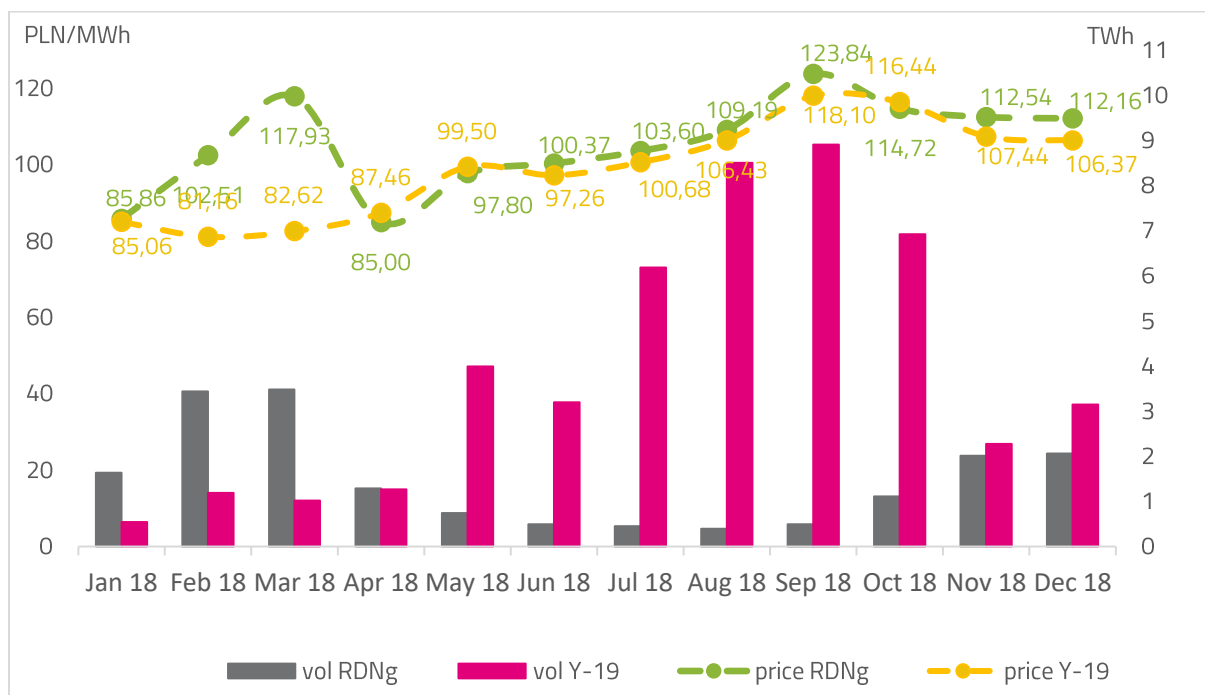
The forward contracts market had the biggest share in the trading volume in 2018, generating a volume at the level close to 120 TWh. On the spot market the total volume of the day ahead contracts and weekend contracts reached 17.6 TWh and it was 1.4 TWh less than in 2017 (down 7.4% year on year). A similar slight decline was also observed on the RDB market where the trading volume reached 6.1 TWh versus 4.7 TWh in 2017 (up 29% year on year)

LNG imports (from Qatar, Norway and the US) in 2018 rose by almost 1 billion m<sup>3</sup> (up 58.2% year on year) and it reached more than 2.71 billion m<sup>3</sup> (after regasification) versus 2017 when approx. 1.72 billion m<sup>3</sup> of LNG (after regasification) was imported. LNG imports represented more than 20% of total imports. The balance of the imports are coming from the West and South.

The key event on the gas market in 2018 was the signing by PGNiG of three long term LNG purchase contracts with American Venture Global and Cheniere companies with the total volume of almost 70 million tons (95 billion m<sup>3</sup> after regasification). The shipments from Cheniere are scheduled to begin in 2019. On the other hand, Venture Global will begin shipments in 2022 and 2023.

The below figure presents average monthly SPOT and Y-19 contract prices on TGE in 2018.

Figure no. 16. Average monthly SPOT and Y-19 contract prices on TGE in 2018



### CO<sub>2</sub> emission allowances

The CO<sub>2</sub> emission allowances market was characterized by substantial price volatility in 2018. The CO<sub>2</sub> emission allowances prices moved within the 7.6-25.79 EUR/MgCO<sub>2</sub> range.

The new MiFID II regulations package, aimed at strengthening the financial markets, came into force in January 2018. As a result of the newly introduced regulations the CO<sub>2</sub> emission allowances became a financial instrument as of the beginning of 2018. Additionally, in January 2018 the European Commission informed that the CO<sub>2</sub> emission allowances owned by Great Britain would not be marked and they would not be subject to redemption (retirement) in 2019. No marking of the emission allowances addressed to the British participants of the market constituted a protection of the EU ETS system against any potential sale of these allowances that would lose their value in 2019, thus bringing about the fall of the EUA prices on the community EU ETS market. In the following month of 2018 the European Parliament accepted the draft new EU ETS directive prepared in 2017 that, following the notification, would be in force in 2021-2030.

The EUA prices in March 2018 were characterized by the increased transaction volume related to the need to purchase CO<sub>2</sub> emission allowances for the redemption purposes. Increased demand brought about a rise of the EUA prices and led to such a situation that the highest price in the entire settlement period – 14.13 EUR/MgCO<sub>2</sub> – was recorded on the SPOT market in March 2018. A factor that had an additional impact on the price rise were market analyses suggesting an increase of the system emissions level in 2017, due to the improving economic conditions in the European Union countries. Finally, in accordance with forecasts, for the first time in seven years the CO<sub>2</sub> emissions went up in 2017 by 0.3 % year on year.

In the subsequent months the main factor impacting the EUA prices was the weather in Europe. Due to the prolonged drought the Community countries had problems with cooling the generation units, while rising daily average temperatures led to increased demand for electricity. As a consequence increased demand for CO<sub>2</sub> emission allowances was observed. The additional element influencing an increase of the prices of CO<sub>2</sub> emission allowances were the shutdowns of some nuclear reactors in France and in Belgium. In July 2018 the EU Climate Action and Energy Commissioner informed of the possibility of raising the greenhouse gases emission reduction target that the European Commission was working on. Eventually, the raising of the reduction target was not accepted by the European Parliament. In September 2018 the EUA prices reached a new high of 25.79 EUR/MgCO<sub>2</sub>, the level not seen on the market since 2012. As a result the average price in Q2 and Q3 2018 reached 16.69 EUR/MgCO<sub>2</sub>.

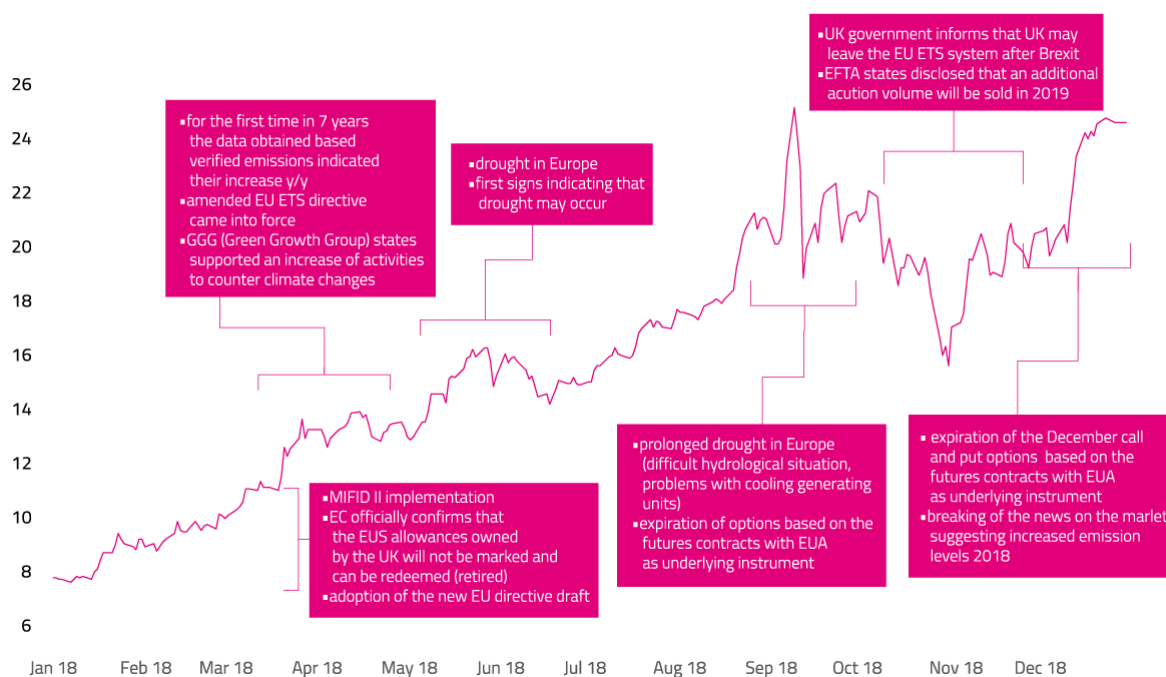
The rising, initially in 2018, prices of CO<sub>2</sub> emission allowances fell only in the second half of September 2018. The average price in September reached 21.47 EUR/MgCO<sub>2</sub>.

At the beginning of Q4 2018 the EFTA countries, in agreement with the European Commission, informed that the blocked volume (42 million) of CO<sub>2</sub> emission allowances, that had not been sold at primary auctions in 2013-2018, would be placed on the market in 2019. Additionally, in October 2018 Great Britain officially confirmed its exit from the EU ETS system following its Brexit.

Ultimately, the average price for the entire 2018 reached 15.96 EUR/MgCO<sub>2</sub>, which represented an increase by 10.12 EUR/MgCO<sub>2</sub> as compared to 2017.

The below figure presents the impact of political actions and the environment on the EUA SPOT product price in 2018.

Figure no. 17. Impact of political actions and the environment on the EUA SPOT product price in 2018



## Property rights

2018 on the renewable energy sources was characterized by a high volatility of the prices of green certificates, with the continued upward trend. During that period the index rose from the low of 45.53 PLN/MWh in January 2018, to the high of 162.71 PLN/MWh in November 2018. Such high levels were observed in 2014/2015. Prices rose 3.5 times within 11 months. The weighted average price for the OZEX\_A index for 2018 came in at 103.82 PLN/MWh and it was higher by almost 170% than the weighted average price in 2017. The property rights prices were higher, on average by 114%, than the substitution fee that in 2018 reached 48.53 PLN/MWh and it constituted 125% of the 2017 weighted average price. The trading volume in the period under review was the highest in history and it reached 14 635 GWh (up 46% as compared to 2017). The balance of the green certificates register reached a surplus of 29.08 TWh as of the end of December 2018, and taking into account the certificates blocked for retirement this register dropped by almost 6.86 TWh - to 22.22 TWh. The obligation to present the PMOZE\_A certificates for redemption rose to 17.5%.

Prices of certificates confirming electricity generation from agricultural biogas (the so-called "blue" certificates), for which the redemption obligation was 0.5% in 2018, were invariably above the substitution fee that reached 300.03 PLN/MWh. Between the beginning of January and December 2018 the prices of TGEozebio index were successively declining, accordingly from 318.33 PLN/MWh to 303,03 PLN/MWh. Finally, the weighted average value of the index as of the end of 2018 reached 312.55 PLN/MWh and it was lower by more than 6% from the 2017 weighted average price. The total trading

volume came in at 505.30 GWh, while the balance of the PMOZE\_BIO register reached 358 GWh. Taking into account the certificates blocked for retirement this balance drops to 265 GWh.

According to the act of 10 April 1997, the Energy Law, amended in 2016, until June 30 of the given calendar year the property rights issued to cogeneration units for generation in the previous year may be redeemed. Due to the above, until the end of H1 2018 listings included the property rights for cogeneration produced both in 2017 as well as in 2018, while in H2 2018 listings included solely the property rights confirming energy generation in 2018.

The PMEC-2017 (high-efficiency cogeneration) product was traded until the end of June 2018, moving within the 9.68 PLN/MWh to 9.85 PLN/MWh price range. The weighted average price for this contract came in at 9.80 PLN/MWh in the first half of 2018, with the substitution fee set at 10 PLN/MWh. As of the beginning of 2018 also the PMEC-2018 contracts began trading on TGE, with their prices also fluctuating near the substitution fee set at 9 PLN/MWh. The weighted average price reached 8.77 PLN/MWh.

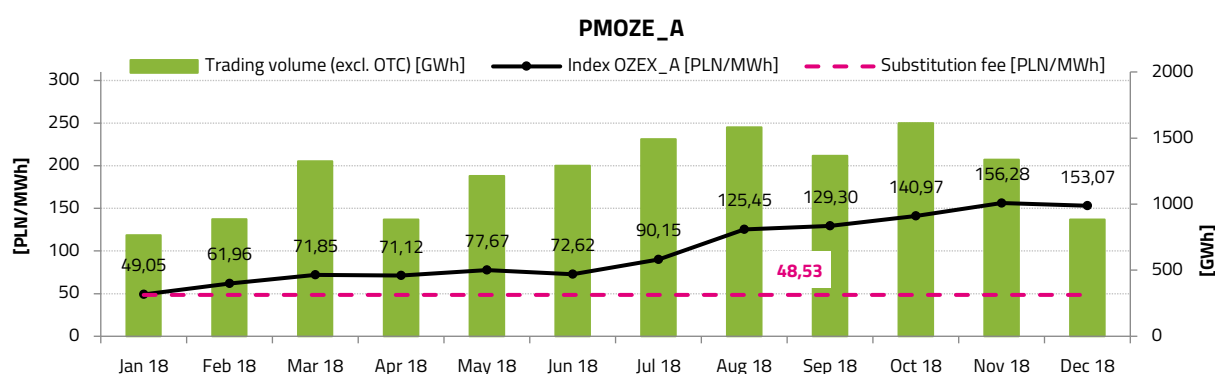
In gas cogeneration the situation was very much alike. Until the end of June 2018, the PMGM-2017 product was still listed, with its average price at 117.51 PLN/MWh. This level, similar as in case of the coal based cogeneration, was determined by the substitution fee, for 2017 set at 120 PLN/MWh. The PMGM-2018 instrument, related to generation in 2018, was listed already in March 2018, with the average KGMX index at 116.37 PLN/MWh. Until the end of 2018 its value was increasing on month to month basis, reaching 111.97 PLN/MWh in December. The average price in 2018 for the PMGM-2017 product was 110.41 PLN/MWh and was only approx. 4.60 PLN/MWh below the substitution fee, which for 2018 was reduced to 115 PLN/MWh.

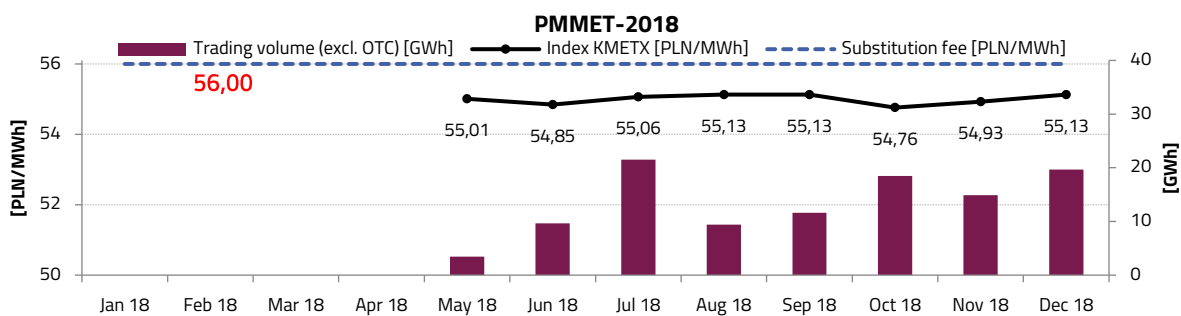
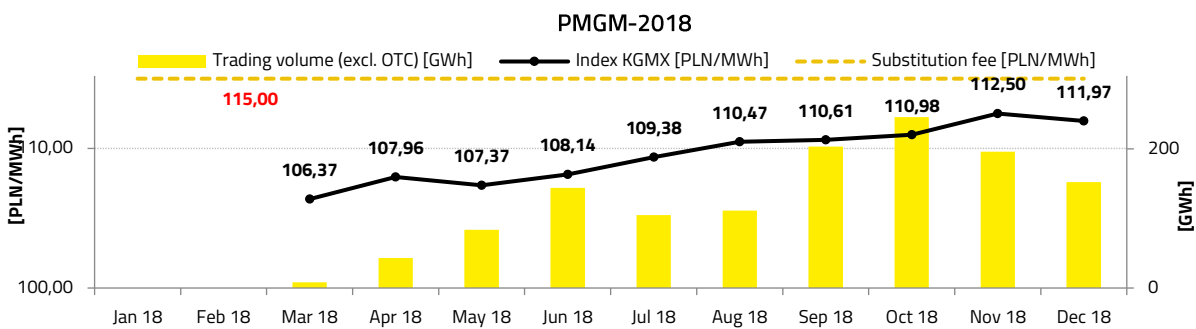
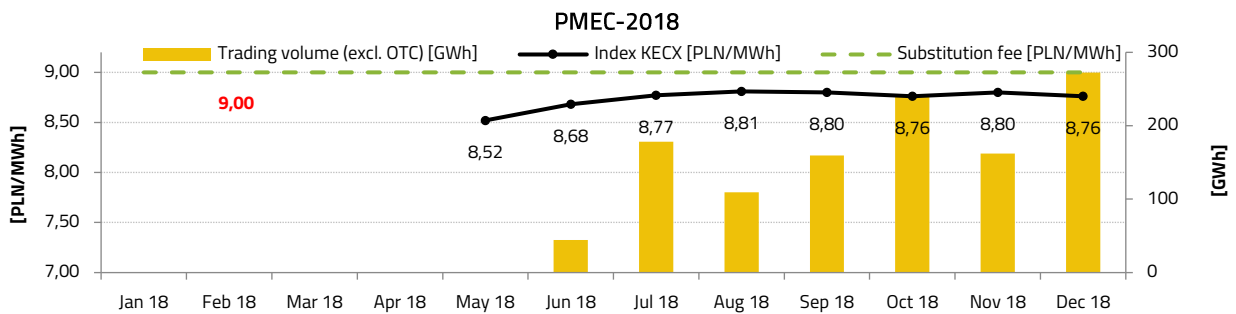
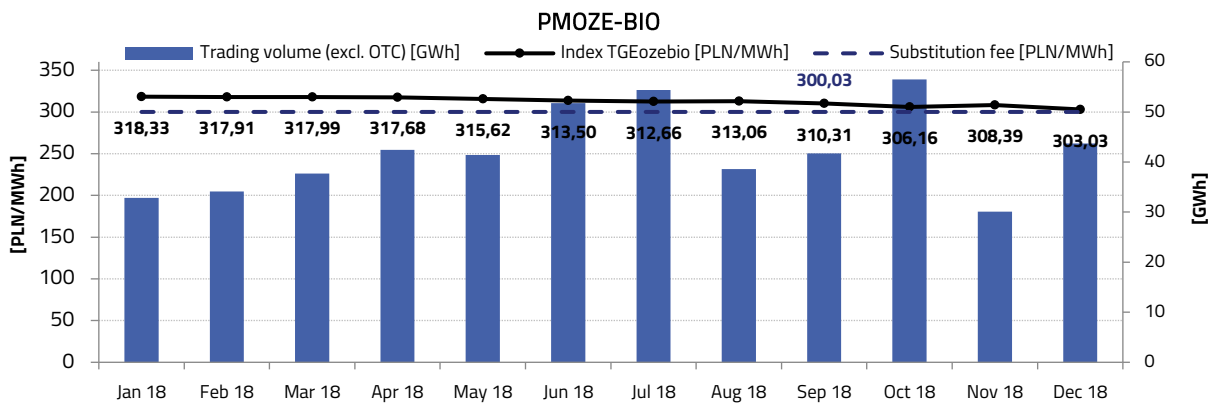
The situation on the market in PMMET property rights confirming energy generation from firing methane was developing similarly to that in case of yellow and red certificates. Until the end of June 2018 the PMMET-2017 instrument was still listed. The average value of the KMETX index reached 55.39 PLN/MWh. The substitution fee related to the production both in 2017 as well as in 2018 was 56 PLN/MWh and it determined the market prices. The PMMET-2018 instrument for the 2018 production was listed on average at 55 PLN/MWh.

The property rights due to the PMEF certificates of energy efficiency (the so-called "white" certificates), after rising in January and February 2018, continued the downward trend. The price range was between the historic low of 298.33 PLN/toe reached in December 2018 and the high of 899.67 PLN/toe achieved in February 2018. The weighted average index stood at 643.14 PLN/toe and it was substantially lower than the substitution fee set for 2018 at 1 575 PLN/toe.

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

Figure no. 18. Property rights indices





### 2.1.2.3. Regulatory environment

#### National regulations

##### Act on capacity market

The act of December 8, 2017 on capacity market (Journal of Laws of 2018, item 9) came into force on January 18, 2018. This act changed the architecture of the electricity market from the existing single product energy market into the dual product market: electricity and capacity. The act defines the rules of organizing and conducting periodic capacity auctions by TSO in order to conclude capacity agreements with capacity providers (entities that control the individual generating units connected to the grid), and also of providing the service of maintaining readiness to deliver electric capacity and the actual delivering of such capacity to the National Power System (KSE) during the stress periods announced by the TSO, as well as

the principles of remuneration for fulfilling such obligation. The individual capacity market processes are defined by the Capacity Market Regulations approved by the President of ERO (URE), as well as by the executive ordinances of the Minister of Energy issued based on the act.

*Act on the amendment to the act on the excise tax and some other acts*

*The act of December 28, 2018 on the amendment to the act on the excise tax and some other acts (Journal of Laws of 2018, item 2538, as amended) is to provide protection in 2019 for the electricity consumers against a material increase of the costs of purchasing electricity. For this purpose the act envisages, apart from reducing the excise tax rate from 20 PLN/MWh to 5 PLN/MWh and reducing the transition fee rates for all of the consumers by 95%, the "freezing" in 2019 of the prices stemming from the tariffs of the trading companies applicable on December 31, 2018, and also of the prices and rates of the fees set by the trading companies in a different manner than by way of implementing the tariff. At the same time the act grants the obligated entities the right to compensations for the lost revenue. The compensations are to be financed using the funds of the newly established Price Difference Payout Fund (Fundusz Wypłaty Różnicy Ceny), controlled by the Minister of Energy, managed by Zarządca Rozliczeń S.A. (Settlements Manager).*

*The act also enables funding new investment projects in electricity distribution, renewable Energy sources, high efficiency cogeneration, environmental requirements (including BAT conclusions) and electricity storage facilities as part of the National Green Investment Projects System.*

*The Ministry of Energy is conducting works on the draft resolution on the manner of calculating compensations for the obligated utilities. As of the day of drawing up the report it will be possible to estimate the consequences of implementing the regulation for TAURON Capital Group only after the indicated, intended legislative actions have been completed.*

*Amendment to the act – Energy law related to the level of the so-called exchange obligation*

2018 was a year of successive raising of the level of the so-called exchange obligation, i.e. the obligation for electricity generators to publicly sell electricity on a commodity exchange or on other organized platforms or in the trading systems. With the coming into force of the act of 8 December 2017 on the capacity market, as of January 1, 2018, the level of the exchange obligation was raised from 15% to 30% of the electricity generated in the calendar year by the generator thereof that would not be exercising the right to have the so-called stranded costs covered. By way of the act of November 9, 2018 on the amendment to the act – Energy law and some other acts (Journal of Laws of 2018, item 2348) as of January 1, 2019 the level of the so-called exchange obligation was raised from 30% to 100% of the electricity volume generated. The amendments upheld the existing exclusions from the exchange obligation. Additionally, the last amendment of November 9, 2018 introduced exemptions, dedicated to the new generating units that commenced electricity generation for the first time after July 1, 2017, as part of the electricity supply carried out under the project finance or corporate finance type financing formulas. In accordance with the interim regulations of the amendment of November 9, 2018, the existing, lower levels of the exchange obligation shall be applicable with respect to the electricity that is the subject of agreements concluded by the day of this amendment coming into force.

*Act on promoting electricity generated from high efficiency cogeneration*

As of the end of 2018 the existing support system for the cogeneration units, based on the certificates of origin of electricity, expired. It was replaced by the mechanisms stemming from the act of December 14, 2018 on promoting electricity generated from high efficiency cogeneration (Journal of Laws of 2019, item 42).

The act introduces numerous limitations in the use of the cogeneration support mechanisms, in particular by narrowing down the group of generating units using it to the combined heat and power plants for which the unit CO<sub>2</sub> emission level does not exceed 450 kg/MWh of the electricity generated (calculated in total for electricity and heat production) and depriving of the support the generators of electricity at RES installations, using the RES support system, and also the generators receiving remuneration under the agreement with the TSO on the regulation system services indicated in the act, in the part related to the electricity for which such remuneration is due. In case of units introducing to the public district heating network less than 70% of the heat generated the support was limited (with certain exceptions) in proportion to the share of heat introduced to the network in the heat generated.

The type of support provided was made dependent on the electric capacity installed, the date of generating electricity for the first time and the foreseen capital expenditures for the unit and it will take the form of an additional cash benefit in the form of the cogeneration bonus or guaranteed bonus. In case of the largest units, with the capacity of not less than 300 MWe, it will be possible to grant the bonus (calculated individually), only after the Commission has issued the decision recognizing the support as allowed public aid. The period of using the support shall not be longer than 15 years (the shorter periods, i.e. 5, 6 and 7 years, are envisaged for the refurbished units).

The costs of the new support system will be allocated to all of the final consumers of the power system, by introducing a separate charge ("cogeneration charge") as part of the tariffs of the power system operators. In 2019 the cogeneration charge is 1.58 PLN/MWh.

#### *Amendment to the Act on the Renewable Energy Sources (RES)*

The goal of the *act of June 7, 2018 on the amendment to the act on the renewable energy sources* (Journal of Laws of 2018, item 1276) was first of all to enable organizing and conducting by the President of ERO of successive RES auctions and to ensure full compliance of the regulations of the above act with the European Union's "Guidelines on public aid related to environment protection and energy goals in 2014-2020". Among others, new rules of cumulating public aid, a new split into auction baskets (five baskets based on the type of the energy source used and installed capacity were introduced), and also an additional support in the form of Feed-in-Tariffs (FIT) and Feed-In-Premium (FIP) tariffs for electricity generators from renewable sources, dedicated to micro and small RES installations, using stable and predictable energy sources (hydroelectricity, biogas, agricultural biogas) were introduced. Taking advantage of the new form of support, such as the FIT and FIP Tariffs, the relevant applications were submitted to the President of ERO for a change of the support system for seven hydroelectric plants with the installed capacity of up to 0.5 MW (FIT Tariff) and three hydroelectric plants with the installed capacity in the 0.5-1 MW (FIP Tariff) range. The majority of the generating units obtained affidavits on the possibility of selling unused electricity in accordance with art. 70a-70e of the act on RES. Additionally, three power plants, that have up to now used the auction based system, also took advantage of the change of the support system.

#### *Amendment to the act on trading in financial instruments*

On April 21, 2018 the *act of March 1, 2018 on amending the act on trading of financial instruments and some other acts* (Journal of Laws of 2018, item 685) came into force. The act, in line with the MIFID II / MIFIR package, extended the definition of financial instruments so as to cover CO<sub>2</sub> emission allowances SPOT contracts and derivative contracts on such emissions. The derivative contracts on commodities, including electricity or natural gas, implemented through physical delivery and concluded bilaterally, if they are equivalent (with respect to all of their parameters) to contracts concluded on the regulated market or in the alternative trading system, were also classified as financial instruments.

The amended act upheld the existing exemption for persons entering into transactions on their own account (proprietary) or providing investment services with respect to commodity related derivative financial instruments, emission allowances and their derivative instruments, on the condition that these are the so-called additional activities in relation to the main subject of such persons' operations. A new requirement is, however, the need to conduct, by the interested entities, annually, in the first quarter of every financial year, two of the so-called additional activities tests, conducted in accordance with the delegated ordinance of the Commission. Furthermore, the precondition for exercising the said exemption is an annual notification of the competent supervision authority of the intention to exercise the described exemption, including the obligation to present, at the authority's request, the positive results of the above mentioned tests. The law also introduced a dedicated exemption from the obligation to hold a broker's license for the installation operators concluding SPOT transactions related to the CO<sub>2</sub> emission allowances and maintained the existing exemption for the investment activities or services related to the financial instruments provided for other entities – members of the capital group.

The new regulations on the financial markets also enable establishing and introducing, by the competent regulatory authorities, the so-called net position (exposure) limits, i.e. the maximum net position (exposure) in the commodity related derivative instruments that the given entity may hold (in the financial instruments trading system or outside of it).

#### European Union regulations

### *Amendment to the directive on the CO<sub>2</sub> emissions allowances trading*

*The Directive of the European Parliament and of the Council (EU) 2018/410 of March 14, 2018, amending directive 2003/87/WE in order to strengthen cost effective emission reductions and low emission investments, and the decision (EU) 2015/1814 (Journal of Laws UEL 76, 19.03.2018, page 3) defined the principles of the CO<sub>2</sub> emission allowances trading in the 4th trading period (2021-2030). The most important changes include:*

- 1) raising of the linear reduction factor (LRF) from the current level of 1.74% to 2.2%,
- 2) introduction of the market stability reserve (MSR) mechanism that, as a principle, is to reduce the number of allowances available on the market,
- 3) setting the total available auctioning pool in the fourth trading period basically at the level of 57%,
- 4) establishment of the Innovation and Modernization Funds. The Innovation Fund is to support modern low emission technologies with the pool of 400 million allowances. The Modernization Fund will support the lowest GDP Member States in the modernization of their energy sectors, skipping the support for electricity generation from fossil fuels (with the exception of the energy sectors in Romania and Bulgaria).
- 5) maintaining the possibility of the transitional allocation of free allowances for the modernization of the energy sector (art. 10c), however a tender procedure is required for projects with an investment outlay of more than EUR 12.5 million. The support with the use of free allowances is capped at 70%.
- 6) creating the possibility for the member states to use the entire allocation of free allowances granted pursuant to art. 10c or a part thereof to support the Modernization Fund.

### *Winter package "Pure Energy for all the Europeans"*

In 2018, at the EU level, work on drawing up the final provisions of 11 documents constituting the so-called "Winter Package" were conducted. The key documents include: Regulation on the Governance of the Energy Union, amendment of the Regulation on the Internal Energy Market, amendment of the Directive on the Internal Energy Market, amendment of the Directive on the Use of Energy from Renewable Sources, amendment of the ACER regulation, amendment of the Energy Efficiency Directive and the Regulation on Risk Preparedness in the Electricity Sector.

Regulation on the Governance of the Energy Union defines the following issues:

- 1) obligation for the Member States to draw up the national climate and energy plans that are the key energy union management instrument and cover its 5 pillars (security of supply, internal energy market, energy efficiency, decarbonization, as well as research development and competitiveness),
- 2) reference points with respect to a contribution to achieving the target related to the share of electricity from RES in 2022, 2025 and 2027 were finally adopted at the level of, respectively, 18%, 43% and 65% of the EU's 32% target,
- 3) contribution to achieving the EU's energy efficiency target,
- 4) 15% target for the interconnector transmission capacity for the power grids by 2030.

The most important element of the "Winter Package" is an amendment to the internal energy market regulation due to the future limitations in the ability to use the capacity mechanisms introduced thereby. As a result of the trilog of the European Parliament, the European Union Council and the European Commission it was agreed that:

- 1) fossil based generating units with emissions of more than 550 gr CO<sub>2</sub>/kWh of electricity produced, that commenced commercial production following the regulation's entry into force, will not be able to be engaged in capacity mechanisms and will not be able to receive payments under such mechanisms, as well as they will not be covered by the obligations to receive future payments under capacity mechanisms,
- 2) fossil based generating units with emissions of more than 550 gr CO<sub>2</sub>/kWh of electricity produced and more than 350 kg CO<sub>2</sub> on average annually per kWh of installed capacity, that commenced commercial production prior to the regulation's entry into force, will not be able to be engaged in capacity mechanisms and will not be able to receive payments under such mechanisms, as well as they will not be covered by the obligations to receive future payments under capacity mechanisms starting from July 1, 2025 at the latest,



- 3) member states applying capacity mechanisms upon the regulation's entry into force should adapt such mechanisms by introducing the above mentioned emission limitations, however without prejudice for the commitments or contracts concluded before December 31, 2019.

With respect to the revision of the directive in relation to the common internal market rules, the key element of the agreement reached is related to the power (right) of the electricity suppliers to set electricity prices autonomously, in order to strengthen competition and create an efficient market based process for the setting thereof. At the same time, it was ensured that the so-called sensitive consumers and microenterprises should continue to be protected, by way of empowering the member states to set regulated prices for such groups of consumers.

Furthermore, a number of agreed provisions of the revised directive are related to strengthening the position of the consumers.

Another element of the "Winter Package", that was agreed in 2018 as a part of the trilogues, was a revision of the directive on the promotion of the use of energy from renewable sources. The main items of the agreement are:

- 1) 32% target for the share of electricity from RES in 2030, binding at the EU level, with a clause providing for a review in 2023 in order to verify if it could be raised,
- 2) exclusion from charges for RES electricity for household needs for small installations with the capacity of up to 30 kW,
- 3) RES target in heat and cold 1.3% with a 40% option for waste heat,

As part of the revision of the directive with respect to energy efficiency it was agreed that:

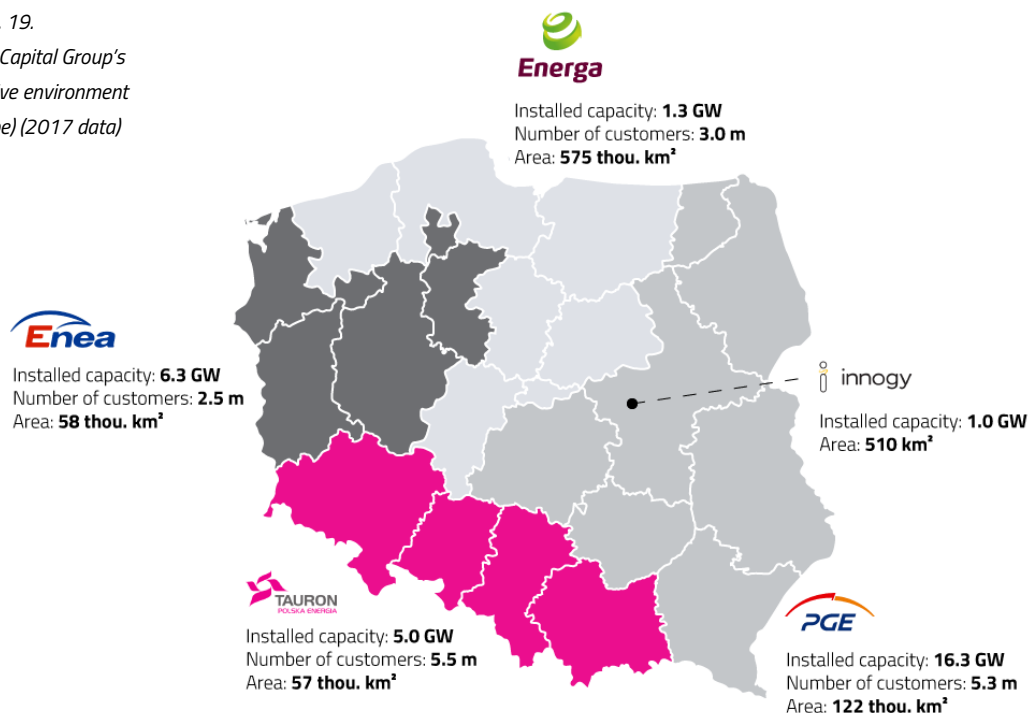
- 1) non-binding target for improving energy efficiency for the entire EU is 32.5% in 2030,
- 2) mandatory target for savings every year at 0.8% of the annual volume of the supply to the final consumers,
- 3) Primary Energy Factor (PEF) at 2.1, applicable not only in the area regulated by the directive on energy efficiency, but also in the area of eco-design and product labeling, subjected to a regular review every 4 years.

#### 2.1.2.4. Competitive environment (landscape)

Apart from TAURON Capital Group currently 3 large, vertically integrated energy groups are operating on the Polish market: PGE, ENEA and ENERGA S.A. (ENERGA). The below figure presents TAURON Capital Group's competitive environment (landscape) based on the data available, i.e. for 2017.

Figure no. 19.

TAURON Capital Group's competitive environment (landscape) (2017 data)



Based on the vertically integrated structure the above entities have a strong position on the domestic market. Furthermore, also foreign energy groups are present on the Polish market.

According to the 2017 data the consolidated energy groups (PGE, TAURON, ENEA, ENERGA) held a 58% market share in the electricity generation subsector. Key market transactions took place in 2017:

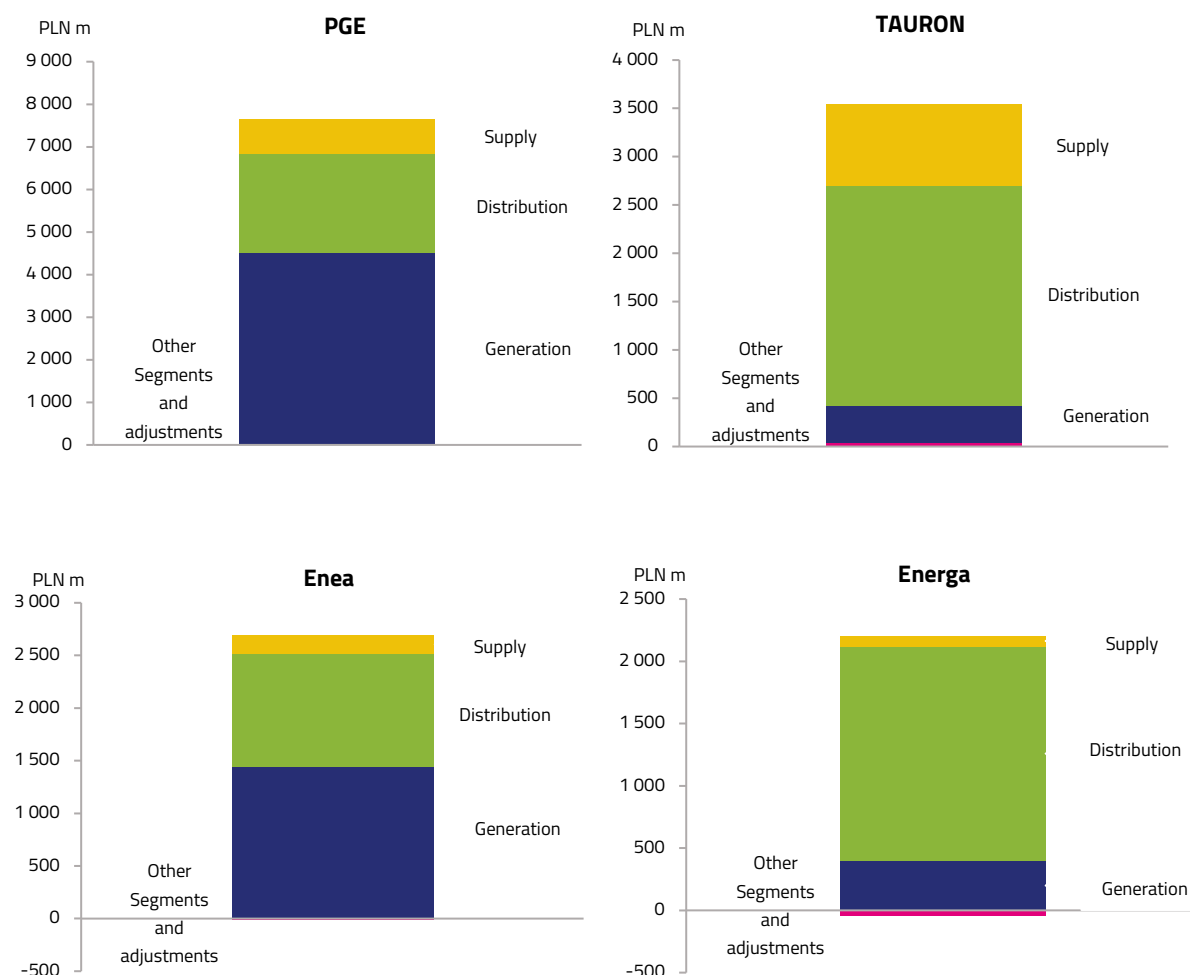
- PGE acquired generation assets from French EDF Polska, corresponding to annual electricity production of approx. 12 TWh. Following the transaction PGE's installed capacity rose from 12.8 GW in 2016 to 16.3 GW as of the end of 2017.
- ENEA took over ENGiE Energia Polska's assets, including the Połaniec Power Plant, producing approx. 10 TWh per annum.

TAURON Capital Group is a fully vertically integrated energy (utility) enterprise that utilizes synergies resulting from the size and scope of the operations conducted.

TAURON Capital Group controls the value chain, from hard coal mining to the delivery of electricity to the final consumers. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission), i.e. hard coal mining as well as electricity and heat generation, distribution, supply and trading.

The below figure presents information on EBIT structure by the main segments.

Figure no. 20. EBITDA - estimated structure by the main segments in 2017<sup>1</sup>



<sup>1</sup>In order to make the segments presented comparable the Generation Segment includes also Mining, RES and Heat; Generation Segment includes impairment charges.  
Source: Companies' Annual Reports

## Generation

### *TAURON Capital Group is Poland's key electricity producer*

TAURON Capital Group's share in the domestic electricity generation market, based on gross electricity production output, reached approx. 11% in 2017. As a result of acquisitions that took place in 2017 electricity production volumes of PGE and ENEA increased. TAURON Capital Group became the third largest electricity producer on the Polish market.

90% of TAURON Capital Group's generation assets are hard coal fired units, 10% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity reaches almost 5.0 GW. Wind farms' installed capacity represents 4%, hydroelectric power plants' installed capacity represents 2.7%, biomass-fired generating units' installed capacity represents 2.9% of TAURON Capital Group's total installed capacity.

Electricity generation market shares changed significantly last year. PGE Group finalized the acquisition of EDF assets and ENEA Group finalized the acquisition of ENGIE assets in 2017. In case of ZE PAK, Adamów Power Plant, a part thereof, was shut down at the beginning of January 2018. The decommissioning of the power plant's generating units was due to the European Commission's decision, indicating the need to finish the operation of Adamów Power Plant's generation assets at the beginning of January 2018.

PGE's share in the domestic electricity generation market reached approx. 36% in 2017, with its installed capacity of 16.3 GW.

ENEA was Poland's second largest electricity generator in 2017, with its market share reaching approx. 14% and installed capacity of 6.3 GW.

Meanwhile ENERGA had the largest, on the Polish market, share of its electricity output coming from RES in 2017, reaching approx. 37%. ENERGA Group's total installed capacity stood at 1.34 GW.

TAURON Capital Group's generation assets are concentrated in the south of Poland. The hard coal deposits used to fire TAURON Capital Group's power plants and combined heat and power plants are also located in this region. The location of generation assets near the hard coal deposits allows for optimizing the costs related to the transportation of this commodity.

The below table presents information on installed capacity as of December 31, 2017 and on electricity generated in 2017.

*Table no. 10. Installed capacity and electricity generation by energy groups in 2017*

#	Group	Installed capacity		Generation <sup>1</sup>	
		Value (GW)	Share (%)	Volume (TWh)	Share (%)
1.	PGE	16.3	37	62	36
2.	ENEA	6.3	14	23	14
3.	TAURON	5.0	12	18	11
4.	PAK	1.9	4	9	5
5.	ENERGA	1,3	3	4	2
6.	CEZ	0.7	2	3	2
7.	Other	12.0	28	51	30
	Suma	43.5	100	170.3	100

<sup>1</sup>Volume of gross electricity generated in 2017

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

The below figures present information on electricity generated in 2017 and installed capacity as of December 31, 2017.

Figure no. 21. Gross electricity production – estimated market shares in 2017

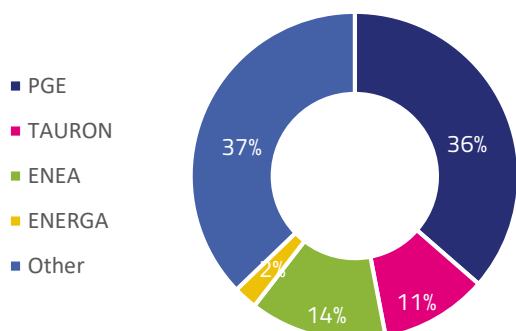
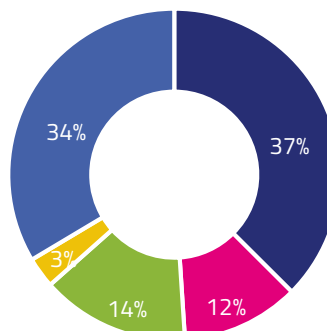


Figure no. 22. Installed capacity – estimated market shares in 2017



Source: ARE, information from 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 final consumers reached approx. 35% in 2017 (taking into account top 5 distributors). TAURON Capital Group's distribution grids cover more than 18% of Poland's territory.

The below table presents basic information on the share of individual energy groups in terms of electricity distribution based on the 2017 data.

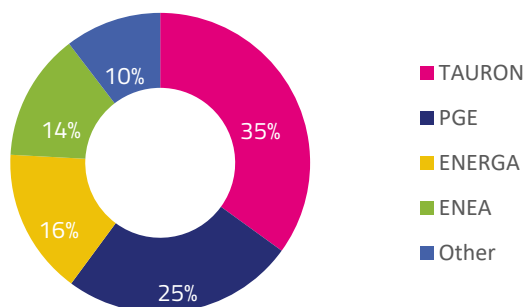
Table no. 11. Electricity distribution to final consumers by energy groups

#	Group	Distribution	
		Volume (TWh)	Share (%)
1.	TAURON	49.1	35%
2.	PGE	35.3	25%
3.	ENERGA	22.1	16%
4.	ENEA	19.3	14%
5.	Other	14.6	10%
Total		140.4	100%

Source: ARE, information from companies published on their websites

The below figure presents estimated market share of individual energy groups in terms of electricity distribution based on the 2017 data.

Figure no. 23.  
Electricity distribution  
- estimated market shares in 2017



Source: ARE, information from companies published on their websites

Based on the data for recent years TAURON Capital Group was number one in terms of volume of electricity delivered, with the volume of electricity delivered by the Distribution Segment to the final customers at 49.1 TWh. In 2019 the volume of electricity delivered to the final consumers reached 49.9 TWh. TAURON Capital Group is Poland's largest electricity distributor also in terms of revenue from the distribution operations.

It should be emphasized that TAURON Capital Group's distribution operations, due to the natural quasi monopoly in the designated area, are a source of stable and predictable revenue, representing a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution geographical area on which the Distribution and Supply Segments subsidiaries are historically operating is a strongly industrialized and densely populated area which impacts the demand for electricity both among households, as well as businesses. The number of the Distribution Segment's customers is more approx. 5.6 million.

## Supply

TAURON Capital Group is Poland's second largest electricity supplier.

The below figure presents basic information on the share of individual energy groups in terms of electricity supply to final consumers based on the 2017 data.

Table no. 12. Electricity supply to final consumers by energy groups

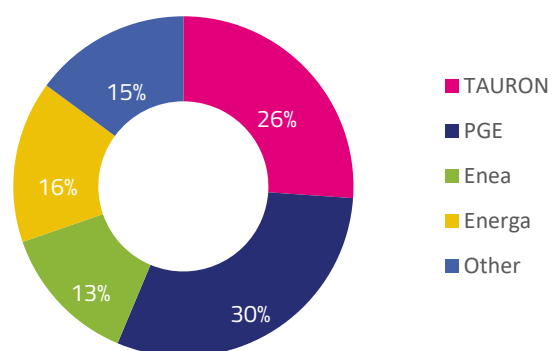
#	Grupa	Supply	
		Volume (TWh)	Share (%)
1.	PGE	40.4	30%
2.	TAURON	34.9	26%
3.	ENERGA	20.6	16%
4.	ENEA	17.9	13%
5.	Other	19.9	15%
<b>Total</b>		<b>133.7</b>	<b>100%</b>

Source: ARE, information from companies published on their websites

The below figure presents estimated market share of individual energy groups in terms of electricity supply to final consumers based on the 2017 data.

Figure no. 24.

Electricity supply to final consumers  
- estimated market shares in 2017



Source: ARE, information from companies published on their websites

TAURON Capital Group was Poland's second largest electricity supplier behind PGE in 2017. Electricity retail supply reached 34.9 TWh in 2017. In 2018 the volume of electricity retail supply reached approx. 34,5 TWh. The number of the Supply Segment's customers is approx. 5.5 million.

In the electricity supply segment the individual energy groups are geographically tied, first of all, to the areas in which they are performing the DSO function – this is applicable especially to customers classified as households and small enterprises. A broader and more open competition among the groups is limited due to the continued obligation to submit tariffs for

households for approval to the President of ERO. The need to apply tariff based prices leads to limited options of positioning prices in the product offerings, and what follows, it impacts their attractiveness for customers. These restrictions do not apply to business and institutional customers.

Among the main competitors of TAURON Capital Group in this segment, on one hand, an upward trend in terms of electricity supply volume is visible, but, on the other hand, a downward trend in terms of earnings can be observed, which can be the effect of the assumptions adopted in the market strategies of these groups.

The below table presents the main sources of competitiveness.

Table no. 13. Sources of competitiveness

#	Line of Business	Initiatives	Sources of competitiveness
1.	Mining	1. Reducing the fuel price and supply risk	1. Own coal resources – security of fuel supply and control over mining costs
	Generation	2. Investments in generating units 3. Operating expenses	2. High efficiency generating units with a competitive unit production cost 3. Improvement of operational efficiency
	RES	1. Operating expenses	1. Improvement of operational efficiency
	Heat	2. Investments in district heating networks	2. Expanding regulated operations
2.	Distribution	1. Operating expenses 2. Investment efficiency 3. Improvement of grid reliability indicators	1. Implementing the ultimate business model 2. Implemented IT systems, separate processes, clear (transparent) split of responsibilities
3.	Supply	1. Operating expenses 2. Sales margin, developing products tailored to customer needs, growth in new Lines of Business	1. Efficiently allocated operating expenses 2. Brand, current customer base, sales channel in place, experience in product and purchasing portfolio management

The impact of the external factors on the financial result achieved in 2018 is described in sections 4 and 5 of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

No material, non-typical (one-off) external events that would have a significant impact on the financial result achieved occurred in 2018.

## 2.2. Material growth impacting factors

The most material impact on the operation of TAURON and TAURON Capital Group will come, similar as it was in the past, from the following factors:

1. macroeconomic situation, particularly in Poland, as well as the economic situation of the area on which TAURON Capital Group is conducting operations and at the EU and global economy level, including changes of interest rates, FX rates, etc., impacting valuation of assets and liabilities listed by the Company in the statement of financial position,
2. political environment, particularly in Poland and at the EU level, including the positions and decisions of the state administration institutions and offices, e.g.: UOKiK, URE (ERO) and the European Commission,
3. changes to the regulations related to the power sector, and also changes in the legal environment, including: tax law, commercial law, environment protection law,
4. introduction of the generation capabilities compensation mechanism (the so-called capacity market), in particular the results of the main auctions for the delivery of electricity in 2021-2023 and decisions on the future shape of the OCR (ORM) and cold intervention reserve,

5. support system for electricity generation from high efficiency cogeneration, resulting, on one hand, in the costs of redeeming "red" and "yellow" certificates with the suppliers of electricity to final consumers, on the other hand, in revenue from the sale of "red" and "yellow" certificates with the generators of electricity from cogeneration.
6. new RES support system, the so-called RES auctions,
7. modification of the regulatory model for the DSO operations with its goal to make the electricity distribution quality indicators (SAIDI, SAIFI) independent of the weather conditions, including natural disasters,
8. situation in the power sector, including the activities and actions of the competition on the energy market,
9. number of CO<sub>2</sub> emission allowances allocated for free, and also prices of allowances purchased – in case of a deficit of free allowances,
10. wholesale electricity prices,
11. level of tariff for the electricity supply to households (tariff group G) for 2019 approved by the President of ERO,
12. electricity and coal sales prices and distribution tariffs based on the adopted DSO operations regulation model, as factors impacting the revenues level,
13. prices of certificates of origin of energy from renewable sources and from cogeneration,
14. prices of fuels (energy commodities),
15. high probability of a deficit of appropriate quality fuels for the generating units on the domestic market,
16. environment protection requirements as a consequence of changes to the Environment Protection Law act (Journal of Laws of 2001 no. 62, item 627 as amended), the so-called anti-smog resolutions,
17. planned changes to the regulations related to the act of August 25, 2006 on the system for monitoring and inspecting fuel quality (Journal of Laws of 2006 no. 169, item 1200), among others the quality requirements for solid fuels,
18. science (research) and technical progress,
19. demand for electricity and the other energy market products, taking into account changes due to seasonality and weather conditions.

TAURON Capital Group's operations are characterized by seasonality which is applicable, in particular, to heat production, distribution and supply, electricity distribution and supply to individual consumers and hard coal sales to individual consumers for heating purposes. Heat sales depend on weather conditions, in particular, on air temperature, and are higher in the autumn and winter season. Volume of electricity supply to 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 individual consumers is higher in the autumn and winter season. Seasonality of TAURON Capital Group's other lines of business is low.

### 2.3. Core products, goods and services

#### TAURON Polska Energia S.A.

As the parent entity of the Capital Group TAURON performs the consolidating and management function at TAURON Capital Group. As a result of implementing the Business Model and centralizing of the functions, TAURON concentrated many competences related to the functioning of TAURON Capital Group's subsidiaries and is currently carrying out operations, among others, in the following areas:

- |   |   |
|---|---|
| <ol style="list-style-type: none"> <li>1. wholesale trading in electricity and related products, in particular, with respect to providing commercial services for the subsidiaries, securing the fuel requirements, CO<sub>2</sub> emission allowances and certificates of origin electricity,</li> <li>2. purchasing management,</li> <li>3. finance management,</li> <li>4. corporate risk management,</li> </ol> | <ol style="list-style-type: none"> <li>5. managing the functioning of the IT model,</li> <li>6. coordinating research and development activities carried out by TAURON Capital Group,</li> <li>7. advisory services with respect to accounting and taxes,</li> <li>8. legal support (services),</li> <li>9. audit.</li> </ol> |
|---|---|

The above functions are gradually limited at TAURON Capital Group's subsidiaries. Such centralization is aimed at improving TAURON Capital Group's efficiency.

The core operations of the Company, besides managing TAURON Capital Group, include wholesale electricity trading on the territory of the Republic of Poland, based on the license for trading in electricity issued by the President of ERO for the period from June 1, 2008 until December 31, 2030.

The Company is focusing on purchasing and selling electricity for the needs of securing the buy and sell positions of TAURON Capital Group's entities and on wholesale electricity trading. In 2018 the Company bought and sold 39.7 TWh of electricity. Electricity sales performed by TAURON in the financial year 2018 were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, to which 87% of purchased electricity was sold. These companies are performing retail electricity supply – to the final consumers, and therefore TAURON is not dependent on any electricity consumer. The other consumers (trading companies outside TAURON Capital Group, exchanges) accounted for less than 10% of the revenue.

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 2018 the Company purchased and sold 3 TWh of gas fuel. The Company is focusing on selling natural gas for the sales needs of TAURON Sprzedaż with 53% of the purchased fuel gas sold thereto. The other volume was sold mainly on the exchange (37%). The other consumers accounted for less than 10%.

The competences of the Company also include management, for the needs of TAURON Capital Group, of the property rights related to certificates of origin of electricity, representing the confirmation of electricity generation from renewable sources (including sources using agricultural biogas), in high-performance co-generation, in gas-fired co-generation, in mining methane-fired co-generation as well as the property rights related to electricity efficiency certificates. In 2018 the Company did not carry out trading in the property rights, such trading was carried out by TAURON Capital Group's subsidiaries obligated to redeem the above mentioned property rights.

The Company is a competence center with respect to management and trading in CO<sub>2</sub> emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing trading in emissions a synergy effect was obtained, involving optimizing of the costs of utilizing the resources of TAURON Capital Group's entities. Due to centralizing of this function in TAURON the Company is responsible for settlements of the subsidiaries' CO<sub>2</sub> emission allowances, securing the subsidiaries' emission needs taking into account the allowances allocated and the support in the process of acquiring allowance limits for the subsequent periods. In 2018 the Company purchased and sold 17.7 million tons, including 73% of the volume to TAURON Wytwarzanie, 10% to TAURON Ciepło 10% and 17% of the volume outside TAURON Capital Group (primarily on exchanges).

TAURON is actively participating in consultations related to legal acts on the national and European level, and it is also providing support for its Generation Line of Business subsidiaries in the process of obtaining free allowances. As part of the process of accomplishing the above goals with respect to trading in CO<sub>2</sub> emission allowances the Company is actively participating in trading on the European Climate Exchange (The ICE) in London, EEX exchange in Leipzig and on the OTC market.

In addition, TAURON also acts as the Market Operator and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for external customers. These functions are carried out under the Transmission Agreement concluded with the TSO – PSE. In 2018 the value of trading services related to electricity, provided by the Company, reached PLN 14.5 million, including 87% within TAURON Capital Group (largest consumers: TAURON Wytwarzanie 54%, TAURON Sprzedaż 30%) and 13% on the market. The Company currently holds exclusive control over generation capacity with respect to trading and technical capabilities related thereto, it is responsible for optimizing the generation, i.e. the selection of generation units for operation as well as relevant distribution of loads in order to execute the contracts concluded, taking into consideration the technical conditions of the generation units as well as the grid constraints and other factors, in various time horizons. 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 production plans for the generation units, in various time horizons, as well as in agreeing them with the relevant grid operator. TAURON is also developing its competences with



respect to the Market Operator function for gas under the transmission agreement with GAZ – System S.A. Since July 2015 TAURON, as one of the first entities in Poland, launched a balancing group for entities trading in gas.

In 2018 TAURON conducted, on behalf of TAURON Capital Group's subsidiaries, the general certification of physical units, existing and planned, and subsequently the certification of the capacity market units for the auctions for 2021-2023 under the capacity market being implemented. As a result TAURON Capital Group's physical generating units and controllable loads were able to take part in the auctions conducted in November and December 2018, which allows TAURON Capital Group to obtain revenue under this mechanism starting from 2021.

In accordance with TAURON Group's adopted Business and Operational Model TAURON is performing the management function with respect to managing the purchasing of production fuels for the needs of TAURON Capital Group's generation entities.

### TAURON Capital Group

TAURON Capital Group's core products are electricity and heat as well as hard coal. Additionally, the Group is trading in: electricity and energy market products as well as coal and gas, and it is also providing electricity distribution and supply services, including to the final consumers, heat distribution and transmission and other services related to the operations conducted.

The below table presents TAURON Capital Group's 2018 – 2016 production and sales volumes.

Table no. 14. 2018-2016 production and sales volumes

#	Production and sales volumes	Unit	2018	2017	2016	Change (2018/2017)
1.	Commercial coal production	Mg m	5.01	6.45	6.37	78%
2.	Coal sales by the Mining Segment	Mg m	4.87	6.77	6.06	72%
3.	Gross electricity production	TWh	16.21	18.41	16.80	88%
	<i>including production from RES</i>	<i>TWh</i>	<i>0.97</i>	<i>1.30</i>	<i>1.32</i>	<i>75%</i>
4.	Heat production	PJ	11.29	12.20	11.52	93%
5.	Electricity and heat supply by the Generation Segment	TWh	15.68	19.61	15.54	80%
		PJ	15.23	16.38	15.82	93%
6.	Electricity distribution	TWh	51.97	51.37	49.68	101%
7.	Retail electricity supply <i>(in total, by Segments: Supply and Generation)</i>	TWh	34.52	34.94	32.04	99%
8.	Number of customers - Distribution	'000	5 598	5 533	5 474	101%

## 2.4. Markets and sources of supply

### 2.4.1. Markets

#### Coal sales

Coal sales are conducted primarily by TAURON Wydobycie – the Generation Segment subsidiary and TAURON.

TAURON Wydobycie subsidiary 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 Brzeszcze deposit.

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

calorific value from 19 MJ/kg to 31 MJ/kg,

ash content from 4.3% to 45.2%,

sulphur content from 0.23% to 1.68%.

TAURON Wydobycie conducts the sales of coal in two directions:

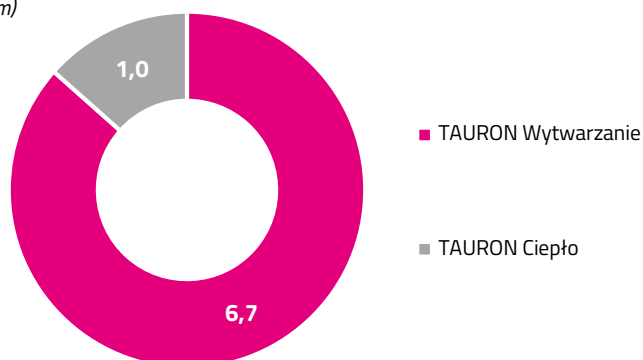
1. sales of fine coal and coal sludge to power plants and co-generation plants, mostly within TAURON Capital Group,
2. sales of coarse, medium and small amount of fine coal assortments through the nationwide organized sales network, primarily on the domestic market.

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, to enterprises and individual consumers.

In 2018 hard coal sales by TAURON Wydobycie reached approx. 4.9 million Mg, including 3.7 million Mg (approx. 76%) to TAURON Capital Group's Generation Segment companies. It means a 28% decrease as compared to 2017 and is due to lower commercial coal production by the individual coal mines. The Janina Cola Mine (ZG Janina) suffered the biggest drop which was due to, among others, halting extraction on one of the coal faces as a result of increased water outflows. Lower extraction output by the other coal mines is a consequence of deteriorated geological and mining conditions.

The below figure presents the summary of the Company's 2018 fuel shipments.

Figure no. 25. Summary of the Company's 2018 coal sales (Mg m)



### Sales of generated electricity and heat

TAURON Capital Group's electricity and heat generation (Generation Segment's operations) is performed by:

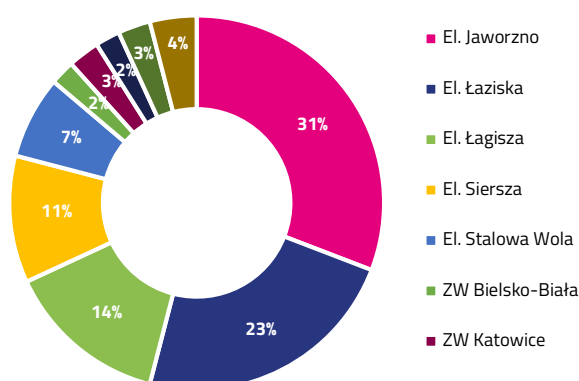
1. coal-fired and biomass burning power plants and combined heat and power plants,
2. hydroelectric power plants,
3. wind farms.

Generation Segment's companies operations also include trading, distribution and transmission of heat.

The total installed electric capacity of TAURON Group's generation units reached 5.0 GWe of electric capacity and 2.4 GWt of thermal capacity at the end of 2018.

The below figure presents the structure of installed electric capacity as of December 31, 2018 (no material changes versus 2017).

Figure no. 26.  
Structure of the Generation Segment's installed capacity as of December 31, 2018



In 2018 TAURON Capital Group's subsidiaries produced 16.2 TWh of electricity (including 1.0 TWh from RES), i.e. 12% less in relation to 2017 when the production of electricity reached 18.4 TWh (including 1.3 TWh from RES). It is a consequence of lower sales of electricity from own production year on year and a result of the adopted commercial (trading) strategy. Lower production from RES is due to less favorable wind and hydrological conditions and the reduction of biomass burning.

Sales of electricity from own production plus energy purchased for trading (resale) purposes reached 15.7 TWh in 2018, which meant a decrease by 20% in relation to 2017.

In 2018 the electricity produced by TAURON Capital Group's subsidiaries was sold on the domestic market, first of all to TAURON Capital Group's Supply Segment companies (55%), as well as on TGE (26%) and on the balancing market (PSE Operator) (19%). The shares of electricity sales on TGE and on the balancing market were materially higher in 2018 versus 2017 (due to an increase of the exchange obligation).

Heat sales by TAURON Capital Group's subsidiaries reached 15.2 PJ in 2018 and it was lower by 7% in relation to 2017. The share of heat generated from own sources in the total heat sales reached 63% in 2018. TAURON Wytwarzanie subsidiary's power plants are selling heat in Upper Silesia and Zagłębie, and also in parts of the Podkarpackie region – Stalowa Wola and Nisko supplied by the Stalowa Wola Power Plant and Małopolska region – a part of Trzebinia supplied by the Siersza Power Plant.

Heat is sold mainly via the heat distributors: TAURON Ciepło, SCE Jaworzno III, Przedsiębiorstwo Energetyki Ciepłej 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 sold directly to the consumers located in the vicinity of the generation companies.

On the other hand, TAURON Ciepło's heat sales market - mainly for heating purposes, production of hot water for domestic use, process water, includes diverse consumers:

- Cooperative sector (47%)
- Private sector – multi-family buildings (housing communities) and single family houses (14%)
- Municipal sector (17%)
- Offices and institutions sector (11%)
- Industrial sector and other (10%).

Moreover, TAURON Capital Group's generation companies obtain certificates of origin due to electricity generation from RES and in co-generation, which are subsequently purchased by the Supply Segment companies and submitted to the President of ERO for redemption.

### 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 Capital Group's company is operating includes the operations of 5 large distribution system operators that are subject to the full regulatory model. Each DSO is operating on the territory defined in the license. Following changes to the law, also more than a hundred of small distribution system operators are operating on this market serving small portions of the market (small market share), with respect to which the President of ERO is applying a simplified regulatory model. Their operations are local, based on the technical infrastructure held. One of the larger entities holding a license for distribution operations nationwide is PKP Energetyka sp. z o.o.

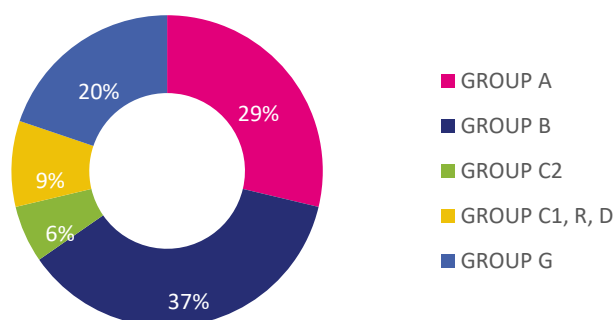
TAURON Capital Group's company is providing electricity distribution services for approx. 5 598 000 final consumers. The company covers with its operations the area of about 57 thousand km<sup>2</sup>, located mainly in the Lower Silesia, Małopolska, Opole and Silesia regions and, in addition, in the 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.

In 2018 the electricity distribution services sales volume reached 51.97 TWh, rising in relation to 2017 by 0.6 TWh, i.e. 1%.

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 95.5% of the distribution services sales volume. The total electricity volume supplied to the tariff eligible consumers connected to the TAURON Dystrybucja grid in 2018, as part of the sales of distribution services, reached 52 TWh (estimated) and it was higher as compared to 2017 by approximately 0.8 GWh, i.e. by 1.68%.

The below figure presents electricity distribution by tariff groups in 2018 (the structure in relation to 2017 did not change).

Figure no. 27. Electricity distribution by tariff groups in 2018 r. (MWh)



Sales of the distribution services are carried out on the basis of comprehensive agreements as well as agreements on the provision of distribution services concluded with consumers. The first type of agreement covers both electricity supply by the companies of the Supply Segment as well as the delivery of this energy by the company acting as a DSO. The second type of agreement regulates only the delivery of electricity by the company acting as a DSO. In case of this type of agreements, the purchase of electricity is governed by separate electricity supply agreements, concluded by a consumer with the supplier selected thereby.

#### Wholesale and retail supply of electricity and gas

Electricity supply is conducted by the Supply Segment companies, with respect to the wholesale trading of electricity, natural gas and other products of the energy market as well as with respect to retail electricity and natural gas supply.

TAURON's wholesale trading operations comprise mainly wholesale of electricity, trading and management of CO<sub>2</sub> emission allowances, property rights arising from the certificates of origin of energy and trading in natural gas, primarily for the needs of securing the buy and sell positions of TAURON Capital Group's entities.

The Company is operating on the wholesale markets both in Poland and abroad, also on the SPOT market and the futures market. The Company is an active participant of TGE and the OTC platform run by a London energy broker - Tradition Financial Services. On January 19, 2018 TAURON signed an agreement with TGE on performing a market maker function with respect to instruments related to electricity on RTT. In accordance with the aforementioned agreement TAURON provides not only the liquidity of products defined in the agreement, through issuance of buy and sell orders during the session but also animates the market through increasing own transactions made on the market. As a result, after exceeding a certain level of transactions market share, TAURON benefits by obtaining preferential clearing rates.

With respect to wholesale gas fuels trading operations the Company is an active participant of the gas market run by TGE executes transactions on the SPOT market as well as on the products of the RTT forward market. It is involved in proprietary trading activity on an international gas exchange POWERNEXT Pegas. The Company is present on the hub: GASPOOL, New Connect Germany and Tittle Transfer Facility. TAURON is operating on foreign markets due to agreements concluded by the Company with German transmission system operators: GASCADE Gastransport and ONTRAS Gastransport GmbH as well as Czech NET4GAS s.r.o. TAURON is actively participating in auctions related to the cross-border (interconnector) exchange of electricity transmission capacity on the Polish-Czech, Polish-German and Polish-Slovak border, managed by the CAO auction office. Trading on the German market with respect to trading in financial instruments such as futures, is mainly carried out through the EEX exchange. On the other hand, on the Czech and Slovak markets trading is performed through a subsidiary - TAURON Czech Energy. Moreover, the Company is operating on exchanges of KOTE a.s. (Czech Republic) and OKTE a.s. (Slovakia).

Furthermore, the Company is a participant of the Intercontinental Exchange (ICE) on the National Balancing Point (NBP) hub. Gaining access to new hubs is a consequence of the activity aimed at increasing TAURON's gas related competences and access to new sources. The volume of the OTC market transactions concluded by the Company is also successively increasing. By operating on the gas market the Company is securing commodity supplies for entities of TAURON Capital

Group; moreover, prop trading operations are carried out on the futures 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 it is purchasing inter-system (interconnector) transmission capacities. With respect to booking transmission capacity on the Polish market the Company is operating as a participant of the GSA GAZ-SYSTEM Aukcje.

Electricity and natural gas retail supply – to the final consumers – is conducted by TAURON Sprzedaż and TAURON Sprzedaż GZE subsidiaries, include electricity and gas sales to the final customers, including also the key accounts.

The customer segmentation applied by TAURON Capital Group (strategic, business and mass customers), depending on the volume of electricity consumed, is aimed at tailoring the product offering, sales channels and marketing communications to the expectations of the specific customer segment.

The below table presents categories of TAURON Capital Group's final customers, resulting from the market segmentation used and the specific nature of their business.

Table no. 15. Categories of TAURON Capital Group's final customers

#	Customer group	Description of customers
1.	Strategic customers	Customers with the annual potential energy consumption at a level not lower than 40 GWh or strategic business partners of TAURON Capital Group, i.e. mainly entities representing the sector of heavy industry, among others: metallurgical industry, chemical industry, mining industry, automotive industry
2.	Business customers	Customers with the annual potential energy consumption at a level above 250 MWh (other than consumers), or purchasing energy based on the provisions of the Act of 29 January 2004 on Public procurement law, i.e. entities representing other sectors of industry, producers of equipment, consumers from food industry, public sector, construction sector and public utilities sector
3.	Mass customers - small and medium-sized enterprises	Customers dealing with sales, services, banking, catering and small entrepreneurs
4.	Mass customers - households	Households

In 2018 the supply companies were operating in a market environment where the level of competitiveness in individual segments did not change significantly as compared to the previous years. In 2018 the household market (individual customers) continued to be covered by the obligation to have electricity sales prices approved by the President of ERO.

According to the ERO data, from mid-2007 until December 2018, i.e. since the beginning of the energy market liberalization process, approximately 605 thousand households and approximately 201 thousand 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 energy companies exert ever increasing price pressure. Business customers are more and more willing to switch their supplier. The consequences of such a situation include activities aimed at protecting own customer base against actions taken by the competition by introducing loyalty building agreements. In TAURON Capital Group's business customer segment almost 96% of the volume under the concluded agreements is the result of individually negotiated commercial terms.

The household segment, where the number of supplier switch cases represents a small percentage, is considered to offer a strong potential. In 2018 over 71 thousand consumers of electricity switched their suppliers (including approximately 13 thousand institutional customers and approximately 58 thousand households). In 2018 the growth rate of changes in case of households reached 10.6%, and in case of institutional entities – 6.8%.

In 2018 the offering of TAURON Sprzedaż for the business segment included two media – electricity and gas fuel. The Company continued its activities geared towards building customer loyalty – with particular emphasis placed on developing an offering meeting 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.

In 2018 sales of the *TAURON Giełda* product, structured based on RTT TGE indices performance, were continued. Furthermore, in order to intensify electricity and gas contracting, the *TAURON Multipakiet* product that provided simultaneous customer contracting with respect to both media within a single contracting negotiations process, continued to be a part of the offering. The *Wakacje od faktury* product was very successful with its sales rising four times in 2018 versus the previous year.

The process of mass segment customers (individual customer and small and medium size enterprises) migrating from the tariff based pricing covered area to the product based pricing was also observed in 2018. As of the end of 2018 TAURON Capital Group was selling electricity under agreements guaranteeing commercial terms over the specified period to 42% of the segment's customers (loyalty agreements), while 58% of the customers were buying electricity at tariff based prices.

Key elements of the commercial offering for the mass customers in 2018 were combined products: *Elektryk and Serwisant*, based on the assistance functionality, that were used by more than 1.2 million customers (medical packages were launched, the functionality of the Serwisant 24h PLUS product was extended).

Furthermore, in 2018 the range of products addressed to the customers was extended by adding specialized products, e.g. *TAURON Smart Home*, with its sales in 2018 reaching 24 thousand. The assistance products will represent the core of the offering also in 2019.

In 2018 the retail supply of electricity realized by the Supply Segment companies to approx. 5.5 million customers reached approx. 34.5 TWh, i.e. 99% of the 2017 level when the supply came in at approx. 34.9 TWh. Decreased supply volume is visible primarily in the Business Customer Segment, which is due to the reduction of the of PPEs of the customers included in the portfolio of TAURON Capital Group's supply companies (e.g. Jastrzębska Spółka Węglowa S.A., Spółka Restrukturyzacji Kopalń S.A.). On the other hand, gas supply volume to the final consumers reached 1.5 TWh and it was 1% higher than the supply volume in 2017, while gas supply volume to the other consumers and to the exchanges rose significantly: from 0.9 TWh in 2017 to 1.43 TWh in 2018.

The below table presents information on the volume of electricity sold by TAURON Capital Group's subsidiaries operating with respect to retail electricity supply to customers, as well as the number of customers, broken down into individual customer segments, in 2018.

Table no. 16. Volume of retail electricity sold by the Supply Segment and the number of customers in 2018

#	Customer type	Electricity volume sold (TWh)	Number of customers ('000)
1.	Strategic customers	7.1	0.5
2.	Business customers	12.9	198
3.	Mass customers, including:	11.2	5 247
	<i>Households</i>	9.5	4 889
4.	Sales to TAURON Dystrybucja to cover balancing differences	2.9	0.001
5.	Other (exports, own needs)	0.4	-
Supply Segment		34.5	5 445.5

## 2.4.2. Supply sources – fuel

### Coal (domestic market)

TAURON Capital Group purchases coal solely on the domestic market.

In 2018 TAURON continued coal purchases, for the needs of TAURON Wytwarzanie and TAURON Ciepło subsidiaries, under the agreements concluded with the suppliers from outside TAURON Capital Group:

- |  |                                       |
|--|---------------------------------------|
| 1. Polska Grupa Górnicza Sp. z o.o. (PGG), (53%*), | 5. EP Coal Trading Polska S.A. (3%*), |
| 2. Węglkokoks S.A., (22%*),                        | 6. HALDEX S.A. (2%*),                 |
| 3. Jastrzębska Spółka Węglowa S.A. (JSW), (10%*),  | 7. Grupa CZH S.A. (1%*),              |
| 4. TRANSLIS Sp. z o.o. (8%*),                      | 8. Węglkokoks Kraj Sp. z o.o. (1%*).  |

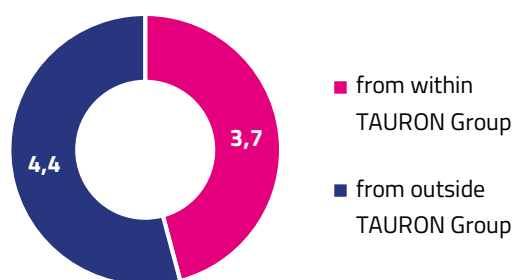
\* shares of the suppliers in the total value of coal supplies from outside TAURON Capital Group

The Company purchased, in total, 4.4 million tons of coal from the suppliers outside TAURON Capital Group in 2018.

Additionally, TAURON Wytwarzanie and TAURON Ciepło purchased coal and coal sludge for the needs of electricity and heat production directly from TAURON Wydobycie - 3.7 million tons in total.

The below figure presents the quantity of coal and coal sludge purchased by TAURON Capital Group in 2018.

Figure no. 28. Coal purchases in 2018 (in Mg m)



In 2018 approx. 44% of the demand for coal required to produce electricity and heat was satisfied with hard coal from TAURON Wydobycie's own coal mines. The remaining part of the demand was covered from external sources, among which PGG had the largest share and the second significant external supplier was Węglkokoks S.A. with its seat in Katowice. TAURON does not have any equity ties with the above mentioned companies.

#### Gas (domestic and foreign market)

TAURON Capital Group purchases fuel gas, mainly through the Company's operations, on the domestic market, via exchanges.

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

The Company is also involved in the proprietary trading activity on an international gas exchange POWERNEXT

Pegas. The Company is present in the hub: GASPOOL, New Connect Germany and Tittle Transfer Facility.

Furthermore, the Company is a participant of the Intercontinental Exchange (ICE) on the National Balancing Point (NBP) hub. It is also systematically increasing the volume of transactions concluded by the Company on the OTC market.

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

## 2.5. Timeline

The below figure presents the timeline of selected highlights associated with the operations of TAURON Polska Energia S.A. and TAURON Capital Group that took place in 2018.

Figure no. 29. Timeline

<p>JANUARY - FEBRUARY</p>	<ul style="list-style-type: none"> <li>• TAURON is a participant of the international research program MOBISTYLE with the goal to raise customer awareness with respect to optimal energy consumption, air quality improvement, health and lifestyle.</li> <li>• Signing with PGNiG, PGG and JSW of a letter of intent related to the development of the Geo-Metan program with the goal to develop and improve domestic technologies for the exploration and extraction of methane from the coal deposits prior to commencing the mining operations.</li> <li>• <i>Updating of TAURON Group's Business and Operational Model.</i></li> </ul>
<p>MARCH – APRIL</p>	<ul style="list-style-type: none"> <li>• Concluding of the cooperation agreement with Electric Power Research Institute with respect to implementing two international research and development projects (Energy Storage and Distributed Generation, Understanding Electric Utility Customer).</li> <li>• Extending the term of the agreements related to the Bond Issue Program worth up to PLN 6 270 000 PLN and adapting their content to the requirements introduced by the MiFID2 regulatory package.</li> <li>• Concluding with PGNiG, PGNiG TERMIKA S.A., TAURON Wytwarzanie and EC Stalowa Wola of the agreement related to the implementation of an additional investment project in the form of the Back-up Heat Source as part of the construction of the CCPP unit at EC (CHP) Stalowa Wola.</li> <li>• Publishing of TAURON's and TAURON Capital Group's 2017 earnings</li> <li>• Concluding with the Polish Development Fund (Polski Fundusz Rozwoju - PFR) of the investment agreement defining the terms of engagement in the implementation of the construction of the 910 MW power generating unit at Jaworzno.</li> <li>• Launching of the language consultants program as part of the initiative "TAURON mówi po ludzku" ("TAURON speaks human language").</li> <li>• Holding of the Ordinary GM of TAURON.</li> <li>• Successful pressure test of the 910 MW power generating unit at Jaworzno.</li> <li>• <i>Adoption of the 2018-2025 Asset Strategic Management Plan.</i></li> </ul>
<p>MAY - JUNE</p>	<ul style="list-style-type: none"> <li>• Launching, in a consortium with Ericsson, of a research and development project "Internet Rzeczy w Inteligentnym Mieście" ("Internet of Things in a Smart City") involving developing a smart city offering.</li> <li>• Signing with ING Bank Śląski S.A. of a letter of intent on initiating the cooperation with respect to the development of the infrastructure for electromobility and expanding electric vehicles carsharing.</li> <li>• Publishing of TAURON's and TAURON Capital Group's Q1 2018 earnings.</li> <li>• Adoption by TAURON Capital Group of the Personal Data Protection Policy and the Compliance Policy.</li> <li>• Concluding with the Polish Development Fund (Polski Fundusz Rozwoju - PFR) and the National Research and Development Center (Narodowe Centrum Badań i Rozwoju - NCBR) of the agreement on establishing the Corporate Venture Capital (CVC) fund supporting innovations in the power sector.</li> <li>• <i>Adoption of TAURON Group's 2018-2025 Communications Strategy.</i></li> <li>• Completing the successive stage of constructing the skewed carburization bridge at the 910 MW unit at Jaworzno.</li> </ul>
<p>JULY - AUGUST</p>	<ul style="list-style-type: none"> <li>• Signing with NCBR, ENEA, Energa-Operator S.A., PGE Dystrybucja S.A. and TAURON Dystrybucja of the letter of intent on the joint implementation of the e-VAN program aimed at developing innovative, emission free utility vehicles.</li> <li>• <i>Adoption of TAURON Group's Security Management Policy and TAURON Group's Information Classification and Handling.</i></li> <li>• Publishing of <i>TAURON Capital Group's multimedia 2017 Integrated Annual Report on TAURON Capital Group's operations.</i></li> <li>• <i>Adoption of TAURON Group's Counterparties (business partners, contractors) Credibility Evaluation Procedure.</i></li> <li>• Launching of the project aimed at building a broadband internet access network in seven regions of southern Poland.</li> <li>• <i>Adoption of TAURON Group's Document Falsification Countering Procedure and TAURON Group's Tender Collusion Countering Procedure.</i></li> <li>• Publishing of TAURON's and TAURON Capital Group's H1 2018 earnings.</li> <li>• Adoption of TAURON Group's Intellectual Property Management Model.</li> </ul>



SEPTEMBER -  
OCTOBER

- Agreement with TechBrainers sp. z o. o. of the agreement on the participation in the acceleration project under the name Pilot Maker Electro as part of the Elektro ScaleUp program conducted by the Polish Agency for Enterprise Development Agency (Polska Agencja Rozwoju Przedsiębiorczości).
- Adoption of *TAURON Group's Trading Planning Policy*.
- Concluding with the Ministry of National Education of the agreement on the vocational education and training aligned to the needs of the changing economy.
- Launching of the research and development program "Human Centric Lab" aimed at creating a unit to be used for the development of new technologies, products and services, and also business solutions and models for TAURON Capital Group's lines of business.
- Commencing of the negotiations on the acquisition by TAURON of the wind farms located in the north of Poland owned by the in.ventus farm group.
- TAURON included among *The Best of The Best* and awarded the first special prize for the best integrated annual report in *The Best Annual Report competition*.
- Adoption of *TAURON Group's Business and Operational Model with respect to IT*.

NOVEMBER –  
DECEMBER

- Publishing of TAURON's and TAURON Capital Group's Q3 2018 earnings.
- TAURON joining International Project Management Association Polska.
- Participation in the capacity market main auctions with the delivery in 2021, 2022 and 2023.
- Launching of the 2nd edition of the Ambassador Grupa TAURON Program with the goal to engage students in the process of building TAURON Group's positive image in the academic community and generate interest among top students and graduates in the internship, apprenticeship and job offering.
- Concluding of the investment loan agreement in the amount of PLN 1 000 000 000 with Bank Gospodarstwa Krajowego and launching of the said financing.
- Launching jointly with ING Bank Śląski S.A. of the electromobility system in Katowice in the form of the electric vehicles carsharing pilot project.
- Launching of the electric vehicles renting service in Katowice.
- Concluding of the hybrid financing agreements with the European Investment Bank and launching of the financing in the form of subordinate bonds.
- Launching of the Mój TAURON (My TAURON) service mobile application.
- Polish Development Fund (Polski Fundusz Rozwoju - PFR) joining the Nowe Jaworzno Grupa TAURON special purpose vehicle implementing the construction of the 910 MW unit at Jaworzno.

## 2.6. Key events and TAURON Capital Group's accomplishments with a significant impact on its operations

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that occurred in 2018, as well as until the day of drawing up this report are listed below. Additionally the above events should include concluding agreements significant for TAURON Capital Group's operations, described in detail in section 12.2.1. of this report.

### Key business events in 2018

Filing of the lawsuits in connection with the termination of long-term contracts for the purchase of power and property rights

On June 18, 2018 TAURON received an official copy of the lawsuit filed by the companies that are members of Polenergia S.A. Capital Group:

- 1) company under the name of Amon sp. z o.o. with its seat in Łebcz ("Amon") for the payment of damages in the amount of PLN 47 556 025.51 and the demand to determine the Issuer's liability for the losses that may arise in the future due to tort in the total amount of PLN 158 262 177.70, and
- 2) company under the name of Talia sp. z o.o. with its seat in Łebcz ("Talia") for the payment of damages in the amount of PLN 31 299 182.52 and the demand to determine the Issuer's liability for the losses that may arise in the future due to tort in the total amount of PLN 106 964 520.73.

On June 29, 2018 TAURON received an official copy of the lawsuit filed against the Issuer by in.ventus sp. z o.o. Mogilno I sp. k. in Wrocław ("Plaintiff") for the payment by the Company, as damages, for the benefit of the Plaintiff, of the amount of EUR

12 286 229.70 and determining liability for damages that may arise in the future, due to tort, with the total value estimated to be worth EUR 35 705 848.71

Under the lawsuit the Plaintiff is asserting its own claims, as well as those taken over by the Plaintiff by way of liability transfer agreements from: in.ventus sp. z o.o. Mogilno II sp. k., in.ventus sp. z o.o. Mogilno III sp. k., in.ventus sp. z o.o. Mogilno IV sp. k., in.ventus sp. z o.o. Mogilno V sp. k., in.ventus sp. z o.o. Mogilno VI sp. k.

The competent court to rule on the lawsuits is the Regional Court in Katowice (Sąd Okręgowy w Katowicach). The preliminary assessment of the lawsuits and their justifications indicates that the claims asserted by Amon and Talia as well as by Mogilno I are without merit and completely groundless.

The detailed information on the above events was disclosed in the regulatory filings (current reports): no. 7/2015 of March 19, 2015, no. 21/2018 of June 18, 2018 and no. 22/2018 of June 29, 2018.

Commencement of the negotiations on the acquisition of wind farms

On October 2, 2018 the Management Board of TAURON received an invitation to commence negotiations on the acquisition by TAURON of wind farms located in the north of Poland farm, owned by the in.ventus group. The total installed capacity of the above mentioned wind farms is approx. 200 MW.

The transaction can be carried out by way of TAURON acquiring German and Polish partnership companies operating the farms (Project Companies). In such case TAURON will take over all rights and obligations of the current partners in the Project Companies while at the same time acquiring the bank's claim towards the Project Companies. TAURON allows for such a way to proceed with the transaction by acquiring the enterprise of the Polish project companies.

On March 7, 2019 TAURON informed of continuing the negotiations on the acquisition of wind farms located in the north of Poland farm, owned by the in.ventus group.

The detailed information on the above event was disclosed in the regulatory filings (current reports): no. 27/2018 of October 2, 2015 and no. 5/2019 of March 11, 2019.

Preliminary interest of Polska Grupa Energetyczna S.A in the acquisition of the shares in PGE EJ1 sp. z o.o.

On November 28, 2018 TAURON received a letter from Polska Grupa Energetyczna S.A. in which Polska Grupa Energetyczna S.A. expressed preliminary interest in acquiring all of the shares in PGE EJ 1 owned by TAURON.

PGE EJ1 is the company responsible for the preparation and implementation of the investment project involving the construction and operation of Poland's first nuclear power plant. TAURON holds a 10 percent stake in PGE EJ1.

On November 30, 2018 TAURON expressed preliminary interest in selling all of its shares in PGE EJ 1

The Company disclosed information on the above events in the regulatory filings (current reports): no. 32/2018 of November 28, 2018 and no. 33/2017 of November 30, 2018.

Capacity market main auctions with the delivery in 2021-2023

On November 15, December 5 and December 21 2018 the first three capacity market main auctions with the delivery in 2021-2023 were held. The auctions were conducted by PSE in accordance with the *act of December 8, 2017, on the capacity market* (Act). In the capacity market auctions TAURON Capital Group subsidiaries offered the so-called capacity obligation, i.e. the obligation to:

1. maintain, during the delivery period, readiness to deliver specified electric capacity to the National Power System by TAURON Group's individual Capacity Market Units (units generating electricity or demand side response units),
2. deliver specified electric capacity to this system during stress periods that may be announced by Polskie Sieci Elektroenergetyczne S.A. ("PSE") in accordance with the Act.

On November 27, 2018 the President of the Energy Regulatory Office (ERO) published in the Bulletin of Public Information (Biuletyn Informacji Publicznej) the final results of the main auction with the delivery in 2021. In accordance with the

information published the auction's closing price reached 240.32 PLN/kW/year, and TAURON Capital Group's subsidiaries concluded capacity agreements for the total volume of capacity obligations amounting to 2 672.49 MW, including the contracts for:

1. 17 years (i.e. for 2021-2037) with the capacity obligation of 4.66 MW, under which the annual revenue estimated by the Company will reach PLN 1.12 million,
2. 15 years (i.e. for 2021-2035) with the capacity obligation of 768 MW, under which the annual revenue estimated by the Company will reach PLN 184.57 million,
3. 5 years (i.e. for 2021-2025) with the total capacity obligation of 1 474 MW, under which the annual revenue estimated by the Company will reach PLN 354.23 million,
4. 1 year (i.e. for 2021) with the total capacity obligation of 425.83 MW, under which the annual revenue estimated by the Company will reach PLN 102.34 million.

On December 14, 2018 the President of the Energy Regulatory Office (ERO) published the final results of the main auction with the delivery in 2022. In accordance with the results published the auction's closing price reached 198.00 PLN/kW/year, and TAURON Capital Group's subsidiaries concluded one year agreements (for 2022) with the capacity obligation amounting to 422.23 MW, under which the revenue estimated by the Group will reach PLN 83.60 million in 2022.

The final results of the last, third auction with the delivery in 2023 were published by the President of the Energy Regulatory Office (ERO) on January 14, 2019. In accordance with the content of the message the auction's closing price reached 202.99 PLN/kW/year, and TAURON Capital Group's subsidiaries concluded one year capacity agreements (for 2023) with the capacity obligation amounting to 393.23 MW. The estimated revenue under the agreements concluded in the auction for 2023 will reach PLN 79.82 million.

Taking into account all three capacity market main auctions organized in 2018 TAURON Capital Group's estimated revenue as a result of the auctions conducted will reach:

1. in 2021: PLN 642.26 million,
2. in 2022: PLN 623.52 million,
3. in 2023: PLN 619.74 million,
4. in 2024-2025: 539,92 million per annum,
5. in 2026-2035: 185,69 million per annum,
6. in 2036-2037: 1.12 million per annum.

The detailed information on the above events was disclosed in the regulatory filings (current reports): no. 30/2018 of November 15, 2018, no. 31/2018 of November 20, 2018, no. 34/2018 of November 20, 2018, no. 35/2018 of December 7, 2018, no. 39/2018 December 23, 2018 and no. 40/2018 of December 23, 2018

### Important corporate events in 2018

Shareholders' requests to include particular items in the agenda of the General Meeting of the Company

On March 23, 2018 the Company received from shareholders representing more than one twentieth of TAURON's share capital a request to include in the agenda of the Ordinary General Meeting of the Company convened on April 16, 2018 the following items:

1. from the Minister of Energy, exercising the rights of the shareholder State Treasury, the item: passing a resolution on amending the *Articles of Association of TAURON Polska Energia S.A.*,
2. from KGHM the items: passing a resolution on determining the number of members of the Company's Supervisory Board, passing a resolution on making changes to the composition of the Company's Supervisory Board.

The Minister of Energy sent a draft resolution of the Ordinary GM on amending § 17 of the *Articles of Association of TAURON Polska Energia S.A.*, and its content was disclosed in the regulatory filing (current report) no. 9/2018 of March 24, 2018 and provided the justification that the purpose of the proposed amendment was to optimize the process of selecting a Member of the Management Board in the qualification proceeding conducted by the Supervisory Board.

On the other hand, the shareholder KGHM stated in the justification that including the above mentioned items in the agenda of the Ordinary GM would enable the shareholder KGHM to submit, during the Ordinary GM ZWZ, the applicable motions

enabling subjecting to a vote resolutions aimed at introducing changes to the current composition of the Company's Supervisory Board.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 9/2018 of March 24, 2018. Furthermore, The Company disclosed the information on the content of the proposed amendments to the Articles of Association in the regulatory filing (current report) no. 10/2018 of March 24, 2018.

#### Ordinary General Meeting of the Company

The Ordinary GM of the Company was held on April 16, 2018 and it adopted resolutions concerning, inter alia, the approval of the consolidated financial statements of TAURON Capital Group and the report of the Management Board on the operations of TAURON Capital Group for the financial year 2017, the approval of the financial statements of TAURON and the Report of the Management Board on the operations of the Company for the financial year 2017, the distribution of the net profit for the financial year 2017, the acknowledgement of the fulfillment of duties by members of the Company's Management Board and Supervisory Board, determining the number of members of the Company's Supervisory Board and appointing a new member of the Supervisory Board.

The decision was taken to allocate the Company's net profit for the financial year 2017, in the amount of PLN 854 350 522.56, in full to the spare (supplementary) capital.

The amendments to the Company's Articles of Association proposed by the shareholder, that TAURON informed of in the regulatory filing (current report) no. 10/2018 of March 24, 2018, were not adopted at the Ordinary GM of the Company.

The Company disclosed the information on convening the Ordinary GM and on the content of the draft resolutions in the regulatory filings (current reports) no. 7/2018 of March 20, 2018, no. 8/2018 of March 20/2018, no. 9/2018 of March 24, 2018, 10/2018 of March 24, 2018, no. 13/2018 of April 10/2018 and no. 14/2018 of April 13, 2018,. The Company disclosed the information on the adopted resolutions in the regulatory filing (current report): no. 15/2018 of April 16, 2018.

#### Appointment of a member of TAURON's Supervisory Board

On April 16, 2018 the Ordinary General Meeting of the Company, acting pursuant to § 22, clause 1 of the Company's Articles of Association, passed a resolution on appointing Mr. Marcin Szlenk to be a member of TAURON's Supervisory Board of the 5th common term of office.

The information on appointing a new member of the Supervisory Board was disclosed by the Company in the regulatory filings (current reports) no. 16/2018 of April 16, 2018 and no. 18/2018 of April 18, 2018.

#### Other important events in 2018

##### *Appointment of certified auditor*

On February 26, 2018 TAURON's Supervisory Board appointed the audit firm Ernst & Young Audyt Polska Limited Liability Company Limited Joint-Stock Partnership ("Ernst & Young") to conduct an audit of the standalone and consolidated financial statements of TAURON for the financial year 2018 and a review of the interim standalone and consolidated financial statements of TAURON for the six months ending on June 30, 2018, by concluding the Amendment to the 2017 agreement. This Amendment was concluded for the period required to complete the entrusted activities.

The audit firm was appointed in accordance with the regulations in force and professional standards.

On November 23, 2018 TAURON's Supervisory Board appointed the audit firm Ernst & Young to conduct an audit of the standalone and consolidated financial statements of TAURON for the financial year 2019-2021 and a review of the interim standalone and consolidated financial statements of TAURON for the six months ending on June 30, 2019, June 30, 2020 and June 30, 2021.

The above audit firm was appointed following the completion of the public procurement procedure, in accordance with the policy for selecting the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of *TAURON Polska Energia S.A. adopted by the Audit Committee of the Supervisory Board of TAURON Polska Energia*

S.A. (Audit Committee), the Supervisory Board selected the audit firm from among two bidders indicated by the Audit Committee in its recommendation and having studied the justification of the preferences for selecting one of them.

#### *Dissolving of the provisions related to the employee benefits (entitlements) at TAURON Wytwarzanie*

On April 6, 2018, the Management Board of TAURON Wytwarzanie passed a resolution based on which it dissolved a provision in the amount of PLN 168 million, related to the cash equivalent for the subsidized consumption of electricity by retirees, pensioners and other eligible persons that are not employees (a positive impact on the Generation segment's EBIT in Q1 2018).

The Management Board's resolution was passed based on the agreement reached between the Management Board of TAURON Wytwarzanie with the workforce (social party) and an additional protocol to the Corporate Collective Bargaining Agreement (Zakładowy Układ Zbiorowy Pracy) of TAURON Wytwarzanie registered by the Chief Labor Inspectorate (Państwowa Inspekcja Pracy).

In addition, TAURON Wytwarzanie concluded agreements with the workforce to amend labor contracts, under which service anniversary awards will not be paid out.

Furthermore, TAURON Wytwarzanie dissolved a provision related to the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych) for former employees in the amount of PLN 18 million.

The detailed information on the above events was disclosed in the regulatory filings (current reports): no. 12/2018 of April 6, 2018.

#### *Implementation of the GDPR regulation at TAURON Capital Group*

Due to the coming into force, on May 25, 2018, of the EU's General Data Protection Regulation, the so-called GDPR, TAURON Capital Group took a number of measures in order to adapt the individual areas of its organization to the requirements defined in the act.

In particular, the following actions were taken:

1. documentation in four main subject matter streams: personal data protection and compliance with the law, management of processes, data and IT systems as well as risk analysis, was prepared and implemented;
2. Personal Data Protection Policy was developed and adopted;
3. Data Protection Officers at TAURON Capital Group's 14 entities were appointed;
4. 12 new processes where personal data is processed were developed and published and 55 such processes were modified;
5. model for assessing the critical importance level of IT systems processing personal data, including the guidelines for IT systems with respect to personal data protection, was developed and implemented;
6. personnel of entities included in the project were trained with respect to the knowledge of the personal data protection issues stemming from the GDPR regulation (approx. 28 000 persons).

The above actions prepared TAURON Capital Group to operate in the reality of the new requirements, and the adopted solutions will enable persons whose data is processed by TAURON Capital Group's subsidiaries to exercise their rights that are defined in detail in the GDPR regulation.

#### *Signing of the letter of intent between TAURON and PKN Orlen*

On October 10, 2018 TAURON and PKN Orlen signed a letter of intent on cooperation. Under the signed letter the companies declared setting up a working team with the task, among others, to analyze the terms of cooperation on which an ORLEN capital group's company will provide to the Company a plot of land for a potential construction of a modern generation source at Neratovice in the Czech Republic. The team will be made up of the representatives of each of the companies, while TAURON will be the leader and the coordinator of its works.

The investment project that the analyses are related to is to be a high efficiency source of electricity and heat in the form of steam for, among others, one of the largest chemical firms in the Czech industry that is a member of ORLEN capital group - Spolana.

#### *Signing of the letter of intent between TAURON and KGHM*

On October 19, 2018 TAURON and KGHM signed a letter of intent on cooperation under which the parties would launch fast charging stations at the locations that are strategic for KGHM and TAURON. Joint activities of TAURON and KGHM will also be applicable to the development of carsharing and improving electricity consumption efficiency.

#### **Important events after December 31, 2018**

##### *Filing of a lawsuit against TAURON Sprzedaż*

On March 7, 2019 TAURON Sprzedaż subsidiary was served an official copy of the statement of claim filed against the Subsidiary by Hamburg Commercial Bank AG (formerly HSH Nordbank AG) with its seat in Hamburg ("Plaintiff").

The subject of the statement of claim is the payment by TAURON Sprzedaż, in favor of the Plaintiff, of the total amount of PLN 232 878 578.36,00 along with the statutory interest for a late payment, accrued from the day of filing the lawsuit until the payment date, on account of:

1. damages (in the total amount of PLN 36 251 978.36) due to the Subsidiary's failure to perform agreements on the sale of property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source, and
2. liquidated damages (in the total amount of PLN 196 626 600) assessed due to the termination of the above mentioned agreements.
3. The plaintiff is seeking redress arising from the purchase by way of a transfer of claims originally due to, according to its assertions, the in.ventus group subsidiaries, i.e.:
  - in.ventus sp. z o.o. EW Dobrzyń sp.k.,
  - in.ventus sp. z o.o. INO 1 sp.k.,
  - in.ventus sp. z o.o. EW Gołdap sp.k.

The competent court to rule on the lawsuit is the Regional Court in Cracow (Sąd Okręgowy w Krakowie). The preliminary assessment of the lawsuit and its justification indicates, in the opinion of TAURON Sprzedaż that the claims asserted are without merit and completely groundless.

TAURON disclosed the information on the termination by TAURON Sprzedaż of the long-term contracts for the purchase of property rights arising from certificates of origin of electricity from renewable sources in the regulatory filing (current report) no. 6/2017 of February 28, 2017.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 4/2019 of March 7, 2019.

##### *Shareholder's request to include particular items in the agenda of the General Meeting of the Company*

On March 11, 2019 the Company received from KGHM – a shareholder representing 10.39% of the Company's share capital - a request to include in the agenda of the nearest Ordinary General Meeting of the Company an item related to passing resolutions on making changes to the composition of the Company's Supervisory Board.

KGHM informed that it was intending to propose making changes to the composition of the Company's Supervisory Board and will file applicable motions at Ordinary General Meeting.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 5/2019 of March 11, 2019.

## 2.7. Prizes and accolades (honorable mentions)

TAURON and TAURON Capital Group's subsidiaries received the following awards and accolades (honorable mentions) in 2018.

Figure no. 30. Prizes and accolades (honorable mentions)

- TAURON's investor relations recognized as the best investor relations among WIG30 index companies in the survey organized by the Stock Market and Investors Paper "Parkiet" and the Chamber of Brokerage Houses.
- Awarding TAURON Ciepło the *Eko Karlik 25-lecia* (The 25-year anniversary Karlik) trophy for the above standard promotional and educational activities for environment protection as well as investment projects directly impacting the reduction of the low emission, as part of celebrating the 25-year anniversary of the Regional Natural Environment Protection and Water Management Fund in Katowice (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej w Katowicach).
- Awarding the *2017 Transparent Company of the Year* title to TAURON for business transparency as well as the quality and accuracy of the market communications in the ranking organized by the Stock Market and Investors Paper "Parkiet" and the Accounting and Taxes Institute (Instytut Rachunkowości i Podatków).
- Awarding TAURON Dystrybucja the main prize in the *Handlowiec Roku (Salesman of the Year)* category in the *Liderzy Świata Energii (Leaders of the Energy World)* competition, among others, for undertaking innovative projects and implementing modern technology solutions that contribute to the development of the energy sector.
- Honorable mention for twenty six initiatives implemented by TAURON Capital Group's subsidiaries in the field of sustainable growth in the report *"Responsible business in Poland 2017. Best practice"* authored by the Responsible Business Forum (Forum Odpowiedzialnego Biznesu).
- Awarding TAURON the *Eko-Inspiracja 2017 (Eco-Inspiration 2017)* prize as part of the "Ekologicznie Odpowiedzialni" ("Ecologically Responsible") program for the implementation of TAURON's own "Oddychaj powietrzem" ("Breathe with air") program, aimed at providing education on the causes of smog origination, prevention methods and making the consumers take note of the consequences of air pollution.
- Honorable mention for KW Czatkowice and awarding the *Certificate "Solid Aggregates" 2018 – Industry Sign of Quality (Certyfikat „Solidne Kruszywa” 2018 – Branżowy Znak Jakości)* by the Polish Association of Aggregate Producers, granted to the producers of aggregate that provide shipments of products with the guaranteed, stable and recurring quality, as well as actively implement the sustainable development policy.
- Awarding TAURON *The Best of the Best* prize and the top special prize for the best integrated report in *The Best Annual Report* competition organized by the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków).
- Honorable mention for own motherhood supporting program "Mama pracuje!" ("Mother is working!"), implemented by TAURON Dystrybucja, TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary in the publication by the Responsible Business Forum (Forum Odpowiedzialnego Biznesu) as one of the seventeen projects corresponding to the seventeen challenges on the UN's Agenda for Sustainable Development 2030.
- Awarding TAURON the *Wprost Innovators 2018* prize for innovative activities, based on the completed Innovation Research 2018 survey, verifying outlays on research and development as well as investments in innovations and their practical applications in business.
- Awarding TAURON Dystrybucja the *Eagle of Wprost 2018 trophy* in the *Business Leader* category as one of the companies to have achieved the highest net profit over the last three years and also the highest average net profit growth by percentage.
- Awarding TAURON'S Investment Projects Area the BEST PMO title for the best PMO (Project Management Office) in Poland as part of the nationwide IPMA PMO Award 2018 competition, organized by IPMA Polska.
- Awarding the Dzierżoniów Energy Cluster, coordinated by TAURON EKOENERGIA the Honorable Mention Certificate in the 2<sup>nd</sup> Competition for the Pilot Energy Cluster Certificate, organized by the Ministry of Energy
- Awarding TAURON Dystrybucja the OSGP European Utility Week 2018 Award for the AMIPlus Smart City Wrocław project implemented by the company, rewarded for providing customers with access to the metering data from smart meters, allowing them for implementing smart home type solutions.
- TAURON's inclusion, for the sixth time in a row, in the *RESPECT Index* - a group of socially responsible companies and conducting accurate communications with the market
- Awarding Magenta Grupa TAURON sp. z o.o. the *Electromobility Leader 2018 (Lider Elektromobilności 2018)* prize for the comprehensive, well thought through and responsible approach to the development of electromobility as part of the company's operations, in particular with respect to implementing pilot projects and supporting innovations, in the survey of the e-mobility market in Poland completed by the Polish Alternative Fuels Association (Polskie Stowarzyszenie Paliw Alternatywnych) and PwC.

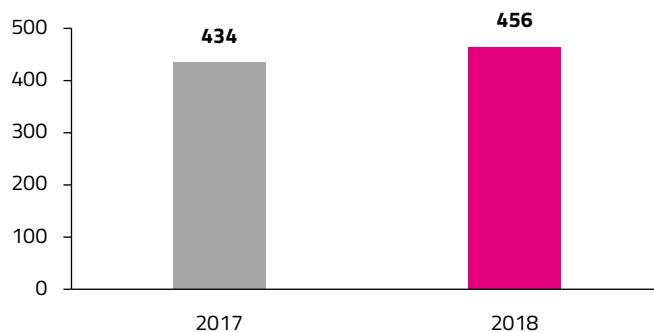
- Awarding of the anniversary *EMAS Certificate* to TAURON Wytwarzanie as one of ten organizations, longest registered in the National Eco-management and Audit System (Krajowy System Ekozarządzania i Audytu) (EMAS).

## 2.8. Information on the employment at TAURON Polska Energia S.A. and TAURON Capital Group

TAURON's average headcount reached 456 FTEs in 2018 which meant an increase by 22 FTEs versus the headcount in 2017, when the average employment was 434 FTEs.

The below figure presents TAURON's average headcount in FTEs (rounded up to the full FTE) in 2017 and in 2018.

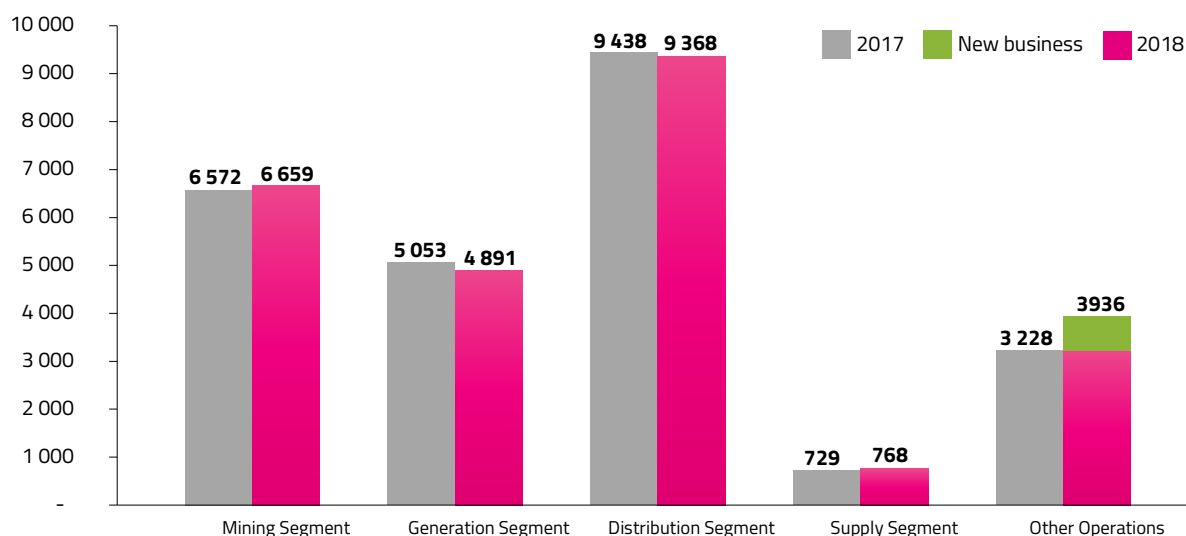
Figure no. 31.  
TAURON's average headcount in 2017 and in 2018 (FTEs)



TAURON Capital Group's average headcount reached 25 622 FTEs in 2018 which meant an increase by 602 FTEs versus the headcount in 2017, when the average employment was 25 020 FTEs. This increase is primarily caused by the expansion of the operations of the Wsparcie Grupa TAURON subsidiaries.

The below figure presents TAURON Capital Group's average headcount in FTEs (rounded up to the full FTE) per Segment in 2017 and in 2018.

Figure no. 32. TAURON Capital Group's average headcount per Segment in 2017 and in 2018<sup>1</sup> (FTEs)



<sup>1</sup> Average headcount includes Wsparcie Grupa TAURON subsidiary that took over the security personnel as of January 1, 2018 due to the expansion of its operations



## 3. RISK MANAGEMENT AT TAURON CAPITAL GROUP

### 3.1. Objective and the key risk management principles at TAURON Capital Group

Risk at TAURON Capital Group is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both negatively (threat), as well as positively (opportunity).

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, risk management is to ensure increased predictability of TAURON Capital Group achieving its strategic goals, including sustainable financial generation of its financial results.

TAURON Capital Group's risk management:

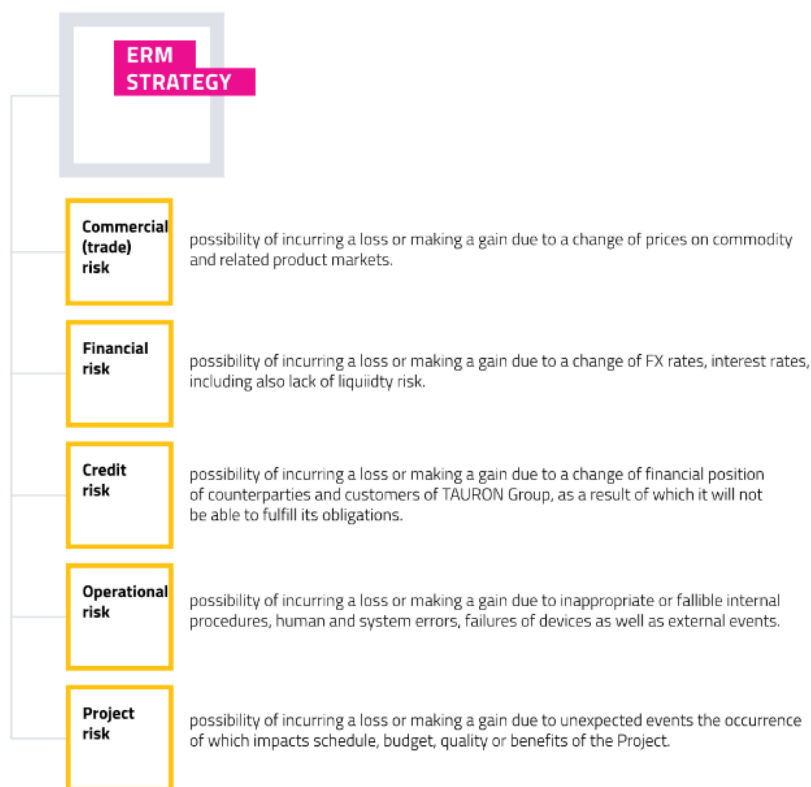
1. covers all elements of the value chain,
2. provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and coherent risk management principles,
3. ensures independence of the risk taking function from its control and monitoring
4. ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
5. is an active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
6. is a systematic and continuously improved process which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment,
7. places a strong emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities,
8. co-creates at TAURON Capital Group the internal audit system, constituting, along with the compliance and security management functions, an element of the three line defense.

### 3.2. Enterprise risk management system

The enterprise risk management system (ERM), 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 *Corporate Risk Management Strategy at TAURON Group* that defines TAURON Capital Group's corporate risk management rules and its goal is to ensure the consistency of managing the individual risk categories that were detailed in separate regulations, aligned with the specifics of the individual threat groups.

The below figure presents the ERM system:

Figure no. 33.  
Basic classification  
of the enterprise risk

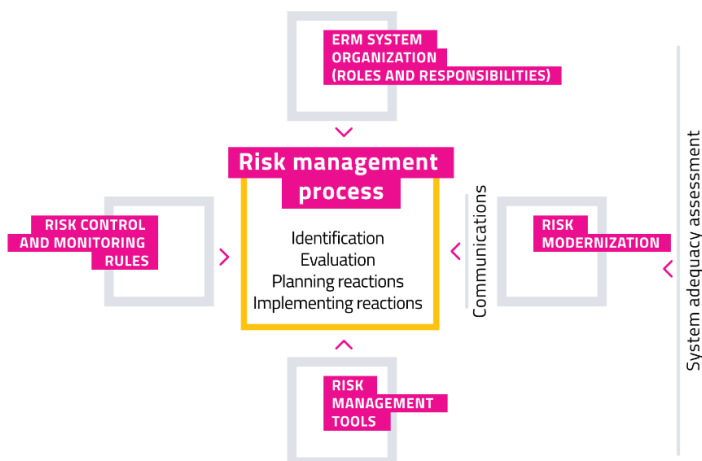


The Center of the ERM System is the risk management process encompassing such activities as risk identification, its measurement as well as developing and implementing reactions to risk. Moreover, the architecture of the ERM system comprises elements to ensure effective functioning of the process, including:

1. risk management tools,
2. risk model,
3. control and monitoring rules,
4. organization of the ERM system,
5. assessment of the ERM System's adequacy and functioning.

The below figure presents the architecture of the ERM System functioning at TAURON Capital Group.

Figure no. 34.  
Architecture of the ERM System  
at TAURON Capital Group



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 questionnaire is a document in the form of a table, specifying the detailed information that should be collected in the risk identification process,
2. risk card containing the detailed information on the identified risk,
3. risk register is 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, valuations, and in justified cases also reaction to risk, back-up and system of metrics (indicators) subject to monitoring,

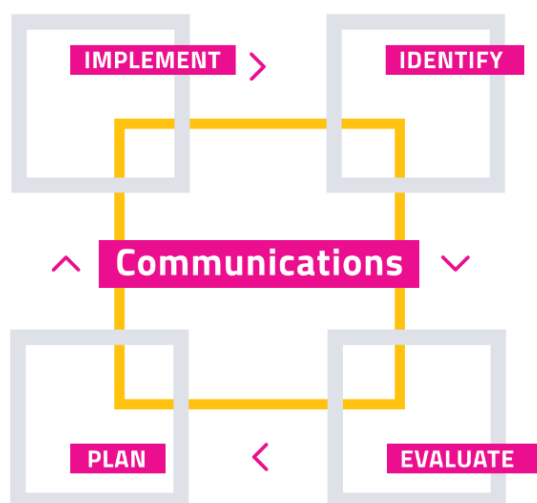
4. risk model, i.e. an orderly list of risks allowing for classification of risks occurring in the operations of TAURON Capital Group,
5. risk map, i.e. a graphical presentation of identified risks in a manner that takes into account the probability of risk materializing and its potential impact,
6. risk tolerance and risk limits, i.e. maximum, permitted by the Management Board of TAURON, risk level that can occur in the operations conducted,
7. key risk indicators and early warning indicators informing of the risk status and of the need to take additional mitigation measures.

### 3.2.1. Risk management process and its participants

The process of enterprise risk management ensures the comprehensive and consistent risk management rules linked with each other in terms of methodology and information. The process of enterprise risk management means continuous measures comprising risk identification, risk assessment, planning of risk response, implementation of the adopted risk response and communication between risk management process participants.

The below figure presents the risk management process.

Figure no. 35. Risk management process



Risk identification - consisting in determining the potential events that may affect the implementation of business goals of TAURON Capital Group.

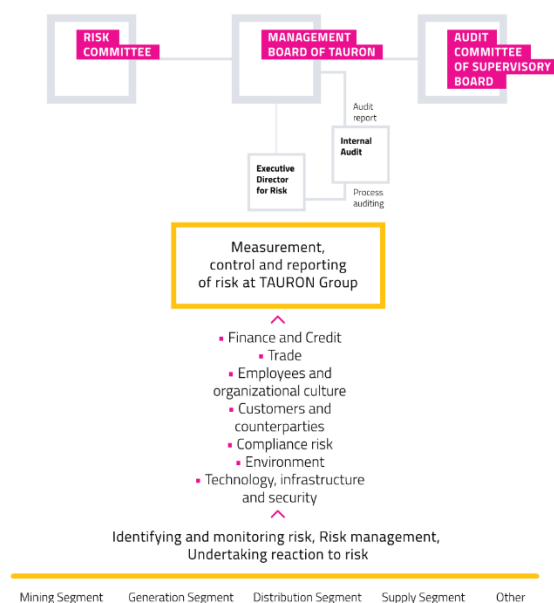
Risk assessment - consisting in determining potential financial and non-financial effects of risk materialization influencing the implementation of specific goals.

Planning - consisting in preparation of the dedicated response to the risk identified in order to achieve the desirable results

Implementation of risk response - consisting in practical implementation of the responses to identified risk prepared in the planning process

Communication - consisting in continuous information flow among participants of the process which should ensure full knowledge concerning the current risk status and effectiveness of activities conducted within the response to risk. The periodical risk reporting is also an element of this process. The below figure presents the diagram of the management risk communication.

Figure no. 36. Diagram of the management risk communication



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 owner risk function, i.e. the person responsible for managing the given risk as well as developing and implementing an effective reaction 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 in the holding 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 commercial (trade) risk area and the other for the financial and credit risk area. Oversight of the enterprise risk management (ERM) system at TAURON Capital Group is performed directly by the Risk Committee.

The below table presents the links between individual roles in the context of the ERM Strategy and the other documents regulating in detail TAURON Capital Group's ERM system.

Table no. 17. Links between individual roles in the context of the ERM Strategy and the documents regulating TAURON Capital Group's ERM system

Supervisory Board						
Audit Committee						
Management Board						
Management	Risk Committee					Internal Audit
	Commercial (Trade) Risk Management Team		Financial and Credit Risk Management Team			
Organizational Regulations (By-laws)	TAURON Group's corporate risk management strategy					
	TAURON Group's commercial risk (trade) management policy	TAURON Group's operational risk management policy	TAURON Group's project management risk policy	TAURON Group's credit risk management policy	TAURON Group's financial area specific risk management policy	Internal audit regulations
	Market Risk Team	Corporate Risk Team		Credit Risk Team	Executive Director for Finance	Internal Audit Team
	Executive Director for Risk					Executive Director for Internal Audit and Internal Control
	Reporting to Supervisory Board, Management Board of TAURON, Members of Risk Committee					Reporting to President of Management Board

Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail. The detailed description of the roles and responsibilities is provided in the below table.

Table no. 18. Description of the ERM system participants' roles and responsibilities

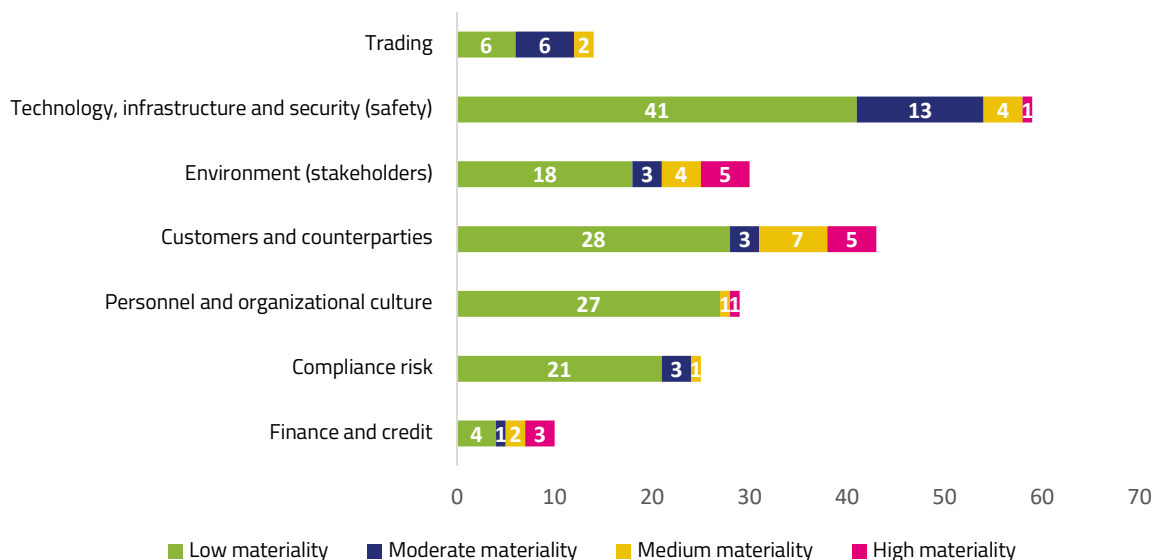
Participant	Participant's roles and responsibilities
TAURON Supervisory Board	<ol style="list-style-type: none"> <li>1. Assessment of the ERM System, especially of its adequacy and effectiveness.</li> <li>2. Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities.</li> </ol>
Audit Committee, TAURON Supervisory Board	Monitoring the ERM System's effectiveness.
TAURON Management Board	<ol style="list-style-type: none"> <li>1. Assessment of the ERM System's adequacy, effectiveness and efficiency.</li> <li>2. Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Management Board will be performing the Risk Owner's function.</li> <li>3. Approving TAURON Capital Group's risk tolerance and global limits for the key risks.</li> <li>4. Managing the risks of special importance for TAURON Capital Group's operations.</li> </ol>
Risk Committee	<ol style="list-style-type: none"> <li>1. Overseeing TAURON Capital Group's risk management process.</li> <li>2. Auditing TAURON Capital Group's risk exposure.</li> <li>3. Providing opinions and recommending to the Management Board the shape of the individual elements of the risk management infrastructure.</li> <li>4. Defining TAURON Capital Group's risk tolerance and global limits for the key risks, and also applying to the Management Board for the approval or change thereof.</li> <li>5. Overseeing the preparation of the quarterly information for the Management Board on all important issues related to TAURON Capital Group's risk.</li> </ol>
Executive Director for Risk	<ol style="list-style-type: none"> <li>1. Coordinating the risk management process on all levels and in all areas (lines of business) of the organization's operations.</li> <li>2. Responsibility for the development of the ERM System (threat identification, evaluation monitoring and checking methods, processes and procedures).</li> <li>3. Support and oversight over the system's participants in the risk management implementation and evaluation of its efficiency.</li> <li>4. Preparing and providing the risk reports to authorized risk management process participants.</li> <li>5. Actions aimed at developing supportive organizational culture and raising awareness with respect to TAURON Capital Group's risk management.</li> </ol>
Executive Director for Internal Audit	Periodic review of the correctness of designing and implementing as well as the effects of actions taken within the ERM System.
Management Board of a subsidiary	<ol style="list-style-type: none"> <li>1. Responsibility for risk management within a subsidiary.</li> <li>2. Promoting risk management culture in a subsidiary.</li> <li>3. Responsibility for the appropriate reactions to risk and the effectiveness thereof.</li> <li>4. Appointing Risk Owners at the given subsidiary.</li> <li>5. Approving plans of reaction to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded.</li> </ol>
Risk Owner	<ol style="list-style-type: none"> <li>1. Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in context of an impact on the ongoing operations as well as on the implementation of the strategic, operational and financial goals of the unit.</li> <li>2. Responsibility for preparing a plan and for implementing a reaction to risk in case its established values are exceeded, and also for the communications and reporting within the risk management implemented.</li> </ol>

### 3.2.2. 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 figure presents the main risk categories defined by TAURON Capital Group, including the number of key threats:

Figure no. 37. Number of risks monitored, broken down into categories



The most important risks identified at the TAURON Capital Group level broken down into individual risk categories are described further on in this report.

### 3.2.3. Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to factors that may have an adverse impact on its functioning. The basic risk control tool is the risk tolerance approved by the Management Board that defines the value of the maximum permitted risk exposure at TAURON Capital Group.

The process of defining the risk tolerance takes into account the specifics and scope of TAURON Capital Group's operations. Its level is defined as a value, and the rules of measurement of individual risks in the organization ensure the consistency of risk measurement with the applied tolerance definition. The risk tolerance constitutes the basis for allocation of its level to the global limits dedicated to a single risk or many specific risks. Subsequently global limits are allocated to operating limits within the specific risk management. The key assumption is to guarantee independence of the risk taking function from risk control and monitoring which guarantees safety of the functioning of the organization.

A supplementary tool used for risk monitoring and control comprises the Early Warning System based on the catalogue of Key Risk Indicators - KRI and Early Warning Indicators - EWI. The system functioning based on the KRI and EWI indicators enables an appropriately early identification of threats by measuring the causes of the individual threats. At the same time this system allows for an appropriately early taking of remedy actions, before the individual threats actually materialize.

### 3.2.4. Assessment of the adequacy of the functioning of the ERM System

Risk management is a systematic process subject to continuous improvement which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment. It is also subject to a periodic, internal and independent assessment of adequacy and reviews:

- ERM System is subject to continuous reviews with respect to its adequacy and alignment with the structure and specifics of TAURON Capital Group's operations, as well as to the changing environment,

- not less seldom than once a year the Executive Director for Risk prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee.

Executive Director for Audit, as part of performing the institutional (third line of defense), periodically conducts an independent audit of risk management at TAURON Capital Group verifying the appropriate implementation of the rules by the process participants, as well as its adequacy and effectiveness.

### 3.3. Managing TAURON Capital Group's key risks

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

#### 3.3.1. Commercial (trading) risk management

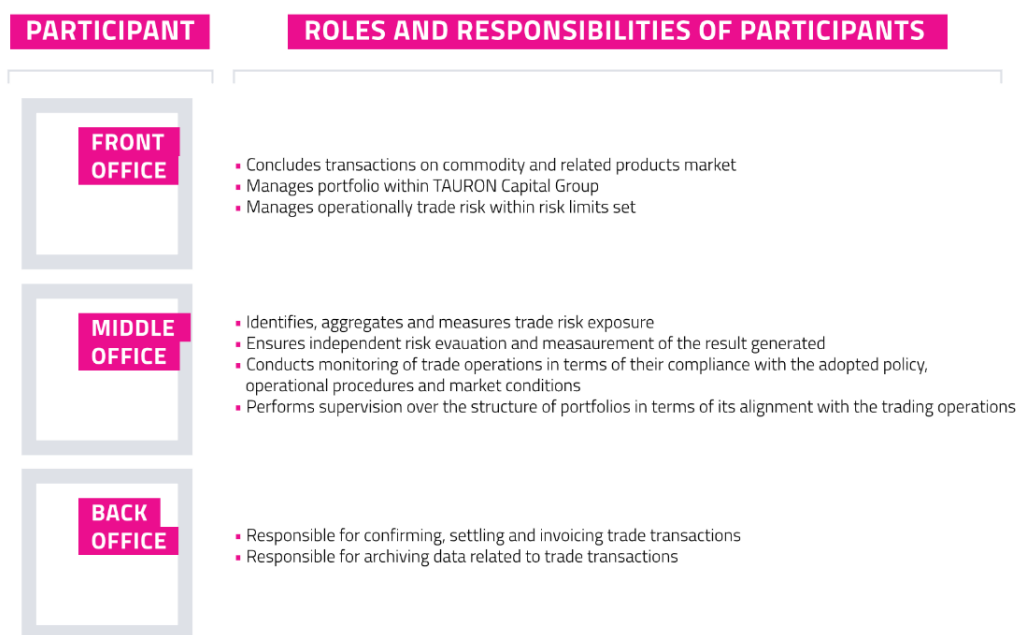
TAURON Capital Group's commercial (trading) risk management is understood as reducing unplanned volatility of its operating result, due to price fluctuations on the commodity markets and volume deviations in the individual areas of TAURON Capital Group's commercial (trading) operations. The commercial (trading) risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of subsidiaries operating both in the Mining and the Generation Lines of Business as well as in the Supply Line of Business. Due to the opposing positions in these Lines of Business the risk is, to a certain degree, naturally diversified. However since these Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and related products.

In order to efficiently manage this group of risks the commercial (trading) risk management system was established, tied on the organizational and information level to TAURON Capital Group's process used to develop a commercial (trading) position hedging strategy. In particular TAURON Group's commercial (trading) risk management policy introduces an early warning system and a system used to limit risk exposure in the individual commercial areas. The basic operating measure of TAURON Capital Group's market risk is Value at Risk, defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk represents a dynamic risk measure which in contrast to static measures allows for determining potential negative effects before their factual occurrence. Due to the limitations of the statistical measures the commercial (trading) risk management system also uses a number of supplementary risk measures enabling a safe operation of the commercial (trading) areas.

The organizational structure of the commercial (trading) risk management system envisages a strict split of competences as part of which risk management is decentralized, where the supervision and risk control are performed centrally at TAURON level. In particular an element of the organizational structure of the commercial 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 carried out by the Risk Area, and it ensures an appropriate level of operational flexibility. For the needs of the risk management process such placement of responsibility is assumed in order to ensure an optimal approach to the given type of threat, especially taking advantage of the economy of scale and the synergy effect. Such approach ensures efficiency of the commercial processes conducted and appropriate supervision over one of the main business processes conducted by TAURON Capital Group.

The below figure presents a breakdown of TAURON Capital Group's trading operations.

Figure no. 38.  
Breakdown of  
TAURON Group's  
trading operations



### 3.3.2. Financial risk management

As part of financial risk management TAURON and TAURON Capital Group is managing the FX risk and interest rate risk, based on the developed and adopted for use Policy for financial risk management at TAURON Group. The main goal of managing these risks is to minimize the sensitivity of TAURON's and TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of a transaction with the use of derivative instruments. In cases when it is possible and economically justified TAURON uses the derivative instruments the characteristic of which allows for applying the hedging accounting.

With respect to the financial risks TAURON and TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay current expenses, due to an inadequate value or structure of liquid assets in relation to short term obligations or an insufficient level of the actual net inflows from the operations. TAURON's and TAURON Capital Group's liquidity position is monitored on an ongoing basis for any potential deviations from the assumed plans and the availability of external sources of financing the amount of which substantially exceeds the expected short term demand, mitigates the risk of losing liquidity. TAURON Group's liquidity position policy put in place defines specific rules of determining the liquidity position, both of the individual subsidiaries, as well of entire TAURON Capital Group, which allows for securing funds to cover a potential liquidity gap, both by allocating funds among subsidiaries (cash pool mechanism), as well as with the use of external financing, including overdrafts.

TAURON, within the identified risks associated with financing, is also managing the risk of financing understood as a lack of the possibility to acquire new funding, increase of the cost of funding and the risk of termination of the existing financing agreements. In order to minimize the financing risk TAURON conducts a policy of funding acquisition for TAURON Capital Group at least 24 months in advance in relation to the planned date of its use. It means that TAURON and TAURON Capital Group should hold signed programs of guaranteed financing or hedge this financing through collection of funds on TAURON's or TAURON Capital Group's accounts. Such a policy is mainly aimed at ensuring a higher comfort in acquisition of external financing and reducing the risk of incurring new liabilities under unfavorable market conditions. TAURON's policy also covers standardizing of the covenants and provisions of the financing agreements in the key elements of the documentation.



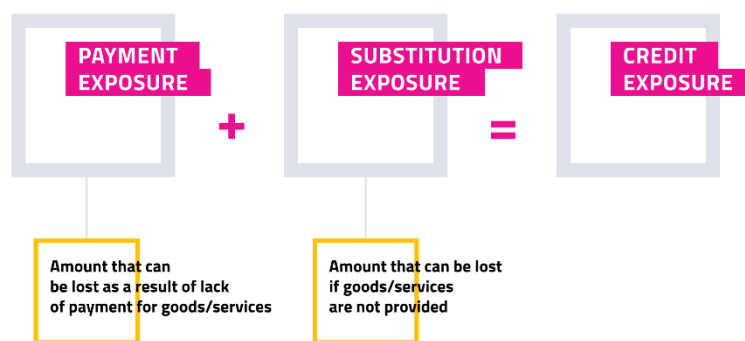
### 3.3.3. Credit risk management

Credit risk is understood as a possibility to incur a loss due to trade partners (counterparties) failing to fulfill their contractual obligations (default). TAURON Capital Group is using a decentralized credit risk management system, 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* in place defines credit risk management principles on TAURON Capital Group's level, aimed at effectively minimizing the impact of this risk on achieving TAURON Capital Group's goals.

Credit risk management is carried out by controlling the credit exposure generated upon the conclusion of

The below figure presents credit exposure components.

Figure no. 39.  
Credit exposure components



Based on the exposure value and the evaluation of the financial standing of specific customers the credit risk value 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.

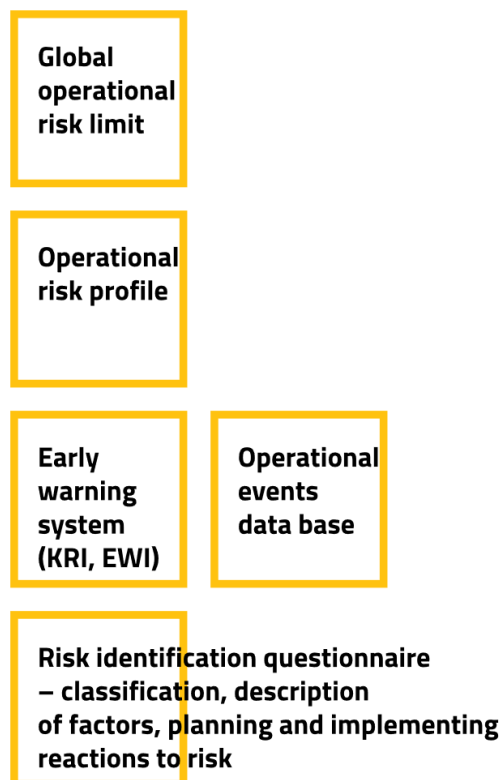
### 3.3.4. Operational risk management

Operational risk, in accordance with the Policy for operational risk management at TAURON Group, is understood as a possibility to incur a loss due to inappropriate or unreliable internal procedures, human and system errors or as a consequence of external events. It also includes legal risk, 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. This 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 IT systems and to the number of business processes conducted. The 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, presented on the below diagram. In particular, they include the operational risk profile, operational events database, global operational risk limit and the related system of operational limits and also the early warning system operating on a large scale.

The below figure presents the risk management system tools.

Figure no. 40. 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. Operational risk profile is expressed in particular in the structural dimension that includes types of operational events, TAURON Capital Group's organizational structure and processes, in the scale dimension that includes estimated potential losses, taking into account especially historical values of actual losses, as well as the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the operational risk Profile the individual types of the operational risk are broken down (due to the nature of the occurrence thereof) into continuous and one-off risks.

Early warning system is defined in order to monitor the operational risk level for each identified threat. Early Warning Indicators (EWI) are selected from the Key Risk Indicators (KRI) set as the ones that are subject to continuous control with respect to the caution thresholds set for them, i.e. acceptance, mitigation and escalation thresholds.

Operational events database is created for the needs of identifying new risk factors, and in parallel in order to define the risk profile for TAURON Capital Group. It allows for keeping the records of cases that are characterized by a potential or actual loss for the organization. The goal of maintaining the operational events database is to determine the frequency and severity of the individual operational risk factors, as well as the areas and processes they occur in.

Risk identification questionnaire is a document in the form of a table form that constitutes a tool supporting the performance of the risk management process with respect to risk identification, specifying the detailed information that should be collected in this process.

### 3.3.5. Project risk management

TAURON Capital Group is conducting a number of investment projects in many lines of its business operations. These projects, due to their scale and often very complicated nature of implementation, represent a source of threats that may have an impact on the schedule, budget or quality of the final products. Systematic use of the provisions of TAURON Group's Project Risk Management Policy is aimed at mitigating these risks, supporting at the same time the accomplishment of the organization's strategic goals. This regulation, in particular, defines the basic principles of project risk management, ensuring coherence, comprehensive approach and unequivocal understanding in this area. The goal of the actions taken is to achieve the required probability of the project's completion while complying with the defined schedule, budget and quality of the products received. The overall objective is to obtain the expected benefits from the project's completion and to achieve TAURON Capital Group's strategic goals.

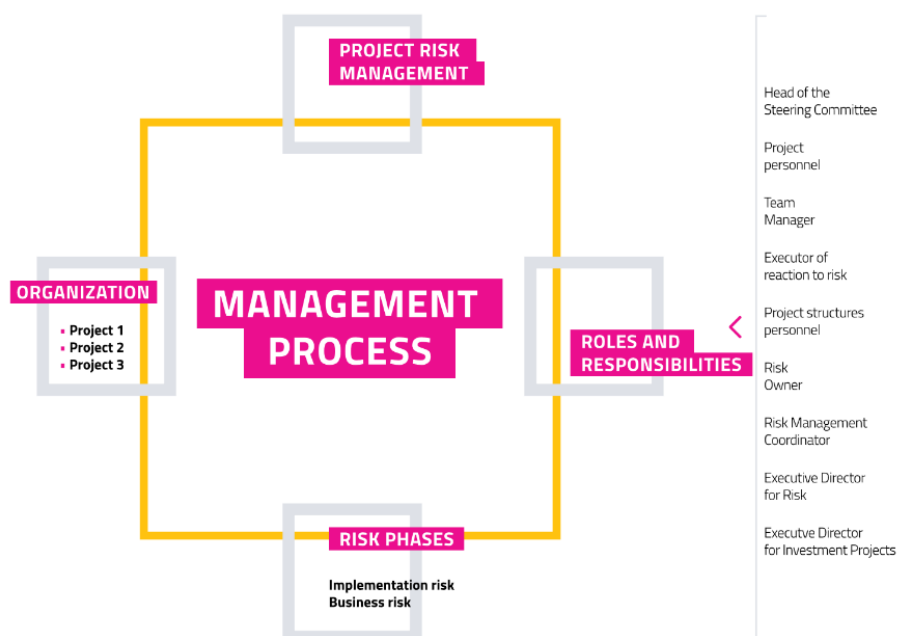
Project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes identification, valuation of such risks, defining and monitoring early warning indicators as well as planning and implementing actions related to managing such

risks. In case of risks having an impact on the organization the risk valuation is made as the absolute value of the impact including indicating the impact period broken down into individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks having an impact on the organization the Plans of reactions to the risk and back-up Plans are developed. The evaluation of project risks and 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. 4.1.

Project risk management model



### 3.4. Description of the most significant risks related to TAURON Capital Group's operations

The below table presents the most significant risks identified for TAURON Capital Group.

Table no. 19. Most significant risks identified for TAURON Capital Group

#	Risk name	Risk description	Risk trend	Reaction to risk
<b>Finance and credit</b>				
1.	Market factors risk	Risk related to an unfavorable impact of interest rates and FX rates on TAURON Capital Group's financial results.	→	<ul style="list-style-type: none"> <li>Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the market factors,</li> <li>Transfer of risk through the use of derivative instruments</li> </ul>
2.	Liquidity / financing risk	Risk related to the manner of financing operations, due to the enterprise's capital structure.	→	<ul style="list-style-type: none"> <li>Diversification of the sources of financing including arranging guaranteed financing programs and securing alternative sources of financing,</li> <li>Implementing the central financing policy,</li> <li>Analyzing the market and the availability of the sources of financing,</li> <li>Monitoring the schedules and the date of announcing the financing program.</li> </ul>
3.	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.	↗	<ul style="list-style-type: none"> <li>Regular monitoring of the counterparties (business partners, contractors) financial standing,</li> <li>Periodic customer scoring, credit rating of each customer prior to submitting an offer/concluding a contract,</li> <li>Use of protection mechanisms (hedging) in commercial agreements</li> </ul>
<b>Trade</b>				
4.	Market risk	Risk related to an unfavorable change of prices on the electricity market and on the related products markets, having a negative	↗	<ul style="list-style-type: none"> <li>Monitoring and updating the position hedging strategy,</li> <li>Ongoing monitoring of exposure to the above mentioned risk in order to minimize negative impact of changes to the market factors,</li> <li>Limits (caps) on trade positions within risk mandates.</li> </ul>

#	Risk name	Risk description	Risk trend	Reaction to risk
		impact on TAURON Capital Group's financial results.		
<b>Workforce and organizational culture</b>				
5.	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.	→	<ul style="list-style-type: none"> <li>• Conducting social consultations with respect to the changes planned.</li> <li>• Conducting a policy of dialogue with the workforce.</li> <li>• Preparing and implementing motivational solutions for the personnel.</li> <li>• Standardizing the tasks and requirements towards the personnel.</li> <li>• Developing organizational culture based on values.</li> <li>• Conducting active internal communications on personnel matters.</li> </ul>
6.	Human resources risk	Risk related to the temporary or permanent loss of specialized staff and difficulties in its restoration.	→	<ul style="list-style-type: none"> <li>• Taking measures aimed at developing a model that would enhance workforce motivation.</li> <li>• Developing competences by training the personnel.</li> </ul>
7.	Work Health and Safety (WHS) Risk	Risk related to accidents at work resulting from non-compliance with the Work Health and Safety (WHS) as well as Fire Protection regulations.	→	<ul style="list-style-type: none"> <li>• Implementing manuals and rules defining safe organization of work.</li> <li>• Stimulating workforce development by conducting periodic Work (Occupational) Health and Safety and additional specialist training.</li> <li>• Analyzing and updating, based on needs, the evaluation of the professional risk at individual work stations (positions).</li> <li>• Maintaining a high standard of equipping the personnel with protection means and enforcing the appropriate use thereof.</li> <li>• Performing measurements of harmful factors in the work environment.</li> </ul>
8.	Communications risk	Risk related to providing inaccurate, untrue information or a lack of information disclosure at specific time.	→	<ul style="list-style-type: none"> <li>• Use of the available communications tools for providing information.</li> <li>• Organizing direct meetings of the management personnel with the workforce.</li> <li>• Building good relations with the workforce of TAURON Capital Group.</li> </ul>
<b>Customers and counterparties (business partners, contractors)</b>				
9.	Customer service risk	Risk related to non-compliance with the customer service standards.	→	<ul style="list-style-type: none"> <li>• Monitoring and analyzing external customer satisfaction indicators and indicators related to complaints</li> <li>• Taking additional measures, e.g. with respect to internal regulations, defining standards of conduct as a result of the analysis of indicators.</li> <li>• Taking additional measures, e.g. introducing new internal regulations in order to improve customer service standards.</li> <li>• Developing key account managers' competences and skills.</li> <li>• Continued raising of customer service standards.</li> </ul>
10.	Risk related to performance of agreements by subcontractors	Risk related to improper performance by subcontractors of the works commissioned, termination of the agreement and delays, changes to the budget, scope related thereto	→	<ul style="list-style-type: none"> <li>• Concluding agreements with subcontractors in accordance with TAURON Capital Group's standards.</li> <li>• Analyzing the performance of the subject of the agreement, examining the quality of services provided by subcontractors.</li> <li>• Evaluating the financial standing and credibility of the subcontractors.</li> </ul>
11.	Volume and margin risk	Unfavorable changes or terminations of commercial agreements by customers, leading to the declining revenue from operations; loss and lack of acquiring new customers.	→	<ul style="list-style-type: none"> <li>• Conducting marketing campaigns, acquiring new customers.</li> <li>• Taking actions focused on retaining the existing customers and recovering the lost ones.</li> <li>• Ongoing updating of the offering, launching sales of multi-package type products.</li> </ul>
12.	Purchasing process risk	Risk related to the volatility of the situation on the supplies/services market, volatility of demand for the given type of product/supply/service on the market, decline of the availability of supplies/services of appropriate quality, leading to the purchase order value increase risk.	→	<ul style="list-style-type: none"> <li>• Preparing a Plan of Purchase Orders and updating thereof.</li> <li>• Aggregating purchases of selected product groups.</li> <li>• Consolidating purchase orders.</li> <li>• Concluding long term agreements.</li> <li>• Taking into account the price risk related to commodity prices/FX rate fluctuations in contracts with contractors</li> </ul>
<b>Compliance risk</b>				
13.	Internal fraud risk	Appropriation or temporary use of the company's assets, destruction of TAURON	↘	<ul style="list-style-type: none"> <li>• Strict adherence to internal procedures aimed at achieving protection against abuse (security procedures, reviews of authorizations).</li> </ul>

#	Risk name	Risk description	Risk trend	Reaction to risk
		Capital Group's property, abuse of work position to derive various types of personal gain by forcing specific behavior of customers while performing work related activities.		<ul style="list-style-type: none"> <li>• Conducting compliance type activities.</li> <li>• Promoting best practices, improving procedures, training.</li> <li>• Enforcing and promoting the provisions of <i>TAURON Group's Code of Responsible Business in force</i>.</li> </ul>
14.	External fraud risk	Third party actions aimed at, among others, theft, robbery, physical burglary, computer hacking, information theft, forgery.	↘	<ul style="list-style-type: none"> <li>• Monitoring potential and actual security incidents.</li> <li>• Anti-virus protection of workstations.</li> <li>• Physical protection of facilities.</li> <li>• Conducting security tests</li> </ul>
15.	Risk of unethical behaviors	Risk related to the occurrence of behaviors not in line with the generally accepted by the society social coexistence rules, moral standards and mobbing.	↘	<ul style="list-style-type: none"> <li>• Functioning of the whistleblowing system in the organization.</li> <li>• Developing organizational culture based on TAURON Capital Group's values and principles.</li> <li>• Training, building awareness through meetings, TAURONET, press materials.</li> <li>• Functioning of Ethics Committees in the organization operating based on the adopted regulations</li> </ul>
16.	Legal risk	Risk related to non-compliance with the legal regulations, misinterpretation of the new provisions and regulations, court disputes (litigations), requirements imposed by URE/UOKiK/KNF/GIODO, etc.	→	<ul style="list-style-type: none"> <li>• Continuous monitoring of the legal environment and changes to the legal regulations.</li> <li>• Implementing the required changes to internal regulations.</li> <li>• Appointing working groups tasked with preparing and implementing the required changes stemming from the legal environment.</li> <li>• Continuous cooperation with the authorities overseeing the energy market and the capital market.</li> <li>• Training for the personnel on the changes being introduced.</li> </ul>
17.	Personal data protection risk	Inappropriate storing and processing of personal data resulting in an undesirable leak or violation of the rights of data subjects related to personal data protection	→	<ul style="list-style-type: none"> <li>• Defining and implementing appropriate technical or organizational measures ensuring the degree of personal data protection.</li> <li>• Monitoring the compliance with the legal regulations related to personal data protection.</li> <li>• Raising the level of awareness of the workforce with respect to personal data protection, in accordance with the applicable regulations.</li> <li>• Defining and implementing a process for handling the requests of data subjects, in accordance with the Company's regulations in force and the process documentation.</li> <li>• Informing and advising the organization's personnel on personal data protection.</li> </ul>
<b>Environment</b>				
18.	Reputational risk	Current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash.	→	<ul style="list-style-type: none"> <li>• Continuous monitoring of the Company's external and internal threats.</li> <li>• Media monitoring, developing contacts and relationships with the media within TAURON Capital Group.</li> <li>• Preparing procedures for the Company's communications with the external and internal environment (stakeholders).</li> </ul>
19.	Regulatory risk	Unfavorable impact of the domestic and European level legislation due to the need to pass or adapt to the legal regulations and to incur the required financial costs in order to comply therewith.	↗	<ul style="list-style-type: none"> <li>• Continuous monitoring of the legal environment and changes to the regulations.</li> <li>• Analyzing draft legal acts and planning the required adaptation steps.</li> <li>• Implementing the required changes into internal regulations.</li> </ul>
20.	License risk	No possibility to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held. Unfavorable legal changes with respect to licensed operations.	→	<ul style="list-style-type: none"> <li>• Ongoing control of the correct performance of licensing obligations.</li> <li>• Monitoring changes to the legal acts with respect to licensing obligations.</li> <li>• Legal support for the license extension and obtaining process.</li> </ul>
<b>Technology and infrastructure</b>				
21.	Environmental risk	Potential negative impact of the operations on the environment and of non-alignment to and non-compliance with the environmental requirements of the domestic and community law	→	<ul style="list-style-type: none"> <li>• Ongoing supervision over compliance with the conditions of the environmental decisions.</li> <li>• Maintaining the required efficiency of the devices reducing the emission of pollutants.</li> <li>• Frequent evaluation of the compliance of actions with the legal requirements with respect to environment protection.</li> </ul>

#	Risk name	Risk description	Risk trend	Reaction to risk
				<ul style="list-style-type: none"> <li>Implementing investment projects in environment protection in order to minimize the adverse impact of the mining and processing operations conducted.</li> </ul>
22.	Weather risk	Impact of weather conditions on the operations of the enterprise, both with respect to technological aspects as well as the commercial ones.	→	<ul style="list-style-type: none"> <li>Upgrading (refurbishing) hydroelectric structures aimed at optimizing the utilization of water resources.</li> <li>Preparing plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works.</li> <li>Continuous monitoring of wind conditions and icing on the wind farms' blades.</li> <li>Continuous technical oversight over the operation of individual wind farms, conducted by the companies operating the farms.</li> <li>Monitoring and analyzing new technological solutions that reduce the impact of adverse weather conditions on the volume of electricity generated.</li> </ul>
23.	Company asset failure risk	Impact of failures of machines and devices, overhauls, upgrades (refurbishments), maintenance and management of production and non-production assets on achieving the company's goals.	→	<ul style="list-style-type: none"> <li>Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of machines, devices and installations.</li> <li>Raising professional qualifications and work culture of the personnel by organizing courses and training.</li> <li>Responding to an emergency situation by the technical personnel and automatic process safety interlocks (safeguards).</li> <li>Insuring assets against fortuitous events (excluding underground assets).</li> <li>Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios).</li> </ul>
24.	IT risk	Risks related to the IT infrastructure security, failures of the IT infrastructure	→	<ul style="list-style-type: none"> <li>Developing and maintaining plans aimed at ensuring continuity of IT infrastructure's operation.</li> <li>Periodic identifying and categorizing IT resources based on the service restoration targets/</li> <li>Use of IT solutions with appropriate technical parameters, providing an acceptable level of reliability and efficiency of operation (including also UPS devices, GSM modem, mobile phones).</li> <li>Planning and conducting training on IT infrastructure continuity of operation and security.</li> <li>Storing and protecting the back-up data.</li> </ul>
25.	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.	→	<ul style="list-style-type: none"> <li>Monitoring the implementation of the developed plans to protect the facilities that are subject to mandatory protection.</li> <li>Maintaining and updating contingency procedures/plans.</li> <li>Implementing/updating and oversight over compliance with the information security rules in force.</li> <li>Regular personnel training with respect to security procedures in force.</li> </ul>
26.	Geological risk	Impact of geological factors on the mining operations	→	<ul style="list-style-type: none"> <li>Making test drillings for the better intelligence on the positioning of coal deposits.</li> <li>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)</li> </ul>

## 4. ANALYSIS OF FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A

### 4.1. Overview of economic and financial data disclosed in the annual financial statements

#### Statement of comprehensive income

The below table presents the annual standalone statement of comprehensive income in 2018-2016.

Table no. 20. Annual standalone statement of comprehensive income in 2018-2016

Statement of comprehensive income prepared in accordance with the IFRS (PLN '000)	2018	2017	2016	Change in % (2018/2017)
Sales revenue	8 618 642	7 792 025	7 995 328	111%
Own cost of goods, materials and services sold	(8 472 648)	(7 414 707)	(7 837 567)	114%
Gross profit (loss) from sales	145 994	377 318	157 761	39%
Cost of sales	(20 692)	(23 309)	(19 326)	89%
Overheads	(98 716)	(88 751)	(81 368)	111%
Other operating revenues and costs	(3 927)	(2 470)	(91 670)	159%
Operating profit (loss)	22 659	262 788	(34 603)	9%
<i>Operating profit margin (%)</i>	<i>0.3%</i>	<i>3.4%</i>	<i>(0.4)%</i>	<i>8%</i>
Financial revenue	1 146 884	1 017 258	1 989 049	113%
Costs of interest on debt	(298 602)	(334 638)	(356 947)	89%
Revaluation of stocks and shares	(2 469 069)	(134 372)	(1 610 396)	1 837%
Revaluation of bonds and loans	15 493	0	0	-
Other financial revenues and costs	(149 648)	108 529	(136 237)	-
Gross profit (loss)	(1 732 283)	919 565	(149 134)	-
<i>Gross profit margin (%)</i>	<i>(20.1)%</i>	<i>11.8%</i>	<i>(1.9)%</i>	<i>-</i>
Income tax	22 430	(65 214)	(17 119)	-
Net profit margin (%)	(1 709 853)	854 351	(166 253)	-
<i>Net profit margin (%)</i>	<i>(19.8)%</i>	<i>11.0%</i>	<i>(2.1)%</i>	<i>-</i>
Other net comprehensive income	(19 666)	(6 713)	104 024	293%
Total comprehensive income	(1 729 519)	847 638	(62 229)	-
EBITDA	27 287	268 220	(27 078)	10%
<i>EBITDA margin (%)</i>	<i>0.3%</i>	<i>3.4%</i>	<i>(0.3)%</i>	<i>9%</i>

In 2018 the Company posted an operating profit of PLN 23 million, lower than in 2017, primarily due to dissolving in 2017, in full, of the provisions, set up in 2015 and updated in 2016, stemming from the agreements involving charges related to the joint venture "Construction of the CCGT unit in Stalowa Wola".

Positive, on the operating level, 2018 result is a consequence of TAURON achieving positive margins, first of all on trading in electricity, coal and CO<sub>2</sub> emission allowances.

In 2018, similar as in 2017, impairment charges related to the value of stocks and shares in subsidiaries were recognized in the financial results, due to the completed impairment tests related to the loss of the carrying amount of stocks and shares in subsidiaries as well as bonds and loans as of June 30, 2018 and as of December 31, 2018. The detailed information is provided further on in this report.

The Company disclosed the information on the above events in the regulatory filings (current reports): no. 25/2018 of July 27, 2018 and no. 2/2019 of February 18, 2019.

## Revenue

The below table presents the Company's sales revenue in 2018 - 2016.

Table no. 21. Company's sales revenue in 2018-2016

Item (PLN '000)	2018	2017	2016	Change in % (2018/2017)
Sales total	9 815 951	8 963 044	10 011 343	110%
Sales revenue	8 618 642	7 792 025	7 995 328	111%
Revenue from sales of goods and materials:	8 506 398	7 664 715	7 899 621	111%
Electricity (without excluding excise tax)	7 555 021	7 117 988	7 255 819	106%
Gas	277 887	190 507	236 215	146%
Greenhouse gas emission allowances	666 306	336 566	363 500	198%
Property rights related to origin of electricity	1 586	14 939	36 137	11%
Other	5 598	4 715	7 950	119%
Revenue from sales of services:	112 244	127 310	95 707	88%
Sales of commercial (trading) services	67 014	52 711	54 517	127%
Other	45 230	74 599	41 190	61%
Revenue from other operations	1 698	1 427	1 041	119%
Revenue from financial operations	1 195 612	1 169 592	2 014 974	102%
Revenue from dividend	819 437	560 832	1 485 152	146%
Revenue from bonds and loans interest	327 447	456 426	503 897	72%
Other financial revenue	48 728	152 334	25 925	32%

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 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 entity responsible for the trading balances of TAURON Capital Group's subsidiaries and to optimally manage, among others, the property rights and the CO<sub>2</sub> emission allowances.

A relatively large share of revenue from bonds and loans interest is a consequence of the implemented central financing model and the Policy for managing TAURON Group's liquidity including the cash pooling functioning at TAURON Capital Group, which allows for efficient management of the finances of all of TAURON Capital Group's subsidiaries.

The revenue from the sales of goods and materials achieved in the reporting period was impacted by:

1. higher revenue from the sales of electricity as a result of higher electricity sales prices (13.8%) as compared to 2017,
2. increase of revenue from the sales of greenhouse gas emission allowances (sales to TAURON Capital Group's subsidiaries for the purpose of redeeming the allowances in conjunction with the fulfillment of the obligation due to greenhouse gas emissions) as a result of a rise of the sales prices of greenhouse gas emission allowances,
3. higher revenue from the sales of natural gas as a result of an increase of prices and sales volume,



4. lower revenue from the sales of property rights related to the origin of electricity due to the end of the trading of the property rights.

As part of the revenue from the sales of services TAURON recognizes revenue from:

1. intermediary services related to coal purchase transactions on the market for TAURON Capital Group's subsidiaries (+2% as compared to 2017),
2. services related to electricity (+4% as compared to 2017; including: 3. provision of the Trading Operator/Trading and Technical Operator service (+6% as compared to 2017),
3. management of the portfolio of CO<sub>2</sub> emission allowances (+220% as compared to 2017).

Due to its holding operations the Company is reporting material financial revenue. Its rise by 2% is mainly a consequence of higher revenue from dividends (by 46%) and lower bonds and loans interest by (29%).

The Company's operations are primarily conducted on the territory of Poland. Sales to foreign customers in the years ended on December 31, 2018 and December 31, 2017 came in at, respectively, PLN 97.5 million and PLN 147.5 million.

## Costs

The below table presents the level and structure of the costs incurred by the Company in 2018-2016.

Table no. 22. Level and structure of the costs incurred by the Company in 2018-2016

Item (PLN '000))	2018	2017	2016	Change in % (2018/2017)
Total costs	(11 548 235)	(8 043 479)	(10 160 477)	144%
Cost of goods, materials and services sold	(8 472 648)	(7 414 707)	(7 837 567)	114%
Costs of sales and overheads	(119 408)	(112 060)	(100 694)	107%
Costs of other operations	(5 625)	(3 897)	(92 711)	144%
Costs of financial operations	(2 950 554)	(512 815)	(2 129 505)	575%

In 2018 the total costs of the Company's operations represented 144% of the level of costs in 2017, mainly as a result of recognizing, in the financial costs in 2018, of the consequences of setting up and reversing the impairment charges related to the carrying amount of stocks and shares in subsidiaries in the amount much higher than the amount recognized in 2017. The costs of goods, materials and services sold constitute the largest share of the total cost (73%). The higher costs of electricity purchase, due to the higher electricity purchase price (by 14.3%), had the biggest impact on the increase of these costs by 14% as compared to 2017.

In 2018, in relation to 2017, the costs of sales and overheads were higher by 7%. The rise was mainly related to the costs of advertising, stock market services and labor costs which is associated with centralizing of functions by TAURON in accordance with the implemented Business Model.

Costs of other operations include mainly premiums paid to sector organizations and donations, and the increase of the costs by 44% is mainly due to an increase of the premiums paid to sector organizations as compared to 2017.

The financial costs include an excess of the booked impairment charges related to the carrying amount of stocks and shares, which is primarily associated with booking and reversing the impairment charges related to the carrying amount of stocks and shares in subsidiaries as a result of the impairment tests conducted as of June 30 and December 31, 2018. With respect to the standalone financial statements of TAURON Polska Energia S.A. for 2018 the analyses completed demonstrated:

- validity of booking write-downs related to the loss of the carrying amount of the shares in TAURON Wydobywanie in the amount of PLN 1 094.8 million,
- validity of booking write-downs related to the loss of the carrying amount of the shares in TAURON Wytwarzanie in the amount of PLN 2 287.8 million,

- validity of reversing write-downs related to the loss of the carrying amount of the shares in TAURON EKOENERGIA in the amount of PLN 940.5 million.

Furthermore, an impairment charge related to the shares in the PEPKH subsidiary in the amount of PLN 6 million and an impairment charge related to the shares in the TAURON Sweden Energy subsidiary in the amount of PLN 20.9 million were booked.

The excess of the write-downs booked over the write-downs reversed in the standalone financial statements (net charges) is PLN 2 469 million, and the total estimated impact on the decrease of the standalone net financial result reached PLN 2 469 million.

### The Company's assets and financial position

The below table presents the Company's annual standalone statement of financial position.

Table no. 23. Annual standalone statement of financial position (material items)

Statement of financial position prepared in accordance with the IFRS (PLN '000)	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016	Change in % (2018/2017)
<b>ASSETS</b>				
Fixed assets	27 166 500	27 371 684	25 855 329	99%
Stocks and shares	21 076 057	20 912 679	14 874 418	101%
Bonds	5 043 980	6 009 920	9 615 917	84%
Loans granted	808 760	382 989	1 292 800	211%
<b>Current assets</b>	<b>2 346 490</b>	<b>2 949 690</b>	<b>1 817 047</b>	<b>80%</b>
Inventory	409 587	198 428	284 799	206%
Trade receivables and other receivables	833 484	719 133	961 242	116%
Bonds	192 311	562 776	242 465	34%
Cash and equivalents	465 925	721 577	198 090	65%
<b>TOTAL ASSETS</b>	<b>29 512 990</b>	<b>30 321 374</b>	<b>27 672 376</b>	<b>97%</b>
<b>Liabilities</b>				
Equity	15 259 836	17 377 906	16 530 268	88%
Long-term liabilities	8 533 790	9 530 787	8 969 976	90%
Liabilities due to debt	8 474 344	2 725 763	8 754 047	311%
Short-term liabilities	5 719 364	3 412 681	2 172 132	168%
Liabilities due to debt	4 504 374	2 725 763	1 433 929	165%
Liabilities towards suppliers and other liabilities	885 639	545 974	605 605	175%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>29 512 990</b>	<b>30 321 374</b>	<b>27 672 376</b>	<b>97%</b>

As of December 31, 2018 fixed assets represented the biggest share of the total assets (92%), where the dominating item is the value of stocks and shares (71% of the total assets) and bonds (17% of the total assets).

The following events had the biggest impact on an increase of the value of stocks and shares by 1% year on year:

1. increase of the share capital of TAURON Wydobywanie in the amount of PLN 340 million,
2. increase of the share capital of TAURON Wytwarzanie in the amount of PLN 780 million,
3. increase of the share capital of Nowe Jaworzno GT in the amount of PLN 1 060 million,

4. increase of the share capital of TAURON Dystrybucja Serwis in the amount of 439 million,
5. additional contribution to the equity of PEPKH in the amount of PLN 6 million,
6. increase of the share capital of ElectroMobility Poland S.A. in the amount of PLN 15 million,
7. increase of the share capital of PGE EJ 1 in the amount of PLN 6 million.

Additional factors that led to a change of this balance sheet item were impairment charges related to the stocks and shares that were booked and reversed as a result of impairment tests conducted due to the loss of the carrying value of stocks and shares of subsidiaries. The impairment tests completed proved the need for booking or increasing the already booked write-downs in the following subsidiaries:

- TAURON Wydobycie in the amount of PLN (1 094.8) million,
- TAURON Wytwarzanie in the amount of PLN (2 287.8) million,

and also reversing of the write-downs on the value of stocks and shares in:

- TAURON EKOENERGIA in the amount of PLN 940.5 million.

Furthermore, in the year ended on December 31, 2018 an impairment charge related to the shares in the PEPKH subsidiary in the amount of PLN 6 million and an impairment charge related to the shares in the TAURON Sweden AB (publ.) subsidiary in the amount of PLN 20.9 million were booked.

Under the *Bonds* item the value of bonds issued by the subsidiaries and purchased by TAURON is provided. A year on year decline is the result of redeeming of the bonds issued in previous years by the subsidiaries.

As of December 31, 2018 and December 31, 2017, equity represented, respectively, 52% and 57% of total equity and liabilities.

The liabilities of the Company due to loans and credits received and due to bonds, as of December 31, 2018, were related to bonds issued under the bond issue program worth PLN 9 358.0 million, including the subordinated hybrid bonds in the amount of PLN 1 541.7 million, loans from related entities drawn under the *Agreement on cash pool services*, in the amount of PLN 2 038.5 million, loans received from the European Investment Bank (EIB) in the amount of PLN 850.7 million (including interest), the loan from a subsidiary in the amount of PLN 730.7 million and an overdraft in the amount of PLN 0.8 million.

### Statement of cash flows

The table below presents the statement of cash flows prepared according to the IFRS.

Table no. 24. Statement of cash flows (material items)

Statement of Cash Flows prepared in accordance with the IFRS (PLN '000)	2018	2017	2016	Change in % (2018/2017)
<b>Cash flows from operating activities</b>				
Gross profit / (loss)	(1 732 283)	919 565	(149 134)	-
Adjustments	1 607 137	(673 538)	(83 753)	-
<b>Net cash from operating activities</b>	<b>(125 146)</b>	<b>246 027</b>	<b>(232 887)</b>	<b>-</b>
<b>Cash flows from investing activities</b>				
Purchase of stocks and shares	(2 646 353)	(6 169 590)	(543 603)	43%
Purchase of bonds	(160 000)	(350 000)	(2 770 000)	46%
Loans granted	(847 442)	(307 132)	(23 575)	276%
Redemption of bonds	1 334 920	3 547 110	540 000	38%
Repayment of loans granted	421 225	1 000 000	142 024	42%
Dividends received	819 437	359 787	1 485 152	228%
Interest received	289 177	642 017	474 126	45%

Statement of Cash Flows prepared in accordance with the IFRS (PLN '000)	2018	2017	2016	Change in % (2018/2017)
Net cash from investing activities	(720 432)	(1 353 288)	(619 543)	53%
<b>Cash flows from financing activities</b>				
Redemption of debt securities	0	(1 650 000)	(3 300 000)	0%
Credits/ loans repayment	(162 318)	(175 695)	(132 818)	92%
Interest paid	(301 978)	(265 223)	(351 147)	114%
Issue of debt securities	1 350 000	2 707 462	4 284 607	50%
Net cash from financing activities	844 776	593 470	486 164	142%
Increase/(decrease) in net cash and equivalents	(802)	(513 791)	(366 266)	-
Net FX differences	(526)	2 038	1 179	-
Cash opening balance	(1 559 232)	(1 045 441)	(679 175)	149%
Cash closing balance	(1 560 034)	(1 559 232)	(1 045 441)	100%

The balance of cash received from operating, investing and financing activities of the Company for 2018, taking into account the opening cash balance, was PLN (1 560.2) million. The closing cash balance results from the adjustment of cash by the balance of loans granted and received under cash pooling transactions, due to the fact that they do not constitute cash flows from investing or financing activities, as they are used mainly for 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 2018. 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

The below table presents key financial ratios of TAURON.

Table no. 25. Key financial ratios of TAURON

#	Item	2018	2017	2016	Change in % (2018/2017)
1.	Gross Profitability (gross profit / sales revenue)	(20.1)%	11.8%	(1.9)%	-
2.	Net Profitability (net profit / sales revenue)	(19.8)%	11.0%	(2.1)%	-
3.	Return on equity (gross profit / equity)	(11.4)%	5.3%	(0.9)%	-
4.	Return on assets (net profit / total assets)	(5.8)%	2.8%	(0.6)%	-
5.	EBIT (PLN '000) (operating profit)	22.658	262 788	(34 603)	9%
6.	EBIT margin (EBIT / sales revenue)	0.3%	3.4%	(0.4)%	8%
7.	EBITDA (PLN '000) (operating profit before depreciation)	27 286	268 220	(27 078)	10%

#	Item	2018	2017	2016	Change in % (2018/2017)
8.	EBITDA margin (EBITDA / sales revenue)	0.3%	3.4%	(0.3)%	9%
9.	Current liquidity ratio (current assets / short-term liabilities)	0.41	0.86	0.84	48%

The Company's low 2018 EBIT, as compared to 2017, was primarily affected by the dissolving, in 2017, of the provision related to the agreements involving charges stemming from the EC Stalowa Wola joint venture in the amount of PLN 203.4 million.

The 2018 gross and net profits were impacted by the booked and reversed impairment charges related to the stocks and shares in subsidiaries and the value of loans granted.

The value 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 operating activities while revenues gained from dividends are recognized under financial activities).

The Company's ability to pay its accounts payable was not in jeopardy in 2018.

#### 4.4. Principles of preparing annual financial statements

Financial statements have been drawn up in accordance with the IFRS approved by the EU.

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

The financial statements have been prepared with the assumption of the continuation of business operations by TAURON in the foreseeable future. As of the date of approval of the consolidated financial statements for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON.

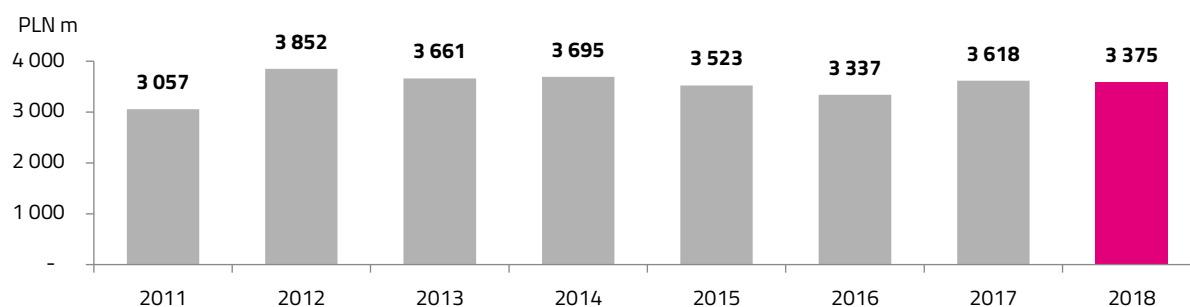
The accounting principles (policy) adopted for drawing up of the consolidated financial statements are presented in note 9 of the Consolidated financial statements for the year ended on December 31, 2018

## 5. ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL POSITION AND ASSETS

### 5.1. TAURON Capital Group's financial results

The below table presents TAURON Capital Group's EBITDA in 2011-2018.

Figure no. 42. TAURON Capital Group's EBITDA in 2011-2018



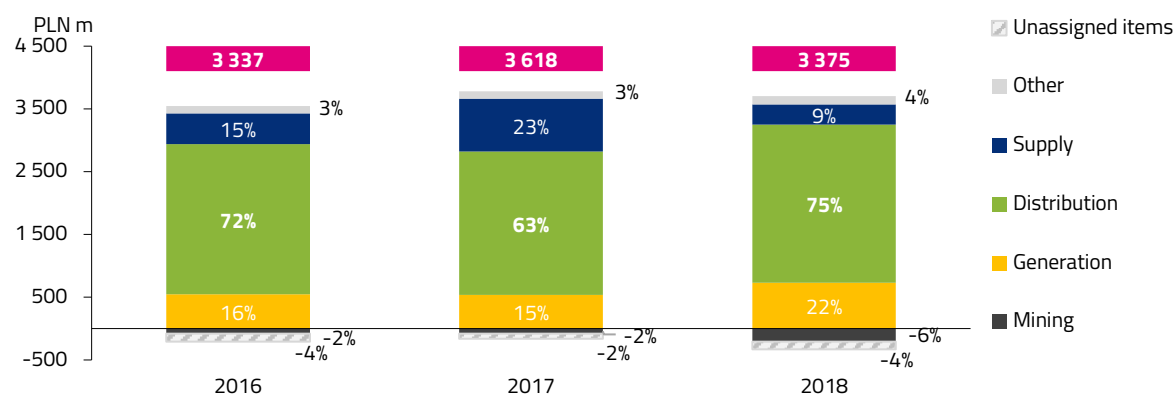
The below table presents TAURON Capital Group's 2018-2016 EBITDA broken down into individual lines of business (segments). Data for the individual segments do not include consolidation exclusions.

Table no. 26. TAURON Capital Group's 2018-2016 EBITDA broken down into individual lines of business (segments)

EBITDA (PLN '000)	2018	2017	2016	Change in % (2018/2017)	Change (2018-2017)
Mining	(207 181)	(83 036)	(82 130)	-	(124 145)
Generation	731 372	537 024	545 311	136%	194 348
Distribution	2 517 465	2 282 685	2 394 812	110%	234 775
Supply	320 543	841 222	490 005	38%	(520 679)
Other	134 793	118 043	114 570	114%	16 749
Unassigned items	(122 066)	(78 297)	(125 754)	-	(43 769)
<b>Total EBITDA</b>	<b>3 374 926</b>	<b>3 617 641</b>	<b>3 336 814</b>	<b>93%</b>	<b>(242 721)</b>

The below figure presents TAURON Capital Group's 2016-2018 EBITDA structure (composition).

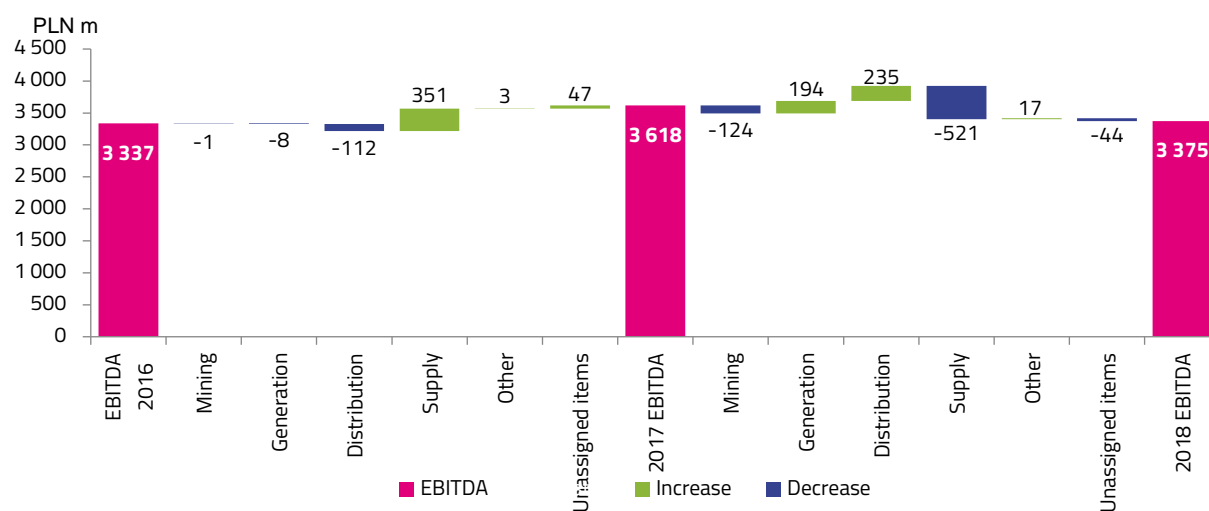
Figure no. 43. TAURON Capital Group's 2016-2018 EBITDA structure (composition)



Distribution, Generation and Supply Segments are the biggest contributors to TAURON Capital Group's EBITDA..

The below figure presents the change in TAURON Capital Group's EBITDA in 2016-2018.

Figure no. 44. Change in TAURON Capital Group's EBITDA in 2016-2018



## 5.2. TAURON Capital Group's financial results by line of business

### 5.2.1. Mining Segment

The below table presents the Mining Segment's 2018-2016 results..

Table no. 27. Mining Segment's 2018-2016 results

Item (PLN '000)	2018	2017	2016	Change in % (2018/2017)	Change (2018-2017)
<b>Mining</b>					
Sales revenue	1 266 024	1 541 425	1 311 143	82.1%	(275 401)
<i>coal - coarse and medium assortments</i>	<i>367 449</i>	<i>509 348</i>	<i>346 251</i>	<i>72.1%</i>	<i>(141 899)</i>
<i>thermal coal</i>	<i>831 875</i>	<i>973 549</i>	<i>918 647</i>	<i>85.4%</i>	<i>(141 674)</i>
<i>other revenue</i>	<i>66 700</i>	<i>58 528</i>	<i>46 245</i>	<i>114.0%</i>	<i>8 172</i>
Operating profit (EBIT)	(1 053 469)	(211 070)	(205 163)	-	(842 399)
Depreciation and write-downs	846 288	128 034	123 033	661.0%	718 254
EBITDA	(207 181)	(83 036)	(82 130)	-	(124 145)

In 2018 the Mining Segment's revenue was 18% lower as compared to 2017 as a consequence of the lower coal volume sold, which was due to the lower production of the commercial coal by the Company's coal mines.

Mining Segment's 2018 operating results, EBIT and EBITDA, were significantly lower as compared to the 2017 earnings, which was due to the following factors:

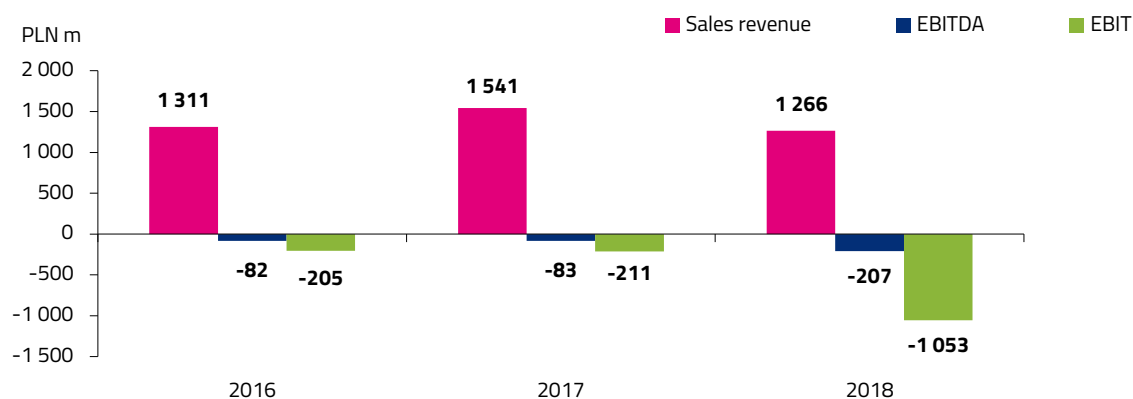
1. lower sales volumes of each product assortment by 22% on average – mainly as a result of lower production of commercial coal and selling some coal inventory in 2017,
2. higher average price of products sold by 12% on average, which is a consequence of the situation on the coal market due to an increase of demand for this commodity,
3. higher coal production unit cost which is a consequence of a 22% drop of the volume of coal produced and the lower variable direct costs with the fixed costs flat as compared to 2017. The decline of the variable direct costs is due to the lower costs of electricity consumed and the accounted for (settled) costs of the preparatory works, which is related to the lower extraction output,

- recognizing, as assets on the 2018 balance sheet, of some coal produced and not sold, while in 2017 the company sold some of the coal produced in the preceding period.

TAURON Capital Group recognized, in the 2018 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 733 million.

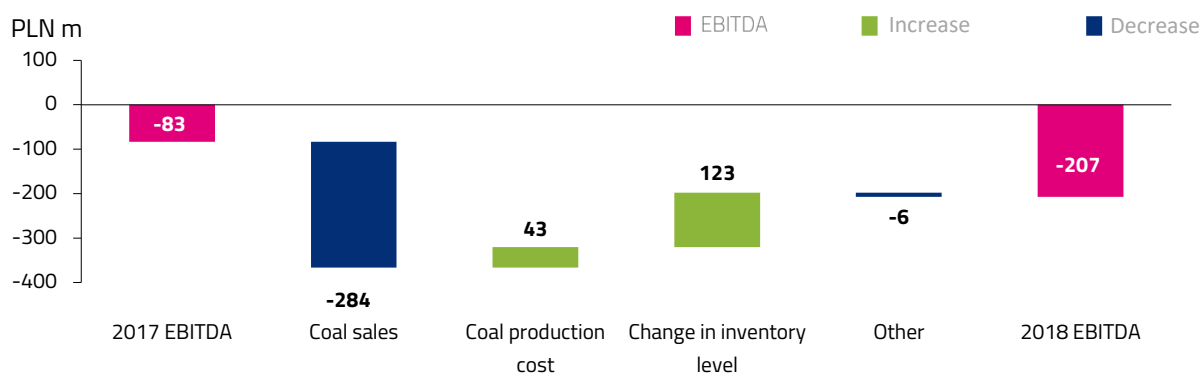
The below figure presents the Mining Segment's 2016 - 2018 financial data.

Figure no. 45. Mining Segment's 2016 - 2018 financial data



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

Figure no. 46. Mining Segment's EBITDA



### Major investments

In 2018 the Mining Segment's total capital expenditures came in at PLN 247 million, including the outlays on the following strategic investment projects:

- PLN 68 million on the construction of the "Grzegorz" shaft, including the construction of the infrastructure and the accompanying headings,
- PLN 34 million on the construction of an 800 m level at Janina Coal Mine (ZG Janina),
- PLN 87 million on Brzeszcze Coal Mine's (ZG Brzeszcze) capex program.

Mining Segment's other capital expenditures are spent on coal extraction preparations and operations (mainly the purchase of machines and equipment, drilling of headings, longwall preparation).

### 5.2.2. Generation Segment

The below table presents the Generation Segment's 2018-2016 results.



Table no. 28. Generation Segment's 2018-2016 results

Item (PLN '000)	2018	2017	2016	Change in % (2018/2017)	Change (2018-2017)
<b>Generation</b>					
Sales revenue	4 638 494	4 537 002	4 356 101	102.2%	101 492
<i>Electricity</i>	3 598 195	3 484 071	3 101 505	103.3%	114 124
<i>Heat</i>	833 410	873 777	861 029	95.4%	(40 367)
<i>property rights arising from certificates     of electricity origin</i>	153 637	114 840	335 673	133.8%	38 797
<i>other revenue</i>	53 252	64 314	57 894	82.8%	(11 062)
Operating profit (EBIT)	196 658	89 645	(752 813)	219.4%	107 013
Depreciation and write-downs	534 714	447 379	1 298 124	119.5%	87 335
EBITDA	731 372	537 024	545 311	136.2%	194 348

In 2018 the Generation Segment's sales revenue was higher by 2% as compared to 2017 due to higher electricity and property rights sales revenue (mainly due to the higher electricity and PM OZE sales prices). Lower revenue from the heat sales is a consequence of the lower sales volume which was due to the higher outdoor temperatures year on year.

Generation Segment's EBITDA was 36% higher in 2018 as compared to last year.

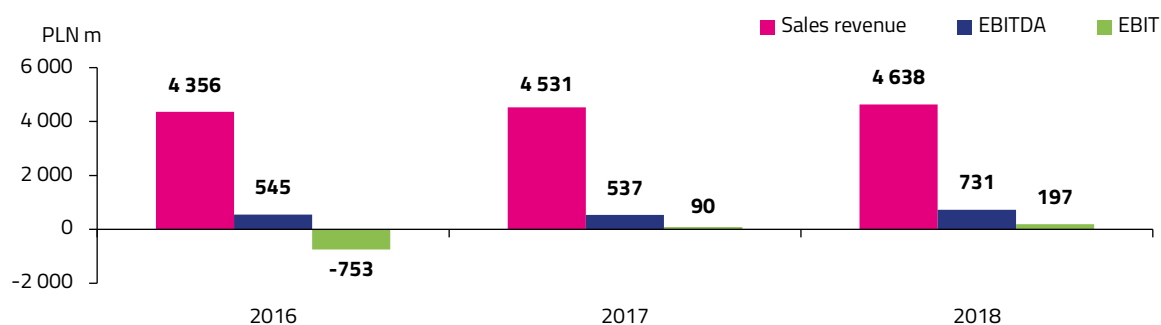
The following factors had an impact on the results achieved:

1. higher margin on electricity – mainly due to the higher electricity sales price year on year,
2. lower margin on heat – lower heat sales and transmission services volume (the effect of the higher outdoor temperature and the higher heat production unit costs (an increase of coal and biomass prices year on year)),
3. higher costs of the obligation to redeem (retire) CO<sub>2</sub> emission allowances which is the result of:
  - a smaller number of free CO<sub>2</sub> emission allowances related to electricity (1.7 million free CO<sub>2</sub> emission allowances were settled (retired), while in 2018: no free CO<sub>2</sub> emission allowances),
  - lower CO<sub>2</sub> emission volume (lower electricity and heat production year on year),
  - higher prices of CO<sub>2</sub> emission allowances year on year,
4. dissolving of the provision related to the employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie – a one-off event,
5. other (mainly lower costs of the real estate tax on wind farms and lower costs related to bonuses for the workforce and the Voluntary Redundancy Program year on year).

TAURON Capital Group recognized, in the 2018 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 122 million.

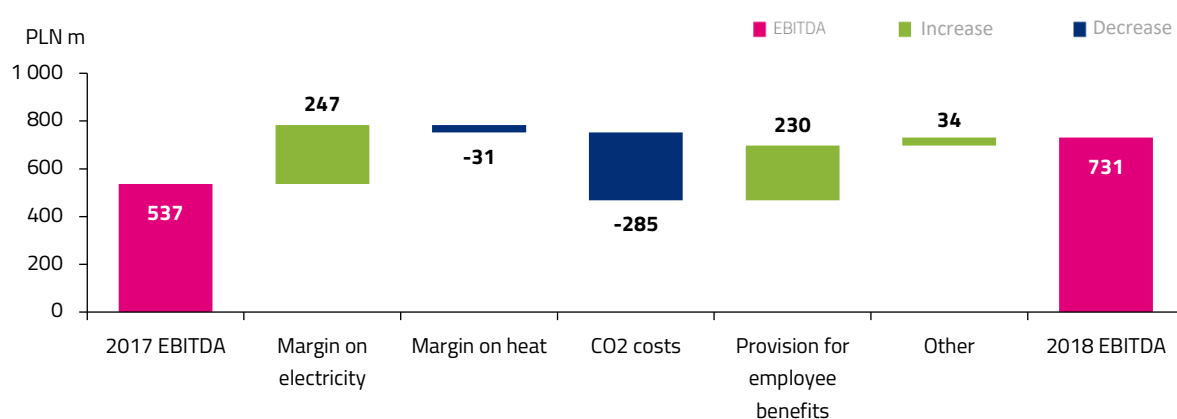
The below figure presents the Generation Segment's 2016-2018 financial data.

Figure no. 47. Generation Segment's 2016-2018 financial data



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

Figure no. 48. Generation Segment's EBITDA



### Major investments

In 2018 the Generation Segment's total capital expenditures came in at PLN 1 300 million, including the outlays on the following strategic investment projects:

1. PLN 991 million on the construction of the new 910 MWe unit in Jaworzno,
2. PLN 17 million on investment projects related to expanding and maintaining the district heating networks,
3. PLN 28 million on connecting new facilities,
4. PLN 7 million on connecting facilities heated from low emission sources to the district heating networks,
5. PLN 76 million on the replacement expenditures and overhaul components at TAURON Wytwarzanie.

Furthermore, the financial costs constitute approx. PLN 147 million out of the segment's total capex.

Apart from the above capex an investment project in Stalowa Wola with the participation of the strategic partner, PGNiG, is underway. TAURON and PGNiG hold a 50% stake each in the special purpose vehicle implementing the project that includes the construction of the 449 MWe CCGT unit, including the 240 MWt heat generation component. In January 2016, the contract with the general contractor Abener Energia S.A was terminated. In March 2017, thanks to the repayment of the existing institutions financing the project, the signed amendments to the gas and electricity agreements as well as the agreement on the project's restructuring came into force. The agreement was reached and the decision was taken on the construction of the backup heat source. In March 2018 financing was obtained from Bank Gospodarstwa Krajowego S.A. (BGK) and PGNiG. As a result of completing a number of analyses, among others due to the project's advancement level the contract manager formula (EPCM) was chosen. Energopomiar Gliwice - Energoprojekt Katowice consortium was selected to implement the EPCM project. The project's completion is scheduled for 2019. Expected capital expenditures on the project (excluding the financial costs) amount to PLN 1.4 billion. Approx. PLN 1.06 billion had been spent by the end of 2018.

### 5.2.3. Distribution Segment

The below table presents the Distribution Segment's 2018-2016 results.

Table no. 29. Distribution Segment's 2018-2016 results

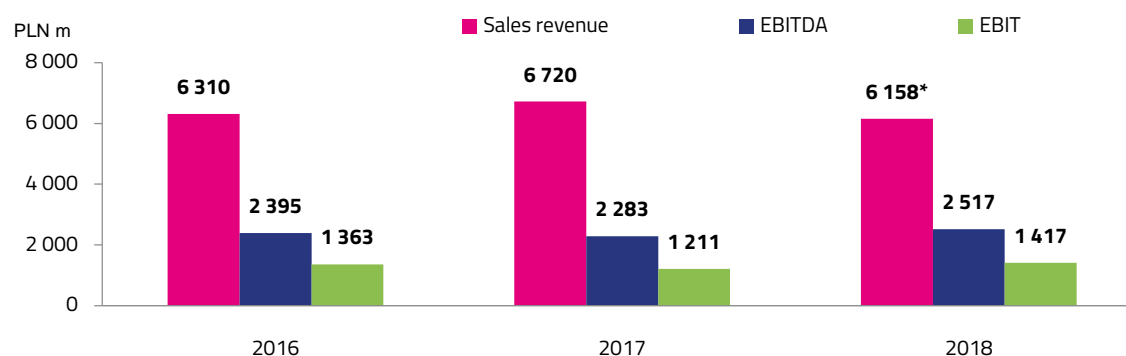
Item (PLN '000)	2018	2017	2016	Change in % (2018/2017)	Change (2018-2017)
<b>Distribution</b>					
Sales revenue	6 158 215	6 719 943	6 310 216	91.6%	(561 728)
<i>distribution services</i>	5 789 487	6 311 594	5 892 510	91.7%	(522 107)
<i>connection fees</i>	81 129	114 112	103 636	71.1%	(32 983)
<i>maintenance of street lighting</i>	121 650	115 265	116 462	105.5%	6 385
<i>other revenue</i>	165 949	178 972	197 608	92.7%	(13 023)
Operating profit (EBIT)	1 417 102	1 210 925	1 363 236	117.0%	206 173
Depreciation and write-downs	1 100 362	1 071 760	1 031 576	102.7%	28 602
<b>EBITDA</b>	<b>2 517 465</b>	<b>2 282 685</b>	<b>2 394 812</b>	<b>110.3%</b>	<b>234 775</b>

In 2018, as compared to 2017, the Distribution Segment reported an 8% sales revenue decrease, while the increases of EBIT and EBITDA reached 17% and 10%, respectively. The following factors had an impact on the results:

1. decrease of the average rate of the distribution service sales to the final consumers (data following the exclusion of the transition fee in 2018 as a consequence of the introduction of the application of IFRS 15),
2. rising supplies to consumers, in particular, among consumers in A and B groups, as a result of favorable economic conditions and rising production,
3. lower transmission services purchase costs (data following the exclusion of the transition fee in 2018 in accordance with IFRS 15),
4. higher costs of purchasing electricity to cover the balancing difference,
5. drop of revenue from connection fees primarily as a result of carrying out a material investment project in 2017 and the IFRS 15 change,
6. increase of charges for exceeding contractual connection capacity (power), above-standard passive energy off-take and the revenue due to fixing power line collisions,
7. decline of labor costs as a result of lower headcount, realignment of indirect costs overhead on investment projects carried out using in-house resources and the effect of the voluntary redundancy program,
8. increase of the grid assets value as a result of the investment projects carried out which as a consequence leads to a rise of the costs of taxes and charges.

The below figure presents the Distribution Segment's 2016-2018 financial data.

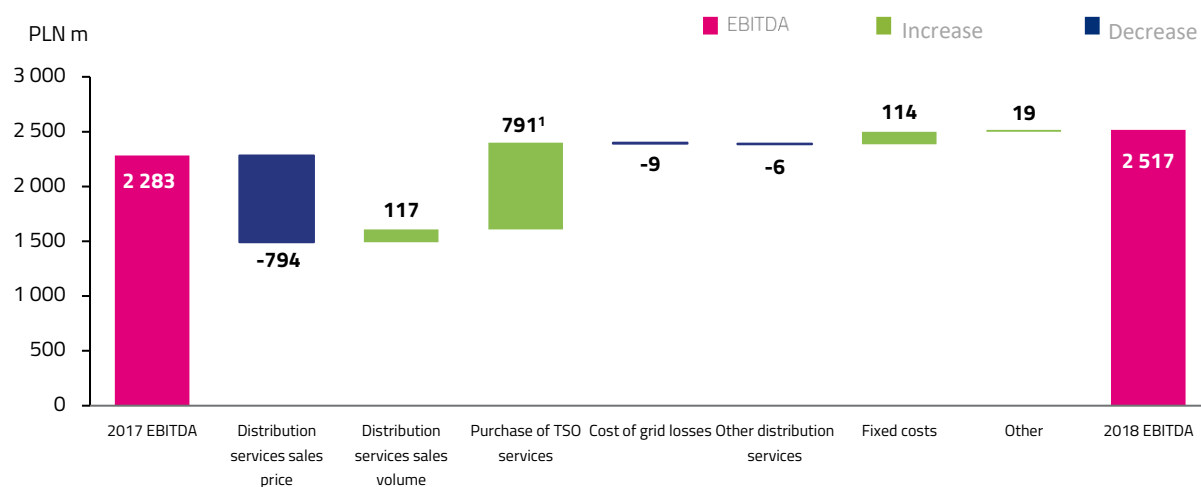
Figure no. 49. Distribution Segment's 2016-2018 financial data



\* Due to the IFRS 15 change the transition fee is excluded from the 2018 revenue and costs

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

Figure no. 50. Distribution Segment's EBITDA



<sup>1</sup> Due to the IFRS 15 change the transition fee is excluded from the 2018 revenue and costs

### Major investments

In 2018 the Distribution Segment's total capital expenditures came in at PLN 2 044 million. The main capex directions of investment included:

1. PLN 1 118 million on investment projects related to the grid upgrades (refurbishments) and replacements,
2. PLN 676 million on investment projects related to connecting new consumers.

Moreover, in 2018 expenditures in the total amount of approx. PLN 250 million were also spent on: communications and IT, buildings and structures, means of transportation, modernization of street lighting.

### 5.2.4. Supply Segment

He below table presents the Supply Segment's 2018 – 2016 results.

Table no. 30. Supply Segment's 2018 – 2016 results

Item (PLN '000)	2018	2017	2016	Change in % (2018/2017)	Change (2018-2017)
<b>Supply</b>					
Sales revenue	14 074 115	13 567 887	14 016 190	103.7%	506 226
<i>electricity, including</i>	<i>9 011 153</i>	<i>8 740 196</i>	<i>8 814 692</i>	<i>103.1%</i>	<i>270 957</i>
<i>revenue from retail electricity supply</i>	<i>7 928 888</i>	<i>7 554 291</i>	<i>7 145 644</i>	<i>105.0%</i>	<i>374 597</i>
<i>greenhouse gas emission allowances</i>	<i>666 306</i>	<i>336 566</i>	<i>363 500</i>	<i>198.0%</i>	<i>329 740</i>
<i>fuel</i>	<i>1 371 117</i>	<i>1 024 912</i>	<i>1 583 672</i>	<i>133.8%</i>	<i>346 205</i>
<i>distribution service (transferred)</i>	<i>2 948 322</i>	<i>3 400 487</i>	<i>3 183 232</i>	<i>86.7%</i>	<i>(452 165)</i>
<i>other revenue, including trading services</i>	<i>77 217</i>	<i>65 726</i>	<i>71 094</i>	<i>117.5%</i>	<i>11 489</i>
Operating profit (EBIT)	306 481	832 216	479 374	36.8%	(525 7325)
Depreciation and write-downs	14 062	9 006	10 631	156.1%	5 056

Item (PLN '000)	2018	2017	2016	Change in % (2018/2017)	Change (2018-2017)
EBITDA	320 543	841 222	490 005	38.1%	(520 679)

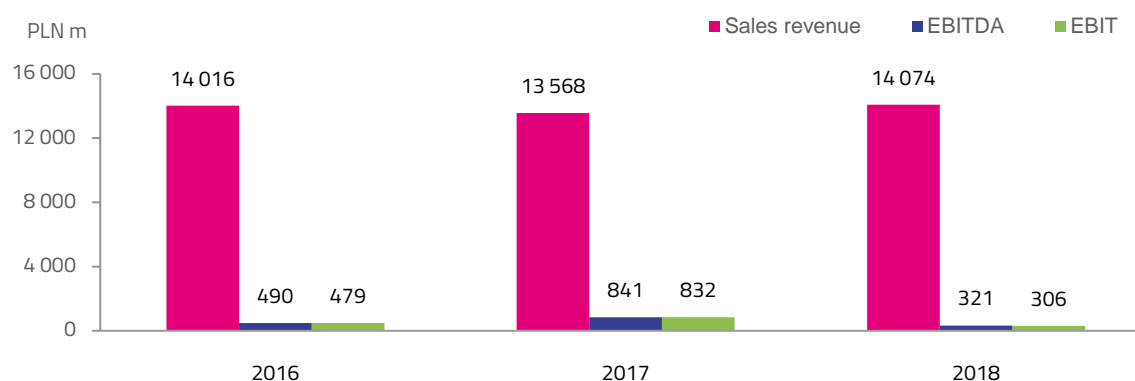
Sales revenue was 3.7% higher in 2018 as compared to 2017, mainly due to the higher electricity sales revenue as a result of an increase of the sales prices. The fuel sales revenue was also higher as a result of rising gas fuel sales prices as was the revenue from the sales of the other goods and services due to the higher turnover of the emission allowances sales as a consequence of an increase of the CO<sub>2</sub> market prices. On the other hand, the lower revenue from the distribution service are the result of applying IFRS 15 and the netting of the transition fee related thereto.

2018 EBIT and EBITDA were lower than last year due to the following factors:

1. lower margin on electricity as a result of a faster growth rate of purchase prices versus the growth rate of the sales prices. The situation on the electricity market had a direct impact on the decline of the margin in the mass customer segment, where there is a large share of customers with a fixed sales price (customers using the products and customers with prices based on the G tariff regulated by ERO). In spite of an increase of the G tariff, the price hikes in the ABC group and the last resort tariff sales, a lower unit margin was reported than last year,
2. recognizing in the current reporting period by the Supply Segment's subsidiaries of the provisions related to the agreements giving rise to the charges in the amount of PLN 214 million, due to the coming into force of the Act on the amendment to the act on the excise tax and some other acts (it is described in more detail in note 36 to the consolidated financial statements of TAURON Group for the financial year ended on December 31, 2018),
3. higher costs of the obligation to redeem (retire) the property rights which is the result of:
  - a. increase of the obligation level for the "green" certificates from 15.4% to 17.5%; for the "violet" certificates from 1.8% to 2.3%, for the "yellow" certificates from 7.0% to 8.0%, a decrease of the obligation level for the "blue" certificates from 0.60% to 0.50% and maintaining of the obligation to retire the certificates from cogeneration for the "red" certificates in the amount of PLN 23.2%,
  - b. lower property rights prices due to taking advantage of the favorable market situation, mainly related to the "green" certificates (contracting and purchasing PMOZE to fulfil the redemption obligation at lower prices) and at the same time a change of the model used to set up provisions related to hedging the property rights (FIFO model),
4. dissolving, in 2017, of the provision related to the agreements giving rise to the charges with the joint venture (ECSW), which led to an improvement of the Supply Segment's financial result by PLN 203 million due to the coming into force of the Agreement concluded between TAURON i PGNiG on the gas and electricity agreement and the amendments to the multi-year (long term) gas and electricity sale agreements related to the CCGT unit construction project at Stalowa Wola,
5. other - other trading products – margins reached on the other trading products, primarily an increase of the margin on the CO<sub>2</sub> emission allowances trading.

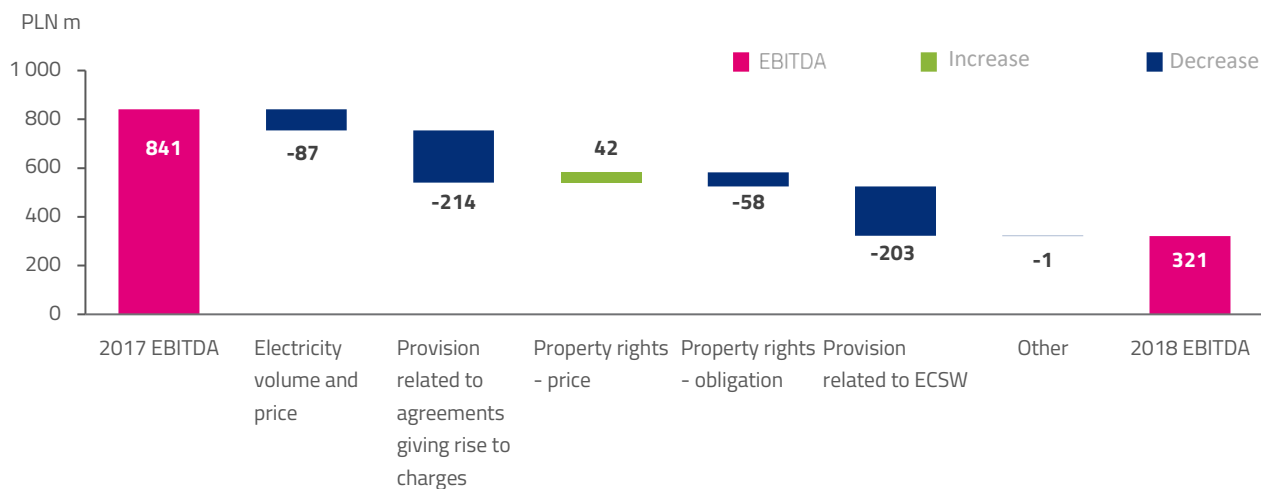
The below figure presents the Supply Segment's 2016-2018 financial data.

Figure no. 51. Supply Segment's 2016 – 2018 financial data



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

Figure no. 52. Supply Segment's EBITDA



### Major investments

The Supply Segment's total capital expenditures came in at PLN 7 million in 2018.

### 5.2.5. Other operations

The below table presents the Other Operations Segment's 2018-2016 results.

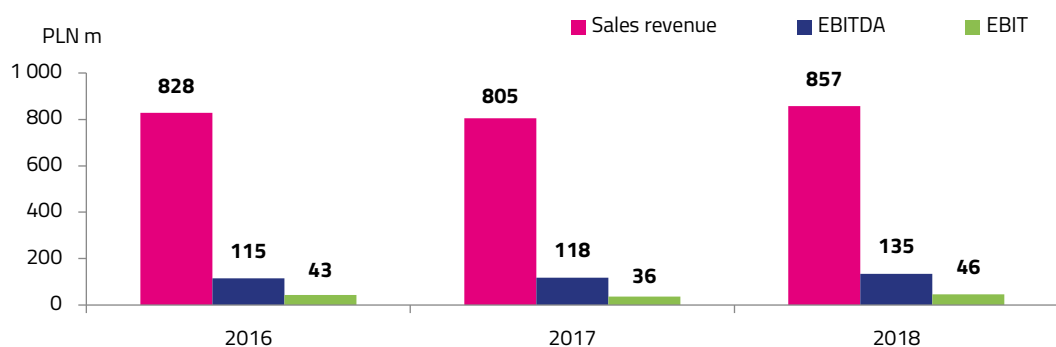
Table no. 31. Other Operations Segment's 2018-2016 results

Item (PLN '000)	2018	2017	2016	Change in % 2018/2017	Change (2018/2017)
<b>Other operations</b>					
Sales revenue	857 462	804 560	827 928	106.6%	52 902
customer service services	190 765	198 113	205 388	96.3%	(7 348)
support services	424 468	392 394	386 323	108.2%	32 074
biomass	78 699	74 248	111 087	106.0%	4 451
aggregates	101 495	101 343	90 490	100.1%	152
other revenue	62 035	38 462	34 640	161.3%	23 573
Operating profit (EBIT)	46 023	35 902	42 642	128.2%	10 121
Depreciation and write-downs	88 770	82 141	71 928	108.1%	6 628
EBITDA	134 793	118 043	114 570	114.2%	16 749

The Other Operations Segment's revenue was 6.6% higher in 2018 as compared to 2017, which is primarily due to an increase of revenue from the support services as part of real estate management, property security and maintenance. Furthermore, the revenue rose as a result of centralizing the services provided by CUW HR and selling the by-products of coal burning and extraction.

The below figure presents the Other Operations Segment companies' 2016-2018 financial data.

Figure no. 53. Other Operations Segment companies' 2016-2018 financial data



### Major investments

The Other Operations Segment companies' total capital expenditures came in at PLN 73 million in total in 2018. They include mainly expenditures on the IT systems.

## 5.3. Overview of economic and financial data disclosed in the consolidated annual financial statements

### 5.3.1. Characteristics of the structure of assets and liabilities in the consolidated statement of financial position

The below table shows the structure of the annual consolidated statement of financial position.

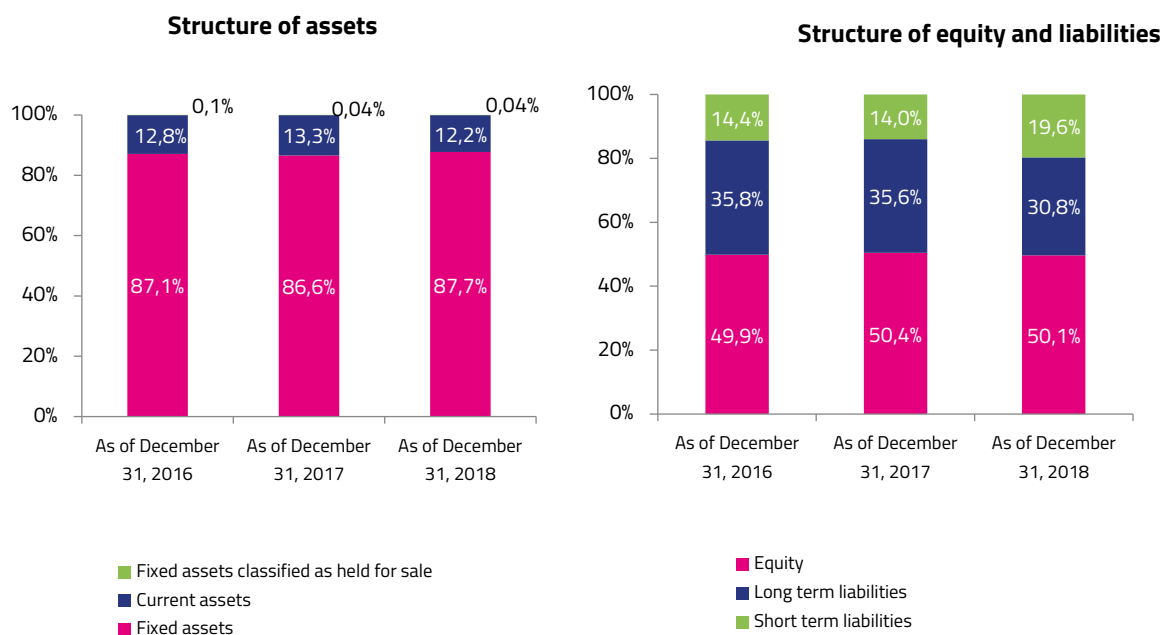
Table no. 32. Structure of the annual consolidated statement of financial position

Consolidated statement of financial position	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016
<b>ASSETS</b>			
Fixed assets	87.7%	86.6%	81.3%
Current assets	12.3%	13.4%	12.0%
<b>TOTAL ASSETS</b>	<b>100.0%</b>	<b>100.0%</b>	<b>93.4%</b>
<b>LIABILITIES</b>			
Equity attributable to shareholders of the parent entity	49.3%	50.3%	46.5%
Non-controlling stakes	0.4%	0.1%	0.1%
Total equity	49.7%	50.4%	46.5%
Long-term liabilities	30.7%	35.5%	33.4%
Short-term liabilities	19.6%	14.0%	13.4%
Total liabilities	50.3%	49.6%	46.8%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>100.0%</b>	<b>100.0%</b>	<b>93.4%</b>
Financial liabilities	9 637 700	9 108 126	8 138 506
Net financial liabilities	8 611 372	8 090 507	7 703 602
Net debt/EBITDA ratio	2.6x <sup>1</sup>	2.2x	2.3x
Current liquidity ratio	0.62	0.95	0.90

<sup>1</sup> The Company disclosed information on the increase of the net/EBITDA ratio in the regulatory filing (current report) no. 7/2019 of March 15 this year.

The below figure presents the structure of assets, and equity liabilities.

Figure no. 54. Structure of assets, and equity and liabilities



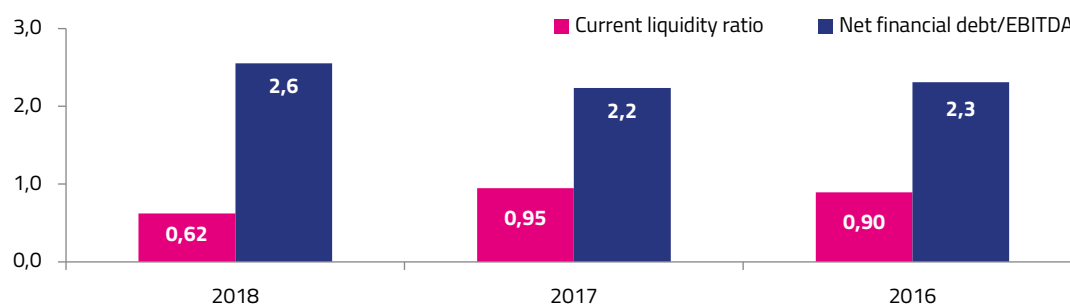
As of December 31, 2018, similar as in 2017, the value of fixed assets represents the largest share in the structure of assets. In the structure of fixed assets, the tangible fixed assets of the following Segments represent the largest share: Distribution (59%), Generation (36%) and Mining (4%).

As of December 31, 2018, equity and financial liabilities represent the largest share in the structure of equity and liabilities.

The level of debt of TAURON Capital Group remains at a safe level, which is indicated by the value of the leverage ratio as compared to the European benchmarks for the sector, and the positive cash flows from operating activities. 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 2018-2016.

Figure no. 55. Current liquidity ratio and the net debt to EBITDA ratio in 2018-2016



The below table presents the annual consolidated statement of financial position - assets



Table no. 33. Annual consolidated statement of financial position - assets (material items)<sup>1</sup>

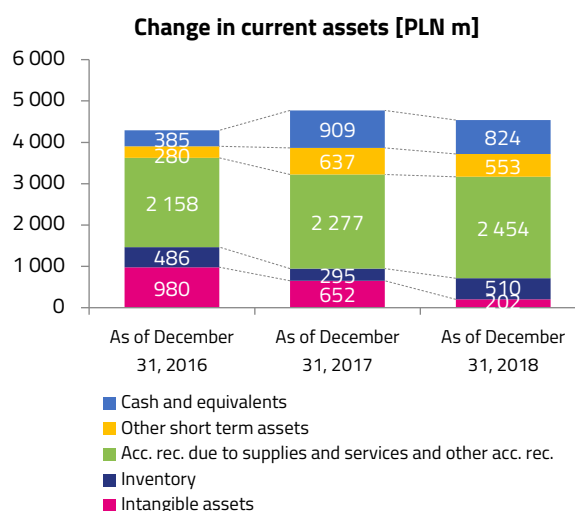
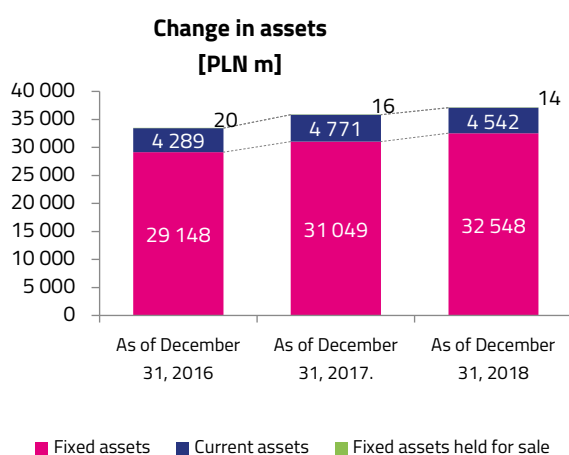
Statement of financial position (PLN '000)	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016	Change in % (2018/2017)
<b>ASSETS</b>				
Fixed assets	32 541 865	31 048 542	29 148 253	105%
Tangible fixed assets	29 238 051	28 079 886	26 355 189	104%
Current assets	4 555 612	4 786 474	4 308 641	95%
Cash and equivalents	823 724	909 249	384 881	91%
Fixed assets classified as held for sale	13 712	15 910	19 612	86%
<b>TOTAL ASSETS</b>	<b>37 097 477</b>	<b>35 835 016</b>	<b>33 456 894</b>	<b>104%</b>

<sup>1</sup>Due to the limited comparability of earlier periods, data is presented in a three-year horizon. Data comprising earlier periods is presented in section no. 5.7 of this report.

As of 31 December 2018 the statement of the financial position of TAURON Capital Group indicates the balance sheet total higher by approx. 4%.

The below figure presents the change in the level of assets and current assets.

Figure no. 56. Change in the level of assets and current assets



In the year ended on December 31, 2018 TAURON Capital Group, having taken into account the following premises:

1. long-term hovering of the market value of Company's net assets at a level below the balance sheet carrying amount,
2. changes to the commodity, electricity and greenhouse gas emissions prices on the worldwide markets;
3. substantial volatility of electricity prices on the futures market and continued problems with a lack of liquidity,
4. raising of the electricity price limits on the electricity wholesale regular market and the balancing market,
5. regulatory actions aimed at curbing an increase of electricity prices for the final consumers,
6. continued variability of the mining and geological conditions,
7. adverse configuration of the extraction faces (short coal face longwall runs) generating additional rearrangement costs,
8. limited competition on the market for mining materials and services resulting in a substantial increase of their prices,
9. results of the completed capacity market auctions with delivery in 2021, 2022 and 2023,
10. proceeding with the winter package provisions, including the emissions standard, that has an adverse impact on the ability of the coal-fired units to take part in the capacity market after July 1, 2025,
11. continued unfavorable market conditions from the point of view of the conventional power generation's profitability,
12. coming into force of the December 14 2018 act on promoting electricity from high efficiency cogeneration,
13. increase in risk-free rate,

recognized (booked) impairment charges and reversed previously booked write-downs related to tangible fixed assets as a result of impairment tests conducted as of December 31, 2018 and June 30, 2018. The results of the tests conducted

demonstrated the validity of booking write-downs in the total amount of PLN 855 million (excess of the booked write-downs over the reversed write-downs).

The value of fixed assets increased by PLN 1 493 million (4.8%), which is the result of the following events:

1. increase in the value of fixed assets as a result of investments in tangible fixed assets underway at TAURON Capital Group's subsidiaries (mainly at TAURON Dystrybucja, TAURON Wytwarzanie, Nowe Jaworzno GT and TAURON Ciepło) and intangible assets (mainly at TAURON Dystrybucja), and also the impairment charges booked as a result of impairment tests conducted,
2. purchase of property rights to the certificates of origin of electricity and greenhouse gases emission allowances in connection with the requirement to fulfil the legal obligation of their redemption.

The following factors had an impact on the decrease in the value of current assets by PLN 231 million (4.8%):

1. decrease of the level of cash and equivalents by PLN 86 million which was more extensively described in the section on the cash flow account,
2. decline of the value of certificates of origin of electricity and greenhouse gas emission allowances to be redeemed by PLN 451 million, which is a result of the partial fulfilment, already in 2018, of the obligation to submit certificates of origin of electricity for redemption, under the regulations of the act of April 10, 1997, Energy Law and the CO<sub>2</sub> emission allowances as well as setting up a provision towards fulfilling the obligations for 2018,
3. decrease of the value of loans granted to joint ventures by PLN 330 million, due to the agreement signed between TAURON and ECSW, as well as the repayment of a part of the principal of the loan granted by TAURON,
4. increase of the value of accounts receivable from the consumers by PLN 197 million,
5. increase in the value of other financial assets by PLN 223 million mainly due to the positive valuation of the derivative instruments, which is a consequence of TAURON Group recognizing the valuations on the futures transactions separately for assets and liabilities, and the repayment values of the initial margins related to the futures contracts,
6. increase of the inventory value by PLN 214 million, mainly due to the higher coal inventory levels at TAURON Wydobycie and the Generation Segment's companies.

The below table presents the annual consolidated statement of financial position - liabilities.

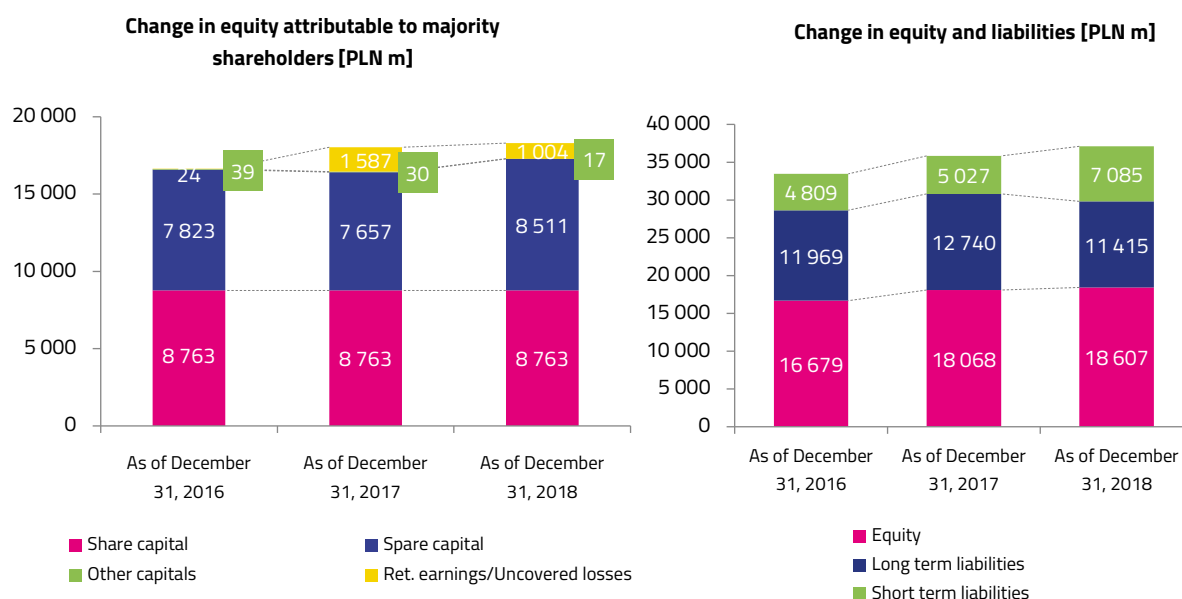
Table no. 34. Annual consolidated statement of financial position - liabilities (material items)<sup>1</sup>

Statement of financial position (PLN '000)	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016	Change in % (2018/2017)
<b>LIABILITIES</b>				
Equity attributable to shareholders of the parent entity	18 295 824	18 036 446	16 649 266	101%
Non-controlling stakes	132 657	31 367	30 052	423%
<b>Total equity</b>	<b>18 428 481</b>	<b>18 067 813</b>	<b>16 679 318</b>	<b>102%</b>
Long-term liabilities	11 382 254	12 739 852	11 968 719	89%
Liabilities due to debt	8 488 210	9 501 414	8 759 789	89%
Short-term liabilities	7 286 742	5 027 351	4 808 857	145%
Liabilities due to debt	2 475 167	351 382	219 740	704%
<b>Total liabilities</b>	<b>18 669 996</b>	<b>17 767 203</b>	<b>16 777 576</b>	<b>105%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>37 097 477</b>	<b>35 835 016</b>	<b>33 456 894</b>	<b>104%</b>

<sup>1</sup>due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in section no. 5.7 of this report

The below figure presents the change in the level of liabilities and equity.

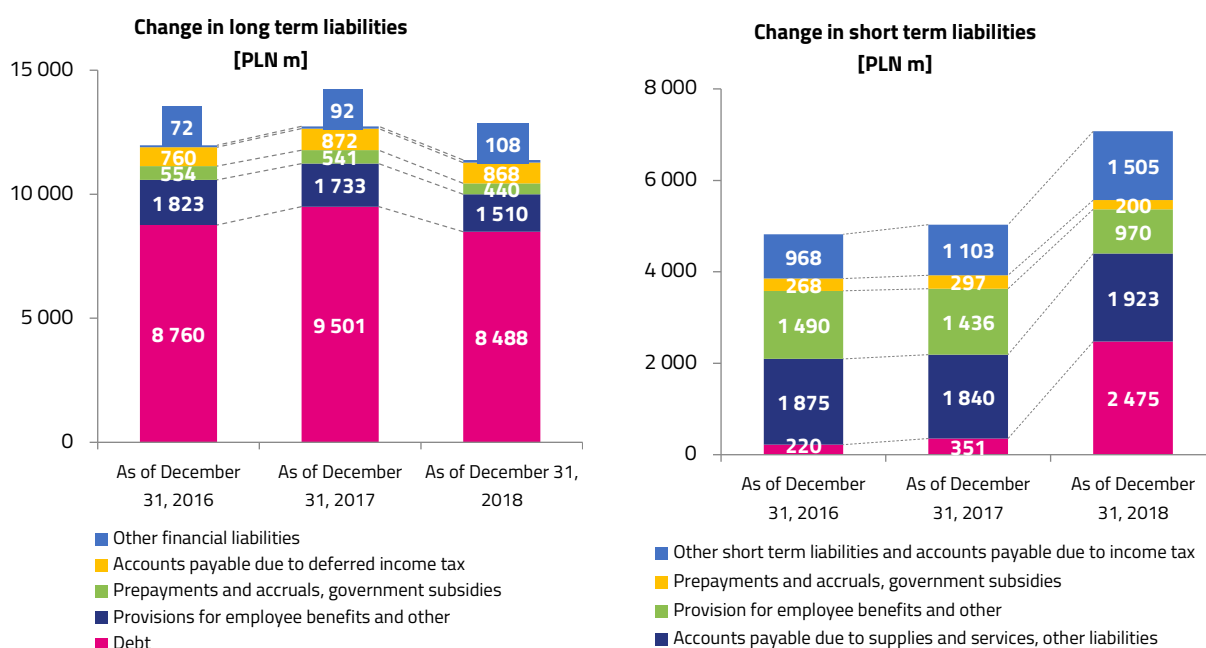
Figure no. 57. Change in the level of liabilities and equity



Similar as in the previous years, in 2018 the dominating source of assets financing was equity whose share in the total equity and liabilities reached 50.1%.

The below figure presents the change in the level of liabilities.

Figure no. 58. Change in the level of liabilities



The following factors had an impact on the decrease in the value of TAURON Capital Group's long-term liabilities by PLN 1 325 million (10%):

1. decrease of the liabilities due to debt by PLN 1 013 million, which is a result of issuing in 2018 bonds with the total value of PLN 1 350 million and reclassifying, as short term financial liabilities to be repaid in 2019, the bonds issued in the previous years with the total value of PLN 2 259 million,
2. decline of the provisions related to employee benefits (entitlements) by PLN 266 million, which is primarily the result of dissolving the provision related to employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund

(Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie in accordance with the changes to the provisions of the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)),

- drop of prepayments and accruals as well as government subsidies (grants) by PLN 101 million, which is the result of mainly transferring the balance of prepayments and accruals, related to the revenue due to connection fees for the tasks completed before July 1, 2009, to the equity item, which stems from the coming into force of IFRS 15 Revenue from Contracts with Customers and receiving subsidies (grants) as part of the European funds.

The value of short-term liabilities of TAURON Capital Group increased by PLN 2 259 million (45%), which resulted from the following factors:

- increase of the liabilities due to debt by PLN 2 124 million, which is a result of reclassifying, out of long term financial liabilities, the bonds to be repaid in 2019, issued in the previous years, and the repayment of the loans,
- increase of accounts payable towards suppliers by PLN 85 million,
- drop by PLN 453 million of the value of the provisions, which is a result of the partial fulfilment, already in 2018, of the obligation to submit certificates of origin of electricity for redemption, under the regulations of the act of April 10, 1997, Energy Law and the CO<sub>2</sub> emission allowances,
- increase in the value of other financial assets by PLN 431 million which is due to an increase of the value of liabilities due to the negative valuation of the derivative instruments as a consequence of the Group recognizing the valuations on the futures transactions separately for assets and liabilities, i.e. per a single contract and an increase of the value of the variation (mark to market) margin deposits, to a large degree related to the futures contracts for the delivery of the greenhouse gasses emission allowances concluded on the foreign exchange markets,
- drop of prepayments and accruals as well as government subsidies (grants) by PLN 96 million, which is related to the lower value of the prepayments and accruals set up for bonuses, environment protection and the other prepayments and accruals of the costs as compared to the value as of December 31, 2017

### 5.3.2. Consolidated statement of comprehensive income

The below table presents the annual consolidated statement of comprehensive income. Due to the changes in the segments and in order to maintain the comparability, the results are presented for three years.

Table no. 35. Annual statement of comprehensive income for 2018-2016<sup>1</sup>

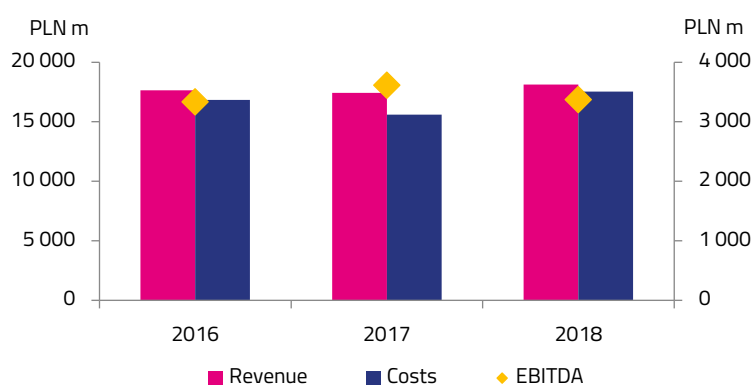
Statement of comprehensive income (PLN '000)	2018	2017	2016	Change in % (2018/2017)
Sales revenue	18 121 748	17 424 551	17 646 489	104%
Own cost of sales (including the costs of sales and overheads)	(17 325 825)	(15 614 201)	(16 829 480)	112%
<i>Including the loss of the carrying amount of the non-financial fixed assets</i>	<i>(815 796)</i>	<i>(40 857)</i>	<i>(832 092)</i>	1 997%
Other operating revenues and costs	160 519	(4 079)	(15 487)	-
Share in the profit (loss) of the joint venture	54 890	73 050	60 040	75%
<b>Operating profit (loss)</b>	<b>790 729</b>	<b>1 879 321</b>	<b>861 562</b>	<b>42%</b>
<i>Operating profit margin (%)</i>	<i>4.4%</i>	<i>10.8%</i>	<i>4.9%</i>	<i>40%</i>
Cost of interest on debt	(147 372)	(209 322)	(259 564)	70%
Other financial revenue and costs	(138 710)	87 653	(93 137)	-
<b>Gross profit (loss)</b>	<b>504 647</b>	<b>1 757 652</b>	<b>508 861</b>	<b>29%</b>
<i>Gross profit margin (%)</i>	<i>2.8%</i>	<i>10.1%</i>	<i>2.9%</i>	<i>28%</i>
Income tax	(297 602)	(374 706)	(138 724)	79%

Statement of comprehensive income (PLN '000)	2018	2017	2016	Change in % (2018/2017)
Net profit (loss) for financial year	207 045	1 382 946	370 137	15%
Net profit margin (%)	1.1%	7.9%	2.1%	14%
Total income for financial year	182 523	1 389 312	647 885	13%
Profit attributable to:				
Shareholders of the parent entity	204 880	1 380 663	367 468	15%
Non-controlling stakes	2 165	2 283	2 669	95%
EBIT and EBITDA				
EBIT	790 729	1 879 321	801 522	54%
EBITDA	3 374 926	3 617 641	3 336 814	99%

<sup>1</sup>Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in section no. 5.7 of this report

The below figure presents TAURON Capital Group's 2016-2018 financial results.

Figure no. 59. TAURON Capital Group's 2016-2018 financial results

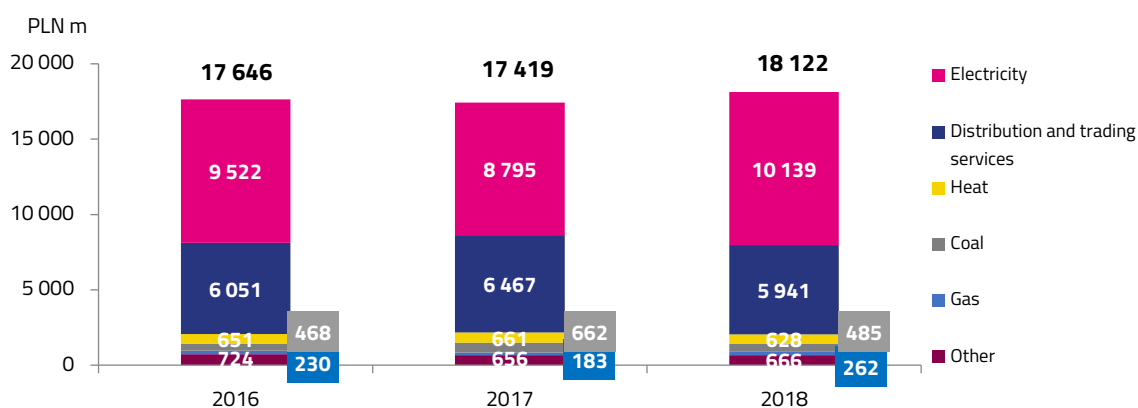


In the reporting period ended on December 31, 2018, TAURON Capital Group generated sales revenue higher by 4% as compared to the values achieved in 2017, due to the following factors:

1. higher revenue from electricity sales (by 15%) – mainly as a result of a 12% increase of the electricity sales price and a 1% increase of TAURON Capital Group's electricity supply volume,
2. higher revenue from gas sales (by 44%), due to a 16% increase of the gas sales prices and a 24% rise of the volume,
3. lower revenue from heat sales (by 5%) – lower heat and transmission services sales volume due to the higher outdoor temperatures as compared to 2017,
4. lower revenue from distribution and trading services sales (by 8%), mainly due to a decrease of the rate of the distribution service sales to the final consumers as a consequence of the introduction of the application of IFRS 15 and the exclusion of the transition fee from revenue in 2018,
5. lower revenue from coal sales (by 27%) as a result of a decrease of coal sales volume by 37%, along with the rise of the coal sales price by 16%.

The below figure presents the structure of TAURON Capital Group's revenue in 2016-2018.

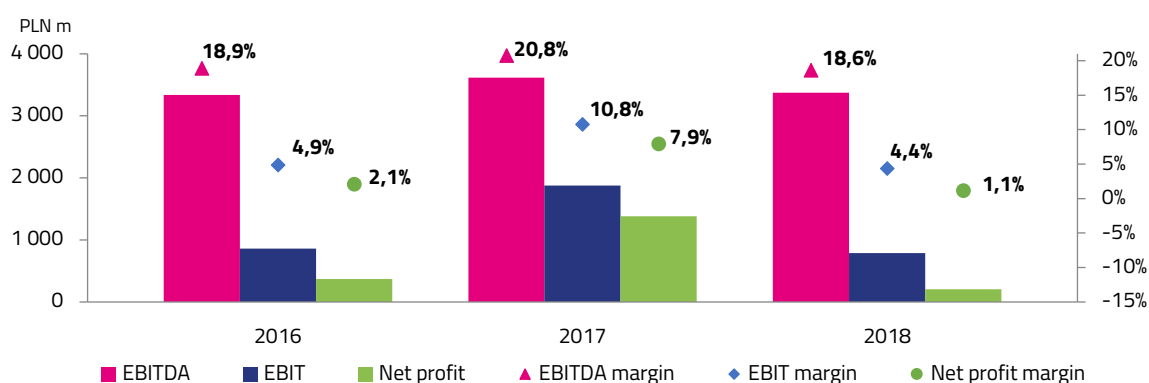
Figure no. 60. Structure of TAURON Capital Group's revenue in 2016-2018<sup>1</sup>



<sup>1</sup> Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in section no. 5.7 of this report.

The below figure presents TAURON Capital Group's financial results and the level of margins realized..

Figure no. 61. TAURON Capital Group's financial results and the level of margins realized in 2016-2018<sup>1</sup>



<sup>1</sup> Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in section no. 5.7 of this report.

In 2018 TAURON Capital Group's costs of operations came in at PLN 17.5 billion, which meant that they were 12% higher than the costs incurred in 2017.

One of the reasons for the rising costs was the booking, in 2018, 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) as well as 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), of which the Company disclosed information in the regulatory filings (current reports) no. 25/2018 and 2/2019.

The total value of the booked and reversed impairment charges related to the loss of the carrying amount reached PLN 855 million.

Apart from the above mentioned one-off events the level of TAURON Capital Group's costs in 2018 was impacted by the following factors:

1. increase of the costs of purchasing electricity, mainly due to an increase of sales prices by 13% on average,
2. higher volume of electricity purchased from counterparties (business partners, contractors) from outside TAURON Capital Group, which is the result of a higher sales volume on the exchange by the Generation Segment's subsidiaries due to the amendment to the act on the capacity market increasing, in 2018, the obligation to trade electricity on the Polish Power Exchange (TGE) to 30% and the lower production of electricity by the generating units,

3. increase of the costs of purchasing gas, due to the increase of gas sales prices by 19% on average,
4. higher costs of materials and electricity consumption, mainly as a result of higher costs of fuels used in the production,
5. decrease of the costs of the distribution service as due to the lower costs of purchasing of the transmission services as a consequence of the introduction of the application of IFRS 15,
6. higher costs of the obligation to retire greenhouse gases emission allowances mainly due to an increase of prices year on year,
7. lower labor costs primarily as a result of dissolving the provision related to employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie in accordance with the changes to the provisions of the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych),
8. including the hard coal not sold in 2018 in the Group's assets, while in 2017, due to a rise in demand, hard coal sales also included some hard coal inventory sales,
9. growth of the cost of providing services for the unit's own needs, which is due to the increase of the in-house resources' engagement in the investment projects carried out by the Group,
10. recognizing in the current reporting period by the Supply Segment's subsidiaries of the provisions related to the agreements giving rise to the charges in the amount of PLN 214 million, due to the coming into force of the Act on the amendment to the act on the excise tax and some other acts (it is described in more detail in note 36 to the consolidated financial statements of TAURON Group for the financial year ended on December 31, 2018) ,
11. recognizing, in 2017, of the effects of dissolving by TAURON of the provisions related to the agreements giving rise to the charges with the joint venture in the net amount of PLN 201.2 million.

EBITDA margin achieved in 2018 came in at 18.6% and it was 2.2 pp lower as compared to 2017. As a result of the write-downs booked, the value of which was much higher in 2018 than the write-downs booked in 2017, the EBIT margin and the net profit margin were significantly lower in the reporting period than achieved a year ago, reaching 4.4% and 1.1%, respectively. Should the effects of the impairment charges be disregarded, the EBIT margin and the net profit margin would have reached in 2018, respectively, 9.1% and 5.0%, and in 2017, respectively, 11.0% and 8.1%.

In accordance with the presented consolidated statement of comprehensive income, the total comprehensive income of TAURON Capital Group for 2018, taking into account the net profit increased or decreased by the change in the value of hedging instruments, FX differences arising from the conversion of the foreign entity and the other revenue after tax, reached PLN 182.5 million in 2018, versus PLN 1 389.7 million generated in 2017, while the net profit attributable to the shareholders of the parent entity reached PLN 204.9 million versus PLN 1 380.7 million posted in 2017.

### 5.3.3. Statement of cash flows

The below table presents the statement of cash flows.

Table no. 36. Statement of cash flows (material items) in 2016-2018<sup>1</sup>

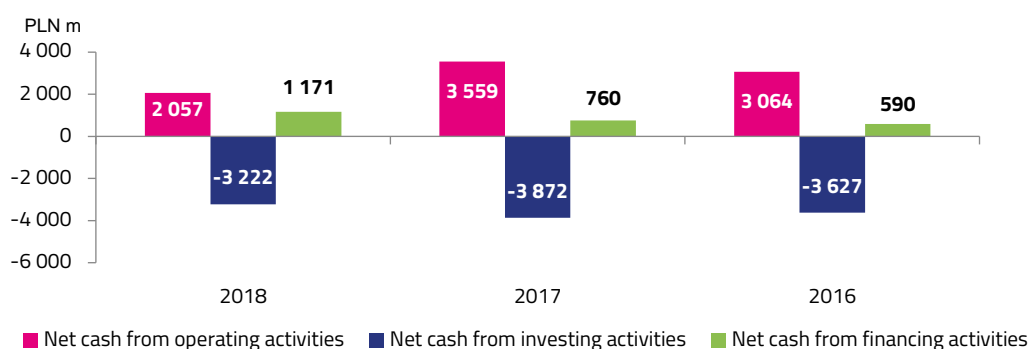
Statement of Cash Flows (PLN '000)	Year ended on December 31, 2018	Year ended on December 31, 2017	Year ended on December 31, 2016	Change in % (2018/2017)
<b>Cash flows from operating activities</b>				
Gross profit/(loss)	504 647	1 757 652	508 861	29%
Adjustments	1 552 129	1 801 015	2 555 354	86%
<b>Net cash from operating activities</b>	<b>2 056 776</b>	<b>3 558 667</b>	<b>3 064 215</b>	<b>58%</b>
<b>Cash flows from investing activities</b>				
Purchase of tangible fixed assets and intangible assets	(3 575 711)	(3 561 758)	(3 516 296)	100%
<b>Net cash from investing activities</b>	<b>(3 221 547)</b>	<b>(3 871 676)</b>	<b>(3 627 458)</b>	<b>83%</b>

Statement of Cash Flows (PLN '000)	Year ended on December 31, 2018	Year ended on December 31, 2017	Year ended on December 31, 2016	Change in % (2018/2017)
<b>Cash flows from financing activities</b>				
Redemption of debt securities	0	(1 650 000)	(3 300 000)	0%
Issue of debt securities	1 350 000	2 707 462	4 284 607	50%
Repayment of loans/credits	(168 874)	(154 918)	(140 331)	109%
Interest paid	(160 170)	(184 550)	(255 116)	87%
<b>Net cash from financing activities</b>	<b>1 171 400</b>	<b>759 629</b>	<b>590 261</b>	<b>154%</b>
Increase / (decrease) in net cash and equivalents	6 619	446 620	27 018	1%
Cash opening balance	801 353	354 733	327 715	226%
Cash closing balance	807 972	801 353	354 733	101%

<sup>1</sup>Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in section no. 5.7 of this report.

The below figure presents the 2018-2016 cash flows.

Figure no. 62. 2018-2016 cash flows



The realized positive value of cash flows from operating activities in 2018 was higher than the cash flows realized in 2017 by PLN 1 502 million. The following factors had the biggest impact on the change in this item of the cash flow account:

- rise in the inventory levels, mainly of hard coal (PLN -222 million), while in 2017 the Group's hard coal sales also included some hard coal inventory sales (PLN +188 million),
- purchase of the CO<sub>2</sub> emission allowances and certificates of origin of electricity for the amount of PLN 717 million higher than in 2017,
- payment of income tax higher by PLN 249 million, which is due to:
  - advance payments made by the Tax Capital Group in 2018 on the account of the 2018 income tax, in the amount of PLN 343 million (in 2017 the advance payments came in at PLN 215 million),
  - payment by the Tax Capital Group in 2018 of the tax on the account of the 2017 income tax in the amount of PLN 46 million,
  - receipt in 2017 of the 2016 income tax overpayment in the amount of PLN 79 million,
- negative change of the balance of the accounts receivable and accounts payable in the amount of PLN 76 million.

The biggest impact on cash flows from investing activities came from the expenditures to purchase tangible fixed assets, which were flat in the reporting period versus the outlays incurred in 2017. The largest expenditures were incurred by the Distribution and Generation Segments.

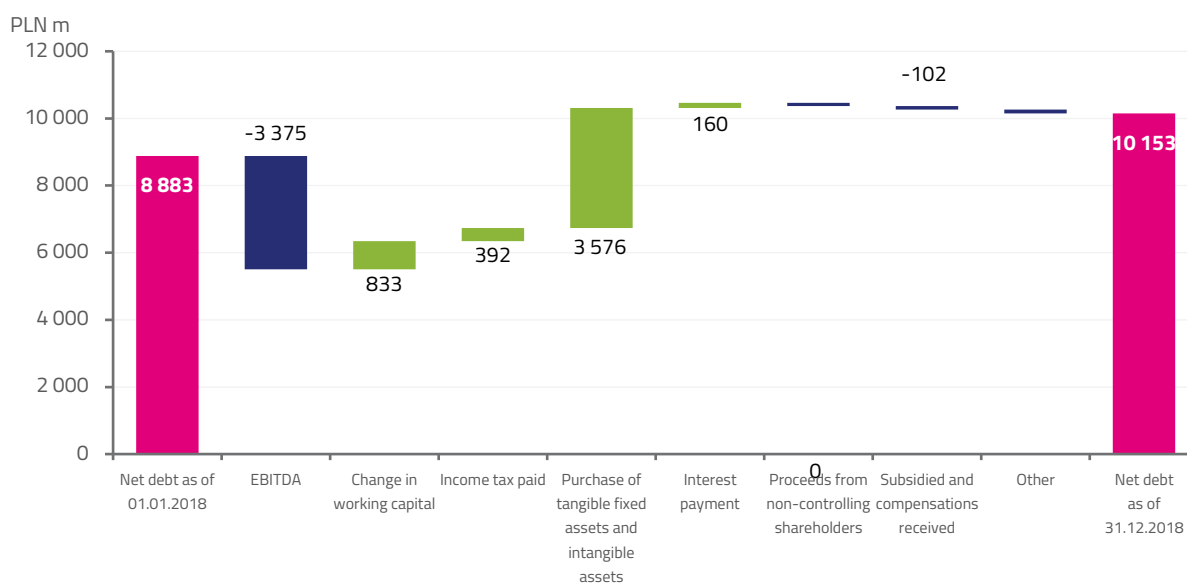


The positive value of cash flows from financing activities is due to the bond issue completed in 2018, worth PLN 1 350 million in total, while at the same time credits and loans, taken in the previous years, were repaid in the amount of PLN 169 million. On the other hand, TAURON Capital Group issued bonds for the total nominal amount of PLN 2 707 million, redeemed the bonds issued in the previous years for the total nominal amount of PLN 1 650 million and repaid credits and loans in the total amount of PLN 155 million in 2017.

The value of financial expenses due to interest paid on financial liabilities amounted to PLN 160 million in 2018 and it was lower by 13% year on year.

The below figure presents TAURON Capital Group's 2018 cash flows.

Figure no. 63. TAURON Capital Group's 2018 cash flows



TAURON Capital Group is continuing its expansion process and continues to maintain its market position. It should be noted that the balance of cash flows from operating activities is positive, consequently enabling TAURON Capital Group to autonomously finance its ongoing operations.

## 5.4. Material off-balance sheet items

### Material off-balance sheet items included in the consolidated financial statements

As of December 31, 2018, material contingent liabilities of TAURON Capital Group include:

#### 1. Lawsuits related to the termination of long-term contracts:

- lawsuit of the companies that are a part of the following groups: in.ventus, Polenergia and Wind Invest against PEPKH for determination that the statements submitted by PEPKH on the termination of the contracts for the purchase of electricity and property rights concluded with the above mentioned companies are not valid (are ineffective). The amount of damages claimed in the lawsuits is: EUR 4 687 000 (in.ventus group companies), PLN 67 248 000 (Polenergia group companies), PLN 125 003 000 (Wind Invest group companies),
- lawsuits of the companies that are a part of the following groups: in.ventus, Polenergia and Wind Invest against TAURON for payment of damages and for determination of liability for damages that may arise in the future due to torts, including unfair competition acts. The factual basis for the lawsuits, according to the plaintiff, is the termination by PEPKH of the long term contracts for the purchase of electricity and property rights arising from certificates of origin and alleged management (directing) of this process by TAURON. The amount of damages claimed in the lawsuits is: EUR 12 286 000 (in.ventus group companies), PLN 78 855 000 (Polenergia group companies), PLN 129 947 PLN. (Wind Invest group companies).

Furthermore, the plaintiffs indicate in their lawsuits the following values of the estimated damages that may arise in the future: EUR 35 706 000 (in.ventus group companies), PLN 265 227 000 (Polenergia group companies), PLN 1 119 363 000. (Wind Invest group companies),

- termination by the TAURON Sprzedaż subsidiary termination of the long term contracts, concluded with the in.ventus group companies, for the purchase of property rights arising from certificates of origin electricity from renewable sources. The contracts were terminated due to the parties' failure to reach an agreement as a result of contractual renegotiations in accordance with the procedure set forth in the contracts . The total amount of the contractual obligations of TAURON Sprzedaż estimated for the 2017-2023 years under the terminated contracts would, as of the termination date, reach the net amount of approx. PLN 417 000 000. On March 7, 2019 Hamburg Commercial Bank AG (formerly HSH Nordbank AG) filed a lawsuit against TAURON Sprzedaż for payment of damages due to a failure of TAURON Sprzedaż to perform agreements on the sale of property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source and liquidated damages assessed due to the termination of the above mentioned agreements. The subject of the statement of claim is the payment by TAURON Sprzedaż, in favor of the bank, of the total amount of PLN 232 879 000 along with the statutory interest for a late payment, accrued from the day of filing the lawsuit until the payment date, including the damages in the total amount of PLN 36 252 000 and the liquidated damages in the total amount of PLN 196 627 000. The Company does not set up a provision related to the costs associated with the case. The above event is described in detail in section 2.6 of this report.
- in 2018 TAURON Sprzedaż subsidiary received notifications in the cases filed by two Polenergia group companies against TAURON Sprzedaż of applications for a summons to a conciliation hearing with respect to the total amount of PLN 78 855 000, due to damages for alleged harm done to Polenergia group companies, as a result of the groundless termination of the long term contract concluded between these companies and PEPKH. The companies indicated in the applications that the company, PEPKH and the liquidators of PEPKH did and continue to do harm to Polenergia group companies, and TAURON Sprzedaż consciously took advantage of this harm and – according to Polenergia group companies – bears full responsibility for such harm. No settlements have been reached at the court hearings.

No provisions have been set up with respect to the above events.

2. potential claims not reported by owners of land with unregulated status due to the lack of detailed records of unregulated land and the resulting inability to reliably estimate the amount of potential claims, and as a consequence, lack of a possibility to set up provisions,
3. proceedings initiated on September 17, 2013 by the President of UOKiK against TAURON Sprzedaż in connection with the suspected use of practices violating the collective interests of consumers, by providing electricity prices in price lists and information materials without including the value added tax, which constitutes the infringement of the *Act of 23 August 2007 on prevention of unfair market practices*,
4. proceedings initiated on October 13, 2017 by the President of UOKiK in conjunction with the suspected applying by TAURON Sprzedaż and TAURON Sprzedaż GZE of a practice violating the collective interests of consumers involving hindering a switch of an electricity supplier,
5. proceedings initiated on May 11, 2017 by the President of UOKiK against TAURON Sprzedaż, related to the mechanism for automatic extending of the period for settling the charges for electricity supply according to the price list in case a consumer has not taken any actions having been presented with a new offer,
6. proceedings initiated on July 13, 2017 by the President of UOKiK against TAURON Sprzedaż GZE, related to the violation of the provisions of art. 6b clause 3 of the *Energy Law act* with respect to setting additional deadlines for payment of overdue accounts receivable in the summons to pay (dunning letters),
7. proceedings initiated on April 27, 2018 by the President of UOKiK against TAURON Sprzedaż in connection with a suspected violation of the collective interests of consumers by sending of a letter with the information on the personal

data updates to the customers,

8. clarification proceedings initiated on December 31, 2018 against TAURON Sprzedaż in connection with the suspicion of violating the collective interests of consumers by applying practices related to concluding electricity sales agreements over the phone. The Company submitted relevant clarifications regarding this issue.
9. proceedings initiated by the President of ERO against TAURON Dystrybucja concerning imposing of a fine due to the failure to maintain facilities, equipment and installations in due technical condition and the violation of the terms defined in the license for electricity distribution. By way of the decision of July 10, 2017 a penalty was imposed on the company in the amount of PLN 350 000. The company submitted an appeal against the above decision to SOKiK and is waiting for the setting of the date of the next hearing. The above company set up a provision in the amount of PLN 351 000,
10. proceedings initiated by the President of ERO against TAURON Sprzedaż and TAURON Sprzedaż GZE with respect to the validity of halting the supply of electricity to the final consumers, proceedings with respect to adapting the terms of the granted license for electricity trading to the legal regulations currently in force, proceedings in connection with detecting irregularities involving preventing the final consumers from selecting the given offer or tariff group. The above companies do not set up provisions with respect to potential fines related to the initiated proceedings,
11. proceedings initiated by the President of ERO against TAURON EKOENERGIA with respect to imposing a monetary fine, in connection with the suspected conducting of the operations involving electricity generation at Dąbie Hydroelectric Plant (Elektrownia Wodna Dąbie) and at Przewóz Hydroelectric Plant (Elektrownia Wodna Przewóz) without the water permits for the special use of water for energy related purposes, required by the regulations of the *act of July 20, 2017 Water Law*. By way of the decision of February 15, 2019 a fine of PLN 2 000 was imposed on the company. The above company did not set up a provision related to the said proceedings,
12. court dispute between TAURON as a legal successor of Górnośląski Zakład Elektroenergetyczny S.A (GZE) and Huta Łaziska S.A. as a result of the failure by Huta Łaziska S.A. to fulfil the obligation to pay the accounts payable for electricity supplies, which consequently caused the halting of electricity supplies to Huta Łaziska S.A. by GZE in 2001; the claim for the payment of damages is PLN 182 060 000. No provisions were set up for the costs related to these claims,
13. lawsuit brought by ENEA against TAURON as well as TAURON Sprzedaż and TAURON Sprzedaż GZE as third party respondents (defendants) due to alleged unjustified benefit gained by the Company in connection with the settlements of unbalancing on the Balancing Market, made with PSE (TSO) in the period from January to December 2012; the claim for payment by TAURON amounts to PLN 17 086 000, in case the lawsuit against TAURON is dismissed, the claim for payment by TAURON Sprzedaż and TAURON Sprzedaż GZE amounts to PLN 8 414 000 along with interest. The company did not set up a provision, while TAURON's subsidiaries set up provisions in the total amount of PLN 5 483 000 in case of TAURON Sprzedaż and in the total amount of PLN 3 900 000 in case of TAURON Sprzedaż GZE,
14. registered pledge and financial lien on TAMEH HOLDING shares, established by TAURON in favor of RAIFFEISEN BANK INTERNATIONAL AG in order to hedge transactions comprising the agreement for term and working capital loans, concluded between TAMEH Czech and TAMEH POLSKA, TAMEH HOLDING as well as RAIFFEISEN BANK INTERNATIONAL AG. The balance sheet value (carrying amount) of the shares in TAMEH HOLDING sp. z o.o., as of December 31, 2018, stood at PLN 415 852 000.
15. A Generation segment subsidiary corrected its 2017 tax returns relating to the real estate tax due to the Supreme Administration Court dismissing the cassation related to the rules on the taxation of wind farms. As of the balance sheet date the provisions in the total amount of PLN 39 356 000 and passive prepayments and accruals in the amount of PLN 2 314 000 related to the 2017 wind farms' tax were set up for the real estate tax disputes and the business risk related thereto.
16. lawsuit of Galeria Galena Sp. z o.o. against TAURON Wydobywanie for payment of PLN 22 785 000 due to the refund of the expenditures incurred to protect a facility against the impact of mining operations and the lawsuit against the legal

successors to Kompania Węglowa S.A. The above cases were combined for a joint hearing. No provision has been set up with respect to the above event,

17. Lawsuit of the consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc and WorleyParsons Group Inc against PGE EJ 1 with the current value of the dispute of approx. PLN 104 million, and TAURON being a shareholder of PGE EJ 1 with a 10% stake in the share capital. TAURON concluded an agreement with the other shareholders governing the mutual relationships among the parties to the agreement related to the said claims. In accordance with the Company's assessment a potential financial engagement of the Company in PGE EJ1, under this agreement should not exceed 10% of the claim of the WorleyParsons consortium.

The detailed information concerning off-balance sheet items is included in notes 47 and 48 of the Consolidated financial statements for the year ended on December 31, 2018.

#### Off-balance sheet items included in the standalone financial statements

The Standalone financial statements for the year ended on December 31, 2018 include off-balance sheet items indicated above in clauses 1, 12, 13, 14 and 17.

The detailed information concerning off-balance sheet items indicated above is included in note ... of the Standalone financial statements for the year ended on December 31, 2018

### 5.5. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON Capital Group for 2018. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

### 5.6. Key financial ratios

The below table presents the key financial ratios of TAURON Capital Group.

Table no. 37. Key financial ratios of TAURON Capital Group<sup>1</sup>

Ratios	Definition	2018	2017	2016
<b>PROFITABILITY</b>				
EBIT Margin	Operating profit / Sales revenue	4.4%	10.8%	4.9%
EBITDA Margin	EBITDA / Sales revenue	18.6%	20.8%	18.9%
Net Profitability	Net profit/ Sales revenue	1.1%	7.9%	2.1%
Return on Equity (ROE)	Net profit/ Equity at the end of the period	1.1%	7.7%	2.2%
<b>LIQUIDITY</b>				
Current liquidity ratio	Current assets (excluding assets held for trade) / Short-term liabilities	0.62	0.95	0.90
<b>DEBT</b>				
Total debt ratio	Total obligations/ total liabilities	0.50	0.50	0.50
Net financial debt/ EBITDA	(Financial liabilities - Cash)/ EBITDA	2.6x	2.3x	2.3x
<b>OTHER RATIOS</b>				
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	0.12	0.79	0.21

<sup>1</sup> Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in section no. 5.7 of this report.

In 2018 the net profitability ratio of TAURON Capital Group was lower than in 2017, as a result of recognizing of the balance of impairment charges in 2018 in the amount higher than in 2017. Due to the differences in the values of the write-downs these ratios are not comparable.

Disregarding the write-downs, the net profitability ratio came in at 5.0% in 2018 and 8.1% in 2017, and its decline is a consequence of the lower EBIT margin and the negative result on the other revenue and financial costs (primarily due to the negative FX differences), while in 2017 the above result was positive (primarily due to the positive FX differences).

The current liquidity ratio reached, as of December 31, 2018, a lower a value than as of December 31, 2017, which does not affect maintaining of a stable financial position of TAURON Capital Group.

The total debt ratio and the net debt/EBITDA ratio reflect the share of liabilities in TAURON Capital Group's financing. The current level of this ratio enables TAURON Capital Group to acquire external financing required to implement the investment projects planned. The levels of both ratios confirm a stable financial position of TAURON Capital Group.

EPS ratio (calculated in relation to the net profit attributable to shareholders of the parent entity) is lower in 2018 than in 2017 due to recognizing the balance of the impairment charge related to the tangible fixed assets in 2018 in the amount higher than the amount recognized in 2017.

## 5.7. Most significant financial and operating data of TAURON Capital Group for the last 5 years

The below table presents the most significant financial data and operating data of TAURON Capital Group for the last 5 years, i.e. for the 2018-2014 period.

Table no. 38. Financial and operating data for 2018-2014<sup>1</sup>

Key data	Unit	2018	2017	2016	2015	2014	Change in % (2018/2017)
<b>Statement of comprehensive income</b>							
Sales revenue	PLN m	18 122	17 425	17 646	18 264	18 577	104%
Operating profit	PLN m	791	1 879	802	(1 901)	1 830	42%
Financial revenue (total)	PLN m	83	191	125	81	86	43%
Financial expenses (total)	PLN m	(369)	(313)	(418)	(368)	(418)	118%
Gross profit	PLN m	505	1 758	509	(2 188)	1 498	29%
Income tax	PLN m	(298)	(375)	(139)	384	(313)	79%
Net profit	PLN m	207	1 383	370	(1 804)	1 186	15%
attributable to shareholders of the parent entity	PLN m	205	1 381	367	(1 807)	1 181	15%
attributable to non-controlling shares	PLN m	2	2	3	3	5	95%
EBITDA	PLN m	3 375	3 618	3 337	3 523	3 695	93%
<b>Statement of financial position</b>							
Fixed assets	PLN m	32 542	31 049	29 148	28 124	28 163	105%
Current assets	PLN m	4 556	4 786	4 309	3 947	6 396	95%
Total equity	PLN m	18 428	18 068	16 679	16 048	17 997	102%
Total liabilities	PLN m	18 669	17 767	16 778	16 023	16 563	105%
Long-term liabilities	PLN m	11 382	12 740	11 969	8 584	11 744	89%
Short-term liabilities	PLN m	7 287	5 027	4 809	7 439	4 819	145%
Net financial debt <sup>2</sup>	PLN m	8 611	8 091	7 704	7 764	6 665	106%

Key data	Unit	2018	2017	2016	2015	2014	Change in % (2018/2017)
Capital expenditures	PLN m	3 672	3 474	7 730	7 764	6 665	106%
<b>Cash flow account</b>							
Net cash from operating activities	PLN m	2 057	3 559	3 064	3 387	2 618	58%
Net cash from investing activities	PLN m	(3 222)	(3 872)	(3 627)	(3 942)	(3 387)	83%
Net cash from financing activities	PLN m	1 171	760	590	(526)	1 636	154%
Cash closing balance	PLN m	808	801	355	328	1 408	101%
<b>Ratios</b>							
EBIT margin	%	4.4	10.8	4.5	(10.4)	9.9	40%
EBITDA margin	%	18.6	20.8	18.9	19.3	19.9	90%
Net financial debt/ EBITDA	multiple	2.6x	2.3x	2.3x	2.2x	1.8x	114%
Net earnings per share	PLN/ share	0.12	0.79	0.21	(1.03)	0.67	15%
<b>Operating data</b>							
Commercial coal production	Mg m	5,01	6.45	6.37	4.91	5.40	78%
Gross electricity production	TWh	16.21	1.41	16.80	18.56	17.35	88%
Electricity production from RES	TWh	0.97	1.30	1.32	1.63	1.82	75%
Heat production	PJ	11.29	12.20	11.52	11.51	13.41	93%
Retail supply of electricity	TWh	34.52	34.91	32.04	35.94	36.43	99%
Distribution of electricity	TWh	51.97	51.37	49.68	49.20	47.90	101%
Number of customers (Distribution)	m	5.6	5.53	5.47	5.42	5.38	101%

<sup>1</sup>the values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organization of Segments

<sup>2</sup>excluding the issue of hybrid bonds

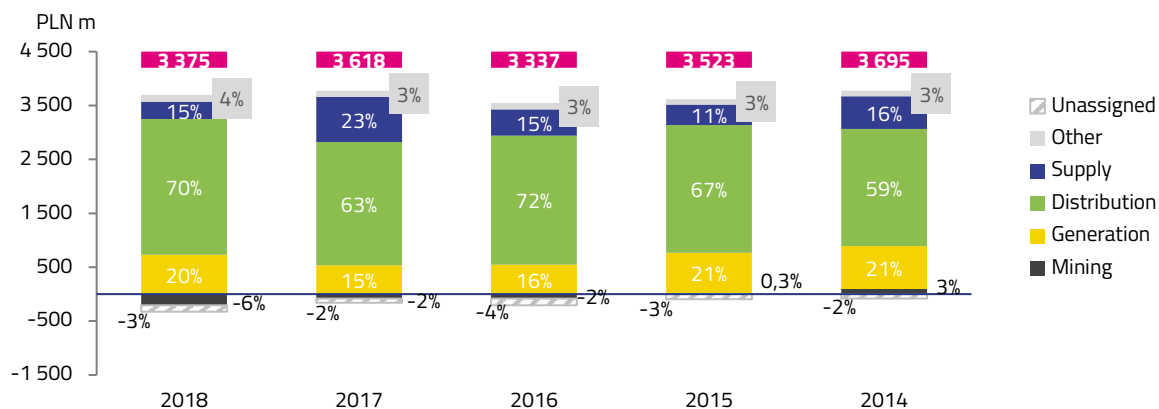
Table no. 39. TAURON Capital Group's EBITDA, broken down into Segments (Lines of Business)<sup>1</sup>

#	EBITDA (PLN m)	2018	2017	2016	2015	2014	Change in % (2018/2017)	Change (2018-2017)
1.	Mining	(207)	(83)	(82)	9	98	-	(124)
2.	Generation	731	537	545	755	793	136%	194
3.	Distribution	2 517	2 283	2 395	2 372	2 172	110%	235
4.	Supply	321	841	490	380	608	38%	(521)
5.	Other	135	118	115	100	106	114%	17
6.	Unallocated items	(122)	(78)	(126)	(94)	(83)	-	(44)
Total EBITDA		3 375	3 618	3 337	3 523	3 695	93%	(243)

<sup>1</sup>The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organization of Segments

The below figure presents the structure of TAURON Capital Group's EBITDA in 2018-2014.

Figure no. 64. Structure of TAURON Capital Group's EBITDA in 2018-2014



### Key data for 2014-2018 by Segments

The below figures present the financial data for 2014-2018 by Segments.

Figure no. 65. Data of the Mining Segment for 2014-2018

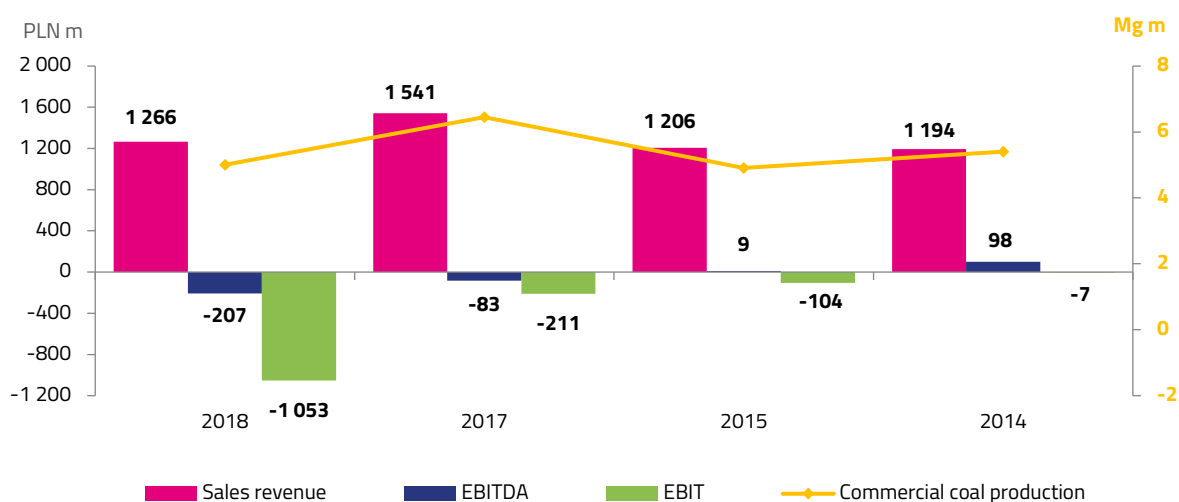


Figure no. 66. Data of the Generation Segment for 2018-2014

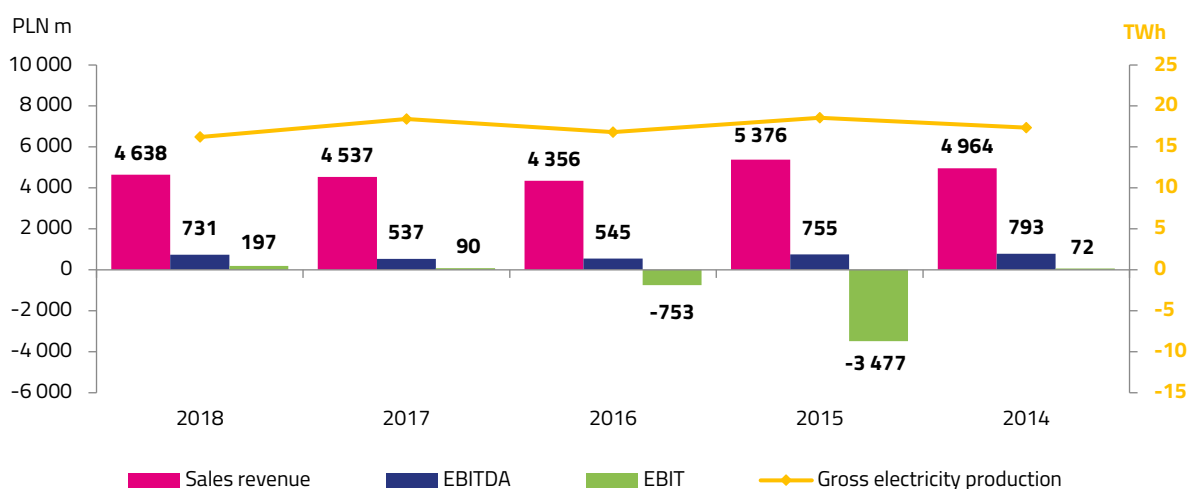


Figure no. 67. Data of the Distribution Segment for 2018-2014

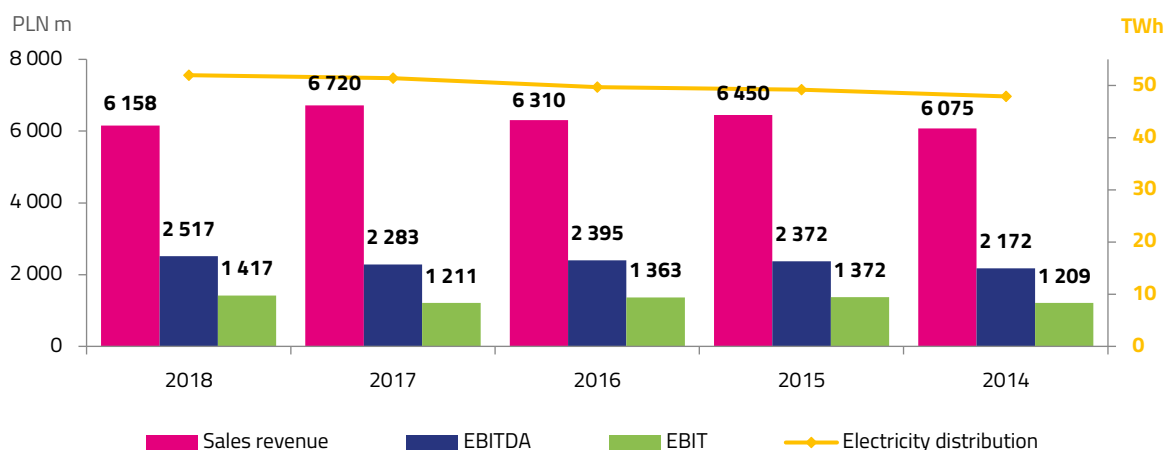


Figure no. 68. Data of the Supply Segment for 2018-2014

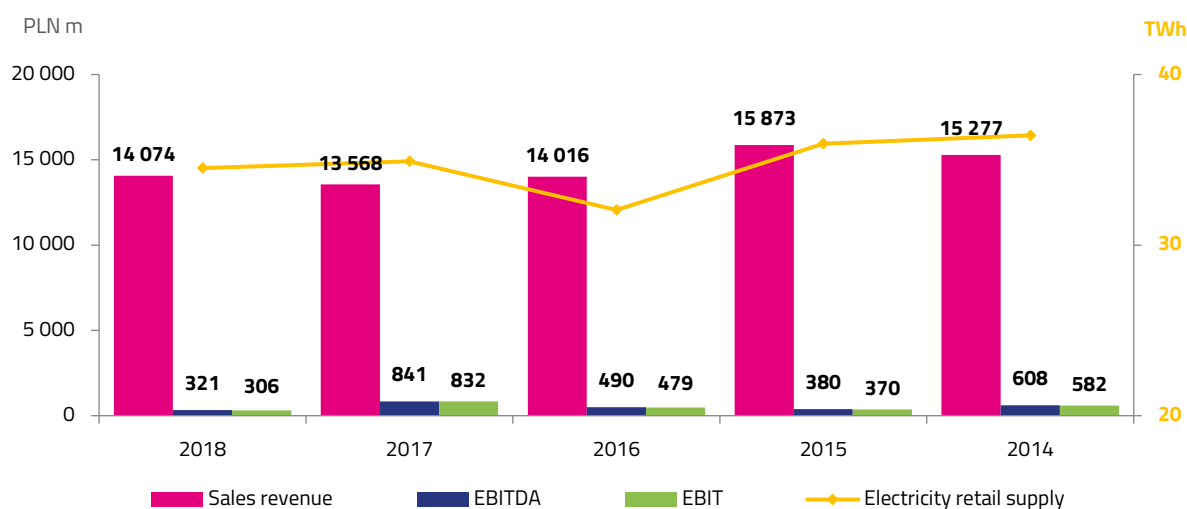
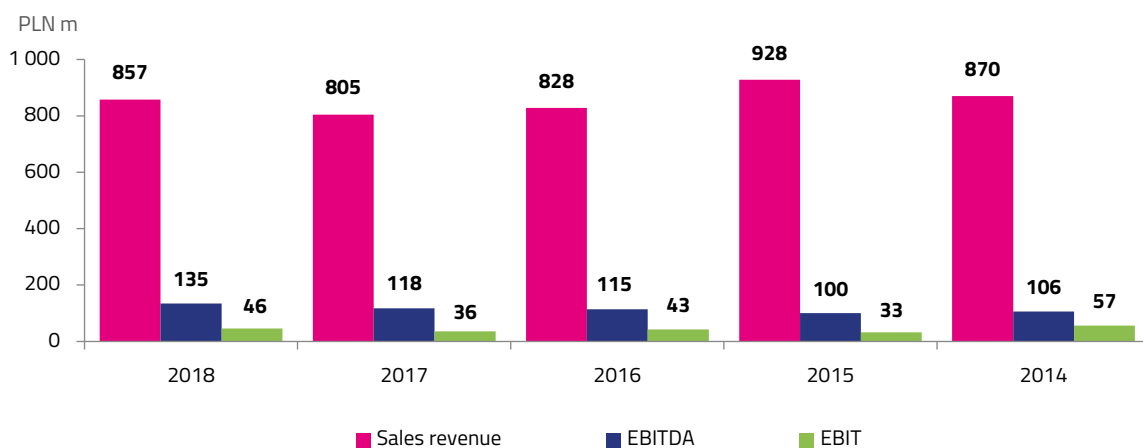


Figure no. 69. Data of the Other Operations for 2018-2014





## 5.8. What can be expected in 2019

According to the World Bank analysts, 2019 will be a period of a slowdown of the world economic growth rate (from the current 3% to 2.9% in 2019 and 2.8% in 2020). The main factors behind the slowdown include: tightening of the investment financing conditions, weakening of the world's industrial production and the risk of trade restrictions between the United States and China. A slowdown is also expected in the EU – the forecast GDP rate in 2019 for the region is 1.8% (from 2.1% in 2018).

According to the forecasts of the National Bank of Poland, in 2019-2020 the growth rate of the national GDP will be gradually declining. In 2018 Poland's GDP growth rate came in at approx. 5%, and in the subsequent year it will drop to approx. 3.6%.

Poland's economic growth slowdown will be affected, among others, by the slowdown of the economic growth in the euro zone and the expected increases of electricity prices. The factor driving the growth of the domestic demand will be a continued good situation on the labor market, an increase of income households and positive sentiment of the consumers.

Noticeable problems of enterprises, related to insufficient labor supply, will lead to continued high wages, however in view of a limited production growth it may lead to a rise of unit labor costs.

Poland's unemployment rate will fall to 3.2% (from 3.6% in 2018) and it will stay at a similar level also in the subsequent year.

Rising pressure on costs and demand in the Polish economy will lead to a rise of inflation in the subsequent years. In 2019 we can expect an inflation rate of 3.2% (in 2018 CPI stood at 1.8%). An increase of the prices of consumer goods and services will also be fueled by the situation on the energy commodities market and the rising electricity prices.

In the energy sector in 2019 the first commissioning and putting into operation of the new generation capacities are expected: units 5 and 6 in Opole, the 910 MW<sub>e</sub> unit at Jaworzno and the CCGT unit at Stalowa Wola.

Additionally further works will be conducted on the government documents: *Poland's Energy Policy until 2040* and the *National Plan for Energy and Climate in 2021-2030*.

## 5.9. Current and forecast financial and assets situation (financial and assets outlook)

Taking into account the current market situation, it is expected that the results of TAURON Capital Group in the coming years will be affected by both internal factors as well as external factors.

The results of the Mining Segment in the coming years will, to a large degree, be dependent on the work progress in the implementation of the investment projects and the technical and organizational changes introduced. The effects of actions aimed at increasing the efficiency of this segment will be achieved through the initiatives included in the program for increasing productivity and in the assets strategic management plan.

It is expected that the financial situation in the Generation Segment in the next few years will improve in relation to the current situation, mainly due to the commissioning of the 910 MWe unit in 2019 and due to the revenue from the capacity market. The additional revenue from the capacity market starting from 2021 will allow for refurbishing the generating units and extending the time of their operation. The segment's cost efficiency improvement measures undertaken will have an impact on the improvement of the results of the entire line of business.

In the Distribution Segment, the estimated level of remuneration on the invested capital and the cost efficiency improvement measures undertaken will play a key role impacting the level of the operating result. New elements of the regulatory policy and the associated risks will have a significant impact on results in the years to come, i.e. the updated approach to the average weighted cost of capital, enterprise efficiency improvement correction factors with respect to the operating expenses and the level of the balancing difference, change of the quality based regulation model, as well as the actions taken by the government in order to protect the final consumers against steep electricity price hikes.

Supply Segment - in the coming years the need to curtail expansion activities, while focusing on the goal of minimizing the number of customers leaving as well as recovering of customers lost in the previous years has to be kept in mind, and also threats related to the level of electricity tariffs approved by the EROl.

Other operations is mainly responsible for providing the shared services as well as for the implementation and finalization of the projects used mainly to provide services to the Distribution and Supply Segments with respect to contacts and settlements with customers assuring the highest quality. In addition, services for TAURON Capital Group's subsidiaries are provided, inter alia, with respect to the financial and accounting, services, IT services, property security services, fleet management services and real estate management services. These activities enable achieving synergy effects across TAURON Capital Group and improve cost efficiency.

## 5.10. Principles of preparing annual consolidated financial statements

The consolidated financial statements have been drawn up in accordance with the IFRS approved by the EU.

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

TAURON Capital Group's subsidiaries and the parent entity keep their accounting books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy and TAURON Sweden Energy that are keeping their books and preparing their financial statements in accordance with the accounting principles applicable, respectively, in the Czech Republic and in Sweden.

The consolidated financial statements contain adjustments which are not included in the ledgers of TAURON Capital Group's entities, introduced in order to bring the consolidated statements into compliance with IFRS.

The consolidated financial statements have been prepared with the assumption of the continuation of business operations by TAURON Capital Group's subsidiaries in the foreseeable future. As of the date of approval of the consolidated financial statements for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON Capital Group's subsidiaries.

The accounting principles (policy) adopted for drawing up of the consolidated financial statements are presented in note 6 to the Consolidated financial statements for the year ended on December 31, 2018.

## 6. INFORMATION ON THE AUDIT FIRM

On February 26, 2018 the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska 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 2018, by concluding the Amendment to the agreement concluded by TAURON on April 27, 2017 that was related to conducting the audit of:

1. financial statements of the Company for 2017, prepared in accordance with the requirements of the IFRS,
2. financial statements of selected subsidiaries of TAURON Capital Group for 2017, prepared in accordance with the IFRS,
3. consolidated financial statements for 2017, prepared in accordance with the requirements of the IFRS.

The above agreement was concluded for the time required to perform the activities entrusted and also covered conducting a review of the interim, half year financial statements of the Company and the consolidated financial statements of TAURON Capital Group, prepared in accordance with the IFRS requirements for the period ending on June 30, 2017. The appointment of the audit firm Ernst & Young Audyt Polska to audit the financial statements and consolidated financial statements of TAURON for 2017 was made by the Supervisory Board on March 15, 2017.

The act of May 11, 2017 on certified auditors, audit companies and public oversight that implemented the new EU audit regulations into the national legal order, came into force on June 21, 2017.

Under the above law, among others, the regulations of the act of September 29, 1994 on accounting were changed, including art. 66, clause 5, that was given the following wording: "(...) In case of the statutory audit in the understanding of art. 2, section 1 of the act on certified auditors, the first agreement on the audit of the financial statements shall be concluded with an audit firm for a period not shorter than two years with an option to extend it for another at least two-year periods (...)." In accordance with art. 284 of the act on certified auditors, audit companies and public oversight, the regulations of that act, and the regulations of the act on accounting changed thereby, shall be applicable with respect to the audits of the financial statements prepared for the financial years commencing after June 16, 2016. Taking into account the content of art. 284 of the act on certified auditors, audit companies and public oversight, an agreement on the audit concluded prior to the day of coming into force of the act on certified auditors with an audit firm other than the existing one (the first agreement on the audit), if it is applicable to the financial statements prepared for the financial years commencing after June 16, 2016, should meet the requirements under the new legal regulations related to the audit, including those of art. 66, clause 5 of the act on accounting.

In order to meet the requirements under the above legal regulations, and implementing the resolution of the Supervisory Board of February 26, 2018 on the appointment of the audit firm, TAURON, on June 5, 2018, concluded an amendment to the act of April 27, 2017 with Ernst & Young Audyt Polska. Under the signed amendment the agreement also covered the audit of:

1. financial statements of the Company for 2018, prepared in accordance with the requirements of the IFRS,
2. financial statements of selected subsidiaries of TAURON Capital Group for 2018, prepared in accordance with the IFRS,
3. consolidated financial statements for 2018, prepared in accordance with the requirements of the IFRS.

The amended agreement also covered conducting a review of the interim, half year financial statements of the Company and the consolidated financial statements of TAURON Capital Group, prepared in accordance with the IFRS requirements for the period ending on June 30, 2018.

Prior to 2018 the services provided for the Company by Ernst & Young Audyt Polska included the audit of the standalone financial statements and consolidated financial statements of the Company for the years from 2008 until 2012 and the year 2017 as well as the reviews of the interim, half year standalone financial statements and the consolidated financial statements of the Company for the period ended on June 30 in the individual years from 2010 until 2012 and in 2017. The Company also used the advisory and training services provided by Ernst & Young Audyt Polska, to the extent in line with the legal regulations in force and not leading to the limitation of the level of impartiality and independence of the auditor.

The compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries is shown in the below table.

Table no. 40. Compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries

#		Year ended on December 31, 2018 (PLN '000)	Year ended on December 31, 2017 (PLN '000)
1.	Mandatory audit, including:	1079	1 018
	<i>consolidated financial statements</i>	124	124
	<i>standalone financial statements of the parent entity</i>	54	54
	<i>standalone financial statements of the subsidiaries</i>	901	840
2.	<i>Other certifying services provided to TAURON Capital Group, including reviews of financial statements</i>	585	565
3.	<i>Tax advisory services</i>	0	0
4.	<i>Other services (including training) provided for TAURON Capital Group</i>	0	3
	<b>Total</b>	<b>1 664</b>	<b>1 586</b>

## 7. FINANCIAL RESOURCES AND INSTRUMENTS

### 7.1. Proceeds from security issues

Under the bond issue program concluded on November 24, 2015 between TAURON and Bank Handlowy w Warszawie S.A., BGŻ BNP Paribas S.A., Santander Bank Polska S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A. (mBank), MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Oddział w Polsce and Powszechna Kasa Oszczędności Bank Polski S.A., TAURON issued in 2018 bonds with the total nominal value of PLN 600 000 000, in accordance with the below specification:

1. on November 9, 2018 a bond issue with the total nominal value of PLN 200 000 000,
2. on December 9, 2018 a bond issue with the total nominal value of PLN 400 000 000.

The proceeds from the above mentioned issues were used in accordance with the issue documentation, i.e. for the general corporate purposes.

TAURON also completed a hybrid bond issue in 2018.

On December 11 and 13, 2018 the Company and the European Investment Bank (EIB) signed the hybrid bond (subordinated) issue agreements with the total value of PLN 750 000 000 (Bonds), i.e.

1. two project related agreements defining detailed requirements related to the financing of investment projects,
2. subscription agreement (Subscription Agreement I), constituting the basis for issuing hybrid bonds with the total nominal value of PLN 400 000 000,
3. subscription agreement (Subscription Agreement II), constituting the basis for issuing hybrid bonds with the total nominal value of PLN 350 000 000.

The proceeds from the Bond issue will be used to cover the expenditures of TAURON Dystrybucja S.A. related to the expansion and upgrading of the power grid infrastructure in 2018-2022.

The bonds issued constitute subordinated, unsecured, coupon bearer securities to be subscribed by the EIB as part of the European Fund for Strategic Investments launched by the EIB jointly with the European Commission in order to implement the so-called Juncker Plan.

In accordance with the Subscription Agreements I and II the Bonds were issued in series of December 17, 2018 and December 19, 2018. The maturity dates fall 12 years from the issue date, however in accordance with the nature of hybrid financing the first financing period has been defined as 7 years (1st Financing Period) during which TAURON shall not be able to redeem the Bonds early and the EIB shall not be able to sell the Bonds to third parties early (in both cases subject to the exceptions defined in the Subscription Agreements I and II). The Bonds bear a fixed interest rate in the 1st Financing Period, while in the subsequent 5-year financing period (2nd Financing Period) the Bonds will bear a floating interest rate (WIBOR 6M), increased by a set margin. The Agreement provides for an option to defer the Bonds interest payment dates until, at the latest, the Bonds maturity date or until the fifth day from the day of taking the decision to pay out the dividend. The subordinated nature of the Bonds means that in case of a bankruptcy or winding up of TAURON the obligations related to the Bonds shall be repaid only ahead of the liabilities of TAURON's shareholders. The Bond issue has a positive impact on TAURON Capital Group's financial stability as the Bonds are excluded from the calculation of the net debt / EBITDA ratio which is a covenant in some of TAURON's domestic bond issue programs. Furthermore, the Bonds will be classified by a rating agency in its rating model as equity in the amount of 50 percent of this financing which has a favorable impact on TAURON Capital Group's rating. The bonds were granted a BB+ rating by the Fitch rating agency.

The below table presents the summary of TAURON Capital Group's issued and non-redeemed bonds in 2018 underwritten by entities other than TAURON Capital Group's subsidiaries, listed according to maturity.

Table no. 41. Summary of TAURON Capital Group's issued and non-redeemed bonds in 2018 underwritten by entities other than TAURON Capital Group's subsidiaries (listed according to maturity)

#	Issuer	Investor	Type and level of interest rate	Issue date	Maturity date	Nominal (par) value ('000)
1.	TAURON	Domestic Investors	WIBOR 6M+fixed margin	04.11.2014	04.11.2019	PLN 1 750 000
2.				14.12.2018	14.03.2019	PLN 400 000
3.	TAURON	Banks (issue program underwriters)	WIBOR 6M+fixed margin	09.11.2018	09.11.2020	PLN 200 000
4.				29.02.2016	29.12.2020	PLN 1 600 000
5.	TAURON	Eurobonds	Fixed interest rate	05.07.2017	05.07.2027	EUR 500 000
6.	TAURON Sweden Energy	German market investors	Fixed interest rate	03.12.2014	03.12.2029	EUR 168 000
7.	TAURON	BGK	WIBOR 6M+fixed margin	2014 – 2016	2019 – 2029	PLN 1 700 000
8.	TAURON	EIB	Fixed interest rate	17.12.2018	17.12.2030	PLN 400 000
9.	TAURON	EIB	Fixed interest rate	19.12.2018	19.12.2030	PLN 350 000
10.	TAURON	EIB	Fixed interest rate	16.12.2016	16.12.2034	EUR 190 000

After the balance sheet date, under the Bonds issue program of November 24, 2015 the Company:

- redeemed bonds of nominal value amounting to PLN 400 000 000 in line with maturity date,
- on March 25, 2019 issued PLN 100 000 000 worth bonds with maturity date falling on March 25, 2020.

Additionally, under the subordinated bonds issue program signed with BGK on September 6, 2017 the Company submitted proposal to purchase PLN 400 000 000 worth subordinated bonds on March 29, 2019 with maturity date falling on March 29, 2031 and BGK confirmed the receipt of the proposal.

## 7.2. Financial instruments

### 7.2.1. Application of financial instruments in order to eliminate price changes, credit risk, material disruptions of cash flows and loss of financial liquidity

The financial risk at TAURON Capital Group is managed by TAURON. The centralizing of the financial risk management function is aimed at optimizing the process, including minimizing TAURON Capital Group's costs in the above mentioned respect. As part of financial risk management in 2018 TAURON Capital Group continued to hedge the risk of volatility in cash flows resulting from its debt based on WIBOR reference rate.

Moreover, in 2018 TAURON Capital Group hedged the currency exposure arising from the trading operations (mainly due to the purchase of CO<sub>2</sub> emission allowances) by concluding forward contracts. In 2018 TAURON Capital Group was also continuing the strategy of hedging its foreign currency exposure generated by interest payments on the financing obtained in EUR by concluding forward contracts and CIRS transactions. The goal of these transactions was to hedge against the risk of cash flow volatility resulting from currency rate fluctuations.

The below table presents active futures derivative transactions as of December 31, 2018 (due to the adopted centralized model of financial risk management, the data refers only to TAURON).

Table no. 42. Information on futures transactions and derivatives as of December 31, 2018

#	Type of transaction concluded	Total denomination of the specific type of transaction ('000)	Currency			Maturity date of the specific type of transaction		Valuation of transaction of the specific type as of December 31, 2018 ('000)
			PLN	EUR	other	up to one year	beyond one year	
1.	IRS	2 100 000	X				X	4 178
2.	CIRS	2 095 100	X				X	- 5 140
3.	Forward	90 400		X		X		- 2 455

With respect to hedging the risk arising from price volatility and the credit risk TAURON Capital Group did not use financial instruments.

As part of the implemented *Portfolio Management Policy*, the contracting of electricity sales is followed by the contracting of the CO<sub>2</sub> emission allowances. Such a way of hedging positions allows for minimizing of the risk of the CO<sub>2</sub> costs not being covered by the contracted electricity price. The basis for setting the CO<sub>2</sub> sales price for the emission allowances volume defined this way is the CO<sub>2</sub> price on the exchange from the period in which the CO<sub>2</sub> volume is contracted.

On the other hand, as part of liquidity loss risk management debt instruments referred to in section 7.3 are used.

### 7.2.2. Objectives and methods of financial risk management

The objectives and methods of financial risk management at TAURON and TAURON Capital Group are presented in section 3.3.2 of this report.

## 7.3. Assessment of financial resources management

TAURON has a centralized financial management function in place and thus effective management of finance of entire TAURON Capital Group is possible. The main tools enabling effective management include: the implemented central financing model and the appropriate internal corporate regulations as well as the cash pooling implemented by TAURON Capital Group. Additionally, the financial management system is supported by the central policy of managing the financial risk at TAURON Capital Group and the central Insurance policy of TAURON Capital Group. In these areas TAURON plays the role of the management body and decision maker with respect to the directions of measures undertaken, enabling determining the relevant limits of risk exposure.

In accordance with the adopted central model of financing TAURON is responsible for acquiring the financing for TAURON Capital Group's subsidiaries. Funds acquired both internally (from TAURON Capital Group's subsidiaries generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to TAURON Capital Group's subsidiaries, reporting the requirement for financing.

Such policy of acquiring the funding sources enables, first of all, increasing the possibility to obtain financing, decreasing of the cost of external capital, reducing the number and form of hedges established on assets of TAURON Capital Group and covenants required by financial institutions, as well as leads to the reduction of the administrative costs. The central model of financing also enables acquiring financing sources unavailable for individual subsidiaries.

Another key element influencing the efficiency of financial management is the policy of financial liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position of TAURON Capital Group allowing for optimizing the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of the liquidity reserve. The above factors lead to both, cost reduction as well as liquidity safety improvement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overriding goal is to provide for current financial liquidity at TAURON Capital Group, while at the same time limiting the costs of short term external financing and maximizing the financial revenue due to investing cash surpluses. Owing to the

cash pooling structure TAURON Capital Group's subsidiaries facing short term deficits of funds, may use funds of the subsidiaries generating financial surpluses, without the need to acquire external financing.

Both, the financing policy, as well as TAURON Capital Group's liquidity management policy conducted by TAURON are aimed at, apart from increasing the efficiency of managing TAURON Capital Group's finances, first of all, eliminating threats of limiting or losing the Group's financial liquidity. The guaranteed sources of financing, obtained with an appropriate lead time, effectively eliminate the risk of TAURON Capital Group losing liquidity. The description of the liquidity risk is presented in detail in section 3.3.2 of this report.

Moreover, a unified program of bank guarantees was implemented at TAURON. Under the agreements concluded by TAURON with banks it is possible to issue guarantees to secure the liabilities of TAURON Capital Group's subsidiaries companies within the centralized limit. The above mentioned measure reduced the cost of guarantees acquired, made their acquisition independent of the individual subsidiaries' financial standing and limited the total number of actions required to obtain a guarantee.

In 2018 TAURON and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.



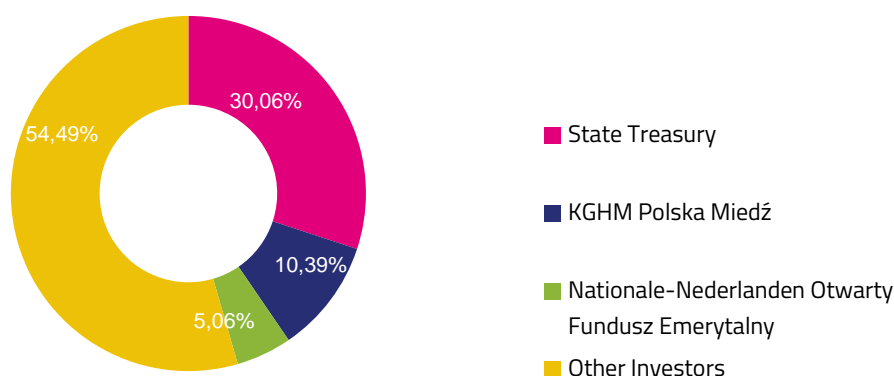
## 8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

### 8.1. Shareholding Structure

As of December 31, 2018 and as of the day of drawing up this report the Company's share capital was, in accordance with an entry in the National Court Register, PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered BB series shares.

The below figure presents the shareholding structure as of December 31, 2018 and as of the day of drawing up this report.

Figure no. 70. Shareholding structure as of December 31, 2018 and as of the day of drawing up this report



### 8.2. Dividend policy

As part of its Strategy adopted on September 2, 2016 the Company adopted its dividend policy. In the long term TAURON is planning to pay out a dividend of minimum 40 percent of the consolidated net profit. The Company's intention is to provide a dividend yield that would be competitive versus the yield offered by long term debt instruments issued on the Polish market by investment grade rated companies. The final recommendation on the dividend will be impacted by 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.

Based on the forecasts developed as part of the process of preparing the Strategy, the Company assumed that 2020 would be the first year in which the dividend payout would be possible.

The below table presents the dividends paid out in 2010-2014. Starting from 2015 Spółka did not pay out the dividend.

Table no. 43. Dividends paid out in 2010-2014

Dividends paid out in 2010-2014						
#	Financial year for which the dividend was paid out	Dividend amount paid out (PLN)	Net profit %	Dividend per share (PLN)	Dividend record date	Dividend payout date
1.	2010	262 882 409.10	31%	0.15	30.06.2011	20.07.2011
2.	2011	543 290 312.14	44%	0.31	02.07.2012	20.07.2012
3.	2012	350 509 878.80	24%	0.20	03.06.2013	18.06.2013
4.	2013	332 984 384.86	25%	0.19	14.08.2014	04.09.2014
5.	2014	262 882 409.10	23%	0.15	22.07.2015	12.08.2015

### 8.3. Number and nominal value of the Company's shares, as well as of the shares in units related to the Company, held by members of the Management Board and the Supervisory Board

As of December 31, 2018 and as of the day of drawing up this report members of the Management Board and members of the Supervisory Board did not have any TAURON shares, nor they held any shares in units related to the Company.

### 8.4. Agreements related to potential changes to the shareholding structure

The Company has no information on the existence of agreements (including also the agreements concluded past the balance sheet date), as a result of which changes in the proportions of shares held by the existing shareholders and bondholders may occur in the future.

### 8.5. Own shares buybacks

In 2018 and as of the day of drawing up this report TAURON and the subsidiaries did not own any of its shares

### 8.6. Employee stock award programs

In 2018 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. In 2018 TAURON share price fluctuated between PLN 1.67 and PLN 3.28 (at closing prices). During the last session of 2017 the share price came in at PLN 3.05, while a year later the price stood at PLN 2.19.

In spite of Poland's good economic situation and the country's economy growing at the fastest clip since 2011, the shares of companies listed on the Warsaw Stock Exchange (WSE) did not perform well. In 2018 WSE listed shares were in a downward trend that affected almost all of the main WSE indices. Over the full year WIG dropped 9.5 percent, WIG20 was 7.5 percent down, while WIG-Energia fell 19.4 percent. In terms of individual sectors only WIG-Paliwa (WIG-Fuels) finished the year in the positive territory.

The bear market observed on the Warsaw Stock Exchange in 2018 was due to the external factors, such as the trade conflict between the United States of America and China, and uncertainty regarding Brexit, as well as the local factors, including the GetBack scandal that significantly undermined investors' confidence in investing on the capital market. Also Poland's

classification as a developed country by the FTSE Russell agency did not lead to the improvement of the investment sentiment on the WSE.

As of December 31, 2018 TAURON shares were included in the following stock exchange indices:

1. WIG - index that includes all companies listed on WSE's Main Market that meet basic criteria for inclusion in indices. TAURON's share in WIG: 0.76 percent
2. WIG-Poland - national index that groups solely shares of domestic companies listed on WSE's Main Market that meet basic criteria for inclusion in indices. TAURON's share in WIG-Poland index: 0.78 percent
3. WIG20 - index calculated on the basis of the value of the portfolio of shares of 20 largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG20 index: 1.06 percent
4. WIG30 - index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG30 index: 0.99 percent.
5. WIG-Energia - sector based index that comprises companies included in WIG index and are also qualified to the energy sector. TAURON's share in WIG-Energia: 14.23 percent
6. RESPECT Index - index that groups in its portfolio companies that operate in accordance with the highest corporate social responsibility standards. TAURON's share in RESPECT Index: 1.59 percent
7. MSCI Emerging Markets Europe - index that includes key companies in 15 developed countries in Europe
8. MSCI Poland Index - index that includes more than 20 key companies listed on WSE. TAURON's share in MSCI Poland Standard Index: 0.96 percent.

The below table presents key data on the Company's shares in 2011-2018.

Table no. 44. Key data on the Company's shares in 2011-2018

#		2011	2012	2013	2014	2015	2016	2017	2018
1.	Share price high (PLN)	6.81	5.61	5.39	5.69	5.29	3.19	4.12	3.28
2.	Share price low (PLN)	4.65	4.08	3.85	4.04	2.37	2.31	2.75	1.67
3.	Last share price (PLN)	5.35	4.75	4.37	5.05	2.88	2.85	3.05	2.19
4.	Capitalization at the end of the period (PLN m)	9 376	8 325	7 659	8 850	5 047	4 995	5 345	3 838
5.	Capitalization at the end of the period (%)	2.1	1.59	1.29	1.5	0.98	0.9	0.8	0.66
6.	Book value (PLN m)	15 922	16 839	17 675	18 107	18 837	16 349	17 880	18 967
7.	P/E	8.1	5.5	5.5	7.8	4.2	-	3.02	3.7
8.	P/BV	0.59	0.49	0.43	0.49	0.27	0.31	0.31	0.2
9.	Rate of return ytd1 (%)	-16.73	-5.03	-3.64	20.07	-40.78	-1.04	7.02	-28.2
10.	Dividend yield (%)	2.8	6.5	4.6	3.8	5.2	-	-	-
11.	Trading volume (PLN m)	5 575	3 199	3 104	3 135	3 063	3 199	2 737	3 104
12.	Trading volume share (%)	2.21	1.7	1.41	1.53	1.5	1.69	1.16	1.52

13.	Average volume per session	3 721 539	2 667 725	2 793 020	2 489 329	3 190 195	4 662 087	3 261 765	5 622 737
14.	Average number of transactions per session (pcs)	1 373	960	1 022	1 106	1 431	1 465	1 323	1 769

Source: WSE Statistical Bulletin

<sup>1</sup>Rate of return calculated taking into account the investor's income from the dividend and assuming that the additional income realized is re-invested. Methodology in accordance with WSE Statistical Bulletin.

The below graphs present historical TAURON share price performance and trading volumes, including against WIG20 and WIG-Energia indices.

Figure no. 71. TAURON share price(in PLN) and trading volumes in 2018 (in PLN '000)

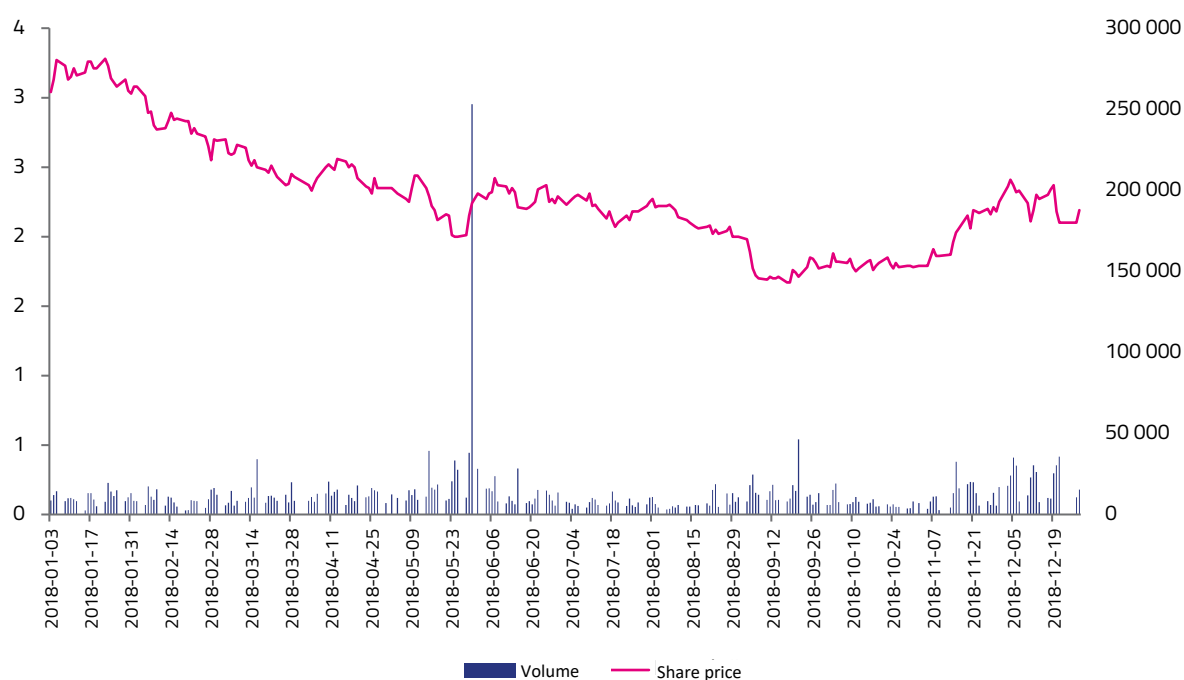


Figure no. 72. TAURON share price (in PLN) and trading volumes since the market debut until December 31, 2018 (in PLN '000)



Figure no. 73. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2018 (in PLN '000)



## Recommendations for the shares of TAURON Polska Energia S.A.

In 2019 analysts from brokerage houses and investment banks issued 1- recommendations for TAURON shares in total, including:

1. two "Buy" recommendations,
2. seven "Hold" recommendations,
3. one "Sell" recommendation.

The below table presents a list of recommendations issued in 2018.

Table no. 45. Recommendations issued in 2018.

#	Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
1.	12.12.2018	BM Santander	Sell / PLN 1.60
2.	29.11.2018	mBank DM	Buy / PLN 3.06
3.	26.11.2018	Societe Generale CIB	Hold / PLN 2.50
4.	18.10.2018	Wood&Co	Hold / PLN 1.98
5.	2.10.2018	Erste Securities	Hold / PLN 1.78
6.	24.07.2018	DM BOŚ	Hold / PLN 2.53
7.	4.07.2018	Raiffeisen Centrobank	Hold / PLN 2.40
8.	26.06.2018	DM Banku Handlowego (Citi)	Hold / PLN 3.50
9.	9.04.2018	Trigon DM	Buy / PLN 2.60
10.	15.01.2018	BM Exane BNP Paribas	Hold / PLN 4.00

## 8.8. Investor relations

Transparent, accurate and regular communications is the foundation of TAURON's investor relations (IR) program. The Company places a lot of weight on building good relations with all stakeholder groups, which, as a consequence, leads to a higher trust of investors, financing institutions and business partners.

Information on TAURON Capital Group's operations and results is provided both in the form of mandatory activities required by law (e.g. by disclosing information in the current and periodic regulatory filings) but also using many additional tools addressed directly to institutional and individual investors. Analysts, shareholders – current and potential – have access to a broad spectrum of information on corporate, economic and financial events that occurred at TAURON Capital Group.

As part of its IR program the Company organizes quarterly earnings conferences as well as participates in many investor conferences and roadshows in Poland and abroad.

During meetings with investors members of TAURON's Management Board and key managers are presenting and discussing such topics as: strategy, implementation of capex projects, financial situation, as well as the current standing and outlook for the energy sector.

The quarterly earnings conferences each time attract several dozen representatives of the capital market. These events can also be followed over the internet and listened via telephone. Separate meetings devoted to discussion of financial results are also regularly arranged for representatives of key media, so that earnings information could reach all investors via diverse channels

Besides meetings accompanying the publication of periodical reports, in 2018 members of the Management Board and representatives of the Investor Relations Team took part in more than a dozen conferences and roadshows, during which

several dozen meetings with managers and capital market analysts were held. Representatives of TAURON met institutional investors not only in Poland, but also in the US, Canada, Great Britain, Austria and Czech Republic.

In 2018, similar as in previous years, TAURON also participated in events addressed to individual investors. The Company was, inter alia, a partner of the "Wall Street" conference in Karpacz organized by the Individual Investors Association. As part of the regular communications with this sizeable group of investors, 4 chats with representatives of the Management Board took place in 2018, with approximately one hundred individual investors taking part each time.

In connection with the growing role of Internet channels and social media, much emphasis was placed on their development with respect to the communications with investors. Broadcasts of events important for investors were provided via the YouTube service: earnings conferences, GMs and comments of the President of the Management Board on the financial results. On the other hand, announcements of significant events are published by the Company on Facebook. TAURON also launched a corporate profile on Twitter where entries related to, among others, investor relations appear. Being aware of the fact that the website is a significant source of information for investors, in particular, the Investor Relations tab; the Company takes care of its content and validity of the content provided therein. Investor Relations section contains a lot of useful information on the current events, financial results or GMs. It also provides presentations and video broadcasts of conferences summarizing the financial results.

TAURON has been included in the RESPECT Index since 2013 – a group of socially responsible stock market listed entities that apply the highest sustainable growth standards and conduct dependable communications with the market.

The below table presents a timeline of investor relations highlights and activities that took place in 2018.

*Table no. 46. Timeline of investor relations highlights and activities that took place in 2018*

#	Date	Highlight (event)
1.	13.03.2018	Full year 2017 stand-alone and consolidated earnings reports published
2.	14.03.2018	Management Board's meeting with analysts and fund managers to present FY 2017 earnings, Warsaw
3.	14.03.2018	Chat for individual investors as part of cooperation with the Individual Investors Association
4.	19-20.03.2018	Participation in the DM PKO BP CEE Capital Markets Conference, London
5.	29.03.2018	Meetings with fund managers, IPOPEMA, Warsaw
6.	10-11.04.2018	Participation in Raiffeisen Centrobank Investor Conference, Austria, Zürs
7.	16.04.2018	TAURON's Ordinary GM
8.	16.05.2018	Q1 2018 earnings report published
9.	17.05.2018	Meetings of the Management Board with analysts and fund managers following Q1 2018 earnings, Warsaw
10.	17.05.2018	Chat for individual investors as part of cooperation with the Individual Investors Association
11.	23.05.2018	Meetings with fund managers, mBank, Warsaw
12.	22.08.2018	H1 2018 earnings report published
13.	23.08.2018	Meeting of the Management Board with analysts and fund managers, Societe Generale, Warsaw
14.	23.08.2018	Chat for individual investors as part of cooperation with the Individual Investors Association
15.	30.08.2018	Meetings with fund managers, Societe Generale, Warsaw
16.	11.09.2018	Participation in the 15th Annual Emerging Europe Investment Conference, Pekao Investment Banking, Warsaw
17.	17-19.09.2018	Roadshow US, Kanada, Wood&Co

#	Date	Highlight (event)
18.	27.09.2018	Investor Day: Power, Mining and Fuels, Cracow, DM PKO BP
19.	10.10.2018	Meeting of the Management Board with analysts and fund managers - Erste Group Investor Conference, Stegersbach, Austria
20.	6.11.2018	Q3 2018 earnings report published.
21.	7.11.2018	Management Board's meeting with analysts and fund managers to present Q3 2018 earnings, Warsaw
22.	7.11.2018	Chat for individual investors as part of cooperation with the Individual Investors Association
23.	28.11.2018	Participation in Santander's Annual UTILITY / OIL & GAS / METALS & MINING Sector Conference, Warsaw
24.	6.12.2018	Participation in the Wood's Winter in Prague Conference, Prague, Czech Republic



## 9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 70, clause 6, sub-clause 5) § 91(5)(4) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodical information disclosed by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a non-member state (i.e. Journal of Laws of 2018, item 757), the Company's Management Board presents the statement on application of corporate governance in 2018.

### 9.1. Indication of applied set of corporate governance rules

In 2018 the Company was subject to the corporate governance rules, described in the document *Best Practice of WSE (GPW) Listed Companies (Best Practice 2016)*, adopted by the Supervisory Board of the WSE (GPW) in resolution no. 26/14 13/2015 of October 13, 2015, which came into force on January 1, 2016.

The text of the Best Practice 2016 the Company is subject to is published on the GPW website at the address: [www.gpw.dobre-praktyki.pl](http://www.gpw.dobre-praktyki.pl).

### 9.2. Indication of abandoned rules of corporate governance

In 2018 the Company did not apply the following detailed rules provided in the Best Practice 2016:

- 1) IV.Z.2. concerning ensuring of publicly available real-time broadcasts of general meetings, due to the lack of the relevant provisions of the Articles of Association enabling the aforementioned broadcast. In order to enable the application of the rule, the Company's Management Board requested the Ordinary GM of the Company to adopt the relevant amendment to the Company's Articles of Association ensuring publicly available real-time broadcast of general meetings. However, the Ordinary GM of the Company convened on 8 June 2016 did not adopt the amendment to the Company Articles of Association proposed by the Company Management Board in this respect
- 2) VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of compensation of members of the Company's management board and key managers to the actual long-term financial standing of the Company and long-term shareholder value creation as well as the Company's stability. This rule was not applied due to the compensation and bonus system applicable in TAURON in relation to members of the Management Board of the Company and its key managers stipulates that the level of compensation will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,
- 3) VI.Z.2. concerning tying the compensation of members of the management board and key managers to the Company's long-term business and financial goals. The period between the allocation of options or other instruments linked to the Company's shares under the incentive scheme and their exercisability should be no less than two years. 2 years This rule was not applied due to the compensation and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers does not provide that compensation should be tied to instruments linked with the Company shares.

In 2018 the following rules did not apply to the Company:

- 1) I.Z.1.10. concerning placing 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 implementation - due to the fact that financial forecasts are not published,
- 2) III.Z.6. stating that where the Company has no separate internal audit function in its organization, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated - due to the fact that the Company has a separate Internal Audit Department in its organizational structure.

Furthermore, the Management Board of the Company, adopting the detailed rules of Best Practice 2016 designated as: I.Z.1.3, I.Z.1.15, I.Z.1.16, II.Z.1, II.Z.6, II.Z.10.1, II.Z.10.2, II.Z.10.3, II.Z.10.4, V.Z.5, V.Z.6, VI.Z.4., indicated the manner of applying

them. The detailed description of the manner of applying the above rules is provided in the *Information on the status of applying by the Company of the recommendations and rules provided in Best Practice 2016*, constituting an appendix to the above mentioned report on not applying the detailed rules provided in Best Practice 2016 and provided on the Company's website.

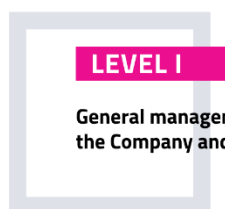
Information concerning abandonment of recommendations provided in Best Practice 2016 for application

In 2018 the Company did not apply only the recommendation provided in Best Practice 2016, designated as IV.R.2 concerning ensuring a possibility to shareholders to participate in the GM using electronic communication means, due to the lack of such shareholders' expectation. This decision is expressed by the failure of the Company GM on 8 June 2016 to adopt the relevant amendments to the Company Articles of Association ensuring publicly available real-time broadcast of general meetings.

The other recommendations provided in Best Practice 2016 were applied by the Company in 2018.

### 9.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial

The internal audit and risk management system with respect to the process of drawing up the financial statements and consolidated financial statements is implemented on three levels:



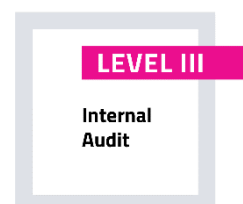
TAURON Capital Group's subsidiaries operate based on organizational regulations and possess defined organizational structures based on internal documents adopted for the entire Group. These define the business units responsible for preparing financial statements and consolidated financial statements. Such units have the duty to perform regular control of the tasks vested and functional control of their activities.

Business Model of the TAURON Capital Group resulted in implementation of Process Documentation of Megaprocess 3.4 Accounting, containing procedures associated with financial reporting of the Company and the TAURON Capital Group. Process documents define responsibilities of business units within the reporting processes.



TAURON Capital Group implemented a Risk Area managed by the Executive Director for Risk Management, whose role is to oversee and establish the risk management process for the entire TAURON Capital Group. These functions are implemented within the Company by Corporate, Market and Credit Risk Management Teams. The purpose of risk management is to improve the predictability of attaining strategic objectives by the TAURON Capital Group, including stable creation of the financial result through early identification of

threats allowing preventive activities to commence. Risk management standards applicable at the TAURON Capital Group have been defined in the Strategy for corporate risk management at the TAURON Group and in policies for managing specific risks. The ERM system encompasses all spheres of TAURON Capital Group business and business processes within the Group, including the process of preparing financial statements. Risks associated with his process are managed, monitored and reported within the ERM system. Standardization aims to ensure coherence in managing the individual risk categories, defining general principles, standards and tools of system architecture. Oversight of the ERM system at the TAURON Capital Group is performed by the Risk Committee.



Internal Audit Department is functioning in the Company. The goal of the Internal Audit is planning and implementing audit tasks, including performance of commissioned ad-hoc inspections, and also activities of advisory and opinion (feedback) providing nature. Methods and rules of implementing the Internal Audit function are defined by the Process Documentation of the Megaprocess 1.5 Audit along with the related document *Regulations of Internal Audit at TAURON Group*. The introduction of

Megaprocess 1.5 Audit was a consequence of the adoption of the Business Model by the Management Board of TAURON. In implementing the internal audit function the Company shall be acting in compliance with *TAURON Group's Corporate Social Responsibility Code* and the International Standards for the Professional Practice of Internal Auditing. In the second half of 2018 an initiative was launched to develop a model for evaluating the functioning Internal Audit System whose results are presented to the Audit Committee of the Company's Supervisory Board. As of the end of 2018 also internal reorganization of the audit function was undertaken aimed at separating the functioning of the "audit stream" and the "control stream" within the structures. As part of the "control stream", among others, fraud detection tasks will be carried out. Also a dedicated cell specializing in auditing IT, OT and security systems was set up.

The below table presents the most important aspects related to internal audit and risk management with respect to the process of drawing up financial statements and consolidated financial statements.

Most important aspects related to internal audit and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Most important aspects related to internal audit and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Supervision over application of consistent accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statements

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS) approved by the European Union the Accounting Policy of TAURON Polska Energia S.A. Capital Group (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's stand-alone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting 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 economic and financial affairs (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A., whose membership, competence and description of activities are provided in clause 9.11.3 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 coherence (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. Granted rights are also subject to periodic verification.

Due to the integration of the accounting functions and the transfer of TAURON Capital Group's material subsidiaries' financial and accounting services to CUW-R (Shared Services Center – Accounting) TAURON Capital Group's financial and accounting processes were

#### Most important aspects related to internal audit and risk management with respect to the process of drawing up financial statements and consolidated financial statements

gradually unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments.

TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.

#### Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

Full year financial statements of the Company and full year consolidated financial statements of TAURON Capital Group are subject to an audit by an independent certified auditor. Half year financial statements of the Company and half year consolidated financial statements of TAURON Capital Group are subject to a review by a certified auditor. In 2017 the Company appointed an entity authorized to audit and review the financial statements of the material subsidiaries of TAURON Capital Group and the consolidated financial statements. The agreement with the entity authorized to audit financial statements was concluded to conduct an audit and review of the 2017 financial statements, and subsequently, following the coming into force of the *act of May 11, 2017 on certified auditors, audit firms and public supervision*, was adapted to the new regulations by way of concluding an amendment, covering the conducting of the audit of the 2018 financial statements.

#### Rule related to changing the Company's and TAURON Capital Group's audit firm

The following rule was established in the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*, adopted by the Audit Committee of the Company's Supervisory Board on October 16, 2017:

- 1) maximum period of continuous orders for audits to be conducted by the same audit company or an entity related to that audit company or any member of the network operating in the European Union countries that such audit companies are members of, shall not exceed 5 years,
- 2) after a 5-year duration of the order neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
- 3) a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
- 4) a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

## 9.4. Shareholders holding substantial blocks of shares

The below table presents shareholders holding, as of December 31, 2018 and as of the day of drawing up this report, directly or indirectly substantial blocks of the Company's shares.

Table no. 47. Shareholders holding, directly or indirectly, substantial blocks of shares

#	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	182 110 566	10.39%	182 110 566	10.39%
3.	Nationale-Nederlanden	88 742 929	5.06%	88 742 929	5.06%

#	Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total number of votes
	Otwarty Fundusz Emerytalny (Open Pension Fund)				

Since the day of publishing the previous periodical report, i.e. since November 6, 2018, until the day of publishing this report the Company did not receive any notifications from its shareholders on any changes in the ownership structure of 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 <http://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 in the understanding of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
- 4) A shareholder, in the understanding of § 10 of the Articles of Associations, shall be any party (entity), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity) that does not hold the company's shares, and in particular to a user, lien holder, party (entity) entitled on the basis of a depositary receipt under regulations of the *Act of July 29, 2005 on financial instruments trading*, as well as a party (entity) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
- 5) A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, shall be understood, accordingly, as a party (entity):
  - a) 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
  - b) 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
  - c) which has (parent company) or one which is under controlling influence (subsidiary company) in the understanding of the *Act of September 22, 2006 on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or

- d) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity) or other parties (entities) on conditions defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring substantial blocks of the Company's shares.
- 6) Aggregation of votes is based on totaling the number of votes held by individual shareholders that are members of the Shareholders' Cluster.
- 7) Reduction of votes involves decreasing the total number of votes in the company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the company. Reduction of votes shall take place in accordance with the following rules:
- a) 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,
  - b) if, despite the above mentioned reduction, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,
  - c) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
  - d) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.
- 8) Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
- 9) Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
- 10) A party (entity) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity) shall be null and void.

## 9.7. Restrictions on transfer of the ownership right to securities

As of December 31, 2018 and as of the day of drawing up this report TAURON's Articles of Association do not envisage restrictions on the transfer of the ownership right to the Company's securities.

However, in accordance with the *act of July 24, 2015 on the control of some investments* an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – Minister of Energy of its intention to do so, unless such obligation rests on other entities. Furthermore, in accordance with the act of *December 16, 2016 on the principles of managing state owned property*, the State Treasury shall not dispose of its shares in TAURON.

## 9.8. Rules on appointing and dismissing managing and supervising persons and their powers

### 9.8.1. Management Board

#### Rules on appointing and dismissing members of the Management Board

Management Board of the company shall be composed of one to six persons, including the President and Vice Presidents. Members of the Management Board shall be appointed and dismissed by the Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. Each of the Management Board members can be dismissed or suspended in office by the Supervisory Board or the GM.

In order to recruit a person with whom an agreement on performing the management board level function at the Company, Supervisory Board announces the competition and conducts a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a member of the Management Board must meet the requirements set forth in §16 clauses 3 and 4 of the Company's Articles of Association. The announcement of the qualification process is published on the Company's web site and in the Public Information Bulletin of the Ministry of Energy. The Company notifies the shareholders of the results of the qualification procedure.

#### Management Board's competence

Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Articles of Association, to the scope of competence of the General Meeting of Shareholders or Supervisory Board, shall be within the scope of competence of the Management Board.

In accordance with the Articles of Association, all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Management Board, in particular, the following issues listed in the below table:

Table no. 48. Management Board's competence

Matters that require a resolution of the Management Board
as of December 31, 2018 and as of the day of drawing up this report
1. Management Board bylaws,
2. Company's organizational regulations,
3. establishment and liquidation of branches,
4. appointment of a proxy,
5. taking on credits and loans,
6. approving annual material and financial plans of the Company and of the Capital Group as well as the Capital Group's Corporate Strategy,
7. assuming contingent liabilities in the understanding of the Act of September 29, 1994 on accounting, including granting guaranties and sureties by the Company as well as issuing bills of exchange, subject to § 20 clause 2 item 4 and 5 of the Company's Articles of Association,
8. making donations, cancelling interest or releasing from debt, subject to § 43 clause 3 items 1 and 2 of the Company's Articles of Association,
9. purchase of real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, subject to § 20 clause 2 item 1 of the company's Articles of Association,
10. purchase of fixed assets excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding the PLN equivalent of EUR 10,000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association,
11. disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding the PLN equivalent of EUR 10,000, subject to the provisions of § 20 clause 2 item 3 of the company's Articles of Association,

12. defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 3 item 9 of the company's Articles of Association,
13. rules of conducting sponsoring activities,
14. adoption of the annual plan of sponsoring activities,
15. matters which the Management Board refers to the Supervisory Board or the General Meeting of Shareholders for review.

## 9.8.2. Supervisory Board

### *Rules on appointing and dismissing members of the Supervisory Board*

Supervisory Board shall be composed of five to nine persons, appointed for a common term of office lasting three years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association members of the Supervisory Board shall be appointed and dismissed by the General Meeting of Shareholders, subject to the following:

- 1) during the time when the State Treasury, together with the State Treasury controlled entities in the understanding of § 10 clause 5 of the Articles of Association, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company, the State Treasury, represented by the minister competent to handle the State Treasury's affairs, shall be entitled to appoint and dismiss members of the Supervisory Board in the number equal to half of the maximum number of members of the Supervisory Board defined in the Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:
  - a) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of members in the Supervisory Board that would correspond to the maximum number of members of the Supervisory Board defined in the Articles of Association in case such a motion is submitted to the Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
  - b) shall be excluded from the voting at the General Meeting of Shareholders on appointing and dismissing other members of the Supervisory Board, including independent members of the Supervisory Board; this shall not, however, apply to the case when the Supervisory Board cannot act due to its membership being smaller than required by the Articles of Association, and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Supervisory Board in accordance with the distribution of seats in the Supervisory Board defined in this section;
- 2) during the time when the State Treasury, together with the State Treasury controlled entities in the understanding of § 10 clause 5 of the Articles of Association, hold a number of the company's shares that entitle them to exercise less than 25% of the total number of votes in the company, the State Treasury, represented by the minister competent to handle the State Treasury's affairs, shall be entitled to appoint and dismiss one member of the Supervisory Board..
- 3) appointing and dismissing members of the Supervisory Board by the State Treasury pursuant to the above mentioned clause 1) or 2) shall take place by means of a statement submitted to the Company.

In accordance with the Best Practice 2016 at least two members of the Supervisory Board shall meet the criteria of independence. A phrase an "independent member of the Supervisory Board" shall denote an independent member of the Supervisory Board in the understanding of Appendix II to the *European Commission's Recommendation of February 15, 2005*



related to the role of non-executive directors or members of a supervisory board of publicly listed companies and a supervisory board's committee (2005/162/EC) and the additional criteria indicated in the Best Practice 2016 .

Members of the Supervisory Board shall submit to the Company, prior to their appointment as members of the Supervisory Board, a written statement on compliance with the independence criteria mentioned in the Best Practice 2016. In case a situation occurs where the independence criteria are not complied with a member of the Supervisory Board shall be obligated to forthwith inform the Company thereof. The Company shall provide information on the compliance of the members of its Supervisory Board on its website.

### Supervisory Board's competence

Supervisory Board shall continuously oversee the Company's activities in all areas of its operations.

According to the Company's Articles of Association the Supervisory Board's tasks and competences shall include in particular the matters listed in the below table.

Table no. 49. Supervisory Board's competence

Matters that require a resolution of the Supervisory Board
as of December 31, 2018 and as of the day of drawing up this report
<b>Competences related to providing opinions</b>
<ol style="list-style-type: none"><li>1. evaluate the Management Board's report on the Company's operations (Directors' Report) as well as the financial statements for the last financial year with respect to their compliance with books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements, provided they are prepared,</li><li>2. evaluate the Management Board's recommendations on profit distribution or loss coverage,</li><li>3. submit a written report to the General Meeting of Shareholders on the outcome of activities covered in clauses 1 and 2,</li><li>4. prepare once a year and submit to the General Meeting:<ol style="list-style-type: none"><li>a) evaluation of the Company's situation, including the assessment of the internal control, risk management systems, compliance and internal audit functions, including all significant control mechanisms, in particular, those related to financial reporting and operations,</li><li>b) report on activities of the Supervisory Board comprising at least information concerning:<ul style="list-style-type: none"><li>– composition of the Supervisory Board and its Committees,</li><li>– compliance with the independence criteria by Members of the Supervisory Board,</li><li>– number of meetings of the Supervisory Board and its committees,</li><li>– self-assessment of the Supervisory Board,</li></ul></li><li>c) assessment of the method of fulfilment of information obligations by the Company, in relation to the application of corporate governance principles defined in the Regulations of the Exchange and provisions related to current and periodical information submitted by issuers of securities,</li><li>d) assessment of rationality of sponsoring, charitable policy, or other similar policy pursued by the Company, or information concerning the lack of such policy,</li></ol></li><li>5. prepare, along with the report on the results of the Company's annual financial statements' evaluation, the Supervisory Board's opinion on the financial viability of the Company's capital (equity) investments in other commercial law entities made in the given financial year,</li><li>6. provide opinions on the Capital Group's Corporate Strategy,</li><li>7. provide opinions on the rules of conducting sponsoring activities,</li><li>8. provide opinions on the annual plan of conducting sponsoring activities as well as on the annual report on its implementation,</li><li>9. provide opinions on the reports prepared, by the Management Board, on entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,</li><li>10. provide opinions on the changes of the rules of divesting fixed assets, defined in § 381 of the Company's Articles of Association.</li></ol>
<b>Competences that include</b>

1. selecting a certified auditor to carry out an audit of the Company's financial statements and the Capital Group's consolidated financial statements,
2. defining the scope and deadlines for submitting the company's and the Capital Group's annual material and financial plan by the Management Board,
3. adopting the consolidated text of the Company's Articles of Association, prepared by the company's Management Board,
4. approving the Management Board's bylaws,
5. approving the organizational regulations of the company's enterprise,
6. purchasing real estate, perpetual usufruct or shares in real estate or in perpetual usufruct with the value exceeding the PLN equivalent of EUR 5 million, except for real estate, perpetual usufruct or shares in real estate or in perpetual usufruct purchased from the Capital Group's subsidiaries,
7. purchasing fixed assets, excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct, bonds issued by the Capital Group's subsidiaries and other fixed assets purchased from the Capital Group's subsidiaries of the value exceeding the PLN equivalent of EUR 5 million,
8. disposing of fixed assets, including real estate, perpetual usufruct or share in real estate or perpetual usufruct, of the value equal to or exceeding the PLN equivalent of EUR 5 million, except for real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, and also other fixed assets that as a result of disposing will be sold or encumbered in favor of the Capital Group's subsidiaries,
9. assuming contingent liabilities, including granting guaranties and sureties by the company with the value exceeding the PLN equivalent of EUR 5 million,
10. issuing bills of exchange of the value exceeding the PLN equivalent of EUR 5 million,
11. making an advance payment on account of the expected dividend,
12. taking over or purchasing shares in other companies than the Capital Group's subsidiaries with the value exceeding the PLN equivalent of EUR 5 million, except for situations when taking over shares in such companies takes place in exchange for the company's liabilities as a part of composition or bankruptcy proceedings,
13. selling shares with the value exceeding the PLN equivalent of EUR 5 million along with defining the conditions and procedure to be applied in their sale, except for:
  - 1) selling shares which are traded on the regulated market,
  - 2) selling shares that the company holds in the amount not exceeding a 10% interest in the share capital of particular companies,
  - 3) selling shares in favor of the Capital Group's subsidiaries,
14. concluding a material agreement with a shareholder holding at least 5% of the total number of votes in the Company or a related company, with a proviso, that this obligation shall not cover typical transactions and concluded at arm's length as part of the business operations conducted by the Company with entities that are members of TAURON Capital Group,
15. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
16. 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 the above clause j,
17. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount is not envisaged,
18. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets in the understanding of the *act of September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
19. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets in the understanding of the *act of September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
20. granting a permission to establish the company's branches abroad,
21. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders of companies in which the company holds more than 50% of shares, with respect to the following matters:
  - 1) selling and leasing out the company's enterprise or its organized part as well as establishing a limited proprietary right on them if their value exceeds the PLN equivalent of EUR 5 million,

## Matters that require a resolution of the Supervisory Board

as of December 31, 2018 and as of the day of drawing up this report

- 2) dissolving and liquidating the company.
22. 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 in the understating of art. 4 section 3 of the *act of February 16, 2007 on competition and consumer protection*, with respect to the following issues:
  - a) company setting up another company,
  - b) change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
  - c) merging, transforming, splitting, dissolving and liquidating the company,
  - d) increasing or decreasing the company's share capital,
  - e) selling and leasing out the company's enterprises or its organized part and establishing a limited property right thereupon,
  - f) redeeming (retiring) of shares,
  - g) setting the compensation of members of Management Boards and Supervisory Boards,
  - h) provision on claims for remedying damage inflicted when setting up the company or performing management or supervision,
  - i) matters mentioned in art. 17 of the *act of December 16, 2016 on the principles of managing state property*, subject to § 15 clause 4 of the Company's Articles of Association,
23. approving compensation policy for the capital group.

## Competences related to the Management Board

1. appoint and dismiss members of the Management Board,
2. establish the rules of compensation and the amounts of compensation for the members of the Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Management Board from office for important reasons,
4. delegate members of the Supervisory Board to temporarily perform duties of the members of the Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Management Board shall not exceed the compensation established for the Member of the Management Board to replace whom the Member of the Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions in the Company shall be concluded and conclude such agreement to perform the management board functions in the Company,
7. grant a permission to Members of the Management Board to take positions in governing bodies of other companies.

## Other competences of the Company's Supervisory Board

1. prepare reports on overseeing the implementation of investment projects by the Management Board, including fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of expenditures related thereto,
2. approve the Management Board's annual report on the supervision over the implementation of investment projects,
3. pass regulations describing in detail the Supervisory Board's procedures.

## 9.9. Description of the procedure of amendment of the Company's Articles of Association

Amendments to the Company's Articles of Association in accordance with the provisions of the Code of Commercial Companies, in particular: amendments to the Company's Articles of Association take place by means of resolution of the GM, passed by the majority of three fourths of the votes, and then requires issuing a decision by a proper court on entering the change into the register of entrepreneurs. The consolidated text of the Company's Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

In accordance with the Company's Articles of Association, a material amendment to the subject of activities requires two thirds of the votes in the presence of persons representing at least half of the share capital.

## 9.10. Procedures of the General Meeting of Shareholders, its fundamental powers and description of shareholders' rights and the manner of exercising thereof

The Company's General Meeting of Shareholders' procedures and its empowerments are defined in the company's Articles of Association and in the *Regulations of the General Meeting of Shareholders of TAURON Polska Energia S.A.* which are available on the Company's website <http://www.tauron.pl/>.

General Meeting of Shareholders shall be convened by a notice published on the company's website and in a manner defined for providing current information by public companies. In case the General Meeting is convened by an entity or a body other than the Management Board on the basis of regulations of the Code of Commercial Companies, as convening a General Meeting of Shareholders requires the Management Board's cooperation, the Management Board shall be obligated to perform any activities required by law in order to convene, organize and conduct General Meetings of Shareholders that take place either at the Company's seat or in Warsaw.

General Meeting of Shareholders shall be opened by the Chairperson of the Supervisory Board, and in case he/she is absent the following persons shall be entitled to open the General Meeting of Shareholders in the given order: Vice Chairperson of the Supervisory Board, President of the Management Board, a person designated by the Management Board or the shareholder who registered at the General Meeting of Shareholders such number of shares that grant the right to exercise the highest number of votes. Then, the chairperson of the General Meeting of Shareholders shall be elected from among persons entitled to participate in the General Meeting of Shareholders.

General Meeting of Shareholders shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the company's Articles of Association state otherwise. General Meeting of Shareholders may order a break in the meeting by the majority of two thirds of votes. Breaks shall not exceed 30 days in total.

A break in the GM session may take place only in exceptional situations indicated on a case-by-case basis in the justification to the resolution, prepared based on reasons presented by a shareholder requesting the announcement of the break.

The GM resolution concerning a break shall clearly indicate the date of resumption of the session, however, such a date must not create a barrier for participation of the majority of shareholders in resumed meeting, including minority shareholders.

### Competence of the General Meeting of Shareholders

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting of Shareholders.

*Table no. 50. Competence of the General Meeting of Shareholders*

Matters that require a resolution of the General Meeting of Shareholders
as of December 31, 2018 and as of the day of drawing up this report
<ol style="list-style-type: none"><li>1. reviewing and approving the financial statements of the Company and the consolidated financial statements of TAURON Capital Group for the previous financial year for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of TAURON Capital Group</li><li>2. granting the acknowledgement of the fulfillment of duties to the members of the Company's corporate bodies,</li><li>3. profit distribution and coverage of loss,</li><li>4. appointing and dismissing members of the Supervisory Board,</li><li>5. suspending members of the Management Board in performance of their duties,</li><li>6. establishing the amount of compensation for members of the Supervisory Board, subject to § 29 clause 4 of the company's Articles of Association,</li></ol>

## Matters that require a resolution of the General Meeting of Shareholders

as of December 31, 2018 and as of the day of drawing up this report

7. establishing the principles of determining compensation and the amount of compensation of members of the Management Board taking into account the provisions of the *act of June 9, 2016 on the principles of determining compensation of the management personnel of certain companies*,
8. selling and leasing out the company's enterprise or its organized part as well as establishing a limited proprietary right on them,
9. concluding a credit, loan, surety agreement or any other similar agreement by the company with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person,
10. increasing and decreasing the company's share capital,
11. issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling their holder to subscribe or acquire the shares,
12. purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies,
13. mandatory redemption of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies,
14. setting up, using and liquidating reserve capitals,
15. using supplementary capital,
16. provisions related to claims to repair damage caused while establishing the company or serving on the management board or performing supervision,
17. merger, transformation and division of the company,
18. redemptions (retirements) of shares,
19. amendment to the Articles of Association and change of the subject of the Company's operations,
20. dissolving and liquidating the company.

In accordance with the provisions of the Code of Commercial Companies the decision on the issue and repurchase of shares shall be included within the competence of the General Meeting.

### Description of the shareholders' rights and the manner of exercising thereof

The below table presents the description of the Company's shareholders' rights related to the General Meeting of Shareholders in accordance with the Company's Articles of Association, Code of Commercial Companies and the *Regulations of the General Meeting of the Shareholders of TAURON Polska Energia S.A.*

Table no. 51. Description of the Company's shareholders' rights related to the General Meeting of Shareholders

#	Shareholders' rights	Description of shareholders' rights
1.	Convene a General Meeting of Shareholders	Shareholders representing at least one twentieth of the share capital, may request convening of an Extraordinary General Meeting of Shareholders. Such request should include a concise justification. It may be submitted to the Management Board in writing or in an electronic form, to the company's e-mail address, provided by the company on its website under the "Investor Relations" tab. Shareholders representing at least a half of the share capital or at least a half of all votes in the company may convene an Extraordinary General Meeting of Shareholders and appoint a chairperson of such General Meeting.
2.	Include matters (items) in the agenda of the General Meeting of Shareholders	Shareholders representing at least one twentieth of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting of Shareholders. Such request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Management Board not later than 21 days prior to the set date of the General Meeting of Shareholders in electronic form to the company's e-mail address or in writing to the Company's address.
3.	Become acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list at the company's Management Board's seat for three weekdays preceding directly the General Meeting of

#	Shareholders' rights	Description of shareholders' rights
		Shareholders. Shareholders may also request that the list of shareholders be sent to them free of charge by electronic mail, providing the address to which the list should be sent.
4.	Participate in the General Meeting of Shareholders	Only persons who are Shareholders sixteen days before the date of the General Meeting of Shareholders (date of registering to participate in the General Meeting of Shareholders) shall have the right to take part in the General Meeting of Shareholders. In order to participate in the General Meeting shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting of Shareholders to an investment (brokerage) company running their securities account. Such request should be submitted not earlier than following the announcement on convening of the General Meeting of Shareholders and not later than on the first weekday following the day of registering the participation in the General Meeting of Shareholders.
5.	Represent a shareholder by a proxy	Shareholders may take part in the General Meeting of Shareholders as well as exercise the voting right in person or through a proxy. Shares' co-owners may take part in the General Meeting of Shareholders and exercise the voting right only through a joint representative (proxy). A proxy may represent more than one shareholder and vote differently based on shares of each shareholder..
6.	Elect the Chairperson of the General Meeting of Shareholders	Shareholders shall elect the Chairperson of the General Meeting of Shareholders from among the persons entitled to take part in the General Meeting of Shareholders. Each of the participants of the General Meeting of Shareholders shall have the right to propose one candidate for the post of the Chairperson. Chairperson shall 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 three candidates for members of the Returning Committee to be elected by the General Meeting of Shareholders, and vote for three candidates maximum.
8.	Submit a draft resolution	During the General Meeting of Shareholders a shareholder shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting of Shareholders, as part of the given item of the agenda, or put forward his/her own draft of such resolution. Proposals of changes or draft resolutions, including justifications, may be submitted in writing to the Chairperson or verbally to be recorded in the minutes of the meeting.
9.	Raise an objection	Shareholders who voted against a resolution and, after the General Meeting of Shareholders has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such objection is raised later, which however shall not take place later than by the time the General Meeting of Shareholders is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. Shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting.

## 9.11. Composition of the Company's management and supervision bodies and their committees, its changes and the description of their operations

### 9.11.1. Management Board

The current, fifth term of office of the Management Board began its run on March 16, 2017. On March 15, 2017 the Supervisory Board dismissed, effective as of the end of the day, all members of the Management Board of the Company

and appointed, as of March 16, 2017, members of the Management Board for the fifth common term of office. In accordance with the Company's Articles of Association the common term of office shall last 3 years.

#### Composition of the Management Board as of December 31, 2018 and as of the day of drawing up this report

1. Filip Grzegorzczak - President of the Management Board,
2. Jarosław Broda - Vice President of the Management Board for Asset Management and Development,
3. Kamil Kamiński - Vice President of the Management Board for Customer and Corporate Support,
4. Marek Wadowski - Vice President of the Management Board for Finance.

#### Changes to the Management Board's composition in 2018

There were no changes to the composition of the Management Board in 2018 and by the day of drawing up this report..

#### Experience and competences of members of the Management Board



Filip Grzegorzczak - President of the Management Board

A graduate of the Faculty of Law and Administration and the Faculty of International and Political Studies of the Jagiellonian University in Cracow where he obtained a PhD degree in the EU law, and then a post-PhD degree in the business law.

He also completed the Summer Advanced Course program in the European Law at the University of London, King's College, Centre of European Law as well as the International Business and Trade Summer School program at Catholic University of America – Columbus School of Law and the Ecole de droit français Université d'Orléans. He holds the position of Professor at the University of Economics in Cracow, where he is a lecturer at the Faculties of Management and Economics and International Relations

He has broad professional experience in the energy and fuel sector. In 2011-2013 he was associated with Kompania Węglowa as a management board proxy for energy sector development at Kompania Węglowa S.A. In 2007-2008 he was a member of the Management Board of TAURON. From November 2015 he served as the Undersecretary of State at the Ministry of State Treasury. He speaks fluent English and French.

He has been holding the position of the President of the Management Board of TAURON Polska Energia S.A. since November 15, 2016. He is currently overseeing the following areas of the operations: strategic management and regulatory solutions, relationships with the environment (stakeholders), legal support and investor relations, risk management, legal and internal audit, security and compliance as well as human resources development and social dialogue policy.



Jarosław Broda - Vice President of the Management Board

A graduate of the Warsaw School of Economics, a holder of a postgraduate diploma in project management from the Kozmiński University.

He has experience in the area of energy sector's consolidation and operation, privatization of state-owned utility groups, developing processes associated with the restructuring and strategy building as well as energy entities' expansion projects.

Since the beginning of his professional career he has been associated with the energy sector's entities, holding senior executive and managerial positions. He gained his professional experience working at the Ministry of State Treasury as well as at TAURON and GDF Suez Energia Polska. Recently associated with GDF Suez Energia Polska – Katowice and GDF Suez (Branch Energy Europe) where he was responsible for market analyses and developing the company's expansion strategy, regulatory management and M&A projects. He was also involved in developing the

sales and marketing expansion strategy in Europe. Since mid-2015 he was responsible for developing the commercial strategy and the contract for difference related to the nuclear project in Great Britain.

He has been holding the position of the Vice President of the Management Board of TAURON Polska Energia S.A. since December 8, 2015. He is currently overseeing the following areas of the operations: asset management, research and innovation, investment projects and programs as well as work (occupational) health and safety (WHS).



Kamil Kamiński - Vice President of the Management Board

A graduate of the Faculty of Management and Social Communications of the Jagiellonian University. A holder of the MBA Executive diploma (Stockholm University School of Business/ Cracow University of Economics) and the Post-MBA Diploma in Strategic Financial Management (Rotterdam School of Management, Erasmus University/ GFKM).

He has experience in the area of building company value, mergers and acquisitions, business integration and strategy operationalization as well as management of comprehensive projects in the public and private sectors. He was involved in complex transformation and restructuring processes of enterprises in the energy and fuel as well as transportation logistics sectors.

He gained his professional experience acting in the capacity of the President or Vice-President of the Management Board and holding senior managerial positions. From the beginning of 2014 he was associated with Węglokoks Capital Group where, within the structures of Węglokoks Energia, he participated in the consolidation of electricity and heat generation assets of Kompania Węglowa and Węglokoks. At that time he was the head of the Management Committee. Previous professional experience includes, among others, work at the Research and Development Centre of the Refining Industry (OBR) in Płock or Jan Paweł II International Cracow-Balice Airport. He also managed the operations of John Menzies PLC in Poland. For many years he cooperated with Lotos Group where he supported the development of the aviation fuel segment which resulted in the joint venture with Air BP Ltd. and the establishment of Lotos Air BP.

He has been holding the position of the Vice-President of the Management Board of TAURON Polska Energia S.A. since December 8, 2015. He is currently overseeing the following areas of the operations: corporate management, human resources, marketing strategy and customer relations, IT systems functioning and management, personal data protection as well as procurement and administration.

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. He was involved in the implementation of the due diligence projects and valuations of many enterprises (using income-based, equity and comparison valuation methods).

From the beginning of his professional career he was associated with the energy, mining and steel sector entities, acting in the capacity of the President or the Vice-President of the Management Board and holding senior managerial positions. He gained his professional experience working at BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries. From 2008, acting in the capacity of the Vice-President of the Management Board in charge of the financial division at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries, he was responsible, inter alia, for structuring commercial transactions, implementing the foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquiring funds from the consortium of banks in the form of a bond issue program. He was also involved in the IPO of JSW S.A. (implementation of the International Accounting Standards, modification of the management information system, preparing the IPO prospectus, talks with investors). He held the position of the



President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in the bond issue program for Kompania Węglowa and was dealing with the acquisition of debt financing from the consortium of banks.

He has been holding the position of Vice President of the Management Board of TAURON Polska Energia S.A. since January 29, 2016. He is currently overseeing the following areas of the operations: finance and insurance policy, controlling and planning, analyses, accounting and tax policy.

Additionally, until the Vice President of the Management Board for Trading is appointed, he also oversees the following areas: electricity and property rights trading, fuel trading, portfolio management and electricity trading.

The description of the experience and competences of the members of the Management Board is published on the Company's website <http://www.tauron.pl/>.

### Description of the operations

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 *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice* which are available on the Company's website <http://www.tauron.pl/>. When performing their duties members of the Management Board shall be acting in accordance with the principles included in the Best Practice 2016.

2 members of the Management Board or one member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

Meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. Meetings of the Management Board shall also be convened on the motion of the majority of Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the company's seat on the date set by the person that convened the meeting. In justified cases the Management Board's meetings may be held outside the company's seat. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board.

Management Board shall vote in an open ballot. The result of the ballot shall be recorded in the minutes of the meeting. President of the Management Board shall order a secret ballot at the request of any member of the Management Board.

Resolutions of the Management Board shall be passed by an absolute majority of votes in the presence of 3/5 of the members of the Management Board. In case of an equal number of votes the President of the Management Board shall have a casting vote. Management Board may pass resolutions by voting in writing or using means of direct remote communications. Voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Vice President of the Management Board designated thereby, including setting the deadline for casting votes by members of the Management Board. Submission of a dissenting opinion shall be allowed. Such dissenting opinion shall be recorded in the minutes of the meeting, including the justification thereof. Decisions of the Management Board related to ongoing issues that do not require passing of a resolution shall be recorded solely in the minutes of the meeting.

In case there are fewer members of the Management Board than the foreseen number of divisions (areas of responsibility), members of the Management Board may combine performing duties related to managing two divisions or implement a different split of competences that would not be in conflict with the assignment of competences made by the Supervisory Board.

The internal division, among members of the Management Board, of the tasks and responsibilities for the individual areas of the Company's operations (Divisions) defined in the *Organizational Regulations of TAURON Polska Energia S.A.* and including the independent work positions (jobs) as well as organizational units reporting to the individual Members of the Management Board and supervised thereby, shall be defined by the above Organizational Regulations, while the diagram showing the above mentioned division is published on the Company's website.

The structure of the divisions reporting to the individual Members of the Management Board is defined on the diagram (flowchart) of the Company's organizational structure, described in section 11.1.5. of this report.

### 9.11.2. Supervisory Board

The current, fifth term of office of the Supervisory Board, began on May 29, 2017, i.e. on the day of holding the Ordinary GM of the Company approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the fourth term, i.e. for the financial year 2016. In accordance with the Company's Articles of Association it shall be a common term of office and it shall last for 3 years.

The composition of the Supervisory Board as of December 31, 2018 and as of the date of drawing up this report

1. Beata Chłodzińska - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Radosław Domagalski - Łabędzki - Member of the Supervisory Board,
5. Barbara Łasak- Jarszak - Member of the Supervisory Board,
6. Paweł Pampuszko - Member of the Supervisory Board,
7. Jan Płudowski - Member of the Supervisory Board,
8. Marcin Szlenk - Member of the Supervisory Board,
9. Agnieszka Woźniak - Member of the Supervisory Board.

#### Changes to the composition of the Supervisory Board in 2018

As of January 1, 2018 the Supervisory Board 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), Radosław Domagalski - Łabędzki (Member of the Supervisory Board), Barbara Łasak - Jarszak (Member of the Supervisory Board), Paweł Pampuszko (Member of the Supervisory Board), Jan Płudowski (Member of the Supervisory Board) and Agnieszka Woźniak (Member of the Supervisory Board).

On April 16, 2018 the Ordinary GM appointed Marcin Szlenk to be a member of the Company's Supervisory Board of the 5th common term of office.

There were no other changes to the composition of the Management Board in 2018 and by the day of drawing up this report.

#### Information on the independence of members of the Supervisory Board

The independence requirements defined in the Best Practice 2016 and Appendix II to the *European Commission's Recommendation of February 15, 2005 related to the role of non-executive directors or members of a supervisory board of publicly listed companies and of a supervisory board's committee* (2005/162/EC) are met by the following members of the Supervisory Board as of December 31, 2018 and as of the date of drawing up this report:

1. Beata Chłodzińska
2. Teresa Famulska,
3. Jacek Szyke.
4. Radosław Domagalski - Łabędzki
5. Barbara Łasak - Jarszak,
6. Paweł Pampuszko,
7. Jan Płudowski,
8. Marcin Szlenk

A member of the Supervisory Board, Agnieszka Woźniak, does not meet the independence requirements defined in the Best Practice 2016.

## Experience and competences of the members of the Supervisory Board

### Beata Chłodzińska - Chair of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University. She is a licensed legal counsel.

In 2001-2016 she was associated with the Ministry of State Treasury where she was providing legal services, most recently as the Deputy Director at the Legal and Litigation Department. She coordinated the work of the Team of Legal Counsels at the Legal Office of the Ministry of Energy. Currently Ms. Chłodzińska is working at PKN Orlen S.A. in the legal area.

She gained professional experience associated with supervising the operations of the State Treasury owned companies by, among others, holding seats on the supervisory boards of the following companies: Polska Agencja Prasowa S.A. with its seat in Warsaw, Centrum Techniki Okrętowej S.A. with its seat in Gdańsk, Chemia Polska sp. z o.o. with its seat in Warsaw, Międzynarodowa Korporacja Gwarancyjna sp. z o.o. with its seat in Warsaw.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since August 12, 2015. In the Supervisory Board of the 5th common term of office she is the Chair of the Supervisory Board, the Head of the Nominations and Compensation Committee of the Supervisory Board, as well as a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

### Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice, a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice.

She has been associated with the University of Economics in Katowice since 1981. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998-2013 she was working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of approximately 150 domestic and foreign publications in the field of finance, mainly public finance (including taxes and tax systems) and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducts numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff as part of the post-graduate studies and in cooperation with, among others, the Polish Economic Society (Polskie Towarzystwo Ekonomiczne) and the Accountants Association in Poland (Stowarzyszenie Księgowych w Polsce). Since 2007 she has been working at the State Examination Commission on Tax Advisory Services, where she has been the Head of the Commission since 2010. Since 2007 a member of the Financial Education Committee of the Polish Academy of Science, where she was a member of the Board of the Committee in 2011-2015. Furthermore, she is a member of the Main Board of the Polish Finance and Banking Association (Zarząd Główny Polskiego Stowarzyszenia Finansów i Bankowości), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries (Centrum Informacji i Organizacji Badań Finansów Publicznych i Prawa Podatkowego Krajów Europy Środkowej i Wschodniej) and Polish Economic Society (Polskie Towarzystwo Ekonomiczne).

She was awarded the following orders and accolades: Silver Cross of Merit (Srebrny Krzyż Zasługi), Silver Medal for Long-term Service (Srebrny Medal za Długoletnią Służbę), Medal of the Commission of National Education (Medal Komisji Edukacji Narodowej), awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2015. In the Supervisory Board of the 5th common term of office she is the Vice-Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

### Jacek Szyke - Secretary of the Supervisory Board

A graduate of the Faculty of Economics of Łódź University and of the Faculty of Electric Engineering of the Technical University in Poznań where he also obtained a PhD in technical science.

He has yearslong professional experience associated with the utility scale power industry where he climbed up all levels of the career ladder, starting with an intern, through foreman, Head of the Safety and Instrumentation and & Control Department (Zakład Energetyczny Kalisz and Łódź), Engineer On Duty Responsible for the Operation (Elektrociepłownia Łódź), up to the position of the Chief Engineer (Zakład Energetyczny Łódź and Płock) and General Manager (Zakład Energetyczny Płock and Elektrociepłownia Siekierki). He also worked as the Contract Manager in Libya. The owner and President of the JES ENERGY consulting company.

State orders awarded: Golden Cross of Merit (Złoty Krzyż Zasługi), Knight's Order (Krzyż Kawalerski). Industry orders awarded: Distinguished for the following sectors: Power, Construction, Communications, Firefighting, Culture and Heat industry.

The author of more than 100 articles, publications and books, including: "Wspomnienia o tradycji i zwyczajach pracy w energetyce" (Memories of traditions and customs related to working in the power utilities sector), "O energetyce z sentymentem" (About electric utilities sector with a sentiment), "Historia Polskiej Elektroenergetyki" (History of Poland's Power Industry), "Złota Księga Elektroenergetyki" (Golden Book of Power Industry), "Grupa TAURON - monografia" (TAURON Group – monograph).

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since September 14, 2010. In the Supervisory Board of the 5th common term of office he is the Secretary of the Supervisory Board and the Head of the Strategy Committee of the Supervisory Board as well as a member of the Audit Committee of the Supervisory Board.

Radosław Domagalski - Łabędzki – Member of the Supervisory Board

A graduate of Łódź University (master's degree in law). Completed Executive MBA studies at Rutgers University in New Jersey. Visiting fellow at the German Munster and Mannheim Universities.

A manager with a broad practical experience in managing complex international business projects. He prepared and effectively implemented an expansion strategy in Asia for one of Poland's largest capital groups.

In 2006–2013 the President of the Management Board of Magellan Trading Shanghai Co. Ltd in China. Prior to that he worked as a lawyer at GSP Group Sp. z o.o. in Łódź, and also at American Enterprise Institute in Washington – one of the largest American think-tanks.

Between December 2015 and October 2016 the Undersecretary of State at the Ministry of Development, responsible, among others, for promoting the Polish economy, a member of the Financial Supervision Commission (Komisja Nadzoru Finansowego).

Since October 2016 until March 10, 2018 he was the President of the Management Board of KGHM Polska Miedź S.A. He currently is a member of the Management Board of Polska Grupa Zbrojeniowa S.A.

Co-founder of the Polish-Chinese Chamber of Industry and Commerce in Shanghai. An author of many business publications.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board.

Barbara Łasak - Jarszak - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University.

Between January 1997 and February 2017 she was working at the Legal Department of the Ministry of State Treasury. Between April 1998 and February 2017 she headed an organizational unit of the Legal Department providing legal services for the Ministry. Since March 1 2017 the Head of the State Property and Finance Division of the State Treasury Department of the Chancellery of the Prime Minister where she is dealing with, among others, with the issues related to the new principles of managing the state owned property.

In 1999-2001 a member of the Disciplinary Commission of the Ministry of State Treasury. In 1999-2005 deputy public finance auditor for the Minister of State Treasury.

He has yearslong professional experience of holding seats on supervisory boards of State Treasury owned companies, including: ZPP "Lenora" sp. z o.o., Koneckie Zakłady Odlewnicze S.A., Uzdrawisko Busko-Zdrój S.A., ŚWVG Polmos S.A., Stocznia Gdynia S.A., Archimedes S.A., PSO "Maskpol" S.A., ZG "Dom Słowa Polskiego" S.A. in liquidation, Fundusz Rozwoju Spółek S.A., Zakłady Mięsne Nisko S.A.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board.

Paweł Pampuszko - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Silesia in Katowice, a lawyer entered on the list of lawyers maintained by the Solicitors Regulation Authority (Izba Adwokacka) in Katowice.

During his yearslong professional career he gained significant experience with respect to negotiating contracts as part of major industrial and business undertakings, and also preparing and conducting significant court disputes where it was necessary to become familiar with non-legal specialist issues and close cooperation with specialists in other fields. He was also actively involved in identifying and eliminating deficiencies in the operations of the corporations' authorities.

He gained professional experience related to providing legal services for business entities by working in 2005-2009, among others, at Kancelaria Biura Prawne Babula i Wspólnicy sp. k., Kancelaria Adwokatów i Radców Prawnych Ślązak, Zapiór & Partnerzy, SILEGE S.C. and Wozym Technologies sp.j. In 2009-2011 he was running his own legal practice. Since 2011 till now he has been a founding partner at law firm Kuś-Zielińska, Pampuszko i Wspólnicy – Adwokaci i Radcy Prawni sp.j.

He was a member of supervisory authorities in the non-government organizations and corporations: CHK S.A. and Medicina Pro Humana Foundation.

He is an author of publications on medical law.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office he is a member of the Strategy Committee of the Supervisory Board.

Jan Płudowski - Member of the Supervisory Board

A graduate of the Faculty of Electric Engineering of the Silesian University of Technology in Gliwice. He also completed post-graduate studies at the Faculty of Electric Engineering of the Gdańsk University of Technology, at the University of Economics (formerly K. Adamiecki Academy of Economics) in Katowice in the field of corporate finance management and at the Faculty of Management and Services Economics of the University of Szczecin in the field of marketing and corporate management.

Professionally associated with the power sector, he gained professional experience by climbing up all levels of the career ladder. He was working, among others, as the Regional Chief Power Engineer (PKP Śląska Dyrekcja Okręgowa Kolei Państwowych (Polish State Railways' Silesian Regional Board) in Katowice), Director of Zakład Energetyki Kolejowej (Railways' Power Unit) in Katowice and the Head of the Power Management Department (PKP Dyrekcja Energetyki Kolejowej (Polish State Railways' Power Unit Board) in Warsaw), Director of the Cash Flow Office ("PKP Energetyka" sp. z o.o. in Warsaw).

In 2007-2008 he was a member of the Supervisory Board of Spółka Energetyczna Jastrzębie S.A.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 30, 2016. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Marcin Szlenk - Member of the Supervisory Board

A graduate of the Warsaw School of Economics – a master's degree in economics, field of expertise: Management and Marketing, as well as Finance and Banking.

He completed the Executive MBA program of the University of Warsaw and University of Illinois, as well as the Post-graduate European Financial, Economic and Legal Relations Studies at the Warsaw School of Economics. Since 2007 he has been a member of the Chartered Institute of Management Accounting (CIMA). In 2016 he completed the Global Management Development Program organized by the Johnson Matthey Group.

He has a broad professional experience from many years of working as a financial controller and director in diverse business environments. In 1999-2002 a Senior Auditor at Arthur Andersen. In 2002-2010 a Financial Controller at Magneti Marelli Aftermarket Sp. z o.o., and then Automotive Lighting Polska Sp. z o.o. (both companies owned by the FIAT Group). In 2010-2012 he worked as the European Financial Controller at Axon. Since 2012 he has been the Financial Director and a Member of the Management Board of Johnson Matthey Battery Systems Sp. z o.o., and since 2017 a Member of the Management Board of Johnson Matthey Poland Sp. z o.o.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since April 16, 2018. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board.

Agnieszka Woźniak - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the UMCS University in Lublin. A lawyer by education.

In 2001-2015 she worked at the Ministry of Economy where she climbed up all levels of the career ladder, starting from a referendary, through the positions of a specialist, chief specialist, head of division, deputy director and director. Since 2005 an appointed civil servant. She has been associated with the Ministry of Energy since it was formed, i.e. since November 2015, where she held the position of the Director and now Vice Director of the Minister's Office.

She has yearslong experience in personnel management. She was dealing with matters related to audits, organizational affairs of the office, public procurement, personnel issues. She was also holding the position of the Plenipotentiary of the General Director for the Integrated Management System.

She has experience related to supervising the operations of State Treasury owned companies. Between January 2009 and June 2014 a member of the Supervisory Board of Węglokoks S.A. with its seat in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 16, 2016. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

The detailed description of the experience and competences of the members of the Supervisory Board is published on the Company's website <http://www.tauron.pl/>.

### Description of the operations

The detailed description of the Supervisory Board's operations is provided in the Code of Commercial Companies, the Company's Articles of Association and in the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its seat in Katowice* (which are available on the Company's website <http://www.tauron.pl/>).

The main form of the Supervisory Board overseeing the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. Meetings of the Supervisory Board shall be convened by the Chairperson of the Supervisory Board or Vice Chairperson of the Supervisory Board by presenting a detailed agenda:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative
3. at a written request of each member of the Supervisory Board,

4. at a written request of the Management Board.

Meetings of the Supervisory Board shall be held at the Company's seat. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all members of the Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. Notifications of the Supervisory Board's meeting shall be sent by fax or electronic mail and confirmed by phone. In the notification of the Supervisory Board's meeting the Chairperson shall define the date of the meeting, venue of the meeting and the detailed draft agenda. Supervisory Board shall meet on as needed basis, however not less frequently than once every 2 months. Supervisory Board may hold meetings without convening a formal meeting if all members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may occur when all members of the Supervisory Board are present at the meeting and no one raises an objection against the agenda. An issue not included in the agenda should be included in the agenda of the next meeting.

Participation in a meeting of the Supervisory Board shall be a Supervisory Board member's duty. A member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a member of the Supervisory Board shall require a resolution of the Supervisory Board. Members of the company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

Supervisory Board may seek opinions of legal counsels who provide regular legal advice for the company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to seek their opinion and make the right decision. In the above mentioned cases the Supervisory Board shall pass a resolution on commissioning the selected expert (auditing, consulting company) to carry out the work, obligating the Company's Management Board to conclude an applicable agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence by the Vice Chairperson. For important reasons, with the consent of the majority of members of the Supervisory Board present at the meeting, the chairperson chairing the meeting shall be obligated to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Supervisory Board. Supervisory Board shall make decisions in the form of resolutions. Supervisory Board's resolutions shall be passed mainly at its meetings. Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all its members have been invited in the appropriate way defined in the Regulations. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all members of the Supervisory Board are present and nobody raises an objection. This shall not apply to resolutions on excusing a Supervisory Board's member's absence at the meeting. Resolutions shall be voted on in an open ballot. A secret ballot shall be ordered:

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 way shall require a prior notification of all members of the Supervisory Board of the content of the draft resolution. Passing resolutions this way shall not apply to appointing the

Chairperson, the Vice Chairperson and the Secretary of the Supervisory Board, appointing or suspending from office a member of the Management Board and dismissing these persons, as well as other matters that require a secret ballot vote. When voting on a resolution in the aforementioned way a member of the Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". In case a member of the Supervisory Board fails to indicate his/her vote by the time defined by the Chairperson the resolution shall not be passed. A resolution with a note that it has been passed in writing or by voting using means of direct remote communications shall be signed by the Chairperson of the Supervisory Board. Resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

Members of the Supervisory Board shall be allowed to take part in the meeting and vote on resolutions during such meeting using means of direct remote communications, i.e. a conference call or a video conference, subject to a proviso that at least half of its members are present at the meeting's venue indicated in the notification of the meeting and a secure communications link is technically possible.

Members of the Supervisory Board shall take part in meetings and exercise their rights and responsibilities in person, and while performing their duties they shall be obliged to act with due diligence. Members of the Supervisory Board shall be obliged to keep confidential information related to the company's activities that they have acquired in connection with holding their seat or on another occasion. Supervisory Board shall perform its activities collectively.

Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision actions on their own for a defined period of time. Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Supervisory Board, submitted on annual basis to the General Meeting of Shareholders and published on the Company's website <http://www.tauron.pl/>.

Supervisory Board may appoint from among its members permanent or temporary (ad-hoc) working groups, committees to perform specific actions. Supervisory Board's standing committees shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

### 9.11.3. Audit Committee

Members of the Audit Committee for the current term were appointed on June 20, 2017 by the Supervisory Board from among its members. In 2018 the Audit Committee included five members.

Due to the change to the membership of the Supervisory Board of the Company for the 5th term, introduced in 2018, the Supervisory Board also made changes to the membership of the Audit Committee.

Members of the Audit Committee as of December 31, 2018 and as of the day of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Radosław Domagalski-Łabędzki - Member of the Audit Committee,
3. Jan Płudowski - Member of the Audit Committee,
4. Marcin Szlenk - Member of the Audit Committee,
5. Jacek Szyke - Member of the Audit Committee.



## Changes to the Audit Committee's membership in 2018

As of January 1, 2018 the Audit Committee was composed of the following members: Teresa Famulska (Head of the Audit Committee), Beata Chłodzińska, Radosław Domagalski – Łabędzki, Jan Płudowski and Jacek Szyke

On April 25, 2018 Beata Chłodzińska submitted a statement on the resignation from the function of a member of the Audit Committee of the Company's Supervisory Board.

On April 25, 2018 the Company's Supervisory Board appointed Marcin Szlenk to be a member of the Audit Committee.

There were no other changes to the composition of the Audit Committee in 2018 and by the day of drawing up this report.

## Information on the independence of members of the Audit Committee as of December 31, 2018

The membership (composition) of the Audit Committee is in compliance with the requirements defined in the *act of May 11, 2017 on certified auditors, audit companies and public supervision*. The evaluation of independence and the statutory requirements with respect to the knowledge and skills of the individual members of the Audit Committee was made by the Supervisory Board based on the relevant statements submitted by the members of the Audit Committee. All of the members of the Audit Committee comply with the statutory requirements related to independence.

The Head of the Audit Committee Teresa Famulska, as well as Marcin Szlenk have knowledge and skills in the field of accounting and auditing financial statements. Two members of the Audit Committee: Jacek Szyke and Jan Płudowski, have knowledge and skills in the field of energy, i.e. the Company's industry.

The way the members of the Audit Committee have gained the knowledge and skills in the above mentioned fields is indicated in section 9.11.2. of this report, as part of the description of the experience and competences of the Supervisory Board.

## Tasks and competence of the Audit Committee

In 2018 the Audit Committee was performing the tasks and competence that due to the coming into force on June 21, 2017 of the *act of May 11, 2017 on certified auditors, audit companies and public supervision*, were revised and aligned with the current legal regulations in force and adopted by the Supervisory Board at the motion of the Audit Committee in the form of the new *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.*

The Audit Committee held 8 meetings in total during the period covered by this report.

The tasks and competences of the Audit Committee as of the day of drawing up this report are presented in the below table.

Table no. 52. Competence of the Audit Committee

Competence of the Audit Committee
as of December 31, 2018 and as of the day of drawing up this report
1. monitoring:
a) the Company's financial reporting process,
b) the effectiveness of internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting,
c) monitoring of performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and arrangements of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company,

## Competence of the Audit Committee

as of December 31, 2018 and as of the day of drawing up this report

- controlling and monitoring of independence and impartiality of the chartered accountant (certified auditor) and the audit firm, in particular in case other services than an audit are provided for the benefit of the Company,
- performing the evaluation of independence of the certified auditor and expressing consent for performing by him of permitted services not constituting the audit within the Company,
- developing the policy for selecting the audit company to perform the audit,
- developing a policy for performing by the auditing company conducting the audit, entities related to the auditing company and members of the auditing company's corporate network of permitted services not constituting the audit,
- defining the procedure for selecting the auditing company by the Company,
- presenting to the Supervisory Board of the recommendation for selection of the auditing company responsible for performing the statutory audit or review of financial statements, as required under *Art. 130, clauses 2 and 3 of the Act of May 11, 2017 on certified auditors, auditing companies and public oversight* and in Art. 16, clause 2 of the *Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC*, in line with policies referred to above in items 4 and 5,
- informing the Supervisory Board of audit results and explaining as to who did the audit contribute to trustworthiness (accuracy) of financial reporting in the Company, and also what was the role of the Audit Committee in course of the audit,
- presenting recommendations aimed at ensuring reliability of the financial reporting process within the Company,
- performing other activities vested with audit committees pursuant to *Act of May 11, 2017 on certified auditors, auditing companies and public oversight, Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities, repealing the Commission Decision 2005/909/EC and the Act of September 29, 1994 on accounting*.

### Allowed non-audit services provided by an audit firm

The following allowed non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries by an audit firm auditing the financial statements in 2018:

- confirmed in writing verification of the annual and interim standalone reporting packages of selected TAURON Capital Group's subsidiaries required to prepare the annual consolidated financial statements,
- completing the agreed procedures for the verification of the report of the TAURON Dystrybcja subsidiary in connection with the requirement to estimate the RAB and RAB AMI for the needs of determining the justified return on the capital employed by the President of ERO.

In connection with the provision of the above services the Audit Committee performed an evaluation of the independence of the Ernst & Young Audyt Polska audit firm and expressed its consent for the provision of the above services.

### Main assumptions of the policy for appointing the audit firm to conduct the audit and of the policy of providing the allowed non-audit services by entities related to such audit firm and by a member of the audit firm's network

In connection with the coming into force of the *act of 11 May 2017 on certified auditors, auditing companies and public oversight*, on October 16, 2017 the Audit Committee adopted the following regulations:

- 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.,*
- Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. and*

3. *Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to such audit firm and by a member of the audit firm's network.*

Policy for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the selection of the audit firm to conduct the Audit and Review of the Company's financial statements with the legal regulations. The policy defines, in a clear manner, the principles and rules of the process for the appointment of the audit firm to audit the reports of TAURON as a public interest unit, principles of the procedure for the appointment of the audit firm, principles of preparing the recommendations of the Audit Committee related to the appointment of the audit firm, as well as the principles of the rotation of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of TAURON. The key assumptions adopted in the policy include the fact that the process for the appointment of the auditor shall be based on the applicable legal regulations, ensuring the transparency and objectivity of the process for the appointment of the auditor and including in the process of the requirements necessary for the timely and correct performance of the audit services for the Company.

*Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.* is aimed at ensuring the compliance of the process for the appointment of the audit firm to conduct the Audit and Review of the Company's financial statements with the legal regulations, as well as ensuring that the audit and review of the financial statements are conducted at a high quality level, within a specified time frame, while ensuring independence, objectivity, transparency and credibility of the audit firm and certified auditors. The procedure defines in detail and accurately the individual stages of the appointment of the audit firm, including indicating the authorities and organizational units responsible for such stages. Furthermore, the procedure defines the general conditions for the participation in the proceedings and the criteria for the selection of the audit firm as well as the time frame of the auditor selection process. The most important assumptions assumed in the procedure include adopting a clear and transparent, based on the legal regulations, split of the responsibilities in the process for the appointment of the auditor, as well as defining transparent and non-discriminatory conditions for the participation in the tender procedure and criteria for the appointment of the audit firm that the company may apply.

*Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to such audit firm and by a member of the audit firm's network* is aimed at defining clear rules aimed at meeting the requirement of the independence of the audit firm conducting the audit of the Company, in case such firm or entities that are members of its network are providing non-audit services. This policy defines the principles related to the provision for the benefit of TAURON Capital Group's entities, by the audit firm conducting the audit at TAURON, entities related to the audit firm and a member of the audit firm's network, of additional non-audit services or non-review services, in particular the conditions for the admissibility of the provision of allowed services, the principles of the Audit Committee conducting an assessment of the threats and safeguards of the independence of the audit firm, as well as control mechanisms with respect to observing the principles of the independence of the certified auditor at TAURON Capital Group. The most important assumptions adopted in the policy include defining clear rules for the Audit Committee to conduct an assessment of threats and safeguards of the independence of the audit firm and expressing consent for the provision of non-audit services, based on the compliance with the legal regulations and the purposefulness of the provision of such services.

### Recommendations of the Audit Committee related to the appointment of the audit firm

In 2018 the Audit Committee recommended two times the appointment of the audit firm to the Supervisory Board of TAURON:

1. to audit the financial statements for the financial year 2018, in connection with the need to adapt the existing agreement with the audit firm for the audit of the financial statements for the financial year 2017 to the requirements

of the provisions of art. 66, clause 5 of the *act of September 29, 1994 on accounting* in the wording given thereto by the *act of 11 May 2017 on certified auditors, auditing companies and public oversight*, by way of concluding an amendment to the above mentioned agreement,

2. to audit and review the financial statements and consolidated financial statements of TAURON for the financial years 2019 – 2021, as a consequence of the completed public procurement procedure, in accordance with the applicable criteria, at the same time indicating the other alternative entity to carry out such actions and presenting the justification of the preferences for the appointment of the recommended audit firm.

The detailed description of the activities of the Audit Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website <http://www.tauron.pl/>.

#### 9.11.4. Nominations and Compensation Committee

Members of the Nominations and Compensation Committee for the current term were appointed on June 20, 2017 by the Supervisory Board from among its members. In 2018 the Audit Committee included three members.

##### Members of the Nominations and Compensation Committee as of December 31, 2018 and as of the day of drawing up this report

1. Beata Chłodzińska - Head of the Nominations and Compensation Committee,
2. Barbara Łasak - Jarszak - Member of the Nominations and Compensation Committee,
3. Agnieszka Woźniak - Member of the Nominations and Compensation Committee.

There were no other changes to the composition of the Nominations and Compensation Committee in 2018 and by the day of drawing up this report.

##### Tasks and competence of the Nominations and Compensation Committee

The tasks and competence of the Nominations and Compensation Committee did not change in 2018.

The tasks and competence of the Nominations and Compensation Committee as of December 31, 2018 and as of the day of drawing up this report are presented in the below table.

Table no. 53. Competence of the Nominations and Compensation Committee

Competence of the Nominations and Compensation Committee as of December 31, 2018 and as of the day of drawing up this report
<ol style="list-style-type: none"><li>1. recommending to the Supervisory Board a recruitment procedure for the positions of members of the company's Management Board,</li><li>2. evaluating candidates for members of the Management Board and providing the Supervisory Board with opinions in this respect,</li><li>3. recommending to the Supervisory Board a form and content of agreements to be concluded with members of the Management Board,</li><li>4. recommending to the Supervisory Board a compensation and bonus system for members of the Management Board,</li><li>5. recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons,</li><li>6. recommending to the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties, along with a compensation proposal</li></ol>

The detailed description of the activities of the Nominations and Compensation Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website <http://www.tauron.pl/>.

### 9.11.5. Strategy Committee

Members of the Strategy Committee for the current term were appointed on June 30, 2017 by the Supervisory Board from among its members. In 2018 the Strategy Committee included five members

Members of the Strategy Committee as of December 31, 2018 and as of the day of drawing up this report

1. Jacek Szyke - Head of the Strategy Committee,
2. Beata Chłodzińska - Member of the Strategy Committee,
3. Paweł Pampuszko - Member of the Strategy Committee,
4. Jan Płudowski - Member of the Strategy Committee,
5. Agnieszka Woźniak - Member of the Strategy Committee.

There were no other changes to the composition of the Strategy Committee in 2018 and by the day of drawing up this report.

#### Tasks and competence of the Strategy Committee

The tasks and competence of the Strategy Committee did not change in 2018. The tasks and competence of the Strategy Committee as of December 31, 2018 and as of the day of drawing up this report are presented in the below table.

Table no. 54. Competence of the Strategy Committee

Competence of the Strategy Committee
as of December 31, 2018 and as of the day of drawing up this report
<ol style="list-style-type: none"><li>1. evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board,</li><li>2. recommending to the Supervisory Board the scope and deadlines for submitting the long term strategic plans by the Management Board,</li><li>3. evaluating the impact of planned and currently undertaken strategic investment projects on the Company's assets,</li><li>4. monitoring the implementation of strategic investment tasks,</li><li>5. evaluating activities related to the use of material Company's assets,</li><li>6. providing opinions on strategic documents submitted to the Supervisory Board by the Management Board.</li></ol>

The detailed description of the activities of the Strategy Committee in the last financial year is provided in the report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website <http://www.tauron.pl/>.

### 9.11.6. Description of the activities of the Committees of the Supervisory Board

The detailed description of the activities of the Committees of the Supervisory Board is provided in the Regulations of individual Committees of the Supervisory Board of TAURON Polska Energia S.A.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of their tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of three to five members, while the Strategy Committee is composed of three to seven members. The activities of the individual Committees are managed by their Chairpersons (Heads).

Meetings of the Committees are convened by the Chairperson (Head) of the specific Committee on his/her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held on as needed basis. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the

Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson of the specific Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board .

The Committees of the Supervisory Board pass resolutions if at least a half of their members were present at the meeting and all their members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using means of direct remote communication.

Members of the Committees of the Supervisory Board may also participate in meetings and vote of the adopted resolutions by using means of direct remote communication, i.e. tele- or videoconferences.

The Company's Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on their memberships, the number of meetings held and participation in the meetings during the year, as well as on their main activities.

The Company's Management Board provides the possibility to use the services of external advisers by the Committees to the extent required for performing the obligations of the Committees.

## 9.12. Description of the policy of diversity applied to the governing bodies of the Company

In 2018 *TAURON Group's Diversity Policy*, implemented in 2017, was in force at the Company and TAURON Capital Group with its goal to reinforce the awareness and organizational culture open to diversity.

Diversity and openness are an integral part of TAURON Capital Group's business operations in accordance with its adopted Diversity Policy. The Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees, and in particular to the management bodies and its key managers. The diversity policy is also applied in the cooperation with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

Also, actions have been undertaken to prevent any discrimination by structuring the appropriate atmosphere and culture at the workplace based on key PRO corporate values - Partnership, Development and Courage, as confirmed through the *Policy of Countering Mobbing and Discrimination at TAURON Group*.

With respect to the members of the corporate bodies of TAURON, i.e. the Management Board and the Supervisory Board, persons acting as Members of the Management Board are appointed by the Supervisory Board, while Members of the Supervisory Board are appointed by the Minister of Energy acting within the statutory powers of the State Treasury.

Members of the Management Board are appointed by the Supervisory Board after conducting a qualification procedure designed for verifying and assessing their qualifications and selecting the best candidates. Announcement of the qualification process is published on the Company's web page and in the Public Information Bulletin of the Ministry of Energy. The competition is open for any person meeting the requirements set forth in the Company's Articles of Association and formal requirements specified in the announcement. Candidates are required to hold a university degree, at least five years of employment and minimum three years of experience as managers, and have to meet requirements set forth in other legislation. Due to no special requirements placed on features such as gender, type of education, age and professional expertise, the Supervisory Board is able to ensure comprehensive and diverse approach when assessing and selecting candidates to the Management Board.

Information on the qualifications and professional experience of persons appointed as members of the Management Board and the Supervisory Board is published in applicable securities filings (current reports) and on the Company's website.

The description of *TAURON Group's Diversity Policy* as well as the detailed data and indicators related to diversity in terms of age, gender, seniority (professional experience) is presented in section 11 of this report.

## 10. COMPENSATION POLICY

# WITH RESPECT TO THE MANAGEMENT AND SUPERVISORY PERSONNEL

### 10.1. Compensation system for members of the Management Board and key managers

#### 10.1.1. General information on the adopted compensation system for members of the Management Board

##### Compensation system for members of TAURON's Management Board

In 2018 the principles of compensation of members of the Company's Management Board defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016 on the principles for determining compensation of members of the Management Board (Principles for determining compensation) were in force at the Company, as subsequently amended and detailed by the Supervisory Board of the Company pursuant to the resolution of December 19, 2016 on *determining compensation of members of the Management Board TAURON Polska Energia S.A.* as subsequently amended. The above principles for determining compensation are in line with the provisions of the *Act of June 9, 2016 on the principles for determining compensation of the management personnel of certain companies*. Taking into account the above principles of determining compensation the Supervisory Board, on October 23, 2017, adopted for application the updated *Policy for compensation of members of the supervision and management bodies including the description of the principles for establishing it at TAURON Polska Energia S.A.*

The adopted principles for determining compensation define the compensation system for members of the Management Board in connection with the outstanding tasks aimed at the implementation of the adopted Strategy, directions of expansion and financial plans. The overriding objective of the adopted compensation system is to ensure an incentive-based compensation of the most senior management staff and to create basis for their development.

The overall objectives of the compensation policy are:

1. ensuring a consistent and motivational compensation system for members of the Management Board,
2. linking the compensation rules with monitoring of the implementation of adopted strategic plans and implementation of the financial plans,
3. setting the level of compensation for the Management Board members in connection with the implementation of the management tasks set,
4. increasing the Company's value through the development of the most senior management staff,
5. improving the compensation systems leading to the implementation of the Company's strategy and expansion directions.

Model of compensation for members of the Management Board is based on a two-component system for determining compensation, where the total compensation is composed of a fixed part constituting the monthly base wage and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management objectives (KPI).

System of compensation for members of the Management Board assumes linking the variable part of the compensation with the outstanding management goals stemming from the provisions of the *Act of June 9, 2016 on the principles for determining compensation of the managements personnel of certain companies* and set, based upon these provisions, by the GM and the Supervisory Board of the Company. The goal of adopting, in the system of compensation, of the dependence of the compensation's variable part on achieving the management goals set is, in particular, to implement the adopted Strategy, the directions of the Company's expansion and financial plans, it also shapes a new organizational culture of the Company.



Taking into account the applicable regulations, the level of compensation for members of the Management Board is defined by the Supervisory Board within the range determined by the Company's GM.

The variable compensation of members of the Management Board of TAURON constitutes up to 60% of the fixed compensation for the financial year, assuming the management goals set by the GM and detailed by the Supervisory Board for the given financial year have been achieved.

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. implementation of the "2016 – 2018 Efficiency Improvement Program" and achieving the total effect at the level approved in the Material and Financial Plan for the given financial year,
5. aligning to the essence of the sector's structural changes (introduction of the process and task based structure, a corresponding technical support system),
6. gaining the position of the leading supplier of electricity on the market by building a homogenous organization in the supply and customer service areas in line with the trends – efficient customer experience management, maintaining the leadership position among 4 largest electricity suppliers in Poland in terms of the number of customers at the set market share and profitability level (excluding a case of acquisition in this segment) and a continuous growth of sales of new products (sales of products that include electricity and products with synergy with electricity and gas),
7. construction of the 910 MWe unit at Jaworzno in line with the optimal, from the point of view of the project's profitability and the Group's condition, approved schedule,
8. developing a structural approach to the marketing, product and process innovations, financing of the research and development works, pilot projects and implementations as well as creating an ecosystem for innovations at TAURON Group, taking into account efficient utilization of the funds allocated for that purpose,
9. developing a structural approach to building the brand, product marketing, sponsoring of culture, sports and social activities.

Members of the Management Board of the Company are neither covered by the bonus program based on the capital (equity) of the Company, nor do they receive any compensation or awards due to the performance of their functions in the governing bodies (authorities) of TAURON Capital Group's subsidiaries.

In 2018 no changes to the principles of compensation of members of the Company's Management Board were made.

#### System of compensation for members of the Management Board of the Capital Group's subsidiaries

In all of TAURON Capital Group's subsidiaries for which TAURON is a parent company in the understanding of art. 4 clause 3 of the act of February 16, 2017 on the protection of competition and consumers, the principles of compensation of the members of the management authorities were implemented in accordance with the act of June 9, 2016 on the principles of determining compensation of the management personnel of certain companies. The above was defined in the Policy for determining the compensation of the members of the authorities of the Subsidiaries and the Principles of determining compensation of the members of the corporate authorities of the Subsidiaries.

Model of compensation for members of the management bodies (authorities) of the subsidiaries is, similar as in 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 related criteria, i.e. achieving the management objectives. Linking of the compensation's variable part to achieving the management objectives set is of major importance in TAURON Group's management process and its objective is to prioritize the directions for expansion of the individual subsidiaries.

Management objectives that the variable compensation is linked to can, in particular, include:

1. increase of net profit or EBITDA or a positive change of the growth rate of one of those figures;
2. achieving or changing the production or sales value;
3. value of the revenue, in particular revenue from sales, from the operating activities, from the other operating or financing activities;
4. reducing losses, reducing the overhead costs or costs of the operations conducted;
5. implementation of the strategy or restructuring plan;
6. achieving or changing certain indicators, in particular profitability, financial liquidity, management efficiency or solvency;
7. implementing investment projects, taking into account in particular the scale, rate of return, innovations, on-time implementation;
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 conducted personnel policy and an increase of the workforce commitment.

### 10.1.2. General information on the adopted compensation system for key managers

The rules concerning compensation and bonus system for key managers and other employees are defined in the *Regulations on Compensation of Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

In 2018 the Principles of Compensation at TAURON Group were developed, representing the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for key managers based on the management by objectives system consistent throughout TAURON Capital Group, representing a combination of the planning process, efficiency measurement process and evaluation process.

The compensation and bonus system for key managers in force stipulates that the level of compensation should be tied to the financial situation of TAURON Capital Group over a year, in connection with the implementation of strategic goals.

The overriding assumption of the compensation system in force is to ensure the optimum and motivating compensation level, depending on the value and type of work in a given position as well as the quality of work and effects achieved by employees.

The structure of the compensation consists of the following elements:

fixed part - constituting the base salary determined in accordance with the table of grade categories applicable in the Company and monthly rates of personal grade. The allocated level of basic salary reflects the value and type of work as well as the quality of employee's work, defined through the assessment of employee's competence level,

variable part - which depends on performance results, defined through the level of accomplishment of targets and tasks within the MBO bonus system,

benefits - which are defined in the internal regulations of the Company.

The MBO bonusing system based on market principles of awarding bonuses ensures focusing activities of key management staff on attaining objectives defined within the Strategy, as well as individual strategic objectives and development directions of individual companies within the TAURON Capital Group. This system also ensures cascading of objectives defined by the Company's Management Board at the TAURON Capital Group level and at the Company level, down to concrete, parametric tasks vested with employees of lower structural levels. The MBO bonusing system has been tied with the management by process style of operations at the TAURON Capital Group, inter alia by aligning the objectives with Megaprocesses defined within the TAURON Capital Group. Therefore, the introduced culture of Management by Objectives reflects the specific features of each function implemented in the Company and allows use of dialogue mechanisms between the superior and subordinate during the process of setting and assessing objectives, leading to attaining overall efficiency throughout the entire organization.

At the same time, this tool enables precise correlating of KPIs defined for members of the Management Board with objectives defined for the given year for key managers of the Company. Initial assessment of accomplished objectives takes place after end of the first 6 months and after end of the year, members of the Management Board conduct final assessment of KPI performance by key managers.

Moreover, the bonus system for the trading area is in place, aimed at motivating to generate higher revenue for TAURON Capital Group. The trading bonus covered key managers in the trading area, however the bonus system sets an additional bonus for them only once they have topped annual trade plans.

Employees of the Company do not receive any compensation or awards on account of functions performed in governing bodies (authorities) of TAURON Capital Group's subsidiaries.

Rules, terms and conditions as well as the level of compensation of members of the Management Board of the Company and the Capital Group's units

### Compensation of members of the Management Board of the Company

The total amount of compensation understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, due or paid by the Company to the members of the Management Board members in 2018 reached the gross amount of PLN 4 730 000.

The compensation of members of the Company's Management Board in 2018, broken down into components, is presented in the below table.

Table no. 55. Compensation of members of the Company's Management Board in 2018, broken down into components (in PLN '000)

#	First and last name	Period of holding the position in 2018	Compensation <sup>1</sup> (PLN '000)	Variable compensation <sup>1</sup> (PLN '000)	Other benefits <sup>1</sup> (PLN '000)	Total (PLN '000)
1.	Filip Grzegorzczuk	01.01.2018 - 31.12.2018	793	407	0	1 200
2.	Jarosław Broda	01.01.2018 - 31.12.2018	740	426	16	1 182
3.	Kamil Kamiński	01.01.2018 - 31.12.2018	740	426	15	1 181
4.	Marek Wadowski	01.01.2018 - 31.12.2018	740	427	0	1 167
Total			3 013	1 686	31	4 730

<sup>1</sup> excluding markups (surcharges) Period

The Company does not have any obligations towards the former members of the Management Board due to pensions or benefits of similar nature.

At the same time it is indicated that due to the Company's obligations towards former members of TAURON's Management Board in 2018 the total amount of PLN 793 000 PLN was paid out due to, among others, payment of the variable compensation part for achieving KPIs in 2017 and compensation for refraining from performing competing activities.

Members of TAURON's Management Board did not receive compensation or bonuses for performing functions in the corporate bodies (authorities) of TAURON Capital Group's subsidiaries in 2018.

### Compensation of members of the Management Boards of the Capital Group's subsidiaries

Compensation of members of the management authorities of the Subsidiaries is determined taking into account the scale of the given subsidiary's operations, in particular:

1. average annual headcount,
2. annual net turnover from the sales of goods, products and services as well as financial operations,
3. total assets on the balance sheet at the end of the year.

Based on the above criteria categories of companies are defined which determine the fixed compensation of members of the subsidiaries' management authorities expressed in the form of the ranges of the multiples of the average monthly compensation in the enterprise sector, excluding payment of bonuses due to profit distribution in the fourth quarter of the preceding year, announced by the President of the Central Statistics Office. Assigning of a company to the given category takes place based on the financial data for the last two financial years, coming from approved financial statements.

Members of Management Boards of TAURON Capital Group's subsidiaries did not receive compensation or bonuses for performing functions in the corporate bodies (authorities) of TAURON Capital Group's subsidiaries in 2018.

The principles of compensation for members of the Management Boards of TAURON Capital Group's subsidiaries are published on the website <http://www.tauron.pl/>.

### 10.1.3. Agreements concluded with management personnel that envisage compensation in case of their resignation or dismissal from the position held, without a material reason, or if their dismissal or resignation takes place as a result of the merger of the Company through takeover

According to the agreements on the provision of management services concluded both with the members of TAURON's Management Board, as well as with the members of the Management Boards of the individual TAURON Capital Group's subsidiaries envisage, in case of termination or dissolution 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 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 the individual TAURON Capital Group's 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 management services include non-competition provisions applicable after the expiry of the term of office. Under the above mentioned agreements members of the Management Board undertook to refrain from conducting competitive activities for a specified period in return for compensation.

Members of the Company's Management Board did not hold positions of members of Management Boards of TAURON Capital Group's subsidiaries prior to being appointed as members of the Company's Management Board.

### 10.1.4. Non-financial components of compensation due to members of the Management Board and key managers

#### Non-financial components of the compensation of members of the Management Board

Members of the Management Board, in accordance with the agreements on the provision of management services, are entitled to reimbursement by the Company of the cost of training up to the net amount of PLN 15 000 in a calendar year,

#### Non-financial components of the compensation of key managers

Staff members employed at key positions by the Company are entitled to use the following benefits and non-financial components of the compensation offered by the Company:

1. participate in the Employee Pension Scheme 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 one year),
2. use the medical package financed with the Company funds,
3. use a company car allocated for their sole use,
4. use company accommodation in case the availability of the employee is required due to the nature of his/her work and scope of responsibilities.

### 10.1.5. Assessment of the functioning of the compensation policy in terms of the fulfilment of its objectives, in particular the long-term growth in shareholders' value and stability of the company's performance

The applied compensation system for members of the Management Board is compliant with the *Act of June 9, 2016 on the principles for determining compensation of the management personnel of certain companies*. The incentive-based and consistent system is provided, linked with the monitoring of annual financial plans and the adopted Strategy and development (expansion) directions.

*Policy of compensation for members of the supervisory (oversight) and management authorities including the description of the principles for its definition at TAURON Polska Energia S.A. in force at the Company is in line with the Best Practice 2016 principles and defines, in particular, the form, structure and the manner of determining the compensation of members of the Management Board.*

The form, structure and level of compensation correspond to market conditions and are oriented towards enabling the recruitment and retaining individuals fulfilling the criteria required for running the Company in a manner taking into account shareholders' interests (building the Company's value for shareholders), as well as prevent conflicts of interest from arising among members of the Management Board and shareholders. At the same time, they are constructed in a manner which is transparent for investors, so as to build their confidence in the Company and enable them to express their opinions using the applicable procedures.

The disbursement of the variable components of compensation is linked to the pre-defined, measurable management objectives. The management objectives set should foster long-term stability of the Company.

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 time definition.

The compensation and bonus system for both Members of the Management Board of the Company as well as the key managers in force at TAURON supports the implementation of strategic goals and determines the compensation depending on the financial situation of the Company and TAURON Capital Group over one year period.

## 10.2. Compensation system for members of the Supervisory Board

In 2018 the system of compensation for members of the Supervisory Board of the Company defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016 *on determining compensation for members of the Supervisory Board* was in force, adopted as the implementation of the provisions of the *Act of 9 June 2016 concerning principles for determining compensation of the management personnel of certain companies* (Journal of Laws of 2016, item 1202).

In accordance with the above mentioned Resolution of the Extraordinary GM the monthly compensation of members of the Supervisory Board is determined as a product of the average monthly compensation in the enterprise sector, excluding payment of bonuses due to profit distribution in the fourth quarter of the preceding year, announced by the President of the Central Statistics Office 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 formally convened meetings.

The compensation is not due for a month in which a member of the Supervisory Board was not present at any of the formally convened meetings, for unjustified reasons. The decision on excusing or a failure to excuse the absence of a member of the Supervisory Board at its meeting is taken by the Supervisory Board by way of a resolution.

The compensation is calculated on a pro rata basis, in relation to the number of days when the function was performed in case the appointment or dismissal occurred during the calendar month.

The Company covers the costs incurred in connection with the performance of the functions assigned to the members of the Supervisory Board, in particular: the costs of return transfer between the place of residence and the venue of the Supervisory Board's meeting or a meeting of the Supervisory Board Committee, the costs of individual supervision and the costs of accommodation and board.

### Compensation of the oversight personnel

The compensation of members of the Company's Supervisory Board in 2018 is presented in the below table (in PLN '000)

Table no. 56. Compensation of members of the Company's Supervisory Board in 2018

#	First and last name	Period of holding the position in 2018	Compensation (PLN '000)
1.	Beata Chłodzińska	1.01.2018 - 31.12.2018	97
2.	Teresa Famulska	1.01.2018 - 31.12.2018	85
3.	Jacek Szyke	1.01.2018 - 31.12.2018	85
4.	Radosław Domagalski - Łabędzki	1.01.2018 - 31.12.2018	85
5.	Barbara Łasak - Jarszak	1.01.2018 - 31.12.2018	85
6.	Paweł Pampuszko	1.01.2018 - 31.12.2018	85
7.	Jan Płudowski	1.01.2018 - 31.12.2018	85
8.	Marcin Szlenk	16.04.2018 - 31.12.2018	60
9.	Agnieszka Woźniak	1.01.2018 - 31.12.2018	85
TOTAL			752

The Company does not have any obligations towards the former members of the Supervisory Board due to pensions or benefits of similar nature.

# 11. STATEMENT ON NON-FINANCIAL INFORMATION

This statement on non-financial information (hereinafter called the Statement) contains descriptive information and the numerical data confirming it, related to the parent company - TAURON and TAURON Capital Group for 2018. It was prepared in accordance with the guidelines of the Directive of the European Parliament and of the Council (2014/95/UE i 2013/34/UE), and the act on the amendment to the act on accounting of 15.12.2016 (Journal of Laws of 2017, item 61; consolidated text: Journal of Laws of 2017, item 2342).

This statement on non-financial information constitutes an integral part of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2018. Furthermore, in accordance with the current practice TAURON Capital Group will publish the Integrated Report for 2018.

As part of the process of preparing the Statement the documents, policies, due diligence procedures, risk management rules and other available materials related to TAURON Capital Group's operations as well as to the energy sector were reviewed.

Preparation of the content of the Statement included five stages:

Stage 1. Confirming the material business and sustainable development issues and the weight thereof, adequate for TAURON Capital Group in order to prepare the description of the Business Model.

Stage 2. Confirming the Business Model, and the type and within it the level of relationships with the environment.

Stage 3. Collecting the data illustrating the implementation of the policies, strategies and the objectives of the sustainable development, and also the principles of due diligence and management of risk of conducting them at TAURON Capital Group in 2018.

Stage 4. Preparing the Statement on TAURON Capital Group's non-financial information for 2018 based on the data collected in accordance with the act on the amendment to the act on accounting of 15.12.2016 (Journal of Laws of 2017, item 61; consolidated text: Journal of Laws of 2017, item 2342).

Stage 5. Conducting of the audit by an external entity with respect to the accuracy of the data and content of the Statement.

## 11.1. TAURON Group's Business and Operational Model

TAURON Capital Group is a fully integrated energy group with its business model covering all elements of the value chain, from mining, through generation, distribution and supply to the final consumers, supplemented with the innovations ecosystem and the development of new businesses, closely integrated with the operations in the energy sector.

TAURON Capital Group comprises selected companies managed jointly as a uniform economic body (organization) consisting of independent commercial law companies, led by TAURON as the parent entity.

TAURON Group's Business and Operational Model adopted by the Management Board of the Company on January 23, 2018 was in force in 2018.

*TAURON Group's Business and Operational Model* defines TAURON Capital Group's management model, defines the high-level architecture of processes and contains guidelines concerning key performance indicators of units constituting TAURON Capital Group.

### 11.1.1. TAURON Group's Business and Operational Model's assumptions

The key assumptions of the Business Model include building of TAURON Capital Group value, focusing on customers, transparent distribution of duties and responsibilities, effective information exchange, use of employees' knowledge, volatility of the Business Model, organizational integrity of TAURON Capital Group.

### 11.1.2. Company management principles

In accordance with the provisions of the By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice, the Management Board conducts the affairs of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by legal regulations and provisions of the Company's Articles of Association to the competence of the General Meeting or the Supervisory Board lie within the competence of the Company's Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company.

Issues lying within the competence of the Management Board acting as a collective body are described in detail in section 9.8.1. of this report.

In accordance with the *Organizational Regulations of TAURON Polska Energia S.A. (Organizational Regulations)*, the Company is managed directly by the Management Board of the Company as well as through proxies, Executive Directors, Managing Directors or power of attorneys.

The Company implements its tasks through:

1. separate organizational units (business units):
  - Divisions comprising independent positions and organizational units (business units) reporting to the individual members of the Management Board and supervised thereby,
  - Teams, constituting organizational units (business units) reporting directly to Executive Directors or Managing Directors. The activities of the team are managed by the Team Leader (Manager),
2. independent positions:
  - Managing Director manages and leads the work of subordinate Executive Directors and Teams,
  - Executive Director manages and leads the work of subordinate Teams,
  - Other independent positions that may be entrusted to Power of Attorneys, Coordinators, Consultants or Specialists,
3. temporary organizations – Project Teams established with the goal to implement tasks and projects of the Company.

### 11.1.3. TAURON Capital Group management principles

The core regulatory act of TAURON 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 operating objectives of companies, enabling achieving of the effects assumed in the Strategy.

Regulations implemented in 2016, along with the Business Model, updated in 2018, introduced the management by processes within TAURON Capital Group, consisting in establishing the process subordination running horizontally within TAURON Capital Group's subsidiaries. Members of the Management Board are responsible for the management of the process streams allocated thereto, which are subsequently divided into mega-processes. The owners of the mega-processes are TAURON's indicated managing and executive directors. The process documentation (maps, diagrams and process sheets) defines and describes decision making powers (competences) and actions to be undertaken by the individual organizational units within TAURON Capital Group's various companies. The owners of the mega-processes decompose these into lower level processes and appoint their owners. Each process has its owner and process metrics defined by the higher level process owner. The process documentation defines the decision interdependencies and competences for the repeatable processes.

Process based management model has been implemented to benefit from the operating synergies among TAURON Capital Group's various companies, share and use best practices, standardize and automate processes, and also to ensure coherence of actions taken within TAURON Capital Group's companies to support the implementation of the Strategy.

The essence of the management by processes lies in the continuous search for and implementation of efficiencies along with the clear and transparent division of competences and responsibilities. Processes are modified to improve their efficiencies. The process documentation is published in the intranet and available to all employees.



The competences and process interdependencies described in the process documentation supplement the competences stemming from the organizational structure of the individual companies and support the operations of TAURON Capital Group's companies as a single entity.

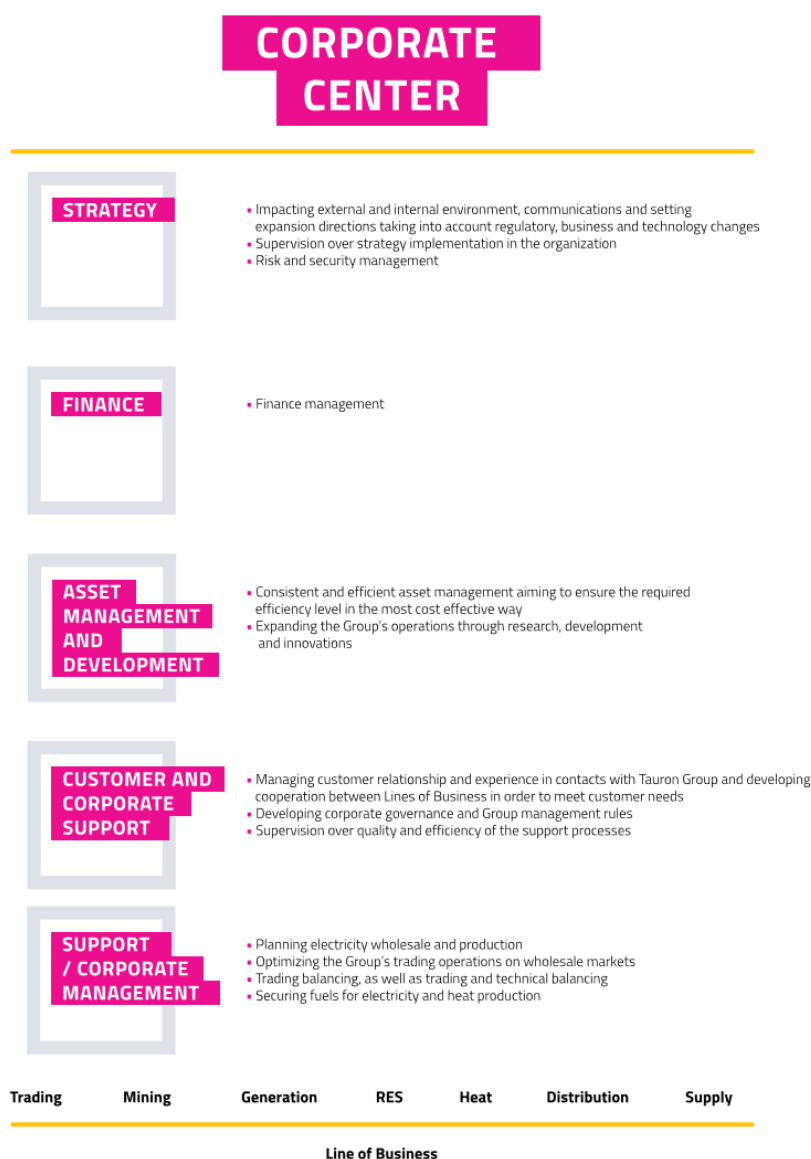
Standing Committees of TAURON Capital Group are operating within TAURON Capital Group, including:

1. Investment Committee,
2. Risk Committee,
3. New Businesses Committee.

The above mentioned Committees were established in order to enable performing 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 below figure presents process streams cutting across TAURON Capital Group's Lines of Business.

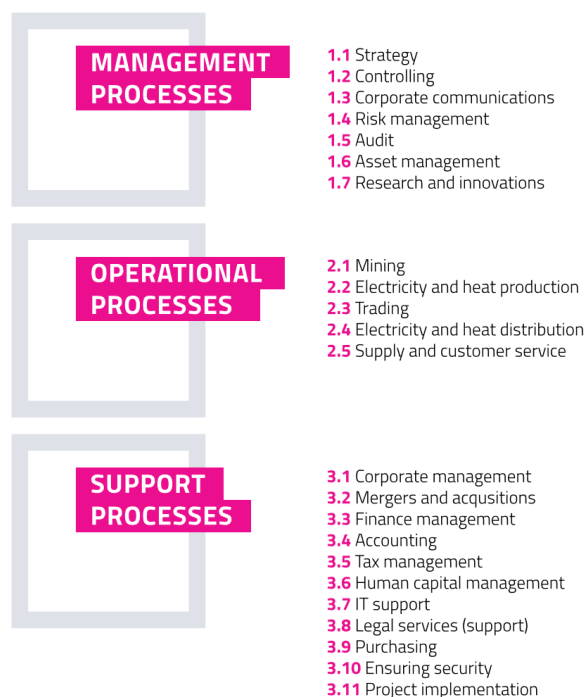
Figure no. 74. Process streams cutting across TAURON Capital Group's Lines of Business



Business Model identifies 23 mega-processes cutting across all units of TAURON Capital Group.

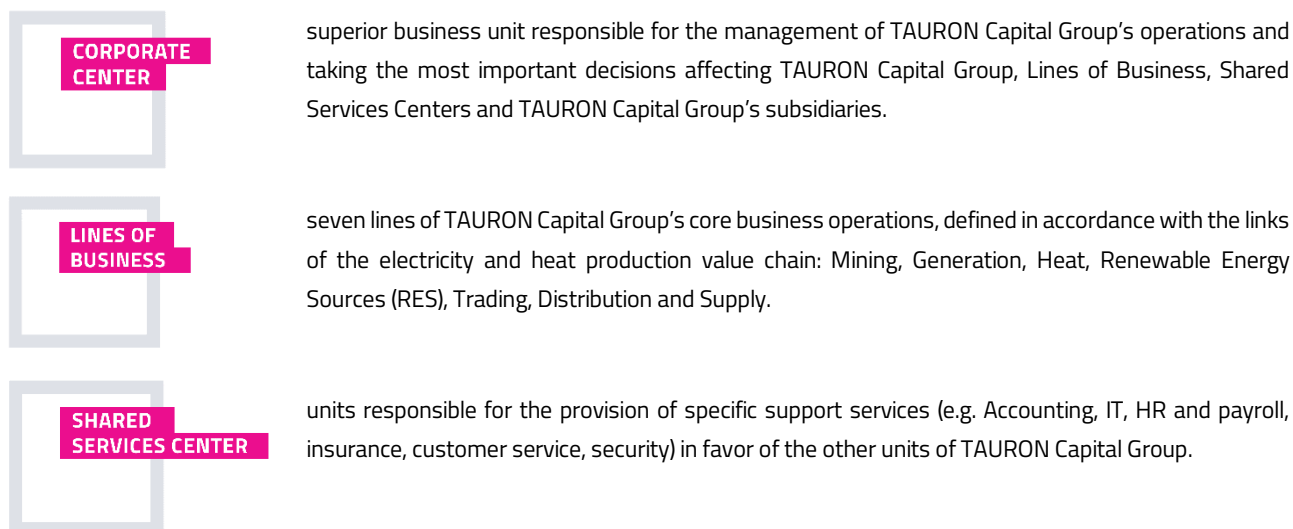
The below figure presents the structure of TAURON Capital Group's processes (mega-processes).

Figure no. 75. Structure of TAURON Capital Group's processes (mega-processes)



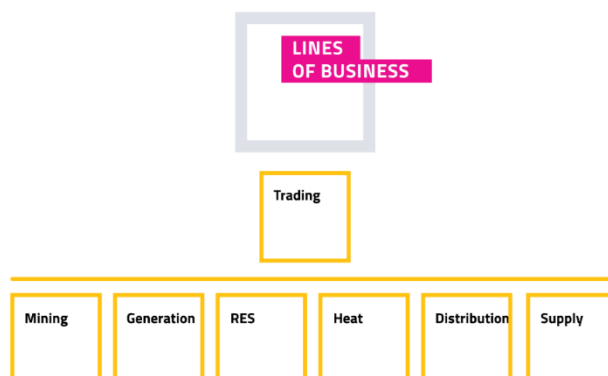
### 11.1.4. TAURON Capital Group's Lines of Business

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



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

Figure no. 76. 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 economy of scale and increased operational efficiency. Within the formal structure of TAURON Capital Group CUWs are placed in TAURON Obsługa Klienta, TAURON Ubezpieczenia sp. z o.o. and Wsparcie Grupa TAURON subsidiaries.

### 11.1.5. Changes to the principles of the Company's and TAURON Capital Group's management

#### Changes to the principles of the Company's management

Two amendments were introduced to the Organizational Regulations in 2018 in order to optimize TAURON's management processes, including.

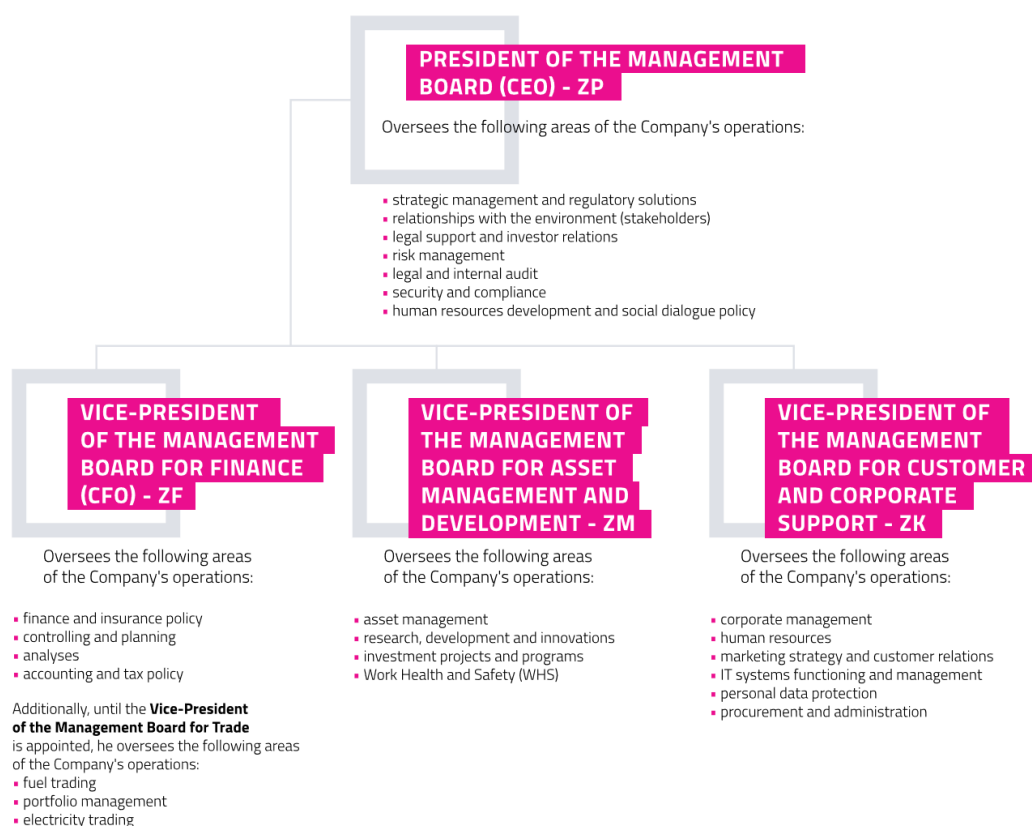
1. as of May 22, 2018 the Vice President of the Management Board for Customer and Corporate Support was vested with oversight over the functioning of the Company's personal data protection solutions, by making the independent position: Chief Data Protection Officer, report thereto,
2. as of December 20, 2018 the President of the Management Board was vested with oversight over the functioning of the internal audit area, with its scope managed by the Executive Director for Internal Audit. The name of the above area was changed to: Executive Director for Internal Audit and Internal Inspection.

The below figure presents the split of responsibilities of members of the Management Board.

Figure no. 77.

Split of responsibilities

of members of the Management Board



By introducing the above changes to the Organizational Regulations the required modifications of the scope of the individual business units' functions in the Company's structure were made.

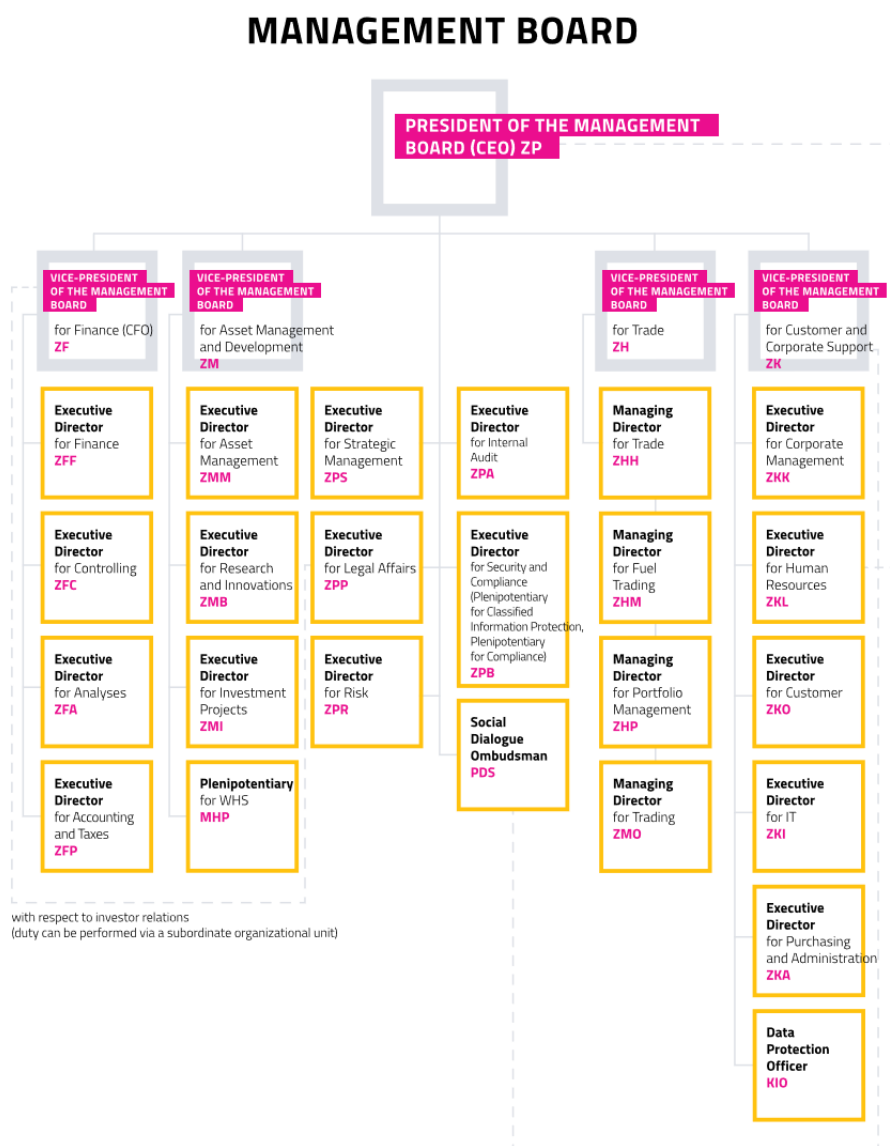
In the general part of the Organizational Regulations provisions related to internal audit were modified. Furthermore, the power to issue intra corporate regulatory acts was also granted to the Vice President of the Management Board empowered by the Management Board.

Furthermore, the independent position of the "Chief Data Protection Officer" was added, and also the scope of the main and partial functions was defined.

Changes to the organizational structure of the Company were aimed at optimizing the operations of the Company and TAURON Capital Group. Areas assigned to the individual divisions managed by members of the Management Board of the Company were revised.

The below figure presents the divisions assigned to the individual members of the Company's Management Board, down to the level of business units and independent work positions reporting directly to members of the Management Board, as of the date of drawing up this report.

Figure no. 78. TAURON's organizational diagram (flowchart) as of the date of drawing up this report



## Changes to the principles of TAURON Capital Group's management

Activities undertaken in 2018 to implement the management by processes resulted in the updating of the Business Model. The scope of competences and functions attributed to the individual mega-processes was specified in further detail and supplemented to fully reflect the activities performed in the documentation and to ensure the highest possible efficiency thereof. The most important changes include the allocation of activities in the area of work (occupational) health and safety and environmental protection to the asset management mega-process, the transfer of activities related to market forecasting from the trading mega-process to the controlling mega-process and the inclusion of the public aid activities in the controlling mega-process. Besides the above mentioned modifications some other minor changes were made in line with the detailed Business Model provisions.

As part of the works related to the implementation of the Business Model in 2018 the maps and diagrams, as well as interface points for the processes performed by TAURON and the key companies of TAURON Capital Group, i.e. TAURON Wydobycie, TAURON Wytwarzanie, TAURON EKOENERGIA, TAURON Ciepło, TAURON Dystrybucja, TAURON Sprzedaż and TAURON Obsługa Klienta, were agreed.

Activities aimed at designing and implementing the key processes performed by TAURON Capital Group's other subsidiaries carrying out the business operations, i.e. TAURON Dystrybucja Serwis, TAURON Dystrybucja Pomiary, TAURON Serwis, TAURON Ekoserwis, TAURON Sprzedaż GZE, TAURON Ubezpieczenia sp. z o.o., Wsparcie Grupa TAURON, Bioeko Grupa TAURON, SCE Jaworzno III and Spółka Usług Górniczych sp. z o.o., were also continued. Process maps and data sheets were developed and the owners of key processes were appointed. Some process diagrams were drawn up and handed over. The works on reaching the final agreement on the products and interface points mentioned in the processes are underway. The verification is conducted by TAURON in order to ensure high quality and integrity (coherence) of the processes developed throughout TAURON Capital Group.

As part of the process design works the identification and elimination of the detected inefficiencies and products of processes not generating added value continue. Processes continue to be supplemented with actions needed and necessary for effective implementation of the objectives and assumptions stemming from the Strategy. These activities are supported through workshops and training courses for employees participating in the process modeling and in creating the process documentation.

As a result of implementing the Business Model, including the process component, all repeatable processes were redefined, redesigned and described in the issued and implemented process documentation. The implemented process documentation and the process tools as well as the competences in process based management and process optimization acquired within TAURON Capital Group's subsidiaries are a starting point for seeking further improvements and raising the operating efficiency.

Development and implementation of the process maturity assessment model is planned in 2019. It will provide support for the activities related to ensuring the continuous works on optimizing (streamlining) the processes implemented.

## 11.2. TAURON Group's 2017-2025 Sustainable Development Strategy

TAURON Capital Group's success as a socially committed and responsible company will, in a long run, be determined by the activities and actions undertaken with respect to corporate social responsibility (CSR).

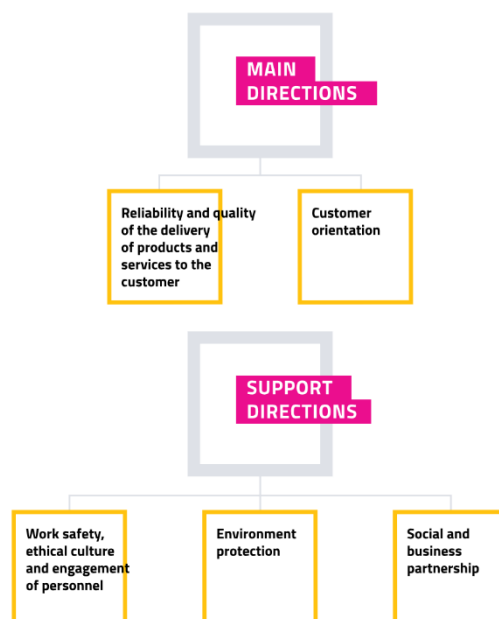
The directions for the CSR activities are defined by *TAURON Group's 2017-2025 Sustainable Development Strategy* adopted by TAURON's Management Board in 2017. The document includes a broader outline of the CSR issues in accordance with the assumptions and objectives of *TAURON Group's 2017-2025 Sustainable Development Strategy*, and also takes into account feedback of the stakeholders as well as the global trends affecting the energy sector. As part of preparing the above document TAURON Capital Group identified challenges, specified risks, defined opportunities, activities and actions, allowing for its development in accordance with the expectations of both the internal as well as external stakeholders.

*TAURON Group's 2017-2025 Sustainable Development Strategy* is based on five directions with two of them of leading nature as they are related to the operations on the market - "Reliability and quality of the supply of products and services for customers" and "Orientation towards the customer and his/her needs". The other three are the supporting directions and they include: "Labor safety, ethical culture and employee engagement (commitment)", "Environment protection" and "Social and business partnership". For each of the above mentioned directions the obligations (commitments) that TAURON is intending to fulfill by the end of 2025 were

defined. For each obligation (commitment) key initiatives were formulated that support their implementation and they were assigned to the individual organizational units (business units) of TAURON Capital Group.

The below figure presents the directions of TAURON Capital Group's Sustainable Development Strategy for 2017-2025.

Figure no. 79.  
Directions of TAURON Capital Group's Sustainable Development Strategy for 2017-2025.



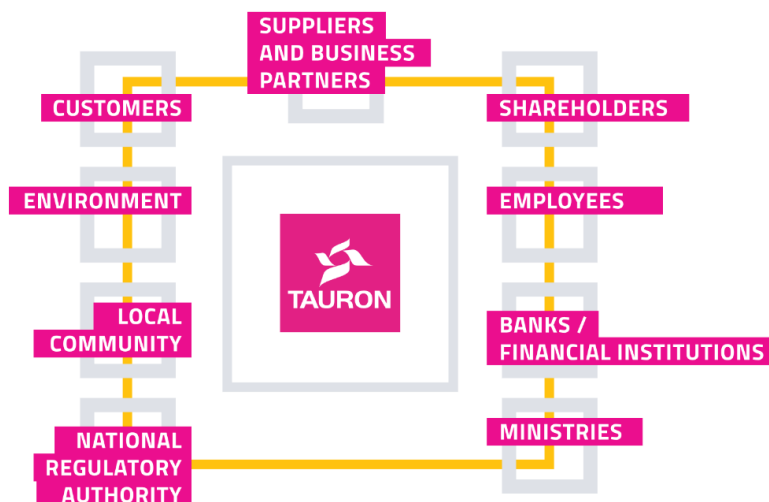
Very good relationships with the stakeholders, based on mutual understanding and trust, are of key importance for TAURON Capital Group which, due to the scale of its operations, magnitude of its turnover, as well as profile, has a significant impact on its environment (stakeholders). TAURON Capital Group is fully aware of that and takes full responsibility for it.

Cooperation is the foundation of TAURON's success, both in terms of its business operations, as well as social activities. The Group is building its relationships with the stakeholders based on a partnership model, in a fully transparent manner, being aware of their importance for the long term strategy and sustainable approach to business operations. The fundamental element of this process is a dialogue, aimed at getting to know mutual expectations and opportunities as well as implementing the agreed solutions.

For this reason the process of identifying and mapping TAURON Capital Group's stakeholders was completed in 2017, as a part of which the stage of initially separating groups of stakeholders was performed and then the stage of evaluating the degree of interest – orientation: of the stakeholders towards the organization and of the organization towards the stakeholders, that led to the ultimate adoption of the stakeholder groups. The process described above began the development of *TAURON Group's 2017-2025 Sustainable Development Strategy*. During its implementation and the reporting process the stakeholder map is annually confirmed. As part of the works conducted in 2018 it was determined that the stakeholder map, and also the strength of interest and impact, defined during the mapping in 2017, continue to be valid.

The below figure presents TAURON Capital Group's current stakeholder map.

Figure no. 80. TAURON Capital Group's current stakeholder map



### 11.3. Key non-financial performance (efficiency) indicators related to TAURON Capital Group's operations

The key non-financial performance (efficiency) metrics (indicators) related to TAURON Capital Group's operations are metrics outlined in TAURON Group's 2017-2025 Sustainable Development Strategy, and they include, among others:

- operating efficiency metrics,
- efficiency indicators in TAURON's and TAURON Capital Group's employee related issues area,
- Customer Satisfaction Index (CSI) metrics,
- customer loyalty indicator,
- participation of the personnel in the customer communications training,
- indicators related to the environmental activities,
- indicators related to the Work and Health Safety (WHS) area.

#### Operating efficiency metrics

The below table presents the values of operating efficiency metrics for TAURON Capital Group and the levels thereof in 2017-2018.

Table no. 57. Operating efficiency metrics in 2017-2018

Operating efficiency metrics	Unit	2017	2018
Installed generation capacity, including:			
Electric capacity	[GWe]	5.0	5.0
Heat capacity	[GWt]	2.4	2.4
Volume of energy produced, including:			
Electricity	[TWh]	18.4	16.2
Heat	[PJ]	12.2	11.3
Length of transmission and distribution lines, including:			
Transmission lines	[km]	44	44
Distribution lines	[km]	185 113	187 423
Interruptions of energy supply, including:			
Frequency of interruptions (planned and unplanned including disaster related) - SAIFI <sup>1</sup>	[pcs]	3.50	2.50
Average duration of interruptions (planned and unplanned including disaster related) - SAIDI <sup>2</sup>	[minutes]	263.03	136.44
Commercial coal production	[Mg m]	6.4	5.0
Commercial coal sales to external customers	[Mg m]	1.8	1.5
Number of customers, including:			
Distribution segment	[m]	5.5	5.6
Supply segment	[m]	5.4	5.5
Retail electricity supply by the supply segment	[TWh]	34.9	34.5
Electricity distribution	[TWh]	51.4	52.0

<sup>1</sup> SAIFI is calculated according to the formula: number of interruptions at consumers / number of consumers served / year.

<sup>2</sup> SAIDI is calculated according to the formula: total time of durations of interruptions of all consumers in a group / number of all consumers / year.

#### Efficiency indicators in the employee related issues area

The below table presents the efficiency indicators in TAURON's and TAURON Capital Group's employee related issues area and the levels thereof in 2017-2018 as of December 31, 2017 and December 31, 2018

Table no. 58. Efficiency indicators in TAURON's and TAURON Capital Group's employee related issues area and the levels thereof as of December 31, 2017 and December 31, 2018

Efficiency indicators in the employee related issues area	unit	TAURON		TAURON Group	
		2017	2018	2017	2018
Headcount by segments, including:	[persons]			24 381	25 365
Mining Segment	[persons]	-	-	6 539	6 651
Generation Segment	[persons]	-	-	5 002	4 890
Distribution Segment	[persons]	-	-	9 289	9 372
Supply Segment	[persons]	454	464	303	324
Other Operations	[persons]	-	-	3 248	4 128
Headcount by education, including:					
University degree	[%]	97.6	96.8	33.0	33.2
Secondary education	[%]	2.2	3.2	42.8	43.1
Vocational education	[%]	0.2	0.0	22.1	21.6
Elementary school	[%]	0.0	0.0	2.1	2.1
Headcount by age, including:					
Up to 30 years	[%]	13.7	11.6	7.8	8.4
30 – 40 years	[%]	44.3	43.3	22.6	22.4
40 – 50 years	[%]	32.8	34.5	33.3	31.0
50 – 60 years	[%]	7.7	9.1	32.0	32.5
Above 60 years	[%]	1.5	1.5	4.3	5.7
Headcount by gender, including:					
Women	[%]	43.4	44.4	20.8	21.5
Men	[%]	56.6	55.6	79.2	78.5
Average number of training hours per employee by position groups, including:					
Management Board and Directors	[number]	-	85	-	63
Management positions	[number]	-	53	-	33
Administration personnel	[number]	-	30	-	12
Blue collar positions	[number]	-	9	-	17
Number of training hours per employee by gender, including:	[number]				
Women	[number]	-	6 961	-	77 305
Men	[number]	-	9 810	-	378 874

### Customer Satisfaction Index metrics

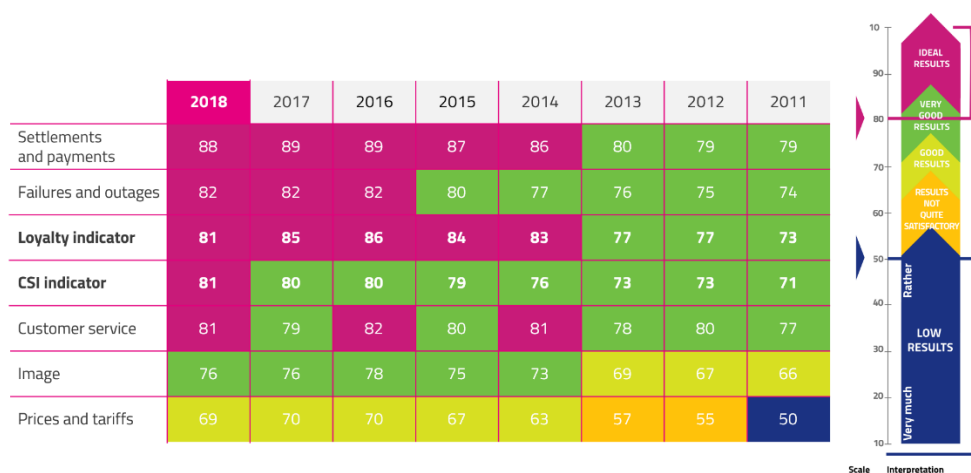
Customer satisfaction surveys are conducted periodically, once a year, by an independent market research agency Kantar TNS S.A. A randomly selected group of TAURON's customers and a group of customers of other electric utilities are taking part in such surveys. They include nationwide statistically representative groups of customers of electric utilities from the household segment, business customers segment, as well as the small and medium size enterprises segment. In 2018 the CSI survey was conducted in the August – September time frame.



### Customer satisfaction indicator for the household segment

The below figure presents the results of the customer satisfaction survey conducted in the household customers segment with respect to TAURON Capital Group's products and services in 2011-2018.

Figure no. 81. Results of the customer satisfaction survey conducted in the household customers segment with respect to TAURON Capital Group's products and services in 2011-2018

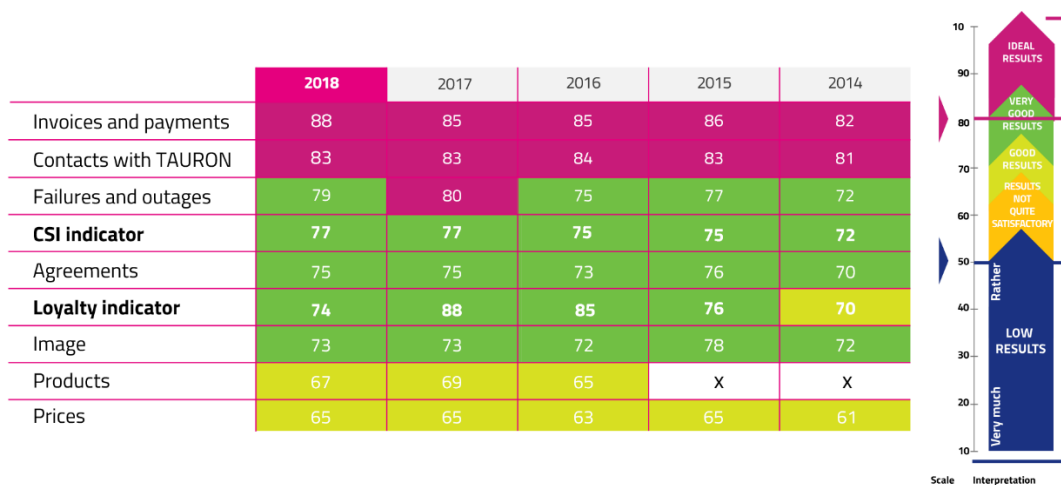


A stable level of the customer satisfaction indicator can be observed among households, while the loyalty indicator is getting lower in this segment. The highest rated area of cooperation (interaction) are the settlements (billing) and payments, while the prices and tariffs get the lowest grades (a decline versus last year). Also an increase of the grades in the customer service area can be observed. The level of satisfaction with the cooperation (interaction) with TAURON Capital Group is driven mainly by the failures and outages area, followed by the prices and tariffs.

### Customer satisfaction indicator for the business segment

The below figure presents the results of the customer satisfaction survey conducted in the business customers segment with respect to TAURON Capital Group's products and services in 2014-2018.

Figure no. 82. Results of the customer satisfaction survey conducted in the business customers segment with respect to TAURON Capital Group's products and services in 2014-2018



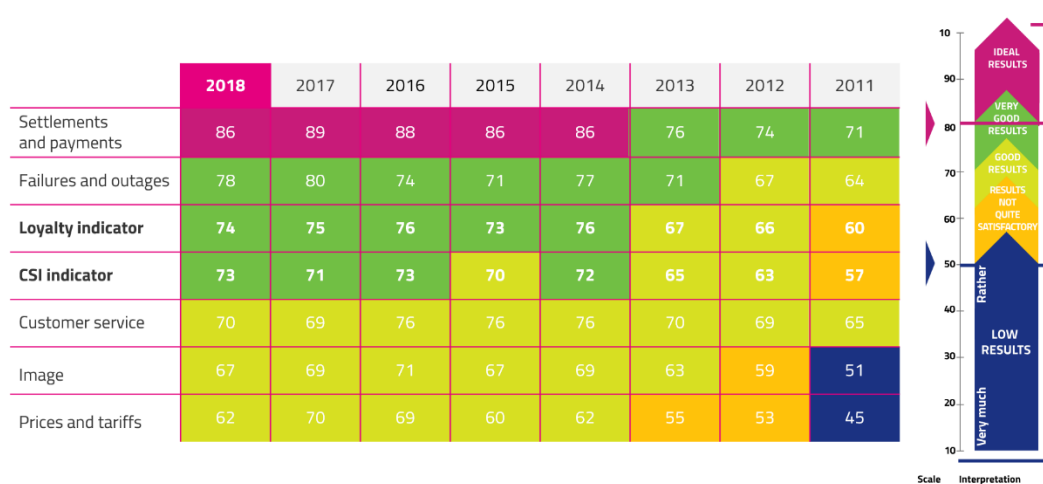
A weakening of ties to TAURON Capital Group can be observed among the business customers. This is reflected in the customer loyalty indicator for TAURON which is significantly lower than in 2017. On the other hand, the satisfaction level is stable. A very high level of satisfaction with the invoices and payments, with the quality of contacts with TAURON, is noteworthy again. It is also visible that the decline of loyalty towards TAURON is not related to a significant drop of the satisfaction factor level as it continues to be relatively stable. Therefore, it should be tied to the market factors, and among them, to the growing competition and a further market liberalization, which means a greater and easier opportunity for a customer to switch an electricity and heat supplier.

Customer satisfaction surveys among the business customers were conducted by the market research agency Kantar TNS S.A. also prior to 2014, however due to the use of a different research method it is not possible to compare the results of that research with the results of the surveys conducted after 2014.

### Customer satisfaction indicator for the small and medium size enterprises segment

The below figure presents the results of the customer satisfaction survey conducted in the small and medium size enterprises segment with respect to TAURON Capital Group's products and services in 2011-2018.

Figure no. 83. Results of the customer satisfaction survey conducted in the small and medium size enterprises segment with respect to TAURON Capital Group's products and services in 2011-2018



A slight increase of the level of satisfaction with the cooperation (interaction) with TAURON can be observed among the small and medium size enterprises segment customers, while the loyalty level declined slightly. The level of customer satisfaction is driven, first of all, by the customer service, and, to a slightly lesser degree, by the other areas (image, prices and tariffs, failures and outages, and settlements and payments).

### Customer loyalty indicator

Apart from the above customer satisfaction surveys TAURON Capital Group is also independently testing the level of customer loyalty indicator (NPS). As part of this research the evaluated customer loyalty level is composed of several areas of business contacts between customers and TAURON Capital Group.

The below table presents NPS metric levels for TAURON Capital Group in its individual business contacts areas per quarter in 2018.

Table no. 59. NPS<sup>1</sup> metric levels for TAURON Capital Group in individual areas per quarter in 2018

Area surveyed	Q1 2018	Q2 2018	Q3 2018
Connections	43	40	50
Agreements	45	42	50

Area surveyed	Q1 2018	Q2 2018	Q3 2018
Settlements (billing)	-	48	62
Complaints	-	- 6	2
Collection	32	19	39
In person	-	79	59
By phone	-	20	24
On-line (e-mail)	-	25	24

<sup>1</sup>NPS (Net Promoter Score) metric is a tool used to measure customer loyalty level. The maximum point score of the NPS metric is 100, while the minimal value - 100. The higher the value the higher degree of loyalty.

### Participation of the personnel in the customer communications training

The below table presents the level of participation of the personnel of TAURON, TAURON Sprzedaż, TAURON Obsługa Klienta and TAURON Ciepło in the e-learning training, related to the products and services offered, conducted in 2018.

Table no. 60. Level of participation of the personnel of TAURON, TAURON Sprzedaż, TAURON Obsługa Klienta and TAURON Ciepło in the e-learning training related to the products and services offered, conducted in 2018

Subsidiary name	Number of employees who completed training	Percentage of employees who completed training	Number of employee who did not begin training
TAURON	387	74.20%	134
TAURON Sprzedaż	245	75.15%	81
TAURON Obsługa Klienta	1917	68.17%	895
TAURON Ciepło	523	63.78%	297

The review of the results presented in the above table indicates that the percentage of persons who completed this training is much higher than it would seem necessary based on the purely process needs, related to the training for the commercial services personnel. This indicates a high level of TAURON Capital Group's responsibility for the product knowledge and competence of all of its personnel.

### Indicators related to TAURON Capital Group's environmental activities

Indicators related to the reduction of emission of pollutants to the atmosphere

TAURON Capital Group is achieving higher reduction of emission of pollutants to the atmosphere than required by the legal standards.

The below table presents the estimated levels of NO<sub>x</sub>, SO<sub>2</sub>, dust and CO<sub>2</sub> emissions from fuel combustion for electricity generation purpose for selected TAURON Capital Group's subsidiaries in 2017.

The below table presents the level of emission of pollutants to the atmosphere as a percentage versus the standards in force.

Table no. 61. Level of emissions to the atmosphere in percentage, generated by TAURON Capital Group as compared to the standards in force in 2018

Subsidiary name	Emission of SO <sub>2</sub>	Emission of NO <sub>x</sub>	Emission of dust
TAURON Wytwarzanie (conventional power plants)	36.6% less	12.7% less	71.9% less
TAURON Ciepło (conventional combined heat and power plants)	28.1% less	46.4% less	61.9% less

In order to maintain and further improve the values provided in the above table TAURON Capital Group is taking actions aimed at improving energy efficiency by reducing or not increasing the degree of fuel and energy consumption as well as by monitoring impact on climate. This will be described in detail in TAURON Group's 2018 Integrated Report.

Indicator related to minimizing the negative impacts on the environment

TAURON Capital Group is monitoring on an ongoing basis the main aspects of the direct and indirect impact of its operations on the natural environment.

The below table presents the levels of emissions of NO<sub>x</sub>, SO<sub>2</sub>, dust and CO<sub>2</sub> for 2018 from thermal combustion of fuels for selected TAURON Capital Group's subsidiaries.

Table no. 62. Annual emissions of NO<sub>x</sub>, SO<sub>2</sub>, dust and CO<sub>2</sub> for 2018 from thermal combustion of fuels for selected TAURON Capital Group's subsidiaries

#	Subsidiary name	Emission of SO <sub>2</sub> (Mg)	Emission of NO <sub>x</sub> (Mg)	Emission of dust (Mg)	Emission of CO <sub>2</sub> (Mg)
1.	TAURON Wytwarzanie including:	9 584	10 948	477	12 665 705
	Oddział Jaworzno III	2 837	4 197	108	5 461 358
	Oddział Łaziska	2 328	2 327	123	3 154 175
	Oddział Łagisza	1 503	2 197	76	2 268 234
	Oddział Siersza	1 819	1 303	104	1 373 302
	Oddział Stalowa Wola	1 097	924	66	408 636
2.	TAURON Ciepło, including:	3 288	1 579	240	1 944 422
	ZW Bielsko-Biała	947	300	39	494 612
	ZW Kamienna Góra	40	18	5	15 542
	ZW Katowice	1 476	644	129	921 915
	ZW Tychy	521	509	16	426 764
	CC Olkusz	155	42	7	37 113
	CC Zawiercie	111	39	10	33 543
	Other (local heating facilities)	38	27	34	14 933
3.	KW Czatkowice	3.14	5.2	11.7	5 002
	<b>Total</b>	<b>12 875</b>	<b>12 532</b>	<b>729</b>	<b>14 615 129</b>

The below table presents the forecast charges for the business use of the environment due for 2018 at selected TAURON Capital Group's subsidiaries. The values provided may be subject to minor changes due to the ongoing, at the time of drawing up this report, process of filing the reports on the use of the environment to the competent authorities.

Table no. 63. Forecast charges for the business use of the environment by TAURON Capital Group's subsidiaries due for 2018

#	Subsidiary name	Charges for the business use of the environment due for 2018 (PLN '000)
1.	TAURON Wytwarzanie	18 474
2.	TAURON Wydobycie	14 706
3.	TAURON Ciepło	3 986
4.	TAURON Dystrybucja	158
5.	KW Czatkowice	51
6.	TAURON Obsługa Klienta	2,7
7.	TAURON EKOENERGIA	403
8.	TAURON Sprzedaż	< 0,8
	<b>Total</b>	<b>37 781</b>

#### Indicators related to the Work and Health Safety (WHS) area

As part of its steadfast drive to reduce the number of accidents TAURON Capital Group is intensifying its activities aimed at promoting safe behavior at work place, and TAURON Capital Group's individual subsidiaries are conducting numerous information and education campaigns.

The below table presents TAURON Capital Group's personnel accident rates in 2018.

Table no. 64. Personnel accident rates (accident frequency) at TAURON Capital Group by gender (Injury rate - IR) in 2018

Injury rates in persons	Women	Men
Employee accidents:	14	199
Fatal accidents at work	-	1
Minor accidents at work	13	189
Severe accidents at work	-	3
Collective (group) accidents	1	6
Frequency of accidents <sup>1</sup>	0.5	7.7
Severity of accidents <sup>2</sup>	55.0	70.2

<sup>1</sup>Accident frequency rate = (number of accidents at work x 1000) / average headcount in 2018

<sup>2</sup>Accident severity rate = Total number of days of inability to work by persons injured in accidents at work / Number of persons injured in accidents at work (excluding casualties in fatal accidents)

The below table presents a percentage of employees of the external companies who completed the WHS training at TAURON Capital Group's selected subsidiaries.

Table no. 65. Percentage of employees of the contractors and subcontractors who completed the WHS training at TAURON Capital Group's individual subsidiaries

TAURON Group's subsidiary:	
KW Czatkowice <sup>1</sup>	100%
TAURON Wydobywanie <sup>1</sup>	100%
TAURON Wytwarzanie <sup>2</sup>	16%
TAURON Dystrybucja Serwis	67%
TAURON Dystrybucja Pomiar	84%
TAURON Serwis	38%

<sup>1</sup> At KW Czatkowice and TAURON Wydobywanie due to the nature of their operations each employee of an external company, prior to commencing work, takes part in the training with respect to the safety regulations as well as work health and safety principles, including safety of performing the activities entrusted thereto.

<sup>2</sup> At TAURON Wytwarzanie (similar as at TAURON Ciepło) based on internal regulations training of external companies' security personnel with respect to threats to safety and health at a work place and internal regulations (other staff of external companies take part in indirect training that the subcontractors are obligated to organize).

## 11.4. Description of TAURON Capital Group's key policies applied in 2018 and the results of the application thereof

To unify the activities conducted and also to precisely define the objectives and periodically monitor the degree (progress) of the implementation thereof the Management Board of TAURON in 2017 adopted for use throughout TAURON Capital Group the following Policies:

- TAURON Group's Customer Oriented (PRO-customer) Social Policy (PRO-customer Social Policy),
- TAURON Group's Diversity Policy (Diversity Policy),
- TAURON Group's Environmental Policy (Environmental Policy),
- TAURON Group's Human Rights Respect Policy (Human Rights Respect Policy),
- TAURON Group's Anticorruption Policy (Anticorruption Policy),
- TAURON Group's 5) Work Health and Safety (WHS) (WHS Policy).

At the same time TAURON Capital Group is implementing the Code of Conduct of TAURON Group's Business Partners (Counterparties), setting the directions for conduct within a responsible supply chain. The document meets the requirements of the supply chain management policy.

The documents ensure the compliance of TAURON Capital Group's operations with the requirements defined in art. 49 b, clauses 2 and 3 of the *act on accounting*. They also represent an important element in conducting transparent communications policy with numerous stakeholders of TAURON Capital Group that may study the reports on the implementation thereof that are published annually.

Furthermore, TAURON Capital Group is implementing *TAURON Group's 2017-2025 Sustainable Development Strategy*, adopted by the Company's Management Board on August 1, 2017 that had been developed based on the Strategy.

Each of the above documents contains an exhaustive description of the activities undertaken by TAURON Capital Group's subsidiaries in order to accomplish the intended goals in the given area. The following subsections present the main principles, methods and tools implemented by TAURON Capital Group as part of the individual policies and the results of the application thereof in 2018.

### PRO-customer Social Policy

PRO-customer Social Policy was developed based on the assumptions of *TAURON Group's 2017-2025 Sustainable Development Strategy*. One of the leading directions of the above document is orientation towards the customer and his/her needs.

*TAURON Group's Customer Oriented (PRO-customer) Social Policy* is aimed at developing appropriate organizational and business conditions required for achievement of the strategic goals of TAURON Capital Group concerning its customer and market environment relations.

The above policy is a collection of main assumptions applied in the customer sales and service process. It defines measures taken by TAURON as part of a customer dialogue, stresses the importance of building long lasting relations both with the customers as well as with the market environment, and it also defines the responsibilities lying on the company's side with respect to its customers.

By implementing the assumptions of the Customer Oriented (PRO-customer) Social Policy TAURON Capital Group is responding in the best possible manner to customer needs, focusing its efforts on the following principal issues:

- making sure the highest standards are met in the relationships with the customers, based on transparency, mutual respect and trust,
- continuous bi-directional communications, based on a dialogue,
- surveying customer opinions (feedback), experiences and expectations,
- responding to customer needs through a clear offering, satisfying their needs and meeting expectations.

TAURON Capital Group is trying to understand customer needs, deriving knowledge from the consumer surveys conducted. Periodical actions are taken through which TAURON is testing its customers' expectations and experiences. Such an approach constitutes a foundation for developing long lasting relationships, based on respect and trust. Such actions are supported by simplifying the communications and training dedicated to the personnel that communicates with the customers every day.

#### *Procedures and internal regulations*

Making sure that the communications with the customers is clear and transparent takes the key place as part of the due diligence procedures functioning as part of the PRO-customer Social Policy.

In order to implement the procedure the formal and legal documents, messages and letters addressed to the customers were substantially simplified. The cooperation with the Simple Polish Language Practice (Pracownia Prostej Polszczyzny), that provided training for the personnel dealing directly with customer service with respect to simplifying the official language, was launched. Language consultants that perform the role of simple communications ambassadors at TAURON Capital Group were selected.

The following action were taken as part of implementing the PRO-customer Social Policy:

- a) in April 2018 the Policy was published in 400 copies in the form of a brochure available both in a hard copy as well as in an electronic version available over the internet,
- b) knowledge base under the name "Customer Voice" ("Głos Klienta") was launched in the intranet, available for all of the employees of TAURON Capital Group, containing the information on the current PRO-customer actions, content expanding

the personnel's knowledge and awareness with respect to customer orientation, best practices in relations with customers and building positive experiences in contacts with the TAURON brand,

- c) e-learning training on products and services offered was conducted for the personnel of TAURON, TAURON Sprzedaż, TAURON Obsługa Klienta and TAURON Ciepło.

#### Actions taken and results obtained

The below table presents the survey carried out at TAURON Capital Group in 2018 as part of the due diligence procedures.

Table no. 66. Survey carried out by TAURON Capital Group in 2018 as part of the due diligence procedures

Subject of the survey	Time when the survey was conducted
Customer expectations towards products, including:	
"Turn on the light" ("Włącz prąd")	March 2018
Photovoltaics	June and August 2018
Smart heating control	June and August 2018
Smart Professional Smart Home	June and August 2018
Air cleaner	August 2018
Customer satisfaction with the services provided by TAURON Capital Group's partners with respect to selling a heating devices offering	March 2018
Evaluation of the new service of playing music using a web application	June 2018
Customer awareness with respect to:	
Smart Home smart devices, offered by TAURON	May 2018
TAURON Capital Group's products	April 2018
Monitoring of integrity (coherence) and transparency of the marketing communications, including in particular the communications related to the new products and offerings, including:	
Surveys to check effectiveness of campaigns and campaign spots "Smart 500" and the "Mój TAURON" "My TAURON" campaign	November 2018
Surveys to check familiarity with the offering	1st stage December 2017, 2nd stage December 2018
Survey to check awareness of product possession by a customer (quantitative surveys)	April 2018

As part of the due diligence procedures also educational activities addressed to the disadvantaged groups, first of all customers sensitive to energy pricing and seniors, were conducted.

The below table presents educational activities carried out by TAURON Capital Group in 2018 as part of the due diligence procedures.

Table no. 67. Educational activities carried out by TAURON Capital Group in 2018 as part of the due diligence procedures

Information campaigns	Activities conducted as part of the campaign
	10 episodes of the radio theater on Polish Radio One
"A senior means respect" ("Senior znaczy szacunek") – touching upon such issues as dishonest electricity salespersons and customer rights, consumer awareness, modern technology awareness, physical activity, health, comparing of offerings	competition promoting radio theater "Złote lata" ("Golden years") 6 events "Miasteczko Seniora" ("Senior's Little City")
	10 lectures at the Third Age Universities (Uniwersytety Trzeciego Wieku)
"Action – reaction" ("Akcja – reakcja") – involving warning actions, conducted in a specific area. Campaign based on information materials "If you do not know	approx. 400 posters 16 mobile billboards at 32 parishes

Information campaigns	Activities conducted as part of the campaign
– do not open” (“Nie znasz – nie otwieraj”) and “TAURON does not make house calls” (“TAURON nie chodzi po domach”)	
Campaign “Make smart choices” (“Wybieraj mądrze”), carried out in cooperation with Poland’s largest utilities by the Electricity Trading Association (Towarzystwo Obrotu Energią), aimed at promoting knowledge of the electricity market and raising awareness of the activities of companies that employ dishonest market practices	Commercial spots on 60 nationwide and regional radio stations Press advertisements in 18 nationwide and regional papers Advertisements in the city transportation company, social media and on YouTube
“If you do not know – do not open” (“Nie znasz – nie otwieraj”) – the campaign warns against dishonest electricity salespersons, encouraging to contact the hot line	6 press advertisements in 6 papers Messages in radio spots at 16 radio stations, on posters and in social media

### Diversity Policy

Diversity and openness, defined in *TAURON Group’s Code of Responsible Business Conduct*, are an integral part of TAURON Capital Group’s business operations. TAURON Capital Group takes note of the differences among the people within the organization and outside, and it is consciously implementing and developing policies and programs that create conditions for respecting and taking advantages of such differences. The Group applies equal treatment policy and seeks to ensure diversity in terms of gender, education type, age and professional experience with respect to all employees, and in particular the management authorities and its key managers. The diversity policy is also applied in TAURON Capital Group’s relationships with external partners, i.e. companies, universities, schools or other entities.

The key assumptions and principal premises applied within the Diversity Policy are:

- developing the work environment based on respect, openness, accuracy and fairness (justice),
- ensuring versatility and diversity, in particular with respect to gender, education, age and professional experience,
- building organizational culture open to diversity, based on the corporate values: Partnership, Development and Courage,
- preventing discrimination by fostering appropriate work atmosphere as well as building and strengthening positive relationships among the personnel.

#### *Procedures and internal regulations*

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, TAURON Capital Group introduced for use the following regulations and training programs:

1. *Policy of combating Mobbing and Discrimination at TAURON Group*, supported by e-learning training, aimed at building and strengthening positive relationships among the Employees and preventing mobbing or discrimination. Additionally, TAURON Capital Group’s subsidiaries appointed Ethics Committees with a goal, among others, to enforce observing of ethical principles,
2. Training and competence development programs, fostering and supporting creating of the atmosphere for the development of each employee, including, among others:
  - Talent Management Program, aimed at supporting the process for developing personnel and taking advantage of their potential,
  - Internal Coaches Program and Internal Coach Academy Program, providing broad access to knowledge for all employees, and also developing the culture of sharing knowledge and experience.
3. Regulations ensuring fairness and objectivity with respect to work organization and compensation, including, among others:
  - TAURON Group’s Compensation Principles,
  - *Policy for Human Resource Management at TAURON Group*,
  - regulations with respect to benefits (entitlements), including, among others, programs dedicated to pregnant women, persons at an age close to retirement or working mothers,
  - flexible forms of work time and possibility to work remotely.



4. Programs and regulations dedicated to women, ensuring equal opportunities for them and support in combining professional life with private life,
5. TAURON Capital Group's Subsidiaries Personnel Recruitment, Selection and Adaptation Policy,
6. TAURON Group's Competence Model.

#### *Actions taken and results obtained*

By implementing the Diversity Policy TAURON Capital Group provide the work environment based on respect and fairness (justice), within which each employee may fully realize his/her individual potential. The initiatives undertaken promote corporate values: Partnership, Development and Courage among the personnel and provide the tools for effective management of diverse teams in order to gain synergy stemming from actions taken by such teams.

One of the priorities in 2018 was to develop inter-generational dialogue and promote the age management and knowledge management idea.

The following initiatives were implemented in 2018 as part of implementing the Diversity Policy:

- "Audit of the generation gap" ("Badanie luki pokoleniowej") project

The generation gap is a lack of significant and key from TAURON Capital Group's competences, with the main reason being the age of employees and the prospect of their retirement, as well as the situation on the labor market in Poland, related to the demographics factors and changes with respect to vocational education. To be able to identify a potential threat of the generation gap, at the end of 2017 and at the beginning of 2018 the first audit of the generation gap at TAURON Capital Group was conducted. The audit indicates that the generation gap at TAURON Capital Group will, first of all, be applicable to the Distribution, Mining and Generation lines of business.

The consequence of the completed audit is the undertaking of a number of initiatives by TAURON Capital Group with their goal to eliminate or mitigate the risk related to a lack of professionals needed to ensure the continuity of the main production processes. Such activities are aimed, first of all, at replacing the key positions in the area of TAURON Capital Group's key operational and management processes and preventing long lasting recruitment and adaption (induction) as a result of a lack of availability of competences on the labor market.

- Patronage classes

The identified lack of availability of employees with the required professional qualifications on the labor market is one of the reasons for which TAURON Capital Group is actively extending cooperation with vocational schools and is getting engaged in the activities supporting preparation of well qualified professionals. One of the dimensions of the cooperation with vocational schools is the creation of the so-called patronage classes with the goal to provide support for vocational education in the professions that are key for the organization and to promote hiring by TAURON Capital Group's subsidiaries after completing the education. In 2018 TAURON signed agreements for the launch of further 21 patronage classes, covering already 47 classes in total with its patronage. Creating patronage classes is in line with TAURON Capital Group's cooperation with the Ministry of National Education related to providing support for vocational education and adapting it to the development challenges and the labor market needs.

- Implementation of the EU funded project with respect to the dual education

In September 2018 TAURON and the Ministry of National Education signed an agreement for the implementation of the project under the name: "Developing a model of the vocational and practical education program in the electric and power sector" within the scope of the Operational Program Knowledge Education Development (Program Operacyjny Wiedza Edukacja Rozwój - PO WER) as part of activity 2.15 Vocational education and training adapted to the needs of the changing economy. The project constitutes a form of actively joining the sustainable development strategy with respect to the dual education. 100 vocational or practical education schools and centers, providing education in the electric and power sector professions nationwide, are engaged in the project.



#### Participation in the project "Katowice the City of Professionals" ("Katowice Miasto Fachowców")

Katowice the City of Professionals is a local project to which TAURON was invited to actively support the development of modern vocational training. The goal of the project was, among others, to encourage young people facing the decision to choose a further education path to undertake education at the 1st degree technical and sector schools, making them aware of professional prospects related to vocational and technical education as well as raising the level of knowledge and social awareness with respect to the dual education system. The project recipients included 150 persons.

- Apprenticeships and internships

TAURON Capital Group is systematically building its position and brand among students and graduates of secondary schools and universities and thus it is making young people active and encourages them to cooperate under the program of apprenticeships and internships. As a result of participating in the program of apprenticeships and internships, students and graduates may better get to know the TAURON brand, specifics of work in the selected area and gain the first professional experience. 748 persons took part in the program of apprenticeships and internships at TAURON Capital Group in 2018. The apprenticeships and internships organized by TAURON meet both the current personnel needs, as well as take into account the long term employment plans for TAURON Capital Group's individual business units. Furthermore, in response to the needs and expectations of the students and graduates in 2018 another edition of the "Join us" ("Przyłącz się") internship program was launched with the goal to prepare the most gifted students of the domestic universities to enter the job market.

- TAURON Group's Ambassador Program

In November 2018 the 2nd edition of TAURON Group's Ambassador program was launched with its goal to engage students in the process of building a positive image of TAURON Capital Group in the academic community and to get top students and graduates interested in the internship, apprenticeship and job offering. In the 2018/2019 academic year - 9 Ambassadors from partner universities are performing their own promotional activities at their universities. 16 Ambassadors took part in the 1st edition of the program.

- Satisfaction survey – implementing improvement initiatives

The results of the satisfaction survey of TAURON Capital Group's personnel, conducted in 2017 became a starting point for developing action plans with the goal to increase job satisfaction. The improvement plans were developed by TAURON Capital Group's individual subsidiaries and focused on improving those indicators that the employees of the given subsidiary were least satisfied with and maintaining a high level of the other indicators. The key initiatives undertaken in 2018 by the subsidiaries were related to improving the communications area within teams that cooperate with one another every day, as well as enhancing the communications process on significant initiatives or changes occurring in the given subsidiary or in TAURON Capital Group. As part of the key initiatives several dozen actions were performed in total in the individual subsidiaries.

- Development actions dedicated to the management personnel

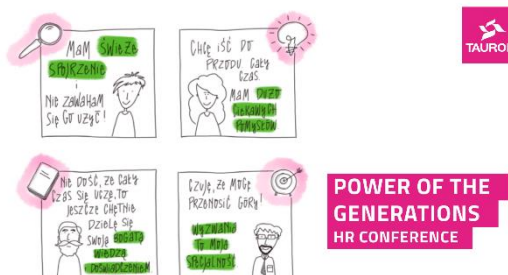
In 2018 a number of development programs dedicated to the management personnel were carried out with the goal to strengthen management competences. In September workshops for TAURON Capital Group's management personnel and members of the Social Council were held during which the participants were enhancing their competences with respect to management and communications as well as developing commitment using the existing resources (tools, processes and teams). As part of developing management competences 28 managers, representing TAURON Capital Group's subsidiaries, began Master of Business Administration in Corporate Management studies, with their curriculum adapted to the specifics of

the power sector and including a number of topics related to legal, financial, economic aspects and subjects related to ethics, communications and personal development.

Furthermore, an in-house PROm training program was launched at TAURON Ciepło with the idea to select Internal Coaches from among the directors and engaging them in conducting a series of training courses with respect to strategy, communications, management styles and change management for the N-2 and N-3 level personnel. More than 100 employees took part in the training courses in total.

- POWER of the Generations (MOC Pokoleń) Conference

In November 2018 the POWER of the Generations (MOC Pokoleń) Conference was held, with the main goal to draw the attention of TAURON Capital Group's management personnel to the challenges related to managing multi-generation teams and to provide tools and inspiration on how to use the enormous capabilities of such teams. During the conference, with 545 participants, awareness among the leaders and members of the multi-generation teams was developed with respect to the essence of the clear principles of efficient cooperation within a team, proper and precise delegating of tasks, patience in learning one another, expressing appreciation for the tasks completed, taking advantage of the teams' diversity to develop the best ideas, building a conviction within a team that everyone is looking at the world differently, which allows for reducing the risk of errors and increasing the chances of success as well as mutual respect, in accordance with the idea that every generation has something strong to offer.



- TAURON Group Open University



TAURON Group Open University is a cycle of lectures conducted since 2014 by the most outstanding experts specializing in various disciplines of science, politics, business, culture and personal development. Through participation in the lectures employees have access to the current knowledge and information. In addition, this initiative allows to create a platform for the exchange of ideas and experience among employees from various companies

In 2018 the 20th anniversary lecture of TAURON Group Open University was held with its topic related to the generation gap at TAURON Capital Group and the cooperation within inter-generation teams. The speech was related to efficient "Inter-generation Communications". In 2018 three more lectures were given with their topics related to cybersecurity, rationality of the decisions made and safety in the mountains.

- Promotion of health and healthy lifestyle

Taking care of its personnel TAURON Capital Group invests in medical care, implements pro-health programs aligned to the needs of its personnel and promotes healthy lifestyle. The idea behind these activities is the "work-life balance" as an active attempt to support the personnel by providing them with tools and services to help balance, handle and manage stress, arising in a demanding professional environment and permeating into private life.



**YOUR POWER - FIRST AID**

- Mother is working (Mama pracuje)

In 2018 an in-house motherhood support program "Mother is working" ("Mama pracuje!") was launched by TAURON Dystrybucja, TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary. The program is addressed to the women raising kids up to six years of age and pregnant women employed by the Distribution Segment's subsidiaries, and its main goal is to provide support for combining motherhood with professional work, raising the work comfort for future mothers, increasing the number of women returning to work after giving birth to a child and enabling women during a maternity leave and a child care leave an ongoing contact with the work place.

The implemented program also responds to the challenges related to seeking to attain gender equality and strengthening the position of women in professional life.

## TAURON Group's environmental policy

The Environmental Policy defines TAURON Capital Group's approach to the management of the issues related to the impact made by its operations on the natural environment, including the direction of its environmental activities and the principles it will follow in environment related matters. The environmental policy is the benchmark for assessing all of the activities of TAURON Capital Group's subsidiaries in the area of environment protection and environmental management.

The Environmental Policy documents the values and the vision followed by TAURON Capital Group with respect to making an impact on the natural environment.

The main principle of the Environmental Policy is to limit both the direct, as well as the indirect impact on the environment and to conduct responsible communications, ensuring the understanding of the operations of TAURON Capital Group that may impact the environment.

TAURON Capital Group, in accordance with the regulations and administrative practices in force on the territory of its operations, takes into account the needs related to environmental protection and acts in way that contributes to accomplishing a broader objective, which is sustainable development, and in particular the implementation of the closed circuit economy (the so-called circular economy).

### *Procedures and internal regulations*

Due to diverse production and service profiles of TAURON Capital Group's subsidiaries, the individual subsidiaries have a diversified impact on the environment. Therefore the principles of TAURON Group's Environmental Policy are passed in the individual internal documents of the individual subsidiaries in a way corresponding to their role in the group's value system.

The Environmental Policy adopted on July 17, 2017 constitutes a document related to the Asset Management Mega-process, as part of TAURON Capital Group's process based management.

Documents related to the scope of the Environmental Policy are available to all the participants of the process:

- 1) Asset Management Policy,
- 2) Documents functioning under the names "environmental policy" or other applicable compilations in the individual Lines of Business in which the values / visions that the given TAURON Capital Group's subsidiary is guided by with respect to its impact on the environment are documented.

Tools that support the implementation of the Environmental Policy are:

- established short and long term environmental goals,
- ensuring the information flow and integration of the method of TAURON Capital Group's internal and external communications,
- ongoing operational oversight,
- motivational system,
- information activities,
- supporting initiatives reaching outside TAURON Capital Group (indirect impact),
- supporting the works in the area of research and development aimed at reducing the negative impact on the environment,
- internal and intra-corporate regulations.

Each of the Group's lines of business feature different specifics that is reflected in the internal regulations. Examples of such documents are:

- procedures within the Integrated Management System ISO,
- waste handling manual,
- plans of reactions to environmental risk,
- hazardous substances and mixtures handling principles,
- Coal Mines" operation plans.

### *Actions taken and results obtained*

In 2018 the existing system for monitoring data that enables evaluating adequate and up to date information on the impact of TAURON Capital Group's subsidiaries on natural environment. The ongoing monitoring of the key environmental indicators enables setting measurable project goals and improving actions taken for the benefit of the environment.

The mutual exchange of good environmental practices within TAURON Capital Group's subsidiaries was implemented and as a result the verification of the progress with respect achieving environment related goals is performed.

TAURON Capital Group is taking actions in order to improve energy efficiency.

The general direction of TAURON Capital Group's environmental actions includes minimizing the negative impact on the environment taking into account the environmental impact taking into account the sector's specifics, technical advancements and access to environmentally friendly technologies.

As part of asset management TAURON Capital Group maintains appropriate technical condition of the environment protection installations, implemented thereby in the previous years, and optimizes the operation thereof.

In 2018 measures taken by TAURON Capital Group aimed at limiting the environmental impact included, among others:

- implementation of the protective strip (buffer zone) at Brzeszcze Coal Mine (TAURON Wydobycie),
- modernization of the water and sewage management system at ZW Tychy (TAURON Ciepło),
- partial replacement of the overhead lines with cable lines (TAURON Dystrybucja),
- continued modernization of assets and infrastructure aimed at protecting the soil and ground water environment:
  - equipping the transformer stations with oil pans or replacing transformers with the "dry" transformers that do not pose a threat to the environment (TAURON Dystrybucja, TAURON Wytwarzanie),
  - auxiliary systems: modernization of the chemicals unloading station, sealing the residual fuel oil (mazut) tanks spillage bunds with geomembrane (TAURON Wytwarzanie).
- continuing the "Our Stork" ("Nasz Bocian") campaign from the previous years, i.e. the construction of successive stork nest poles (platforms) and performing necessary maintenance of existing nest poles (TAURON Dystrybucja)
- completing the alteration of the dumping station including the new dust removal system (KW Czatkowice),
- modernization of the heating system including liquidating the transmission heating network along with the boiler room fired with coal dust and installing a gas network infrastructure and local gas-fired boiler rooms with capacity adjusted individually to the heat demand of the heated facilities (KW Czatkowice),
- "Cleaning the Pilchowice Pond" ("Sprzątanie Zalewu Pilchowickiego") campaign,
- numerous thermal modernizations and modernizations of the ventilation and air conditioning installations in the existing facilities.

The majority of TAURON Capital Group's production comes from the traditional power generation based on solid fossil fuels, however TAURON Capital Group includes in its main production volume the high efficiency electricity and heat generation through cogeneration and supplements its offering with electricity generated from renewable sources (hydroelectric power plants and wind farms, as well as biomass-fired sources) or in gas-fired generation. This is reflected in the structure of obtained property rights related to the certificates of origin of electricity produced.

The below figure present the structure of property rights related to the certificates of origin obtained by TAURON Capital Group in 2018.

In case of significant impact of the process applied or investment projects implemented on the environment, in order to reduce the effects of such impact relevant assessments of such impact on the environment are prepared at TAURON Capital Group.

TAURON Capital Group's subsidiaries have emergency action plans aimed at preventing, reducing and auditing the serious effects of environmental impact related to its operations, including also accidents and extraordinary situations, and also mechanisms for the forthwith reporting of such situations to the applicable institutions.

Figure no. 84. Structure of property rights related to the certificates of origin at TAURON Capital Group in 2018

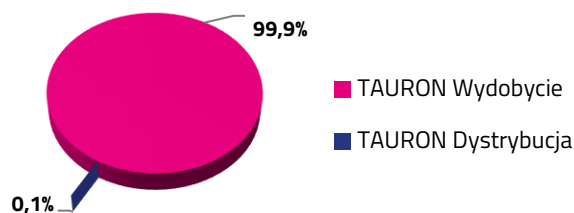
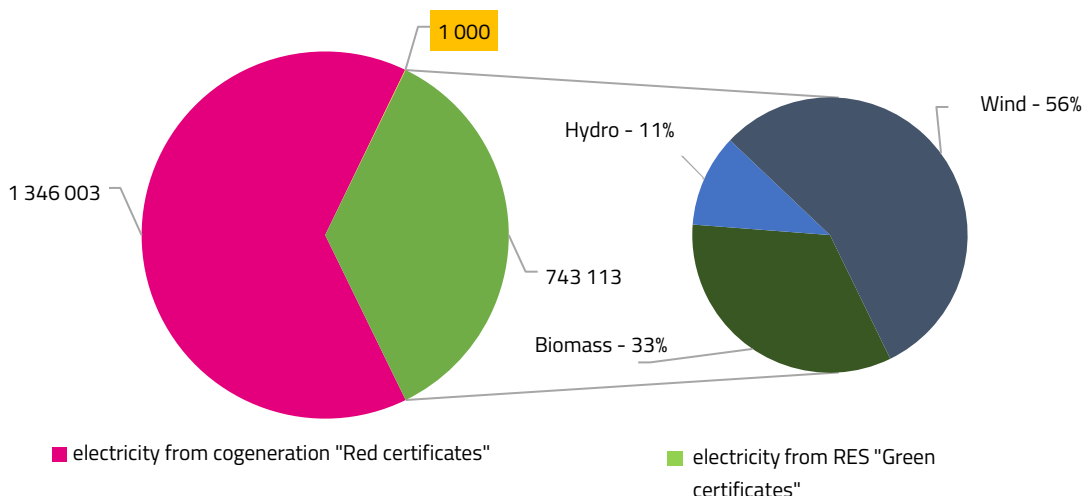


Figure no. 85. Certificates of origin (MWh) at TAURON Capital Group in 2018



#### Management of by-products

In order to take care of the natural environment TAURON Capital Group minimizes the quantity of waste deposited in the environment by bringing it to the market to be used as substitutes for natural materials.

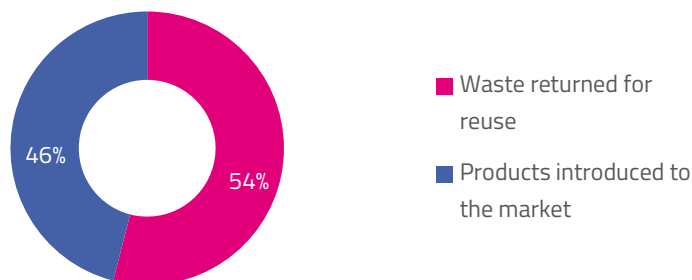
4.4 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2018, with as much as 46% of that quantity brought to the market as full value products to be used, among others, in the construction, road building, mining or agricultural sector. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization.

In 2019 TAURON Capital Group did not deposit a single ton of waste at the dumping sites.

Waste generated is used primarily in such sectors as: construction, road building and mining. It is also broadly used by cement and concrete plants. It was also used as the material for reclamation of unfavorably transformed areas.

The below figure presents the structure of bringing to the market ashes, sludge, gypsum and aggregates generated by TAURON Capital Group in 2018.

Figure no. 86. Structure of bringing to the market ashes, sludge, gypsum and aggregates generated by TAURON Capital Group in 2018

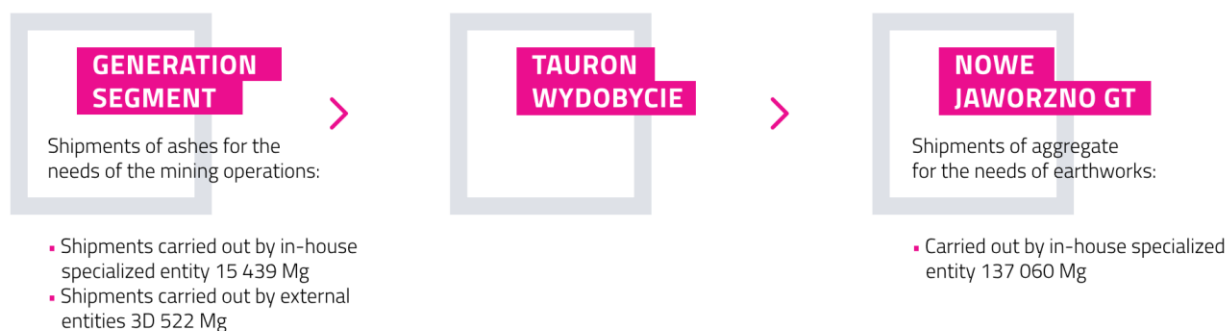


TAURON Capital Group is seeking to implement the model of closed circuit (circular) economy. It is planned that the maximum of generated process waste is used within TAURON Capital Group, consequently reducing the consumption of natural resources and the product's carbon footprint.

This way in 2018 more than 180 000 Mg of the process by-products, coming from thermal combustion and mining of coal, was used within TAURON Capital Group for its own needs .

The below figure presents the sample interdependencies as part of implementing the principles of the circular economy within TAURON Capital group in 2018.

Figure no. 87. Sample interdependencies as part of implementing the principles of the circular economy within TAURON Capital group in 2018



### TAURON Group's Human Respect Policy

TAURON Group's Code of Responsible Business Conduct indicates that TAURON Capital Group is guided by the principle of equal treatment of employees and does not tolerate discrimination on any basis, in particular due to age, gender, race, nationality, religion, sexual orientation, appearance, fitness or different views. The aim of the Policy of Respect for Human Rights is to present the principles of TAURON Capital Group regarding respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect in the workplace

The policy defines the principles of TAURON Capital Group dedicated to respecting and protecting human rights, including, among others:

- prohibition of mobbing and discrimination,
- prohibition of slavery and forced labor,
- ban on employing children and minors,
- freedom of association,
- observing employment and remuneration conditions,
- work health and safety (WHS),
- employee engagement (commitment),
- countering cases that involve violations of human rights

Furthermore, the regulation also defines TAURON Capital Group's rules dedicated to the human rights respect and protection with respect to interacting with the stakeholders, in particular counterparties (business partners, contractors) and business partners, as well as with respect to local communities

#### Procedures and internal regulations

The basic regulations related to the Policy of Respect for Human Rights at TAURON Capital Group are TAURON Group's Code of Responsible Business Conduct and Policy for Countering Mobbing and Discrimination at TAURON Group. In accordance with the provisions of the Policy of Respect for Human Rights, every employee, counterparty (business partner, contractor) and an external entity / business partner is required to:

- respect and promote respect for human rights and ensure their protection,
- refuse to participate in any situations that may involve a violation of human rights, mobbing and discrimination, and unequal treatment.

Each employee should pay attention to signals and circumstances that may potentially suggest the possibility of unequal treatment. If such doubts arise, employees should report them via communications channels defined in TAURON Capital Group's procedures, in particular in the above mentioned *TAURON Group's Code of Responsible Business Conduct* and *Policy for Countering Mobbing and Discrimination at TAURON Group*.

The communications channel enabling employees to provide information in a confidential and anonymous way is the Abuse Reporting Form, available on the website <https://www.tauron.pl/tauron/o-tauronie/formularz-zgloszenia-naduzycia>.

#### *Actions taken and results obtained*

In order to comply with ethical principles, the Ethics Committees established at TAURON Capital Group's 15 subsidiaries are appointed to review any potential violations of the rules. The new employees of TAURON Capital Group are informed of the human rights respect issues and of the possibility of reporting violations in this area.

Several dozen trade union organizations that associate about 70% of employees are operating within TAURON Capital Group. Additionally, in order to ensure proper dialogue and exchange of experience, the Social Council of TAURON Polska Energia SA Capital Group was established, which represents several dozen trade union organizations.

The introduction of the Policy of Respect for Human Rights at TAURON Capital Group contributes to raising awareness of respect for human rights and promoting their protection.

#### **TAURON Group's anticorruption policy**

One of the main principles of TAURON Group's Code of Responsible Business Conduct is the implementation of a zero tolerance policy towards abuse, including corruption, fraud and other illegal activities. These issues are regulated in detail by the Anticorruption Policy. The document defines acts of corruption and other practices contrary to the legal regulations in force, internal regulations and corporate regulations of TAURON Capital Group as well as ethics. The document also defines the obligations relating to countering corruption, potential areas of corruption risk as well as the warning signals the employees should be paying attention to in their daily work.

The main objective of the Anti-Corruption Policy introduced is:

- countering and mitigating the risk of corruption actions as well as other abuses at TAURON Capital Group,
- transparency of actions towards external entities,
- informing of possible ways of reporting abuse.

#### *Procedures and internal regulations*

In accordance with the provisions of the Anti-Corruption Policy, every employee and external entity are required to:

- promote integrity and transparent conduct in the course of performing current duties,
- not to promise, not to offer, not to hand over any benefits,
- not to accept any benefits,
- refuse to participate in any situations / projects that may involve tender collusion or requesting benefits.

Each employee should pay attention to signals that indicate that someone may commit corruption or other abuses, and in the event of their occurrence, report via the communications channels specified in the Anti-Corruption Policy

In order to ensure efficient and safe reporting of any irregularities by employees, associates, counterparties (contractors), business partners and stakeholders, an Abuse Reporting (Notification) Form has been created at TAURON Capital Group that enables information to be provided in a confidential manner and ensuring complete anonymity, available at <https://www.tauron.pl/tauron/o-tauronie/formularz-zgloszenia-naduzycia>.

The provided information on incorrect behavior allows to identify incorrect events and take necessary corrective actions to exclude the possibility of similar events occurring in the future.



### *Actions taken and results obtained*

In 2018 an anti-corruption campaign was conducted at TAURON Capital Group under the slogan "We play fair play!" ("Gramy fair play!"). The goal of the campaign was to provide information on the policy of zero tolerance towards corruption and other abuses. As part of the campaign, through the Coordinators of Compliance at TAURON Group, approximately 500 posters, 1 300 brochures and about 2 000 gadgets related to the activities carried out were distributed. The information on the activities carried out was published on the intranet site of TAURON Capital Group, as well as sent to employees via e-mail correspondence. As part of preventive measures, TAURON Group's Compliance Coordinators took part in practical workshops simulating audits at the Company. In 2018, the Compliance Team started a series of direct training courses at the offices of TAURON Capital Group's subsidiaries. By the end of 2019 such training course are planned for the entire Group. The issues of countering corruption at TAURON Capital Group are also introduced to the new employees of TAURON.

The introduction of the Anti-Corruption Policy at TAURON Capital Group contributes to raising awareness with respect to identifying cases of corruption activities and promoting integrity and transparent conduct.

### **TAURON Group's WHS Policy**

The employees of TAURON Capital Group are a key group of stakeholders. The important aspects in this area are issues related to ensuring their safety at the work place. This is reflected in *TAURON Group's 2017-2025 Sustainable Development Strategy*, as well as in the Work Health and Safety (WHS) Policy established on the basis of that document.

The Work Health and Safety (WHS) Policy is a set of regulations aimed at continued improvement of work (occupational) health and safety standards. By applying the provisions provided therein TAURON Capital Group steadfastly seeks to eliminate work related accidents as well as minimize the occurrence of occupational diseases and the number of potentially accident prone incidents.

The safety of employees, customers, contractors, guests and the other stakeholders is an absolute priority that has a significant impact on the decisions and actions taken by TAURON Capital Group's subsidiaries.

The policy defines the principles of operation, as well as the rules of conduct that serve the implementation of four basic goals with respect to work health and safety (WHS), i.e.:

- eliminating accidents at work of all employees and employees working for the benefit of TAURON Capital Group's subsidiaries and any other persons in the area where the subsidiaries are conducting their operations,
- ensuring optimal working conditions for all employees and those working for TAURON Capital Group
- improving the qualifications of employees of TAURON Capital Group aimed at increasing competences with respect to improving their safety and the safety of employees and people who are in the area of their work,
- improving an effective work health and safety (WHS) management system.

### *Procedures and internal regulations*

Work Health and Safety (WHS) Policy is the overarching document describing the uniform system of occupational health and safety at TAURON Capital Group.

As part of the Group's Work Health and Safety (WHS) Policy, each of the subsidiaries, due to the specifics of its operations, has its own regulations in this area, which are fully compliant with the requirements and applicable laws. In addition, the work health and safety (WHS) regulations are adapted to the nature of the work and tasks performed. At companies whose operations profile involves production and distribution, i.e. TAURON Wydobywanie, TAURON Wytwarzanie, TAURON Ciepło, KW Czatkowice, TAURON EKOENERGIA and TAURON Dystrybucja – the issues related to the protection of the health and life of employees have a special meaning, which is expressed in extended safety systems, as well as inspections of working conditions, compliance with the work health and safety regulations and rules at individual work stations

In accordance with the Work Health and Safety (WHS) Policy the WHS rules are valid for all persons staying at TAURON Capital Group's sites. External entities that carry out work at the Group's subsidiaries are obliged to comply with the applicable procedures, including with respect to health and safety of employees. Employees of external companies (contractors and subcontractors) are also required to have up-to-date medical examinations (clearances) and appropriate qualifications and authorizations for the works

performed. Some of TAURON Capital Group's subsidiaries (especially those where work conditions are particularly dangerous) also introduce additional requirements and training for external entities.

The most important documents regulating health and safety at work are the Integrated Work (Occupational) Safety and Health Management System at TAURON Wydobycie, Work (Occupational) Health and Safety Management Procedures at TAURON Ciepło or the Quality, Environmental Protection and Work Safety Policy at TAURON Wytwarzanie

#### *Actions taken and results obtained*

An important element in promoting work health and safety (WHS) rules is continued raising of the awareness of employees and subcontractors with respect to occupational safety, mainly through dedicated training courses, which are conducted in the form of meetings and workshops, and in an interactive form by ways of e-learning platform training. Due to the fact that the best promoters of safe behavior at the work place are employees themselves, subsidiaries organize internal training courses, information campaigns, as well as work health and safety knowledge contests.

TAURON Capital Group's subsidiaries implement a number of initiatives aimed at improving the work health and safety (WHS) rules. In 2018, they included, among others:

- preventive activities with respect to safe organization of work at devices (TAURON Dystrybucja), including: meetings with field electricians and representatives of the contractors,
- involving people holding managerial positions (all levels and areas) in developing the culture of work safety, building engagement and raising employee awareness with respect to labor protection,
- promoting the idea of "Zero accidents at work",
- organizing meetings with the security personnel of external companies cooperating with TAURON Capital Group's subsidiaries,
- systematic work health and safety (WHS) checks at all levels of the organization,
- seeking and implementing new technologies and working methods in terms of work health and safety (WHS),
- information boards on the number of accidents and the number of days without an accident,
- carrying out periodic analyses of the condition of the work health and safety and undertaking corrective actions in the areas with the highest accident rates,
- implementation of the Work Health and Safety (WHS) Improvement Plans,
- a system of additional, periodic training course away from work for selected positions and work places, taking into account the correctness of risk perception, general work health and safety (WHS) rules, the magnitude of occupational risk and the consequences of non-compliance with the work health and safety (WHS) rules and supported by examples of actual accident events,
- professional adaptation program for the newly hired employees, ending with the assessment of the employee's suitability to work at a given work place,
- informing employees with respect to work (occupational) health and safety (WHS) with the use of available forms of communications (boards and information and warning signs), including by means of multimedia messages using available monitors and large screens,
- introducing modern forms of employee training and popularizing knowledge with respect to work (occupational) health and safety (WHS) with the use of multimedia materials,
- conducting Voluntary (Social) Work Conditions Reviews at all TAURON Capital Group's subsidiaries
- organizing at all Branches of TAURON Wytwarzanie the WHS Knowledge Competition for employees,
- organizing Sports and Fire Protection Competition in TAURON Wytwarzanie,
- additional training in first aid for all the newly hired employees,
- reviewing roads and passageways with respect to safe movement.

The above actions significantly influence the employee accident rates at TAURON Capital Group. Their results also include the percentage of employees of external companies trained with respect to the work (occupational) health and safety (WHS) at selected TAURON Capital Group's subsidiaries.

## Code of Conduct for the Counterparties (Business Partners) of TAURON Group's Subsidiaries

An important initiative implemented at TAURON Capital Group within the framework of a responsible supply chain is the inclusion of the sustainable development criteria in the procurement management standard.

TAURON promotes the idea of social responsibility among its suppliers, wants to cooperate with counterparties (contractors) who respect human rights and act in accordance with legal regulations, ensure safe and dignified working conditions and apply not only the highest ethical standards, but also care for the natural environment. The CSR criteria are defined and collected in a single document, i.e. the *Code of Conduct for Counterparties (Business Partners, Contractors) of TAURON Group's Subsidiaries*. From December 2017, it is a mandatory criterion used in the process of Counterparties' (Business Partners', Contractors') qualifications. The Code is a binding standard within the Capital Group, promoting responsibility among stakeholders and encouraging the implementation of responsible practices among suppliers.

### *Procedures and internal regulations*

The purpose of the *Code of Conduct for Counterparties (Business Partners, Contractors) of TAURON Group's Subsidiaries* is to define uniform standards and transparent rules of conduct within the framework of business conducted by the Subsidiaries, in particular with respect to the relations with Counterparties (Business Partners, Contractors).

The Code is used in the relations with Counterparties (Business Partners, Contractors) of TAURON Capital Group's subsidiaries and it is applicable to all employees, members of the management board and oversight authorities of subsidiaries, as well as proxies and power of attorneys.

The document covers the principles with respect to the employee related area (including safety and health of work, discrimination, personnel policy, forced labor, employment of children and minors), natural environment (environment protection, responsible resource management), contacts with the environment (stakeholders) (among others fair competition, countering fraud, information security and protection, investor relations).

In connection with the above the documents related to the Code are:

- *TAURON Group's Code of Responsible Business Conduct*,
- *Policy of Respect for Human Rights at TAURON Group*,
- *TAURON Group's Anti-Corruption Policy*,
- *Procedure for assessing the credibility of Counterparties (Business Partners, Contractors) of TAURON Polska Energia SA*,
- rules for organizing projects in cooperation with external entities at TAURON Capital Group,
- *Regulations for the award of orders (contracts) at TAURON Group*.

### *Actions taken and results obtained*

A counterparty (business partner, contractor) that participates in the proceedings organized by TAURON Capital Group's subsidiaries is obliged to submit a declaration confirming that it has studied TAURON Group's Code of Responsible Business Conduct and complies with its provisions. The above statement is posted on the Company's website at

[http://swoz.tauron.pl/platform/HomeServlet?MP\\_module=main&MP\\_action=publicFilesList](http://swoz.tauron.pl/platform/HomeServlet?MP_module=main&MP_action=publicFilesList).

## 11.5. Key CSR projects implemented at TAURON Capital Group in 2018

In 2018, TAURON Capital Group implemented initiatives addressing issues important from the point of view of the inhabitants of the south of Poland (Upper Silesia, Lower Silesia, Opole region, Małopolska). The Company's original project under the name of TAURON Energetyczny Junior Cup was carried out as part of the celebrations of the 100th anniversary of Poland regaining independence. It was a series of tournaments in which one hundred children's football clubs took part. TAURON Energetyczny Junior Cup was held under the patronage of the Minister of Sports and Tourism, the Minister of Energy and the governors of Małopolska and Silesia.

In 2018, the campaign under the name of "Energy of good words" („Energia dobrych słów”) was also carried out. As part of the project the employees of the organization recorded fairy tales for children at the radio station's studio. The audiobook was released on a CD in three thousand copies, and then distributed to hospitals and children's hospices operating in the south of Poland.

The activities undertaken by TAURON Capital Group's individual subsidiaries are also noteworthy.

TAURON Dystrybucja has been running an educational program for children and youth under the name "TAURON fuses. Turn it on for the good of the kid" ("Bezpieczniki TAURONA. Włącz dla dobra dziecka"), whose main goal is to educate the youngest with respect to learning the principles of safe use of electricity. From 2017, the program has been implemented based on a modern multimedia educational platform. Teachers can take advantage of 10 lesson scenarios for all primary school grades free of charge, students can watch interesting films about electricity, solve quizzes or play a game with a power sector employee in the lead role. Educational films are adapted to the needs of students with disabilities. The program also includes educational activities with the participation of scientists.

In the area of corporate social responsibility, TAURON also cooperates with external partners. A large part of TAURON Capital Group's area of business operations covers mountains (highlands), so a cooperation with the Foundation of the Mountain Volunteer Rescue Service allows for better identifying of the challenges facing customers living in these areas, and at the same time it enables education with respect to improving safety in the mountains. TAURON Capital Group also cooperates with the SIEMACHA Association, one of the leading non-government organizations in Poland, focused on implementing projects in such areas as upbringing, sports and therapy that provides systemic help to children and youth. As part of the cooperation TAURON Capital Group took patronage over the sports activities of the association, acquiring the title of "TAURON - a sports partner of SIEMACHA" ("TAURON sport partner SIEMACHY"). In 2018, such projects as "Football Children's Day with TAURON" ("Piłkarski Dzień Dziecka z TAURONEM") and "Juliada" were supported.

One of the directions of CSR is a social-business partnership. Since 2017, projects related to employee volunteering have been implemented within its framework.



The operations of TAURON Foundation are an important element of TAURON Group's CSR strategy. In 2018, the Foundation pursued its goals - in particular by supporting natural persons and legal entities, institutions and organizations in their activities that are in line with the Foundation's objectives - by donating PLN 3 933 777.79.

TAURON Foundation also carries out charitable projects. In 2018, together with TAURON and TAURON Dystrybucja, it carried out the fourteenth edition of the campaign under the name "Positive Energy Houses" ("Domy Pozytywnej Energii"). The campaign is addressed to the 24-hour care and education centers operating in the following regions: Lower Silesia, Opole, Silesia, Lesser Poland and Podkarpacie. The main objective of the campaign is to improve the living conditions of children from orphanages by supporting their education, opening perspectives and development in the environment. Since the refreshment of the campaign's formula, i.e. from 2011 to 2018, 566 orphanages took part in the campaign (in 2018, 43 outlets).

TAURON Capital Group is a signatory of the Responsible Energy Declaration, containing the principles of sustainable development in the energy sector in Poland. In 2013, the Company also joined the group of entities that signed the business declaration for sustainable development, thus committing itself to the implementation of the strategic goals of the "Vision for sustainable development for the Polish business 2050".

## 11.6. Sponsoring activities

In 2018, TAURON Capital Group's sponsoring activities were conducted based on the *Plan of conducting the sponsoring activities by TAURON Group in 2018*, adopted by the Management Board and granted a positive opinion by the Supervisory Board.

The main objective of TAURON Capital Group's sponsoring activities is to support its business goals defined in *TAURON Group's 2016-2025 Strategy*.

The sponsoring activity was carried out based on negotiated agreements, containing standardized provisions. In 2018, the introduction of bonuses for the achieved promotional result was started in the sponsorship agreements, making the payment of significant parts of the remuneration dependent on the measurable effectiveness of the contracts performed

Moreover, this activity was monitored, analyzed and reported on an on-going basis, through detailed reports on the implementation of sponsoring agreements, surveys and analyses conducted in quarterly, 6-month and annual cycles by specialized external entities

and the oversight performed by TAURON Capital Group's subsidiaries that carry out sponsoring activities (in 2018: TAURON Sprzedaż and TAURON).

In accordance with the implemented procedures, the effectiveness of the conducted activities was assessed by means of opinion polls, measuring the size and value of the brand's exposure in the media in the context of conducted activities, as well as measuring the impact on pro-sales attitudes with reporting of the results achieved.

An independent research entity initially estimated the resulting advertising equivalent in relation to the activities completed in 2018 as a result of the measurement of promotional effectiveness. Comparing the summarized value obtained in this way to the sum of all expenditure arising from sponsoring agreements the ROI ratio at a level of approximately PLN 6. was obtained. It means that each zloty (PLN) spent for that purpose generated promotional benefits to TAURON Capital Group whose preliminary value is independently estimated at approximately PLN 6.

The confirmation of the financial effectiveness of the activities conducted is the high positioning of TAURON brand in an independent research report, Sponsoring Monitor 2018. According to this report, TAURON is ranked eighth in the TOP 10 list of sponsors overall. Several hundred brands were classified in the ranking, which is the result of opinion polls. TAURON achieved a very good result, taking the highest position in the ranking among competitors. Due to the relatively low level of sponsorship spending by TAURON Capital Group, the position in this ranking can be seen as high.

In 2018, the sponsorship activity covered a total of 24 projects with 20 counterparties (business partners, contractors). Preliminary data on the advertising equivalents achieved regarding the activities completed in 2018 indicate that the best results were achieved by such activities as Tour de Pologne, Polish Ski Association and TAURON Speedway Euro Championship. Among the projects with their status in progress, which is understood as contracts that were concluded but not completed, activities such as the sponsoring of TAURON Arena Kraków were characterized by a strong potential.

## 11.7. Description of material risks related to TAURON Capital Group's operations that may have an adverse impact on the policies applied by TAURON Capital Group, as well as the description of the management of such risks

As part of the risk management process employed by TAURON Capital Group, risks related to the operations of its subsidiaries that could have an adverse impact on the social, employee related, natural environment, respect for human rights and anticorruption issues, as well as on the policies employed by TAURON Capital Group, were identified.

In accordance with the regulations in force, that are presented in detail in section 3 of this report, for every identified risk its Risk Owner is appointed and made responsible for this risk management, risk records (data sheets) are developed containing descriptions of the mitigation measures undertaken, risk measurement parameters and early warning indicators are defined and in particular cases separate risk response and backup plans are developed. These risks are included in the risk model that defines the categories of risks present in TAURON Capital Group's operations.

The most significant risks faced by TAURON Capital Group include: social risk, human capital management risk, WHS risk, internal communication risk, environmental risk, procurement process risk, legal risk and compliance risk.

The below table presents the description of risks related to TAURON Capital Group's operations that could have an adverse impact on the policies employed by TAURON Capital Group and the description of reactions applied with respect to such risks.

Table no. 68. Risks related to TAURON Capital Group's operations that could have an adverse impact on the policies employed by TAURON Capital Group and the description of reactions applied with respect to such risks

#	Risk name	Risk description	Reaction to risk
1.	Social risk	The risk includes a failure to meet customer service standards, to deliver on sales agreements, external communications and marketing activities and the personal	Adoption and execution of Customer Oriented Social Policy.

#	Risk name	Risk description	Reaction to risk
		data protection related risk. Risk materialization could result in loss of reputation and customer trust, customer disputes, non-achievement of goals including sales targets and possible penalties for legal noncompliance concerning personal data protection.	<ul style="list-style-type: none"> <li>• Conducting a dialogue with customers, including customer satisfaction surveys, tailoring the product offering to their needs, looking after high customer service levels.</li> <li>• Building relations with the customers and market environment.</li> <li>• Responsibility for the product including quality and security of supply, tailoring the product offering to customer needs.</li> <li>• Customer personal data privacy and security protection.</li> <li>• Implementing tools supporting execution of customer focused social policy.</li> <li>• Standardization of customer agreement templates and their adaptation to legislation changes and optimization of sales and service processes.</li> <li>• Delivery of promotional activities in line with the adopted TAURON brand strategy and TAURON Group sponsoring strategy for 2018-2025, taking into account respect for human rights and conducting responsible marketing</li> </ul>
2.	Human capital management risk	Risk relating to employee issues including diversity, inclusion, employment conditions and respect of right of association, capital management, career paths and recruitment management, training system, work health and safety management. Risk materialization results in employee complaints, collective disputes, strikes, loss of specialized staff and problems with its restoration.	<ul style="list-style-type: none"> <li>• Adoption and execution of the Employee Recruitment, Selection and Adaptation Policy.</li> <li>• Adoption and execution of the Counter Mobbing and Counter Discrimination Policy.</li> <li>• Looking after development of employee competences, including through participation in trainings.</li> <li>• Holding consultations with social organizations within TAURON Capital Group.</li> <li>• Execution of the staffing policy based on the Competence Model and Rules of Compensation, and Rules of Work.</li> <li>• Adoption and implementation of the Diversity Policy.</li> <li>• Adoption and implementation the Human Rights Respect Policy.</li> </ul>
3.	Work Health and Safety (WHS) risk	Risk relating to ensuring health and safety at work. Risk materialization result is employee injury, health loss or excessive employee exposure to hazards.	<ul style="list-style-type: none"> <li>• Prioritization of employee, customer, contractor and stakeholder safety in the business activities performed.</li> <li>• Adoption and execution of the Work Health and Safety Policy of the TAURON Group.</li> <li>• Ensuring optimal working conditions.</li> <li>• Raising employee qualifications with respect to work safety improvements.</li> <li>• Conducting trainings, implementation and improvement of WHS management system.</li> <li>• Popularizing (spreading, promoting) the culture of safety among the workforce based on the published materials on specific subjects.</li> </ul>
4.	Internal communication risk	Risk relating to assuring optimal and effective communication within TAURON Group and transmission of honest information to employees of TAURON Capital Group while observing confidentiality of sensitive information. Risk materialization result is a loss of trust in the employer, increased social unrests, loss of reputation and negative impact on the TAURON brand.	<ul style="list-style-type: none"> <li>• Building relations with the social side at the TAURON Capital Group and close cooperation with the Social Dialogue Spokesperson.</li> <li>• Use and development of available communications tools to provide significant information to the employees of the TAURON Capital Group.</li> <li>• When providing significant information – organization of fact to face meetings of the management staff with the employees.</li> <li>• Ongoing monitoring of situation and events at companies of the TAURON Capital Group that could result in social unrests.</li> <li>• Regular meetings with the representatives of companies dealing with internal communication to exchange information.</li> <li>• Developing the Communication Strategy for the TAURON Group.</li> </ul>
5.	Environmental risk	Risk relating to impact of business operations on natural environment and the use of its resources, pollution control and prevention, protection of water sources and waste management. Risk materialization result is a degradation of natural environment and penalties for failing to meet environmental requirements, the need to remedy them, to limit production, possibility of benefiting from subsidy programs and loss of image of the TAURON Capital Group.	<ul style="list-style-type: none"> <li>• Adoption and implementation of Environmental Policy of the TAURON Group.</li> <li>• Conducting business operations impacting the natural environment according to sustainable development principles.</li> <li>• Identification of areas of environmental impact and assuring the operation of the TAURON Capital Group in compliance with the environment protection laws.</li> <li>• Continuing development of knowledge and environmental responsibility culture among the employees, customers and business partners of the TAURON Capital Group.</li> </ul>

#	Risk name	Risk description	Reaction to risk
			<ul style="list-style-type: none"> <li>• Seeking solutions aimed at implementing circular economy principles at the TAURON Capital Group and actively seeking technical and organizational solutions that minimize the negative impact of operations on the environment.</li> <li>• Improvement of energy efficiency and efficient water management.</li> <li>• Offering products / services that take into account the aspect of limiting the negative environmental impact.</li> <li>• Promoting conservation of nature and relevant collaboration with local government and central government administration bodies.</li> </ul>
6.	Procurement process risk	Risk relating to the exercised procurement procedures, taking into account prevention of violation of human rights by business partners, countering corruption and fraud in procurement processes and observing ethical and moral standards in their progress. Risk materialization result are non-optimal purchase contracts, need to annul tendering procedures, loss of image of the TAURON Capital Group and credibility to stakeholders	<ul style="list-style-type: none"> <li>• Adoption and implementation of the Code of Conduct of Counterparties (Business Partners) of the TAURON Group.</li> <li>• Adoption and execution of the Anticorruption Policy of the TAURON Group.</li> <li>• Adoption and execution of the Human Rights Respect Policy.</li> <li>• Standardization of the principles of conducting procurement processes and their transparency.</li> <li>• Building lasting business partner relationships based on trust and mutual respect.</li> <li>• Expecting the business partners to observe the legal regulations, ethics standards and fair trading practices, including work health and safety, prevention of discrimination and unequal treatment, respecting employee human rights and dignity, transparent HR policy, environment protection, fair competition, fraud prevention and combating, as well as information security and protection.</li> <li>• Use of standard template agreements and standard clauses in contracts providing for respect for human rights by the business partners of the TAURON Capital Group.</li> </ul>
7.	Legal risk	Risk relating to non-observance of legal regulations, misinterpretation of new rules and regulations, requirements imposed by the regulator and the supervisory (oversight) bodies	<ul style="list-style-type: none"> <li>• Ongoing monitoring of the legal environment and amendments to legal regulations, including in scope of social issues, respect for human rights, countering corruption, environment protection and employee issues</li> <li>• Implementation of the required amendments to the in-house regulations.</li> <li>• Appointing working parties tasked with developing and implementing the required changes resulting from the legal environment.</li> <li>• Ongoing cooperation with the bodies supervising the energy market and the capital market.</li> <li>• Consultations with the organizational units (business units) with respect to the projected key regulations for the compliance area.</li> <li>• Training the employees in legal regulations and in-house regulations.</li> </ul>
8.	Compliance risk	Compliance risk includes the risk of internal fraud, external fraud and non-ethical conduct. Risk relating to misappropriation or improper use of Company assets, their devastation, abuse of official position for personal gains, acts by third parties aimed at theft, burglary, counterfeiting and related to occurrence of conduct violating generally accepted social coexistence standards, moral standards and mobbing.	<ul style="list-style-type: none"> <li>• Adoption and implementation of Code of Conduct of Business Partners of the TAURON Group.</li> <li>• Adoption and execution of the Anticorruption Policy of the TAURON Group.</li> <li>• Adoption and execution of the Human Rights Respect Policy.</li> <li>• Adoption and execution of the Counter Mobbing and Counter Discrimination Policy.</li> <li>• Adoption and implementation of the Diversity Policy.</li> <li>• Efficient use within the organization of the system for reporting abuse cases (whistleblowing system), enabling reporting potential abuse cases, the system also enables reporting of abuse cases by external entities via the abuse reporting form on the website <a href="http://www.tauron.pl/">http://www.tauron.pl/</a>.</li> <li>• Monitoring of the cooperation with business partners (counterparties) and examining their credibility in cooperation with external entities at TAURON Group.</li> <li>• Promoting best practices, improvement of procedures, conducting trainings and observing the Code of Business Ethics of the TAURON Group and operation of a fraud reporting system.</li> <li>• Building an organizational culture based on values and principles of the TAURON Group</li> </ul>

## 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 2018.

Table no. 69. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2018

Proceedings involving TAURON		
#	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
1.	Huta Łaziska S.A. (powód) TAURON (as a legal successor to Górnośląski Zakład Elektroenergetyczny S.A. and the State Treasury represented by the President of ERO (defendants))	Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of ERO of October 12, 2001 related to the resumption of electricity supply to the plaintiff  Value of the object of litigation: PLN 182 060 000.00  Initiation of the proceeding: the lawsuit of March 12, 2007  Company's position: the Company considers the claims covered by the lawsuit as being without merit.
2.	ENEA (plaintiff) TAURON (defendant)	Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment in connection with the settlements related to the non-balancing of the Balancing Market with Polskie Sieci Elektroenergetyczne S.A. between January and December 2012.  Value of the object of litigation: PLN 17 085 846.49  Initiation of the proceeding: the lawsuit of December 10, 2015  Company's position: the Company considers the claims covered by the lawsuit as being without merit.
3.	Head of the Mazovian Customs and Tax Office (authority conducting the investigation) TAURON (party)	Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the three investigations carried out by the Head of the Mazovian Customs and Tax Office are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from the following entities: Castor Energy sp. z o.o. and Virtuse Energy sp. z o.o.  Value of the object of litigation (deducted VAT amount): PLN 54 371 306.92, out of which: Castor Energy sp. z o.o. – PLN 52 494 671.92, Virtuse Energy sp. z o.o. – PLN 1 876 635.00  Date of initiating the proceeding: Castor Energy sp. z o.o. – October 2014 and December 2016, Virtuse Energy sp. z o.o. – December 2016  Company's position: in the Company's opinion, taking into account all the circumstances of the matter and the rulings of the Court of Justice of the European Union (CJEU), as well as the rulings, positive for the taxpayers, of WSA and NSA, surfacing since the end of 2016, in cases related to the right to deduct VAT in the event of unwitting participation in the missing trader fraud if, 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 and Virtuse.

Lawsuits pertaining to the termination, by the PE-PKH subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin

#	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
		Object of litigation: lawsuit for payment of damages and determination of liability for the future.
4.	Dobiesław Wind Invest sp. z o.o. (plaintiff) TAURON (pozwana)	Value of the object of litigation: PLN 34 746 692.31 Initiation of the proceeding: the lawsuit of June 30, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
5	Dobiesław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for submitting a security (collateral) by establishing an escrow deposit (set aside for a separate consideration outside the proceeding under section 4) Value of the object of litigation: PLN 183 391 495.00 Date of initiating the proceeding: June 30, 2017 Company's position: the Company considers the claims as being without merit.
6.	Gorzyca Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 39 718 323.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
7.	Pękanino Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 28 469 073.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
8.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 27 008 100.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
9.	in.ventus sp. z o.o. Mogilno I sp. k. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: EUR 12 286 229.70 (i.e. PLN 53 587 619.46 at NBP's average exchange rate of June 29, 2018)

		Initiation of the proceeding: the lawsuit of June 29, 2018
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
10.	Amon sp. z o.o. and Talia sp. z o.o. (formal co-participation on the plaintiff's side) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: Amon – PLN 47 556 025.51; Talia – PLN 31 299 182.52 Initiation of the proceeding: the lawsuit of April 30, 2018 Company's position: the Company considers the claims covered by the lawsuit as being without merit.

#### Proceedings involving TAURON Capital Group's subsidiaries

#	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
1.	Gorzyca Wind Invest sp. z o.o. Pękanino Wind Invest sp. z o.o. Dobiesław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, 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: Gorzyca – PLN 1 141 991.61; Pękanino PLN 39 266 111.02 Date of initiating the proceeding: Gorzyca – May 18, 2015, Pękanino – May 20, 2018, DWI – May 18, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
2.	Dobiesław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to award damages Value of the object of litigation: PLN 42 095 462.00 Initiation of the proceeding: the lawsuit of June 14, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit.
3.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, 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 42 499 627.97 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.
4.	Amon sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PE-PKH, 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 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.

		Object of litigation: plea to declare the termination, by PE-PKH, 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.
5.	Talia sp. z o.o. (plaintiff) PEPKH (defendant)	Value of the object of litigation: PLN 26 769 159.48
		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.
		Object of litigation: plea to declare the termination, by PE-PKH, of the agreements related to the sale of electricity null and void, and to award damages.
6.	Mogilno III Mogilno IV Mogilno V Mogilno VI (plaintiff) PEPKH (defendant)	Value of the object of litigation: Mogilno III – equivalent of EUR 835 763.25; Mogilno IV – equivalent of EUR 930 395.46; Mogilno V – equivalent of EUR 777 607.28; Mogilno VI – equivalent of EUR 677 738.23 EUR
		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.
		Object of litigation: lawsuit for payment of damages
7.	Mogilno I Mogilno II (plaintiff) PEPKH (defendant)	Value of the object of litigation: Mogilno I – equivalent of EUR 712 000.75; Mogilno II – equivalent of EUR 753 462.78
		Initiation of the proceeding: the lawsuits of November 7, 2018
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.

## 12.2. Information on agreements concluded by TAURON Capital Group's subsidiaries

### 12.2.1. Agreements significant for TAURON Capital Group's operations

#### *Conclusion of the coal purchase agreement with Polska Grupa Górnicza S.A.*

On January 18, 2018 a coal purchase agreement was signed between the Company and Polska Grupa Górnicza S.A. The subject of the Agreement is the purchase of thermal coal for the production needs of TAURON Capital Group's power generating units. The Agreement was concluded for an indefinite period of time. The estimated value of coal supplies in the 2018-2021 time frame, based on the coal price agreed for 2018, will reach the net amount of approximately PLN 2.15bn.

The coal price was agreed for the first year of the Agreement's term, while in the subsequent years the coal price will be indexed based on the formula included in the Agreement, taking into account changes of the market conditions.

The Agreement provides for liquidated damages in the amount of 10 percent of the value of unrealized deliveries in the given year.

The information on the above event was disclosed by the Company in the regulatory filing (current report) no. 1/2018 of January 18, 2018.

#### *Financing for Elektrociepłownia Stalowa Wola S.A.*

On March 8, 2018 r. EC Stalowa Wola signed a loan agreement with BGK and Polskie Górnictwo Naftowe i Gazownictwo S.A.

Under the above mentioned agreement BGK and PGNiG granted EC Stalowa Wola a loan in the amount of PLN 450 million each, to be used to refinance EC Stalowa Wola's debt towards TAURON and PGNiG (PLN 600 million) and to cover new

capital expenditures to complete EC Stalowa Wola's project (PLN 300 million). The final loan repayment date is June 14, 2030. The collateral of EC Stalowa Wola's debt towards BGK is, among others, a bank guarantee issued at the Issuer's instruction. The bank guarantee will be renewed annually, and its value will not exceed PLN 517.5 million.

On April 26, 2018 TAURON received from BGK information that all the suspending conditions, specified in the loan agreement concluded between EC Stalowa Wola and BGK and PGNiG had been fulfilled, which enabled the disbursement of the funds under the loan in favor of EC Stalowa Wola.

The above events were described in detail in the regulatory filing (current report) no. 5/2018 of March 8, 2018 and in the regulatory filing (current report) no. 20/2018 of April 26, 2018.

#### *Extension of the bond issue program*

On March 9, 2018 the amendment to the agreements related to the bond issue program (Program), i.e. the agency and custody agreement as well as the underwriting agreement, the information on the concluding of which had been disclosed by the Company in regulatory filing (current report) no. 49/2015 of November 24, 2015, was signed. Pursuant to the amendment some banks extended the period of availability of the funds under the Program, and thus the maximum value of the Program:

a) is PLN 6 070 000 000 until December 31, 2020,

b) is PLN 5 820 000 000 until December 31, 2022..

Until December 31, 2020 the Program's amount will not change and it will reach the maximum value of PLN 6 270 000 000. The financing margin under the Program did not change due to the extension completed.

The amendment was signed with the following banks taking part in the Program: Bank Handlowy in Warsaw S.A., BGŻ BNP Paribas S.A., Santander Bank Polska S.A., CaixaBank S.A. (Joint Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

The information on the above event was disclosed by the Company in the regulatory filing (current report) no. 6/2018 of March 9, 2018.

#### *Signing of the transaction documentation related to the investment of the Closed-end Investment Funds managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund) in the Nowe Jaworzno Grupa TAURON subsidiary*

On March 28, 2018 the Company, Nowe Jaworzno GT and Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund) and Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund - Non-public Assets Closed-end Debt (Fixed Income) Investment Fund), a part of whose investment portfolio is managed by PFR (Polish Development Fund), signed the transaction documentation defining the terms of the Funds' equity investment in Nowe Jaworzno GT. The transaction documentation includes the Investment Agreement and the Shareholders Agreement, along with appendices thereto, including the drafts of a multi-year Electricity Sale Agreement and a multi-year Coal Sale Agreement that were concluded by the Company and the Nowe Jaworzno GT subsidiary.

Shareholders Agreement defines the principles of corporate governance in the Nowe Jaworzno GT subsidiary. This agreement grants the Funds, among others, a personal entitlement to appoint, suspend in their duties and dismiss one member of the Management Board and one member of the Supervisory Board of the Nowe Jaworzno GT subsidiary. It also defines a catalogue of matters for the completion of which by the Nowe Jaworzno GT subsidiary a unanimous resolution of the Management Board, the Supervisory Board or the General Meeting of Shareholders of the company will be required.

Investment Agreement defines the terms and conditions of the Funds' equity investment in the Nowe Jaworzno GT subsidiary. This investment assumes the Funds joining the Special Purpose Vehicle and their participation in the subsequent

recapitalizations (financing rounds) of the Nowe Jaworzno GT subsidiary, by taking up the newly created shares in exchange for financial contributions up to the total maximum amount (cap) of PLN 880 000 000, i.e. PLN 440 000 000 by each of the Funds. The Funds' stake in the Nowe Jaworzno GT subsidiary's share capital, as of the day the 910 MW power generating unit in Jaworzno is commissioned, should reach approx. 14%, while the Company's stake shall in no case drop below 50% + 1 share. The Company will be obligated to ensure the Nowe Jaworzno GT subsidiary's recapitalization to the extent required to complete the 910 MW power generating unit's construction project in Jaworzno after the Funds have achieved the equity exposure in the amount equal to the above mentioned maximum level (cap).

The Funds joining the Nowe Jaworzno GT subsidiary was contingent on the fulfillment of specific suspending conditions which were fulfilled by the agreed deadlines.

The information on the above events was disclosed by the Company in the regulatory filings (current reports) no. 25/2017 of June 1, 2017, no. 43/2017 of December 29, 2017 and no. 4/2018 of February 28, 2018.

After all the suspending conditions and formal activities required for the Funds joining had been fulfilled on December 21, 2018 Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund – Non-public Assets Closed-end Equity Investment Fund) paid the first tranche of the capital in the amount of PLN 100 000 000.

#### *Concluding of the hard coal sale agreement and electricity sale agreement with Nowe Jaworzno GT*

On July 18, 2018 a multi-year hard coal sale agreement was concluded between TAURON and Nowe Jaworzno GT. In accordance with the provisions of the agreement TAURON will be the supplier of hard coal for the needs of electricity production by Nowe Jaworzno GT, including for the needs of the electricity sale agreement mentioned below. The term of the agreement is 30 years, and the base coal shipments size is approx. 1 155 100 Mg/year. TAURON Wydobycie will be the primary supplier of hard coal, while PPG will be a supplementary supplier of hard coal.

At the same time as the above agreement on July 18, 2018 the electricity sale agreement was concluded. In accordance with the provisions of the agreement TAURON will be the primary recipient of electricity. The agreement was concluded for the same period as the hard coal sale agreement.

Concluding of the multi-year hard coal sale agreement and the electricity sale agreement was the precondition for the Funds joining the Nowe Jaworzno GT subsidiary.

The information on the concluding of the above agreements was disclosed by the Company in the regulatory filing (current report) no. 24/2018 of July 26, 2018.

#### *Hybrid bond issue*

On December 11 and 13, 2018 the Company and the European Investment Bank (EIB) signed the hybrid bond (subordinated) issue agreements with the total value of PLN 750 000 000.

The detailed information related to the above agreements is provided in section 7.1. of this report.

The information on the above event was disclosed by TAURON in the regulatory filing (current report) no. 36/2018 of December 11, 2018 and in the regulatory filing (current report) no. 37/2018 of December 13, 2018.

#### *Signing of the loan agreement with Bank Gospodarstwa Krajowego*

On December 19, 2018 TAURON provided information on signing with BGK of a loan agreement for the amount of PLN 1 000 000 000, the proceeds from which will be used to:

1. refinance the Company's bonds underwritten by BGK in 2014-2015 with maturity dates falling in 2019-2020 (in the total amount of PLN 270 000 000),
2. finance TAURON Capital Group's capital expenditures.

In accordance with the Loan Agreement the funds will be made available by December 31, 2020, and they will be repaid in equal principal installments from 2024 to 2033. The interest rate will be set based on a floating interest rate (WIBOR 6M) increased by BGK's margin.

The signing of the Loan Agreement contributes to strengthening of the Company's financial stability as a result of obtaining a new source of financing and extending the debt maturity date.

The information on the above event was disclosed by the Company in the regulatory filing (current report) no. 38/2018 of December 19, 2018.

### 12.2.2. Transactions with related entities on terms other than at arm's length

All transactions with related entities are concluded at arm's length.

The detailed information on the transactions with related entities is provided in note 49 of the consolidated financial statements for the year ended on December 31, 2018.

### 12.2.3. Signed and terminated credit and loan agreements

#### Working capital credits and short term loans

In accordance with the financing model adopted by TAURON Capital Group, only TAURON may act as a party to working capital credits and short-term loans raised with external institutions.

TAURON Capital Group is using a true cash pooling structure, implemented under the cash management agreement concluded with PKO BP (of December 18, 2017 with the validity term until December 17, 2020). The cash pooling structure is based on daily limits granted to individual participants by the agent managing the service, i.e. TAURON. As a result of implementing the cash pooling mechanism, cash transfers are performed between accounts of participants of the service and the agent's account.

Within the cash pooling structure TAURON uses the following services offered by PKO BP:

1. overdraft limit in the amount of PLN 300 000 000, based on the overdraft agreement concluded with the bank in October 2017, with the repayment date falling on December 29, 2020, and
2. intraday limit in the amount of PLN 500 000 000, effective until December 17, 2020. The intraday limit is a daily limit which must be fully repaid by the end of each day on which it was used.

As part of financing its ongoing operations the following agreements were also in force in 2018:

1. overdraft agreement with BGK, up to the amount of EUR 45 000 000, concluded with BGK in 2016, as subsequently amended, with the repayment date of December 31, 2019. The overdrawn amount is used for financing of the transactions of purchase/ sale/ exchange of CO<sub>2</sub> emission allowances, trading in electricity and gas made on the European exchanges,
2. overdraft agreement concluded with mBank on March 30, 2018 for the amount not exceeding of USD 500 000, to be used for financing the ongoing operations, in particular, for financing the collateral margin and commodity products transactions. The repayment deadline of the loan falls on March 28, 2019.

The purpose of above described foreign currency loans is to mitigate the FX risk related to the trade transactions concluded.

The below table presents a detailed summary of TAURON Capital Group's working capital loan and credit agreements effective as of December 31, 2018, listed according to the repayment date.

Table no. 70. Summary of TAURON Capital Group's working capital loan and credit agreements effective as of December 31, 2018 (listed according to the repayment date)

#	Parties to the agreement	Type of agreement	Interest rate	Amount of credit/loan ('000)	Date of agreement	Repayment date	As of December 31, 2018 ('000)
1.	TAURON – mBank	Overdraft	LIBOR 1M + fixed margin	500 USD	27.03.2018	28.03.2019	204 USD
2.	TAURON – BGK	Overdraft	EURIBOR 1M + fixed margin	45 000 EUR	30.12.2015	31.12.2019	0 EUR
3.	TAURON – PKO BP	Intraday limit	None	500 000 PLN	09.10.2017	17.12.2020	0 PLN
4.	TAURON – PKO BP	Overdraft	WIBOR O/N + fixed margin	300 000 PLN	09.10.2017	29.12.2020	0 PLN

### Investment credits and loans

In 2018 TAURON signed with BGK a loan agreement for PLN 1 000 000 000.

The detailed information related to the above agreement is provided in section 12.2.1 of this report.

The below table presents a detailed summary of TAURON Capital Group's investment credit and loan agreements effective in 2018, listed according to the repayment date.

Table no. 71. Summary of TAURON Capital Group's investment credit and loan agreements effective in 2018, (listed according to the repayment date)

#	Parties to the agreement	Interest rate	Amount of credit/loan ('000)	Date of agreement	Repayment date	Balance as of December 31, 2018 ('000)
1.	KW Czatkowice – WFOŚiGW	Floating rate	914 PLN	12.05.2016	31.05.2021	443 PLN
2.	TAURON – EIB	Fixed rate	210 000 PLN	24.10.2011	15.12.2021	63 000 PLN
3.	TAURON – EIB	Fixed rate	300 000 PLN	24.10.2011	15.12.2021	90 000 PLN
4.	TAURON Wytwarzanie – WFOŚiGW	Base rate + fixed margin	40 000 PLN	25.10.2010	15.12.2022	16 000 PLN
5.	TAURON Ciepło – WFOŚiGW	Base rate + fixed margin	30 000 PLN	29.03.2011	30.04.2019	800 PLN
6.	KW Czatkowice – WFOŚiGW	Floating rate	293 PLN	05.11.2018	30.11.2023	288 PLN
7.			900 000 PLN	03.07.2012	15.06.2024	225 000 PLN
8.	TAURON – EIB	Fixed rate	200 000 PLN	03.07.2012	15.09.2024	109 090 PLN
9.			250 000 PLN	03.07.2012	15.09.2024	136 363 PLN
10.	TAURON – EIB	Fixed rate	295 000 PLN	18.07.2014	15.03.2027	250 750 PLN
11.	TAURON – BGK	WIBOR 6M + fixed margin	1 000 000 PLN	19.12.2018	20.12.2033	0 PLN

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2018.

After the balance sheet date, in January and in February 2019, TAURON drew tranches of BGK loan with total value amounting to PLN 730 000 000.

## 12.2.4. Loans and sureties granted as well as sureties and guarantees received

### Loans granted

In 2018 TAURON granted financing to its co-subsiary, EC Stalowa Wola, in the form of loans to be used for funding the current operations of EC Stalowa Wola, financing the VAT settlements and financing the agreements with the subcontractors. Furthermore, the agreement consolidating ECSW's debt due to the loans granted to the company before was signed in 2018.

On March 2, 2018 the Company concluded with PGE EJ 1 an agreement on a PLN 4 800 000 loan for the period of 3 years from the date of concluding the agreement, i.e. until March 2, 2021.

The below table presents a summary of Tauron Capital Group's loans granted and effective in 2018, listed according to the repayment date.

Table no. 72. Summary of Tauron Capital Group's loans granted and effective in 2018, (listed according to the repayment date)

#	Parties to the agreement	Interest rate	Date of agreement	Repayment date	Loan amount ('000)
1.	EC Stalowa Wola – TAURON	WIBOR 1M + fixed margin	12.01.2018	28.02.2018.	27 000 PLN
2.	EC Stalowa Wola – TAURON	WIBOR 1M + fixed margin	11.04.2018	30.09.2020	2 650 PLN
3.	PGE EJ 1 – TAURON	Fixed rate	08.11.2017	06.11.2020	2 940 PLN
4.	PGE EJ 1 – TAURON	Fixed rate	02.03.2018	02.03.2021	4 800 PLN
5.	EC Stalowa Wola – TAURON	Fixed rate	28.02.2018	30.06.2033	310 851 PLN
6.	EC Stalowa Wola – TAURON	Fixed rate	30.03.2018	30.06.2033	7 000 PLN
7.	EC Stalowa Wola – TAURON	Fixed rate	19.12.2018	30.06.2033	8 535 PLN

After the balance sheet date, on March 12, 2019 the Company granted funds to EC Stalowa Wola in the amount of PLN 5 175 000 with repayment date falling on June 30, 2033.

### Sureties and guarantees granted

Principles of granting collaterals by TAURON and its subsidiaries are based on the corporate internal regulations in force.

The below table presents a summary of sureties and guarantees granted by TAURON effective in 2018, listed according to the validity date.

Table no. 73. Summary of sureties and guarantees granted by TAURON effective in 2018 (listed according to the validity date)

#	Beneficiary	Agreement / collateral	Entity whose liabilities constitute the subject of collateral	Liability amount under agreement ('000)	Date of agreement	Validity date
1.	PSG	Guarantee agreement	TAURON Sprzedaż	20 000 PLN	30.03.2016	30.11.2019
2.	GAZ-SYSTEM	Guarantee agreement	EC Stalowa Wola	1 667 PLN	05.12.2017	30.07.2020
3.				33 024 PLN	29.10.2018	31.12.2020
4.	PSE	Guarantee agreement	Nowe Jaworzno GT	33 024 PLN	29.10.2018	31.12.2021 <sup>1</sup>
5.				33 024 PLN	29.10.2018	31.12.2022 <sup>1</sup>
6.	BGK	Guarantee agreement	EC Stalowa Wola	9 959 PLN	08.11. 2018	30.01.2021
7.			EC Stalowa Wola	9 959 PLN	08.11. 2018	30.01.2022 <sup>2</sup>



#	Beneficiary	Agreement / collateral	Entity whose liabilities constitute the subject of collateral	Liability amount under agreement ('000)	Date of agreement	Validity date
8.			EC Stalowa Wola	9 959 PLN	08.11.2018	30.01.2023 <sup>2</sup>
9.	WFOŚiGW	Guarantee agreement	KW Czatkowice	914 PLN	01.06.2016	15.06.2021
10.	WFOŚiGW	Guarantee agreement	KW Czatkowice	293 PLN	05.11.2018	31.12.2023
11.	Funds advisors	Guarantee agreement	Nowe Jaworzno GT	2 500 PLN	29.12.2017	28.09.2025
12.	Bondholders	Corporate guarantee	TAURON Sweden Energy	168 000 EUR	03.12.2014	03.12.2029
13.	Businesses and consumers that concluded an agreement with TAURON Ekoenergia based on the electricity trading license granted by the President of ERO	Corporate guarantee	TAURON EKOENERGIA	16 400 PLN	09.11.2017	31.12.2030
14.	PSE	Guarantee agreement	TAURON Wytwarzanie	5 000 PLN	04.08.2014	indefinitely

<sup>1</sup> Guarantee agreements were released by PSE on 30.11.2018,

<sup>2</sup> Guarantee agreements were released by BGK on December 7 and December 17, 2018

Besides TAURON the other subsidiaries of TAURON Capital Group did not grant any sureties.

Additionally in 2018 the collaterals granted by TAURON in the form of blank promissory notes (bills of exchange) were valid, as summarized in the following table, listed according to the validity date.

Table no. 74. Summary of blank promissory notes (bills of exchange) granted by TAURON as of December 31, 2018 (listed according to the validity date)

#	Beneficiary	Entity whose liabilities constitute the subject of collateral	Liability amount under agreement ('000)	Validity date
1.	MEN	TAURON	742 PLN	31.03.2020
2.	WFOŚiGW	TAURON Wytwarzanie	40 000 PLN	15.12.2022
3.	WFOŚiGW	TAURON Ciepło	30 000 PLN	15.12.2022
4.	NCBR	TAURON	2 375 PLN	31.07.2024
5.	NCBR	TAURON	1 869 PLN	31.03.2026

After the balance sheet date, i.e. on February 6, 2019, TAURON granted a collateral in the form of a blank promissory note (bill of exchange) for the amount of PLN 2 574 000 to the agreement on a funding to a project under the National Research and Development Center (Narodowe Centrum Badań i Rozwoju).

The following framework (master) agreements concluded by TAURON, under which bank guarantees were issued, were in force in 2018:

1. Framework (master) agreement of June 8, 2015 on a limit on bank guarantees, concluded with Santander Bank Polska S.A., including an amendment extending the effective term of the agreement until June 7, 2019 and an extension option by another 12 months. The limit amount of PLN 150 000 000 to be used by TAURON and its subsidiaries in favor of the beneficiary - Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT).

2. Framework (master) Agreement of July 12, 2016 on a limit on bank guarantees, concluded with CaixaBank S.A. (Joint Stock Company) Branch in Poland (CaixaBank), under which a limit was granted for the period of 36 months, i.e. until July 11, 2019. The maximum effective term of the bank guarantees issued within the limit shall not exceed July 11, 2020. The limit to be used by TAURON and its subsidiaries in conjunction with their operations.
3. Agreement of April 4, 2018 on a limit on bank guarantees, concluded with MUFG Bank Ltd, under which a limit was granted for the amount not higher than PLN 517 500 000, to be used to grant a bank guarantee as a collateral for the claims of BGK towards EC Stalowa Wola with the effective term of up to 12 months from the guarantee issue date.

Furthermore, on February 5, 2019 TAURON concluded a new agreement on a limit on bank guarantees with MUFG Bank Ltd, under which an amendment to the bank guarantee in favor of BGK was issued, as a result of which the guarantee amount was raised to PLN 517 500 000 and its effective term was extended until April 11, 2020.

The below table presents a summary of bank guarantees granted under TAURON's framework (master) agreements, effective in 2018, listed according to the validity date.

*Table no. 75. Summary of bank guarantees granted under TAURON's framework (master) agreements, effective in 2018 (listed according to the validity date)*

#	Bank	Company	Beneficiary	Type of guarantee	Amount ('000)	Validity term
1.	CaixaBank	KW Czatkowice	EDF Fuels	performance bond	187 PLN	12.01.2017 – 30.01.2018
2.	CaixaBank	KW Czatkowice	PGE	performance bond	147 PLN	09.09.2016 – 31.01.2018
3.	CaixaBank	TAURON	PSE	performance bond	4 040 PLN	01.01.2017 – 11.02.2018
4.	Santander Bank	TAURON	IRGIT	accounts payable	20 000 PLN	14.12.2016 – 31.03.2018
5.	Santander Bank	TAURON	IRGIT	accounts payable	30 000 PLN	11.08.2016 – 30.06.2018
6.	CaixaBank	TAURON	PSE	bid bond	12 890 PLN	20.08.2018 – 17.09.2018
7.	CaixaBank	TAURON Dystrybucja	Sosnowiec Municipality	performance bond	53 PLN	06.10.2017 – 06.10.2018
8.	CaixaBank	KW Czatkowice	CEZ Chorzów	bid bond	100 PLN	30.11.2018 – 29.10.2018
9.	CaixaBank	TAURON Dystrybucja Serwis	Serveone Poland	performance bond	229 PLN	22.05.2018 – 31.10.2018
10.	CaixaBank	TAURON	GAZ-SYSTEM	performance bond	4 500 PLN	01.12.2017 – 30.11.2018
11.	CaixaBank	TAURON Wydobywanie	PKP	performance bond	103 PLN <sup>1</sup>	01.01.2017 – 31.12.2018 <sup>1</sup>
12.	CaixaBank	TAURON Ciepło	Elektrobudowa	payment	12 300 PLN	02.01.2017 – 31.01.2019
13.	CaixaBank	KW Czatkowice	EDF Paliwa	performance bond	761 PLN	01.07.2017 – 31.01.2019
14.	MUFG Bank Ltd	TAURON	BGK	payment	444 000 PLN	11.04.2018 – 11.04.2019 <sup>2</sup>
15.	CaixaBank	TAURON Dystrybucja Serwis	Strabag Infrastruktura Południe	performance bond	116 PLN	09.09.2016 – 15.06.2019
16.	CaixaBank	TAURON Wytwarzanie	Jaworzno Municipality	advance payment refund	36 PLN	30.09.2018 – 31.10.2019

#	Bank	Company	Beneficiary	Type of guarantee	Amount ('000)	Validity term
17.	CaixaBank	TAURON	GAZ-SYSTEM	performance bond	6 100 PLN	01.12.2018 – 30.11.2019
18.	CaixaBank	KW Czatkowice	PGE GiEK	performance bond	515 PLN	24.10.2017 – 30.01.2020
19.	CaixaBank	Nowe Jaworzno GT	PSE	performance bond	363 PLN	21.11.2018 – 15.02.2020

<sup>1</sup> Since January 1, 2019 the agreement performance bond in favor of Polskie Koleje Państwowe S.A. has been in force in the amount of PLN 105 000, validity until December 31, 2019

<sup>2</sup> Since April 12, 2019 the increased guarantee amount of up to PLN 517 500 000 has been in force, valid until April 11, 2020

Additionally, under TAURON's framework (master) agreements 3 bank performance bonds were issued, effective as of January 1, 2019, as a collateral for the accounts payable of KW Czatkowice for the total amount of PLN 413 000.

Apart from the guarantees issued under TAURON's framework (master) agreements, at the instruction of TAURON Czech Energy banks issued 5 guarantees as collaterals for accounts payable, as summarized in the below table.

Table no. 76. Summary of bank guarantees granted in 2018 at the instruction of TAURON Czech Energy (listed according to the validity date)

#	Bank	Company	Beneficiary	Type of collateral	Amount ('000)	Validity term
1.	PKO BP Czech Branch	TAURON Czech Energy	OZE, a. s.	accounts payable	15 000 CZK	01.06.2018 - 31.05.2019
2.	UniCredit Bank Czech Republic and Slovakia	TAURON Czech Energy	OKTE a.s.	accounts payable	200 EUR	23.11.2018 - 30.06.2019
3.	UniCredit Bank Czech Republic and Slovakia	TAURON Czech Energy	OKTE a.s.	accounts payable	500 EUR	23.11.2018 - 30.06.2019
4.	PKO BP Czech Branch	TAURON Czech Energy	ČEZ, a. s.	accounts payable	30 000 CZK	07.06.2018 - 31.01.2020
5.	PKO BP Czech Branch	TAURON Czech Energy	ČEZ, a. s.	accounts payable	50 000 CZK	10.08.2018 - 31.01.2021

After the balance sheet date, on March 27, 2019 at the request of the Company the bank issued bank guarantee as a collateral for liabilities towards Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych S.A.) in the amount of PLN 20 000 000 with validity term falling on May 31, 2019.

Additionally, at the request of TAURON Czech Energy the bank issued a guarantee as a collateral for agreements signed with market operator for the amount of up to EUR 500 000 valid in the period from March 21, 2019 to January 31, 2020.

### Sureties and guarantees received

The below table presents a summary of collaterals received by TAURON effective as of December 31, 2018.

Table no. 77. Summary of collaterals received by TAURON effective as of December 31, 2018

#	Entity whose liabilities constitute the subject of collateral	Entity issuing collateral	Type of collateral	Amount in currency ('000)	Validity term
1.	Consortium: 1) DGP Clean Partner sp. z o.o., 2) Przedsiębiorstwo Usługowe GOS-ZEC sp. z o.o., 3) Seban sp. z o.o., 4) 7 MG sp. z o.o.,	ING Bank Śląski S.A.	guarantee	29 PLN	01.08.2018-01.08.2019

#	Entity whose liabilities constitute the subject of collateral	Entity issuing collateral	Type of collateral	Amount in currency ('000)	Validity term
	5) DGP Provider sp. z o.o.				
	Consortium: 1) DGP Clean Partner sp. z o.o., 2) Przedsiębiorstwo Usługowe GOS-ZEC sp. z o.o., 3) Seban sp. z o.o., 4) 7 MG sp. z o.o., 5) DGP Provider sp. z o.o.	ING Bank Śląski S.A.	guarantee	14 PLN	01.08.2018-01.08.2019
	Consortium: 1) DGP Clean Partner sp. z o.o., 2) Przedsiębiorstwo Usługowe GOS-ZEC sp. z o.o., 3) Seban sp. z o.o., 4) 7 MG sp. z o.o., 5) DGP Provider sp. z o.o.	ING Bank Śląski S.A.	guarantee	15 PLN	01.08.2018-01.08.2019
4.	Interenergia S.A.	NDI S.A.	corporate guarantee	10 000 PLN	12.10.2009-06.11.2019
5.	Ernst & Young Audyt Polska sp. z o.o. sp. k.	HSBC Bank Polska S.A.	guarantee	50 PLN	23.10.2018-15.01.2019
6.	PKP CARGO S.A.	Credit Agricole Bank Polska S.A.	guarantee	2 270 PLN	01.01.2018-30.01.2020
	Consortium: 1) DB Cargo Polska S.A. 2) CTL Logistics sp. z o.o. 3) Rail Polska sp. z o.o.	mBank	guarantee	201 PLN	19.12.2018-30.01.2020
	Consortium: 1) DB Cargo Polska S.A. 2) CTL Logistics sp. z o.o. 3) Rail Polska sp. z o.o.	mBank	guarantee	423 PLN	19.12.2018-30.01.2020
9.	Rail Polska sp. z o.o.	UNIQA TU S.A.	guarantee	100 PLN	01.01.2018-30.01.2020
10.	Rail Polska sp. z o.o.	UNIQA TU S.A.	guarantee	212 PLN	26.01.2018-30.01.2020
	Consortium: 1) DB Cargo Polska S.A. 2) CTL Logistics Sp. z o.o. 3) Rail Polska sp. z o.o.	SOPOCKIE TOWARZYSTWO UBEZPIECZEŃ ERGO HESTIA S.A.	guarantee	201 PLN	01.01.2018-31.01.2020
	Consortium: 1) DB Cargo Polska S.A. 2) CTL Logistics sp. z o.o. 3) Rail Polska sp. z o.o.	SOPOCKIE TOWARZYSTWO UBEZPIECZEŃ ERGO HESTIA S.A.	guarantee	423 PLN	01.01.2018-31.01.2020
13.	Polenergia Obrót S.A.	Bank Polska Kasa Opieki Spółka Akcyjna	guarantee	750 EUR	23.10.2015-31.03.2021

## Management Board of the Company

Katowice, March 29, 2019

Filip Grzegorzczak - President of the Management Board .....

Jarosław Broda - Vice President of the Management Board .....

Kamil Kamiński - Vice President of the Management Board .....

Marek Wadowski - Vice President of the Management Board .....

# Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this report is presented below.

Table no. 78. Explanation of abbreviations and acronyms as well as trade terms used in the report

#	Abbreviation and trade term	Full name / explanation
1	ARE	Agencja Rynku Energii S.A. with its seat in Warsaw
2	BGK	Bank Gospodarstwa Krajowego with its seat in Warsaw
3	Biomasa Grupa TAURON	Biomasa Grupa TAURON sp. z o.o. with its seat in Stalowa Wola
4	Bioeko Grupa TAURON	Bioeko Grupa TAURON Sp. z o.o. with its seat in Stalowa Wola
5	B2B	B2B (business-to-business) an acronym denoting transactions between two or more business entities
6	CC	Central heating plant (Centralna Ciepłownia) in Olkusz or Zawiercie
7	Cash pooling	Cash pooling used by the Company – the consolidation of balances of bank accounts through physical transferring of cash from the accounts of TAURON Capital Group’s subsidiaries in the bank in which cash pooling is operated to the bank account of the Pool Leader whose function is performed by the Company. At the end of each working day, cash is transferred from the bank accounts of TAURON Capital Group’s subsidiaries which show positive balance to the bank account of the pool leader. At the beginning of each working day the bank accounts of TAURON Capital Group’s subsidiaries are credited from the bank account of the pool leader with the amount required to maintain the financial liquidity of the TAURON Capital Group’s subsidiary on the given working day.
8	Color certificates	Property rights resulting from the certificates of origin of electricity generated in the way subject to support, the so-called colored certificates: green - certificates of origin of electricity from RES, 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, red - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), yellow - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, blue - certificates of origin of electricity generated from agricultural biogas.  White - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors)
9	CIRS	Transaction involving a swap between counterparties (business partners, contractors) of interest payments assessed on amounts denominated in various currencies and determined according to various interest rates
10	CSI	Customer Satisfaction Index – index used in marketing to determine the level of customer satisfaction with the products or services offered by a company
11	CSR	Corporate Social Responsibility
12	CUW	Shared Services Center (Centrum Usług Wspólnych - CUW), e.g. CUW R – accounting services, CUW HR – human resources services
13	DM	Brokerage House (Dom Maklerski)
14	Best Practices 2016	Best Practices of WSE Listed Companies 2016, in force as of January 1, 2016
15	EBI	European Investment Bank with its seat in Luxembourg
16	EBIT	Earnings Before Interest and Taxes
17	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization

#	Abbreviation and trade term	Full name / explanation
18	EC Stalowa Wola/ECSW	Elektrociepłownia (Combined Heat and Power Plant – CHP) Stalowa Wola S.A. with its seat in Stalowa Wola
19	EEC Magenta ASI	EEC Magenta limited liability company ASI limited joint stock partnership with its seat in Warsaw
20	EEC Magenta 2 ASI	EEC Magenta limited liability company 2 ASI limited joint stock partnership with its seat in Warsaw
21	ENEA	ENEA S.A. with its seat in Poznań
22	ENERGA	ENERGA S.A. with its seat in Gdańsk
23	Ericsson	Ericsson sp. z o.o. with its seat in Warsaw
24	EU ETS	European Union CO <sub>2</sub> Emission Trading System
25	EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO <sub>2</sub> ) equivalent to the air, within the meaning of Article 2 section 4 of the Act of July 17, 2009 on the management system of emissions of greenhouse gases and other substances, which is used for settlements of emission level within the system and which can be managed under the rules provided in the Act of April 28, 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695)
26	EUR	Euro - a common European currency introduced in some EU member states
27	GAZ-SYSTEM	Transmission Pipelines Operator GAZ-SYSTEM S.A. with its seat in Warsaw
28	GPW (WSE)	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with its seat in Warsaw
29	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
30	GZE	Górnośląski Zakład Elektroenergetyczny S.A. with its seat in Gliwice
31	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. with its seat in Warsaw
32	IRS	Interest Rate Swap, one of basic derivatives that is the subject of trading on the interbank market
33	KGHM	KGHM Polska Miedź S.A. with its seat in Lubin
34	KIC InnoEnergy	Knowledge and Innovations Community KIC InnoEnergy with its seat in Cracow
35	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
36	Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
37	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
38	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
39	KPI	Key Performance Indicators, financial and non-financial indicators used as ways to measure progress of achieving goals of an organization
40	KSE	National Power System (Krajowy System Elektroenergetyczny)
41	Ksh	Code of Commercial Companies
42	KW Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. with its seat in Krzeszowice
43	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)
44	mBank	mBank S.A. with its seat in Warsaw
45	Mg	Mega gram – million grams (1 000 000 g) i.e. a ton
46	MSR	CO <sub>2</sub> Emission Allowances Market Stability Reserve
47	IFRS	International Financial Reporting Standards
48	Nowe Jaworzno GT	Nowe Jaworzno Grupa TAURON sp. z o.o. with its seat in Jaworzno
49	NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its seat in Warsaw
50	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

#	Abbreviation and trade term	Full name / explanation
51	OPEC	Organization of the Petroleum Exporting Countries with its seat in Vienna
52	DSO (OSD)	Distribution System Operator (Operator Systemu Dystrybucyjnego)
53	TSO (OSP)	Transmission System Operator (Operator Systemu Przesyłowego)
54	OTC (OTC market)	Over The Counter Market
55	RES (OZE)	Renewable Energy Sources (Odnawialne Źródła Energii)
56	OZEX_A	Green certificates price index
57	Efficiency Improvement Program	TAURON Group's 2016-2018 Efficiency Improvement Program
58	PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. with its seat in Warsaw
59	PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund) with its seat in Warsaw
60	PGE	PGE Polska Grupa Energetyczna S.A. with its seat in Warsaw
61	PGE EJ 1	PGE EJ 1 sp. z o.o. with its seat in Warsaw
62	PGNIG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its seat in Warsaw
63	GDP (PKB)	Gross Domestic Product (Produkt Krajowy Brutto)
64	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A. with its seat in Warsaw
65	PLN	Polish zloty currency symbol - zł
66	PMEC	Property rights for certificates of origin confirming generation of electricity in the other co-generation sources
67	PMEF	Property rights for energy efficiency certificates
68	PMGM	Property rights for certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW
69	PMMET	Property rights for certificates of origin confirming generation of electricity in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing
70	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES before March 1, 2009
71	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES after March 1, 2009
72	PMOZE-BIO	Property rights for certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
73	PSE	Polskie Sieci Elektroenergetyczne S.A. with its seat in Konstancin-Jeziorna
74	PSG	Polska Spółka Gazownictwa sp. z o.o. with its seat in Warsaw
75	RB	Balancing Market (Rynek Bilansujący)
76	RDBg	Current Day Market for Gas (Rynek Dnia Bieżącego Gazu)
77	RDN	Day Ahead Market (Rynek Dnia Następnego)
78	RDNg	Day Ahead Market for Gas (Rynek Dnia Następnego Gazu)
79	RESPECT Index	Stock market index grouping stock market companies operating in accordance with the sustainable growth principles
80	GDPR (RODO)	Regulation (EU) of the European Parliament and of the Council 2016/679 of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)
81	RTT	Futures Commodity Market (Rynek Terminowy Towarowy)
82	SCE Jaworzno III	Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. with its seat in Jaworzno

#	Abbreviation and trade term	Full name / explanation
83	Segment, Segments of operations	TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following five Segments (also called Line of Business or Areas in this report): Mining, Generation, Distribution, Supply and Other.
84	SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded for which the period of delivery falls, at the latest, three days after the date of the transaction's conclusion (usually it is one day before the date of delivery). Operation of the SPOT market for electricity is strongly tied to the operation of the balancing market run by the TSO
85	Company / TAURON	TAURON Polska Energia S.A. with its seat in Katowice
86	Strategy	Document entitled <i>TAURON Group's 2016 – 2025 Strategy</i> adopted by the Management Board on September 2, 2016
87	Sustainable development strategy	Document entitled <i>TAURON Group's 2017 – 2025 Sustainable development strategy</i> adopted by the Management Board on August 1, 2017, which is an update of the document entitled <i>TAURON Group's 2016 – 2018 Sustainable development strategy</i> with an outlook until 2020.
88	ERM System	Enterprise Risk Management System
89	TAURON / Company	TAURON Polska Energia S.A. with its seat in Katowice
90	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its seat in Katowice
91	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
92	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Cracow
93	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with its seat in Tarnów
94	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with its seat in Wrocław
95	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
96	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with its seat in Wrocław
97	TAURON Serwis	TAURON Serwis sp. z o.o. with its seat in Katowice
98	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Cracow
99	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with its seat in Gliwice
100	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with its seat in Stockholm, Sweden
101	TAURON Wydobycie	TAURON Wydobycie S.A. with its seat in Jaworzno
102	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with its seat in Jaworzno
103	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with its seat in Warsaw
104	EU (UE)	European Union (Unia Europejska)
105	UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
106	USD	United States Dolar - US dollar's international acronym
107	ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki)
108	WFOŚiGW	Regional Environment Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) in Katowice or in Cracow
109	Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. with its seat in Tarnów (formerly KOMFORT-ZET sp. z o.o.)
110	GM (WZ/ZW)	General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników – ZW)
111	ZG	Coal Mine (Zakład Górniczy = ZG) (Sobieski, Janina or Brzeszcze)
112	ZW	Generation Plants (Zakłady Wytwarzania – ZW) in Bielsko-Biała, Kamienna Góra, Katowice or Tychy



# Appendix B: INDEX OF TABLES AND FIGURES

The list of tables and figures presented in this report is provided below.

## Index of tables

Table no. 1. List of material co-subsidiaries subject to consolidation as of December 31, 2018.....	11
Table no. 2. Summary of share capital increases in TAURON Capital Group subsidiaries.....	11
Table no. 3. Summary of share capital increases in the other companies in which TAURON holds an equity stake.....	12
Table no. 4. Strategy, strategic priorities and growth prospects in the individual Lines of Business.....	16
Table no. 5. Opportunities and threats for TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2018.....	20
Table no. 6. TAURON Capital Group's strategic goals realized in 2018.....	24
Table no. 7. Key strategic investment projects' work progress.....	26
Table no. 8. Capital expenditures, the highest outlays by value, incurred by TAURON Capital Group's Lines of Business in 2018.....	31
Table no. 9. Research and development projects implemented in 2018 by TAURON Capital Group's subsidiaries, co-financed from external sources.....	33
Table no. 10. Installed capacity and electricity generation by energy groups in 2017.....	51
Table no. 11. Electricity distribution to final consumers by energy groups.....	52
Table no. 12. Electricity supply to final consumers by energy groups.....	53
Table no. 13. Sources of competitiveness.....	54
Table no. 14. 2018-2016 production and sales volumes.....	57
Table no. 15. Categories of TAURON Capital Group's final customers.....	61
Table no. 16. Volume of retail electricity sold by the Supply Segment and the number of customers in 2018.....	62
Table no. 17. Links between individual roles in the context of the ERM Strategy and the documents regulating TAURON Capital Group's ERM system.....	76
Table no. 18. Description of the ERM system participants' roles and responsibilities.....	77
Table no. 19. Most significant risks identified for TAURON Capital Group.....	83
Table no. 20. Annual standalone statement of comprehensive income in 2018-2016.....	87
Table no. 21. Company's sales revenue in 2018-2016.....	88
Table no. 22. Level and structure of the costs incurred by the Company in 2018-2016.....	89
Table no. 23. Annual standalone statement of financial position (material items).....	90
Table no. 24. Statement of cash flows (material items).....	91
Table no. 25. Key financial ratios of TAURON.....	92
Table no. 26. TAURON Capital Group's 2018-2016 EBITDA broken down into individual lines of business (segments).....	94
Table no. 27. Mining Segment's 2018-2016 results.....	95
Table no. 28. Generation Segment's 2018-2016 results.....	97
Table no. 29. Distribution Segment's 2018-2016 results.....	99
Table no. 30. Supply Segment's 2018 – 2016 results.....	100
Table no. 31. Other Operations Segment's 2018-2016 results.....	102
Table no. 32. Structure of the annual consolidated statement of financial position.....	103
Table no. 33. Annual consolidated statement of financial position - assets (material items) <sup>1</sup> .....	105
Table no. 34. Annual consolidated statement of financial position - liabilities (material items) <sup>1</sup> .....	106
Table no. 35. Annual statement of comprehensive income for 2018-2016 <sup>1</sup> .....	108
Table no. 36. Statement of cash flows (material items) in 2016-2018 <sup>1</sup> .....	111
Table no. 37. Key financial ratios of TAURON Capital Group <sup>1</sup> .....	116
Table no. 38. Financial and operating data for 2018-2014 <sup>1</sup> .....	117
Table no. 39. TAURON Capital Group's EBITDA, broken down into Segments (Lines of Business) <sup>1</sup> .....	118
Table no. 40. Compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries.....	124
Table no. 41. Summary of TAURON Capital Group's issued and non-redeemed bonds in 2018 underwritten by entities other than TAURON Capital Group's subsidiaries (listed according to maturity).....	126
Table no. 42. Information on futures transactions and derivatives as of December 31, 2018.....	127
Table no. 43. Dividends paid out in 2010-2014.....	130
Table no. 44. Key data on the Company's shares in 2011-2018.....	131
Table no. 45. Recommendations issued in 2018.....	134
Table no. 46. Timeline of investor relations highlights and activities that took place in 2018.....	135
Table no. 47. Shareholders holding, directly or indirectly, substantial blocks of shares.....	140
Table no. 48. Management Board's competence.....	143
Table no. 49. Supervisory Board's competence.....	145
Table no. 50. Competence of the General Meeting of Shareholders.....	148
Table no. 51. Description of the Company's shareholders' rights related to the General Meeting of Shareholders.....	149
Table no. 52. Competence of the Audit Committee.....	161
Table no. 53. Competence of the Nominations and Compensation Committee.....	164
Table no. 54. Competence of the Strategy Committee.....	165
Table no. 55. Compensation of members of the Company's Management Board in 2018, broken down into components (in PLN '000).....	171

Table no. 56. Compensation of members of the Company's Supervisory Board in 2018.....	174
Table no. 57. Operating efficiency metrics in 2017-2018.....	183
Table no. 58. Efficiency indicators in TAURON's and TAURON Capital Group's employee related issues area and the levels thereof as of December 31, 2017 and December 31, 2018.....	184
Table no. 59. NPS <sup>1</sup> metric levels for TAURON Capital Group in individual areas per quarter in 2018.....	186
Table no. 60. Level of participation of the personnel of TAURON, TAURON Sprzedaż, TAURON Obsługa Klienta and TAURON Ciepło in the e-learning training, related to the products and services offered, conducted in 2018.....	187
Table no. 61. Level of emissions to the atmosphere in percentage, generated by TAURON Capital Group as compared to the standards in force in 2018.....	187
Table no. 62. Annual emissions of NO <sub>x</sub> , SO <sub>2</sub> , dust and CO <sub>2</sub> for 2018 from thermal combustion of fuels for selected TAURON Capital Group's subsidiaries.....	188
Table no. 63. Forecast charges for the business use of the environment by TAURON Capital Group's subsidiaries due for 2018.....	188
Table no. 64. Personnel accident rates (accident frequency) at TAURON Capital Group by gender (Injury rate - IR) in 2018.....	189
Table no. 65. Percentage of employees of the contractors and subcontractors who completed the WHS training at TAURON Capital Group's individual subsidiaries.....	189
Table no. 66. Survey carried out by TAURON Capital Group in 2018 as part of the due diligence procedures.....	191
Table no. 67. Educational activities carried out by TAURON Capital Group in 2018 as part of the due diligence procedures.....	191
Table no. 68. Risks related to TAURON Capital Group's operations that could have an adverse impact on the policies employed by TAURON Capital Group and the description of reactions applied with respect to such risks.....	205
Table no. 69. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2018.....	208
Table no. 70. Summary of TAURON Capital Group's working capital loan and credit agreements effective as of December 31, 2018 (listed according to the repayment date).....	215
Table no. 71. Summary of TAURON Capital Group's investment credit and loan agreements effective in 2018, (listed according to the repayment date).....	215
Table no. 72. Summary of TAURON Capital Group's loans granted and effective in 2018, (listed according to the repayment date).....	216
Table no. 73. Summary of sureties and guarantees granted by TAURON effective in 2018 (listed according to the validity date).....	216
Table no. 74. Summary of blank promissory notes (bills of exchange) granted by TAURON as of December 31, 2018 (listed according to the validity date).....	217
Table no. 75. Summary of bank guarantees granted under TAURON's framework (master) agreements, effective in 2018 (listed according to the validity date).....	218
Table no. 76. Summary of bank guarantees granted in 2018 at the instruction of TAURON Czech Energy (listed according to the validity date).....	219
Table no. 77. Summary of collaterals received by TAURON effective as of December 31, 2018.....	219
Table no. 78. Explanation of abbreviations and acronyms as well as trade terms used in the report.....	221

## Index of figures

Figure no. 1. TAURON Capital Group.....	6
Figure no. 2. Location of TAURON Capital Group's key assets.....	8
Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2018.....	9
Figure no. 4. Prospects of TAURON Capital Group's individual segments.....	14
Figure no. 5. Implementation of the priorities based on the pillars of TAURON Capital Group's Strategy.....	15
Figure no. 6. Capital expenditures by segments in 2016-2020.....	15
Figure no. 7. Forecast transformation of the sector.....	19
Figure no. 8. 2025 EBITDA outlook taking into account the risks and the implementation of the Strategy as well as the effects of the implementation of the Strategy.....	21
Figure no. 9. TAURON Capital Group's 2025 vision.....	22
Figure no. 10. Assumptions of the 2016-2018 Efficiency Improvement Program.....	23
Figure no. 11. Assumptions of the Strategic Initiatives and the CAPEX rationalization in 2017-2020.....	23
Figure no. 12. Outlook for the CAPEX directions beyond 2020.....	26
Figure no. 13. Priority directions of innovations as well as research and development related activities.....	32
Figure no. 14. Average monthly electricity prices on the SPOT and RB markets, as well as average temperatures.....	39
Figure no. 15. BASE Y-19 contracts performance.....	39
Figure no. 16. Average monthly SPOT and Y-19 contract prices on TGE in 2018.....	42
Figure no. 17. Impact of political actions and the environment on the EUA SPOT product price in 2018.....	43
Figure no. 18. Property rights indices.....	44
Figure no. 19. TAURON Capital Group's competitive environment (landscape) (2017 data).....	49
Figure no. 20. EBITDA - estimated structure by the main segments in 2017 <sup>1</sup> .....	50
Figure no. 21. Gross electricity production – estimated market shares in 2017.....	52
Figure no. 22. Installed capacity – estimated market shares in 2017.....	52
Figure no. 23. Electricity distribution - estimated market shares in 2017.....	52
Figure no. 24. Electricity supply to final consumers - estimated market shares in 2017.....	53
Figure no. 25. Summary of the Company's 2018 coal sales (Mg m).....	58
Figure no. 26. Structure of the Generation Segment's installed capacity as of December 31, 2018.....	58
Figure no. 27. Electricity distribution by tariff groups in 2018 r. (MWh).....	60
Figure no. 28. Coal purchases in 2018 (in Mg m).....	63
Figure no. 29. Timeline.....	64
Figure no. 30. Prizes and accolades (honorable mentions).....	71
Figure no. 31. TAURON's average headcount in 2017 and in 2018 (FTEs).....	72
Figure no. 32. TAURON Capital Group's average headcount per Segment in 2017 and in 2018 1 (FTEs).....	72
Figure no. 33. Basic classification of the enterprise risk.....	74
Figure no. 34. Architecture of the ERM System at TAURON Capital Group.....	74
Figure no. 35. Risk management process.....	75
Figure no. 36. Diagram of the management risk communication.....	75
Figure no. 37. Number of risks monitored, broken down into categories.....	78

Figure no. 38. Breakdown of TAURON Group's trading operations.....	80
Figure no. 39. Credit exposure components.....	81
Figure no. 40. Risk management system tools.....	82
Figure no. 41. Project risk management model.....	83
Figure no. 42. TAURON Capital Group's EBITDA in 2011-2018.....	94
Figure no. 43. TAURON Capital Group's 2016-2018 EBITDA structure (composition).....	94
Figure no. 44. Change in TAURON Capital Group's EBITDA in 2016-2018.....	95
Figure no. 45. Mining Segment's 2016 - 2018 financial data.....	96
Figure no. 46. Mining Segment's EBITDA.....	96
Figure no. 47. Generation Segment's 2016-2018 financial data.....	98
Figure no. 48. Generation Segment's EBITDA.....	98
Figure no. 49. Distribution Segment's 2016-2018 financial data.....	99
Figure no. 50. Distribution Segment's EBITDA.....	100
Figure no. 51. Supply Segment's 2016 - 2018 financial data.....	101
Figure no. 52. Supply Segment's EBITDA.....	102
Figure no. 53. Other Operations Segment companies' 2016-2018 financial data.....	103
Figure no. 54. Structure of assets, and equity and liabilities.....	104
Figure no. 55. Current liquidity ratio and the net debt to EBITDA ratio in 2018-2016.....	104
Figure no. 56. Change in the level of assets and current assets.....	105
Figure no. 57. Change in the level of liabilities and equity.....	107
Figure no. 58. Change in the level of liabilities.....	107
Figure no. 59. TAURON Capital Group's 2016-2018 financial results.....	109
Figure no. 60. Structure of TAURON Capital Group's revenue in 2016-2018 <sup>1</sup> .....	110
Figure no. 61. TAURON Capital Group's financial results and the level of margins realized in 2016-2018 <sup>1</sup> .....	110
Figure no. 62. 2018-2016 cash flows.....	112
Figure no. 63. TAURON Capital Group's 2018 cash flows.....	113
Figure no. 64. Structure of TAURON Capital Group's EBITDA in 2018-2014.....	119
Figure no. 65. Data of the Mining Segment for 2014-2018.....	119
Figure no. 66. Data of the Generation Segment for 2018-2014.....	119
Figure no. 67. Data of the Distribution Segment for 2018-2014.....	120
Figure no. 68. Data of the Supply Segment for 2018-2014.....	120
Figure no. 69. Data of the Other Operations for 2018-2014.....	120
Figure no. 70. Shareholding structure as of December 31, 2018 and as of the day of drawing up this report.....	129
Figure no. 71. TAURON share price(in PLN) and trading volumes in 2018 (in PLN '000).....	132
Figure no. 72. TAURON share price (in PLN) and trading volumes since the market debut until December 31, 2018 (in PLN '000).....	133
Figure no. 73. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2018 (in PLN '000).....	133
Figure no. 74. Process streams cutting across TAURON Capital Group's Lines of Business.....	177
Figure no. 75. Structure of TAURON Capital Group's processes (mega-processes).....	178
Figure no. 76. Structure of TAURON Capital Group's Lines of Business.....	178
Figure no. 77. Split of responsibilities of members of the Management Board.....	179
Figure no. 78. TAURON's organizational diagram (flowchart) as of the date of drawing up this report.....	180
Figure no. 79. Directions of TAURON Capital Group's Sustainable Development Strategy for 2017-2025.....	182
Figure no. 80. TAURON Capital Group's current stakeholder map.....	182
Figure no. 81. Results of the customer satisfaction survey conducted in the household customers segment with respect to TAURON Capital Group's products and services in 2011-2018.....	185
Figure no. 82. Results of the customer satisfaction survey conducted in the business customers segment with respect to TAURON Capital Group's products and services in 2014-2018.....	185
Figure no. 83. Results of the customer satisfaction survey conducted in the small and medium size enterprises segment with respect to TAURON Capital Group's products and services in 2011-2018.....	186
Figure no. 84. Structure of property rights related to the certificates of origin at TAURON Capital Group in 2018.....	198
Figure no. 85. Certificates of origin (MWh) at TAURON Capital Group in 2018.....	198
Figure no. 86. Structure of bringing to the market ashes, sludge, gypsum and aggregates generated by TAURON Capital Group in 2018.....	198
Figure no. 87. Sample interdependencies as part of implementing the principles of the circular economy within TAURON Capital group in 2018.....	199