



REPORT OF THE MANAGEMENT BOARD

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

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1. TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP

Pursuant to art. 55 clause 2a of the act of September 29, 1994, on accounting (Journal of Laws of 2019, item 351) and § 71 clause 8 of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information to be disclosed by securities issuers and conditions for recognizing as equivalent the information required by the legal regulations in force in a non-member state (Journal of Laws of 2018, item 757), TAURON Polska Energia S.A. drew up the report of the Management Board on the operations of TAURON Polska Energia S.A. and the report of the Management Board on the operations of TAURON Capital Group in a form of a single document.

At the same time, the Company indicates that pursuant to art. 49b, clause 9 and art. 55, clause 2c of the Act of September 29, 1994 on accounting (Journal of Laws of 2019, item 351), the Company drew up a Non-financial Report of TAURON Capital Group in accordance with the requirements set out in art. 49b, clauses 2-8 of the above mentioned act, in the form of a separate document.

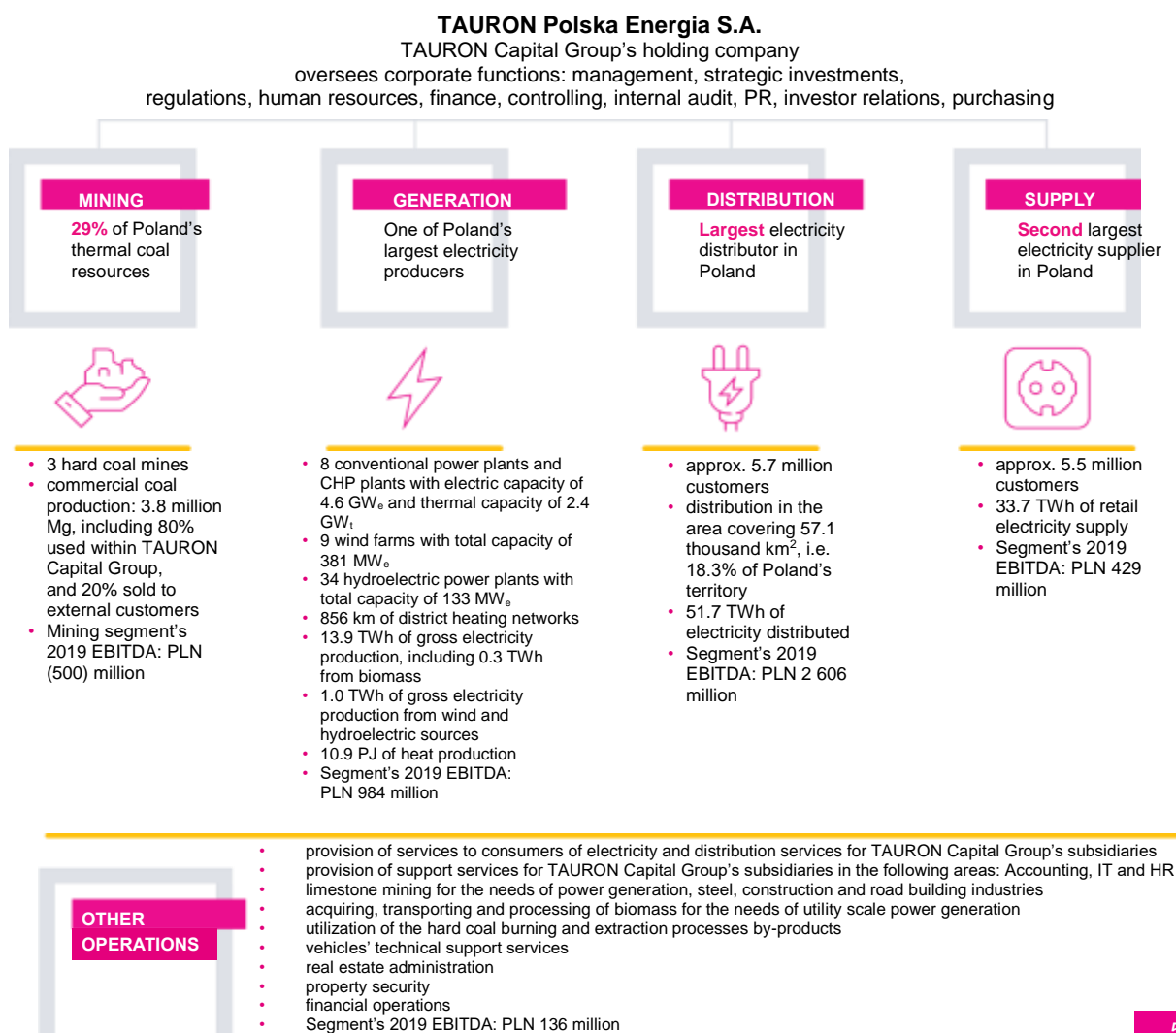
1.1. Basic information on TAURON Polska Energia S.A. and TAURON Capital Group

TAURON Capital Group's parent (holding) company is TAURON Polska Energia S.A. (hereinafter called the Company or TAURON), that was established on December 6, 2006 as part of the *Program for the Power Sector*. The Company was registered in the National Court Register on January 8, 2007 under the name: Energetyka Południe S.A. The change of the Company's name to its current name, i.e. TAURON Polska Energia S.A., was registered on November 16, 2007.

The Company does not have any branches (plants).

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the south of Poland. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator (TSO)), i.e. hard coal mining as well as electricity and heat generation, distribution and supply.

Figure no. 1. TAURON Capital Group



1.2. Business segments (lines of business)

Business operations, in accordance with *TAURON Group's Business and Operational Model* (Business Model) in force, are conducted by units defined as: Corporate Center, 7 Lines of Business: Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply as well as Shared Services Centers (CUW).

The detailed information on the Business Model is provided in section 1.6. of this report.

For the needs of reporting TAURON Capital Group's the operations of TAURON Capital Group are split into the following 5 Segments, hereinafter also referred to as Lines of Business:



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



Generation Segment comprising mainly electricity generation using conventional sources, including co-generation, as well as electricity generation from renewable energy sources, including biomass burning and co-firing, and hydroelectric power plants and wind farms. The segment also includes heat generation, distribution and supply. This Segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). The Segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls and Nowe Jaworzno Grupa TAURON Sp. z o.o. (Nowe Jaworzno GT) company responsible for the construction of the new power generation unit at Jaworzno, Marselwind sp. z o.o. company, as well as TEC1 sp. z o.o. (TEC1), TEC2 sp. z o.o. (TEC2) and TEC3 sp. z o.o. (TEC3) companies that have taken over 5 wind farms owned by the in.ventus group, dealing with electricity generation from RES.



Distribution Segment comprising electricity distribution using the distribution grids located in the south of Poland. The operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This Segment also includes TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary) subsidiary, dealing mainly with technical support services related to electricity metering systems and metering data acquisition.



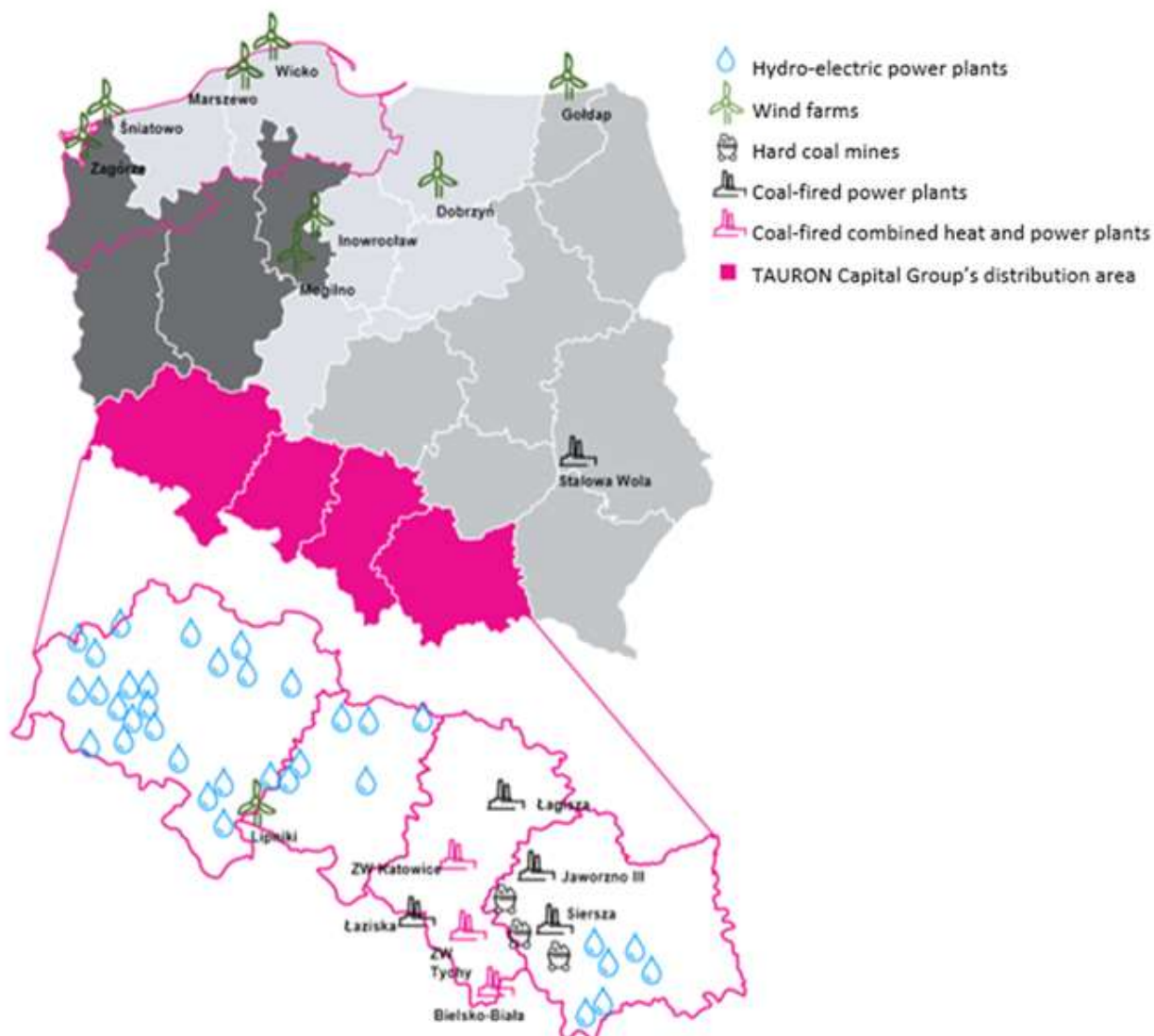
Supply Segment comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of CO₂ emission allowances, property rights arising from certificates of origin that confirm electricity generation from renewable sources, in cogeneration and property rights arising from energy efficiency certificates, as well as fuels, and, as of January 2019, also lighting services sales. The operations in this Segment are conducted by the following subsidiaries: TAURON Polska Energia S.A., TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy). As of January 2019, TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) subsidiary has been included in this Segment, while until the end of 2018 that subsidiary had been assigned to the Distribution Segment. The operations of that subsidiary comprise services provided for business and individual customers with respect to, among others, street lighting, operating the MV/LV grids, the construction of electric vehicle charging stations.



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

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

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



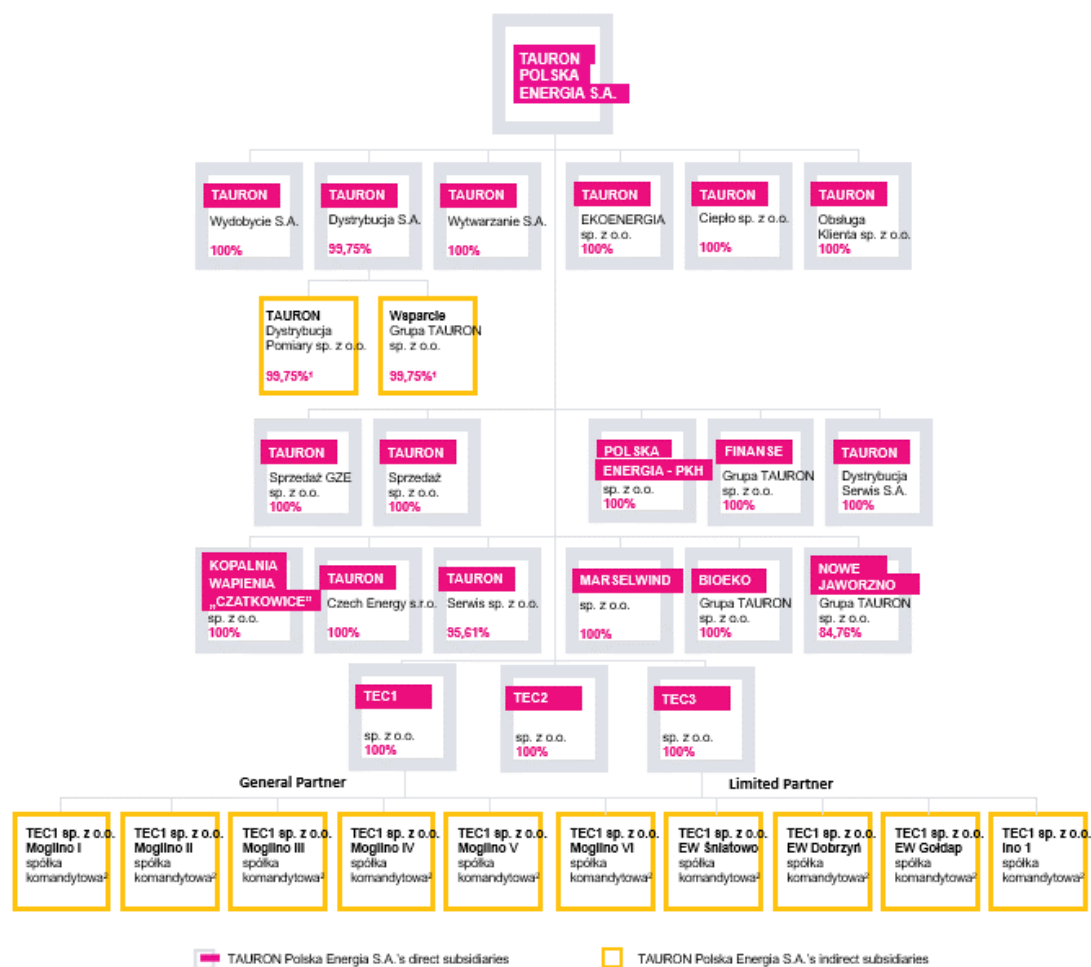
1.3. TAURON Capital Group's organization and structure

As of December 31, 2019, and as of the day of drawing up this report TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 32 subsidiaries subject to consolidation, listed in section 1.3.1. of this report. Furthermore, the Company held, directly or indirectly, shares in the other 49 companies.

1.3.1. Entities subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2019.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation as of December 31, 2019



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

²In the limited partnership companies: TEC1 sp. z o.o. is the General Partner, TEC3 sp. z o.o. is the Limited Partner.

1.3.2. Changes to TAURON Capital Group's organization

The following changes to the organization of TAURON Capital Group had taken place in 2019 and by the date of drawing up this information:

Establishing of the company Finanse Grupa TAURON sp. z o.o. and its cross-border merger with the company TAURON Sweden Energy AB (publ)

On January 23, 2019, the company Finanse Grupa TAURON sp. z o.o. with its registered office in Katowice, was established, and the company's share capital, as of the day of the company's establishment, was PLN 100 000 and was split into 2 000 shares with the nominal value of PLN 50 per share, that were taken up in whole by TAURON.

On February 15, 2019, the District Court for Katowice - Wschód in Katowice, 8th Commercial Department of the National Court Register, registered the company Finanse Grupa TAURON sp. z o.o. with its registered office in Katowice, and subsequently, on August 23, 2019, it registered the above mentioned merger of Finanse Grupa TAURON sp. z o.o. (the acquiring company) and TAURON Sweden Energy AB (publ) (the acquired company). The above event was a consequence of the passing of the resolutions on the cross-border merger of the above mentioned companies by the Extraordinary General Meeting of the Shareholders (Partners) of Finanse Grupa TAURON on May 6, 2019, and by the Extraordinary General Meeting of the Shareholders of TAURON Sweden Energy on May 17, 2019.

As a result of the merger the share capital of Finanse Grupa TAURON was raised from the amount of PLN 100 000 to the amount of PLN 200 000, i.e. by the amount of PLN 100 000, by way of establishing (issuing) 2 000 new shares with the nominal value of PLN 50 each. TAURON received, in exchange for each 3 350 shares in the share capital of TAURON Sweden Energy AB, 1 share in the increased share capital of Finanse Grupa TAURON, i.e. in total for 6 700 000 shares in TAURON Sweden Energy, TAURON received 2 000 shares in the increased share capital of Finanse Grupa TAURON.

TAURON Sweden AB was deleted from the Swedish register of companies.

The purpose of the above actions was an internal restructuring aimed at simplifying (and thus streamlining) the structure of TAURON Capital Group, and thus achieving significant organizational and economic benefits by TAURON Capital Group.

Establishing of the companies TEC1 sp. z o.o., TEC2 sp. z o.o. and TEC3 sp. z o.o. and the acquisition of Polish and German partnerships

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

As of the day of the company's establishment the share capital of each of the above mentioned companies was PLN 25 000 and was split into 500 shares with the nominal value of PLN 50 per share that were taken up in whole by TAURON.

On April 12, 2019, the District Court for Katowice - Wschód in Katowice, 8th Commercial Department of the National Court Register, registered the company the companies TEC1 sp. z o.o. and TEC2 sp. z o.o., and subsequently, on April 29, 2019, it registered the company TEC3 sp. z o.o.

On September 3, 2019, the transaction documentation related to the acquisition by TAURON's 100% owned subsidiaries i.e.: TEC1, TEC2, TEC3 of 5 wind farms owned by in.ventus group. These entities acquired Polish partnerships that owned the wind farms and German partnerships that are their limited partners. Taking the above into account, the following 20 companies became a part of TAURON Capital Group as of September 3, 2019:

- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I spółka komandytowa (TEC1 limited liability company Mogilno I limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II spółka komandytowa (TEC1 limited liability company Mogilno II limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III spółka komandytowa (TEC1 limited liability company Mogilno III limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV spółka komandytowa (TEC1 limited liability company Mogilno IV limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V spółka komandytowa (TEC1 limited liability company Mogilno V limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI spółka komandytowa (TEC1 limited liability company Mogilno VI limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo spółka komandytowa (TEC1 limited liability company EW Śniatowo limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń spółka komandytowa (TEC1 limited liability company EW Dobrzyń limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap spółka komandytowa (TEC1 limited liability company EW Gołdap limited partnership),
- TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 spółka komandytowa (TEC1 limited liability company Ino 1 limited partnership),
- SCE Wind Mogilno 2008 I GmbH & Co. KG,
- SCE Wind Mogilno 2008 II GmbH & Co. KG,
- SCE Wind Mogilno 2008 III GmbH & Co. KG,
- SCE Wind Mogilno 2008 IV GmbH & Co. KG,
- SCE Wind Mogilno 2008 V GmbH & Co. KG,
- SCE Wind Mogilno 2008 VI GmbH & Co. KG,
- Windpark Śniatowo GmbH & Co. KG,
- Windpark Dobrzym 2008 GmbH & Co. KG,
- Windpark Gołdap GmbH & Co. KG,
- Windpark Ino 1 GmbH & Co. KG.

The above activities are in line with the update of the strategic directions that supplement *TAURON Group's Strategy for 2016-2025*, which provides for a significant increase in the share of low- and zero-emission sources in the structure of TAURON Capital Group's installed generation capacity.

Merger of TAURON Dystrybucja Serwis S.A. with Magenta Grupa TAURON sp. z o.o. (Magenta Grupa TAURON)

On January 2, 2020, the District Court for Wrocław – Fabryczna in Wrocław, 6th Commercial Department of the National Court Register registered the merger of the companies TAURON Dystrybucja Serwis S.A. (the acquiring company) with the company Magenta Grupa TAURON sp. z o.o. (the acquired company).

The above event was the result of adopting, on October 29, 2019, of the resolutions regarding the merger of the above mentioned companies, by the Extraordinary General Meeting (GM) of TAURON Dystrybucja Serwis and the Extraordinary GM of Magenta Grupa TAURON.

As a result of the merger the share capital of TAURON Dystrybucja Serwis was raised from the amount of PLN 9 494 173 to the amount of PLN 9 535 649, i.e. by the amount of PLN 41 476, by way of establishing (issuing) 41 476 ordinary shares with the nominal value of PLN 1 each. As a sole shareholder of Magenta Grupa TAURON, TAURON received, in exchange for 30 000 shares in the share capital of Magenta Grupa TAURON, 41 476 shares in the increased share capital of TAURON Dystrybucja Serwis.

The merger of TAURON Dystrybucja Serwis and Magenta Grupa TAURON was aimed at integrating resources and competences as well as optimizing operational efficiency at TAURON Capital Group by integrating the mutually complementary entities with respect to creating and implementing new solutions at TAURON Capital Group as well as selling them on the external market in the form of various types of products and services.

On March 3, 2020, the Extraordinary General Meeting of TAURON Dystrybucja Serwis adopted a resolution to change the company's name to: TAURON Nowe Technologie S.A. As of the date of drawing up this report, the change of the company's name has not yet been registered in the National Court Register.

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

On January 2, 2020, TAURON EKOENERGIA acquired 100% shares in AVAL-1 sp. z o.o. (AVAL-1) with its registered office in Szczecin, i.e. 50 shares with a nominal value of PLN 100 each and the total value of PLN 5 000. AVAL-1 is implementing a 6 MW solar farm construction project in the municipality of Choszczno in the West Pomerania Region.

The investment project is in line with the assumptions of the updated strategic directions of TAURON Capital Group, assuming an increase of the share of low- and zero-emission sources in TAURON Capital Group's generation structure to more than 65% in 2030.

The detailed information on the solar farm construction project in the municipality of Choszczno is provided in section 1.4.6. of this report

1.3.3. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.3.1 of this report, the material joint subsidiaries in which the Company held, directly or indirectly, shares as of December 31, 2019 include the companies listed in the below table.

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

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

¹ Shares in Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) are held by TAURON indirectly via TAURON Wytwarzanie subsidiary.

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

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

Taking up or acquiring share securities in TAURON Capital Group companies

The below table presents a summary of equity increases in TAURON Capital Group subsidiaries in 2019 and by the date of drawing up this report..

Table no. 2. Summary of equity increases in TAURON Capital Group subsidiaries in 2019 and by the date of drawing up this report.

#	Subsidiary	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
1.	Łągisza Grupa TAURON sp. z o.o.	PLN 100 000	TAURON Wytwarzanie	PLN 1 000	11.01.2019	TAURON Wytwarzanie 100%
2.	Nowe Jaworzno Grupa TAURON	PLN 256 925 000	Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investments Fund –	PLN 2 569 250	25.02.2019	TAURON 92.86% FIIFKIZAN 7.14%

#	Subsidiary	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
Private Equity Closed-end Investment Fund) (FIKFIZAN)						
3.	Nowe Jaworzno Grupa TAURON	PLN 83 075 000	FIKFIZAN	PLN 830 750		FIKFIZAN 7.62%
		PLN 440 000 000	Polski Fundusz Rozwoju Inwestycje Fundusz Inwestycyjny Zamknięty (Polish Development Fund Investments Closed-end Investment Fund) (PFR IFIZ)	PLN 4 400 000	12.07.2019	PFR IFIZ 7.62%
		PLN 250 000 000	TAURON	PLN 2 500 000		TAURON 84.76%
4.	Finanse Grupa TAURON	PLN 100 000 ¹	TAURON	PLN 2 000	06.05.2019	TAURON 100%
5.	TEC1	PLN 700 000	TAURON	PLN 7 000	02.09.2019	TAURON 100%
6.	TEC2	PLN 200 000	TAURON	PLN 2 000	02.09.2019	TAURON 100%
7.	TEC3	PLN 600 000 000	TAURON	PLN 6 000 000	02.09.2019	TAURON 100%
8.	TAURON Dystrybucja Serwis	PLN 41 476 ²	TAURON	PLN 41 476	29.10.2019	TAURON 100%
9.	AVAL-1	PLN 4 500 000	TAURON EKOENERGIA	PLN 450	27.02.2020	TAURON EKOENERGIA 100%
						TAURON 85.88%
10.	Nowe Jaworzno Grupa TAURON	PLN 455 100 000	TAURON	PLN 91 020	02.03.2020	FIKFIZAN 7.06%
						PFR IFIZ 7.06%

¹ Value of the share capital raising of the company Finanse Grupa TAURON sp. z o.o. as a result of the cross-border merger of the companies Finanse Grupa TAURON sp. z o.o. (the acquiring company) and TAURON Sweden Energy AB (publ) (the acquired company),

² Value of the share capital raising of the company TAURON Dystrybucja Serwis S.A. as a result of the merger of TAURON Dystrybucja Serwis S.A. (the acquiring company) and Magenta Grupa TAURON sp. z o.o. (the acquired company).

Making additional contributions to the capital of Polska Energia - Pierwszy Kompania Handlowa sp. z o.o.

As part of the implementation of the resolution of the Extraordinary General Meeting of PEPKH of January 8, 2020, regarding the imposition on TAURON as the sole shareholder of the obligation to make additional payments, on January 10, 2020, TAURON made additional contributions to the share capital of the above company in the total amount of PLN 8 016 000.

The resolution of the Extraordinary General Meeting was adopted in connection with the pending licensing proceedings before the Energy Regulatory Office (URE) for granting PEPKH a new license for trading in electricity. The purpose of the additional contributions was to meet the requirements of the President of the Energy Regulatory Office with respect to PEPKH having certain financial resources.

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

The below table presents a summary of equity increases in the other companies in which TAURON holds an equity stake in the first three quarters of 2019 and by the date of drawing up this report.

Table no. 3. Summary of equity increases in the other companies in which TAURON held an equity stake in 2019 and by the date of drawing up this report.

#	Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
1.	EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo - akcyjna (EEC Magenta limited liability company ASI limited joint stock partnership) (EEC Magenta ASI)	PLN 107 200	EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company limited partnership) (EEC Ventures)	PLN 1 072	15.01.2019	EEC Ventures 3%
		PLN 2 577 600	PFR Starter Fundusz Inwestycyjny Zamknięty (PFR Starter Closed-end Investment Fund) (PFR Starter FIZ)	PLN 25 776		PFR Starter FIZ 72.1%
		PLN 890 200	TAURON	PLN 8 902		TAURON 24.9%
2.	EEC Magenta ASI	PLN 18 800	EEC Ventures	PLN 188	23.08.2019	EEC Ventures 3%
		PLN 450 600	PFR Starter FIZ	PLN 4 506		PFR Starter FIZ 72.1%

#	Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the GM	Structure of the share capital following the increase
		PLN 155 600	TAURON	PLN 1 556		TAURON 24.9%
3.	EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI spółka komandytowo - akcyjna EEC Magenta limited liability company 2 ASI limited joint stock partnership) (EEC Magenta 2 ASI)	PLN 99 557	EEC Ventures 2	PLN 2 933	25.01.2019	EEC Ventures 2 2.95%
		PLN 4 874 200	PFR NCBR CVC FIZAN	PLN 48 742		PFR NCBR CVC FIZAN 49.02%
		PLN 4 775 100	TAURON	PLN 47 751		TAURON 48.03%
		PLN 128 118	EEC Ventures 2	PLN 3 774		EEC Ventures 2 2.95%
4.	EEC Magenta 2 ASI	PLN 6 279 000	PFR NCBR CVC FINAN	PLN 62 790	27.09.2019	PFR NCBR CVC FIZAN 49.02%
		PLN 6 150 900	TAURON	PLN 61 509		TAURON 48.03%
		PLN 17 200	EEC Ventures	PLN 172		EEC Ventures 3%
5.	EEC Magenta ASI	PLN 414 600	PFR Starter FIZ	PLN 4 146	02.03.2020	PFR Starter FIZ 72.1%
		PLN 143 200	TAURON	PLN 1 432		TAURON 24.9%

The other most significant equity investments in the financial assets held by TAURON as of December 31, 2019, include stakes in the following entities:

1. Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (SCE Jaworzno III) with the balance sheet value of PLN 30 386 000,
2. Przedsiębiorstwo Energetyki Ciepłej Tychy sp. z o.o. (PEC Tychy) with the balance sheet value of PLN 23 801 000,
3. Energetyka Cieszyńska sp. z o.o. with the balance sheet value of PLN 13 773 000,
4. PGE EJ 1 sp. z o.o. (PGE EJ 1) with the balance sheet value of PLN 14 402 000,
5. ElectroMobility Poland S.A. (ElectroMobility Poland) with the balance sheet value of PLN 11 847 000,
6. EEC Magenta 2 ASI with the balance sheet value of PLN 10 950 000.

Major investments in financial assets

TAURON Capital Group's investments in financial assets carried out in the reporting period include granting by TAURON of the loan to the Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) joint subsidiary in the amount of PLN 5 175 000 with the repayment date by June 30, 2033.

TAURON Capital Group's major investments in financial assets continued in 2019 include:

- continuation by TAURON of investments in participation units in investment funds. As of the balance sheet day the value of the participation units in investment funds reached PLN 26 622 000.
- co-financing by TAURON of the EC Stalowa Wola joint subsidiary in the form of loans. As of the balance sheet day the total amount of loans granted to EC Stalowa Wola reached PLN 336 661 thousand.
- co-financing by TAURON of PGE EJ1 in the form of loans. As of the balance sheet day the amount of loans granted to PGE EJ1 reached PLN 7 740 000.

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

After the balance sheet date, on February 11, 2020, the Company retired all of its participation units in the investment funds.

1.4. Strategy and Strategic Priorities of TAURON Capital Group

2019 was the continuation of the implementation of *TAURON Group's 2016-2025 Strategy* (Strategy), adopted by the Management Board of TAURON on September 2, 2016

Since the date of adopting the Strategy some of its assumptions have changed, first of all the regulations that have a material impact on TAURON Capital Group's operations have become more specific, among others, *the act on the capacity market, the act on promoting high efficiency cogeneration electricity, the energy law act, the act on*

electromobility, and the regulations related to quality requirements for solid fuels. At the same time, the works on the final version of *Poland's Energy Policy until 2040* are underway,

In view of the above, on May 27, 2019, the Company's Management Board adopted, and the Company's Supervisory Board issued a positive opinion on the *Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025* (Update of the Strategic Directions), which complemented the Strategy. The update of the strategic directions takes into account the impact of the above mentioned documents and the key regulatory changes on TAURON Capital Group and assumes the so-called *Green Turn of TAURON*, i.e. a sustainable transition of TAURON Capital Group towards becoming the leading low-emission energy group in Poland.

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

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



Mission and vision best describe the strategic intentions of TAURON Capital Group that sees a large growth potential in developing sales of products and services that are tailored to customer needs. TAURON Capital Group is adjusting its profile in order to ensure full focus on the customer, appreciating the potential of new products, compatible services, modern contact channels as a response to customer needs.

The key values that support the implementation of the Strategy include *Partnership, Development, Boldness* (*Partnerstwo, Rozwój, Odwaga - PRO*), and these are values that reflect the way in which TAURON Capital Group wants to accomplish its goals. What is important as part of the *Partnership* is customer orientation, development of sustainable relationships and engagement. *Development* means focus on innovations, developing competences, skills and knowledge as well as seeking ever better solutions, meeting customer needs and improving the quality of services. *Boldness* means courage and openness, determination as well as engagement and passion in achieving common goals.

1.4.2. TAURON Capital Group's 2016-2025 Strategy

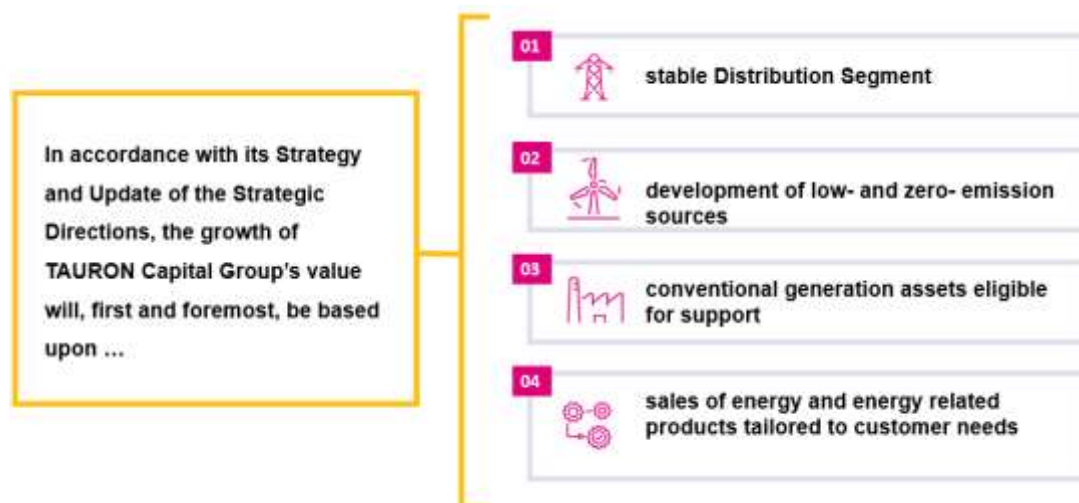
The 2016-2025 Strategy adopted ensures financial stability and a prospect for growth, while at the same time providing support for ensuring the stability of the power system. It is assumed that the long term growth will be driven by solutions based on customer relationships. The Mission and the Vision reflect such management philosophy and are in line with the customer-oriented growth concept.

Strategy describes the approach to developing the individual Segments of TAURON Capital Group's operations, dividing them into those segments that TAURON Capital Group is planning to strongly expand, the segments that will constitute the foundation of the financial stability and the segments where strong emphasis on cost efficiency is required.

In the Update of the Strategic Directions, TAURON Capital Group emphasized the focus on the development of the low- and zero-emission sources while making TAURON Capital Group's portfolio of assets more flexible. The above reflects the need for the energy transition of TAURON Capital Group and for increasing the investment potential aimed at developing the renewable energy sources, which, combined with the changed management philosophy and the orientation towards the customer and his / her needs, allows for the development of an innovative, open to the new challenges TAURON Capital Group.

The below figure presents the foundations for the growth of TAURON Capital Group's value.

Figure no. 4. Foundations for the growth of TAURON Capital Group's value



Strategy sets three priorities that assume the transition of TAURON Capital Group into a growing energy company that is aligned to the market and customer needs, ultimately providing a return on invested capital for its shareholders:



The Update of the Strategic Directions confirmed the validity of TAURON Capital Group's priorities, emphasizing the need to build a strong capital group through:

- transformation of the energy mix, and a strategic pursuit of a more than 65% share of low- and zero-emission sources in the structure of TAURON Capital Group's generation assets in 2030,
- optimization of the coal assets and the capital expenditure (capex) portfolio.

The Strategy and the Update of the Strategic Directions indicate that the overarching goal with respect to the capital expenditures is to adapt the investment portfolio to the market needs. The update highlighted the need to increase the investment potential aimed at developing the renewable energy sources. It was assumed that the actions would be oriented towards:

- optimization of the asset structure in all lines of business operations and adaptation to the environmental requirements,
- investments in the development and modernization of the distribution grid as well as low and zero emission generation sources,
- implementation of investment projects that guarantee the expected rate of return on capital and are not burdened with material market risks,
- use of off-balance sheet financing, in particular by involving external partners,
- investing in projects in energy related sectors (in particular in services) to supplement the value chain that TAURON is operating in and in the so-called new energy sector, among others the prosumer energy, Smart Home solutions, Smart City solutions, electromobility and energy related services.

The below table below presents the strategic goals and growth prospects in the individual operating Segments.

Table no. 4. Strategic goals and growth prospects in the individual operating Segments

Strategic goals	Growth prospects
Mining Segment	
<p>The main goal for the Mining Segment is to provide a stable supply of cost-competitive and adequate, in terms of quality, fuel and to align the output level to TAURON Capital Group's planned demand for fuel.</p> <p>The goals set in the Strategy are implemented through such actions as:</p> <ul style="list-style-type: none"> • optimizing the costs and capital expenditures, • tri-product enrichment at Sobieski Coal Mine (ZG Sobieski) and Janina Coal Mine (ZG Janina), • expanding the line for packaging eco-pea coal, preparing dedicated fuel for the generating units. <p>As part of the Update of the Strategic Directions, a strategic option was adopted consisting in conducting a market verification of the sale of ZG Janina.</p>	<p>The introduction of further restrictions with respect to environment protection, quality of solid fuels placed on the market, taxes and local government regulations (including the anti-smog ones) pose a challenge for the sector. The energy and climate regulations lead to a successive decline of the competitiveness of the coal fired electricity generation. The directions of the mining industry's development will also be strongly correlated with the guidelines outlined in the government documents: <i>Poland's Energy Policy until 2040</i> (draft) and the <i>National Plan for Energy and Climate for 2021-2030</i>. The above-mentioned documents show the growing importance of the renewable energy sources, including off-shore wind energy, new technologies and a gradual change in the country's generation mix at the expense of conventional energy.</p>
Generation Segment	
<p>The main goals for the Generation Segment include:</p> <ul style="list-style-type: none"> • for TAURON Wytwarzanie: to develop an optimal, from the point of view of profitability and risk, generation assets portfolio and its effective operation, • for TAURON EKOENERGIA: to improve the profitability of its generation assets and prepare options for the profitable growth of this line of business, • for TAURON Ciepło: to achieve return on invested capital as a result of market growth and rising customer satisfaction. <p>The goals set in the Strategy are to be accomplished by:</p> <ul style="list-style-type: none"> • optimizing the costs and capital expenditures as well as streamlining employment, • optimizing production assets, • selling redundant non-production assets, • investment projects that lead to upgrading of the generation fleet. <p>The Update of the Strategic Directions indicated that the priority is to decommission all obsolete coal fired units (120 MW units - by the end of 2020 and 200 MW units - after 2025) and to maintain assets that receive the regulatory support. Ultimately, modern conventional units will remain a part of the production portfolio: Łagisza 460 MW and Jaworzno 910 MW</p> <p>In the RES line of business options for developing RES installations are being prepared by building own sources, acquiring existing installations and ready-made projects. The update of the strategic directions has strengthened the importance of clean energy development, which will be the basis for building the value of TAURON Capital Group. The involvement in the low and zero emission energy is implemented through:</p> <ul style="list-style-type: none"> • investments in on-shore wind farms: additional 900 MW by 2025, • investments in solar farms: additional 300 MW by 2025, • readiness to participate in off-shore wind farm projects. <p>In the heat generation, distribution and trading line of business significant actions include eliminating low emissions, looking for solutions in the co-generation area as well as improving the rate of utilizing the existing infrastructure.</p> <p>As part of the Update of the Strategic Directions, a market verification of TAURON Ciepło disposal (divestment) option was assumed.</p> <p>In addition, the sale of shares in EC Stalowa Wola and PGE EJ1 is planned.</p>	<p>The tightening energy and climate policy of the European Union (EU) combined with the increase in prices of CO₂ emission allowances set the direction of the development of the energy sector. The reduction of the support systems for conventional energy and the prospect of not being able to benefit from the ETS derogation means a permanent loss of profitability for these units. The reduction of the financing for both coal fired installations as well as the capital groups with coal assets and the narrowing base of coal property insurers reduces the financial sense of maintaining conventional assets. In December 2019, the European Commission presented the <i>European Green Deal</i> - an action plan to implement a strategy to achieve climate neutrality at the EU level by 2050.</p> <p>An increase of the domestic electricity production, including RES generation, is assumed. A strong growth of photovoltaics is observed, associated primarily with the launch of the support programs, including programs for the prosumers. According to SolarPower Europe, Poland was ranked fifth in the EU in 2019 in terms of new solar capacity growth. In 2020, another record increase in new PV capacity is estimated. An additional factor supporting such growth is the possibility of obtaining funds for investments from the dedicated funds planned for 2021-2030.</p> <p>The growth of investments in the renewable energy sources will also apply to on-shore wind farms and, in the long term, off-shore wind farms. The technological changes related to wind farms and the favorable regulations will translate into the repowering of the installations, thus increasing the capacity and improving the efficiency of their use.</p> <p>The key issue in the coming years will continue to be ensuring the security of the operation of the National Power System (Krajowy System Elektroenergetyczny - KSE). The capacity market has been introduced in Poland for that purpose, which is one of the elements supporting the transition of the Polish power sector. Obtaining derogations from the requirements to adapt the generating units to the BAT Conclusions represents an opportunity for the conventional power generation.</p> <p>On the heat market Poland's policy, aimed at providing support for the co-generation and improving air quality, may lead to an increase of investments and the growth of this area. An important factor is rising social awareness, the actively conducted battle against smog waged by the local governments and the national aid programs. On the other hand, the growth opportunities for the heating market are limited due to the improvement in the energy efficiency of buildings and the rising competition from the increasingly efficient individual heating devices. The reduction in the financing and insurance of coal investments should also be taken into account.</p>
Distribution Segment	
<p>The main goal for the Distribution Segment is to maintain its leadership position on the Polish market in terms of the security and efficiency of the grid operation.</p> <p>The level of annual capital expenditures in the Distribution Segment stands at PLN 2 billion. Mainly tasks related to connecting new</p>	<p>The activities aimed at ensuring the reliability of electricity supply and simplifying the procedures related to connecting the new consumers and micro-installations will be continued. The investment projects carried out will allow for adapting TAURON Capital Group's distribution assets to the growing volume of electricity generated by the distributed renewable sources, and also for preparing the grid to interoperate with the infrastructure to be used for charging electricity vehicles. The expansion</p>

customers as well as upgrading and expanding of the grid are carried out.

Activities aimed at ensuring the flexibility of the grid and simplifying the procedures related to connecting new customers are carried out. The investment projects underway are aimed at adapting the distribution assets to the growing volume of electricity generated by the renewable sources, and also at preparing the grids to interoperate with the infrastructure for charging electric vehicles.

The *Single Distribution* Program, that was made up of projects aimed at optimizing the company's operational processes, including; actions leading to raising customer satisfaction and improving the company's image, was completed.

of TAURON Capital Group with respect to implementing smart grid and smart meter solutions will allow for introducing additional functionalities, both on the distributor's side, as well as on the customer's side. The Distribution Segment's growth will be significantly affected by the ability to obtain aid funds, both with respect to improving the grid security, as well as the research and development (R&D) activities.

The Distribution Segment's operations are dependent on the new elements of the regulatory policy introduced by the President of ERO. Significant changes to the functioning of the segment may be a consequence of changes to the energy law.

Supply Segment

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

A number of initiatives are implemented, i.e., among others: increasing the sales potential by transforming the customer service channels into integrated customer contact channels, increasing the value of the products and services sales to mass customers by developing the product offering and sales techniques, developing products and developing contact channels with respect to specialty products as well as the partnership offering addressed to the mass customer segment.

The update of the strategic directions confirmed the continuation of the development of new energy-related products and services, including:

- for business customers: consulting and management of energy assets and infrastructure, energy audit and efficiency improvement services,
- for institutional customers: products and services with respect to Smart City, electromobility, low emission reduction, multiutility.

The actions taken by the competition and growing customer expectations have an impact on developing the product offering and maintaining the highest customer service standards. Growing customer awareness has an impact on the rising requirements, both with respect to the products offered, as well as the speed and quality of the customer service. TAURON Capital Group is systematically expanding its product offering, tailoring it to the expectations of the individual and business customers, and developing the communications channels, both on the digital platforms level, as well as direct contacts.

Competing companies are offering products on the market that are often very similar to the products offered by the Supply Segment. With similar price offerings the competition for a customer will take place on the level of innovative product and service proposals, in particular on the level of customer communications platforms and customer service quality.

1.4.3. Key challenges for TAURON Capital Group

The Strategy and the Update of the Strategic Directions are TAURON Capital Group's responses to the challenges posed by the business environment and the requirements of the energy sector's customers:



Regulations

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



Market

Changing forecasts of electricity and hard coal prices, hard coal availability, demand for electricity, demand for capacity, growing competition on the retail market, rising level of RES generation, the reduction of the financing for the coal related investments as well as for the capital groups with coal assets.



Customer

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



Technology

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

A transformation of the utility scale (system) power generation sector towards decentralized generation, increased role of cross-border connections, energy storage and new energy services, such as for example "virtual power plants", demand side management or dispersed (distributed) generation, is foreseen. The above direction of the changes has an impact on both, the Distribution Segment that must deal with the smart technologies, electric vehicle charging infrastructure, distributed (dispersed) generation, including the prosumers and the bi-directional electricity flows, while at the same time increasing the quality and security of the supply of electricity, as well as the Generation

Segment, whose transformation will be oriented towards performing the function of regulating (adjusting) and stabilizing the power system.

1.4.4. Opportunities and threats

The below table presents opportunities and threats to TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2019.

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

Opportunities	Threats
Regulations	
<ul style="list-style-type: none"> • Introduction of the dual-product market – additional revenue for maintaining generation capacity. • Support for electromobility (growing electricity consumption). • Introduction of legal solutions supporting the curtailment of low emissions (e.g. system district heating). • New regulations related to the support for the cogeneration. • Use of the aid funds for the expansion of TAURON Capital Group's operations. 	<ul style="list-style-type: none"> • Tightening energy and climate policy of the European Union (EU). • Increase of the costs of generating electricity using the conventional sources due to, among others, the environmental costs and the decarbonization policy. • Lack of stability and predictability of the regulations for the RES sources as well as uncertain future of the RES sources based on the biomass burning and co-firing technology. • The need to incur additional expenses due to the changes to the energy law.
Market	
<ul style="list-style-type: none"> • Access to the largest, among Poland's energy companies, customer base. • Entry into the energy related services market segments based on the competences held. • Commercialization of innovative solutions developed as part of the research and development activities. • Own mining assets base, allowing for the stabilization and predictability of the fuel cost. 	<ul style="list-style-type: none"> • Decline of the margins and lower utilization rate (load factor) of the conventional assets (deteriorating profitability, refurbishments or shutdowns of old generating units due to the new high efficiency units entering the system and due to the BAT Conclusions requirements). • Loss of volume and profitability of the Supply Segment. • Pressure on the electricity prices with the growing cross-border exchange volumes. • Reduction of the financing for the coal related investments as well as for the capital groups with coal assets • Increase of the prices of goods and services negatively impacting investment efficiency.
Customer	
<ul style="list-style-type: none"> • Competitive advantage with respect to the customer service quality. • Customer segmentation and offering the additional products in line with customer expectations. • Growing customer awareness and expectations towards comprehensive, personalized offering of additional services and products. • Expanding an offering of services for customers based on the competences held and trust in the TAURON brand. • Developing modern and integrated sales and customer service channels. • New competences and business models based on the research and development (R&D) activities. • Maintaining an upward trend in electricity consumption by the final consumers. • Developing competences and competitive advantages in the new areas of operations. 	<ul style="list-style-type: none"> • Potential loss of customers due to an increase in the number of competitors offering customers similar products and due to low electricity supply market entry barriers. • Decrease of the customer loyalty – intense activities conducted by the competitors. • Greater customer awareness and requirements with respect to the customer service quality and product offering. • Power independence of the consumers (prosumers, energy (power) islands, energy storage facilities, clusters). • Energy intensive consumers building their own generation sources, as a result of the drive to reduce the electricity costs. • "Carbon leakage" – moving business operations to other countries due to the cost of energy. • Incurring of high expenditures required to implement the new customer service platforms and develop the contact channels.
Technologies	
<ul style="list-style-type: none"> • Continued and noticeable decline of the prices of the renewable technologies. • Advancement of the storage technologies, smart technologies and the technologies related to the dispersed (distributed) generation. • Additional services for the customers related to the new technologies (internet of things, dynamic tariffs, virtual power plants). • Developing and implementing (commercializing) of proprietary innovative solutions that provide a competitive advantage. 	<ul style="list-style-type: none"> • The need to adapt the grid to the growth of dispersed (distributed) power generation (bi-directional electricity flows). • Arrival of the new, cost competitive electricity generation technologies in the countries neighboring with Poland. • Growing number of cyberthreats and the infrastructure susceptible to such attacks. • Multitude of the communications standards, problems with providing the expected goals for the projects implemented.

1.4.5. Long term financial goals and assumptions of the Strategy

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

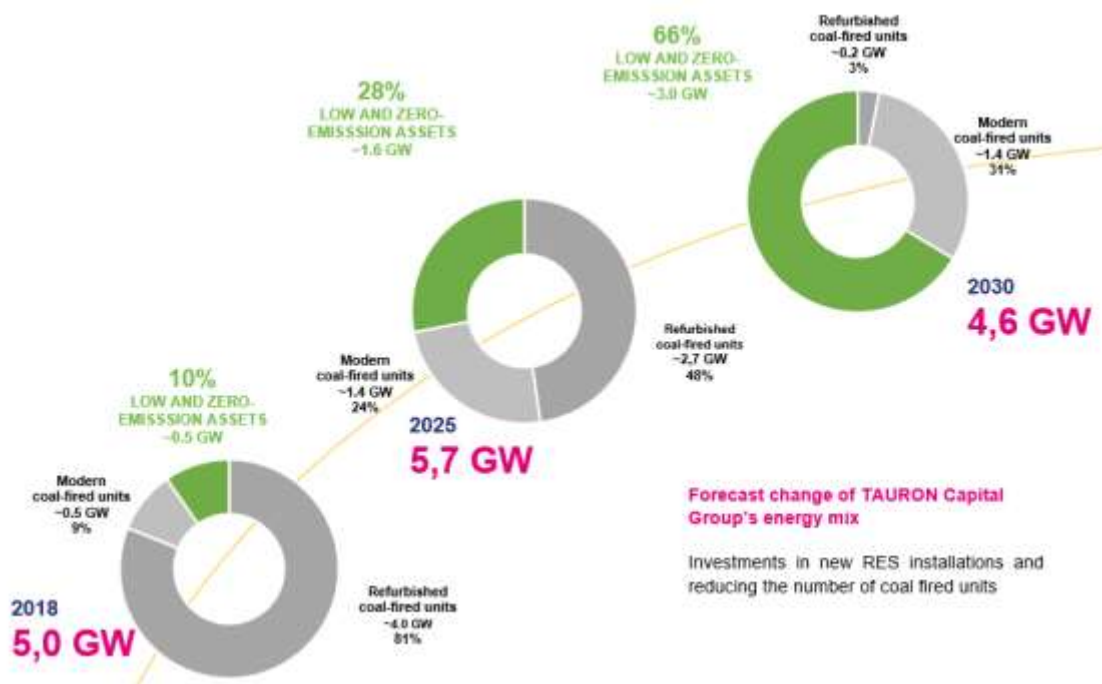
1. EBITDA above PLN 4 billion in 2020
2. Maintaining the net debt/EBITDA covenant below 3.5x
3. Maintaining a high Customer Satisfaction Index (CSI)
4. Power plants generating positive cash flows by 2020

- 5. Maintaining the customer base
- 6. Unit margin leadership among Poland's 4 largest electricity suppliers
- 7. New businesses are to represent at least 25% of the revenue/margin in 2025.

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

The Update of the Strategic Directions indicated the target (ultimate) structure of the generating assets of TAURON Capital Group. The ultimately assumed energy mix of TAURON Capital Group is the consequence of investments in the low- and zero-emission assets and the reduction in the number of the coal fired units, as presented in the below figure.

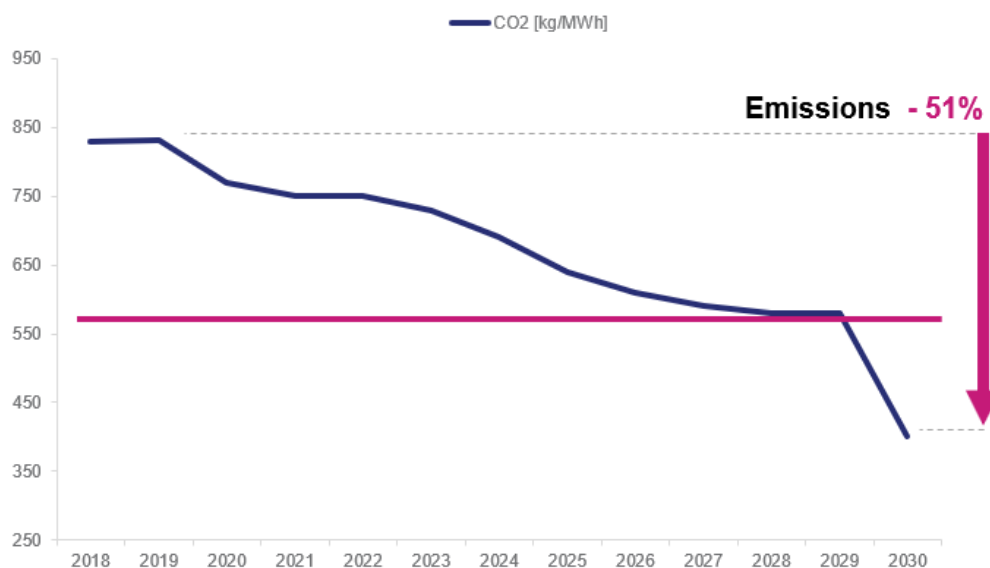
Figure no. 5. TAURON Capital Group's ultimate energy transition



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

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

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



1.4.6. The implementation of the Strategy and priorities of TAURON Capital Group in 2019

The activities undertaken and the achieved values of the strategic goals, the Efficiency Improvement Program and the Strategic Initiatives are the result of the implementation of the Strategy.

The below table presents TAURON Capital Group's strategic goals realized in 2019.

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

#	Strategic goal	Realization in 2019
1.	EBITDA above PLN 4 billion in 2020	The goal is being realized through the core operations of TAURON Capital Group's business segments and the implementation of the Strategic Initiatives and the Efficiency Improvement Program. In 2019 EBITDA of PLN 3.6 billion was achieved.
2.	Net debt/EBITDA covenant below 3.5x	Maintaining the covenants is both the consequence of actions leading to the improved financial results as well as actions aimed at improving the investment efficiency. As part of the Strategy the investment portfolio was optimized and modern financing in the form of a hybrid bond issue was obtained. As of the end 2019 the net debt/EBITDA ratio reached 2.8x.
3.	Maintaining a high Customer Satisfaction Index (CSI)	TAURON Capital Group is an industry leader in customer service quality. Annual customer satisfaction surveys performed by an external company confirm a high satisfaction level of TAURON Capital Group's customers. The results of the December 2019 CSI survey were as follows: for households 83 points, for small and medium size enterprises 78 points, and for business customers 78 points.
4.	Power plants generating positive cash flows by 2020	Achievement of this goal will be the consequence of a number of actions undertaken within TAURON Capital Group, among others: optimizing the costs and outlays related to the generating units, TAURON Capital Group's trading (commercial) strategy, as well as the impact of the external environment, both the regulatory one, as well as the market one. The guaranteed revenue obtained as part of the won main auctions of the capacity market will have a significant, positive impact on achieving positive cash flows by TAURON Capital Group's generating units starting from 2021.
5.	Maintaining the customer base	TAURON Capital Group is Poland's largest electricity distributor and the second largest electricity supplier. Maintaining the customer base constitutes for TAURON Capital Group a long term growth platform and is implemented by both, actions improving the quality of the services provided, among others an expansion of the customer communications channels, as well as a broad product offering. As of the end of 2019, TAURON Capital Group provided services for approx. 5.5 million customers of the Supply Segment and 5.65 million customers of the Distribution Segment.
6.	Unit margin leadership among Poland's 4 largest electricity suppliers	Maintaining of the leadership position is based both on maintaining a high volume of electricity supplied, as well as the ability to generate a positive financial result. TAURON Capital Group, by focusing on the customer, is developing a broad, profitable base of products and services. Based on the data for the first three quarters of 2019 TAURON Capital Group maintained the leading position among Poland's 4 largest utilities in terms of the unit margin, calculated as the Supply Segment's EBITDA attributed to the electricity supplied to the final consumers.
7.	New businesses are to represent at least 25% of revenue / margin in 2025	TAURON is actively preparing to take part in the new markets and areas of operations. The activities focused on the new businesses are supported by the implementation of SAB and the cooperation with start-ups. TAURON got involved in the project with the goal to deploy broadband internet access in seven regions in the south of Poland as part of the Operational Program Digital Poland (Program Operacyjny Polska Cyfrowa - POPC). The attractiveness of the project is additionally enhanced by the amount of the subsidy worth PLN 187 million. In November 2018 TAURON commissioned a network of terminals for charging electric vehicles made up of four fast charging stations (DC) and 19 accelerated charging stations (AC). Additionally, the eCar from TAURON application that allows for renting an electric vehicle was launched. The largest project as part of the implementation of the goal is the broadband internet access deployment. This project is composed of the Digital Poland Operational Program (POPC) implemented in 7 regions of southern Poland and the construction of structures enabling taking advantage of the business potential of the infrastructure within the Business Services Center at TAURON Customer Service. The attractiveness of the project is additionally enhanced by the amount of the subsidy worth PLN 187 million. With respect to eMobility development, TAURON Capital Group provides a car sharing service and builds infrastructure for charging electric cars. 49 charging stations were completed at the end of 2019, at the end of the current development stage the network will be expanded to 150 stations. In 2019, projects related to the construction of the cogeneration engines were launched based on 2 models: ESCO for an external customer and a model assuming the optimization of the use of methane obtained from the mining headings at Brzeszcze Coal Mine (Zakład Górniczy Brzeszcze - ZG Brzeszcze).

Ensuring TAURON Capital Group's financial stability

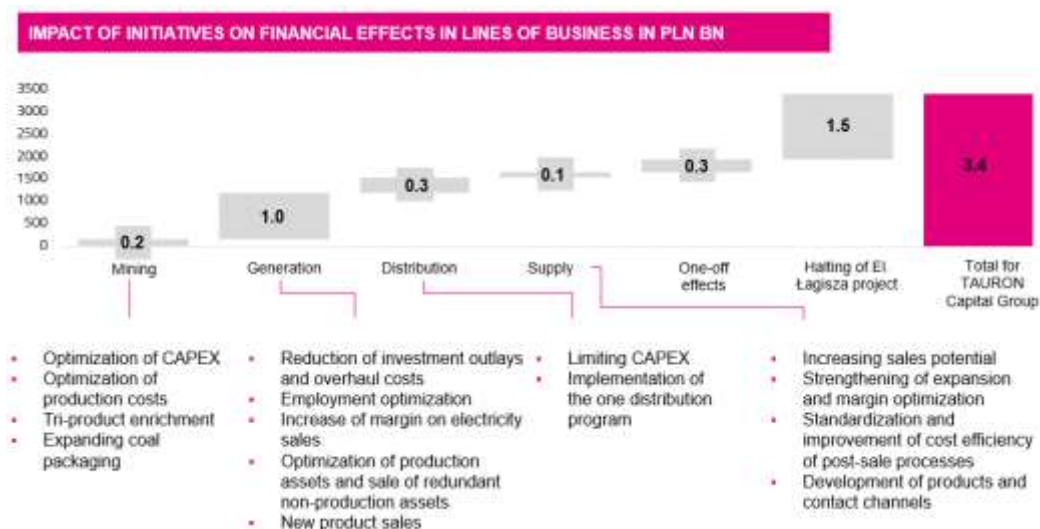
Ensuring TAURON Capital Group's financial stability is achieved through the Efficiency Improvement Program, the implementation of the Strategic Initiatives and the improvement of the investment efficiency.

The implementation of the 2016-2018 Efficiency Improvement Program was completed in 2018. The implementation of the program brought savings of PLN 1 719 million which represented 132% of the planned savings, with PLN 1 067 million impacting EBITDA and PLN 652 million having been due to the reduction of the capital expenditures.

As part of the implementation of the Strategic Initiatives and the rationalization of the investment outlays for 2017-2020, it was assumed that the financial effects at the level of PLN 3.4 billion would be achieved.

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

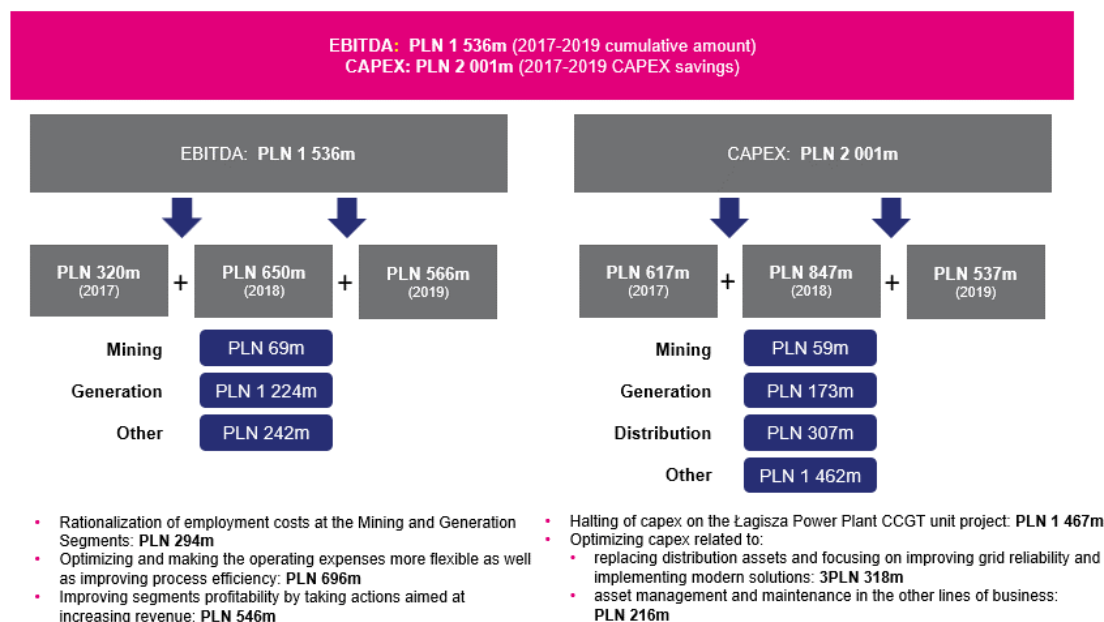
Figure no. 7. Assumptions of the Strategic Initiatives and the CAPEX rationalization in 2017-2020



In 2019, the Strategic Initiatives brought a financial effect of PLN 1 103 million, with PLN 566 million impacting EBITDA, and PLN 537 million having been due to the reduction of the capital expenditures (including PLN 426 million due to the halting of the construction of a 413 MWe CCGT unit with a heating unit at the Łagisza Power Plant in Będzin). The Generation Line of Business (PLN 395 million) and the Supply Line of Business (PLN 135 million) made the largest contributions to the savings achieved. The cumulative effects achieved as of the end of 2019 amounted to PLN 3 537 million, with PLN 1 536 million having a positive impact on EBITDA, and PLN 2 001 million coming from the reduction of the investment outlays.

The figure below shows the implementation of the Strategic Initiatives in 2017-2019.

Figure no. 8. Implementation of the Strategic Initiatives in 2017-2019 (cumulatively)



Pursuant to the Update of the Strategic Directions, maintaining financial stability is to be supported by a market verification of the strategic options: disinvestments in the Mining Line of Business and the Heat Line of Business. In 2019, a decision was made to carry out the market verification of the sale of the Janina Coal Mine (ZG Janina). The goal of this decision was to make TAURON's portfolio of assets more flexible by adapting the mining assets to the planned demand for fuel. On December 10, 2019, the process of searching for a potential investor interested in acquiring the Janina Coal Mine (ZG Janina) was completed due to the lack of purchase offers. The strategic option of adapting the level of fuel production to the future needs of the coal generating units that will continue to be

operated within TAURON Capital Group remains valid and the conceptual and analytical works are underway, as a result of which alternative solutions should be developed. Additionally, the works are underway to prepare and implement a turnaround program for TAURON Wydobycie.

TAURON Ciepło assets divestment project is underway, with its completion planned for 2020.

Building a strong capital group

TAURON Capital Group is offering the most comprehensive product and service portfolio for the customers among Poland's electric utilities. The measures aimed at developing the Supply Segment are also supported by the dedicated projects as part of the *Strategic Research Agenda (Strategiczna Agenda Badawcza - SAB)* adopted by the Management Board in 2018. Works are underway on improving high customer service standards and developing modern and integrated sales and customer service channels.

The regulated assets that deal with the operations with respect to electricity and heat distribution are an important link in TAURON Capital Group's value chain. A significant portion of the capital expenditures is spent on the construction and refurbishment of the grid. TAURON Capital Group invested PLN 1 785 million in total in the Distribution Segment in 2019, while at the same time implementing initiatives aimed at improving the cost and organizational efficiency. The main activities involved unifying the processes and systems as well as implementing an optimal and coherent structure of TAURON Dystrybucja.

The steps aimed at improving the economic efficiency of the generation assets held were continued in the Mining and Generation Segments in 2019, thanks to the optimization of the costs and capital expenditures, employment, production assets and the sale of the redundant non-production assets as well as the implementation of the investment and refurbishment projects. The refurbishment investment projects are conducted as part of the undertakings aimed at adapting the generating units to the BAT Conclusions requirements. As a result of concluding agreements, as a consequence of taking part in the capacity market auctions conducted, TAURON Capital Group's generating units will be receiving additional revenue. As part of the Update of the Strategic Directions, the new delivery schedules for the 120 MW and 200 MW unit shutdowns were developed and adopted.

As part of the implementation of the assumptions of TAURON's new green policy, TAURON Capital Group acquired 5 wind farms in September 2019, with a total installed capacity of 180 MW, and as a result of the deal its installed capacity in wind based technology was doubled. Due to the takeover of the wind farms, TAURON was ranked second among Polish energy groups in terms of installed capacity in on-shore utility scale wind farms. In December 2019, TAURON EKOENERGIA signed a contract for the purchase of a photovoltaic farm project - Choszczno solar power plant with the planned installed capacity of 6 MW. The planned date of commissioning the power plant is Q4 2020. At the same time, the works are underway to prepare for the development of the photovoltaic installations on TAURON Capital Group's land (sites) that is not used commercially.

Introduction of the organizational changes supporting the implementation of the Strategy

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

TAURON Capital Group's new proposal for startups is the *TAURON Progres* acceleration program enabling a quick presentation of the solution to experts, without waiting for the call for applications to be opened.

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

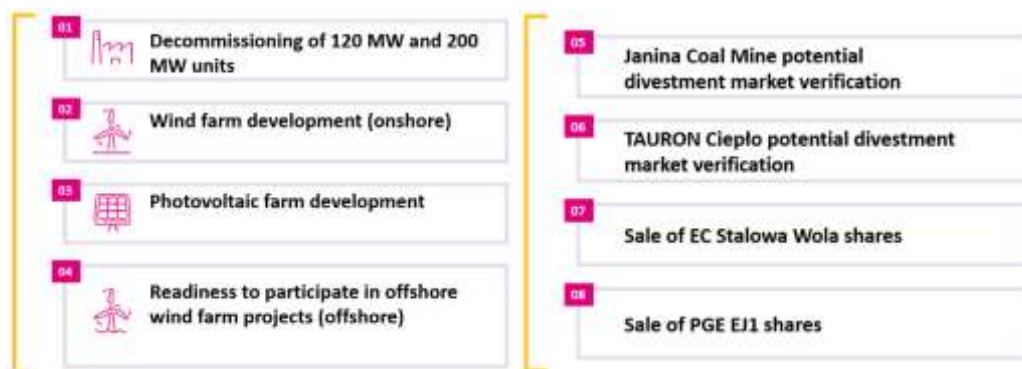
Strategy sets the directions of TAURON Capital Group's short and long term expansion. The priority is to maintain a stable financial position and lay down solid foundations for growth in a changing environment. The Update of the Strategic Directions additionally highlighted the importance of the transformation of the energy mix, including the development of low- and zero-emission sources as well as the optimization of the capital expenditures portfolio.

Strategy sets the priority directions for the innovations as well as research and development activities that will be the basis for developing new products and services in the longer term. In order to achieve this goal TAURON Capital Group adopted a new model for the innovations as well as research and development activities, setting up a dedicated central organization to manage and coordinate such operations.

In the longer term the Strategy assumes the full utilization of the potential of TAURON Capital Group's assets, which is to support innovations, organizational culture and, first of all, focusing on the customer needs. Taking into account the need for TAURON Capital Group's energy transition, the optimization of the investment portfolio and maintaining financial stability as part of the Update of the Strategic Directions, a decision was made to carry out the market verification of the strategic options.

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

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



1.5.1. Implementation of the strategic investment (CAPEX) projects

Key strategic investment (CAPEX) projects underway

The below table presents the activities carried out by TAURON Capital Group in 2019 in connection with the implementation of the key strategic investment (CAPEX) projects.

Table no. 7. Key strategic investment (CAPEX) projects' work progress in 2019 and by the date of drawing up this report

#	Investment project	Investment project's work progress
1.	<p>Construction of a new 910 MWe supercritical parameters power generation unit in Jaworzno Contractor: RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium Planned project completion date: Q3 2020 Work progress: 97 % Expenditures incurred: PLN 5 347.5 million</p>	<p>The 910 MW unit construction project is at the test (trial) run stage. In the first half of 2019, after the key technological process systems had been handed over, a number of trials and tests were completed, the system's readiness to supply the media was achieved which allowed for conducting of further start-up works. The carburization system and the railway tracks system were completed to the degree enabling storing of the coal at the storage (pre-picking) yard, as well as feeding of the coal to the unit. The works completed on the process systems enabled conducting, in May 2019, of the chemical cleaning of the unit's high pressure part. In July 2019 the boiler was fired with oil burners for the first time and the process of drying the refractory brick furnace linings, used in places particularly exposed to the ash and slag erosion. In October 2019, the process of steam purging of the boiler's high pressure part was completed, then the process systems were restored and the turbine shaft and the generator were intercoupled. In November 2019, the performance of the adjustment run trials and tests program for the balance of plant systems was completed. In December 2019 the first feeding of steam to the turbine set was carried out and the synchronization with the National Power System (KSE) was completed. The performance of the unit's adjustment run trials and tests program the was commenced.</p> <p>The amendment to the agreement was concluded with the General Contractor on December 19, 2019, which:</p> <ul style="list-style-type: none"> extended the scope of works under the agreement by adding the performance of additional tasks, including, among others: conducting the optimization efforts aimed at expanding the so-called fuel field (mix, range) of the unit (admission of a broader variety of coal types) in order to make the unit's operational conditions more flexible and guarantee the compliance with the future environmental requirements for the expanded fuel field (mix, range) of the unit, assumed that the acceptance (takeover) of the unit for operation would take place by January 31, 2020, introduced a definition of a transition period (until May 2020) during which the Contractor would carry out additional optimizations and tests on the operating unit in order to ensure that the unit should meet the changed and new Guaranteed Technical Parameters (Performance Tests), increased the net price specified in the agreement by PLN 52.3 million to PLN 4 537.8 million. <p>The change to the terms and conditions of the agreement with the Consortium did not cause an overrun of the assumed total budget envisaged for the implementation of the investment project, i.e. PLN 6.158 billion.</p> <p>On January 30, 2020, the General Contractor provided information on a change of the date of commissioning the unit to February 4, 2020. The indicated date was not kept, the General Contractor informed about it in the current report.</p> <p>On February 13, 2020, the General Contractor provided information that during the last phase of the unit's tests one of the boiler's elements had been damaged.</p> <p>In consequence on March 6, 2020, the Consortium provided information that it estimated that the unit should be commissioned by July 31, 2020.</p>

	As of the date of drawing up this report, the General Contractor was in the process of analyzing the causes of the failure.
<p>2. Construction of a 449 MWe CCGT unit, including a 240 MWt heat generation unit at Stalowa Wola (Project implemented jointly with the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).</p> <p>Contractor: the contract with Abener Energia S.A. was terminated. The project's completion is implemented under the EPCM formula (contract manager) – Energoprojekt Katowice – Energopomiar Gliwice consortium</p> <p>Planned project completion date: Q2 2020</p> <p>Work progress: 86 %</p> <p>Expenditures incurred: PLN 1 260.4 million</p>	<p>As part of the tender proceedings aimed at selecting the contractors for the combined cycle power plant, announced by EC Stalowa Wola with the support of EPCM, the selection in all of the proceedings has been completed. All the contractors are conducting works at the construction site. The assembling of the steam piping, auxiliary installations and other steel structures has been completed. The minor construction and finishing works are also about to be completed. The unit's chemical cleaning was successfully completed and the preparations for the steam purging have been commenced.</p> <p>In 2019 the contractor responsible for the construction of the backup heat source completed the multi-disciplinary design works required to complete the investment project. The main civil construction works, required to place the boilers on the foundations, have been completed. The main civil construction works, required to place the boilers on the foundations, have been completed. The delivery of all boilers to the construction site was completed in July 2019 and the boilers were placed on the ultimate foundations. The other assembly works related to the technological process and the I&C systems are about to be completed. Preparations are underway for the hot commissioning and the adjustment operation (run) of a Backup Heat Source.</p> <p>On March 4, 2020, the first synchronization of the gas turbine with the electricity grid was carried out. The steam purging process was commenced.</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 original contractor, Abener Energia S.A. As a result of the inventory taking carried out by EPCM the assembly (installation) errors were identified as a consequence of which it was necessary to dismantle the steam piping, and then complete it again and reassemble. As a result the project's schedule was revised and the new date for the commissioning of the unit was originally set as the first quarter of 2020, and subsequently, as a result of another verification (revision), it was shifted to the second quarter of 2020.</p> <p>The total budget of the project remains unchanged and amounts to PLN 1.4 billion.</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: 47 %</p> <p>Expenditures incurred: PLN 258.6 million</p>	<p>The drilling of the headings on the 800 m level was continued in 2019. 327/2120 meters of headings and 107/238 meters of longwall ventilation have been drilled on the 800 m level by the end of March 2020.</p> <p>967 m long headings to the "Grzegorz" shaft were drilled on the 540 m level in 2019. The works were halted due to the fault. The technology required to pass the fault including its dewatering (drainage) was prepared. A positive opinion of the State Mining Authority (Wyższy Urząd Górniczy) was obtained. The works related to passing the fault were commenced in the fourth quarter of 2019 and after it has been passed, the drilling towards the shaft will be resumed in order to merge the longwalls. The next step following the passing of the fault will be to complete the drilling towards the shaft. In the fourth quarter of 2019 and in January 2020 the deepening of the shaft in the freeze section was continued. In November 2019, the shaft foot was made at the level of -45 m together with the concrete final casing (enclosure). By March 2020, the shaft was deepened and the outer casing was completed down to the depth of -74.4 / -870 m.</p>
<p>4. Construction of the 800 m level at the Janina Coal Mine in Libiąż (TAURON Wydobyćie).</p> <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: 79 %</p> <p>Expenditures incurred: PLN 409.1 million</p>	<p>In the fourth quarter of 2019 the ultimate height of the shaft tower +62 m was reached. The tower facade was erected and a crane was installed in order to assemble the hoisting machine. The delivery of the equipment was begun, including delivery of the hoisting machine. The bridge (platform) enabling the staff to access the shaft, and connecting the new and the old infrastructure was completed. As part of the project the 20-2 mm class Coal Mechanical Processing Plant was upgraded with a new jig. Also the design and engineering of the main drainage of the 800 m level was completed. By March 2020, the motor of the hoisting machine had been installed. Installation works related to heating, ventilation, cabling, carpentry are conducted.</p> <p>In 2019, the refurbishment works on the main transformer station and the main power supply sub-station were completed. The power supply sub-station has been prepared for connecting 3 power supply lines.</p> <p>The drilling of the horizontal headings on the 800 m level by the coal mine in-house unit is continued. Additionally, the tender for the drilling of the horizontal headings on the 800 m level is being prepared, the announcement of which was delayed until 2020 due to the optimization of the scope thereof.</p>

#	Investment project	Investment project's work progress
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 Program completion date: 2025</p> <p>Work progress: 61%</p> <p>Expenditures incurred: PLN 295.1 million</p>	<p>In the first three quarters of 2019 the extraction of the 510 deposit was conducted. Due to making the coal mine ventilation system independent of Spółka Restrukturyzacji Kopalń S.A. (SRK) in 2019, the works aimed at altering and improving the efficiency of the ventilation system are continued.</p> <p>The construction of the primary compressor station and the water and ash mixture dumping station has been completed. In June 2019 one of the key tasks - the construction of the brine water channel - was completed. The small sales facility and the brine water channel were completed and commissioned in 2019. The powered supports for coal faces 194 and 125 have been upgraded.</p> <p>As part of the program the total of 5 492 meters of headings had been drilled and altered by March 2020.</p>
6.	<p>Implementing heat generation at unit no. 10 and the construction of the peaking and backup boilers in Łagisza</p> <p>Contractor:</p> <ul style="list-style-type: none"> • GE Power – steam turbine set refurbishment, • Mostostal Warszawa – implementing the heat generation unit including refurbishing the heat production part, • SBB Energy – construction of the peaking and backup boilers. <p>Planned project completion date: Q4 2019 / Q2 2020</p> <p>Work progress: 90 %</p> <p>Expenditures incurred: PLN 109.2 million</p>	<p>•The steam turbine set refurbishment and the implementation of the heat generation unit including the station's adaptation was completed. The systems were tested, commissioned and handed over for operation in the fourth quarter of 2019.</p> <p>With respect to the peaking and backup boilers the final assembly works and preparation for the start-up and carrying out of the adjustment run are underway. With respect to the oil storage tanks the works related to the assembly of the end caps and outer jacket (cladding), including the erection of the oil installation, are underway. A part of the task was commissioned in the fourth quarter of 2019. The commissioning of the boiler house is planned for the first quarter of 2020.</p>
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 (project) stages.</p> <p>Planned project completion date: 2023</p> <p>Work progress: 14 %</p> <p>Expenditures incurred: PLN 15.7 million</p>	<p>The PLNE program is carried out on the territory of the following metropolitan areas: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice.</p> <p>The PLNE Program underwent restructuring. Due to TAURON Ciepło's failure to comply with the terms included in the representations in the Agreement on the co-financing of the original PLNE Program and a sudden steep rise of the contractors' prices, TAURON Ciepło subsidiary terminated the funding agreements on March 22, 2019.</p> <p>After a detailed analysis of the experiences from the previous Program, on June 25, 2019, TAURON Ciepło submitted a new application to the Regional Fund for Environmental Protection and Water Management (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej - WFOŚiGW) for the co-financing of the PLNE Program. WFOŚiGW issued a positive opinion of the company's application and granted funding for a new scope of the program's implementation in the form of 22 MWt in the Silesian-Dąbrowa conurbation area in the amount of more than PLN 32 million. The new agreement with WFOŚiGW was concluded on January 31, 2020.</p>
8.	<p>TAURON Internet (POPC) – implementation of the project in the areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice-Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec)</p> <p>Contractor: Atem Polska sp. z o.o. (Katowice-Tychy), MZUM sp. z o.o. (Sosnowiec), Atem Polska sp. z o.o. (Wałbrzych A), Mediamo Sp. z o.o. (Oświęcim), MX3 sp. z o.o. (Rybnik), MZUM sp. z o.o. (Wałbrzych B), ZICOM sp. z o.o. (Kraków-Tarnów)</p> <p>Planned project completion date: 2021</p> <p>Work progress: 5%</p> <p>Expenditures incurred: PLN 15.63 million</p>	<p>The POPC program involves implementing an infrastructure to enable high speed internet connections for households (min 30 MB/s). The final product of the project will be the provision of the wholesale services enabling connecting of the end users by the retail operators.</p> <p>In 2019 the contractors for all of the areas covered by the funding were selected. The inventory taking of the schools in all areas was completed and the update was provided to Centrum Projektów Polska Cyfrowa (Digital Poland Project Center).</p> <p>Each of the contractors presented the concept of the implementation of the works and proceeded to the implementation. In the fourth quarter of 2019, each of the contractors achieved a milestone in the form of 50% of completion with respect to the passive infrastructure construction for schools and 25% of completion with respect to the construction of the network infrastructure. In the fourth quarter of 2019, a market survey was conducted for the needs of the tender for the construction of the backbone network. In January 2020, a contractor for the construction of the backbone network was selected. In 2020, all contractors began the deployment of the fiber optic network. By March 2020, the contractors began actively connecting schools and installing the fiber optic terminal cabinets.</p>
9.	<p>Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021</p> <p>Contractor: Contractors are being selected to carry out specific projects.</p> <p>Planned project completion date: 2021</p> <p>Work progress: 19.1%</p> <p>Expenditures incurred: PLN 42.8 million</p>	<p>As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned:</p> <ul style="list-style-type: none"> • Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installation. All foundations were erected and secured. All major deliveries were contracted. The agreement with the contractor was suspended due to the derogation from the <i>BAT Conclusions</i>, • Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installation. Project works were accepted for unit no. 3, the building permission was obtained for units No. 1 and 5, a heat exchanger and reactor were delivered, foundations were completed and the assembly of the main and auxiliary structure for unit no. 3 was completed, the construction

	<p>works related the reagent feeding installation were completed. The contractor has contracted all of the major supplies and most subcontractors,</p> <ul style="list-style-type: none"> • Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the selective catalytic reduction (SCR) installation. The installation of the catalysts (2 of 4) has been completed. The contractor has contracted all of the major supplies and most subcontractors, • Łaziska Power Plant, units no. 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installation. The adaptation works on the existing stack with respect to the landings have been completed. The production of the plastic flue gas piping is underway. The contractor has contracted all of the major supplies and most subcontractors. • Łaziska Power Plant – the refurbishment of the sewage treatment plant. The tests with respect to the selection of the chemicals were carried out in the field, optimizing the scope of work, the technical dialogue was conducted with the potential contractors, the decision was taken to carry out the refurbishment based on the optimized scope of works in 2021, • Siersza Power Plant – the adaptation of the existing selective catalytic reduction (SCR) installation. The repeated bidding procedure was declared null and void, a turnaround plan to meet the Capacity Market Operational Milestone was developed, • Łagisza Power Plant – the company withdrew from the construction of the flue gas desulfurization (FGD) installation in favor of the dry additives feeding installation. The tender procedure was carried out. The project implementation was halted due to the obtained derogations from the <i>BAT Conclusions</i>.
<p>10. Program aimed at adapting TAURON Ciepło's generating units to comply with the operational conditions in force beyond 2021 Contractor: Contractors are being selected to carry out specific projects. Planned project completion date: 2021 Work progress: 7.5 % Expenditures incurred: PLN 1.4 million</p>	<p>As part of the program the refurbishment of the following generating units, in accordance with the following scope of works, is planned:</p> <ul style="list-style-type: none"> • Katowice Generation Plant (ZW Katowice) - the erection of the semi-dry flue gas cleaning installation, • Tychy Generation Plant (ZW Tychy) - the erection of the semi-dry flue gas cleaning installation. <p>Derogations from the BAT conclusions were obtained, as a result of which the need to implement the flue gas cleaning installation became irrelevant. The agreements with the Contractors were terminated and the BAT Program closing procedure was initiated.</p>

Other investment projects

Nuclear power plant construction project

PGE EJ 1 was carrying out the scope of works related to conducting environmental and siting studies at Żarnowiec and Lubiatowo-Kopalino sites in 2019.

The project is carried out under the Partners' (Shareholders') Agreement concluded in 2014 by TAURON, ENEA S.A. (ENEA) and KGHM Polska Miedź S.A. (KGHM Polska Miedź) (Business Partners) with Polska Grupa Energetyczna S.A. (PGE). In accordance with the above agreement each of the Business Partners holds 10% of shares in PGE EJ 1 – a special purpose vehicle responsible for preparing and implementing an investment project involving the construction and operation of a nuclear power plant. The Partners' (Shareholders') Agreement governs the principles of cooperation in the project implementation, including the parties' commitment to jointly, in proportion to the stakes held, finance the operations as part of a project development milestone (stage).

In November 2018 TAURON received a letter from PGE, in which PGE expressed preliminary interest in acquiring all of the shares in PGE EJ 1 owned by TAURON. In response to the letter TAURON expressed preliminary interest in selling all of its shares in PGE EJ 1. Talks and negotiations were conducted between the parties with respect to the said issue in the first quarter of 2019.

On April 17, 2019 TAURON received a letter from PGE, in which PGE informed that it had withdrawn from the process of acquiring the shares in PGE EJ 1 owned by the minority shareholders of PGE EJ 1.

In view of the above, as of the date of drawing up this report the activities that are a part of the project's preliminary stage are continued. The successive decisions related to the project, including the decision on the declaration to further continue participation in the subsequent project stage by the individual parties (including TAURON), will be taken following the completion of the preliminary stage.

Coal gasification project

The Coal2Gas project involves looking into the area of constructing a hard coal gasification installation, jointly with Grupa Azoty S.A. (Grupa Azoty), for the needs of the chemical industry – ammonia or methanol.

The works related the formal matters required for the implementation of the project by TAURON and Grupa Azoty, were continued in the first half of 2019. The Partners' Agreement was signed in January 2019, while the amendments changing the dates of setting up a special purpose vehicle were signed in May and August 2019.

In November 2019, by way of the decision of the President of the Office for Competition and Consumer Protection (UOKiK), the clearance for the concentration involving the creation of a joint venture by TAURON and Grupa Azoty to set up a joint venture was issued.

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

In September 2016, in accordance with the Strategy, as part of the priority of ensuring financial stability of TAURON Capital Group, the 413 MWe CCGT unit construction project including a heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin was halted due to the loss of its business justification.

TAURON Capital Group is currently conducting analyses, as well as works that would enable a potential resumption of the project. Taking of the investment decision will, on one hand, be based on the assessment of the project's profitability, and, on the other hand, on TAURON Capital Group's financial standing. The possibility of involving an equity partner to implement the project cannot be excluded. Due to the capacity auctions planned, TAURON Capital Group assumes that the final decision regarding the resumption of the project's implementation will be taken in 2020.

Capital expenditures

TAURON Capital Group's capital expenditures reached PLN 4 128 million in 2019 and they were 8% higher than the expenditures incurred in 2018 that stood at approx. PLN 3 838 million (excluding equity investments). This is primarily due to the higher outlays in the Distribution, Mining Segments and Other operations.

The below table presents the selected, highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2019.

Table no. 8. The highest by value capital expenditures incurred by TAURON Capital Group's Lines of Business in 2019.

#	Item	Capital expenditures (PLN m)}
1.	Distribution	
	Existing grid assets' upgrades (refurbishments) and replacements	996
	Installation of new connections	667
2.	Generation	
	Construction of a 910 MWe super critical parameters generation unit in Jaworzno	1 020
	CAPEX on replacements and upgrades (refurbishments), as well as components at TAURON Wytwarzanie	215
	Implementing heat generation at the Łagisza Power Plant	104
	Adaptation of TAURON Wytwarzanie generation units to BAT conclusions	42
	Restoration of the SUW demineralized water preparation station	32
	Connecting of new facilities	27
	Investment projects related to the maintenance and development of district heating networks	25
	Connecting of the facilities heated using the low emission sources to the district heating networks	6
3.	Mining	
	Preparation of the future production	185
	Construction of the "Grzegorz" shaft, including the infrastructure and the accompanying headings	94
	Construction of the 800 m level at the Janina Coal Mine (ZG Janina)	81
	Brzeszcze Coal Mine's (ZG Brzeszcze) Investment Program	70
4.	Other operations	
	Wind farms acquisition – equity investment	601

The detailed information on the capital expenditures incurred in the individual segments of TAURON Capital Group's operations is provided in section 5.2 of this report.

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

TAURON Capital Group's strategic investment projects and the financing thereof are centrally managed at the Company level. Based on the analyses completed the Company's Management Board assesses that TAURON

Capital Group is able to finance the current and future intended investment projects included in the Strategy using funds generated from the operations and by obtaining debt financing.

The company pursues a policy of diversifying financing instruments and strives to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet both the current as well as the future obligations in the short and the long term, including capex plans. Steps are taken to acquire new sources of financing, resulting, among others, in a program agreement concluded with Santander Bank Polska S.A. on February 6, 2020, that enables issuing of bonds on the domestic market and the loan agreement concluded with SMBC BANK EU AG on March 16, 2020.

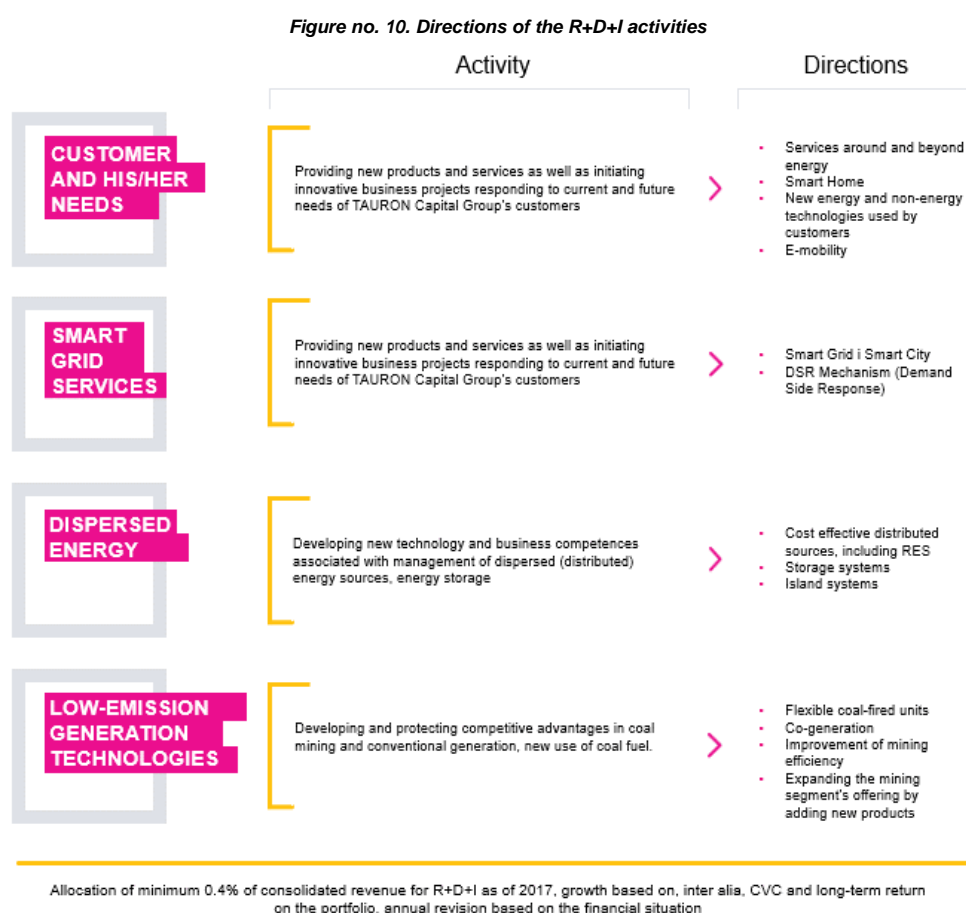
The detailed information on the conclusion of the above agreements is provided in section 2.6. of this report.

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

The research and development as well as innovations related activities (R+D+I) are reflected in the *Strategic Research Agenda* adopted by the Company's Management Board in 2018. TAURON Capital Group introduced portfolio based management of research and development projects in accordance with the R+D+I priority directions.

Strategic Research Agenda is in line with 4 directions of the R+D+I activities assumed in the Strategy.

The below figure presents the priority directions of the R+D+I activities.



Strategic Research Agenda is a document that describes in a precise manner the directions of innovations pursued and it is a detailed extension of the Strategy. For each direction a separate portfolio of projects is created and the key challenges, development goals and research areas are defined within such projects. Such a structure of the *Strategic Research Agenda* supports selecting specific projects and rejecting others, and it will also allow for an optimum allocation of the financial resources. *Strategic Research Agenda* includes the following portfolios: Customer and His / Her Needs, Smart Grid Services, Dispersed (Distributed) Power Generation and Low Emission Generation Technologies. This way TAURON Capital Group's R+D+I activities are carried out and developed based on complete and detailed assumptions of strategic nature – with clearly defined goals and results tied to a timeline.

Strategic Research Agenda is in line with and complementary to the other strategic documents, prepared or adopted by TAURON Capital Group.

1.5.4. Major achievements in the field of research and development

Approx. PLN 40 million was allocated to the R+D+I area in 2019. 18 projects (including 9 start-ups) were launched in all lines of business. As of the end of 2019 four portfolios of the Research and Innovations Area included 67 projects with the total value of more than PLN 178 million. For the implementation of some of these projects TAURON Capital Group obtained funding from the external sources in the total amount of almost PLN 48 million.

The below table presents selected R&D projects implemented in 2019 by TAURON Capital Group's subsidiaries, co-financed from the external sources.

Table no. 9. Selected R&D projects implemented in 2019 by TAURON Capital Group's subsidiaries, co-financed from the external sources

#	Projects / programs / tasks	Co-financing source
1.	<p>Project CO₂-SNG - chemical accumulation of energy through the production of methane from captured CO₂.</p> <p>Project POLYGEN - use of the poly-generation processing system in the process of gasifying the locally available fuels (the project was discontinued in 2019).</p>	Wspólnota Wiedzy i Innowacji (Community of Knowledge and Innovations) EIT InnoEnergy
2.	<p>Development and testing of an adaptive electricity storage system based on the second life of batteries from electric vehicles.</p> <p>System for assessing propagation and improvement of the quality of electricity in the distribution grids.</p> <p>Developing a platform allowing for aggregating the generation and regulating (adjustment) potential of the dispersed (distributed) renewable energy sources and energy storage devices as well as the selected categories of the controllable consumers.</p> <p>Integrated Grid Diagnostics System</p> <p>Development of the industrial design of the carbonate fuel cells and ceramic electrolyzers enabling integration with the power-to-gas installations</p> <p>Flexibility of the existing power generation units with limited capital expenditures.</p> <p>Platform for managing data from advanced metering infrastructure.</p> <p>Dispersed (distributed) power solutions model 2.0 – self-balancing power grid areas model.</p> <p>Development of an innovative system for effective monitoring and supporting of the protection devices compliant with the DMS assumptions.</p> <p>Development and implementation of the technological process for processing waste from fluidized bed boilers with the use of CO₂ for the production of cement substitute.</p> <p>Development of the hybrid system for reducing the emission of acid components and fly ash from flue gases.</p> <p>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.</p>	National Research and Development Center (Narodowe Centrum Badań i Rozwoju - NCBR)
3.	<p>Project TEXMIN - impact of extreme weather conditions on the mining operations.</p> <p>Project RECOVERY - assessment of the environmental management and the measures aimed to protect and repair it using tools to analyze the state of the ecosystem.</p>	European Union's Coal and Steel Research Fund
4.	<p>Project MOBISTYLE - technology solutions that will allow for positively influencing customer behavior by raising the consumers' awareness and feeling of ownership.</p> <p>Project UtilitEE - implementing a solution that will increase electricity consumption efficiency by actively engaging customers in their behaviors related to electricity consumption with the use of information and communications technologies and DSM mechanisms.</p> <p>Project GEMINI+ - developing a design of a high temperature gas cooled nuclear reactor (HTGR) for electricity and heat production.</p>	Horizon 2020 (Horyzont 2020): Framework Program with respect to scientific research and innovations

The project that combines the research and development (R&D) activities of TAURON, TAURON Dystrybucja, TAURON EKOENERGIA and TAURON Sprzedaż is **Project M-GRID 2.0 - "Dispersed (distributed) energy model 2.0"**. As part of the project a demonstration of the self-balancing power grid area is prepared. The project's goal is to develop the technology to be used to build local power grids with the main advantages being the reduction of transmission losses, improvement of the reliability and flexibility of the system. The gained knowledge and experience with respect to developing and operating microgrids will allow for offering a new type of TAURON services to external customers, and also for applying the solution within TAURON Capital Group. In 2019, the documentation required to launch the tender for the construction of micro-grids was prepared and the interdisciplinary arrangements were made with the representatives of the individual consortium members. Rights to control the land at a selected location in Bytom were also acquired.

One of the more important research and development (R&D) projects implemented in 2019 by TAURON Capital Group was **Project CO₂-SNG**, related to converting CO₂ 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 CO₂ reacting with the hydrogen coming from the electrolysis process, powered using cheap surplus electricity coming from RES (during the power system's load valleys). The project assumes that this can be a

method used to store electricity surplus from the renewable sources, and at the same time a future-proof solution for utilizing CO₂ produced by TAURON Capital Group's installations. In 2019, an intensive research campaign was carried out using the pilot installation built as part of the project located at the Łaziska Power Plant, using CO₂ captured from the flue gases from a 200 MW hard coal-fired unit. The above research was completed in the fourth quarter of 2019 and thus the last stage of the project was started, i.e. the analysis of the feasibility of a demonstration installation on a scale many times larger than that used in the pilot installation (the so-called up-scaling). The above project is the basis for the TENNESSEE project.

The goal of the **Project TENNESSEE** is to improve the energy storage process in the chemical form – natural gas substitute, aimed at improving the operating parameters of the ultimate installation, mainly based on the higher efficiency of the high temperature electrolysis and the use of carbonate fuel cells to capture CO₂ from the flue gases. As a result, it will be possible to substantially reduce the volume of electricity supplied from the power plant to the capture system. In particular the above project will contribute to the lowering of the energy intensity per a unit of SNG produced.

2019 was a period of intensive preparation of the generating units for the **BAT Conclusions**, also through the R&D activities. In order to reduce the financial outlays on adapting the coal fired units to the BAT Conclusions, a program of testing various types of sorbents was carried out to reduce the emission of harmful pollutants. The sorbent injection was tested on the units equipped with the fluidized bed boilers at the power plants Łagisza, Siersza, Jaworzno III - Power Plant II (TAURON Wytwarzanie) and at ZW Tychy (TAURON Ciepło). During the administration of the sorbents, a wide range of laboratory tests and flue gas emission measurements were carried out. Based on their results it was possible to confirm the effectiveness of the tested technology.

With respect to the new product development, **Program HEMS** was launched in 2019, addressed to the retail customers. The goal of the program is to prepare TAURON Capital Group to acquire a new revenue stream for TAURON Capital Group's subsidiaries, by developing a strategy, organization and model for the provision of services and selling products under HEMS based on the existing as well as the new products and services. As part of the program, the following 3 projects were started:

1. Web site and e-consulting,
2. Thermal Comfort Management,
3. Community of Experts.

TAURON continued the previously initiated work related to the **Internet of Things** in 2019. The actions aimed at developing and implementing services for the needs of a smart city were carried out with the use of the Internet of Things technology. The implementation of this type of solutions will be Poland's first undertaking that uses Internet of Things on the scale of a city with several hundred thousand inhabitants.

The implementation assumes a comprehensive optimization of the use of and developing the new services based on the city, municipal, power and telecommunications infrastructure, which will be possible due to the use of a network of sensors providing information facilitating the management of the individual functions of the metropolitan area. The existing distribution infrastructure of TAURON Capital Group is used to provide advanced technology solutions for the inhabitants and businesses. A platform collecting data from the sensor infrastructure was launched in 2019. Functionalities for measuring air quality along with the pollution prediction module are tested, as well as a smart parking service that helps residents find free parking spaces. The trash bins' filling level is also monitored, affecting the optimization of the waste collection process.

Project MDM was completed in 2019, implemented jointly by TAURON Dystrybucja and Future Processing sp. z o.o. The goal of the project was to develop a Platform for managing data collected from the advanced metering infrastructure, enabling advanced analyses of the large metering data sets based on the innovative mathematical and statistical models. As a result of the industrial research and project development, the System Prototype (MDM Platform) was built and tested. In the next step, it is planned that the prototype produced will be implemented into TAURON Dystrybucja's operations on the so-called completed AMI Smart City Wrocław Project area, after adapting the prototype to the production implementation needs, including, among others, the current security requirements for the information technology systems.

Apart from the traditionally understood research and development (R&D) activities, a number of efforts aimed at further developing the cooperation with startups were undertaken within TAURON Capital Group in 2019.

Continuing the cooperation model developed in the previous years as part of the **Pilot Maker Program**, TAURON conducted intensive activities as part of the Pilot Maker Elektro ScaleUp program launched in 2018, dedicated to the development of electromobility. The solutions developed are directly related to TAURON Capital Group's projects aimed at developing charging stations network, electric vehicle car sharing services, and are related to monitoring the operation of the power grid, as well as the key machines and devices at the power generating and consuming stations that are the main links of the e-car charging network system. During the recruitment process for the above program, more than 60 ideas were analyzed. 5 startups were invited to further cooperation and their pilot projects were implemented using the infrastructure of TAURON Capital Group's subsidiaries. As part of the

above program, the subject of tests was, inter alia, the ELMODIS startup offering an advanced module for monitoring, diagnostics and fault prediction with the built-in circuits for the purpose of signaling the danger of damage to the electrical equipment and machines, with a particular emphasis on the electric motors. The solution has been tested on 15 selected devices at the Jaworzno III Power Plant.

On January 30, 2019, TAURON signed an agreement with the Krakow Technology Park (Krakowski Park Technologiczny) to participate in the **KPT ScaleUp Acceleration Program**. The program is the implementation of the assumptions of the ScaleUp program announced by the Polish Agency for Enterprise Development, with the goal to initiate and conduct implementation projects at the recipient of the technology (here: TAURON), focused on the use of the new, innovative technologies and solutions with respect to: Internet of Things, Smart Home, Smart City, Intelligent Network Services. During the recruitment process for the above program, more than 100 ideas were analyzed, with 34 in-depth interviews having been conducted with 34 startups. The works began on the development of 2 solutions in 2019. One of the prospective pilot projects carried out under the above program involved the works on developing the use of the smart plug functionality, carried out in cooperation with S-labs sp. z o.o. The solution developed is based on a Smart Plug device interworking with an analytical system aggregating the metering data, which enables, among others, the measurement of electricity consumption by the device connected thereto. In addition to the information on the current electricity consumption, the user also gets an option to control the connected device via a smartphone or create a shutdown calendar, which facilitates the efficient use of, for example, the heating devices.

TAURON PROGRES Acceleration Program was launched in 2019, which is a part of the *Open Innovation* system, to which the official recruitment began on May 21, 2019. The above program is addressed to the entities that have an innovative idea related to the areas indicated in the *Strategic Research Agenda* and are willing to cooperate in the development of innovative solutions that would allow for broadening the current offering of TAURON Capital Group's subsidiaries by adding the new products and services, but also ideas that would have an impact on improving the production processes and providing of the services already offered on the market. TAURON PROGRES is a platform open to the ideas of not only the young entrepreneurs, but also private individuals, research units with less and more business experience. The platform makes it possible to get the information directly to TAURON, as well as to the relevant experts of TAURON Capital Group, and enables a quick presentation of the solution, without waiting for the call for applications to be launched. In accordance with the assumptions of the program, the participants have an opportunity to test their solutions using the infrastructure of TAURON Capital Group.

In order to build the strategic position of TAURON Capital Group in the area of startups, TAURON carried out, in 2019, the first **investments under EEC Magenta** - a CVC type fund created in 2018. EEC Magenta invested PLN 13 million in Reliability Solutions sp. z o.o., a company specializing in predicting and minimizing the effects of failures. With regard to TAURON, the solutions offered by Reliability Solutions sp. z o.o. will improve the technical and economic efficiency of the key generating units. The above undertaking is the first investment of the EEC Magenta fund formed by TAURON, PFR Ventures, NCBR and EEC Ventures. The funds collected will be used by the company for development and expansion on the markets of Western Europe.

On May 26, 2019, during this year's IMPACT event, TAURON announced its **participation in the Govtech Program**. The goal of this program is to enable the cooperation among ministries, local governments, State Treasury companies, startups and small enterprises, which will be selected, by way of a competition, as the ultimate contractors performing the tasks (Challenges) prepared by the contracting parties (customers). TAURON announced the need to develop a system and application for assessing the ability to build and potential of photovoltaic installations. The result of the actions taken as part of the competition is to bring about an increase in the share of electricity generated from the renewable energy sources, in particular from the photovoltaic cells, in the total energy balance. This challenge also aims to increase public awareness of the renewable energy sources and the financial benefits of using this technology. The first stage of the competition ended in December 2019, with the selection of five winners qualified to the second stage of the competition. During the second stage, the finalist will be selected who will implement the application in its final form.

The **cooperation with the American Electric Power Research Institute** was continued in 2019 and, as part of that project, TAURON is participating in 2 research programs related to energy storage and identifying electricity consumers' needs. The selected areas of cooperation are of particular importance for TAURON Capital Group and stem directly from the technological challenges identified by TAURON Capital Group. Energy storage is one of the most important challenges for the electricity distribution and efficient dispersed power generation. On the other hand, understanding customer needs provides support for the customer relations that are of key importance from the point of view of TAURON Capital Group's Strategy.

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

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

TAURON Capital Group was also carrying out **works as part of EIT InnoEnergy** in 2019, in particular the Polish node of InnoEnergy Central Europe sp. z o.o. with its registered office in Cracow. Within the structures of EIT InnoEnergy TAURON holds the Associated Partner status. One of TAURON's areas of interests are the so-called clean coal technologies. At the same time, conducting of tests and coordinating of activities in this area are the main tasks of InnoEnergy Central Europe sp. z o.o., with TAURON as one of its shareholders. TAURON's representatives were also engaged, in 2018, in the works of EIT InnoEnergy related to evaluating projects / initiatives proposed to be implemented by other partners operating within the structures of EIT InnoEnergy, both on the national, as well as on the international level.

1.6. TAURON Group's Business and Operational Model

TAURON Capital Group is a fully integrated energy group with its business model covering all elements of the value chain: from mining, through generation, distribution and supply to the final consumers, supplemented with the innovations ecosystem and the development of new businesses, closely integrated with the operations in the energy sector.

TAURON Capital Group comprises selected companies managed jointly as a uniform economic body (organization), made up of independent commercial law companies, led by TAURON as the parent entity.

TAURON Group's Business and Operational Model adopted by the Management Board of the Company on January 23, 2018, was in force in 2019.

The Business Model defines TAURON Capital Group's management model, defines the high-level architecture of the processes and contains guidelines related to the key performance indicators of the units that make up TAURON Capital Group.

1.6.1. Assumptions of TAURON Group's Business and Operational Model

The key assumptions of the Business Model include building of TAURON Capital Group's value, focusing on the customers, transparent distribution of the duties and responsibilities, efficient information exchange, use of the employees' knowledge, volatility of the Business Model and the organizational integrity of TAURON Capital Group.

The Business Model is an element of the implementation of the Group's Strategy and through the structuring of the operations, organizing them into logical, interworking business processes, allows for optimizing the building of the value of TAURON Capital Group as a whole, taking advantage of the economies of scale of the business operations conducted and the synergies resulting from the interworking of the individual links of the value chain.

1.6.2. Principles of TAURON Polska Energia S.A.'s management

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice* (By-laws of the Management Board), the Management Board conducts the affairs of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by the legal regulations and the provisions of the *Articles of Association of TAURON Polska Energia S.A.* (the Company's Articles of Association) to the competence of the General Meeting (GM) or the Supervisory Board lie within the competence of the Company's Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company.

Issues lying within the competence of the Management Board, acting as a collective body. are described in detail in section 9.8.1. of this report.

In accordance with the *Organizational Regulations of TAURON Polska Energia S.A.* (Organizational Regulations), the Company is managed directly by the Management Board of the Company as well as through the proxies, Executive Directors, Managing Directors or the persons holding other positions reporting directly to the members of the Company's Management Board.

The Company carries out its tasks through:

1. separate organizational units (business units):
 - Business areas, comprising independent positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by members of the Company's Management Board directly or via the Managing Directors,

- Teams, constituting organizational units (business units) reporting directly to the Executive Directors or the Managing Directors. The works of the team are managed by the Team Leader (Manager),
2. independent work positions:
 - Managing Directors who manage and lead the work of the subordinate Executive Directors, Teams or independent work positions,
 - Executive Directors who manage and lead the work of the subordinate Teams or independent work positions constituting the given business area of the Company,
 - other independent positions that may be entrusted to, in particular, Power of Attorneys, Inspectors, Spokespersons, Coordinators or Specialists,
 3. temporary organizations – Project Teams set up with the goal to implement tasks and projects of the Company.

1.6.3. Principles of TAURON Capital Group's management

The core regulatory act of TAURON Capital Group is the *Code of TAURON Group* adopted by the Management Board of the Company, which regulates its operations, ensuring the implementation of the goals through tailored solutions in the area of management of TAURON Capital Group's entities, including, in particular, setting the objectives of the subsidiaries' business operations, enabling achieving of the effects assumed in the Strategy.

The regulations implemented in 2016, along with the Business Model, updated in 2018, introduced the management by processes (process based management) within TAURON Capital Group, whose essence involves the constant search for and implementation of improvements and a clear and transparent split of the competences and responsibilities. Processes are subject to appropriate modifications to improve their efficiency and they constitute a superior organization in relation to the organizational structure of the individual subsidiaries and run horizontally across entire TAURON Group.

The goal of the process based management model implemented is to benefit from the operating synergies among TAURON Capital Group's various companies, share and use the best practices, standardize and automate processes, and also to ensure coherence of actions taken within TAURON Capital Group's companies to support the implementation of the Strategy.

Members of the Management Board are responsible for the management of the mega-processes allocated thereto. The owners of the mega-processes are TAURON's indicated managing and executive directors.

The process documentation (maps, diagrams and process sheets) defines and describes decision making powers (competences) and actions to be undertaken by the individual organizational units within TAURON Capital Group's various companies. The owners of the mega-processes decompose these into lower level processes and appoint their owners. Each process has its owner and process metrics defined by the higher level process owner. The process documentation also defines the course of action (interdependencies) and decision competences for the repeatable processes, the operational processes along with the descriptions of the products and services listed. The competences and process interdependencies described in the process documentation supplement the competences stemming from the organizational structure of the individual subsidiaries and support the operations of TAURON Capital Group's subsidiaries as a single entity.

TAURON Capital Group's standing Committees are operating within TAURON Capital Group, including:

- | | |
|------------------------------|--|
| 1. Investment Committee, | 4. Digitization Committee, |
| 2. Risk Committee, | 5. Sponsoring Committee, |
| 3. New Businesses Committee, | 6. TAURON Group's Liquidity Committee. |

The above mentioned Committees were established in order to enable performing of the operations in accordance with the principles of operating consistency, in compliance with the law and interests of TAURON Capital Group and its stakeholders.

The Business Model identifies 23 mega-processes cutting across all units of TAURON Capital Group.

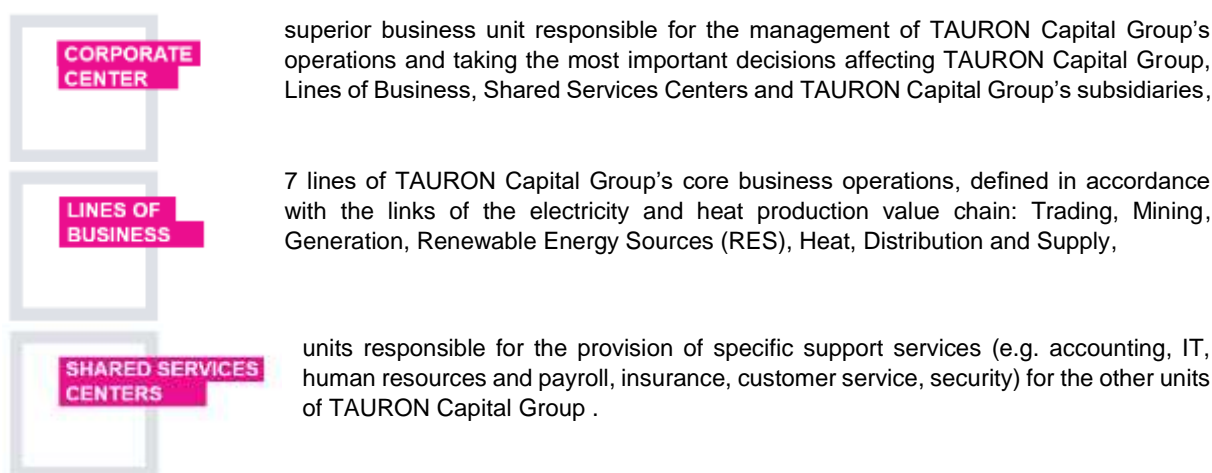
The below figure presents the structure of TAURON Capital Group's processes (mega-processes).

Figure no. 11. Structure of TAURON Capital Group's processes (mega-processes).



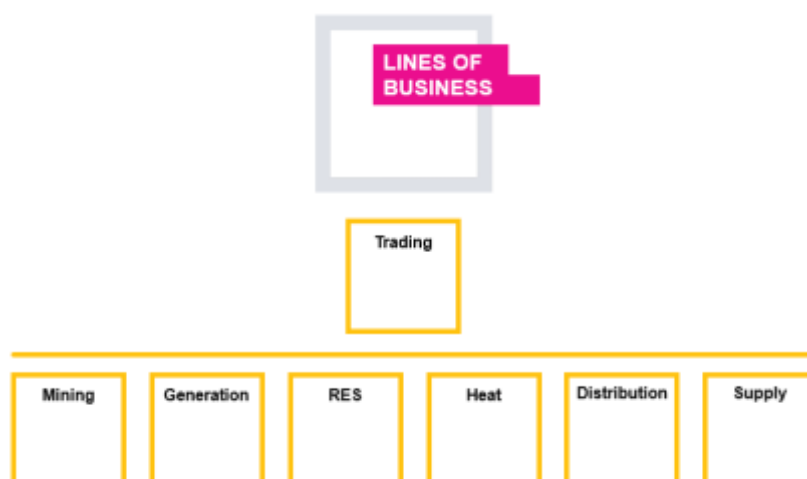
1.6.4. TAURON Capital Group's Lines of Business

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



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

Figure no. 12. Structure of TAURON Capital Group's Lines of Business



TAURON Capital Group's Shared Services Centers (CUW)

Centralizing of the support services is aimed at relieving the Corporate Centre and the Lines of Business from performing the processes that are not directly associated with their core business operations (the so-called support processes) as well as at reducing the costs of the implementation of such processes due to the economies of scale

and increased operational efficiency. Within the structure of TAURON Capital Group CUWs are placed in: TAURON Obsługa Klienta, TAURON Ubezpieczenia sp. z o.o. (TAURON Ubezpieczenia) and Wsparcie Grupa TAURON subsidiaries.

1.6.5. Changes to the principles of TAURON Polska Energia S.A.'s and TAURON Capital Group's management

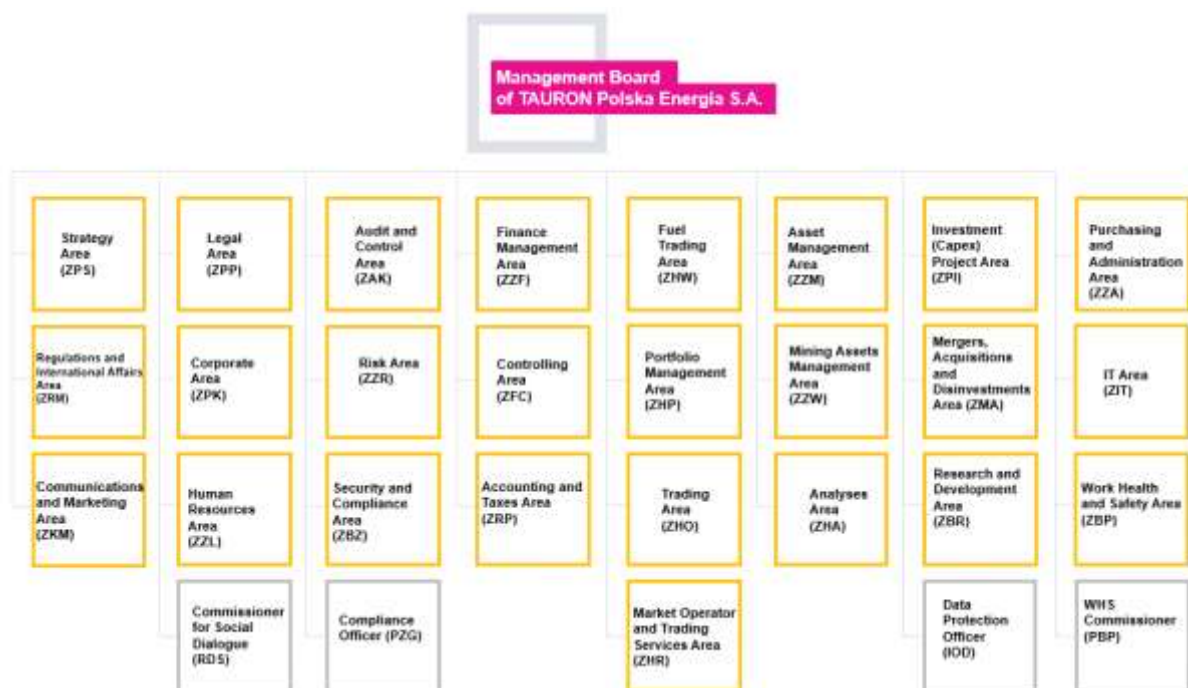
Changes to the principles of the Company's management

On October 25, 2019, as a result of changes taking place in the Company's business environment, seeking to optimize, streamline and strengthen the management processes as well as make the processes of composing independent work places and organizational units reporting to members of the Company's Management Board more flexible, the Management Board adopted and the Company's Supervisory Board approved the new Organizational Regulations.

In the above Organizational Regulations, that came into force on November 15, 2019, the existing "Divisions" were replaced by the "Business Areas" managed by the Executive Directors, the possibility of appointing, in justified cases, one of the Executive Directors to the position of a Managing Director in order to manage subject matter related Business Areas was introduced and it was established that the assignment of Business Areas to the specific members of the Company's Management Board would be made by the Company's Supervisory Board or, in the absence thereof, the assignment would be made pursuant to a resolution of the Company's Management Board.

The below figure presents the organizational diagram of TAURON, as of December 31, 2019 and as of the date of drawing up this report.

Figure no. 13. Organizational diagram of TAURON as of December 31, 2019 and as of the date of drawing up this report.



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

As of November 15, 2019, by way of a resolution of the Company's Management Board, the members of the Company's Management Board were assigned, directly and via the Managing Directors appointed on the same day, the individual Business Areas and independent work positions directly reporting to the members of the Company's Management Board.

The below figure presents the split of responsibilities of members of the Company's Management Board as of the date of drawing up this report.

Figure no. 14. Split of responsibilities of members of the Company's Management Board as of the date of the drawing up of the report



Areas reporting to the members of the Company's Management Board via the Managing Directors include:

- Corporate Area, Strategy Area and Communication and Marketing Area assigned to the President of the Management Board via the Executive Director for Legal Affairs acting as the Managing Director,
- Trading Area, Fuel Trading Area and Portfolio Management Area assigned to the Vice President of the Management Board for Finance via the Executive Director for Market Operator and Trading Services acting as the Managing Director,
- Mergers, Acquisitions and Divestment Area as well as Research and Development Area assigned to the Vice President of the Management Board for Asset Management and Development via the Executive Director for Investment Projects acting as the Managing Director.

Changes to the principles of TAURON Capital Group's management

As part of the works related to the implementation of the Business Model, the activities related to designing and implementing the key processes at TAURON Capital Group's subsidiaries that conduct business operations, i.e. TAURON Dystrybucja Serwis, TAURON Dystrybucja Pomiary, TAURON Serwis, TAURON Ekoserwis, TAURON Sprzedaż GZE, TAURON Ubezpieczenia, Wsparcie Grupa TAURON, Bioeko Grupa TAURON, SCE Jaworzno III and Spółka Usług Górniczych sp. z o.o. (SUG), were completed in 2019.

Maps and diagrams, as well as interface points for the processes taking place at TAURON and at other TAURON Capital Group subsidiaries, were agreed. The Company verified the processes throughout TAURON Capital Group in order to ensure high quality and consistency of the processes developed.

The robotic automation process and the path for initiating improvements by process participants were also implemented in 2019, which intensified the optimization process at TAURON Capital Group's subsidiaries. The works related to the implementation of the process maturity assessment were commenced at TAURON Capital Group, with TAURON Capital Group's Process Maturity Model tool having been designed and a pilot assessment of selected TAURON Capital Group subsidiaries' processes having been carried out. All of these activities were aimed at identifying areas for further improvement, in particular taking into account the issues related to business optimization and the response to physical and transition risks.

The implemented documentation and process tools, as well as the competences acquired by TAURON Capital Group with respect to process management and process optimization at TAURON Capital Group's subsidiaries set up conditions for further seeking of improvements and increasing the efficiency of the operations.

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

2.1. Factors and non-typical events that have a significant impact on the financial result achieved

2.1.1. Internal factors and the assessment thereof

The operations and earnings of the Company and TAURON Capital Group in 2019 were impacted, among others, by the following internal factors:

1. update of the strategic directions and steadfast implementation of the Strategy as well as achieving of the assumed the financial and non-financial effects,
2. actions with respect to optimizing processes taken by all of TAURON Capital Group's subsidiaries,
3. decisions with respect to the implementation of the key investment projects,
4. implementing the *2018-2025 Strategic Asset Management Plan* – one of the fundamental documents constituting the core of the integrated asset management system at TAURON Capital Group,
5. implementation of the investment projects with respect to adapting TAURON Capital Group's power plants to the BAT Conclusions by reducing, starting from 2021, the emissions of sulphur and nitrogen compounds as well as chlorine and mercury or obtaining of the derogations,
6. loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
7. centralized TAURON Capital Group's financial management area, supported by the use of such tools as: central model of financing, cash flow (financial liquidity) management policy using the cash pooling mechanism, risk management policy in the financial area, insurance policy,
8. ability to obtain debt financing on the international markets,
9. Tax Capital Group's operations, primarily aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
10. TAURON's purchasing processes management, in particular, the management of fuel purchases for the needs of TAURON Capital Group's generation entities,
11. geological and mining conditions of hard coal extraction,
12. failures of TAURON Capital Group's equipment, installations and grids.
13. acquisition of 5 wind farms from the in.ventus group.

The impact of the above mentioned factors on the financial result achieved in 2019 is described in sections 4 and 5 of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

No material, non-typical (one-off) internal events that would have a significant impact on the financial result achieved occurred in 2019.

In 2019, TAURON Wydobycie's Coal Mines, due to the mining and geological problems, supplied TAURON Capital Group's subsidiaries with the coal volume smaller by approx. 371 000 Mg than the contracted quantity (including the acceptable tolerance), which represented approx. 11% of the contracted volume.

2.1.2. External factors and the assessment thereof

The operations and earnings of TAURON and TAURON Capital Group in 2019 were impacted by the following external factors:

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

2.1.2.1. Macroeconomic environment

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

2019 was a positive year for the world economy, although the slowdown of some of the world economies was visible. The economic growth rate in the euro zone is stabilizing at a relatively low level. A slowdown in economic growth was recorded, among others, in the United States (USA), mainly as a result of weakening manufacturing

industry and uncertainty regarding the trade policy, and in China due to the trade tensions and the weak global demand, as well as in Germany and Italy.

Poland reported strong economic growth, although signs of its weakening are intensifying. According to the data of the Central Statistics Office (GUS), Poland's Gross Domestic Product (GDP) growth rate in 2019 stood at 4.1%, but a gradual weakening of the growth rate is expected in the following quarters, due to the continuing decline in economic activity in the euro zone.

The main factors supporting Poland's economic growth will be private consumption, favorable situation of employees on the labor market, including: strong wage growth (in the region of approx. 7% year on year), hike of the minimum wage or continued low unemployment rate (5.2% in 2019). The purchasing power of the households will be curtailed by the higher inflation. The consumer price index (CPI index) for 2019 came in at 2.3% (year on year).

Factors that have a negative impact on the domestic GDP growth rate include the slowdown in the growth rate of the central and local government institutions sector's investments as well as that of the private sector's investments, and also the expected slightly negative contribution of net exports.

According to the data of the National Bank of Poland (NBP), the energy commodity prices are assumed to remain flat. In December 2019 and January 2020, the President of the Energy Regulatory Office approved electricity tariffs for the households. Increases in the total electricity supply and distribution prices stand at approx. 10%. It is forecast that this price hike will not affect the level of electricity consumption in this sector.

According to the data of Polskie Sieci Elektroenergetyczne S.A. (PSE - TSO) 2019 was the first year since 2012 when a decrease in gross domestic electricity consumption was recorded. In 2019, the electricity consumption came in at 169.39 TWh and it was 1.54 TWh lower than in 2018 (-0.9% year on year). The demand for electricity was covered by the production of the domestic power plants, that reached 158.77 TWh (-3.9% year on year), the record breaking high imports from the neighboring countries coming in at 10.62 TWh (+ 85.7%) and the increased generation from RES. The wind farms alone, due to the good wind conditions, produced 2.23 TWh more electricity in 2019 than in 2018 (+ 19.1% year on year). In addition, the rapid growth of capacity in photovoltaic sources increases the self-consumption of electricity, reducing the demand for the grid supplies. A 11.76 TWh (-8.9% year on year) decrease of electricity generation by the domestic hard coal and lignite fired power plants was reported in 2019.

2.1.2.2. Market environment

Electricity

Wholesale electricity price on the Day Ahead Market (RDN) of the Polish Power Exchange (Towarowa Giełda Energii S.A. - TGE) reached 229.31 PLN/MWh in 2019 and it was 2.82% (+6.28 PLN/MWh) higher as compared to 2018. The average settlement price on the Balancing Market (RB) came in at 234.84 PLN/MWh in 2018 and it was 3.08% (+7.01 PLN/MWh) higher as compared to 2018.

The factors behind the rising prices on the Day Ahead Market (RDN) and on the Balancing Market (RB) were: the continued high CO₂ emission allowances prices and the stable energy commodity (coal, oil) prices.

In connection with the commissioning of the new conventional generation units, among others the Opole Power Plant, the capacity balance in the national power system improved, rising by 1800 MW.

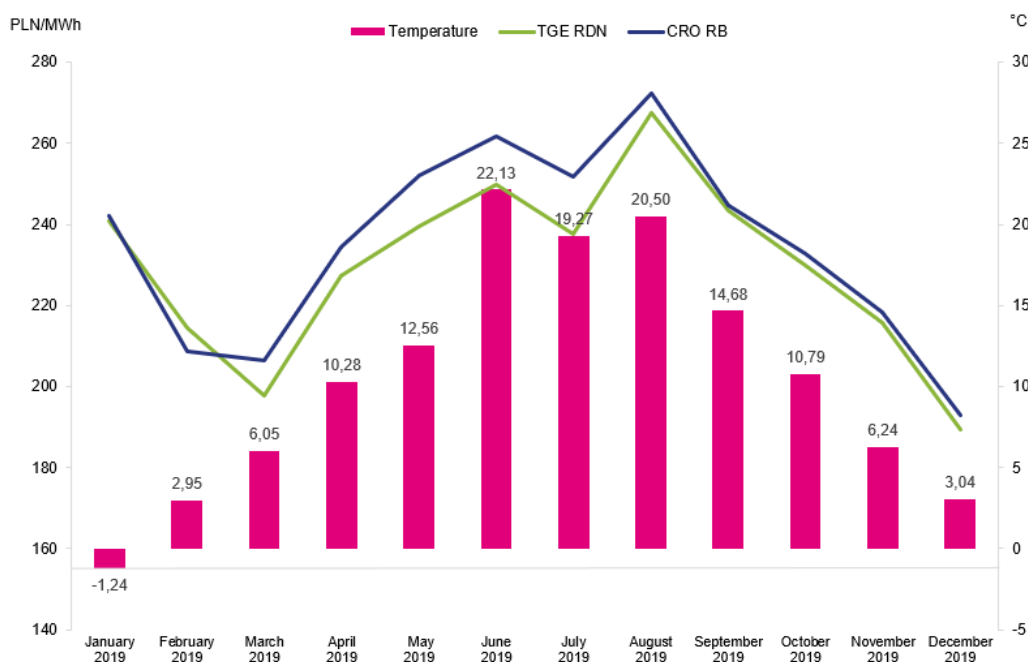
Analyzing the average monthly prices on the Day Ahead Market (RDN) it should be stated that the lowest prices were recorded in December 2019 with the average price of 189.45 PLN/MWh and the high generation from the wind sources (1.66 TWh), while the highest prices occurred in August 2019. with the average price of 267.22 PLN/MWh and the lowest generation from the wind sources (0.55 TWh).

The combination of a decrease in electricity consumption with a record breaking volume of electricity imported into the Polish power system and an increase in electricity production by the wind farms significantly contributed to a decline of the electricity production by the conventional sources.

In 2019, a decrease in electricity production by the hard coal fired power plants was recorded, down to 78.19 TWh (-4.19 TWh year on year and -5.08%). There was also a marked drop in the production by the lignite fired power plants down to 41.50 TWh, i.e. 7.57 TWh less than in 2018 (-15.43% year on year), mainly due to the permanent shutdown of the BEL 2-01 generating unit at the Bełchatów Power Plant with 370 MW of installed capacity and the overhaul of 3 generating units at the Turów Power Plant. The decline of the electricity production from hard coal and lignite was also the result of the higher generation by the gas fired power plants, whose production increased by 2.51 TWh on an annual basis to 12.10 TWh. The electricity production by the wind farms in 2019 also reached a record volume of 13.90 TWh (an increase by 19.05% year on year). The change in the structure of electricity production in Poland in 2019 caused a strong downward trend of the electricity prices on both the SPOT market as well as the Commodity Futures Market (RTT).

The below figure presents the average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2019.

Figure no. 15. Average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2019



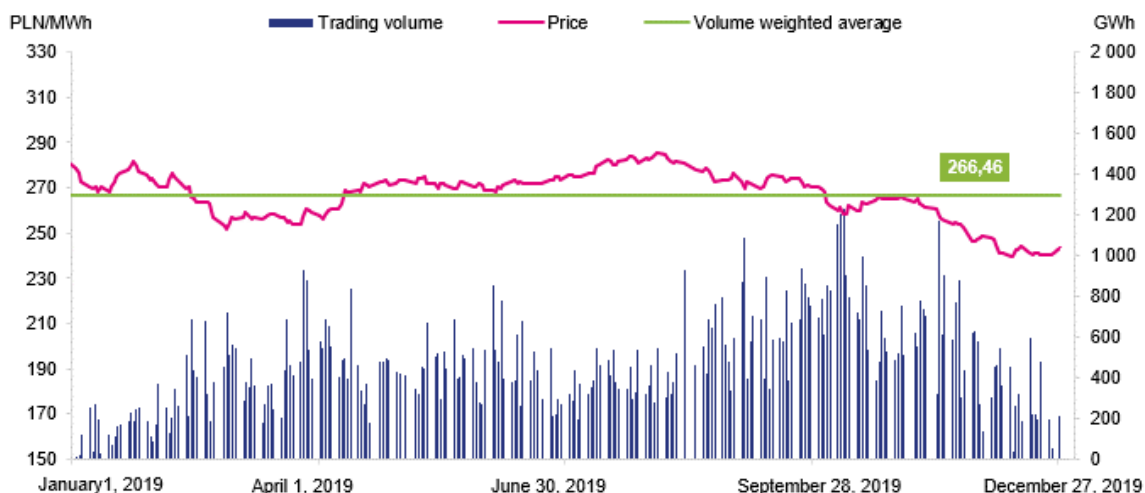
The reference base load contract with the delivery in 2020 (BASE_Y-20) was trending sideways on the electricity futures market almost throughout 2019. At the end of 2019, due to the strong price pressure caused by the low prices on the SPOT market, there was a price breakdown and a fall below the important support level of 250 PLN/MWh. The BASE_Y-20 contract was range bound in 2019 with the high of 285.02 PLN/MWh (on August 2, 2019) and with the low of 239.90 PLN/MWh (on December 9, 2019)

The volume-weighted average price of the BASE_Y-20 contract recorded in 2019, despite a marked decline at the end of 2019, was at a relatively high level of 266.46 PLN/MWh, and thus was higher by 24.84 PLN/MWh (+10.3%) as compared to the BASE_Y-19 contract prices in the same period of 2018. The total trading volume of the BASE_Y-20 contracts one year before delivery reached 115.68 TWh, i.e. almost 10 TWh less than the BASE_Y-19 contract volume a year before delivery in 2018.

The PEAK5_Y-20 contract price displayed similar volatility patterns, with its trading volume-weighted average price a year before delivery reaching 323.94 PLN/MWh, i.e. it and was lower by 22.83 PLN/MWh (-6.58%) than the average PEAK5_Y-19 contract price recorded last year. The lower average price of the PEAK5_Y-20 contract is the effect of low PEAK prices on the Day Ahead Market (RDN) market and a significant increase in the photovoltaics' installed capacity.

The below figure presents the BASE Y-20 contract trading performance.

Figure no. 16. BASE Y-20 contract performance



Oil and coal

2019 was characterized by relatively low oil prices on the global markets. The volume-weighted average price of Brent crude on the ICE stock exchange stood at 64.06 USD/bbl in 2019 and it was 7.8 USD/bbl lower as compared to 2018, which meant a drop in the price of Brent crude oil by 10.9% year on year. Brent crude oil was cheapest in the fourth quarter of 2019, when its volume-weighted average price was only USD 62.01 USD/bbl. The maximum price (68.22 USD/bbl) was reached in the second quarter of 2019.

The total trading volume in 2019 was more than 62 800 000 barrels, while in 2018 it reached more than 66 100 thousand barrels, which meant a 5% decline.

The global events were the main factors that had an impact on the demand and supply on the oil markets.

The trade negotiations between the US and China, conducted in 2019, intensified at the end of the fourth quarter of 2019. At the beginning of August 2019, the US imposed additional tariffs on China, and in response China imposed its tariffs on selected American goods. Fears of a global recession caused by the economic weakness in China and the exacerbation of the trade conflicts around the world caused the price of oil to fall to just over USD 52 USD/bbl at the beginning of 2019.

The oil production in the US reached a record level of 12 900 000 barrels a day in the fourth quarter of 2019. In December 2019, as a result of the OPEC meeting, the cut in oil production was increased from 1 200 000 up to 1 700 000 barrels per day, which should take effect in the first half of 2020. At the same time, Saudi Arabia decided to make further cuts by 400 000 barrels per day, thanks to which the effective reduction increased to 2 100 000 barrels a day in total.

Another significant event affecting oil prices was the attack on the oil refineries in Saudi Arabia, as a result of which the oil price rose to almost 72 USD/bbl in September 2019. However, after the full production had been restored, the price again fell below 65 USD/bbl after a dozen or so days.

ARA coal prices dropped from 86.60 USD/Mg to 71.5 USD/Mg in the first quarter of 2019. The price drops were mainly caused by China's activities involving an increase of the domestic production combined with the launch of the new nuclear power plant capacity, as well as the trade conflict between the US and China, which had an impact on the valuation of energy commodities.

An increase in coal production in China, a decrease in demand for coal in Germany, France, Spain and the United Kingdom, caused by a decrease in hard coal based electricity production to 4.7 TWh (14.4 TWh in April 2018), led to a surge in the coal inventory at the ARA ports to record levels. This accelerated the fall in the ARA coal prices, which in May 2019 stood at approx. 62 USD/Mg, while prices of the coal imported from Russia reached their lowest level since the beginning of 2019, falling to 48.08 USD/Mg.

In Europe, as a result of June weather forecasts for the summer period, there was an increase in the prices of the ARA contracts, based on the fear of the risk of a low water level that could, as in 2018, prevent the transportation of coal to the power plant using rivers. The above increase was negated by the market participants and, as a consequence, as early as in August 2019, the price of coal approached 62 USD/Mg again.

In September 2019, an increase in the ARA coal valuation was recorded, which was caused by the market participants preparing for the winter season, however, as time passed and new weather forecasts appeared, the prices were more volatile. The gas prices, which in combination with the climate and energy policy led to a reduced interest in coal in the manufacturing industry and energy sectors, brought about a drop in coal prices below 60 USD/Mg (the 2019 minimum price reached 56.15 USD/Mg), i.e. levels not seen on the market since 2016

Natural gas

2019 brought much lower gas prices as compared to 2018. The average price on the Day Ahead Market for gas on the Polish Power Exchange (TGE) stood at 68.06 PLN/MWh in 2019 and it was approx. 37 PLN/MWh lower than in 2018. A contract with the delivery on the next day was particularly low priced in June 2019, when its average volume-weighted monthly price came in at PLN 50/MWh, while the highest price was recorded in January 2019, when the volume-weighted average monthly price of this contract exceeded 100 PLN/MWh. The reason for the low prices were primarily record-high levels of storage tanks, record LNG imports to Poland and Europe, and relatively mild winter. The lowest price, i.e. 38.73 PLN/MWh, was recorded on September 7, 2019.

On the gas RDB market the weighted average gas price was approx. 37 PLN/MWh lower than in 2018. The contract on the RDB market was cheapest in June 2019, when its volume-weighted average price stood at 49.52 PLN/MWh, while the highest price was recorded in January 2019, when the volume-weighted average price reached PLN 100.65 / MWh.

On the RTT market for gas the month with the highest prices was January 2019, when the weighted average prices of some monthly, quarterly, seasonal and annual contracts reached the highs above 100 PLN/MWh. The cheapest month was December 2019, when some of the contracts reached the minimum prices close to 60 PLN/MWh. The

low prices were caused by the warm end of the year and the oversupply on the European gas markets, which was due to large and regular supplies of liquefied natural gas.

Looking at the total trading volume on the RTT market, the lowest total volume was recorded in February 2019 (below 5 000 000 MWh), while the highest trading volume was reported in August 2019 (more than 13 600 000 MWh).

The weighted average price of the reference one year GAS_BASE_Y-20 contract in 2019 was 89.96 PLN/MWh. The maximum price was reached at the beginning of April 2019, coming in at 103.43 PLN/MWh, while the minimum price was reached at the end of 2019, coming in at 67.63 PLN/MWh. The total trading volume on the Polish Power Exchange (TGE) in 2019 was more than 146.1 TWh, as compared to 143.3 TWh in 2018, which meant an increase of almost 2% year on year.

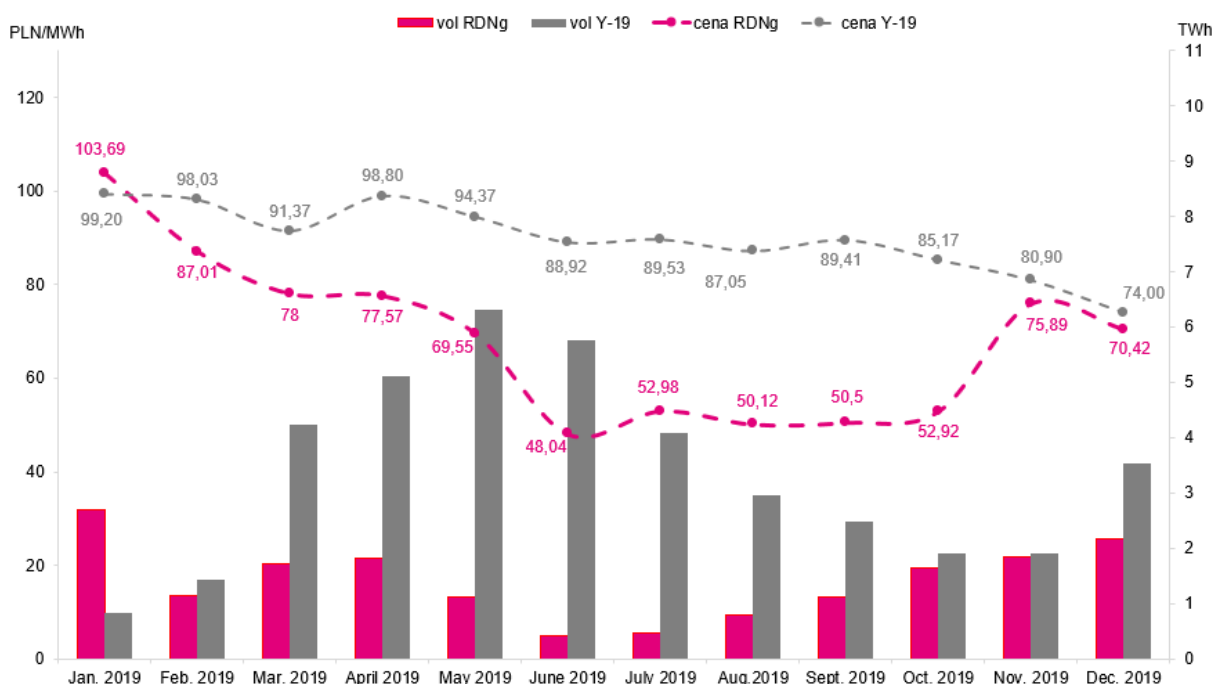
The futures market had the largest share in gas trading in 2019, with a volume of more than 123 TWh. On the SPOT market, the total trade in the day ahead contracts came in at almost 17.0 TWh (a decline by 3.7% year on year). The decrease also took place on the RDB market, where the turnover stood at less than 5.7 TWh, as compared to 6.1 TWh in 2018 (a drop by 6.3% year on year).

LNG imports (from Qatar, Norway and the US) went up by more than 0.7 billion m³ in 2019 (an increase by 32% year on year) and reached the volume of approx. 3.3 billion m³ (after regasification), as compared to 2018, when approx. 2.5 billion m³ of LNG was imported (after regasification). It was the highest LNG import in the history of Poland.

The key events on the gas market included: the decision of the Dutch government to completely shut down the largest inland gas field in Europe, in Groningen, the Netherlands, by the end of the 2022 gas year, as well as the deadline for the commissioning of the second line of the Nord Stream 2 off-shore gas pipeline by the end of 2019 having not been met and an extension of the contract on the Russian gas transit through the territory of the Ukraine.

The below figure presents average monthly SPOT and Y-20 contract prices on TGE in 2019.

Figure no. 17. Average monthly SPOT and Y-20 contract prices on TGE in 2019



CO₂ emission allowances

The CO₂ emission allowances market was characterized by substantial price volatility in 2019. The CO₂ emission allowances prices moved within the 18.40 - 29.95 EUR/Mg range. In just a few days from the beginning of the year, the prices of the above allowances dropped from 25 EUR/Mg to 21.86 EUR/Mg, despite the reduction of the supply at the primary auctions.

Important events that affected the EUA prices in January 2019 included, among others, a vote by the British Parliament to reject the agreement on BREXIT, which directly translated into increased market uncertainty and the German Coal Commission's presentation of a preliminary plan specifying the deadline for the complete withdrawal of the coal in the energy sector in Germany.

Other significant events causing high price volatility on the market included, among others, the adoption by the European Commission of an updated list of sectors exposed to carbon leakage, which will become effective in the

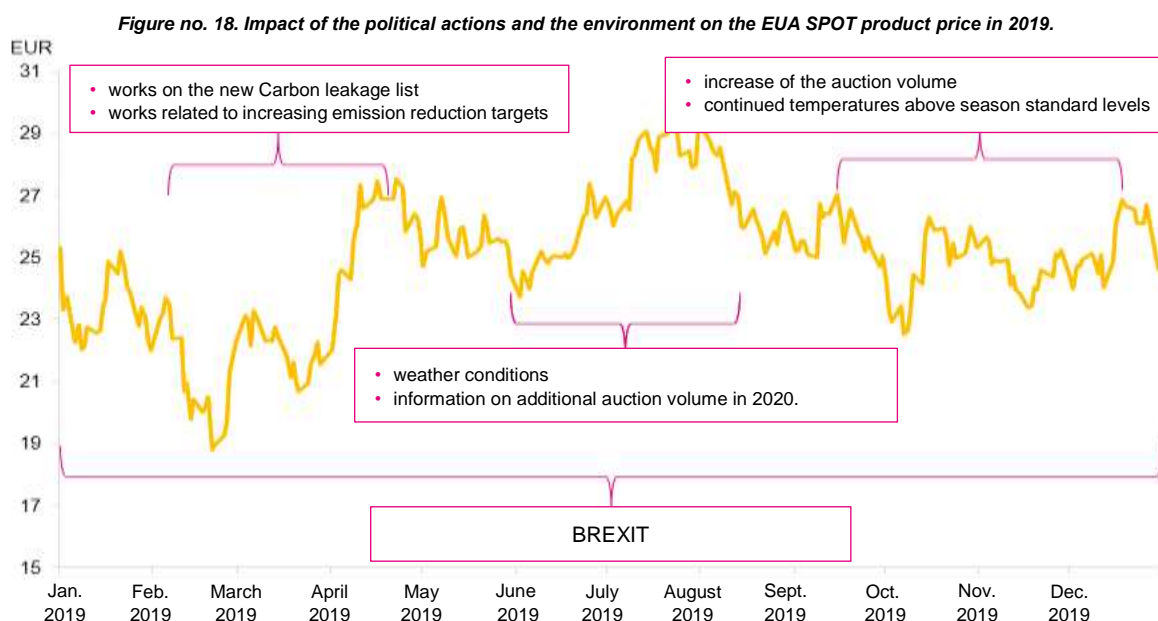
4th trading (settlement) period of the EU ETS, the passing of the resolution on the EU's long term low emission development path until 2050 by the European Parliament's Environment Committee on February 26, 2019, and the information provided by the Minister of Energy and Green Growth of the United Kingdom on February 27, 2019, on the works underway aimed at creating a separate (dedicated exclusively to the United Kingdom) CO₂ emissions trading system, which is to be ready in 2021 and connected to the EU ETS system. The said action is a consequence of the fact that, after BREXIT, the United Kingdom will lose its decision-making power under the rules governing the functioning of the emissions trading system in Europe.

EUA prices ranged from 21 EUR/Mg to 27.85 EUR/Mg in April 2019. The reason for such high market volatility was the prolonged uncertainty regarding BREXIT as well as the date of the annual settlement of emissions in the system. Based on the data from the system settlement, on May 15, 2019, the European Commission announced the estimated value of the excess CO₂ emission allowances in circulation in 2018, that stood at 1.65 billion of allowances.

Due to the forecast high temperatures in Europe for the summer period, an upward trend in EUA prices was observed in June 2019, while at the same time information about a decrease in the system's emissions by 3.9% was published. On June 12, 2019, Poland announced the sale of additional allowances in the following year, with the volume set at 49.52 million CO₂ emission allowances. In July 2019, the prices reached the level of 29.95 EUR/Mg, which was historically the highest during the second and third phases of the EU ETS system. An additional factor that particularly strongly fueled the growth of the prices in this period was the information about the possible cancellation of the allowances in Germany for the power plants that were to be shut down as part of the plan presented by the Coal Commission.

The standard auction volumes returned to the market in September 2019, and, as a result, the supply exceeded the demand and the prices continued their correction. In October 2019, the EUA prices were impacted by the information related to the United Kingdom. The EUA prices reached 24.64 EUR/Mg in December 2019.

The below figure presents the impact of the political actions and the environment on the EUA SPOT product price in 2019.



Property rights

Due to the ongoing work on the amendment to the *act of February 15, 2015 on renewable energy sources*, in 2019 the prices of PMOZE_A certificates (green certificates) were sensitive to any emerging information regarding the existing RES support system. In the first quarter of 2019, following the appearance in the draft amendment of the proposal of a new way to calculate the substitution fee, the prices of the green certificates fell by 50%. The TGEoza index fell from 152.50 PLN/MWh to 80.82 PLN/MWh since the beginning of 2019. In the second and third quarter of 2019, after the above proposal had been suspended, the prices of the green certificates ranged from 124.15 PLN/MWh to 135.99 PLN/MWh. The fourth quarter of 2019 saw an upward movement of the prices of the green certificates, with the prices ranging from 134.60 PLN/MWh to 150.27 PLN/MWh. The weighted average price of the green certificates came in at 132.19 PLN/MWh in 2019 (an increase of more than 27%, as compared to 2018) and it was higher than the applicable substitution fee by less than 2%. The value of the substitution fee was 129.78 PLN/MWh in 2018, with the obligation to submit PMOZE_A certificates for redemption (retirement) at 18.5%. The trading volume came in at 11 226 GWh in this period and it was lower by more than 23%, as compared to 2018. The balance of the PMOZE_A register reached a surplus of 32.16 TWh at the end of December 2019. Taking into

account the certificates blocked for redemption (retirement), this balance drops by more than 7.67 TWh, to the level of 24.49 TWh (an increase by 10.2% year on year).

The prices of the certificates confirming the production of electricity from agricultural biogas, PMOZE-BIO-2019 (blue certificates), for which the obligation was 0.5% in 2019, were consistently fluctuating around the substitution fee level, which was 300.03 PLN/MWh. In the first 5 months of 2019, the prices of these certificates were stable and fluctuated within the range from 300.01 PLN/MWh to 302.44 PLN/MWh. In the third quarter of 2019, higher price volatility was noticeable. From the end of June 2019, the prices began to fall, in July 2019 they reached 285.45 PLN/MWh, while from August 2019 the prices of the TGEozebio index remained in an upward trend and returned to the level around the substitution fee. Finally, the weighted average value of the TGEozebio index stood at 300.11 PLN/MWh at the end of 2019 and it was lower by almost 4% than the weighted average price for 2018. The total trading volume came in at 513.11 GWh, and the PMOZE_BIO register balance reached the level of 440 GWh as of the end of 2019. Taking into account the certificates blocked for redemption (retirement), this level dropped to 397 GWh.

The weighted average price of the property rights confirming the production of electricity in high efficiency gas cogeneration in 2018, PMGM-2018 (yellow certificates), in the first half of 2019, stood at 110.48 PLN/MWh. The prices for this contract ranged from 99.27 PLN/MWh in June 2019 to 114.38 PLN/MWh in May 2019. The applicable substitution fee stood at 115 PLN/MWh.

The prices for the coal fired cogeneration certificates, PMEC-2018 (red certificates), fluctuated slightly below the substitution fee, which stood at 9 PLN/MWh, only starting from the second half of June 2019 the prices dropped to 3.96 PLN/MWh. The weighted average price came in at 8.58 PLN / MWh.

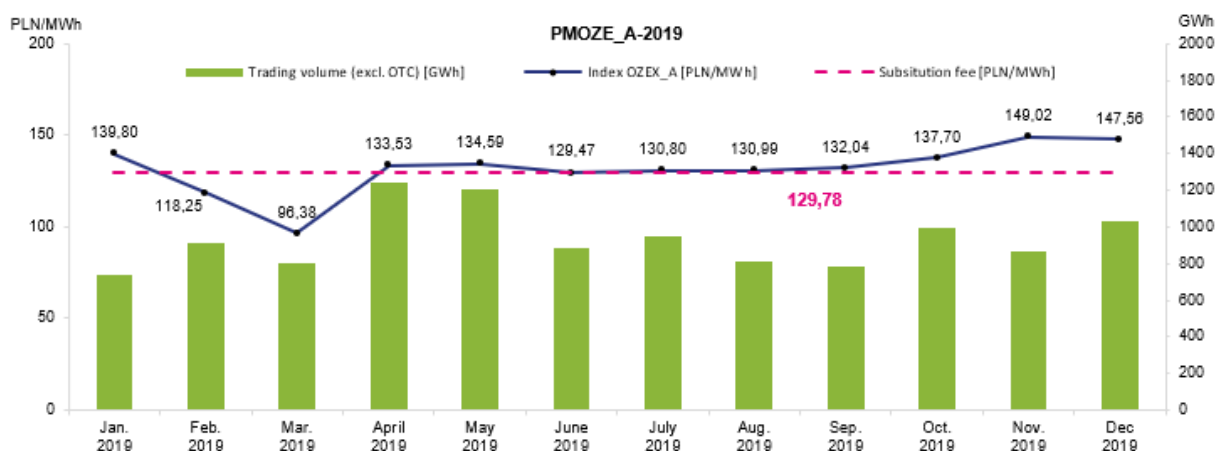
The prices of the certificates for electricity production as a result of burning methane, PMMET-2018 (violet certificates), were moving within the price range from 55 PLN/MWh to 58.05 PLN/MWh, until the end of June 2019, remaining stable. The weighted average price for the first half of 2019 came in at 55.22 PLN/MWh, with the applicable substitution fee of 56 PLN/MWh.

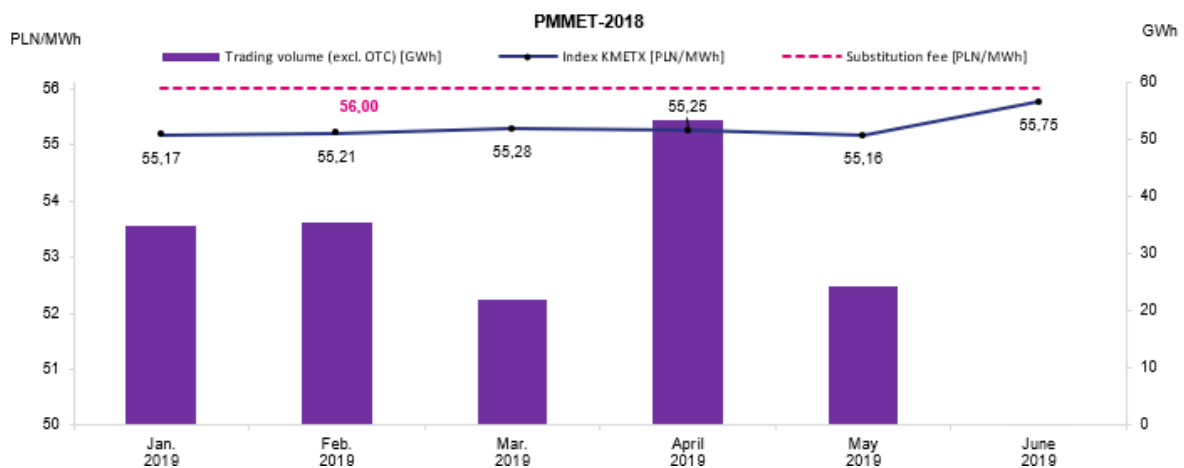
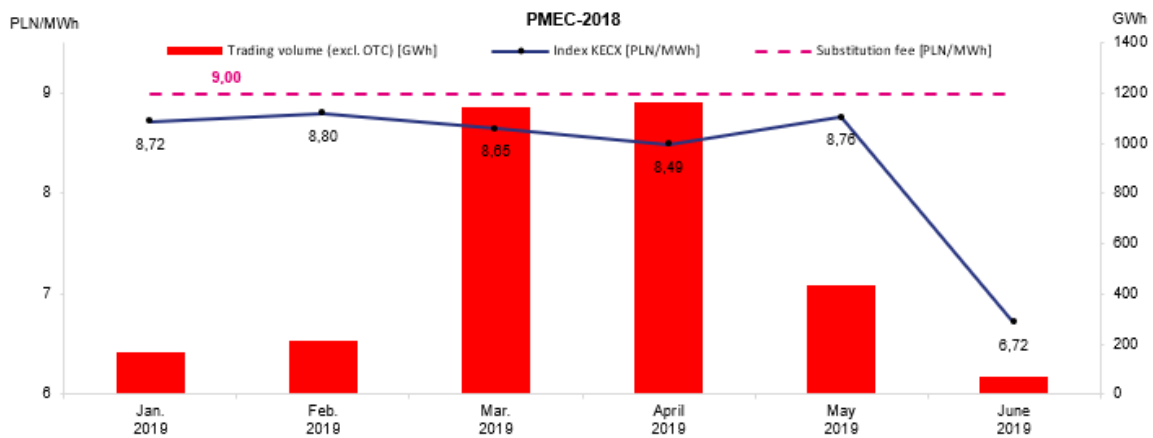
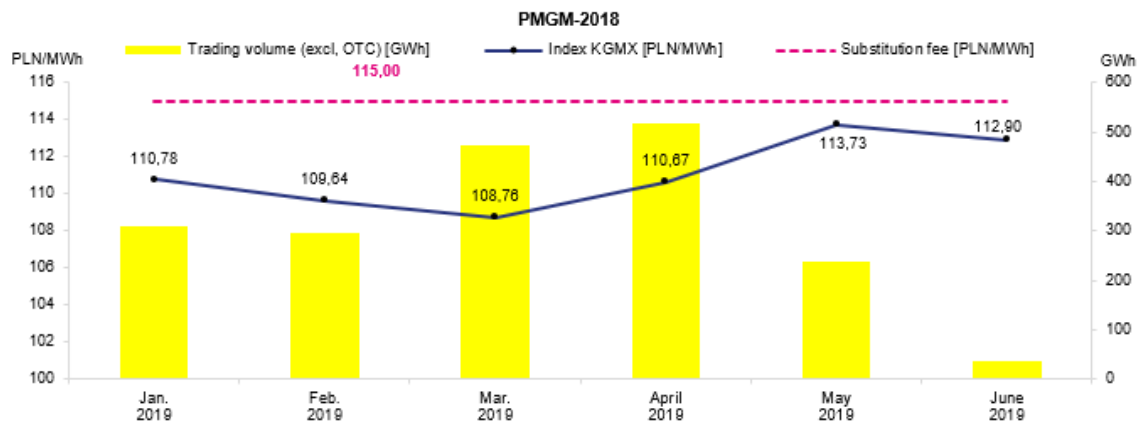
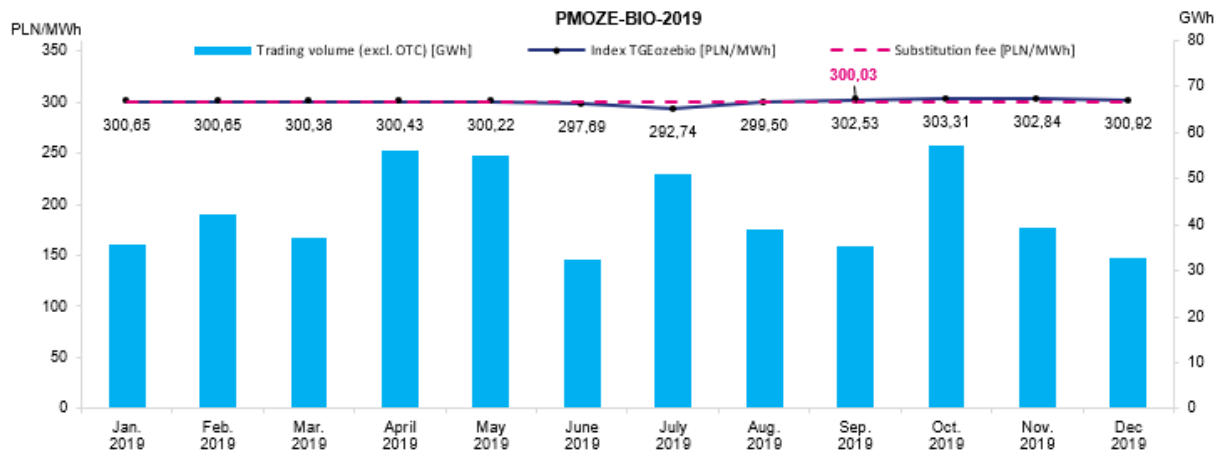
The prices of the PMEF certificates (white certificates) remained in a downward trend throughout the first half of 2019. The prices of the above certificates dropped by as much as 94.2%, from 440.47 PLN/toe to 25.56 PLN/toe, in June 2019, while in December 2019, due to the *act of June 13, 2019, amending the act the amendment to the act on the excise tax and certain other acts, the act on the energy efficiency and the act on the biocomponents and liquid biofuels*, which extended the validity of the white certificates, the prices of the white certificates rose to 1 740.00 PLN/toe. The weighted average price of the PMEF certificates for 2019 finally came in at 1 012.39 PLN/toe (an increase by 57.4% year on year). This level was much lower than the applicable substitution fee which stood at 1 653.75 PLN/toe last year.

The prices for the PMEF-2019 and PMEF_F registers remained high, around the substitution fee level. However, due to the regulatory changes in June 2019, the prices fell to 1 300 PLN/toe for the PMEF-2019 contract and 1 359.14 PLN/toe for the PMEF_F contract. However, after the regulatory changes have been introduced, the prices of both contracts returned to the substitution fee level. The weighted average prices of the PMEF-2019 and PMEF_F contracts came in at 1 565.86 PLN/toe and 1 628.09 PLN/toe, respectively, in 2019.

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

Figure no. 19. Property rights indices





2.1.2.3. Regulatory environment

National regulations

Amendment to the act on the amendment to the act on the excise tax and certain other acts (electricity prices)

As of the beginning of 2019 the *act of December 28, 2018 on the amendment to the act on the excise tax and certain other acts* came into force with its goal to provide protection for the electricity consumers against a significant increase of the costs of purchasing electricity in 2019. Apart from reducing the excise tax rate and the transition fee rates, the above act introduced the "freezing" in 2019 of the prices and rates of the fees stemming from the tariffs and electricity price lists applied by the electricity trading companies at the level of prices and fees applied in 2018.

The act of June 13, 2019, changing the act on the amendment to the act on the excise tax and certain other acts, the act on energy efficiency and the act on the biocomponents and liquid biofuels, upheld the right to the reduced electricity prices for the entire period of 2019 for:

1. final household consumers – without the need for them to take any additional actions,
2. microbusinesses and small businesses, hospitals, public finance sector units and other state organizational units with no legal personality (the so-called special status consumers) – provided they have submitted the applicable declaration.

Medium size and large enterprises were, in the second half of 2019, entitled to the support involving subsidizing of electricity prices as part of the *de minimis* aid, provided that they had submitted, by the statutorily defined deadline, to the trading company that is a party to the electricity sale agreement or the comprehensive (master) agreement with the given final consumer, of the declaration confirming the status of such a consumer. Consumers operating in the energy intensive sectors and sub-sectors were able to take advantage of the support system set up based on the *act July 19, 2019, on the system of compensations for the energy intensive sectors and sub-sectors*.

Following the June amendment to the act on the excise tax, for the period:

1. from January 1, 2019, to June 30, 2019, utility companies and the final consumers that buy electricity on the Polish Power Exchange directly, will be entitled to receive the so-called "price difference amount",
2. from July 1 2019, to December 31, 2019:
 - trading companies, supplying electricity to the consumers with a special status, had the right to receive the so-called financial compensation in connection with the provision of the service in the overall economic interest,
 - final consumers that are medium size and large enterprises (excluding the energy intensive enterprises) have the possibility to apply for a subsidy to the electricity purchased in that period (the so-called subsidy).

The receipt of the refund of the difference amount, financial compensation and subsidy requires a request of an entitled entity. The support, the calculation rules of which are defined in the executive regulations to the act, is financed using the funds of the Price Difference Payout Fund (Fundusz Wyплаты Różnicy Ceny), controlled by the Minister of Energy (as of November 15, 2019, Ministry of State Assets), and managed by Zarządca Rozliczeń S.A. (Settlements Manager).

On July 19, 2019, the Minister of Energy issued a *regulation on the way to calculate the amount of the price difference and financial compensation, and the method to be used to set the reference prices*, that came into force on August 14, 2019. Additionally, the Minister of Energy, on August 28, 2019, published a *notice on the other unit cost and the subsidy rate*, that defines, for a utility company dealing with the trading: in-house costs of conducting business operations, the costs of balancing the electricity demand curve and the margins dependent on the total volume of electricity supply to the final consumers. Based on the provisions of the above mentioned Regulation of the Minister of Energy, the President of the Energy Regulatory Office publishes information on the amount of other unit costs constituting the components used to calculate the amount of the price difference and the financial compensation.

The electricity prices (for the households' final consumers using the tariff of TAURON Sprzedaż as an ex officio seller) and the distribution service rates in force in 2020 were determined and approved by the President of the Energy Regulatory Office in accordance with the standard mechanisms for the determination thereof under the Energy Law. Legislative works are currently underway on the introduction of a new mechanism to compensate for the increase in the electricity prices for the household final consumers.

Act on the system of compensations for the energy intensive sectors and sub-sectors

The *act on the system of compensations for the energy intensive sectors and sub-sectors* was passed on July 19, 2019 and came into force as of August 29, 2019. Based on the above act, the energy intensive enterprises have the right to the compensation for an increase of the electricity prices due to the rising costs of the emission allowances. The use of the above support system excludes the use of the support system introduced under the *act of December 28, 2018, on the amendment to the act on the excise tax and certain other acts*. For these reasons in

2019 the energy intensive enterprises may choose only one of the above support systems. At the same time, in accordance with the *act on the system of compensations for the energy intensive sectors and sub-sectors*, in case the given energy intensive enterprise submits a declaration on waiving the right to have the electric utility apply prices and fee rates for electricity at the level as of June 30, 2018:

1. an energy intensive enterprise will have to refund the amounts that it has obtained thanks to this mechanism – in case the electric utility has adjusted its prices and fee rates for electricity,
2. an electric utility will be exempted from the obligation to adjust its prices and fee rates for electricity for such energy intensive enterprise – in case it has not done it yet.

Act on energy efficiency

The act of June 13, 2019, amending the act on the amendment to the act on the excise tax and certain other acts, the act on energy efficiency and the act on biocomponents and liquid biofuels also introduced a material change to *the act of May 20, 2016 on energy efficiency*. It involves an extension, until June 31, 2021, of the deadline within which energy efficiency certificates issued under the act on energy efficiency previously in force (the so-called tender certificates) will be taken into account in the implementation of the obligation to obtain energy efficiency certificates and present them for retirement to the President of ERO.

Amendment to the Act on Renewable Energy Sources (RES)

The act on the amendment to the act on Renewable Energy Sources and certain other acts was passed on July 19, 2019. The material changes that were introduced under the said amendment include:

1. extension of the support systems' effective term, envisaged under the act, until June 30, 2039,
2. extension of the "prosumer" definition to cover entrepreneurs, provided that sales of electricity generated by their own micro-installations will not be the subject of the given entrepreneur's dominating business operations,
3. extension of the deadlines (running from the auction session closing date) by which an auction participant will be obligated to sell, for the first time, electricity generated by a renewable energy source installation, that will be erected or will be upgraded following the auction date,
4. extension of the so-called discount system to cover entrepreneurs operating micro-installations with the installed capacity greater than 10 kW,
5. increase of the micro-installations' installed capacity level which cannot be exceeded in case of completing an upgrade of such installation, from 40 kW to 50 kW,
6. increase of the maximum level of installed capacity making biogas and hydroelectric installations eligible to take advantage of the so-called FIP system from 1 MW to 2.5 MW,
7. enabling participation in the FIT and FIP support system for the installations that use biomass,
8. increasing the maximum age of devices that constitute a part of RES installations eligible to take advantage of the auction based support system from 18 months to 21 months – for photovoltaics, from 24 months to 33 months – for on-shore wind based power generation and from 36 months to 42 months – for a different type of technology (excluding off-shore wind based power generation).

The above act also defines the minimum share of electricity from the renewable energy sources in the total annual electricity supply for 2020 as follows:

1. 19.50% – with respect to electricity generated from agricultural biogas prior to the entry into force of section 4 of the act or renewable energy sources other than agricultural biogas or the substitution fee paid,
2. 0.50% – with respect to electricity generated from agricultural biogas from the date of entry into force of section 4 of the act or equivalent volume of electricity stemming from the retired certificates of origin of agricultural biogas or the substitution fee paid.

Furthermore, the above amendment includes regulations that define the maximum volume of electricity and its value to be sold at auctions for 2019 and the conditions under which auctions for the purchase of electricity from renewable energy sources installations will be conducted in 2019.

The majority of the act's regulations came into force as of August 29, 2019. For some of the regulations the *vacatio legis* period was extended until 2020, and with respect to some regulations, that might potentially impact the EU's internal market, the notification procedure before the European Commission regarding changes to the support program was commenced. In the letter of October 31, 2019, the European Commission provided information that it assessed the changes to the renewable energy sources auction system introduced by the act as changes of a purely administrative nature, that did not require the notification of the new support (aid) to the European Commission.

Executive regulations to the act on promoting electricity from high efficiency cogeneration

The process of supplementing the *act of December 14, 2018, on promoting electricity from high efficiency cogeneration* with the executive regulations was completed in 2019. In connection with the above the following regulations to the above act have been published:

1. regulation of the Minister of Energy of August 21, 2019, on the maximum volume and value of electricity from high efficiency cogeneration covered by the support and unit amounts of the guaranteed bonuses in 2019 and 2020, that came into force as of September 17, 2019,
2. regulation of the Minister of Energy of August 21, 2019, on the maximum value of investment costs (capital expenditures) and operating expenses in case of building and operating a new comparable cogeneration unit, that came into force as of September 17, 2019,
3. regulation of the Minister of Energy of August 21, 2019, on the reference values for new and substantially upgraded (refurbished) cogeneration units in 2019, that came into force as of September 17, 2019,
4. regulation of the Minister of Energy of September 6, 2019, on the methodology to be applied to determine eligibility for the individual cogeneration bonus and the values of coefficients taken into account when determining such eligibility, that came into force as of October 1, 2019.
5. regulation of the Minister of Energy of September 22, 2019 on the range of data required to calculate the individual guaranteed bonus and the cogeneration bonus, including the way to take into account the value of the public aid received, that came into force as of October 15, 2019,
6. regulation of the Minister of Energy of September 23, 2019, on the way to calculate data provided for the needs of the use of the support system and the detailed scope of the obligation to confirm the data related to the volume of electricity from high efficiency cogeneration, that came into force as of October 15, 2019,
7. regulation of the Minister of Energy of November 41, 2019, on the reference values for new and substantially upgraded (refurbished) cogeneration units in 2020, that came into force as of December 3, 2019
8. regulation of the Minister of State Assets of December 20, 2019 on the amount of the cogeneration fee for 2020, that came into force on January 1, 2020.

The goal of the above regulations is to enable implementing a support mechanism for the generation units generating electricity from the high efficiency cogeneration.

Amendment to the act on the system of greenhouse gas emission allowances trading and certain other acts

The act on the amendment to the act on the system of greenhouse gas emission allowances trading and certain other acts was passed on July 4, 2019 and it came into force as of August 24, 2019. The essential goals of the act include implementing and introducing into use the European Union regulations regulating the rules of emission allowances trading in the so-called fourth trading (settlement) period and dispelling the interpretation doubts arisen over almost three years of applying the act on the system of greenhouse gas emission allowances trading, and also aligning the regulations with respect to greenhouse gas emission allowances trading to the current economic and social conditions. The above act, among others:

1. introduces regulations related to the allocation of emission allowances to other production than electricity production in the 2021 – 2030 trading (settlement) period and in the subsequent trading (settlement) periods,
2. introduces changes with respect to accounting for the investment costs (capital expenditures) related to the tasks included in the National Investment Plan (Krajowy Plan Inwestycyjny), including the possibility to balance (offset) the emission allowances granted for the discontinued tasks or tasks that have not led to achieving the approved indicators of compliance against the costs of other completed investment tasks,
3. imposes an obligation to develop monitoring methodology plans and submit such plans by entities operating an installation for approval to the applicable (competent) authority (feedback (opinions) on the plans will be provided by the National Centre for Emissions Management (Krajowy Ośrodek Bilansowania i Zarządzania Emisjami - KOBiZE)),
4. assumes simplifying and accelerating the procedure used to apply for the allocation of emission allowances in case of a new installation, by transferring the up-to-now authorizations of the competent minister responsible for the environment to the National Centre for Emissions Management (Krajowy Ośrodek Bilansowania i Zarządzania Emisjami - KOBiZE)),
5. limits (to 5 years) the obligation to prepare and enter the reports on emissions volume into the National data base,
6. aims to eliminate a number of interpretation doubts that have surfaced during the application of the existing version of the act.

Draft act on the amendment to the act – Energy law and certain other acts

Since the end of 2018, the public consultation process related to the draft act amending the *act of April 10, 1997 - Energy Law and certain other acts* has been underway. The act underwent changes during the legislative process and the draft is currently dated January 30, 2020. Changes introduced in the draft that are most important for TAURON Group's subsidiaries include the proposals to:

introduce the central energy market information system to be used for the implementation of electricity market processes that will be determined pursuant to the regulation of the minister competent for energy,
impose, on a DSO, an obligation to install, by December 31, 2028, remote readout electricity meters connected to the remote readout system in at least 80% of the total number of electricity consumption points at the final

consumers, equipped with a direct metering system, connected to the grid with a rated voltage not higher than 1 kV in accordance with the schedule defined in the act, impose on a DSO, that is a part of a vertically integrated enterprise, an obligation to have separate personnel from the personnel used by the remaining part of the vertically integrated enterprise, with the only exception foreseen for the administrative staff, introduce regulations regarding the relationship between the trademark of a DSO and the trademark of the electricity supplier that is a part of the same vertically integrated company, grant to the President of ERO the right to obligate the parties, by way of a decision, to amend the content of an agreement on the provision of the gas fuels / electricity transmission or distribution services concluded between a supplier (seller) and the transmission system operator (TSO) / distribution system operator (DSO), in order to enable the supplier (seller) to supply (sell) gas fuels / electricity or provide a comprehensive service to the consumers connected to such operator's grid or, if required: ensure that the final consumers' interests are protected, balance the parties' interests, counter competition limiting practices, define the rules for recognizing and operating closed distribution systems and electricity storage facilities, including the rules for connecting storage facilities to the grid, and obligate the DSO to include, in its development plan projects with respect to the use of electricity storage facilities, provided the given DSO deems it technically justified to ensure supply of electricity and will demonstrate that the use of electricity storage facilities will bring benefits and it will not involve disproportionately high costs, strengthen the position of electricity consumers, including by: shortening the process of switching electricity suppliers to 7 days, obligating electricity or gas suppliers (sellers) to provide public access to the currently applicable regulations defining the rights of an electricity consumer, introducing a ban prohibiting the conclusion of supply contracts or comprehensive (master) contracts for the supply of gas fuels or electricity with households consumers outside business premises, otherwise the contract shall be null and void, introducing detailed provisions specifying the rules for providing property security (collaterals) in case of claims of third parties that may arise as a result of the improper conducting of the operations covered by the license, extend the catalog of cases in which the President of the ERO shall have the right to amend or revoke the relevant license, to cover the situations in which:

- President of the Office for Competition and Consumer Protection (UOKiK) has issued, with respect to an entity operating based on such license, a decision on deeming the practice as infringing upon the collective interests of consumers,
- an energy company has stopped to guarantee proper performance of its operations,

introduce the required definitions or clarify in detail the applicable provisions in order to fix the identified gaps or dispel the interpretation doubts.

Regulation of the Minister of Energy on the parameters of the main auction for the delivery year 2024 and the parameters of the additional auctions for the delivery year 2021

On August 2, 2019, the *regulation of the Minister of Energy on the parameters of the main auction for the delivery year 2024 and the parameters of the additional auction for the delivery year 2021* was published. In accordance with the *act of December 8, 2017 on the capacity market*, the regulation laid down, in particular, such parameters as:

1. values determining the demand in the given auction,
2. maximum prices for the so-called price takers,
3. maximum number of rounds in the given auction,
4. unit levels of the capital expenditures determining the qualification of the given capacity market units as new or refurbished.

Amendments to the act on the value added tax (VAT)

On September 1, 2019, the amendments to the *act of March 11, 2004 on the value added tax* passed by way of the *act of April 12, 2019 on the amendment to the act on the value added tax and certain other acts* came into force. These amendments introduced the so-called white list of the VAT taxpayers, i.e. the list of the taxpayers registered as VAT taxpayers, managed by the Head of the National Tax Administration, containing also the data on the bank accounts indicated by these entities for settlements.

On November 1, 2019, the provisions of the *act of August 9, 2019, on the amendment to the act on the value added tax and certain other acts* came into force, introducing the obligation to apply the so-called split payment mechanism regarding trade in goods and services indicated in Annex 15 to the act on VAT. The above amendments provide for sanctions (effective as of January 1, 2020) for a failure to make a payment using the split payment mechanism with respect to the above mentioned goods and services, as well as for the settlements using bank accounts other than the bank accounts indicated on the white list of the VAT taxpayers. These sanctions include:

1. inability to classify as the tax deductible costs the amounts paid to the accounts other than those on the white list of the VAT taxpayers or paid without using the split payment mechanism if there is a legal obligation to use this mechanism (goods and services listed in Annex 15 to the VAT Act),

2. joint and several liability with the taxpayer for the VAT related obligations in the proportion of the tax corresponding pro rata to the supply of goods or services for which payment was made to an account other than the one indicated on the white list of the VAT taxpayers.

European Union regulations

Winter package *Clean Energy for all Europeans*

On March 26, 2019, the European Parliament, and on May 22, 2019, the Council formally accepted the worked out content of the political agreements related to the 4 remaining elements of the *Winter Package* (the acts published in the EU Official Journal in June 2019), i.e.:

1. directive on the common rules for the internal market in electricity and amending directive 2012/27/UE (*Directive of the European Parliament and Council (EU) 2019/944 of June 5, 2019*),
2. regulation on the internal market in electricity (*Regulation of the European Parliament and Council (EU) 2019/943 of June 5, 2019*),
3. regulation on the risk-preparedness in the electricity sector and repealing directive 2005/89/WE (*Regulation of the European Parliament and Council (EU) 2019/941 of June 5, 2019*),
4. regulation establishing the European Agency for the Cooperation of Energy Regulators (*Regulation of the European Parliament and Council (EU) 2019/942 of June 5, 2019*).

EMIR REFIT Regulation

Regulation of the European Parliament and Council (EU) 2019/834 of May 20, 2019, amending regulation (EU) no. 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories (EMIR REFIT Regulation) was published in the Official Journal of the European Union on May 28, 2019.

The above regulation impacts TAURON Capital Group's operations, primarily in the areas of the reporting obligations related to the derivatives contracts and the thresholds for the clearing of such contracts by a central counterparty.

In the first area a possible exemption from reporting derivative contracts concluded by non-financial counterparties within the same capital group (intragroup) to the trade repository is envisaged under the following collective conditions: both counterparties are included in the same consolidation on a full basis, both counterparties are subject to the appropriate centralized risk evaluation, measurement and control procedures; and the parent undertaking is not a financial counterparty. However, the application of the exemption referred to above requires notifying the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego). The exemption shall be valid unless the notified competent authorities do not agree upon fulfilment of the above mentioned conditions within 3 months of the date of notification.

In the second area the EMIR REFIT Regulation imposes on non-financial counterparties an obligation to calculate, as of the day of the above mentioned Regulation's entry into force (i.e. as of June 17, 2019), and subsequently every 12 months, the aggregate average position in OTC derivative contracts. The calculations are used to determine the capital group's position with respect to the obligation to clear contracts with a central counterparty (CCP), i.e. with the so-called NFC+ or NFC- status. Furthermore, the obligation for derivative contract counterparties to inform each other of the above mentioned status in the contract documentation was introduced.

Regulation on the Innovation Fund, draft executive regulation on the Modernization Fund

Commission Delegated Regulation (EU) 2019/856 of 26 February 2019 supplementing Directive 2003/87/EC of the European Parliament and of the Council with regard to the operation of the Innovation Fund was published in the Official Journal of the European Union on May 28, 2019. The said fund was set up under art. 10a, section 8 of directive 2003/87/EC of the European Parliament and of the Council of October 13, 2003, establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC, in order to provide support for projects demonstrating highly innovative technologies, processes or products, indicating a significant potential to reduce greenhouse gas emissions. However, these projects must have an appropriate level of maturity and scalability. The Fund is to represent an extension of the support provided under NER 300 program. The available financing amount is to correspond to the market value of at least 450 million CO₂ emission allowances.

The above regulation lays down the Innovation Fund's necessary principles of operations, such as: the operational objectives of the Innovation Fund, the forms of the support provided under the Innovation Fund, the application procedure for the Innovation Fund support (calls for proposals), the procedures and criteria for project selection under the Innovation Fund, rules for the disbursement of the Innovation Fund support, the governance of the Innovation Fund, reporting, monitoring, evaluation, control and publicity (transparency) concerning the operation of the Innovation Fund. However, a possibility of transferring some implementation activities, such as organizing an invitation to submit applications (a call for proposals), preliminary selection of projects or management of the

agreements related to grants, to executive authorities is envisaged. Grants that may reach up to 60% of the costs are envisioned as a basic form of financing investment projects from the fund. An extended funding option has been proposed for small-scale projects (below 7.5 million EUR).

A draft executive regulation was developed in 2019, specifying the principles of the functioning of the Modernization Fund, which is the second fund provided for in Directive 2003/87/EC for the financing of the energy transition. The fund will be operating in 2021-2030 and is to be funded by the sale of the CO₂ emission allowances, which will be allocated to the modernization of the energy systems and the improvement of the energy efficiency in the EU Member States in which GDP per capita in 2013 was less than 60% of the EU average. To the priority areas, which include:

1. generation and use of energy from renewable energy sources,
2. improving energy efficiency (except for energy efficiency due to the production of energy from solid fossil fuels),
3. energy storage and modernization of the energy network, including heating systems,
4. increasing interconnection,
5. supporting fair changes in the coal regions of the beneficiary countries of the Modernization Fund, including the reduction of negative social effects,

no less than 70% of the funds of the Modernization Fund are to be allocated.

Determining of the final content and publishing of the above mentioned Regulation is planned for 2020.

Opinion of the Agency for the Cooperation of Energy Regulators establishing the guidelines for the calculation of the CO₂ emissions conditioning the units' participation in the capacity market mechanisms

On December 19, 2019, the Agency for the Cooperation of Energy Regulators published an opinion no. 22/2019 containing the technical guidelines for calculating the values indicated in the first paragraph of art. 22, clause 4 of the *Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market in electricity*. These values condition the possibility of the given capacity market unit being covered by the capacity obligation or receiving remuneration for performing the capacity obligation. The final version of the opinion does not contain provisions regarding the extension of the catalog of the emissions included in the calculation of the approved emission factors, by adding methane and nitrous oxide.

European Green Deal

On December 11, 2019, the European Commission presented the assumptions of the so-called *European Green Deal* (COM (2019) 640 final) – a strategy of actions aimed at: using resources more efficiently by moving to a clean circular economy, halting the climate change, countering biodiversity loss and reducing pollution. The objective of Europe reaching climate neutrality by 2050 is to be achieved by, among others, taking the following measures, implemented successively from 2020:

1. adoption of the first European climate law - a road map for this regulation was presented for consultation by the European Commission on January 9, 2020, and the regulation indicates that the purpose of the climate law is to be in particular to ensure an ambitious and fair EU climate policy, to contribute to the implementation of the Paris Agreement and to set a long term legal path to achieving the objective of climate neutrality by the EU in 2050,
2. setting the new emission targets by 2030,
3. adoption of a new industrial strategy (in a number of sectors of the economy, including energy) and an EU action plan for the circular economy,
4. development and adoption of an investment plan for a sustainable Europe to ensure that the climate and energy targets set for 2030 are met - investment financing is envisaged to counter the climate change using the funds in the amount of at least 25% of the EU's long-term budget and funding from the European Investment Bank (EIB)
5. adoption of a green funding strategy to include the private sector in financing the green transformation
6. covering of new sectors by the ETS system,
7. review of the directive related to the taxation of the energy with respect to the environmental issues,
8. promoting the EU objectives and standards with respect to the environment protection at the global forum, including during the UN Convention on Biological Diversity and Climate,
9. introduction of a just transition mechanism (fund) intended to support regions with an economy based mainly on the activities resulting in significant CO₂ emissions, in particular through the programs allowing for the acquisition of new professional qualifications and the creation of jobs in new sectors of the economy

Sustainable financing requirements:

Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment

On December 18, 2019, the European Parliament and the Council reached an agreement on the *Regulation on the establishment of a framework to facilitate sustainable investment*, aimed at introducing the world's first classification system (the so-called green list) for sustainable economic activities (Taxonomy). The Taxonomy Regulation aims

to establish a general framework to determine, in a uniform and harmonized manner, which economic activities can be considered environmentally sustainable. The above regulation provides for further delegated acts specifying and developing its standards. EU, Member States, financial market participants offering financial products (through the obligation to disclose information on how and to what extent the investments underlying their financial product support economic activity that meets all criteria for environmental sustainability), financial and non-financial companies covered by the non-financial reporting will be obligated to use Taxonomy from December 2021. In particular, companies covered by the non-financial reporting will be required to disclose how and to what extent their activities constitute environmentally sustainable activities within the meaning of the Regulation, including the share of revenues from such activities, the share of CAPEX and OPEX expenses. Entities that do not meet the relevant requirements may be exposed to the higher costs of financing their operations and investments. Taxonomy will also be able to be used on a voluntary basis by other market participants, including entities raising funds for conducting environmentally sustainable activities.

Regulation (EU) 2019/2088 of the European Parliament and of the Council of November 27, 2019, on sustainability related disclosures in the financial services sector

Regulation (EU) 2019/2088 of the European Parliament and of the Council of November 27, 2019, on sustainability related disclosures in the financial services sector introduces uniform requirements as to how institutional investors (such as asset managers, insurance companies, pension funds or investment advisors) should take into account the ESG factors - i.e. environmental, social and corporate governance factors - in the investment decision making process. The exact requirements in this respect will be specified in the delegated acts of the European Commission.

Pursuant to the above regulation, asset managers and institutional investors will have to demonstrate compliance of their investments with the ESG objectives and disclose how these requirements are met. Financial market participants and financial advisors will be required, in their activities, including as part of due diligence, to introduce and continuously assess not only the financial risks, but also risks to sustainable development that could have a significant negative impact on the return on investment or consultancy. Risk for sustainable development means an event or environment, social or management related conditions that, if they occur, could have a significant negative impact on the value of the investment. Financial market participants and financial advisors will also be required to specify in their strategies how they take account of these risks and to publish those strategies, as well as to have procedures to address the major adverse effects of sustainable development risks and to publish information on these procedures on their websites along with a description of the main adverse effects. The assessments of risk for sustainable development should become a part of pre-contractual disclosure by the financial advisers. If it is determined that there are no risks to sustainable development in relation to the given financial product, the regulation introduces an obligation to indicate the justification for such a statement, and where the assessment leads to the conclusion that those risks are relevant, the extent to which those sustainability risks might impact the performance of the financial product should be disclosed, either in qualitative or quantitative terms. The above regulation also establishes a harmonized definition, stating that the companies receiving the investments (investee companies) follow good governance practices and ensure compliance with the precautionary principle – “do not cause significant environmental or social harm”. The regulation applies, as a principle, from March 10, 2021 (some of its provisions are to apply from January 1, 2022).

Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 27, 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks

Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 27, 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks introduces 2 new categories of low-emission benchmarks:

1. a climate transition benchmark to be a low-emission alternative to the commonly used benchmarks,
2. a specialized benchmark whose investment portfolios will be in line with the target set in the Paris Agreement stipulating that the global temperature rise should be limited to 1.5°C in reference to the level before the industrial age.

The new categories are to be voluntary labels to facilitate the choice of investors who want to adopt a climate-friendly investment strategy. They are designed to reflect the carbon footprint of enterprises and provide investors with the information on the carbon footprint of the investment portfolio. The new benchmarks will have a significant impact on the investment flows, including the creation of the investment products, measuring their results and developing an asset allocation strategy. The European Commission has been authorized to adopt delegated acts to specify the minimum standards for the above mentioned benchmarks.

The above regulation imposes an obligation on all benchmark administrators, except for the administrators of the interest rates benchmarks and the currency benchmarks, to disclose in the statement regarding the benchmark whether the benchmarks or groups of such benchmarks meet the objectives of environment protection, social policy and corporate governance, and whether the benchmark administrator offers such benchmarks.

The above-mentioned regulations may affect the conditions for obtaining financing by TAURON Capital Group.

XBID

TGE launched the European Electricity SIDC (Single Intra-Day Coupling) market based on the XBID (Cross-Border Intraday) model on November 19, 2019. XBID is a project aimed at creating a single cross-border electricity market for the intraday trading within the EU (currently connects 21 countries). The goal of the project is to increase the efficiency of trading on the European intraday market by using existing cross-border transmission capacity in the exchange trading. It allows for the matching of the market participants' orders in a continuous trading formula (24 hours a day), locally and in any price zone within the scope of the project, as long as the cross-border transmission capacity is available. Transactions on this market are concluded in EUR, and the settlements between TGE and the participants of the Polish market are carried out by the Commodity Clearing House (IRGiT S.A.) in PLN. The intraday clearing and settlement model developed by IRGiT, appropriately adapted to the requirements of the XBID model, will allow for optimizing the costs of the collaterals contributed by the IRGiT members.

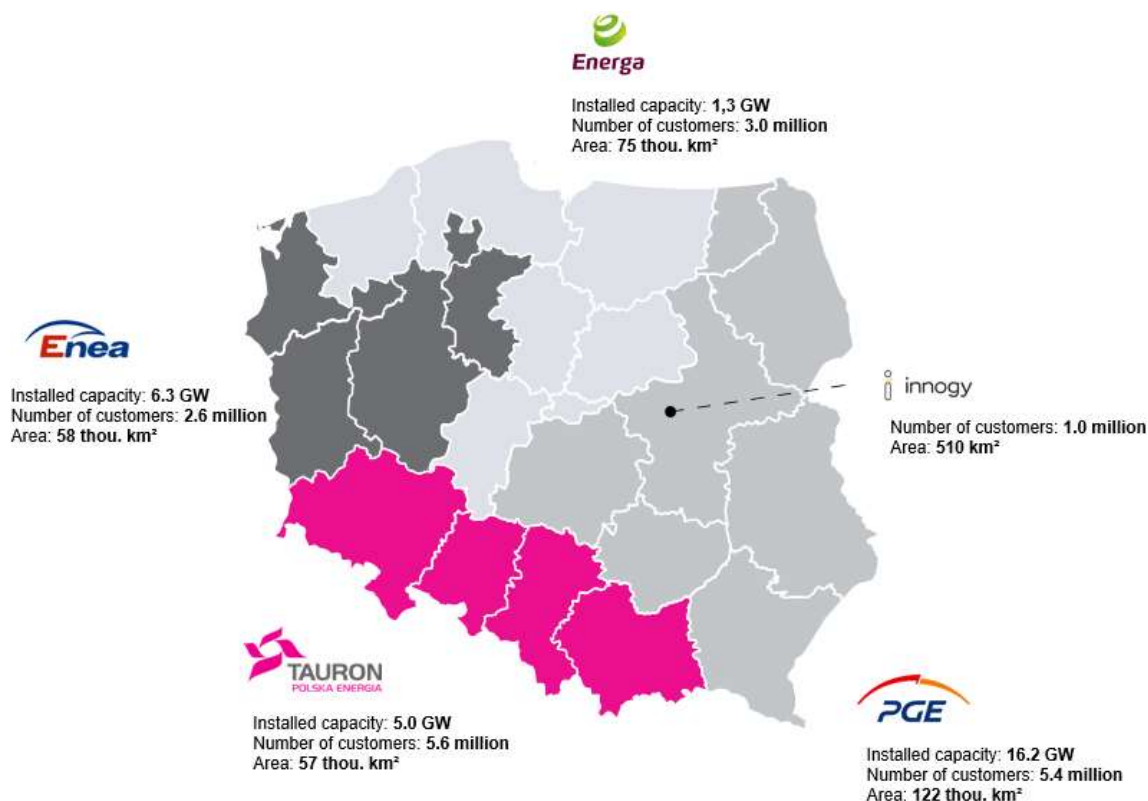
The launch of the homogenous intraday electricity market in Western and Northern Europe took place in June 2018. In case of Central and Eastern European countries the launch of this market took place in the fourth quarter of 2019 and it involved the coupling with the earlier operating XBID market merging the electricity markets of: Poland, Germany, Czech Republic, Austria, Hungary, Romania, Bulgaria, Slovenia, Croatia, Sweden and Lithuania. In Poland XBID is implemented by Polskie Sieci Elektroenergetyczne (PSE - TSO), in cooperation with the following exchanges: TGE, EPEX SPOT and EMCO.

2.1.2.4. Competitive environment (landscape)

Apart from TAURON Capital Group, three large, vertically integrated energy groups are currently operating on the Polish market: PGE, ENEA S.A. (ENEA) and ENERGA S.A. (ENERGA). Furthermore, Innogy Polska is operating in Warsaw, managing the city's power grid.

The below figure presents TAURON Capital Group's competitive environment (landscape) based on the data available for 2018.

Figure no. 20. TAURON Capital Group's competitive environment (landscape) based on the data available for 2018.



According to the Q1-3 2019 data the consolidated energy groups (PGE, TAURON, ENEA, ENERGA) held a 68% market share in the electricity generation sub-sector.

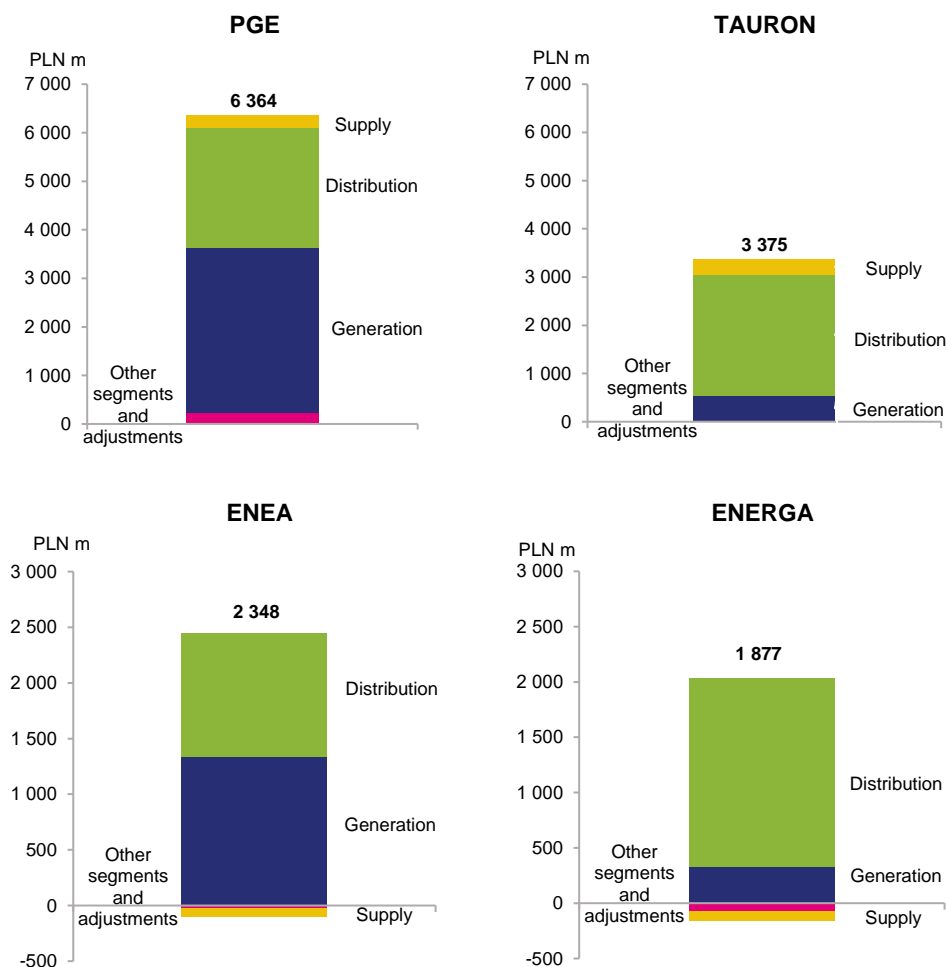
TAURON Capital Group is a fully vertically integrated energy enterprise (electric utility) that takes advantage of the synergies stemming from the size and scope of the operations conducted.

TAURON Capital Group controls the value chain, from hard coal mining up to the delivery of electricity to the final consumers. TAURON Capital Group conducts its operations in all the key segments of the energy market (excluding

electricity transmission), i.e. in hard coal mining, as well as electricity and heat generation, distribution, supply and trading.

The below figure presents information on the structure of EBITDA based on the main segments.

Figure no. 21. EBITDA – estimated structure based on the main segments in 2018¹



¹In order to make the segments presented comparable the Generation Segment includes also Mining, RES and Heat.
Source: Companies' periodic reports

Generation

TAURON Capital Group is Poland's key electricity producer

TAURON Capital Group's share in the domestic electricity generation market, based on the gross electricity production output, reached approx. 9% after Q3 2019. TAURON Capital Group is the third largest electricity producer on the Polish market. TAURON Capital Group's generation assets are concentrated in southern Poland. Also the deposits of the hard coal used to fire TAURON Capital Group's power plants and combined heat and power plants are located in this region. The location of the generating assets near the coal deposits allows for the optimization of the costs related to the transportation of this raw material.

87% of TAURON Capital Group's generation assets are, as of the end of 2019, hard coal fired units, 10% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity reached almost 5.2 GW as of December 31, 2019. Wind farms' installed capacity represents 7.4%, hydroelectric power plants' installed capacity accounts for 2.6%, biomass-fired generating units' installed capacity constitutes 2.8% of TAURON Capital Group's total installed capacity.

Nationwide, after the first three quarters of 2019, TAURON Capital Group's hard coal fired units' installed capacity accounted for approx. 14% of the total installed capacity of all hard coal and lignite fired generating units in Poland. In terms of the installed capacity of the wind farms, biomass and biogas fired as well as hydro power plants, the share of TAURON Capital Group was approx. 7%, 13% and 6%, respectively.

According to the data after three quarters of 2019, PGE Group is the largest electricity generator in Poland, with its share in the domestic electricity production market in the third quarter of 2019 standing at approx. 39%, and the installed capacity of 16.2 GW. ENEA is the second largest electricity producer in Poland, with a market share of around 18% and the installed capacity of 6.3 GW. ENERGA, on the other hand, has the largest share of electricity

produced from the renewable energy sources on the Polish market – more than 1.0 TWh out of the company’s total production of 2.8 TWh (36% RES share). The total installed capacity of ENERGA Group is 1.4 GW.

The below figures present information on installed capacity and electricity generated in Q1-3 2019.

Figure no. 22. Gross electricity production - estimated market shares in Q1-3 2019

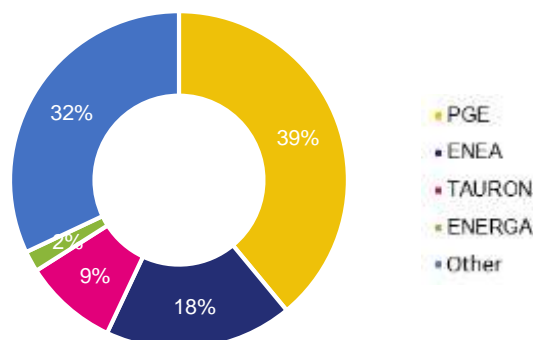
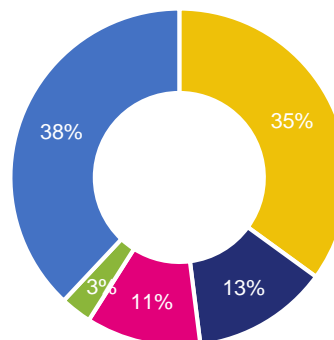


Figure no. 23. Installed capacity - estimated market shares in Q1-3 2019



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

Distribution

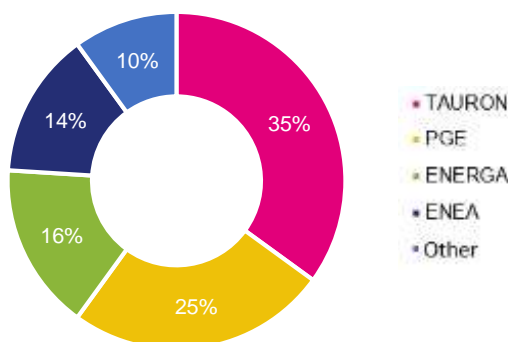
TAURON Capital Group is the Polish market leader in terms of the number of distribution customers and volume of electricity distributed.

TAURON Capital Group is Poland’s largest electricity distributor. TAURON Dystrybucja’s share in electricity distribution to the final consumers reached approx. 35% in Q1-3 2019. TAURON Capital Group’s distribution grids cover more than 18% of Poland’s territory. In 2019 the volume of electricity delivered to the final consumers reached 51.7 TWh. TAURON Capital Group is Poland’s largest electricity distributor also in terms of revenue from the distribution operations.

It should be emphasized that TAURON Capital Group’s distribution operations, due to the natural quasi monopoly in the designated area, are a source of stable and predictable revenue, representing a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution geographical area on which the Distribution and Supply Segments subsidiaries are historically operating is a heavily industrialized and densely populated area and therefore the grid is very well utilized. The number of the Distribution Segment’s customers reached 5.65 million in 2019.

The below figure presents estimated market share of the individual energy groups in terms of electricity distribution based on the Q1-3 2019 data.

Figure no. 24. Electricity distribution - estimated market shares in Q1-3 2019



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

Supply

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

TAURON Capital Group has a 25% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at ...33.7 TWh in 2019. The number of customers served by TAURON Capital Group’s Supply Segment is more than 5.5 million.

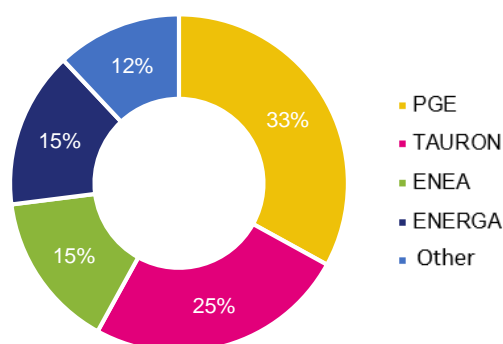
PGE Group is the largest retail electricity supplier with a 33% market share. The other two groups, ENEA and ENERGA, each have a 15% market share.

In the segment of electricity supply to the households the individual energy groups are geographically tied, first of all, to the areas in which they are acting as an ex officio supplier. The need to submit household tariffs for approval

to the President of the Energy Regulatory Office leads to limited options for positioning prices in the product offerings, and what follows, it impacts their attractiveness for the customers. These restrictions do not apply to business and institutional customers. A broader and more open competition exists in these sectors.

The below figure presents estimated market share of the individual energy groups in terms of electricity supply to the final consumers based on the Q1-3 2019 data.

Figure no. 25. Electricity supply to the final consumers - estimated market shares in Q1-3 2019



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

The below table presents information on the installed capacity and the volume of electricity generation, distribution and supply after the first three quarters of 2019, as well as the domestic market shares.

Table no. 10. Installed capacity, generation, distribution and supply of electricity by energy groups after the first three quarters of 2019

#	Group	Installed capacity		Generation ¹		Distribution		Supply	
		Quantity (GW)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)
1.	PGE	16.2	34.5	47.6	39.0	27.1	25.4	32.8	33.3
2.	TAURON	5.2	11.0	10.4	8.5	37.4	35.0	25.0	25.3
3.	ENERGA	1.4	2.9	2.8	2.3	16.6	15.5	14.7	14.9
4.	ENEA	6.3	13.4	21.8	17.8	14.8	13.8	14.4	14.6
5.	Other	17.8	38.2	39.6	32.4	11.0	10.3	11.7	11.9
Total		46.9	100.0	122.2	100.0	106.9	100.0	98.6	100.0

¹Volume of gross electricity generated after the first three quarters of 2019

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

2.2. Material growth impacting factors

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

1. macroeconomic situation, particularly in Poland, as well as the economic situation of the area on which TAURON Capital Group is conducting operations and at the EU and global economy level, including changes of interest rates, FX rates, etc., impacting valuation of assets and liabilities listed by the Company in the statement of financial position,
2. political environment, particularly in Poland and at the EU level, including the positions and decisions of the state administration institutions and offices, e.g.: UOKiK, URE (ERO) and the European Commission,
3. changes to the regulations related to the power sector, and also changes in the legal environment, including: tax law, commercial law, environment protection law,
4. change in the policies of financial institutions with respect to financing coal-based energy
5. introduction of the generation capabilities compensation mechanism (the so-called capacity market), in particular the impact on the results of the main auctions for the delivery of electricity in 2021-2024 and the decisions regarding the discontinuing of the operational capacity reserve and the interventional cold reserve mechanisms,
6. support system for electricity generation from dedicated sources (color certificates), resulting, on one hand, in the costs of redeeming (retiring) certificates for the suppliers of electricity to the final consumers, on the other hand, in revenue from the sales of certificates for the generators of electricity,
7. new RES support system, the so-called RES auctions,
8. situation in the power sector, including the activities and actions of the competition on the energy market,

9. number and price of the CO₂ emission allowances,
10. wholesale electricity prices,
11. level of tariff for the electricity supply to households (tariff group G) for 2020 approved by the President of ERO,
12. prices of energy commodities in Poland and worldwide,
13. environment protection requirements as a consequence of changes to the *act of April 27, 2001, Environment Protection Law*, the so-called anti-smog resolutions,
14. planned changes to the regulations related to the *act of August 25, 2006 on the system for monitoring and inspecting fuel quality*, among others the quality requirements for solid fuels,
15. science (research) and technical progress,
16. demand for electricity and the other energy market products, taking into account changes due to seasonality and weather conditions.

2.3. Core products, goods and services

TAURON Polska Energia S.A.

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

1. wholesale trading in electricity, gas and related products, in particular, with respect to providing trading (commercial) services for the subsidiaries, securing the requirements with respect to fuel, CO₂ emission allowances and certificates of origin of electricity,
2. purchasing management,
3. finance management,
4. asset management,
5. corporate risk management,
6. managing the IT model in place,
7. coordinating the research and development (R&D) activities carried out within TAURON Capital Group,
8. advisory services with respect to accounting and taxes,
9. legal support (services),
10. audit.

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

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

The Company is focusing on purchasing and selling electricity for the needs of securing the buy and sell positions of TAURON Capital Group's entities and on wholesale electricity trading. In 2019 the Company bought and sold 38.8 TWh of electricity. Electricity sales performed by TAURON in the financial year 2019 were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, to which 90% of the electricity purchased was sold. These companies are carrying out the retail electricity supply – to the final consumers, and therefore TAURON is not dependent on any electricity consumer. The other consumers (trading companies outside TAURON Capital Group, exchanges) accounted for less than 8% of the revenue.

With respect to wholesale electricity trading changes were introduced to TAURON Capital Group's trading model at the end of December 2019. The company took over electricity trading from TAURON Wytwarzanie generation subsidiary and centralized this activity at TAURON level. The implementation of this task required changes to the Company's organizational structure as well as to the internal and intra-corporate regulations. This was dictated by TGE's requirements regarding conducting activities on behalf of another company from the capital group as well as the EU's REMIT and MAR regulations. In connection with the above, an SLA Agreement with respect to the trading activities conducted by TAURON for TAURON Wytwarzanie was concluded, pursuant to which the Company provides, among others, the *market access* service, under which it is operating on the Polish Power Exchange (TGE) on its own behalf for the benefit of TAURON Wytwarzanie and is fulfilling the exchange obligation for this subsidiary.

The Company's additional operations include wholesale trading in natural gas on the territory of the Republic of Poland based on the license for trading in gas fuels issued by the President of ERO for the period from May 4, 2012 until May 4, 2022. In 2019 the Company purchased and sold 3.6 TWh of gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż with 52% of the purchased fuel gas sold thereto. The other volume was sold mainly on the exchange (38%). Other consumers accounted for less than 10%.

The competences of the Company also include management, for the needs of TAURON Capital Group, of the property rights related to the certificates of origin of electricity, constituting the confirmation of electricity generation from the renewable sources (including sources using agricultural biogas), as well as the property rights related to electricity efficiency certificates. In 2019 the Company did not carry out trading in the property rights, such trading was carried out by TAURON Capital Group's subsidiaries obligated to redeem (retire) the above mentioned property rights.

The Company is a competence center with respect to the management and trading in the CO₂ emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing trading in emissions a synergy effect was achieved, involving optimizing of the costs of utilizing the resources of TAURON Capital Group's entities. In pursuit of the above objectives with respect to the CO₂ emission allowance trading, the Company is actively participating in trading on the London ICE exchange, the EEX Leipzig exchange and the OTC market. Due to centralizing of this function in TAURON the Company is responsible for the settlements of the subsidiaries' CO₂ emission allowances, securing the subsidiaries' emission needs taking into account the allowances allocated and the support in the process of acquiring free allowances for the subsequent periods. In 2019 the Company purchased and sold 16.4 million Mg, including 54% to TAURON Wytwarzanie, 10% to TAURON Ciepło and 36% of the volume outside TAURON Capital Group (purchase and sale of allowances on the exchanges and to external entities).

TAURON is actively participating in consultations related to the legal acts on the national and European level, and it is also providing support for its Generation Line of Business subsidiaries in the process of accounting for the capital expenditures for the tasks included in the National Investment Plan for the purpose of obtaining free allowances.

TAURON acts as the Market Operator and the entity responsible for trade balancing for TAURON Capital Group's subsidiaries and for external customers. These functions are carried out under the transmission agreement concluded with the TSO – PSE.

In 2019 the value of the trading services related to electricity, provided by the Company, reached PLN 54.8 million, including 96% within TAURON Capital Group (the largest consumers: TAURON Sprzedaż 82%, TAURON Wytwarzanie 10%) and 4% on the market.

The Company currently holds exclusive control over the generation capacity with respect to the trading and technical capabilities related thereto, it is responsible for optimizing the generation, i.e. the selection of generation units for operation as well as the relevant distribution of loads in order to execute the contracts concluded, taking into consideration the technical conditions of the generation units as well as the grid constraints and other factors, over various time frames. As part of the services provided for the Generation Segment the Company participates in preparing the overhaul plans, plans of available (dispatchable) capacity as well as the production plans for the generation units, over various time frames, as well as in agreeing them with the relevant grid operator. TAURON is also developing its competences with respect to the Market Operator function for gas under the transmission agreement with GAZ – System S.A. In July 2015 TAURON, as one of the first entities in Poland, launched a balancing group for entities trading in gas.

In 2019 TAURON conducted, on behalf of TAURON Capital Group's subsidiaries, the general certification of physical units, existing and planned, and subsequently the certification of the capacity market units for the auctions for 2024 under the capacity market being implemented. As a result, TAURON Capital Group's physical generating units and controllable loads were able to take part in the auctions conducted in December 2019, which allows TAURON Capital Group to obtain revenue under this mechanism in 2024. Currently, TAURON is certifying the capacity market units selected for participation in the additional auctions for 2021

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

TAURON Capital Group

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

The below table presents TAURON Capital Group's 2019 – 2017 production and sales volumes.

Table no. 11. 2019 – 2017 production and sales volumes

#	Production and sales volumes	unit	2019	2018	2017	Change in % (2019/2018)
1.	Commercial coal production	Mg m	3.78	5.01	6.45	75%
2.	Coal sales by the Mining Segment	Mg m	3.80	4.87	6.77	78%
3.	Electricity generation (gross production), including:	TWh	13.88	16.21	18.41	86%
4.	Electricity generation from renewable energy sources, including:	TWh	1.38	0.97	1.3	142%
	<i>Production from biomass</i>	<i>TWh</i>	<i>0.34</i>	<i>0.25</i>	<i>0.29</i>	<i>136%</i>
	<i>Production of hydro and wind power plants</i>	<i>TWh</i>	<i>1.04</i>	<i>0.72</i>	<i>1.01</i>	<i>144%</i>
5.	Heat production	PJ	10.85	11.29	12.2	96%

#	Production and sales volumes	unit	2019	2018	2017	Change in % (2019/2018)
6.	Electricity and heat supply by the Generation Segment	TWh	13.16	15.68	19.61	84%
		PJ	14.55	15.23	16.38	96%
7.	Electricity distribution	TWh	51.73	51.97	51.37	100%
8.	Electricity supply by the Supply Generation Segments	TWh	33.73	34.52	34.94	98%
9.	Number of customers – Distribution	'000	5 651	5 598	5 533	101%

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

2.4. Markets and sources of supply

2.4.1. Markets

Coal sales

At TAURON Capital Group, coal sales are carried out by TAURON, with respect to supplying the production subsidiaries of TAURON Capital Group, and by TAURON Wydobycie, with respect to the sales on the domestic market and to TAURON.

With a view to implementing its tasks with respect to the fuel (coal) trading, TAURON continued, in 2019, to sell the fuels solely to TAURON Capital Group's subsidiaries, i.e. TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa Tauron, based on the purchase of fuels on the market and from within TAURON Capital Group - from TAURON Wydobycie, which is described in more detail in section 2.4.2. of this report.

TAURON Wydobycie is selling coal from its own extraction and production, offered for sale on the market in coarse, medium coal assortments and as steam coal dust as well as methane being the accompanying mineral from the Breszcze deposit.

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

- calorific value from 19 MJ/kg to 30 MJ/kg,
- ash content from 6.5% to 31.5%,
- sulphur content from 0.2% to 1.2%.

TAURON Wydobycie conducts the sales of coal in 2 directions:

1. sales of fine coal (coal dust) and coal sludge to power plants and co-generation plants, mostly within TAURON Capital Group (via the Company),
2. sales of large and medium size lump coal as well as a small amount of coal dust assortments through the nationwide organized sales network, primarily on the domestic market

TAURON Wydobycie is selling coal mainly in southern and central Poland, in particular in the following regions (provinces): Silesia, Małopolska, Podkarpacie, Świętokrzyskie and Lower Silesia, both to enterprises as well as the individual consumers.

The hard coal sales by TAURON Wydobycie to TAURON Capital Group's Generation Segment companies reached approx. 3.8 million Mg in 2019, including 3.0 million Mg (approx. 80%) to TAURON for the needs of TAURON Capital Group's Generation Segment subsidiaries. It means a 18% decrease as compared to 2018 and is due to the lower commercial coal production by the individual coal mines. Sobieski Coal Mine (ZG Sobieski) suffered the biggest drop, which was due to, among others, the performance of the additional mining works to reinforce the longwall complex and fire in 547 coal face area. The lower extraction output by the other coal mines is a consequence of deteriorated geological and mining conditions.

The below figure presents the summary of the Company's 2019 coal shipments.

Figure no. 26. Summary of the Company's 2019 coal shipments (Mg m)



Sales of generated electricity and heat

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

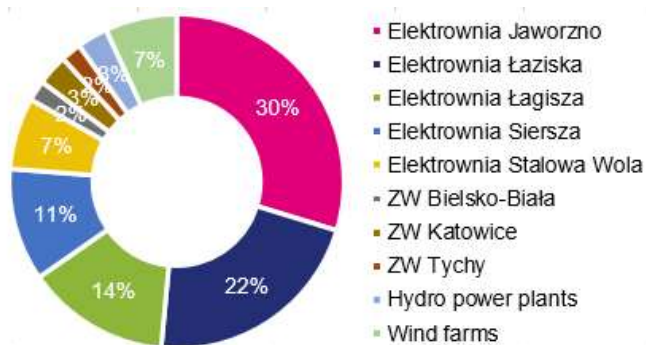
- coal-fired and biomass burning power plants and combined heat and power plants
- hydroelectric power plants,
- wind farms.

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

The total installed electric capacity of TAURON Group's generation units reached 5.2 GWe of electric capacity and 2.4 GWt of thermal capacity at the end of 2019.

The below figure presents the structure of installed electric capacity as of December 31, 2019 (as compared to 2018, the installed capacity in wind farms increased by 180 MW).

Figure no. 27. Structure of the Generation Segment's installed capacity as of December 31, 2019



In 2019 TAURON Capital Group's subsidiaries produced 13.9 TWh of electricity (including 1.4 TWh from RES), i.e. 14% less as compared to 2018 when the production of electricity reached 16.2 TWh (including 1.0 TWh from RES). It is a consequence of lower sales of electricity from own production year on year and a result of the adopted trading strategy. Higher production from RES is due to more favorable wind and hydrological conditions and the increased wind farms' installed capacity.

Sales of electricity from own production plus energy purchased for trading (resale) purposes reached 13.2 TWh in 2019, which meant a decrease by 16% as compared to 2018.

In 2019 the electricity produced by TAURON Capital Group's subsidiaries was sold on the domestic market, first of all to TAURON Capital Group's Supply Segment companies (38%), as well as on TGE (38%) and on the balancing market (PSE Operator) (24%). The share of electricity sales on TGE (due to an increase of the exchange obligation) was materially higher in 2019 versus 2018.

Heat sales by TAURON Capital Group's subsidiaries reached 14.6 PJ in 2019 and it was lower by 4% as compared to 2018. The share of the heat generated from own sources in the total heat sales reached 60% in 2019. TAURON Wytwarzanie subsidiary's power plants are selling heat in Upper Silesia and Zagłębie, and also in parts of the Podkarpackie region – Stalowa Wola and Nisko supplied by the Stalowa Wola Power Plant and Małopolska region – a part of Trzebinia supplied by the Siersza Power Plant.

Heat is sold mainly via the heat distributors: TAURON Ciepło, SCE Jaworzno III, Przedsiębiorstwo Energetyki 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 (15%), Municipal sector (17%), Offices and institutions sector (11%) as well as the Industrial sector and other (10%).

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

Sales of electricity distribution services

TAURON Dystrybucja is a company conducting sales of electricity distribution services in TAURON Capital Group and, pursuant to the decision of the President of ERO, it is a Distribution System Operator (DSO) operating under the natural monopoly conditions.

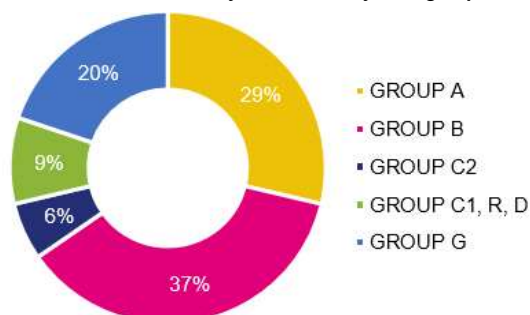
The regulated market on which TAURON Dystrybucja is operating includes the operations of 5 large distribution system operators (DSOs) that are subject to the full regulatory model. Each DSO is operating on the territory defined in the license. Following changes to the law, also more than a hundred of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

TAURON Dystrybucja is providing electricity distribution services for approx. 5 651 000 final consumers. The above company covers with its operations the area of about 57 thousand km², located mainly in the Lower Silesia, Małopolska, Opole and Silesia regions and, in addition, in the Łódź, Podkarpacie and Świętokrzyskie regions. The operational functions are performed by 11 branches located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

Sales to the tariff eligible consumers on individual voltage levels: high voltage (A group), medium voltage (B group) and low voltage (C,G,R), represent 96.6% of the distribution services sales volume. The total electricity volume supplied to the tariff eligible consumers connected to TAURON Dystrybucja's grid in 2019, as part of the sales of distribution services, reached 51.7 TWh (estimated) and it was slightly higher, as compared to 2018, by approximately 0.2 TWh, i.e. by 0.5%.

The below figure presents structure of electricity distribution by tariff groups in 2019.

Figure no. 28. Structure of electricity distribution by tariff groups in 2019



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

Wholesale and retail supply of electricity and gas

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

TAURON's **wholesale trading operations** comprise mainly wholesale of electricity, trading and management of CO₂ emission allowances, property rights arising from the certificates of origin of electricity as well as natural gas, primarily for the needs of securing the buy and sell positions of TAURON Capital Group's entities.

TAURON is actively participating in auctions related to the cross-border (interconnector) exchange of electricity transmission capacity on the Polish-Czech, Polish-German and Polish-Slovak border, managed by the CAO auction office. Trading on the German market with respect to trading in financial instruments such as futures, is mainly

carried out through the EEX exchange. On the other hand, on the Czech and Slovak markets trading is performed through a subsidiary - TAURON Czech Energy. In addition, the Company is operating on the KOTE a.s. (Czech Republic) and OKTE a.s. (Slovakia) exchanges.

The Company is operating on the wholesale markets both in Poland and abroad, also on the SPOT market and the RTT market. The Company is an active participant of TGE and the OTC platform run by a London energy broker - Tradition Financial Services.

With respect to the **wholesale gas fuels trading operations** the Company is an active participant of the gas market run by TGE, carries out transactions on the SPOT market as well as on the RTT products. It is involved in the proprietary trading activity on the international gas exchange POWERNEXT Pegas (as of January 1, 2020, The European Energy Exchange). The Company is present on the following hubs: GASPOOL, New Connect Germany and Tittle Transfer Facility. TAURON is operating on the foreign markets due to the agreements concluded by the Company with the German transmission system operators: GASCADE Gastransport and ONTRAS Gastransport GmbH as well as Czech NET4GAS s.r.o.

Furthermore, the Company is a participant of the Intercontinental Exchange (ICE) on the National Balancing Point (NBP) hub. Gaining access to new hubs is a consequence of the activity aimed at increasing TAURON's gas related competences and access to new sources. The volume of the OTC market transactions concluded by the Company is also successively increasing. By operating on the gas market the Company is securing the commodity supplies for the entities of TAURON Capital Group; moreover, protrading operations are carried out on the RTT market, aimed at taking advantage of the volatility of gas prices to generate additional margins.

TAURON is also a participant of the European transmission capacity trading platform PRISMA European Capacity Platform GmbH, where purchasing of inter-system (interconnector) transmission capacities take place. With respect to booking transmission capacity on the Polish market the Company is operating as a participant of the GSA GAZ-SYSTEM Aukcje.

Electricity and natural gas retail supply – to the final consumers – is conducted by TAURON Sprzedaż and TAURON Sprzedaż GZE subsidiaries.

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

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

Table no. 12. Categories of TAURON Capital Group's final customers

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

The supply companies were operating in 2019 in a market environment where the level of competitiveness in the individual market segments did not change significantly as compared to the previous years. The household market (individual customers) continued in 2019 to be covered by the obligation to have the electricity sales prices approved by the President of ERO.

According to the ERO data, from mid-2007 until December 2019, i.e. since the beginning of the electricity market liberalization process, approx. 657 000 households and approx. 210 000 institutional entities switched their electricity supplier.

In the institutions and business entities (business customer) market segment the competition is strong and companies have already been taking advantage of the liberalization of electricity prices for several years. The progress of the liberalization has resulted in the increasing awareness of business customers expecting competitive solutions. The enhanced sales activities of the energy companies exert ever increasing price pressure. Business customers are willing to switch their supplier. The consequences of such a situation include activities aimed at protecting own customer base against the actions taken by the competition by introducing loyalty building agreements.

The household segment, where the number of supplier switch cases represents a small percentage, is considered to offer a strong potential. In 2019 more than 61 500 consumers of electricity switched their suppliers (including approximately 8 900 institutional customers and approximately 52 600 households). In 2019 the rate of supplier changes in case of households dropped, as compared to 2018, by 9%, and in case of institutional entities, by 30%.

The offering of TAURON Sprzedaż for the business segment in 2019 included 2 media: electricity and gas fuel. The above company continued its activities geared towards building customer loyalty, with particular emphasis placed on developing an offering that would meet customer expectations. Customers were offered a number of products to choose from, taking into account their needs and the specifics of electricity consumption, including ecological, exchange based and technical products.

The sales of the *TAURON Gielda* product, structured based on the market prices set based on the RTT TGE indices performance, were continued in 2019. Furthermore, in order to intensify electricity and gas contracting, the *TAURON Multipakiet* product that provided simultaneous customer contracting with respect to both media within a single contracting negotiations process, continued to be a part of the offering. The *Wakacje od faktury* product was very successful with its sales rising almost four times in 2019 versus the previous year.

The process of mass segment customers (individual customer and small and medium size enterprises) migrating from the tariff based pricing to the product based pricing, was also observed in 2019. As of the end of 2019, TAURON Capital Group was selling electricity under agreements guaranteeing commercial terms over the specified period to 43% of the segment's customers (loyalty building agreements), while 57% of the customers were buying electricity at tariff based prices.

The key element of the commercial offering for the mass customers in 2019 were the combined products: *Elektryk* and *Serwisant*, based on the assistance functionality, that were used by more than 1.5 million customers (medical packages were launched, the functionality of the *Serwisant 24h PLUS* product was extended).

Furthermore, in 2019 the range of products addressed to the customers was extended by adding specialized products, e.g. *TAURON Smart Home*, with its sales in 2019 reaching 16 000. The assistance products will represent the core of the offering also in 2020.

In 2019 the retail supply of electricity by the Supply Segment companies to more than 5.5 million customers reached approx. 33.7 TWh, i.e. 98% of the 2018 level when the supply came in at approx. 34.5 TWh. Decreased supply volume was visible primarily in the Business Customer Segment, which was due to the loss of customers and the declining demand or the number of the consumption points at the customers' included in the portfolio of TAURON Capital Group's supply companies.

The below table presents information on the volume of electricity supplied by TAURON Capital Group's subsidiaries conducting operations related to the retail electricity supply to customers, as well as the number of customers, broken down into individual customer segments, in 2019.

Table no. 13. Volume of retail electricity supplied and the number of customers in 2019

#	Customer type	Electricity volume supplied (TWh)	Number of customers ('000)
1.	Strategic customers	6.3	0.6
2.	Business customers	12.4	195
3.	Mass customers, including::	11.9	5 317
	<i>Households</i>	9.6	4 931
4.	Supply to TAURON Dystrybucja to cover the balancing differences	2.8	0.001
5.	Other (exports, own needs)	0.4	-
	Supply Segment	33.7	5 512

2.4.2. Supply sources – fuel

Coal (domestic market)

In 2019 TAURON continued coal and coal sludge purchasing and trading, for the needs of TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON, under the agreements concluded with the suppliers from outside TAURON Capital Group:

- | | |
|--|--|
| 1. Polska Grupa Górnicza Sp. z o.o. (65% ¹), | 5. EP Coal Trading Polska S.A. (2% ¹), |
| 2. Węglkokoks S.A. (16% ¹), | 6. HALDEX S.A. (2% ¹), |
| 3. Jastrzębska Spółka Węglowa S.A. (10% ¹), | 7. TRANSLIS Sp. z o.o. (1% ¹), |
| 4. Grupa CZH S.A. (3% ¹), | 8. Synergio Group S.A. (0.4% ¹). |

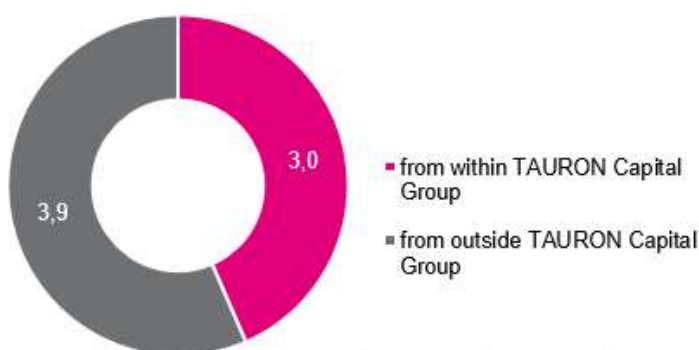
¹suppliers' shares in the total coal supplies.

In total, the Company bought 3.9 million tons of coal from the suppliers outside TAURON Capital Group.

In addition, the Company bought coal and coal sludge for the purposes of electricity and heat production by the Generation Segment from TAURON Wydobycie - a total of 3.0 million tons was delivered.

The below figure presents the quantity of coal and coal sludge purchased by TAURON Capital Group in 2019.

Figure no. 29. Coal and coal sludge purchased in 2019 (in Mg m)



44% of the coal supplies for the electricity and heat production were satisfied by the coal from TAURON Wydobycie's own coal mines in 2019. The remaining part of the demand was covered from the external sources, in which Polska Grupa Górnicza S.A. and Węglokoks S.A. had the largest shares.

TAURON does not have any equity ties to the above mentioned companies.

Gas (domestic and foreign market)

TAURON Capital Group purchases fuel gas on the domestic market, via exchanges.

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

The Company is also involved in the proprietary trading activity on an international gas exchange POWERNEXT Pegas (as of January 1, 2020, The European Energy Exchange) and is present in the following hubs: GASPOOL, New Connect Germany and Tittle Transfer Facility.

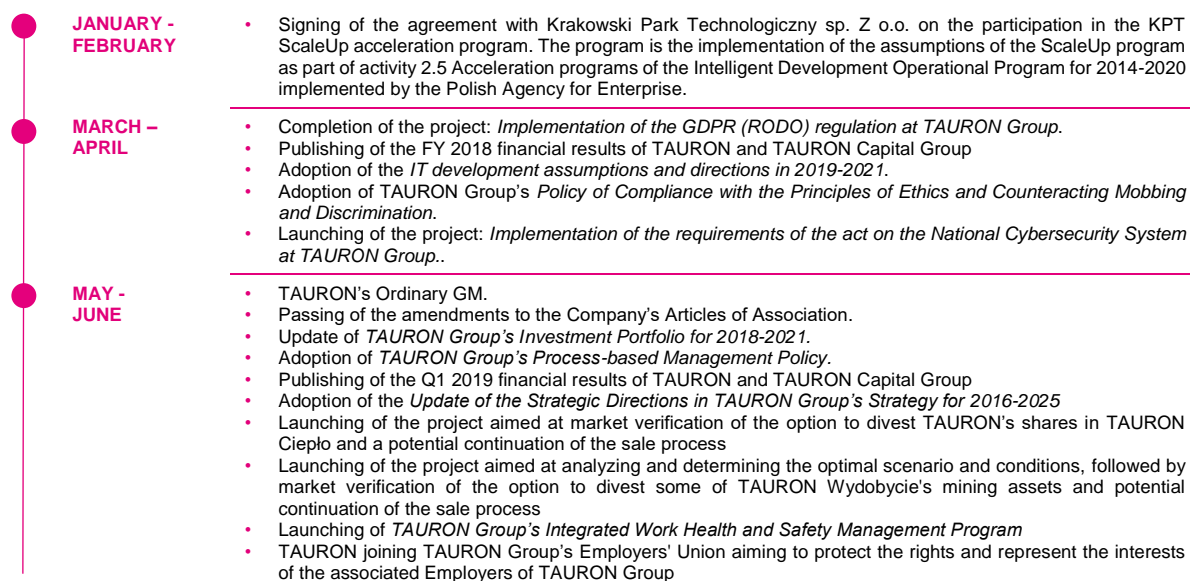
Furthermore, the Company is a participant of the Intercontinental Exchange (ICE) on the National Balancing Point. It is also systematically increasing the volume of transactions concluded by the Company on the OTC market.

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

2.5. Timeline

The below figure presents the timeline of selected highlights associated with the operations of TAURON Polska Energia S.A. and TAURON Capital Group that took place in 2019.

Figure no. 30. Timeline



<p>JULY - AUGUST</p>	<ul style="list-style-type: none"> • Launching of the <i>Home Energy Management Program</i> and the projects included in the Program related to the development of the new products and services in the Customer area • Commencement of the drilling of the 870 m deep shaft as part of the "Grzegorz" Shaft construction project. • Launching of the project: <i>Development of a comprehensive assessment methodology for the Internal Control System</i> • Commencement of the hot start-up of the 910 MW unit in Jaworzno by the firing of the boiler burners with light oil for the first time • Publishing of the multimedia Integrated Report for 2018 • Completion of the <i>One Distribution Program</i> • Completion of the project: <i>Reorganization of the Combustion By-products and Mining By-products area at TAURON Group</i> • Adoption of <i>TAURON Group's Intellectual Property Policy</i> and <i>TAURON Group's Intellectual Property Management Regulations</i>
<p>SEPTEMBER - OCTOBER</p>	<ul style="list-style-type: none"> • Adoption of TAURON Group's planning assumptions for 2020-2029 with an outlook until 2040 • Acquisition of 5 wind farms with the total capacity of 180 MW from the in.ventus group • TAURON joining the Association of Polish Power Industry Employers. • Launching of Poland's first digital power sub-station in Oborniki Śląskie by TAURON Dystrybucja. • Publishing of the H1 2019 financial results of TAURON and TAURON Capital Group • Signing by TAURON Dystrybucja and the Ministry of Energy (as of November 15, 2019, the Ministry of State Assets) of an agreement on the cooperation in the energy sector aimed at increasing Poland's cybersecurity • TAURON's participation in the GovTech government program, which aims to create an alternative for the traditional tender procedure when acquiring modern solutions for the public sector and companies. • TAURON awarded special <i>The Best of The Best</i> prize for the Annual Report for 2018, the first prize for the multimedia Integrated Report 2018 and the honorable mention for the best statement on applying corporate governance in <i>The Best Annual Report 2018</i> competition organized by the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków) • Completion of the works on the modern structure of the headframe of the "Janina VI" shaft at the Janina Coal Mine.
<p>NOVEMBER - DECEMBER</p>	<ul style="list-style-type: none"> • Commissioning of a modern infrastructure, unique in the mining sector, related to the utilization of water from the depths of the Sobieski Coal Mine • Publishing of the Q3 2019 financial results of TAURON and TAURON Capital Group • Adoption of <i>TAURON Group's Climate Policy</i> • TAURON's Extraordinary GM • Participation in the main capacity market auction for 2024 • First synchronization with the National Power System (Krajowa Sieć Elektroenergetyczna) of the 910 MW generating unit in Jaworzno

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

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that occurred in 2019, as well as until the date of drawing up this report are listed below. In addition, the above events should include concluding agreements significant for TAURON Capital Group's operations, described in detail in section 12.2.1. of this report.

Major business events in 2019

Adoption of the update of the strategic directions of TAURON Group's Strategy for 2016-2025

On May 27, 2019, the Company's Management Board adopted, and the Supervisory Board issued a positive opinion on it, the Update of the Strategic Directions that are an addendum to the Strategy. The updated strategic directions take into account the changes in the market and regulatory environment in which TAURON Capital Group is operating.

In accordance with the Strategy in force and the adopted Update of the Strategic Directions the growth of TAURON Capital Group's value will primarily be based on: regulated and stable Distribution segment, development of low emission and zero emission sources, conventional assets eligible for support, sales of energy and energy related products and services tailored to customer needs.

As a result of implementing the actions planned it will be possible to raise the share of low emission and zero emission sources in TAURON Capital Group's generation fleet from 10 percent in 2018 to almost 30 percent in 2025 and more than 65 percent in 2030.

Taking into account the need for TAURON Capital Group's energy transition, optimization of the investment portfolio and maintaining financial stability, the decision on conducting a market verification of the following strategic options has been taken:

1. development of low emission and zero emission power generation, primarily through investments in the renewable energy sources. By 2025 TAURON Capital Group is planning to invest in on-shore wind farms (additional 900 MW), photovoltaic farms (additional 300 MW) and commence the process of engaging in the construction of off-shore wind farms. The growth of TAURON Capital Group's renewable sources' capacity may take place under various business models. In the case of some of the projects planned it is assumed that financial partners will be recruited and investment projects will be carried out with an approx. 20 percent equity share of TAURON Capital Group and TAURON Capital Group will be able to manage such assets
2. enhancing the flexibility of TAURON Capital Group's asset portfolio by aligning the mining assets with TAURON Capital Group's planned demand for fuel, reorganizing the Generation segment and equity investments portfolio.

As part of that option, a market verification of the divestment of the Janina Coal Mine (ZG Janina) and TAURON Ciepło, as well as a sale of the shares in the companies: EC Stalowa Wola and PGE EJ 1, are taken into consideration. With respect to conventional power generation, permanent decommissioning of the 120 MW units and, past 2025 – the 200 MW units, is planned

The specific strategic options will be implemented solely in case the profitability of the solutions adopted is confirmed, taking into account TAURON Capital Group's financial capabilities.

At the current stage the Update of the Strategic Directions does not involve a change of the objectives defined in TAURON Group's 2016-2025 Strategy.

The information on the above event was disclosed by TAURON in the regulatory filing (current report) no. 23/2019 of May 27, 2019.

Update of the information on the construction of the power generating unit in Jaworzno III

On September 17, 2019, Nowe Jaworzno Grupa TAURON Sp. z o.o. received a request from the RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A. consortium, constituting an invitation to start negotiations on expanding the scope of works defined in the agreement on the construction of the 910 MWe unit with supercritical parameters at Jaworzno III Power Plant – Power Plant II.

The Consortium proposed performance of additional works whose effect would have a positive impact on the technical and environmental parameters of the unit and allow to expand the so-called fuel field (mix) of the unit (admission of a broader variety of coal types), which will allow for optimizing the costs of electricity production. In the Consortium's opinion, the additional work will bring measurable financial and operational benefits to TAURON Capital Group. The Consortium indicates that TAURON's approval of a potential extension of the scope of works may have an impact on the unit's construction schedule and the value of the above agreement.

In view of the above Nowe Jaworzno Grupa TAURON Sp. z o.o. proceeded to the negotiations related to the proposals presented by the Consortium, the main part of which, related to the extension of the works defined in the above agreement, at the level of negotiating teams was completed on October 17, 2019.

As a result of the negotiations, it was agreed that the Consortium would perform additional tasks, including: conducting the optimization efforts aimed at expanding the so-called fuel field (mix, range) of the unit (admission of a broader variety of coal types) in order to make the unit's operational conditions more flexible and guarantee the compliance with the future environmental requirements, among others, it would supply an additional catalyst layer and an additive dosing installation to the flue gases desulfurization system in order to reduce mercury emissions.

In addition, after the unit has been commissioned, the Consortium will carry out optimization steps aimed at verifying the unit's compliance with the changed technical parameters. As a result of extending the scope of works it will be possible to reduce the level of substances emitted by the unit to the environment, while expanding of the so-called fuel field (mix, range) of the Unit (admission of a broader variety of coal types) will enable TAURON Group to have greater flexibility in hard coal contracting.

In view of the above it was agreed that it would be necessary to introduce changes to the agreement, in particular with respect to the agreement value and the unit's construction schedule. It was agreed that the net price defined in the agreement would be increased by PLN 52.3 million to PLN 4 537.8 million, and the acceptance (takeover) of the unit for operation would take place by January 31, 2020.

The change to the terms and conditions of the agreement will not cause an overrun of the assumed total capital expenditures budgeted for the implementation of this investment project, i.e. PLN 6.2 billion.

The amendment to the agreement between Nowe Jaworzno Grupa TAURON and the Consortium was signed on December 19, 2019.

TAURON disclosed the information on the above events in the regulatory filing (current report) no. 37/2019 of September 17, 2019, in the regulatory filing (current report) no. 40/2019 of October 17, 2019, and in the regulatory filing (current report) no. 57/2019 of December 19, 2019.

Decision on admitting bidders to the due diligence of TAURON Ciepło Sp. z o.o.

On 22 November 2019, TAURON's Management Board decided to admit bidders to the due diligence of TAURON Ciepło, which may end with the submission of the binding bids. This decision was made, among others, based on the received preliminary, non-binding bids to purchase TAURON Ciepło.

The conclusion of the potential Transaction will require in particular obtaining relevant corporate consents and approvals of the institutions financing the operations of TAURON Capital Group. The Company allows the possibility of the cancelation of the process leading to the conclusion of the Transaction.

TAURON disclosed the information on the above events in the regulatory filing (current report): no. 49/2019 of November 22, 2019.

Decision to end the process of seeking a potential investor interested in acquiring Janina Coal Mine (ZG Janina)

On December 10, 2019, TAURON's Management Board took a decision to end the process of seeking a potential investor interested in acquiring Janina Coal Mine (ZG Janina), conducted since May of 2019, due to not having received any bids by the deadline set.

At the same time, TAURON informed that it would be conducting conceptual and analytical works related to implementing the strategic direction aimed at making TAURON Capital Group's asset portfolio more flexible by adapting its mining assets to TAURON Capital Group's planned demand for fuel.

TAURON disclosed the information on the above events in the regulatory filing (current report): no. 53/2019 of December 10, 2019.

Preliminary results of the capacity market main auction for 2024 provided by Polskie Sieci Elektroenergetyczne S.A.

On December 10, 2019, TAURON informed that PSE had provided preliminary results of the capacity market main auction for 2024, conducted on December 6, 2019, as part of the capacity market mechanism.

In accordance with the information published by PSE, the above auction's closing price reached 259.87 PLN/kW/year and TAURON Capital Group's subsidiaries concluded capacity agreements for the total volume of the capacity obligations amounting to 573.5 MW, including the agreements for:

- 5 years (i.e. for 2024-2028) with the capacity obligation of 505 MW, under which the annual revenue estimated by the Company will reach PLN 131.23 million,
- 2 years (i.e. for 2024-2025) with the capacity obligation of 29 MW, under which the annual revenue estimated by the Company will reach PLN 7.54 million,
- 1 year (i.e. for 2024) with the capacity obligation of 39.5 MW, under which the annual revenue estimated by the Company will reach PLN 10.26 million.

Taking the above into account the Company estimated that TAURON Capital Group's revenue from the above mentioned auction would reach:

- in 2024: PLN 149.04 million,
- in 2025: PLN 138.77 million,
- in 2026-2028 (in total): PLN 393.70 million.

Pursuant to the *act of December 8, 2017 on the capacity market*, the final results of the Auction will be announced by the President of the Energy Regulatory Office in the Bulletin of Public Information (Biuletyn Informacji Publicznej) on its website, on the first business day following the 21st day from the day of closing the above mentioned auction. Until the final results of the auction are announced, TAURON Capital Group's subsidiaries' capacity agreements are concluded under a suspending condition.

In case the final results of the auction differ from the preliminary results of the above auction, the Company will disclose the accordingly adjusted data.

TAURON disclosed the information on the above events in the regulatory filing (current report): no. 54/2019 of December 10, 2019.

The final results of the main auction for the delivery year 2024 were announced by the President of the Energy Regulatory Office on December 30, 2019.

Major corporate events in 2019

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

The Company received, from the shareholders representing more than 1/20 part of TAURON's share capital, requests to include in the agenda of the Ordinary General Meeting of the Company to be convened on May 8, 2019, the additional items, including

1. on March 11, 2019, from KGHM Polska Miedź, an item related to the adoption of resolutions on making changes to the composition of the Company's Supervisory Board
2. on April 16, 2019, from the Minister of Energy, exercising the rights of the shareholder State Treasury, the items: the adoption of the resolutions on amending resolution no. 5 of the Extraordinary General Meeting of Shareholders of December 15, 2016, on the principles for determining the compensation of the Members of the Management Board and the adoption of the resolutions on amending the Company's Articles of Association.

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

Minister of Energy, in the statement of reasons with respect to the item related to the adoption of the resolutions on amending resolution no. 5 of the Extraordinary General Meeting of Shareholders of December 15, 2016 on the

principles for determining the compensation of the Members of the Management Board pointed out, among others, that updating of the general catalogue of the Management Targets for the Management Board of TAURON Polska Energia S.A. was justified by the planned completion, in 2019, of the accomplishment of the majority of the Management Targets, and what followed, the problems that may arise in the future with respect to the detailing thereof by the Supervisory Board.

In the statement of reasons with respect to the item related to the adoption of the resolutions on amending the Company's Articles of Association, the Minister of Energy pointed out the need to introduce amendments to the provisions implemented in the Company's Articles of Association in 2017 in connection with the amendment of the *act of December 16, 2016 on the principles of state assets management*.

The detailed information on the above events was disclosed in the regulatory filings (current reports) no. 5/2019 of March 11, 2019 and no. 11/2019 of April 16, 2019.

Ordinary General Meeting of the Company

The Ordinary General Meeting of the Company was held on May 8, 2019, and it adopted the resolutions concerning, inter alia, the approval of the financial statements of TAURON for the financial year 2018, the consolidated financial statements of TAURON Capital Group for the financial year 2018, the report of the Management Board on the operations of TAURON and TAURON Capital Group for the financial year 2018, the covering of the net loss for the financial year 2018, the acknowledgement of the fulfillment of duties by members of the Company's Management Board and Supervisory Board, dismissing and appointing new members of the Supervisory Board, updating of the general catalogue of the management targets for the Company's Management Board by amending the earlier resolution of the Extraordinary General Meeting of Shareholders of December 15, 2016 on the principles for determining the compensation of the Members of the Management Board, amending the Company's Articles of Association of TAURON Polska Energia S.A.

The decision was taken to cover the Company's net loss for the financial year 2018, in the amount of PLN 1 709 852 955.76 from the Company's spare (supplementary) capital.

The Ordinary General Meeting of the Company made changes to the composition of the Supervisory Board by way of:

- dismissing from the Supervisory Board of the 5th common term of office Mr. Radosław Domagalski-Łabędzki and Mr. Paweł Pampuszko, and
- appointing to the Supervisory Board of the 5th common term of office Mr. Rafał Pawełczyk and Ms. Katarzyna Taczanowska.

The Company disclosed the information on convening of the Ordinary General Meeting and on the content of the draft resolutions in the regulatory filings (current reports) no. 9/2019 of April 11, 2018, no. 10/2019 of April 11/2019 and no. 14/2019 of April 30, 2019.

The Company disclosed the information on the adopted resolutions of the Ordinary General Meeting in the regulatory filing (current report): no. 18 of May 8, 2019.

Extraordinary General Meeting of the Company

The Extraordinary General Meeting of the Company was held on November 21, 2019, and on December 6, 2019, that adopted the resolutions on the principles for determining the compensation of the Members of the Management Board and a change to the composition of the Company's Supervisory Board by appointing to the Supervisory Board of the 5th common term of office Mr. Grzegorz Peczkis.

The Company disclosed the information on convening of the Extraordinary General Meeting, changes to the agenda and on the content of the draft resolutions in the regulatory filings (current reports) no. 41/2019 and 42/2019 of October 24, 2019, no. 43/2019 of October 30, 2019 and no. 45/2019 of October 31, 2019.

TAURON disclosed the information on the adopted resolutions of the Extraordinary General Meeting in the regulatory filings (current reports): no. 47/2019 of November 21, 2019 and no. 51/2019 of December 6, 2019.

Other major events in 2019

Filing of a lawsuit against TAURON Sprzedaż and discontinuing of the proceeding (dismissal of the case)

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

The subject of the statement of claim was the payment by TAURON Sprzedaż, in favor of Hamburg Commercial Bank AG, of the total amount of PLN 232 878 578.36 plus the statutory interest for a late payment, accrued from the day of filing the lawsuit until the payment date, on account of:

- damages (in the total amount of PLN 36 251 978.36) due to TAURON Sprzedaż's failure to perform agreements on the sale of the property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source, and
- liquidated damages (in the total amount of PLN 196 626 600) assessed due to the termination of the above mentioned agreements

Hamburg Commercial Bank AG was seeking redress arising from the purchase by way of a transfer of claims originally due to, according to its assertions, the in.ventus group subsidiaries, i.e.:

- in.ventus sp. z o.o. EW Dobrzyń sp.k.,
- in.ventus sp. z o.o. INO 1 sp.k.,
- in.ventus sp. z o.o. EW Gołdap sp.k.

The competent court to rule on the lawsuit was the Regional Court in Cracow (Sąd Okręgowy w Krakowie). The preliminary assessment of the lawsuit and its statement of reasons indicated, in the opinion of TAURON Sprzedaż, that the claims asserted were without merit and completely groundless.

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

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

On September 3, 2019, Hamburg Commercial Bank AG withdrew the lawsuit and waived its claim, and therefore the parties jointly submitted a request to discontinue the proceeding (dismiss the case) in whole. By way of the decision of September 5, 2019 the court discontinued the proceeding (dismissed the case). The court's decision became legally binding on September 19, 2019.

Ratings and outlooks affirmed and rating assigned to the hybrid bonds

On April 17, 2019, Fitch Ratings rating agency (Fitch) affirmed TAURON's long term foreign and local currency ratings of "BBB" with a stable outlook and assigned a local currency rating of "BB+" and a national rating of "BBB+(pol)" to the PLN 400 million hybrid bonds issued on March 29, 2019, under the 2017 hybrid bonds program concluded with BGK.

The full list of rating actions includes:

- long term local currency and foreign currency ratings affirmed at "BBB"; stable outlook,
- short term local currency and foreign currency ratings affirmed at "F3",
- national long term rating affirmed at "A+(pol)"; stable outlook,
- foreign currency senior unsecured debt rating of EUR 500 million Eurobonds affirmed at "BBB",
- national senior unsecured debt rating affirmed at "A+(pol)",
- EUR 190 million hybrid bonds (European Investment Bank – "EIB") rating affirmed at "BB+",
- PLN 750 million hybrid bonds (EIB) rating affirmed at "BB+",
- PLN 400 million hybrid bond program (BGK) rating affirmed at "BB+",
- PLN 400 million hybrid bond program (BGK) national rating affirmed at "BBB+(pol)",
- PLN 400 million hybrid bonds (BGK) assigned a local currency rating of "BB+",
- PLN 400 million hybrid bonds (BGK) assigned a national rating of "BBB+(pol)".

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 12/2019 of April 17, 2019.

Ruling of the Court of Arbitration at the Polish Chamber of Commerce on the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A. and the decision of the Court of Appeals in Rzeszów

On April 25, 2019, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw issued the award in the case related to the claim filed by Abener Energia against EC Stalowa Wola..

The proceedings before the Court of Arbitration were related to the claim for payment, the petition to establish legal relationship and the claim for an injunction to submit a statement of will (intent) in conjunction with the terminated contract, concluded between Abener Energia and EC Stalowa Wola, for the construction of an approx. 400 MW CCPP unit, including a heat generation unit, at Elektrociepłownia Stalowa Wola S.A.

According to the ruling of the Court of Arbitration, EC Stalowa Wola was obligated to pay Abener Energia the amount of PLN 333 793 359.31, plus statutory interest for the delay and the costs of the arbitration proceedings.

An appeal to have the ruling of the Court of Arbitration overturned may have been filed with a common court of law.

After the review of the ruling and the statement of its reasons on June 24, 2019, EC Stalowa Wola filed an appeal to the Court of Appeals in Rzeszów to have the ruling of the Court of Arbitration overturned.

At the same time, Abener Energia filed a request to determine enforceability and append an enforcement clause to the ruling of the Court of Arbitration.

On August 5, 2019, the Court of Appeals in Rzeszów issued the decision in which the Court deferred the processing of the request of Abener Energia to determine enforceability and append an enforcement clause to the ruling of the Court of Arbitration of April 25, 2019.

The processing of the request mentioned above was deferred by the Court of Appeals until the appeal filed by EC Stalowa Wola to have the ruling of the Court of Arbitration overturned, is completed.

TAURON disclosed the information on the above events in the regulatory filings (current reports) no. 16/2019 of May 2, 2019 and no. 29/2019 of August 8, 2019.

Lowering of the equity of TAURON Dystrybucja S.A.

On June 28, 2019, the District Court for Kraków - Śródmieście in Kraków, 11th Commercial Department of the National Court Register registered the changes related to the lowering of the share capital of TAURON Dystrybucja S.A.

The above event was a consequence of retiring 1 766 522 of own shares bought back by TAURON Dystrybucja S.A. from the minority shareholders in accordance with art. 418¹ of the Commercial Companies Code (Ksh) (squeeze out). The nominal value of the retired shares is PLN 35 330.44. The repurchase price was each time determined in accordance with art. 418¹ § 6 of the Commercial Companies Code (Ksh), i.e. as an equivalent of the value of net assets of TAURON Dystrybucja S.A. per share, disclosed in the financial statements for the last financial year, reduced by the amount to be split among the shareholders. As a result of retiring of the shares TAURON's share in the company's share capital is 99.75%.

Ruling of the Regional Court related to Polska Energia - Pierwsza Kompania Handlowa sp. z o.o.

On July 25, 2019, TAURON informed that the Regional Court in Gdańsk had issued a partial and preliminary ruling in the lawsuit filed against PEPKH by Amon sp. z o.o. in 2015, in which the Court: determined that PEPKH's statements on the termination of the long term agreements, concluded between PKH and Amon sp. z o.o., for the purchase of electricity and the property rights arising from the certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, and determined that the demand for the payment of damages for a failure to perform the agreement on the sale of property rights arising from the certificates of origin had been justified in principle, however the Court did not determine the amount of the potential damages.

The ruling was issued in the first instance and it is not legally binding. PEPKH disagrees with the ruling and filed an appeal on October 25, 2019.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 26/2019 of July 25, 2019.

Filing of a lawsuit against Polska Energia - Pierwsza Kompania Handlowa sp. z o.o.

On September 2, 2019, TAURON informed that its PEPKH subsidiary received an official copy of the lawsuit filed against PEPKH by Amon.

The subject of the lawsuit is the demand to pay by PEPKH to Amon of the total amount of PLN 29 009 189.38 plus statutory interest for late payment accrued from the date of filing of the lawsuit until the date of payment, on account of:

- damages in the total amount of PLN 1 576 475.44 due to PEPKH's failure to perform the Agreement for the Sale of Property Rights arising from the certificates of origin constituting confirmation of electricity generation from a renewable energy source – the wind farm located in Łukaszów in the period from August 1, 2017 to December 31, 2017,
- damages in the total amount of PLN 27 432 713.94 due to PEPKH's failure to perform the Agreement for the Sale of Electricity generated from a renewable energy source – the wind farm located in Łukaszów in the period from September 25, 2017 to July 31, 2019.

TAURON disclosed the information about the termination by PEPKH of the above mentioned long term agreements in the regulatory filing (current report) no. 7/2015 of March 19, 2015.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 33/2019 of September 2, 2019.

On November 4, 2019, PEPKH filed a response to the lawsuit demanding that the lawsuit be dismissed in its entirety. The preliminary assessment of the demands included in the lawsuit and its statement of reasons indicates that the claims are without merit.

Information on the effects of the 2020 electricity tariff for the G tariff groups customers approved by the President of the Energy Regulatory Office.

On December 17, 2019, TAURON informed that it had performed an evaluation of the impact on TAURON Capital Group's financial results of the 2020 electricity tariff for the G tariff groups consumers, approved by the President of the Energy Regulatory Office on December 17, 2019.

The President of ERO approved the electricity sales price for the G tariff groups consumers for TAURON Sprzedaż sp. z o.o. at PLN 289.37 per MWh on average. The G tariff will be in effect until 31 December 2020. The G tariff consumers are primarily households.

Taking into account the approved electricity sales price and acting in compliance with IAS 37 *Provisions, contingent liabilities and contingent assets*, TAURON identified the need to set up, in Q4 of 2019, a provision related to onerous contracts in the Supply Segment that was initially estimated to be worth between PLN 230 million and PLN 280 million.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 56/2019 of December 17, 2020.

As of December 31, 2019, TAURON Capital Group updated the provision related to the onerous contracts in the Supply Segment up to the amount of PLN 237 445 000 PLN, as described in detail in note 39.2 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019*.

Filing of a lawsuit against Elektrociepłownia Stalowa Wola S.A.

On 20 December 2019, EC Stalowa Wola received a lawsuit filed to the Court of Arbitration at the Polish Chamber of Commerce in Warsaw by Abener Energia.

The subject of the claim is the payment by EC Stalowa Wola to Abener of the total amount of PLN 156 446 842.98 and EUR 536 839.02 (which is the equivalent of PLN 2 287 148.96 according to the NBP's average exchange rate as of December 20, 2019) plus statutory interest for the delay, as damages due to EC Stalowa Wola having called for and obtained, at Abener Energia's expense, the payment under the contract performance bond or potentially a repayment of the unjust enrichment of ECSW at Abener Energia's expense due to obtaining the payment under the contract performance bond. The bond was granted to EC Stalowa Wola by Abener Energia in accordance with the contract concluded between Abener Energia (general contractor) and EC Stalowa Wola (employer) on the construction of the approx. 450 MW electric capacity combined cycle power plant in Stalowa Wola.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 59/2019 of December 20, 2020.

EC Stalowa Wola had proceeded to review the content of the lawsuit and filed its response to the lawsuit on March 20, 2020. A preliminary assessment of the statement of claim and its justification indicates that the claim is without merit.

Major events after December 31, 2019

Update of the information on the construction of the power generating unit at Jaworzno

On January 30, 2020, TAURON received from Nowe Jaworzno Grupa TAURON information on the change of the commissioning date of the 910 MWe supercritical power generating unit at Jaworzno III Power Plant - Power Plant II. The unit's contractor, i.e. RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. Consortium, notified Nowe Jaworzno Grupa TAURON that the unit would be ready for commissioning on February 4, 2020. Taking into account the information received from the Consortium, Nowe Jaworzno Grupa TAURON conducted an internal unit construction schedule viability analysis. Taking into account the course of the technical tests and the trial (test) run of the unit conducted so far, Nowe Jaworzno Grupa TAURON estimated that the commissioning of the Unit should take place by February 15, 2020.

On February 13, 2020, Nowe Jaworzno Grupa TAURON received a letter from the company E003B7 sp. z o.o. (a subsidiary of RAFAKO SA) in which, in particular, it was indicated that during the last phase of the unit's tests one of the boiler's elements had been damaged. As a result, the commissioning of the Unit was not possible on the above indicated date. Currently, the team composed of the representatives of the contractor and Nowe Jaworzno Grupa TAURON is working to determine the scope of works and the time required to replace damaged elements.

On March 6, 2020, Nowe Jaworzno Grupa TAURON received the information from RAFAKO S.A. regarding the estimated date of commissioning the unit. RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. Consortium estimated that the unit should be commissioned by July 31, 2020.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 2/2020 of January 30, 2020, no. 4/2020 of February 13, 2020 and no. 7/2020 of March 6, 2020.

Bond issue program established

On February 6, 2020, TAURON concluded, with Santander Bank Polska, a program agreement, pursuant to which a bond issue program was established, within which TAURON has an option to issue bonds up to the maximum amount of PLN 2 billion, with the value of the issue being determined each time at the time of making the decision on the issue.

Under the above program bonds will be issued pursuant to the *act of January 15, 2015*, on bonds. The procedure under which the bonds will be offered as part of the Program will not entail an obligation to draw up an issue prospectus. The bonds will take the form of dematerialized, unsecured bearer securities, denominated in PLN, with the maturity between 5 and 10 years (inclusive). The Company's intention is to place the bonds on the market and introduce them to the trading in the alternative trading system Catalyst run by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A. - GPW).

The proceeds from the bond issue will support the implementation of TAURON Capital Group's energy transition, including increasing the share of the low and zero emission sources in its generation mix, in particular, the proceeds from the bond issue will be used to:

- finance the costs of developing / acquiring renewable energy sources (RES) projects (RES),
- finance the distribution, as well as TAURON Capital Group's general corporate operations related to RES or the energy transition to zero emission,
- finance the costs of developing or acquiring projects where biomass or gas is used as fuel,
- refinance TAURON Capital Group's debt taken on in order to finance the above undertakings.

The proceeds from the bond issue will not be allowed to be used to finance new and existing coal fired units, the operations of TAURON Wytwarzanie and the operations of TAURON Wydobycie, in case of other undertakings than the ones indicated above.

The terms of the bond issue, including the ones related to the maturity, as well as to the amount and manner of paying out interest, will be defined for the individual series of the bonds being issued.

The terms of the bonds issued as part of the above program will include sustainable development indicators (indices, metrics) in the form of the CO₂ emission reduction rate (indicator) and the RES capacity growth rate. The degree of achieving the defined threshold values of these indicators will have an impact on the level of the bonds' interest rate margin.

TAURON'S intention is to carry out the first bond issue within 3 months from the date of concluding the above mentioned agreement. The final decisions on the individual bond issues as part of the Program will be signed off based on TAURON's applicable corporate approvals and will be dependent on the market conditions.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 3/2020 of February 6, 2020.

Ruling of the Regional Court related to Polska Energia - Pierwsza Kompania Handlowa sp. z o.o.

On March 6, 2020, TAURON informed that the Regional Court in Gdańsk issued a partial and preliminary ruling in the lawsuit filed in 2015 against PEPKH by Talia sp. z o.o. (Talia), in which it determined that PEPKH's statements on the termination of the long term agreements, concluded between PKH and Talia sp. z o.o., for the purchase of electricity and property rights arising from the certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all of the provisions and shall be binding for the parties, and determined that the demand for payment of damages for a failure to perform the agreement on the sale of the property rights arising from the certificates of origin had been justified in principle, however it did not determine the amount of the potential damages.

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

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 6/2020 of March 6, 2020.

On March 12, 2020, PEPKH filed with the court its request that the court serve the decision, including the statement of reasons in writing, in order to analyze it and file an appeal.

Signing of the loan agreement with the bank SMBC BANK EU AG

On March 16, 2020, TAURON concluded a loan agreement with SMBC BANK EU AG worth PLN 500 million, the proceeds from which may be used to fund the Company's general corporate purposes, excluding the construction, acquisition, extension of any coal-fired power plants and refinancing any financial debt or expenditures incurred for such purposes.

Pursuant to the above mentioned agreement, the Company will be able to use the funds within 2 months from the date of concluding the agreement (after the suspending conditions that are standard for this type of financing have been met).

The loan will be repaid within 5 years from the date of concluding the above agreement. The interest will be calculated based on a fixed interest rate.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 8/2020 of March 16, 2020.

Signing of the memorandum of understanding on the preliminary terms of cooperation between TAURON and PFR with respect to investments in renewable energy sources (RES)

On March 23, 2020, TAURON signed a memorandum of understanding with the closed-end investment funds, a part of whose investment portfolio is managed by PFR (Polski Fundusz Rozwoju - Polish Development Fund).

The above memorandum of understanding sets out the preliminary terms of cooperation under consideration between TAURON and PFR with respect to investments in renewable energy sources (RES). The Company and PFR have agreed that the above mentioned investments will be carried out as joint investments in assets in the RES segment, the so-called direct Investments, and have also allowed for investments in companies operating in the cleantech area. The Memorandum of Understanding sets out the general conditions for conducting direct investments, with the minimum level of each PFR investment in a company 100 percent owned by TAURON, which owns a portfolio of investment projects of an appropriate size at the stage of readiness for construction, in terms of the total ultimate capital expenditures of such company, amounting to not less than PLN 50 million and will be implemented through successive capital injections for the purpose of implementing the capex projects. In addition, TAURON and PFR will be subject to a period of limitation in the disposal of the shares in the above company of between 5 and 7 years from the moment PFR acquires shares in the given company. The recapitalizations will each time take place in the form and proportions ensuring TAURON's ultimate share of at least 50 percent + 1 share, and PFR's share of no more than 50 percent - 1 share.

The primary goal of the investment will target on-shore wind farm projects and photovoltaic farm projects located in Poland. The parties envisage the possibility of acquiring an additional partner by selling shares thereto or have it join the company owned by TAURON.

The final terms of the cooperation between TAURON and PFR with respect to the direct investments will each time be agreed in the transaction documentation regarding the specific investments.

The Memorandum of Understanding is intentional in its nature and does not constitute a binding commitment of the parties, does not give rise to financial obligations, does not oblige or guarantee any of the parties' exclusivity with respect to RES investments, nor does it preclude the possibility of their independent investments or cooperation with third parties.

The potential implementation of the goal described in the Memorandum of Understanding is in line with the Update of the Strategic Directions announced on May 27, 2019, that provides for a significant increase in the share of low- and zero emission sources in the structure of TAURON Group's installed generation capacity.

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

Changes to the composition of TAURON's Supervisory Board

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, as of March 24, 2020:

- dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board,
- appointed Mr. Andrzej Śliwka to be a member of the Company's Supervisory Board.

TAURON disclosed the information on the above events in the regulatory filing (current report) no. 12/2020 of March 24, 2020. The information about the appointed member of the Company's Supervisory Board was disclosed in the regulatory filing (current report) no. 14/2020 of March 30, 2020.

Signing of the syndicated loan agreement

On March 25, 2020, TAURON concluded a syndicated loan agreement worth PLN 500 million with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Spółka Akcyjna) (Joint Stock Company) Oddział w Polsce (Polish Branch).

In accordance with the above agreement the funds obtained may be used to finance the Company's and TAURON Capital Group's general corporate purposes, excluding the financing of any new projects related to the coal assets

The financing period was set as 5 years from the date of concluding the above agreement, with an option to extend it, twice, each time by a year, i.e. up to 7 years maximum. The Company will be able to use the funds throughout the entire financing period (after the suspending conditions that are standard for this type of financing have been met).

The interest rate will be calculated based on the variable WIBOR interest rate, applicable to the given interest period, increased by a margin depending, among others, on the degree of loan utilization and the fulfillment of the pro-ecological contractual conditions, i.e. the reduction of emissions and an increase of the share of renewable energy sources (RES) in TAURON Capital Group's generation fleet structure.

TAURON disclosed the information on the above events in the regulatory filing (current report) no. 13/2020 of March 25, 2020.

2.7. Prizes and accolades (honorable mentions)

TAURON and TAURON Capital Group's subsidiaries received the following awards and accolades (honorable mentions) in 2019:



TAURON awarded special The Best of The Best prize for the Annual Report for 2018, the first prize for the multimedia Integrated Report 2018 and the honorable mention for the best statement on applying corporate governance in The Best Annual Report 2018 competition



TAURON awarded a prize in the *Ecology Leader in the Energy Industry* category for making significant contributions to pro-ecological projects during the 5th *Sustainable Economy Summit* organized by the Executive Club

TAURON awarded the title of the *Transparent Company of the Year* among WIG20 Index companies for the transparency of business operations and the quality of communication with the market in the 3rd edition of the ranking organized by the *Stock Market and Investors Newspaper Parkiet* and the *Institute of Accounting and Taxes*



Honorable mention for TAURON for continuous and high quality communication with investors in the competition organized by the Association of Individual Investors as part of the 23rd Wall Street Conference



President of the Management Board of TAURON awarded the *Amber of the Polish Energy Industry* statuette for effective activities in the development and security of the Polish economy and energy industry in Poland and abroad during the *Polish National Energy Summit* in Gdańsk.

TAURON awarded the 3rd spot in the *Best Investor Relations* according to individual investors in 2018 among WIG30 index companies competition, organized by the *Stock Market and Investors Newspaper Parkiet* and the *Chamber of Brokerage Houses*



TAURON Capital Group awarded a prize in the *Idea of Compliance of the Year* category for TAURON Group's Anti-Corruption Campaign in the *Polish Compliance Awards 2019* competition organized by the Compliance Institute.



TAURON Distribution awarded the main prize in the *Producer of the Year* category for, among others, the record number of renewable energy sources connected to the power grid in the *Energy World Leaders* competition, which is a joint initiative of the EuroPOWER Energy Conference and the OZE POWER Congress.



TAURON Wytwarzanie awarded the *Reliable Company 2018* title for timely settlement of all obligations and respect for ecology and consumer rights granted by the Board of the *Reliable Company Business and Consumer Program*.



KW Czatkowice awarded the *Source of Success* statuette for outstanding achievements and activities for the local community by Krzeszowice Municipality



Nowe Jaworzno Grupa TAURON awarded the 1st place in the *Build Safely 2019* competition for the construction of a 910 MW supercritical parameters power generation unit in Jaworzno organized by the Regional Labor Inspectorate in Katowice



TAURON ranked 23rd (8th among Polish companies) in the *TOP 500 CEE 2019* ranking of the largest companies in Central and Eastern Europe organized by Coface in cooperation with the *Rzeczpospolita* daily



TAURON awarded the *Top Industry Diamond Prize* in the *Start-up Patron* category for comprehensive support for the development of young companies and developing activities stimulating entrepreneurship in the industry in Poland during the *Top Industry Summit Conference* organized by the Executive Club under the auspices of the Ministry of Digitization and the Ministry of Investment and Development.



TAURON awarded a special prize of *The Heart Corporate Innovation Awards 2018* for courage and willingness to change, as well as work in the field of innovations and introducing new technological solutions in the energy industry organized by The Heart.



TAURON awarded the *Culture Supporter* prize by the Cracow Festival Office as the Strategic Sponsor of the Film Music Festival

Honorable mention for 25 best practices, implemented by TAURON in 2018 in the *Responsible Business report in Poland 2018*. *Best practices* by the Responsible Business Forum report and thus TAURON Group taking a spot in the top ten among 180 enterprises with the highest number of best practices.

Recognizing TAURON'S Investment Projects Area as one of top two project management offices in Europe in the Europe PMO of the Year 2019 competition organized by the International Project Management Association Poland.



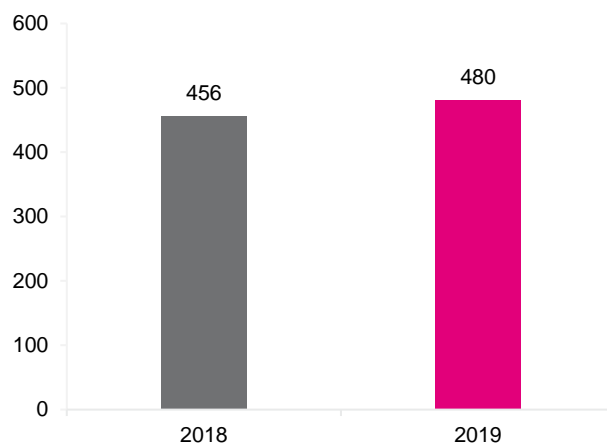
TAURON IT Security Team awarded the second spot in the *Grid NetWars* competition during the CC4ES conference organized by CERT PSE together with experts from the United States

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

TAURON's average headcount reached 480 FTEs in 2019 which meant an increase by 24 FTEs versus the headcount in 2018, when the average employment was 456 FTEs.

The below figure presents TAURON's average headcount in FTEs (rounded up to the full FTE) in 2018 and in 2019.

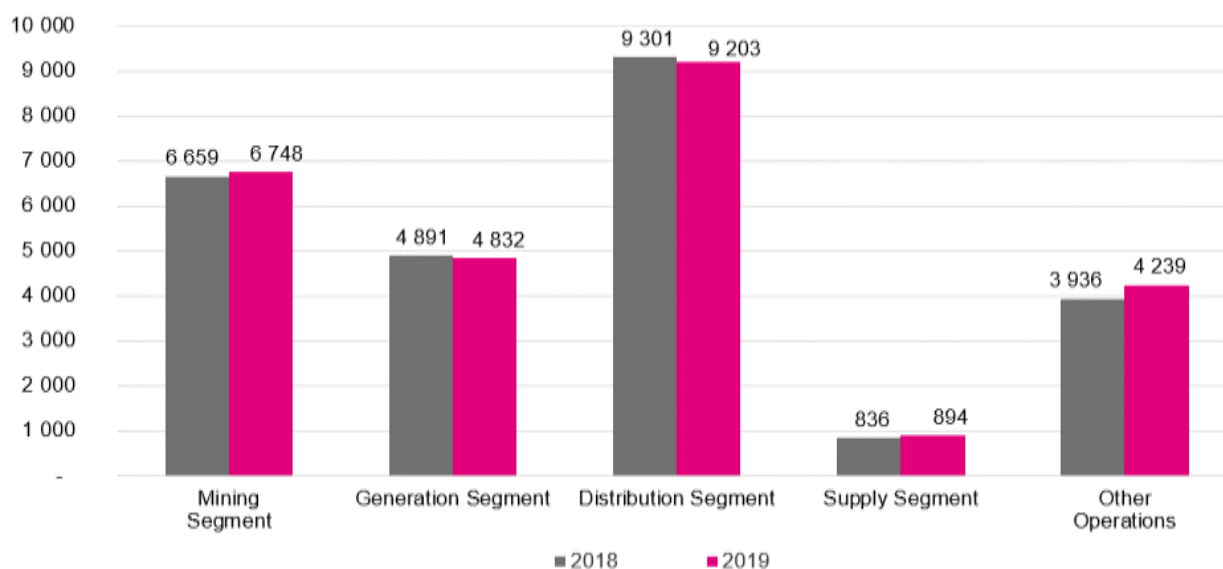
Figure no. 31. TAURON's average headcount in FTEs in 2018 and in 2019



TAURON Capital Group's average headcount reached 25 916 FTEs in 2019, which meant an increase by 294 FTEs versus the headcount in 2018, when the average employment level was 25 622 FTEs. This increase was primarily caused by, among others adjusting the employment system to the requirement to provide protection of the facilities of TAURON Capital Group's subsidiaries, the implementation of the strategic initiatives and the expansion of the trading (commercial) activities. Due to the change in the nature of its operations, the data on TAURON Dystrybucja Serwis is provided in the Supply Line of Business for 2018 and 2019. In the previous reporting periods, this information was provided in the Distribution Line of Business.

The below figure presents TAURON Capital Group's average headcount in FTEs (rounded up to the full FTE) per Segment in 2018 and in 2019.

Figure no. 32. TAURON Capital Group's average headcount in FTEs per Segment in 2018 and in 2019.



2.8.1. Key Employment Data

The below table below presents key data on employment at TAURON and TAURON Capital Group as of December 31, 2018 and December 31, 2019.

TAURON Capital Group's headcount reached 1 723 FTEs in 2019.

Table no. 14. Key data on employment at TAURON and TAURON Capital Group as of December 31, 2018 and December 31, 2019

#	Key employment data	unit	TAURON		TAURON Capital Group	
			December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
1.	Headcount by segment, including:	persons	464	487	25 829	26 086
	<i>Mining Segment</i>	<i>persons</i>	-	-	6 651	6 811
	<i>Generation Segment</i>	<i>persons</i>	-	-	4 890	4 780
	<i>Distribution Segment</i>	<i>persons</i>	-	-	9 291	9 270
	<i>Supply Segment</i>	<i>persons</i>	464	487	869 ¹	917 ¹
	<i>Other operations</i>	<i>persons</i>	-	-	4 128	4 308
2.	Headcount by education, including:	%	100	100	100	100
	<i>College graduates</i>	%	96.8	97.5	33.2	33.8
	<i>High school graduates</i>	%	3.2	2.5	43.1	43.3
	<i>Vocational school graduates</i>	%	0.0	0.0	21.6	20.9
	<i>Elementary school graduates</i>	%	0.0	0.0	2.1	2.0
3.	Headcount by segment, including:	%	100	100	100	100
	<i>Up to 30 years</i>	%	11.6	13.8	8.4	9.0
	<i>30 - 40 years</i>	%	43.3	38.0	22.4	22.3
	<i>40 - 50 years</i>	%	34.5	37.0	31.0	30.1
	<i>50 - 60 years</i>	%	9.1	9.0	32.5	32.2
	<i>Above 60 years</i>	%	1.5	2.2	5.7	6.4
4.	Headcount by gender, including:	%	100	100	100	100
	<i>Women</i>	%	44.4	45.0	21.5	21.4
	<i>Men</i>	%	55.6	55.0	78.5	78.6

¹Figure includes TAURON's headcount

2.8.2. Human Resources Management Policy

TAURON Group's Human Resources Management Policy implemented at TAURON Capital Group focuses on acquiring, developing and maintaining competences that are key for organizational efficiency and achieving TAURON Capital Group's strategic goals.

TAURON Capital Group's overarching objective is to provide support for the management in efficiently implementing the proposed changes and promoting the new initiatives. TAURON Capital Group creates the conditions for the development of knowledge and skills and creates a work environment based on the cooperation and partnership in which innovation and optimization are the foundations of the actions undertaken.

Initiatives undertaken with respect to the human resources management at TAURON Capital Group focus on the continuous improvement of the human resources management processes in order to adapt them to the changing business environment. A permanent element of the above mentioned changes involves developing and strengthening such attitudes among employees that are in line with the values of TAURON Capital Group, i.e. *Partnership, Development, Boldness*. This basic premise allows for building an organizational culture that enables the employees to take on and implement new challenges (projects), search for innovation, increase efficiency as part of their daily tasks and raise the level of job satisfaction.

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



The challenges and objectives of the Human Resources (HR) area, stemming from the changes in the energy sector, and in particular the activities facing TAURON Capital Group in connection with the *Green Turn of TAURON*, were subjected to a verification process as a result of the update of TAURON Capital Group's strategic directions in 2019. The result of the joint efforts of the representatives of the HR area from TAURON Capital Group's leading subsidiaries was the identification of the priority areas for the development of the organization and human capital of TAURON Capital Group and then the assignment to the above-mentioned priorities of the tasks aimed at improving the most important HR processes, strengthening the organization's ability to create and respond quickly to the business changes by ensuring the optimal number and quality of competences and setting the direction for the activities planned for 2020-2023 by the HR area. The priorities diagnosed include: recruitment and onboarding, training, age and knowledge management, development conversation, potential management, cooperation with the education sector, outplacement and employer branding.

The below figure presents 8 identified priority areas for the development of organization and human capital of TAURON Capital Group.

Figure no. 33. Eight priority areas for the development of organization and human capital of TAURON Capital Group



TAURON Capital Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy

TAURON Capital Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy regulates the standards of the process of recruitment and induction (onboarding, orientation) of the new employees at TAURON Capital Group and the policy also sets out the consistent and uniform assumptions regarding the selection and induction (onboarding, orientation) of the employees at TAURON Capital Group's subsidiaries.

In order to adapt to the changes taking place on the labor market, TAURON Capital Group undertakes a number of initiatives that enhance the image of TAURON Capital Group as a good and desirable employer, that include, among others:

Job Fairs

Participation in the Job Fairs organized by the universities is a regular element of the activities promoting TAURON Group in the academic community. TAURON Capital Group promoted its job offers, among others, during two editions of the Employers and Entrepreneurship Exchange organized by the Silesian University of Technology in Gliwice and during the Job Fair organized by the University of Economics in Katowice in 2019. The participation in the above initiatives enabled us to promote the current job offers, apprenticeships and internships coming from all of TAURON Capital Group's subsidiaries, as well as to promote the organizational culture, attitudes and values that TAURON Capital Group follows every day in the organization.

Employee Referral Program

The Employee Referral Program was launched at TAURON Capital Group in 2019, with a goal to acquire candidates with the required potential, i.e. with the desired professional qualifications and competences, based on the referrals of the people who are already employed by the organization. The above program is an additional recruitment activity that allows for reaching more candidates through the involvement of TAURON Capital Group's employees.

TAURON Capital Group's Recruitment Hotline

In order to attract the candidates interested in working at TAURON Capital Group, the Recruitment Hotline for TAURON Capital Group's job candidates was launched at the end of 2019. The main purpose of the hotline is to encourage people with qualifications that are in line with TAURON Capital Group's current needs to start working for the company. The direct contact with the hotline consultants provides quick access to the information on the available job offers, details of the requirements for the positions offered, the recruitment process and the information about benefits offered by TAURON Capital Group.



The launch of the hotline was accompanied by a campaign promoting the initiative with the slogan: *Work at TAURON. Join the group of our specialists (professionals)! (Pracuj w TAURONIE. Dołącz do grona naszych fachowców!)*

2.8.3. Development and training

Current market trends and technological development, changes occurring both globally and locally, a competitive market and rising requirements, both coming from the institutional as well as the individual clients, require much greater speed and flexibility with respect to the development activities. Employee development and improvement is permanently inscribed in the Strategy, and the implementation of the development activities takes place on the basis of the regulations for improving the qualifications of the employees, in place at TAURON Capital Group's individual subsidiaries. All the development activities at TAURON Capital Group are implemented according to the 70-20-10 principle (effective learning principle), according to which:

- 70%** of the development activities should be related to gaining experience in the position, among others by delegating new or additional tasks and rights to the employee, broadening the scope of his / her responsibility, participation in the task or project teams,
- 20%** of the development activities are based on learning from others, including the ongoing support and regular feedback from your direct superior and colleagues,
- 10%** of the development activities involve participation in various forms of educational and training activities (internal and external)..



TAURON Capital Group's employees have a wide range of external development opportunities to choose from, among others through the participation in industry conferences, seminars, workshops, specialist training, e-learning training, as well as language courses and internal courses, that are organized with the use of the knowledge and competences of the employees of TAURON Capital Group.

The below table below presents key data on employee training at TAURON and TAURON Capital Group as of December 31, 2018 and December 31, 2019.

Table no. 15. Key data on employee training at TAURON and TAURON Capital Group as of December 31, 2018 and December 31, 2019.

#	Key data on employee training	TAURON		TAURON Group	
		December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
1.	Average number of training hours per employee by job group, including:	177	176	125	109
	<i>Management Board and Directors</i>	85	88	63	45
	<i>Management positions</i>	53	51	33	32
	<i>Administrative staff (white collar positions)</i>	30	28	12	14
	<i>Blue collar positions</i>	9	9	17	18
2.	Number of training hours per employee by gender, including	16 771	16 766	456 179	477 618
	<i>Women</i>	6 961	6 624	77 305	79 871
	<i>Men</i>	9 810	10 142	378 874	397 747

TAURON Capital Group has been undertaking a number of initiatives to promote the organization among pupils, students and university graduates for a number of years, and as part of such activities the Company organizes internship and apprenticeship programs as well as competitions on topics related to TAURON Capital Group, cooperates with faculty staff at schools and universities, student organizations, career offices and research clubs, and takes part in scientific symposia and conferences.

Initiatives, development and development supporting activities

Development conversation

Actions aimed at implementing a new human resource (HR) management process, i.e. *Development Conversation*, were initiated in 2019. The goal of the initiative is the development of the organization by building a culture of dialogue between the superior and the employee, and the ability to focus on the development of employees in accordance with their needs as well as the business capabilities and needs of the organization. The *development conversation* is based on *TAURON Group's Competence Model* in place and assumes the need for the continuous development of these competences as the business challenges are changing. The *development conversation* is a tool for planning the desired shape of a team, ensuring effective implementation of the business goals, but also space for expressing concern for an employee and noticing (appreciating) his / her activities. For an employee, it is primarily a sense of real impact on his / her own development as well as mobilization and commitment to achieving goals. The *development conversation* allows for strengthening the key competences, building a culture based on corporate values, increasing employee efficiency and properly managing their potential.

Development supporting activities

The development of workforce competences is invariably one of the pillars of TAURON Capital Group.

The next, 3rd edition of the postgraduate studies organized in cooperation with the Jagiellonian University, entitled *Purchase management in business*, was launched in 2019, with the improvement of the purchasing, negotiation and commercial (trading) qualifications of the Purchasing Area staff as the main assumption of the program. 32 participants are taking part in the current edition.

Taking into account the number of implemented and planned investment projects, a proprietary annual training program dedicated to investment project management at TAURON Capital Group, entitled *PM Academy*, aimed at expanding the employees' competences with respect to project management, was organized in 2018-2019. The *PM Academy's* program includes, among others, training courses related to project management, investment process implementation, IT tools used to support Project Managers, communications and team management. 15 employees from 5 of TAURON Group's Subsidiaries took part in the program in 2019. The confirmation of the competences was the IPMA exam, with all of the participants passing it successfully and receiving a renowned IPMA level D certificate.

TAURON Group Open University

TAURON Group Open University is a series of lectures conducted continuously since 2014.

The goal of establishing and continuing the *TAURON Group Open University* concept is to provide employees with access to knowledge and information on the current topics, related to both business as well as personal development. In addition, this initiative allows for the creation of a platform enabling an exchange of views and experiences among the employees from various subsidiaries and, as a result, increased integration among the workforce



5 lectures, attended by a total of 2 654 employees of TAURON Capital Group, were carried out as part of *TAURON Group Open University* in 2019. Thanks to the broadcasting of the lectures to various locations, the number of attendee increased by more than 1 500 employees.

A particularly important event, from the point of view of the Update of TAURON Capital Group's Strategic Directions, was a lecture on the climate change, given by an expert in the field of climate science. During the lecture, more than 600 employees of TAURON Capital Group had an opportunity to learn about the scientific basis of the global warming, find out what its causes are and what problems may arise from the large and rapid climate changes. The participants of the lecture received practical tips on what to do, including in the private sphere, in order to reduce the negative impact on the climate change.

Internal Trainers (Coaches) Academy

The *Internal Trainers (Coaches) Academy* is an initiative supporting the development of employees using the internal resources. An Internal Trainer is an employee of TAURON Capital Group who willingly shares expert knowledge with others, and at the same time develops his / her coaching potential. TAURON supports activities aimed at facilitating appropriate selection and didactic (pedagogical) preparation of the internal trainers to conduct training courses. The trainer is personally involved in the study of training needs, designs the training and supports the process of implementing the new competences in the organization. 83 internal trainers completed a total of 167 training sessions for more than 1 800 of TAURON Capital Group's employees in 2019.

E-learning

In addition to the training courses carried out using the traditional method, TAURON Capital Group enables its employees to continuously improve their competences in the form of e-learning training courses. The advantages of this form of education include the flexibility of its implementation and the ability to adjust it to the individual pace of knowledge absorption of the given employee. The e-learning training formula also significantly reduces the costs of the training courses, while at the same time allowing them to be attended by a larger number of employees and allows for better accommodating the pro-ecological aspects as compared to the traditional training formula.



TAURON Capital Group's employees underwent a number of training courses using the e-learning platform in 2019, including the mandatory ones, among others with respect to internet security, TAURON's services, GDPR regulations, Corporate Social Responsibility Code of Conduct or the principles of preventing mobbing and discrimination, as well as optional specialist ones, including with respect to the use of IT tools to support everyday work, legal and financial aspects, as well as training courses aimed at enhancing interpersonal skills. In total, more than 14 000 employees took advantage of 48 000 hours of e-learning training courses in 2019.

Internships and apprenticeships

Student internships constitute a specific development method for TAURON Capital Group, geared towards improving the competences of university students and graduates, that enables combining theoretical knowledge with the practical professional issues. The participation in the apprenticeship and internship programs enables acquiring the first experience and prepares pupils and students to enter the labor (job) market. Through the internship and apprenticeship programs TAURON Capital Group is implementing its long-term goals related to acquiring the best, from the point of view of the business needs and organizational culture, pupils, students and graduates. 655 people took advantage of the apprenticeship and internship programs at TAURON Capital Group in 2019.

TAURON Capital Group's internship program called "Join" ("Przyłącz się") also has its permanent place among the initiatives related to the cooperation with the academic community, with the goal of the program aiming to prepare the most talented students of the domestic universities to enter the labor (job) market, enable the trainees to obtain comprehensive professional development with respect to modern energy, get to know the enterprise's organization system, as well as the conditions and rules in force at the company, and develop the right attitude towards the tasks performed, i.e.: taking care of the quality and timeliness of the tasks performed, developing one's own initiative or acquiring team work skills. The second edition of the program was carried out in 2019, with 20 interns taking part, undergoing internships at 8 of TAURON Capital Group's subsidiaries, i.e. TAURON, TAURON Wydobycie, TAURON Wytwarzanie, TAURON Ciepło, TAURON Obsługa Klienta, TAURON Sprzedaż, TAURON Dystrybucja, KW Czatkowice.

During the 5-month internship students and graduates of TAURON's partner universities had an opportunity to learn about the operations of TAURON Capital Group, the values that TAURON is guided by in its activities, the competency model and they had an opportunity to participate in a dedicated integration workshop

TAURON Group's Ambassador Program.

The second edition of *TAURON Group's Ambassador Program* was continued in 2019, with the main goal of the program aiming to engage the students in the process of developing a positive image of TAURON Capital Group in the academic environment and generate interest in the offer of internships, apprenticeships and work among the best students and graduates. As part of this edition, 9 Ambassadors from 6 partner universities carried out the proprietary promotional activities at their universities. As a result of the cooperation with the ambassadors, additional initiatives were organized, i.e. a trip of the students of the AGH University of Science and Technology in Cracow to Janina Coal Mine's adit, combined with a lecture on the history of the mine, the technology used and the investment activities carried out, as well as the participation of the brands experts as part of the *TAURON releases energy* event, organized jointly with the Energy and Fuels Department. As part of the event, the students were able, among others, to take part in a test recruitment interview, consult their CV, and get acquainted with TAURON Capital Group and the current offers of internships and jobs at its mining plants.



Patronage classes

TAURON is cooperating with patronage classes, whose goal is to provide education in the professions that are key for the organization, thus promoting employment at TAURON Capital Group's subsidiaries after completing the formal education. This initiative enable students to learn the profession in a real work environment by organizing practical classes and professional internships, and engaging the Group's specialists, with some teaching experience and many years of professional experience at TAURON Capital Group, in the teaching process. As part of patronage classes, education is provided in such professions as, among others: underground mining technician,

power sector technician, electrician technician, mechatronics technician, electronics technician and solid mineral processing technician. By the end of 2019, TAURON included 47 classes under its patronage, including 3 new classes in 2019. The classes covered by TAURON's patronage have 300 students in total.

POWER project

TAURON Capital Group was actively involved, in 2018-2019, in the implementation of the project entitled: *Developing a model of vocational and practical training program in the power sector*, within the Operational Program Knowledge Education Development (Program Operacyjny Wiedza Edukacja Rozwój - POWER) as part of activity 2.15 Vocational education and training adapted to the needs of a changing economy. The goal of the project was to prepare solutions with respect to engaging employers in the organization of practical vocational training, including: developing a quality framework for internships and apprenticeships for students pursuing practical training at enterprises, taking into account the European framework of professional internships and developing the model practical vocational training programs for professions at the technician's qualifications level.

Pilot apprenticeship programs were implemented at 4 of TAURON Capital Group's subsidiaries, i.e. TAURON Wytwarzanie, TAURON Ciepło, TAURON Dystrybucja Branch in Częstochowa and Opole) in the period from March to June 2019. The pilot project covered 103 students from 4 schools providing education in the profession of an electrician technician.

The project involved nearly 100 schools and vocational training centers in the power sector from all over Poland, a network of employers, as well as a team of vocational counselors with many years of experience in developing educational programs related to vocational education.

Innovative education models were created as a result of the cooperation involving the entire business and social environment of TAURON Capital Group.

All of the products developed were subjected to a verification during a seminar organized in November 2019, which was attended by more than 100 teachers representing TAURON Capital Group's partner schools, 50 representatives of the business sector and the Ministry of National Education, the Silesian Board of Education, the Institute of Educational Research, the Foundation for the Development of the Education System and the Katowice Special Economic Zone



Katowice a City of Professionals

TAURON Group took part, in 2019, in the 2nd edition of the *Katowice, a City of Professionals* project organized by the Katowice City Hall. The main goal of the project was to encourage young people facing the choice of a further education path, to undertake education in the first level technical and vocational schools, to show professional prospects related to the vocational and technical education, and to increase the level of knowledge and public awareness with respect to the dual education system. During the second edition, nearly 450 students from 10 elementary schools in Katowice visited TAURON Capital Group's generation plants. As part of the study visits, the students had an opportunity to become acquainted with the specifics of work in the given profession, practical principles of the company's functioning, the skills used in the given position, as well as a chance to get information about employment opportunities in the enterprise and to learn how the new employees are recruited.

Employee satisfaction surveys

The 2nd edition of *TAURON Capital Group's employee satisfaction survey* was carried out at the key companies of TAURON Capital Group in April 2019. As part of the study, each of more than 25 000 employees had an opportunity to assess the individual aspects of work at the subsidiary and at TAURON Capital Group, by answering 39 questions in an anonymous survey regarding, among others, work environment, satisfaction, commitment, communication and workplace relationships.

55% of the employees of TAURON Capital Group (i.e. 14 234 people) took part in the survey. Among the employees participating in the survey, 84% declared very strong commitment to the performance of their tasks and achieving the best possible results of their work, 75% declared that they appreciated the atmosphere in the department / team and relationships with the colleagues, 66% declared that they liked their work and were generally satisfied with their job at the subsidiary, and 64% positively assessed the managerial staff, both in terms of managerial communication, understood as providing feedback on the tasks carried out, or providing relevant information about the company, as well as managerial attitudes, viewed as building lasting and good relationships as well as delivering on the agreements reached jointly.

Promotion of a healthy lifestyle

For the sake of its employees, TAURON Capital Group is investing in medical care and programs encouraging more physical activities, implementing health-promoting initiatives that are tailored to the needs of the employees, and is promoting a healthy lifestyle. A series of campaigns were organized in 2019 to show how to take care of health and prevent occupational or civilization-related diseases, among others:

- a photo competition, organized by Wspieranie Grupa TAURON, on sports topics *I am active - I take care of health*, aimed at encouraging the employees to share their ways of how to stay fit and healthy,
- a series of workshops organized for TAURON Obsługa Klienta's employees with respect to stress management and prevention of burnout, conducted by a psychologist at the company's 12 locations;
- lectures for TAURON Obsługa Klienta's employees regarding the so-called OFFICE diets (Diety OFFICE), combined with the individual diet consultations, with the goal to promote a healthy lifestyle and providing instruction on maintaining the correct posture.

Training on the pre-medical first aid

Training sessions on the pre-medical first aid are dedicated to the employees of TAURON Capital Group's individual subsidiaries. The goal of the above training sessions is to transfer knowledge and practical skills with respect to the behavior (conduct) and response in the situations that pose a threat to human health and life. Training programs deal with the issues related to the legal grounds and rules of behavior (conduct) at the place of danger, as well as sets of topics related to the individual types of injuries. The training sessions are conducted by the qualified paramedics with many years of experience. 2 200 training sessions on pre-medical first aid were conducted in 2019.

2.8.4. Social dialogue

The Management Board of TAURON conducts a constructive and open dialogue with the social partners, with the main goal to maintain high quality and effectiveness of the mutual cooperation.

Social partners' representatives are, during regular meetings and consultations, informed about issues related to:

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

The ongoing communication is carried out simultaneously at TAURON Capital Group's subsidiaries between the management boards and the trade union organizations operating at the given employer. TAURON actively participates in meetings held at the national level with the representatives of the government, employees and employers (e.g. as part of the works of the Three-party Team for the Energy Industry).

In addition, steps geared towards increasing business awareness as well as promoting pro-efficiency and engaging attitudes are taken. *A valuable development conversation* workshops for TAURON Capital Group's social partners were held in 2019.

2.9. Corporate Social Responsibility (CSR) Policy

The fundamental assumption of the corporate social responsibility concept at TAURON Capital Group is to base the enterprise's success on its long-term sustainable development. An indication of this approach is the integration, already at the strategic level, of the financial and non-financial factors, including aspects of environmental protection, social impact and corporate governance. This results from the conviction that for a business to exist and develop it needs to be run in a manner allowing for both economic aspects and social or environmental interest, and balance is required among all of them.

In view of the above, TAURON Capital Group's development goals are based on the 3P model, referring to the economic gains (Profit), the individuals associated with the company (People), and the care for the environmental aspect of the activity (Planet). At TAURON Capital Group, the stipulation to strive for sustainable development is implemented in practice by *TAURON Group's Sustainable Development Strategy for 2017-2025* (Sustainable Development Strategy) adopted by the Company's Management Board on August 1, 2017.

The Sustainable Development Strategy implemented in 2019 defines 5 basic areas of activities (directions):

1. **Reliability and quality of supply of products and services for the customer** - TAURON Capital Group's goal is, above all, to ensure security of electricity supply for our customers and to develop an offering of products and services tailored to their expectations, as well as to promote innovation.
2. **Orientation towards the customer and his / her needs** - TAURON Capital Group's goal is to maintain good relationships with customers, care for the highest standards of customer service as well as comprehensiveness and quality of the offering addressed to the customers. The measures of the effectiveness of TAURON Capital Group's actions include an increase in customer loyalty and satisfaction, or a drop in the number of complaints

3. **Environment protection** - TAURON Capital Group's goal is to ensure efficient management, recycling and reuse of the resources, implementation of environment management systems (ISO, EMAS), investing in modern technologies, continuous modernization of the production assets, optimization of the production processes, increasing the efficiency of resource utilization, educating the society and setting requirements for the suppliers
4. **Work safety, ethical culture and employee engagement** - TAURON Capital Group's goal is to develop lasting relationships with employees based on diversity, a sense of security, development opportunities and combining social and professional roles, as well as creating working conditions seeking to minimize the accident rate
5. **Social and business partnership** - TAURON Capital Group's goal is to set the highest industry standards with respect to business ethics and environment protection. Activities are focused on conducting projects related to social engagement, promoting CSR topics among stakeholders and encouraging them to act in a responsible manner, as well as conducting a transparent policy with respect to the communication with the stakeholders.

Within each direction, 18 commitments have been set in total, that TAURON Capital Group intends to fulfill by the end of 2025. Key initiatives were formulated for each commitment to support their implementation.

All of the stakeholders of TAURON Capital Group can become acquainted with

The reports on the implementation of the Sustainable Development Strategy are published annually in the Integrated Report on the Company's web site at: <https://www.tauron.pl>.

Changes to TAURON Group's Sustainable Development Strategy

The works on updating the Sustainable Development Strategy, which is a coherent plan of actions related to social responsibility, based on the updated Strategic Directions of TAURON Group and a study of the real needs of all stakeholder groups, were commenced in the third quarter of 2019,

The main objectives of the document, whose adoption is scheduled for the second quarter of 2020, include:

- striving for even greater coherence of the business and social goals and seeking to achieve the leadership position in CSR and sustainable development in the energy sector in Poland,
- sustainable transition towards becoming a leading, low-emission energy group,
- clean energy and searching for the new development (expansion, growth) paths

In accordance with the adopted Update of the Strategic Directions and the *Green Turn of TAURON* concept, the sustainable growth of TAURON Capital Group's value will be based first and foremost on:

- regulated and stable Distribution Segment,
- development of low and zero emission sources,
- conventional generating assets,
- sales of energy and energy-related products and services tailored to the customers' needs,
- modern management culture and a friendly work environment based on the principles of diversity and compliance,
- building lasting relationships with local communities by developing social and business partnership initiatives.

2.9.1. Impact on natural environment

Environment protection in the energy and mining industry is an area that is strictly controlled and regulated by the EU and national regulations as well as the local law. Therefore, the activities with respect to the environmental impact are strongly associated with the business operations of TAURON Capital Group, especially in the context of the contemporary challenges regarding minimizing the impact of the entire supply chain on the environment. Bearing in mind the principles of sustainable development, TAURON Capital Group's subsidiaries are optimizing the processes of managing their resources (water, raw materials and materials), and also conducting an active waste management policy.

TAURON Capital Group is taking responsibility for taking care of natural environment and the consequences of using natural resources for the benefit of the current and future generations and emphasizes that it is ready to take actions that go beyond legal obligations.

The confirmation of the above actions are: *TAURON Group's Environmental Policy*, adopted by the Company's Management Board in July 2017, and *TAURON Group's Climate Policy* adopted by the Company's Management Board in November 2019.

Some of TAURON Capital Group's subsidiaries have implemented a certified environmental management system according to ISO14001. TAURON Wytwarzanie, representing conventional energy production, has additionally received the EMAS Community Eco-Management and Audit Scheme, the EU's environmental certification system, used to create, at an organization, a sustainable development culture and effective management of available resources and energy, operating on the basis of Regulation of the European Parliament and of the Council (EC) No. 1221/2009 of November 25, 2009 on the voluntary participation by organizations in a Community eco-management and audit scheme (EMAS).

2.9.1.1. Environmental Policy

TAURON Group's *Environmental Policy* (Environmental Policy), adopted by the Company's Management Board in July 2017, defines TAURON Capital Group's approach to the management of the issues related to the impact made by its operations on the natural environment, including the direction of its environmental activities and the principles it follows in environment related matters. The Environmental Policy is the benchmark for assessing all of the activities of TAURON Capital Group's subsidiaries with respect to environment protection and environmental management.

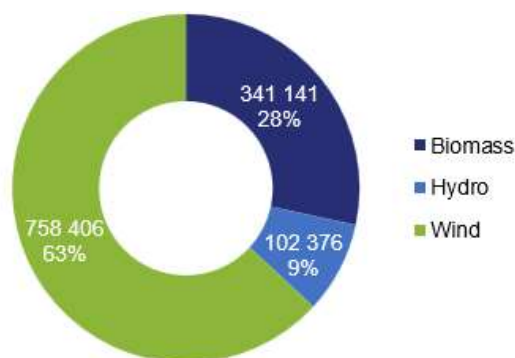
The Environmental Policy documents the values and the vision followed by TAURON Capital Group with respect to making an impact on the natural environment.

The key principle of the Environmental Policy is to limit both the direct, as well as the indirect impact on the environment and to conduct responsible communications, ensuring the understanding of the operations of TAURON Capital Group that may impact the environment.

TAURON Capital Group, in accordance with the regulations and administrative practices in force on the territory of its operations, takes into account the needs related to environmental protection and acts in way that contributes to accomplishing a broader objective, which is sustainable development, and in particular the implementation of the closed circuit economy.

The below figure presents the structure of certificates of origin for the renewable energy (PMOZE) at TAURON Capital Group in 2019.

Figure no. 34. Structure of certificates of origin for the renewable energy (PMOZE) at TAURON Capital Group in 2019 (MWh)



Due to diverse production and service profiles of TAURON Capital Group's subsidiaries, their impact on the environment varies significantly, therefore the principles of the Environmental Policy are addressed in the individual internal documents of the individual subsidiaries in a way corresponding to their role in TAURON Capital Group's value system.

Minimizing negative impacts on the environment is effectively implemented taking into account the specifics of the sector, technological development and access to environmentally friendly technologies.

TAURON Capital Group is monitoring, on an ongoing basis, the main aspects of the direct and indirect environmental impact of its business operations.

The below table presents the annual emissions of SO₂, NO_x, dust and CO₂ from thermal combustion of fuel for 2019.

Table no. 16. Annual emissions of SO₂, NO_x, dust and CO₂ from thermal combustion of fuel for 2019

#	Subsidiary name	Emission of SO ₂ (Mg)	Emission of NO _x (Mg)	Emission of dust (Mg)	Emission of CO ₂ (Mg)
1.	TAURON Wytwarzanie including:	8 313	9 124	441	10 562 024
	<i>Oddział Jaworzno III</i>	1 999	3 383	92	4 576 575
	<i>Oddział Łaziska</i>	2 355	2 316	86	3 026 691
	<i>Oddział Łagisza</i>	737	1 034	48	1 174 996
	<i>Oddział Siersza</i>	1 263	962	75	1 177 875
	<i>Oddział Stalowa Wola</i>	1 959	1 429	140	605 887
2.	TAURON Ciepło including:	2 016	1 276	137	1 624 744
	<i>ZW Bielsko-Biała</i>	720	268	21	427 472

#	Subsidiary name	Emission of SO ₂ (Mg)	Emission of NO _x (Mg)	Emission of dust (Mg)	Emission of CO ₂ (Mg)
	ZW Kamienna Góra	48	19	6	14 990
	ZW Katowice	580	549	88	757 246
	ZW Tychy	430	351	14	351 331
	Centralna Ciepłownia Olkusz	125	46	3	34 519
	Centralna Ciepłownia Zawiercie	96	33	3	29 241
	Other (local heat plants)	17	10	2	9 945
3.	KW Czatkowice	0.03	0.8	8.4	8 449
	Total	10 329	10 401	586.4	12 195 217
	Decline versus 2018	20%	17%	21%	17%

The emissions of SO₂, NO_x, dust and CO₂ from fuel combustion for the purpose of electricity generation are well below the levels set as the maximum permitted annual loads of substances released into the atmosphere according to permits. The above is due to the fact that all working generating units of TAURON Wytwarzanie and TAURON Ciepło achieve the SO₂, NO₂, and dust concentration levels below the permitted values, and the SO₂ and NO₂ concentration levels for the 200 MW units and biomass fired boilers are already at a level close to the limits defined in the BAT Conclusions that will apply from 2021.

TAURON Capital Group assumes responsibility for taking care of the natural environment and the consequences of using its resources. TAURON Capital Group's subsidiaries calculated fees in the total amount of approx. PLN 32 891 000.

The below table presents the estimated charges for the business use of the environment at TAURON Capital Group's selected subsidiaries due for 2019.

Table no. 17. Estimated charges for the business use of the environment due for 2019

#	Subsidiary name	Charges ¹ for the business use of the environment due for 2019 (PLN '000)
1.	TAURON Wytwarzanie	14 882
2.	TAURON Wydobycie	14 856.5
3.	TAURON Ciepło	2 910.3
4.	TAURON Dystrybucja	181.5
5.	KW Czatkowice	55.2
6.	TAURON Dystrybucja Serwis	< 0.8
7.	TAURON Obsługa Klienta	1.6
8.	TAURON EKOENERGIA	< 0.8
9.	TAURON Sprzedaż	< 0.8
10.	Bioeko Grupa TAURON	4
	Total	32 891.1

¹partly estimated data, the annual settlement has not been completed

Management of by-products

In order to take care of the natural environment TAURON Capital Group minimizes the quantity of waste deposited in the environment by bringing it to the market to be used as substitutes for natural materials.

4 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2019, with as much as 51% of that quantity brought to the market as full value products to be used, among others, in the construction, road building, mining or agricultural sector. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization, among others in land reclamation, macro-leveling and filling of the post-mining voids in mining.

The below figure presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019.

Figure no. 35. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019



TAURON Capital Group is seeking to implement the closed circuit (circular) economy model. It is planned that the maximum of generated process waste is used within TAURON Capital Group, consequently reducing the consumption of natural resources and the product's carbon footprint.

TAURON Wytwarzanie brought as much as 88% of ashes and boiler slag coming from 6 system power plants to the market as by-products in 2019, to be used in construction, road engineering (building), mining and agriculture. The remaining 12% of the waste was used for a business purpose.

TAURON Capital Group's power generating plants produced 120 000 Mg of ashes in 2019, which were used as a valuable raw material used in fire prevention in the coal mines. Ashes produced by the conventional power generation sector are a valuable raw material used in fire prevention in the coal mines. Ashes from TAURON Capital Group's power plants and combined heat and power plants cover 100% of the demand for ashes to be used for fire prevention at TAURON Wydobyćie's coal mines.

100% of TAURON Ciepło's waste, i.e. 231 000 Mg tons of ashes, bottom ashes and slag, was used for business purposes. Almost 0.6 million Mg of the fly ash produced by TAURON Capital Group are used as the construction products, in the form of concrete enhancements (additives) improving their plasticity, preventing cracking and increasing the concrete's resistance to chemical corrosion. Ashes are also a substitute for natural aggregates and contribute to the formation of highly specialized lightweight concrete.

TAURON Wydobyćie processes post-mining waste, as a result of which high-quality construction and road aggregates are obtained. 569 thousand tons of aggregates and materials produced based on the post-mining waste were brought to the market in 2019.

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

2.9.1.2. Climate policy

TAURON Group's Climate Policy (Climate Policy) was adopted by the Company's Management Board in November 2019, with the goal to counteract climate change and the sustainable development of TAURON Capital Group's Lines of Business, through a just transition towards achieving climate neutrality in the future.

Effectively counteracting the climate change and the sustainable development are the two main stipulations of the Climate Policy that is in line with the assumptions of the *Green Turn of TAURON* concept.

The Climate Policy constitutes the basis for TAURON Capital Group to manage its operations in such a way so as to mitigate the risks associated with the climate, reduce TAURON Capital Group's negative impact on the climate and maximize the positive effects of the climate change throughout the entire value chain.

One of the most important commitments in this respect is the declaration of support for the measures aimed at reducing the global warming by maintaining the rate of the temperature rise below 2° C relative to the pre-industrial levels.

The Climate Policy refers to all kinds of activities and operations carried out as part of TAURON Capital Group's value chain, the effects of which impact climate change or constitute the implication thereof, including in particular: measures aimed at reducing the global warming and measures with respect to TAURON Capital Group's adaptation to the climate changes underway

TAURON Capital Group introduced the update of the strategic directions in 2019, thus conducting the first activities as part of the final review and adaptation of the Strategy towards reducing the risk associated with the transition of the energy sector and taking advantage of the market expectations related to the climate.

TAURON Capital Group's dependence on the natural capital varies for the individual Lines of Business of TAURON Capital Group. Mining, Generation and Heat Lines of Business are dependent on the fossil fuel resources, which are not very sensitive to the climate change, and their physical availability is not dependent on the rate of the global warming. The RES Line of Business, due to generating electricity in hydropower plants, is highly exposed to the risk of outages or reduction of production as a result of prolonged droughts, which translate into a decrease in surface water resources in river basins, where hydropower plants are located. TAURON Ekoenergia is monitoring such developments on an ongoing basis and has an inventory list of assets most exposed to such restrictions.

2.9.2. Key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations

In order to make the best use of the value levers (drivers) defined as part of the Strategy and the update of the strategic directions, as well as to ensure efficient (from the point of view of the individual capitals) implementation of the Sustainable Development Strategy, the following key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations were defined.

1. ratios (metrics, performance indicators) related to the reliability and quality of supply of products and services for the customer,
2. ratios (metrics, performance indicators) related to the orientation towards the customer and his / her needs,
3. ratios (metrics, performance indicators) related to the environment protection,
4. ratios (metrics, performance indicators) related to the work safety, ethical culture and employee engagement,
5. ratios (metrics, performance indicators) related to the social and business partnership.

The below table presents the key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2018-2019.

Table no. 18. Key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2018-2019

#	Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
					2018	2019
1.	Reliability and quality of supply of products and services for the customer, including:					
	<i>Number of individual and business customers in the Distribution Line of Business,</i>	Financial capital / Distribution Segment's RAB, capital expenditures, cash flow from operating activities	Stimulant	number	234 175	221 335
	<i>Number of cases of non-compliance and complaints related to products and services with respect to providing information</i>	Financial capital / Cash flow from operating activities, net profit, long term rating	Destimulant	number	0	0
	<i>SAFI¹</i>	Financial capital / Cash flow from operating activities	Destimulant	minutes	0.33	0.28
2.	Orientation towards the customer and his / her needs, including:					
	<i>Number of individual and business customers in the Supply Line of Business</i>	Financial capital / Sales revenue, EBITDA, EBITDA margin, net profit, long term rating	Stimulant	number	5 459 918	5 511 946
	<i>CSI index</i>	Social capital / Implemented and applied TAURON Group's PROClient Social Policy	Stimulant	-	81	83
3.	Environment protection, including:					
	<i>Percentage share of RES installed capacity in the total installed capacity</i>	Production capital / Installed capacity in hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	10	12
	<i>Percentage share of electricity production based on RES in the total electricity production</i>	Production capital / Electricity production by hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	7	11
		Production capital / Heat production by hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	5	6
	<i>Direct greenhouse gas emissions</i>	Natural capital / Direct greenhouse gas emissions	Destimulant	Mg	14 629 722	12 215 945
	<i>Total weight of non-hazardous waste (including combustion and mining by-products) generated</i>	Natural capital / Total amount of non-hazardous waste	Destimulant	Mg	3 103 596	1 366 974

#	Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
					2018	2019
	<i>Number of meetings with trade union organizations at TAURON Capital Group's subsidiaries</i>	Intellectual capital, Social capital, Human capital / developing relationships based on dialogue, organizational culture based on PRO values	Stimulant	number	249	329
4.	Work safety, ethical culture and employee engagement, including:					
	<i>Number of employees</i>	Human capital / Number of employees Human capital / Number of trainings courses conducted by Internal Coaches (Trainers) Intellectual capital / Knowledge and competences of the Group's employees Social capital / Personnel education and development	Nominant	number	25 829	26 086
	<i>Accident rate (frequency) at work²</i>	Social capital / Organizational culture based on the PRO values	Destimulant	-	8.1	7.8
	<i>Share of women among the workforce</i>	Human capital / Share of women among the workforce Social capital / Diversity Policy and Respect for Human Rights Policy implemented and applied	Nominant	%	21.5	21.4
	<i>Number of training session hours</i>	Human capital / Number of training session hours	Stimulant	'000	449	478
5.	Social and business partnership, including:					
	<i>Number of local and social initiatives</i>	Social capital / Support for local initiatives through TAURON Foundation	Stimulant	number	147	158
	<i>Number of agreements with respect to corporate social responsibility</i>	Social capital / Implemented and applied TAURON Group's PROClient Social Policy	Stimulant	number	9	11
	<i>Number of meetings with local communities held in order to provide information on the operations conducted and its impact on the residents</i>	Social capital / Developing lasting relationships and active dialogue with the stakeholders Social capital / Support for local initiatives through TAURON Foundation	Stimulant	number	Regular, in accordance with the ongoing operations	Regular, in accordance with the ongoing operations
	<i>Number of sports and cultural events organized for the employees</i>	Social capital / Support for local initiatives through TAURON Foundation	Stimulant	number	16	18

¹The value of SAFI is calculated according to the formula: number of interruptions at the consumers / number of the consumers served / year

²The accident frequency rate is calculated according to the formula: (number of accidents at work x 100) / average employment in a year

2.10. Sponsoring activities

TAURON Capital Group's sponsoring activities were conducted in 2019 based on the *Plan of conducting the sponsoring activities by TAURON Group in 2019*, adopted by the Company's Management Board and granted a positive opinion by the Company's Supervisory Board.

The main objective of TAURON Capital Group's sponsoring activities is to support its business goals defined in the Strategy.

The sponsoring activities were carried out based on the negotiated agreements, containing standardized provisions. The introduction of bonuses for the promotional result achieved was started in the sponsorship agreements in 2018., making the payment of significant parts of the remuneration dependent on the measurable effectiveness of the contracts performed

Moreover, this activity was monitored, analyzed and reported on an on-going basis, through detailed reports on the implementation of the sponsoring agreements, surveys and analyses conducted in quarterly, 6-month and annual cycles by the specialized external entities and the internal oversight.

In accordance with the procedures implemented, the effectiveness of the activities conducted was assessed based on the opinion polls, measuring the size and value of the brand's exposure in the media in the context of the activities conducted, as well as by measuring the impact on the pro-sales attitudes including the reporting of the results achieved.

An independent research entity initially estimated, as a result of the measurement of the promotional effectiveness, the advertising equivalent achieved in relation to the activities completed in 2019. By comparing the summarized value obtained this way, to the sum of all expenditures arising from the relevant sponsoring agreements, the ROI

ratio (understood here as a comparison of the advertising equivalent to the expenditures on the implementation of the contract) at a level of approximately 4.2 was obtained. This means that each zloty (PLN) spent for that purpose generated promotional benefits to TAURON Capital Group, the value of which was independently, initially estimated at approximately PLN 4.20.

The confirmation of the financial effectiveness of the activities conducted is the high positioning of the TAURON brand in an independent research report, *Sponsoring Monitor 2016*. According to this report, TAURON is ranked 8th overall among the TOP 10 sponsors. Several hundred brands were classified in the ranking, which is the result of opinion polls. TAURON's result was very good result. Due to the relatively low level of sponsorship spending by TAURON Capital Group, the position in this ranking can be regarded as high.

The sponsorship activities covered a total of 17 projects with 15 counterparties (business partners, contractors) in 2019. The preliminary data on the advertising equivalents achieved, regarding the activities completed in 2019, indicate that the best results were generated by such activities as the 76th edition of Tour de Pologne. Among the projects with their status being 'in progress', which is understood as contracts that were concluded but not completed, the activities such as the sponsoring of TAURON Arena Kraków were characterized by a strong potential.

3. RISK MANAGEMENT AT TAURON CAPITAL GROUP

3.1. Risk management objective and principles at TAURON Capital Group

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

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

TAURON Capital Group's risk management:

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

3.2. Risk management strategy

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

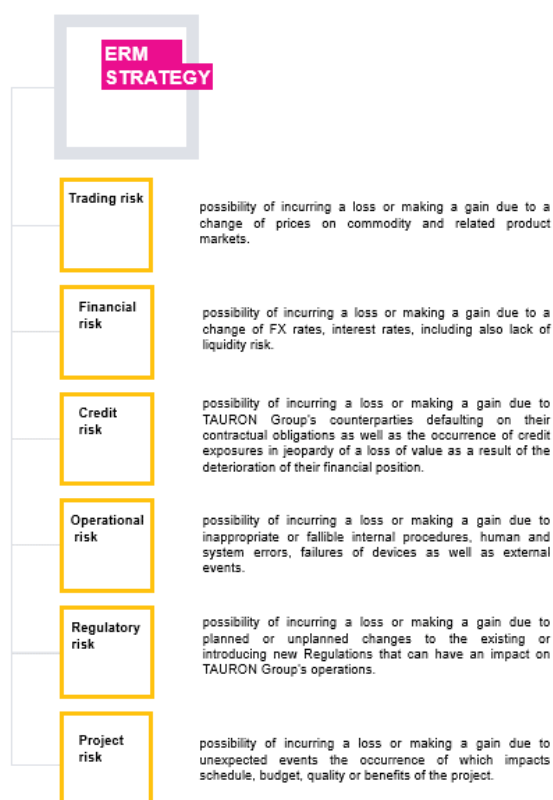
As part of the ERM System, the following specific risks are identified within TAURON Group, for which separate policies tailored to the nature and specifics of the given group of threats are defined:

1. Trading (commercial) risk,
2. Credit risk,
3. Financial risk,
4. Operational risk,
5. Regulatory risk,
6. Project risk.

The below figure presents the basic classification of the enterprise risk.

The center of the ERM System is a risk management process that includes continuous activities, i.e. risk identification, risk measurement as well as developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including:

Figure no. 36. Basic classification of the enterprise risk



organization of the ERM System, risk control and monitoring rules, risk model, risk management tools, assessment of the adequacy and functioning of the ERM system.

The below figure presents the architecture of the ERM system in place at TAURON Capital Group.

Figure no. 37. Architecture of the ERM system in place at TAURON Capital Group



3.2.1. Risk management process

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

The below figure presents the risk management process.

Figure no. 38. Risk management process



Risk identification consists in determining the potential events that may affect the implementation of business goals of TAURON Capital Group. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization

of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated response to the risk identified in order to achieve the desirable results. The planned actions constituting the prepared risk response are dependent and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in practical implementation of the responses to the identified risk, prepared in the planning process. The defined set of actions as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, indicate whether the activities carried out are effective and risk management is bringing the assumed effect of maintaining the value of the EWI indicators EWI within the acceptance range.

Communication consists in a continuous flow of information among the participants of the process, which is to ensure full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodical risk reporting is also an element of this process.

3.2.2. Organization of the risk management system (roles and responsibilities)

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest. In particular, the system guarantees independence of the risk taking function from risk control and monitoring. This is achieved through the centralization of the control function at the parent Company level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the risk owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system was placed at the parent Company, in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and oversight of the risk management process effectiveness. Within the Risk Committee two separate teams are set up, one for the trading (commercial) risk area and the other for the financial and credit risk area. Oversight of the enterprise risk management system is performed directly by the Risk Committee.

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

Figure no. 39. Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM system



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

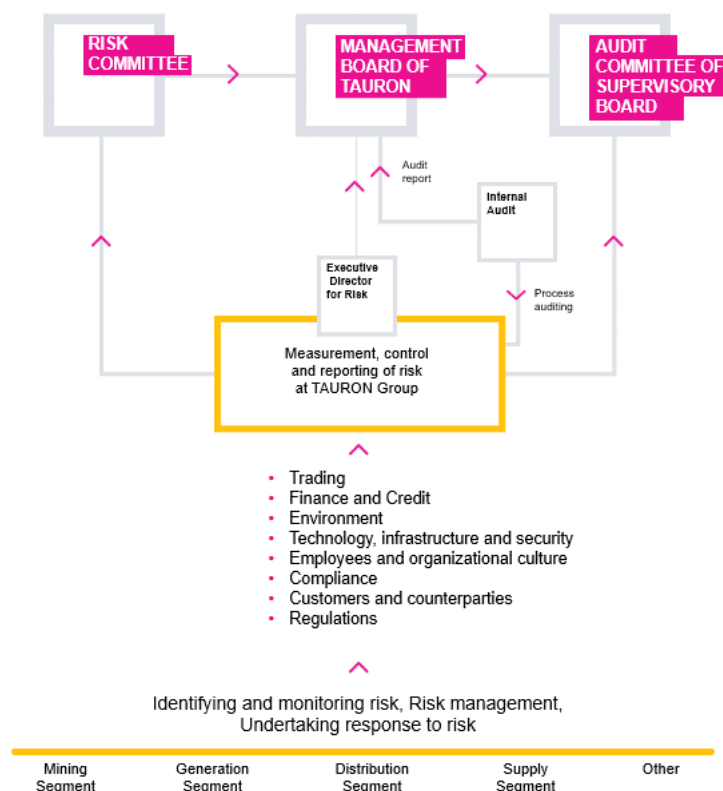
Table no. 19. Description of the ERM System participants' roles and responsibilities

#	Participant	Participant's roles and responsibilities
1.	TAURON Supervisory Board	<ul style="list-style-type: none"> Assessment of the ERM System, especially of its adequacy and effectiveness. Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities.
2.	Audit Committee of TAURON Supervisory Board	Monitoring the ERM System's effectiveness.
3.	TAURON Management Board	<ul style="list-style-type: none"> Assessment of the ERM System's adequacy, effectiveness and efficiency. Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Company's Management Board will be performing the Risk Owner's function. Approving TAURON Capital Group's risk tolerance and global limits for the key risks. Managing the risks of special importance for TAURON Capital Group's operations.
4.	Risk Committee	<ul style="list-style-type: none"> Overseeing TAURON Capital Group's risk management process. Auditing TAURON Capital Group's risk exposure.

#	Participant	Participant's roles and responsibilities
		<ul style="list-style-type: none"> • Providing opinions and recommending to the Company's Management Board the shape of the individual elements of the risk management infrastructure. • Defining TAURON Capital Group's risk tolerance and global limits for the key risks, and also applying to the Company's Management Board for the approval or change thereof. • Overseeing the preparation of the quarterly information for the Company's Management Board on all important issues related to TAURON Capital Group's risk
5.	Executive Director for Risk	<ul style="list-style-type: none"> • Coordinating the risk management process on all levels and in all areas (lines of business) of the organization's operations. • Responsibility for the development of the ERM System (threat identification, evaluation monitoring and checking methods, processes and procedures). • Support and oversight over the system's participants in the risk management implementation and evaluation of its efficiency. • Preparing and providing the risk reports to authorized risk management process participants. • Actions aimed at developing organizational culture and raising awareness with respect to TAURON Capital Group's risk management.
6.	Executive Director for Internal Audit and Control	Periodic review of the correctness of designing and implementing as well as the effects of actions taken within the ERM System.
7.	Management Board of a subsidiary	<ul style="list-style-type: none"> • Responsibility for risk management within a subsidiary. • Promoting risk management culture in a subsidiary. • Responsibility for the appropriate reactions to risk and the effectiveness thereof. • Appointing Risk Owners at the given subsidiary. • Approving plans of reaction to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded.
8.	Risk Owner	<ul style="list-style-type: none"> • Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in context of an impact on the ongoing operations as well as on the implementation of the strategic, operational and financial goals of the unit. • Responsibility for preparing a plan and for implementing a reaction to risk in case its established values are exceeded, and also for the communications and reporting within the risk management implemented.

The below figure below presents the flow of information within the key participants of the risk management process.

Figure no. 40. Flow of information within the key participants of the risk management process



3.2.3. Risk control and monitoring rules

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

The process of defining the risk tolerance takes into account the specifics and scope of TAURON Capital Group's operations. Its level is defined as a value, and the rules of measurement of individual risks in the organization ensure the consistency of risk measurement with the applied tolerance definition. The risk tolerance constitutes the basis for allocation of its level to the global limits dedicated to a single risk or many specific risks. Subsequently global

limits are allocated to operating limits within the specific risk management. The key assumption is to guarantee independence of the risk taking function from risk control and monitoring which guarantees safety of the functioning of the organization.

A supplementary tool used for risk monitoring and control comprises the Early Warning System based on the catalogue of Key Risk Indicators - KRI and Early Warning Indicators - EWI.

The system functioning based on the above mentioned indicators enables an appropriately early identification of threats by measuring the causes of the individual threats. At the same time this system allows for an appropriately early taking of remedy actions, before the individual threats actually materialize.

3.2.4. Risk management tools

Risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group uses, in particular, the following tools:

1. **Risk identification / review questionnaire** - a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
2. **Risk card** - a document containing the detailed information on the identified risk.
3. **Risk register** - a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations.
4. **Risk response plan** - a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to a given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization
5. **Risk assessment form** - a tabular summary of detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of risk measurement parameters (KRI / EWI).

3.2.5. Risk model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories.

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

Table no. 20. Main risk categories and sub-categories, in accordance with the Risk Model in place

#	Main risk categories	Main risk sub-categories	Description of the main risk sub-categories
1.	Trading risk	Trading	Risks determining the market volatility of electricity and related products market prices to which the enterprise is exposed.
2.	Financial and credit risk	Finance and credit	Risks related to changes in exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on contractual obligations.
3.	Operational risk	Environment (stakeholders)	Risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Group's goals.
		Technology, infrastructure and security	All events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure.
		Employees and organizational culture	Risks related to employee issues and organizational culture.
		Compliance	Risks related to non-compliance, internal and external abuse as well as unethical behavior.
4.	Regulatory risk	Customers and contractors (counterparties)	Risks related to the volatility of the supplies / services market, failure of the customer / contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin.
		Regulations	Risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Group.

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

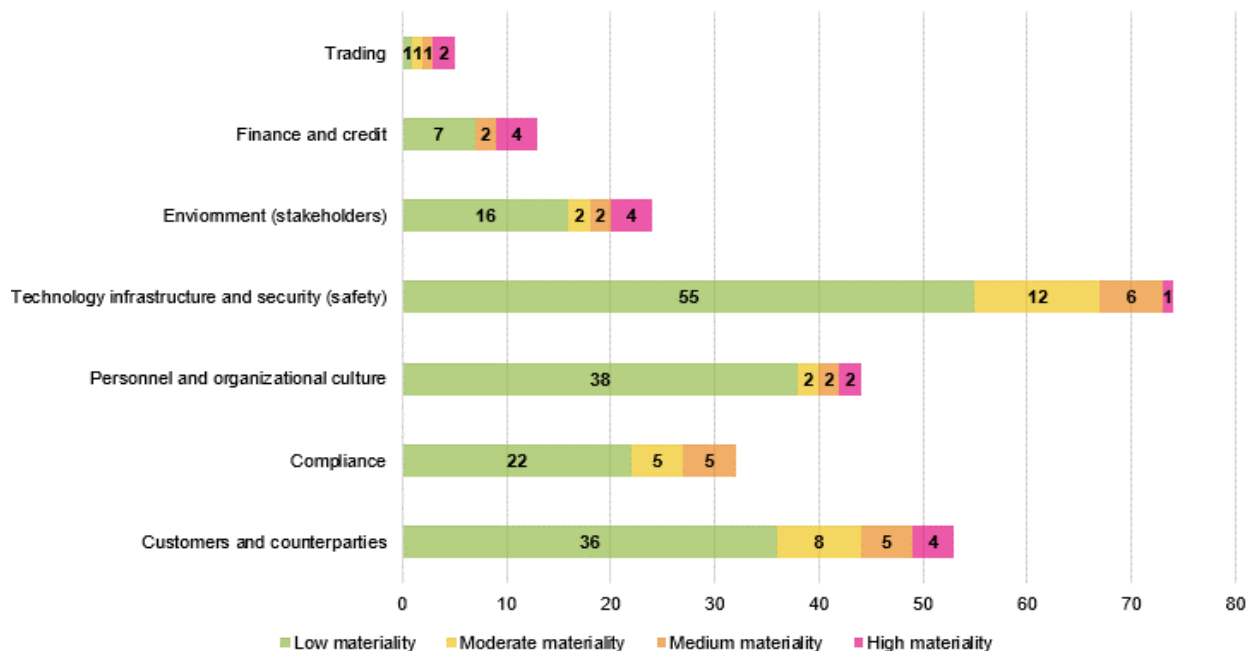
Risk management is a systematic process subject to continuous improvement which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment. It is also subject to a periodic, internal and independent assessment of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

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

- Executive Director for Risk, at least once a year, prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee,
- Executive Director for Audit, as part of performing the institutional (third line of defense), periodically conducts an independent audit of risk management at TAURON Capital Group verifying the appropriate implementation of the rules by the process participants, as well as its adequacy and effectiveness

The below figure presents the main risk categories defined by TAURON Capital Group, including the number of key threats.

Figure no. 41. Number of risks monitored, broken down into sub-categories



3.3. Managing TAURON Capital Group's key risks

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

3.3.1. Trading risk management

In accordance with *TAURON Group's Trading Risk Management Policy* in place trading risk is understood as the possibility of incurring a loss or making a gain due to price fluctuations on the commodity and related products markets. The trading risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of subsidiaries operating both in the Mining and the Generation Lines of Business as well as in the Supply Line of Business. Due to the opposing positions in the above Lines of Business the risk is, to a certain degree, naturally diversified, however, since the above mentioned Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and related products.

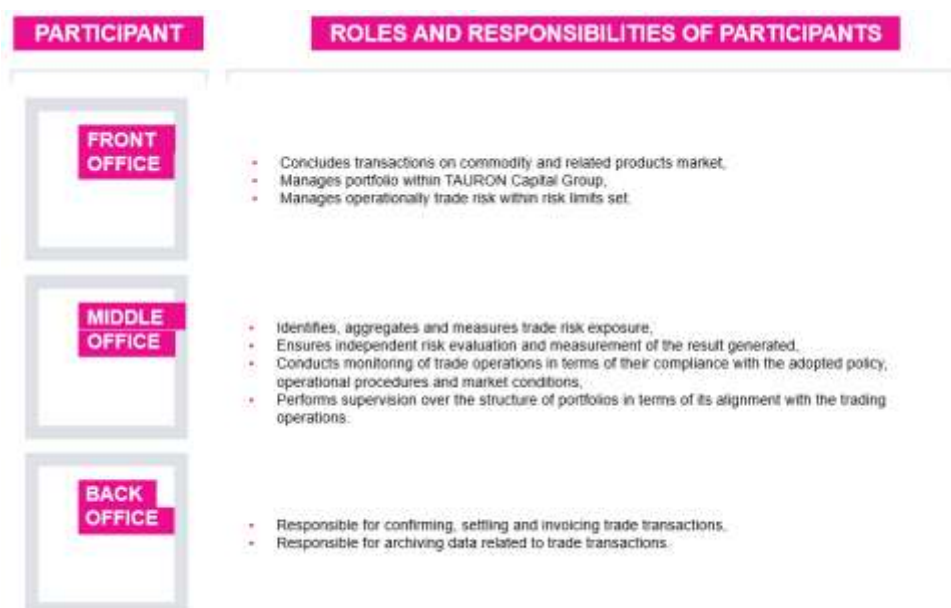
In order to efficiently manage this group of risks the trading risk management system was established, tied with respect to organization and information, to the trading position hedging strategy in place at TAURON Capital Group's level. In particular, *TAURON Group's trading risk management policy* introduces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

The organizational structure of the trading risk management system envisages a strict split of competences as part of which risk management is decentralized, where the supervision and risk control are performed centrally at TAURON level. In particular, an element of the organizational structure of the trading risk management system is the split of TAURON Capital Group's trading operations into: Front Office, Middle Office and Back Office. The goal of such a split of tasks is to guarantee the independence of the operating functions carried out by the Front Office from the risk control function carried out by the Risk Area, and it ensures an appropriate level of operational flexibility. For the needs of the risk management process such a placement of responsibility is assumed in order to ensure an optimal approach to the given type of threat, in particular taking advantage of the economy of scale and

the synergy effect. Such an approach ensures efficiency of the trading processes conducted and appropriate supervision over one of the main business processes conducted by TAURON Capital Group.

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

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



3.3.2. Financial risk management

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

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

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. In order to minimize the financing risk, TAURON conducts a policy of acquiring the funding for TAURON Capital Group with an appropriate advance notice in relation to the planned date of its use, i.e. up to 24 months in advance of the planned funding requirement. It means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging this financing by collecting the funds on TAURON Capital Group's accounts. Such a policy is first and foremost aimed at ensuring a flexible choice of the financing sources and taking advantage of favorable market conditions as well as reducing the risk of need to take on new liabilities under unfavorable market conditions. TAURON's policy also covers standardizing of the covenants and the provisions of the financing agreements in the key elements of the documentation.

3.3.3. Credit risk management

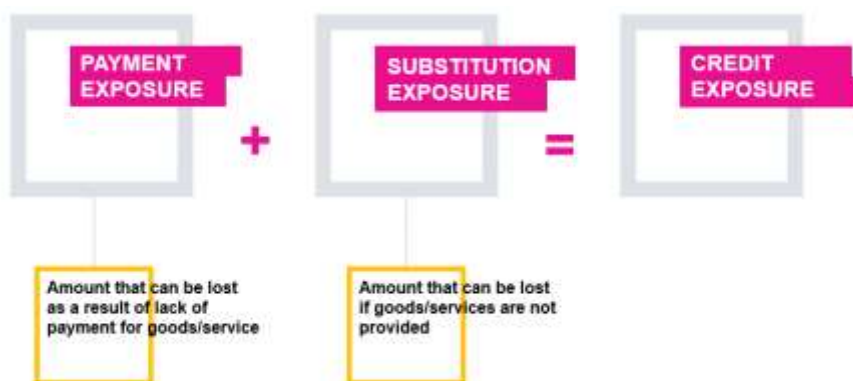
In accordance with *TAURON Group's Credit Risk Management Policy* in place credit risk is understood as the possibility of incurring a loss or making a gain due to trade partners (counterparties) failing to fulfill their contractual obligations (default) as well as the occurrence of credit exposures at risk of impairment due to the deterioration of their financial position. TAURON Capital Group has a decentralized credit risk management system in place, however the control, limiting and reporting of this risk category is carried out centrally, on the parent Company level. *TAURON Group's Credit Risk Management Policy* put in place defines credit risk management principles on

TAURON Capital Group's level, aimed at effectively minimizing the impact of this risk on achieving TAURON Capital Group's goals.

Credit risk management is carried out by controlling the credit exposure generated upon the conclusion of contracts by TAURON Capital Group's subsidiaries. The general rule is that prior to concluding a material contract every entity is subjected to an examination of its financial standing and receives a credit limit which caps the maximum exposure due to the given trade. Credit exposure is, in this context, understood as an amount that can be lost if a counterparty (business partner, contractor) fails to fulfill its obligations (defaults) within a certain time (taking into account the value of the collaterals submitted thereby). Credit exposure is calculated as of the current day and is split into exposure due to payment (payment exposure) and replacement exposure.

The below figure presents credit exposure components.

Figure no. 43. Credit exposure components



Based on the exposure value and the evaluation of the financial standing of specific customers, the credit value at risk that TAURON Capital Group is exposed to is calculated using the statistical methods according to which the exposure value is calculated based on the total loss probability distribution CVaR.

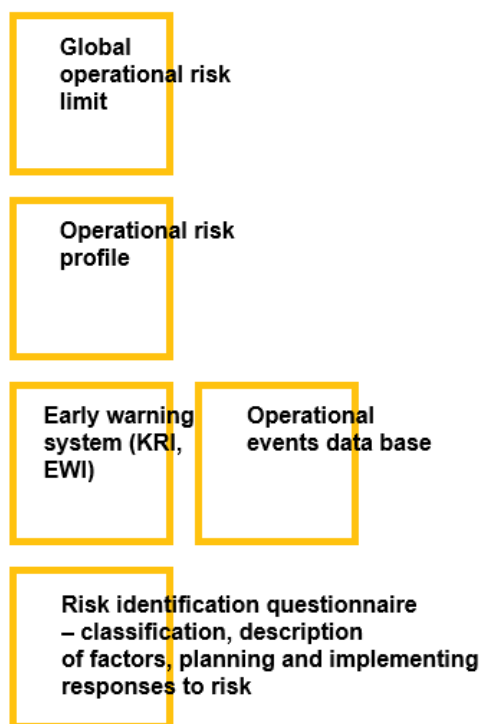
3.3.4. Operational risk management

Operational risk, in accordance with *TAURON Group's Operational Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to inappropriate or fallible internal procedures, human and system errors or as a consequence of external events. It also includes reputational risk and non-compliance risk. Operational risk, due to the specific nature of the threats and the ability to manage them, constitutes a separate group of risks affecting TAURON Capital Group's operations. The said risk is a complex issue, occurs in every process and type of operations, it is multi-dimensional and applies to various types of activities and operations. In particular, the exposure to the operational risk factors is related to the size and complexity of the organizational structure, the number and complexity of the IT systems and to the number of business processes conducted. Operational risk is characterized by the lack of the ability to totally eliminate its sources, and the analysis of its factors and parameters (among others, frequency and severity), and also the evaluation thereof requires the use of complex measurement and analysis methods.

In order to effectively manage the operational risk, TAURON Capital Group is using appropriate tools that, in particular, include the global operational risk limit, operational events database, the early warning system functioning on a broad scale and the related system of operational limits.

The below figure presents the risk management system tools.

Figure no. 44. Risk management system tools



Global operational risk limit is the basic tool for the operational risk control and represents the allocation of risk tolerance adopted by TAURON Capital Group. The global operational risk limit can be subsequently allocated to TAURON Capital Group's individual lines of business, the operational risk sub-categories as well as to the specific operational risks.

Operational risk profile is aimed at identifying areas, processes or activities with an excessive exposure to threats stemming from specific operational risk factors. It is expressed in particular in the structural dimension that includes types of operational events, TAURON Capital Group's organizational structure and processes, and in the scale dimension that includes estimated potential losses, taking into account especially historical values of actual losses, as well as the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the operational risk Profile the individual types of the operational risk are broken down (due to the nature of the occurrence thereof) into continuous and one-off risks.

Early Warning System is defined in order to monitor the operational risk level for each identified threat. Early Warning

Indicators (EWI) are selected from the Key Risk Indicators (KRI) set as the ones that are subject to continuous control with respect to the caution thresholds set for them, i.e. acceptance, mitigation and escalation thresholds.

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

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

3.3.5. Regulatory risk management

Regulatory risk, in accordance with *TAURON Group's Regulatory Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of TAURON Capital Group. Regulatory risk, due to the specific nature of threats and limited options to manage them, is a separate category of the enterprise risk to which TAURON Capital Group is exposed as part of its operations. Regulatory risk management is based on the Regulatory Risk Management Process and is a refinement of the Risk Management Process specified in the ERM Strategy.

The main causes of regulatory risk include:

1. instability of the legal environment,
2. change in regulatory policy at national and European levels,
3. progressing integration of the European energy market,
4. uncertain political situation,
5. a significant increase in the requirements for specific regulation.

The main goal of the regulatory risk management at TAURON Capital Group is to minimize losses and maximize gains from the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of the organization. As a result, it allows for reducing the potential threats, to a level as neutral as possible, to achieving TAURON Capital Group's strategic goals. The regulatory risk management is also aimed at building culture and awareness among the employees of TAURON Capital Group regarding the risk taken, as well as at the continuous improvement of the process of managing such risk.

Regulatory risk occurs when there are indications of regulatory changes, for example an entry into force of the EU directive, which will be implemented into the Polish legal regime or the positions of the legislators declaring the regulatory changes. Regulatory risk management does not cease when a specific regulation which is frequently

expected to provide executive regulations that specify its implementation method but from the moment the regulatory requirements take effect (The period from the entry of a legal act into force until the beginning of the regulatory requirements becoming effective is a transition period). At that time the regulatory risk management turns into the risk of non-compliance monitored as part of the compliance risk.

The below figure presents the regulatory risk life cycle.



In accordance with the classification of the regulatory risk, as part of *TAURON Group's Regulatory Risk Management Policy*, 12 areas of regulatory risk have been identified at TAURON Capital Group. The classification is based on the identification of homogeneous groups of regulations, based on their impact on the operations of TAURON Capital Group, taking into account the possibility of undertaking an effective response to the given risk. The regulatory risk areas are divided into 2 basic categories:

1. **Sector regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to the generation and supply of electricity and heat. Within this category, independently, there are also risks related to the distribution of electricity and the extraction of raw materials.
2. **Non-sector regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to, among others, the public procurement law, information security or compliance area, personal data protection, labor law, accounting and tax law, work (occupational) health and safety and corporate management.

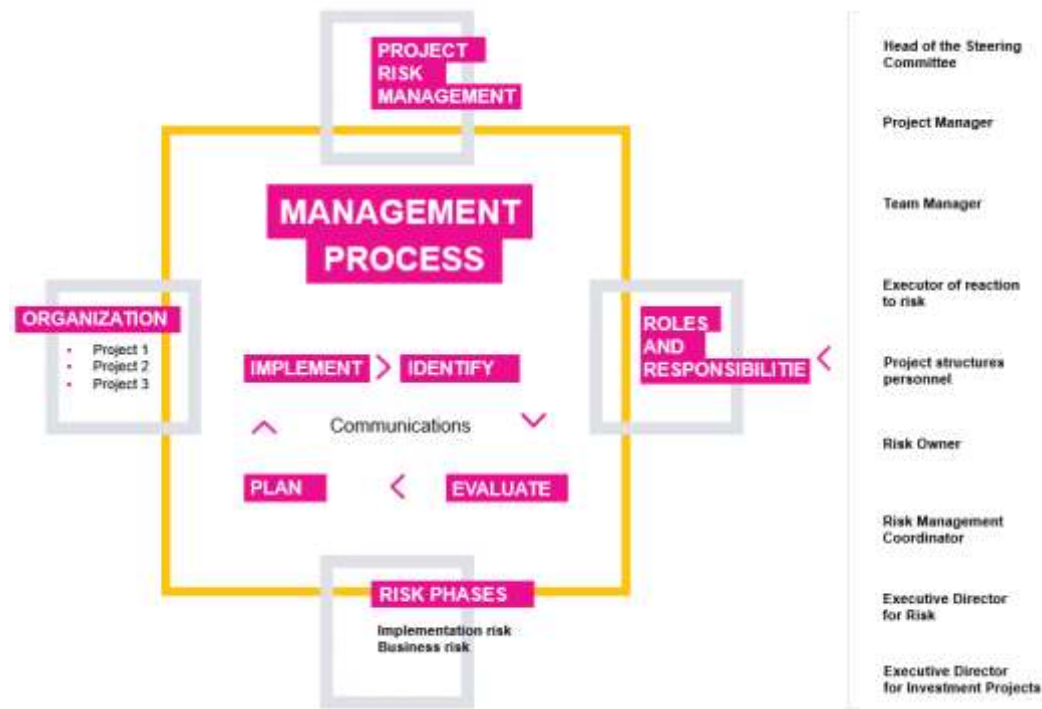
3.3.6. Project risk management

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

Project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes identification, valuation of such risks, defining and monitoring the early warning indicators as well as planning and implementing actions related to managing such risks. In case of the risks having an impact on the organization, the risk valuation is made as the absolute value of the impact, including indicating the impact period broken down into the individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks having an impact on the organization, the Plans of responses to the risk and back-up Plans are developed. The evaluation of the project risks and the risks stemming from the projects for the organization is taken into account when making the key decisions related to launching and implementing such projects.

The below figure presents the project risk management model.

Figure no. 46. Project risk management model



3.4. Description of the most material risk categories related to TAURON Capital Group’s operations

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

Table no. 21. Most material risk categories identified for TAURON Capital Group

#	Risk name	Risk description	Risk trend	Reaction to risk
Trading				
1.	Market risk	Risk related to the change in market conditions for the operations of TAURON Capital Group’s subsidiaries, in particular as a result of the tightening of the EU climate policy, growing environmental awareness of the society, activities supporting energy efficiency (moving away from coal as fuel, prosumer development, support for thermal insulation and construction of in-house energy and heat sources) resulting in a decrease of the margin in the Generation Line of Business (CDS / volume) as well as an increase in the costs and a decrease in the revenues	↗	<ul style="list-style-type: none"> • Daily measurement and reporting of portfolio positions, • Ongoing monitoring of the levels of S-P, VaR and Stop Loss, • Adoption of an optimal trading strategy, • Implementing position hedging mechanisms, • Auditing compliance with risk mandates with specific limits.
Finance and credit				
2.	Interest rate risk	Risk related to an unfavorable impact of interest rates on TAURON Capital Group’s financial results.	→	<ul style="list-style-type: none"> • Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the interest rates. • Transfer of risk through the use of derivative instruments
3.	FX rate risk	Risk related to an unfavorable impact of FX rates on TAURON Capital Group’s financial results.	→	<ul style="list-style-type: none"> • Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the FX rates, • Transfer of risk through the use of derivative instruments
4.	Liquidity risk	Risk related to the lack of TAURON Capital Group’s ability of to pay its liabilities on an ongoing basis	→	<ul style="list-style-type: none"> • Diversification of the sources of financing including arranging guaranteed financing programs and securing alternative sources of financing. • Implementing the central financing policy. • Analyzing the market and the availability of the sources of financing. • Monitoring the schedules and the date of announcing a financing program.
5.	Financing risk	Risk related to the difficulties with accessing capital, change to the conditions for obtaining and servicing financing contracted and planned	↗	<ul style="list-style-type: none"> • Diversification of the sources of financing including arranging guaranteed financing programs and securing alternative sources of financing. • Implementing the central financing policy.

#	Risk name	Risk description	Risk trend	Reaction to risk
		(including due to the tightening of the EU climate policy).		<ul style="list-style-type: none"> Analyzing the market and the availability of the sources of financing. Monitoring the schedules and the date of announcing a financing program. Gradual withdrawal of anthropogenic sources of greenhouse gas emissions from fossil fuels through the development of renewable energy and zero and low-emission electricity generation technologies, Active search for technical and organizational solutions that minimize the impact of TAURON Capital Group's operations on the climate change.
6.	Tax risk	Risk related to incorrect or untimely payment of tax obligations.	→	<ul style="list-style-type: none"> Activities in accordance with legal regulations (Corporate Income Tax Act). Issuing opinions on the economic events by TAURON Capital Group's tax advisors. Jointly agreed positions at TAURON level. Applying uniform accounting principles for companies within the PGK (Tax Capital Group). Preparation of tax documentation for transactions between PGK companies and related entities outside PGK, requiring such documentation in accordance with the CIT Act, and auditing other transactions to confirm that they are concluded at arm's length.
7.	Credit risk	Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty (business partner, contractor) that may turn out to be insolvent.	→	<ul style="list-style-type: none"> Regular monitoring of the counterparties (business partners, contractors)' financial standing. Periodic customer scoring, credit rating of each customer prior to submitting an offer / concluding a contract. Use of protection mechanisms (hedging) in commercial agreements
Environment (stakeholders)				
8.	Reputational risk	Risk related to the current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash, including the risk related to not following the market trends related to the climate protection.	→	<ul style="list-style-type: none"> Continuous monitoring of the Company's external and internal threats. Media monitoring, developing contacts and relationships with the media within TAURON Capital Group. Preparing procedures for the Company's communications with the external and internal environment (stakeholders). Striving to change the business profile to zero and low emission (carbon).
9.	License risk	Risk related to the lack of the possibility to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held, as well as the unfavorable legal changes with respect to the licensed operations.	→	<ul style="list-style-type: none"> Ongoing control of the correct performance of the licensing obligations. Monitoring changes to the legal acts with respect to the licensing obligations. Legal support for the license extension and obtaining process.
10.	Macroeconomic risk	Risk related to the changes in the economic situation of the country, instability of the financial markets resulting in a decrease of the demand for electricity.	↗	<ul style="list-style-type: none"> Diversification of the revenue sources. Market analysis and the application of the pre-emptive actions for the anticipated crisis or a slowdown of the GDP growth rate.
11.	Climate change risk	Risk related to the tightening of the EU climate policy, as well as the environmental requirements resulting from the climate change, activities supporting energy efficiency (prosumer development, support for the thermal insulation, construction of in-house energy and heat sources, departure from coal as fuel), change in the conditions of TAURON Capital Group's operation (the need to adapt the company to the challenges of change resulting from the climate change). The implications of the risk are: difficulties or increase in the cost of raising capital to finance operations based on the fossil fuels, the need to incur additional expenditures as a result of the climate change (transition of the assets), difficulty or increase in the insurance costs of the assets based on the fossil fuels, an increase in the costs of the environmental fees and the need to incur additional capital expenditures for adapting the assets to the environmental requirements, an increase of the price of the CO ₂ emission allowances, decreasing margins in the conventional energy segment, falling demand for electricity as a result of energy efficiency and the prosumer energy development, declining demand for the products offered by TAURON Capital Group's subsidiaries,	↗	<ul style="list-style-type: none"> Application of TAURON Group's Climate Policy. Defining, updating and implementing the Strategy. Update of TAURON Group's Strategic Research Agenda. Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from TAURON Group's Climate Policy and Investment Strategy. Update and implementation of TAURON Group's sustainable development strategy.

#	Risk name	Risk description	Risk trend	Reaction to risk
		limiting or discontinuing of the operations based on the fossil fuels and carbonates, the need to restructure employment due to a change in the profile of the operations, greater difficulties in all the administrative procedures with the participation of the public by the non-governmental organizations (NGOs), a decline in the value of the enterprise, the inability to meet market expectations due to the lack of the expected products in the portfolio.		
Technology, infrastructure and security (safety)				
12.	Environmental risk	<p>Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would enable the prevention of excessive pollution, damage, disruption or failures of the installations or equipment that would have a negative impact on the environment. The risk also related to the possibility of: lack of the validity of environmental decisions, depositing waste in places not intended for such purpose or not in accordance with the conditions of the use of the facilities intended for such a purpose, the occurrence of a crisis situation: e.g. fire, displacement of earth masses, extreme phenomena, the use of the waste not in accordance with the authorized destination, the lack of the appropriate safeguards limiting the negative impact of TAURON Capital Group's operations on the environment, release of the hazardous substances into the environment, social protests.</p> <p>The implications of the risk are: degradation of the natural environment and penalties for a failure to comply with environmental requirements, the need to remove such substances, the curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that would prevent their use, destruction of a habitat, object or valuable natural area - environmental compensation, restrictions on a further expansion of the business operations, a loss of the image of TAURON Capital Group, limitation of the ability to use the financial assistance programs.</p> <p>The risk also includes an increase in the environmental requirements due to the tightening of the EU's climate policy.</p>	→	<ul style="list-style-type: none"> • Adoption and implementation of TAURON Group's Environmental Policy. • Conducting business operations that affect the environment in accordance with the principles of the sustainable development. • Ongoing supervision over compliance with the conditions of the environmental decisions. • Maintaining the required efficiency of the devices reducing the emission of pollutants. • Frequent evaluation of the compliance of the activities with the legal requirements with respect to environment protection. • Implementing investment projects in the environment protection area in order to minimize the adverse impact of the mining and processing operations conducted on the environment and climate. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on the climate change.
13.	Weather risk	<p>Risk related to the more frequent occurrence of the temperatures oscillating around 0°C in winter, higher rainfall intensity that can cause floods at any time of the year, uneven precipitation, resulting in longer periods of no rainfall, intermittent abrupt rainfall, and the intensification of the evaporation processes, increased frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings, more frequent occurrence of droughts and restrictions in access to water related thereto, as well as an increased risk of fires, a very high risk of weakening of the stands, making trees more susceptible to the damage caused by the wind.</p> <p>The implications of the risk include, in particular: increased costs of fixing of the failures, decrease of the volume of electricity and heat supply, decline of the production volume, deterioration of the quality indicators and an impact on the regulated revenue.</p>	↗	<ul style="list-style-type: none"> • Upgrading (refurbishing) the hydroelectric structures aimed at optimizing the utilization of the water resources. • Preparing of the plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works. • Continuous monitoring of the wind conditions and icing on the wind farms' blades. • Continuous technical oversight over the operation of the individual wind farms, conducted by the companies operating the farms. • Monitoring and analyzing new technological solutions that reduce the impact of the adverse weather conditions on the volume of the electricity generated. • Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Lines of Business sensitive to these factors.

#	Risk name	Risk description	Risk trend	Reaction to risk
14.	Company asset failure risk	Risk related to the machinery and equipment failures, distribution grid failures (electricity, heat) caused, among others, by random events including those related to the extreme weather conditions (storms, floods, hurricane winds, heat waves, fires) as a consequence of, among others, the climate change.	→	<ul style="list-style-type: none"> Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of the machines, devices and installations. Raising professional qualifications and work culture of the personnel by organizing courses and training. Responding to an emergency situation by the technical personnel and automatic process safety interlocks (safeguards). Insuring assets against fortuitous events (excluding underground assets). Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios). Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Distribution Line of Business.
15.	IT risk	Risks related to the IT infrastructure security, failures of the IT infrastructure.	→	<ul style="list-style-type: none"> Developing and maintaining plans aimed at ensuring continuity of the IT infrastructure's operation. Periodic identifying and categorizing of the IT resources based on the service restoration targets. Use of the IT solutions with the appropriate technical parameters, providing an acceptable level of reliability and performance of the operation (including also UPS devices, GSM modem, mobile phones). Planning and conducting training courses on the IT infrastructure's continuity of operation and security. Storing and protecting the back-up data.
16.	Asset (property) security and protection risk	Risk related to compromising the integrity of machines / devices and to the security of information, including its improper processing and unauthorized disclosure.	→	<ul style="list-style-type: none"> Monitoring the implementation of the developed plans to protect the facilities that are subject to mandatory protection. Maintaining and updating contingency procedures / plans. Oversight over compliance with the information security rules in force. Regular personnel training with respect to the security procedures in force.
17.	Geological risk	Risk related to the impact of geological factors on the mining operations	→	<ul style="list-style-type: none"> Making test drillings for the better intelligence on the positioning of the coal deposits. Continuing to take preventive measures in areas under threat in order to improve the geological and mining conditions and to provide protection against natural threats (including, among others, long-drilled blasting hole shooting in order to break the rock mass)
Workforce and organizational culture				
18.	Social dispute risk	Risk related to collective disputes, strikes, social conflicts being the consequence of a lack of the personnel's satisfaction with the economic and social situation.	→	<ul style="list-style-type: none"> Conducting public consultations regarding the planned changes. Conducting a policy of dialogue with the workforce. Preparing and implementing motivational solutions for the personnel. Standardizing the tasks and requirements towards the personnel. Developing organizational culture based on values. Conducting active internal communications on personnel matters
19.	Human resources risk	Risk related to the employee issues, including diversity, participation, employment and working conditions, relations with the trade unions and respect for the right to freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to the climate change, forcing a change in the profile of the business operations. The materialization of the risk may result in interruptions or disruptions to the operations, employee complaints, collective disputes, strikes, loss of specialized staff and difficulties in recreating it.	→	<ul style="list-style-type: none"> Adoption and implementation of TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy. Adoption and implementation of TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination. Taking care of developing personnel competences through the participation in the training courses Conducting consultations with the social organizations at TAURON Capital Group Implementation of the human resources policy based on TAURON Group's Competence Model and the applicable remuneration and labor law regulations (Compensation Regulations, Company Collective Bargaining Agreement, Labor Regulations). Adoption and implementation of TAURON Group's Diversity Policy. Adoption and implementation of TAURON Group's Respect for Human Rights Policy.
20.	Risk of the lack of the employees' due diligence	Risk related to non-compliance with the procedures and the lack of the employees' due diligence in the performance of the official duties.	→	<ul style="list-style-type: none"> Implementation of TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy, Systematic periodic employee training, Analysis of the recurring cases of errors and mistakes of the employees, taking systemic remedial actions.
21.	Work Health and Safety (WHS) Risk	Risk related to ensuring health and safety at work. The materialization of the risk results in an employee injury, a loss of health or excessive exposure of an	→	<ul style="list-style-type: none"> Prioritizing safety of the employees, customers, contractors and stakeholders in the business activities undertaken Adoption and implementation of TAURON Group's WHS Policy, Ensuring optimal working conditions,

#	Risk name	Risk description	Risk trend	Reaction to risk
		employee to factors harmful to health, the compensation paid out for personal injury.		<ul style="list-style-type: none"> • Conducting active monitoring of the working conditions and the correctness of its organization, • Raising the employees' qualifications with respect to improving work safety, • Conducting training courses, implementing and improving the OHS management system
22.	Communications risk	Risk related to providing inaccurate, untrue information or a lack of information disclosure at specific time.	→	<ul style="list-style-type: none"> • Building relationships with the workforce of TAURON Capital Group and close cooperation with the Social Dialogue Ombudsman. • Use and development of the available communications tools to provide relevant information to the employees of TAURON Capital Group. • When providing the relevant information – organizing the direct meetings between the management and the employees. • Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social anxiety. • Regular meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange information. • Developing the Communications Strategy for TAURON Group
Compliance				
23.	Internal fraud risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, the use of the official position for personal gain resulting in the financial losses, criminal and administrative sanctions, criminal and civil law liability.	→	<ul style="list-style-type: none"> • Educational and training activities for the employees, including the mandatory e-learning training with respect to the Compliance Management System at TAURON Group. • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. • Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators. • Building the organizational culture based on TAURON Capital Group's values and principles. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of TAURON Group's Corporate Social Responsibility Code of Conduct. • Adoption and implementation of TAURON Group's Rules for accepting and giving gifts.
24.	External fraud risk	Risk related to the occurrence of an external fraud (abuse) that affects the operations of TAURON Capital Group through: disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attack and hacker attacks, tax fraud, theft, vandalism, counterfeiting, money laundering, terrorist attack.	→	<ul style="list-style-type: none"> • Raising the employees' awareness through training and information campaigns related to the existing threats of external fraud (abuse). • Adoption and implementation of the Code of Conduct for Contractors of TAURON Group's Subsidiaries. • Introduction of the anti-corruption clauses to contracts with the contractors (counterparties). • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. • Monitoring of the cooperation with the contractors (counterparties and testing their credibility at TAURON Capital Group). • Promoting of the best practices, improving the procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct and the functioning of the abuse (fraud) reporting (whistleblowing) system. • Building the organizational culture based on TAURON Capital Group's values and principles.
25.	Risk of unethical behavior and mobbing	Risk related to the occurrence of unethical behavior resulting, in particular, in the lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of the employees.	→	<ul style="list-style-type: none"> • Adoption and implementation of TAURON Group's Respect for Human Rights Policy. • Adoption and implementation of TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination. • Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization • Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators with respect to the anonymous reports of mobbing and discrimination. • Reviewing of the reports of mobbing or discrimination by the Ethics Committee. • Promoting of the best practices, improving the procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct and the functioning of the abuse (fraud) reporting (whistleblowing) system. • Building the organizational culture based on TAURON Capital Group's values and principles. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of TAURON Group's Rules for accepting and giving gifts.

#	Risk name	Risk description	Risk trend	Reaction to risk
26.	Legal risk	Risk related to non-compliance with the legal provisions, misinterpretation of the new laws and regulations, the requirements imposed by the regulator and the supervisory authorities. The materialization of the risk may result in the financial penalties, criminal and civil law liability, a loss of the image of TAURON Capital Group.	→	<ul style="list-style-type: none"> Adoption and implementation of TAURON Group's Compliance Policy. Continuous monitoring of the legal environment and changes to the legal regulations with respect to the non-sector regulations related to information security or the area of compliance in order to minimize the risk of non-compliance. Monitoring of the implementation process or implementing of the changes to the internal regulations required by the law. Setting up or participating in the working groups tasked with adapting the organizations to the changes stemming from the legal environment. Consultations with the relevant organizational units with respect to the planned key regulations for the area of compliance. Training of the personnel with respect to the changes to the legal regulations and the internal regulations.
27.	Risk of a breach of the contractual provisions (default)	Risk related to a breach of the contractual provisions with respect to the contract parameters or a failure to perform the contract (default).	→	<ul style="list-style-type: none"> Updating and adapting the contract templates to the legal changes. Monitoring of the complaints and proceedings of the Energy Regulatory Office (URE) / Office of Competition and Consumer Protection (UOKiK). Process optimization.
28.	Personal data protection risk	Risk related to inappropriate storing and processing of personal data resulting in an undesirable leak or violation of the rights of data subjects related to personal data protection	→	<ul style="list-style-type: none"> Identifying and implementing the appropriate technical or organizational measures to ensure the adequate level of security of personal data. Monitoring the compliance with the legal regulations related to personal data protection. Raising the level of awareness of the workforce with respect to personal data protection, in accordance with the applicable regulations. Defining and implementing the process of handling the data subjects' requests in accordance with the regulations and process documentation in force at TAURON Capital Group. Providing information and advice on personal data protection to the employees of the organization.
Customers and counterparties (business partners, contractors)				
29.	Customer service risk	Risk related to non-compliance with the customer service standards leading to customer dissatisfaction with the service, customer complaints, loss of customers.	→	<ul style="list-style-type: none"> Monitoring and analyzing the external customer satisfaction indicators and the indicators related to the complaints. Taking the additional measures, e.g. with respect to the internal regulations, defining standards of conduct as a result of the analysis of indicators. Taking the additional measures, e.g. introducing new internal regulations in order to improve the customer service standards. Developing the key account managers' competences and skills. Continued raising of the customer service standards.
30.	Risk related to performance of agreements by contractors and subcontractors	Risk related to the improper performance by the contractors and subcontractors of the works commissioned, the termination of the agreement and delays, changes to the budget and scope related thereto.	→	<ul style="list-style-type: none"> Concluding of the agreements with the contractors and subcontractors in accordance with TAURON Capital Group's standards. Analyzing the performance of the subject of the agreement, examining the quality of services provided by the contractors and subcontractors. Evaluating the financial standing and credibility of the contractors and the subcontractors.
31.	Volume and margin risk	Risk related to the decline in the volume of the sales of the products offered by TAURON Capital Group's subsidiaries, in particular as a result of the development of the energy efficiency solutions, building insulation, prosumer development, the impact of the climate factors causing a significant temperature deviation from the planned values. The implications of the risk include, first of all, the loss of revenue in the individual operating segments of TAURON Capital Group due to the reduced demand.	→	<ul style="list-style-type: none"> Ongoing updating of the offering, launching of the sales of the multi-package type products. Conducting the marketing campaigns, acquiring new customers. Taking actions focused on retaining the existing customers and recovering the lost ones.
32.	Purchasing process risk	Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, including the	→	<ul style="list-style-type: none"> Adoption and implementation of the Code of Conduct for Contractors of TAURON Group. Adoption and implementation of TAURON Group's Anti-Corruption Policy. Adoption and implementation of TAURON Group's Respect for Human Rights Policy. Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof. Building lasting relationships with the contractors based on trust and mutual respect. Expecting the contractors to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of

#	Risk name	Risk description	Risk trend	Reaction to risk
		methods used to prevent violations of the human rights by the business partners, counteracting corruption and abuse (fraud) in the purchasing process and compliance with the ethical and moral standards during the implementation thereof. The materialization of the risk results in unfavorable purchase agreements, the need to cancel the tender procedures, a loss of the image of TAURON Capital Group and its credibility with the stakeholders.		<p>countering discrimination and unequal treatment, respect for human rights and dignity of the employees, transparent personnel policy, environment protection, fair competition, preventing and combating fraud, and information security and protection.</p> <ul style="list-style-type: none"> • Application of the contract forms (templates) and standard clauses in the contracts regarding compliance with the human rights by the business partners of TAURON Capital Group.
Regulations				
33.	Regulatory risk	Risk related to the change of the existing or the introduction of the new regulations that affect the operations of TAURON Capital Group and the need to adapt to the regulatory changes, in particular those resulting from a significant increase in the requirements of a specific regulation, including the environmental requirements stemming from the climate change, the support for the pro-climate activities (prosumer development, thermal insulation, development of in-house production sources). The implications of the risk are primarily: the loss of revenues in the individual operating segments of TAURON Capital Group, the increase in the operating expenses as a result of the need to adapt to the legislative changes.	↗	<ul style="list-style-type: none"> • Ongoing analysis of the draft regulations and acts. • Active participation in the works of the teams providing opinions on the drafts and proposing optimal solutions. • Gradual adaptation of the generation assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as to the zero and low-emission electricity generation technologies.

3.5. Risk classification in the individual operating Segments

3.5.1. Mining Segment

The Mining segment, in particular with respect to the hard coal mining, is exposed to a number of risk factors, the materialization of which significantly hinders or completely reduces the mining capacity at the individual coal mines. The most material operational risks include:

1. risk of adverse geological and mining conditions characterized by, e.g. unfavorable positioning of the coal deposits in the coal seam, faults, or excessive presence of the rocks (stone),
2. risk of the lack of the timely commissioning of the coal faces involving the lack of the preparation of the mining fronts (headings) in advance,
3. risk of asset failures leading to the coal mining downtime, due to the occurrence of the machinery and equipment failures,
4. risk of the occurrence of natural geological and mining threats leading to the coal mining downtime, caused by the rock bursts, endogenous fires, presence of methane in the deposit, too much water inflow

The material risks in the Mining Segment also include threats stemming from the regulatory environment, including the gradual introduction of the new environmental requirements tightening the emission standards for the coal fired power plants, which will result in a decline of the demand for coal with low quality parameters.

The Mining Segment will also be significantly affected by the climate policy, which assumes a departure from the coal based generation technology in order to reduce pollution and achieve climate neutrality in the EU in the long term, which will, in effect, lead to the need to gradually phase out coal production. In addition, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investments in the Mining Segment.

3.5.2. Generation Segment

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

As part of the market risk, the significant risk factors include: the gradually declining CDS margin and the plans to integrate the European electricity market (increase in the electricity imports). In addition, the development of renewable energy technologies and the ever growing share of RES in meeting the demand for electricity have a significant impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market. Also, the electricity imports and the introduction of the new coal fired capacity into the system,

with the efficiency definitely higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be falling.

With respect to the operational factors, the most important threat is the risk of not achieving the planned availability rate of the units, which is closely related to the individual units' failure rate, high variability of the units' loads and the higher frequency of start-ups or the use of inadequate quality fuel.

The Generation Segment's operations will also be materially affected by the climate factors, including the climate policy, that assumes the ultimate departure from the coal fired generation technology to reduce pollution, which, in turn, will cause a drop in the profitability of this operating segment. In addition, the climate factors will lead to an increase of the average temperature during the year, causing the reduction of the revenue from the heat supply. Furthermore, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investments in the Generation Segment.

The material risk factors in the near future include planned refurbishments of the units, with the goal to adapt the units to the new environmental requirements defined in the BAT Conclusions. The implementation of the refurbishments on the existing facilities may lead to the rise of the project and organizational risks related to, among others, the potential increase of the costs of the refurbishments or the reduction of the units' availability rates.

In the long term, the regulatory risks, including the further tightening of the environmental requirements, will lead to the need to carry out the transition of the Generation Segment, both in terms of the technical as well as the social aspects.

3.5.3. Distribution Segment

One of the most important threats to the Distribution Segment is the distribution services sales risk related to the electricity supply volume decline, and, as a consequence, a drop in the revenues from the provision of the distribution services to the individual groups of consumers. The material reasons behind this risk include both the macroeconomic factors, i.e. a decline in the demand for electricity due to the economic slowdown, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing energy intensity and the rapid development of the prosumer energy.

An equally significant risk is associated with the occurrence of an unfavorable deviation of the operating expenses resulting in the costs of the operations, and in particular the operating expenses and the costs of purchasing electricity to cover the balance difference, not being covered by the tariff during the tariff period.

With respect to the operational factors, a major risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs of fixing the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings causing failures of the distribution grids.

In the medium and long term, the material risks for the Distribution Segment include the risk of an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the value of the capital expenditures, the balance difference indicators and the amount of the transmission fees), the issues related to the compliance with the distribution's quality indicators that have an impact on the regulated revenue and the planned change to the distribution tariff model.

3.5.4. Supply Segment

In the Supply Segment, TAURON Capital Group identifies and manages the risks related to the supply of electricity to the final consumers, including the key customers (volume risk per individual customer segment, margin risk, profile risk and the risk of non-balancing).

A significant threat to the accomplishment of the Supply Segment's assumed goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the macroeconomic factors, i.e. a drop of the demand for electricity caused by the economic slowdown and an increase of the electricity prices. In addition, this risk is fueled by the increased customer awareness, the trend to strengthen consumer protection, and the regulatory pressure to reduce the price hikes.

At the same time, the Supply Segment is threatened by the market risk due to the high volatility of the electricity, gas and related products prices. This risk, as a consequence of the price fluctuations as well as the observed liquidity of the electricity market, affects the margin obtained due to the steps required to hedge the cost of the electricity supply.

The most important regulatory risks in the Supply Segment include the tariff risk, in particular related to the reduction of the Company's costs by the President of the Energy Regulatory Office to the level of the justified costs and the costs actually incurred not being covered by the tariff for the given year. The consequences of the materialization

of this risk include the reduction of the planned revenue, profitability and funds for the development of the company's potential.

In the long run, the climate factors, in particular the rapid development of the prosumer energy, pose a threat to the stability (predictability) of achieving the Supply Segment's goals. The risk of the prosumer market growth is associated with an increase in the electricity production from the micro-installations, resulting in an increase of the costs of serving the prosumers and a loss of the supply volume and the planned margin on the electricity supply.

3.5.5. Other operations

Other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other operations segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, personal data protection as well as security and protection of property.

At TAURON Capital Group's level, the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing resulting from the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, risks associated with the human resources management and the workforce expectations with respect to the growth of wages, as well as the pending court litigations against TAURON.

3.5.6. Risk category map

The below table presents the classification of risks based on TAURON Capital Group's operating segments. The risk categories indicated below are consistent with the Risk Model adopted by TAURON Capital Group described in section 3.2.5. of this report.

Table no. 22. Classification of risks based on TAURON Capital Group's operating segments

#	Risk	Term			Operating Segment ¹				
		Short	Medium	Long	Mining Segment	Generation Segment	Distribution Segment	Supply Segment	Other operations
1.	Market risk	x	x	x	5	5	3	5	0
2.	Interest rate risk	x	x	x	2	2	4	2	4
3.	FX rate risk	x	x		1	2	2	1	1
4.	Liquidity risk	x	x	x	4	4	2	2	2
5.	Financial risk	x	x	x	5	5	3	3	3
6.	Tax risk	x			3	3	3	3	3
7.	Credit risk	x	x		1	1	4	4	1
8.	Reputational risk	x	x	x	2	2	3	3	2
9.	License risk	x	x	x	3	3	3	3	0
10.	Macroeconomic risk	x	x	x	4	4	5	5	2
11.	Climate change risk	x	x	x	5	5	4	4	4
12.	Environmental risk	x			2	2	1	0	0
13.	Weather risk	x			1	3	3	2	0
14.	Company asset failure risk	x			5	5	4	0	1
15.	IT risk	x			3	3	3	3	3
16.	Asset (property) security and protection risk	x			2	3	3	1	2
17.	Geological risk	x			5	0	0	0	0
18.	Social dispute risk	x			4	4	4	3	2
19.	Human resources risk	x	x		3	2	3	2	2
20.	Risk of the lack of the employees' due diligence	x			2	2	2	2	2
21.	Work Health and Safety (WHS) Risk	x			3	3	2	1	1
22.	Communications risk	x			2	2	2	2	1

#	Risk	Term			Operating Segment ¹				
		Short	Medium	Long	Mining Segment	Generation Segment	Distribution Segment	Supply Segment	Other operations
23.	Internal fraud risk	x			2	2	2	2	2
24.	External fraud risk	x			3	3	3	3	3
25.	Risk of unethical behavior and mobbing	x			2	2	2	2	2
26.	Legal risk	x			3	3	3	2	2
27.	Risk of a breach of the contractual provisions (default)	x			2	2	2	2	2
28.	Personal data protection risk	x			2	2	3	3	3
29.	Customer service risk	x			1	1	3	3	1
30.	Risk related to performance of agreements by contractors and subcontractors	x			2	2	2	1	2
31.	Volume and margin risk	x	x		4	4	5	4	2
32.	Purchasing process risk	x			2	2	3	1	2
33.	Regulatory risk	x	x	x	5	5	4	3	2

¹ values signifying the impact of the individual risks on TAURON Capital Group's operating segments: 0 - neutral, 1 - immaterial on the Company's level, 2 - material on the Company's level, 3 - serious on the Company's level, 4 - material on TAURON Capital Group's level, 5 - serious on TAURON Capital Group's level

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

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

Statement of comprehensive income

The below table presents the annual standalone statement of comprehensive income in 2019-2017, drawn up in accordance with the International Financial Reporting Standards (IFRS).

Table no. 23. Annual standalone statement of comprehensive income in 2019-2017 drawn up in accordance with the IFRS

Statement of comprehensive income drawn up in accordance with the IFRS (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Sales revenue	10 680 577	8 618 642	7 792 025	124%
Own cost of goods, materials and services sold	(10 431 139)	(8 472 648)	(7 414 707)	123%
Gross profit (loss) from sales	249 438	145 994	377 318	171%
Cost of sales	(24 036)	(20 692)	(23 309)	116%
Overheads	(121 636)	(98 716)	(88 751)	123%
Other operating revenues and costs	(2 664)	(3 927)	(2 470)	68%
Operating profit (loss)	101 102	22 659	262 788	446%
<i>Operating profit margin (%)</i>	<i>0.9%</i>	<i>0.3%</i>	<i>3.4%</i>	<i>-360%</i>
Financial revenue	1 490 670	1 146 884	1 017 258	130%
Costs of interest on debt	(407 866)	(298 602)	(334 638)	137%
Revaluation of stocks and shares	(94 920)	(2 469 069)	(134 372)	4%
Revaluation of bonds and loans	(1 394 812)	15 493	0	-
Other financial revenues and costs	(40 381)	(149 648)	108 529	27%
Pre-tax profit (loss)	(346 207)	(1 732 283)	919 565	-
<i>Pre-tax profit margin (%)</i>	<i>(3.2)%</i>	<i>(20.1)%</i>	<i>11.8%</i>	<i>-</i>
Income tax	(116 623)	22 430	(65 214)	-
Net profit margin (%)	(462 830)	(1 709 853)	854 351	27%
<i>Net profit margin (%)</i>	<i>(4.3)%</i>	<i>(19.8)%</i>	<i>11.0%</i>	<i>-</i>
Other net comprehensive income	11 171	(19 666)	(6 713)	-
Total comprehensive income	(451 659)	(1 729 519)	847 638	26%
EBITDA	114 198	27 287	268 220	419%
<i>EBITDA margin (%)</i>	<i>1.1%</i>	<i>0.3%</i>	<i>3.4%</i>	<i>338%</i>

The Company posted an operating profit of PLN 101 million in 2019, higher than in 2018, primarily as a consequence of TAURON generating higher margins on the trading operations, in particular on trading in electricity and CO₂ emission allowances.

In 2019, similar as in 2018, impairment charges related to the value of stocks and shares in subsidiaries were recognized in the financial results, due to the completed impairment tests related to the loss of the carrying amount of stocks and shares in subsidiaries as well as bonds and loans as of June 30, 2018 and as of December 31, 2018. The detailed information is provided further on in this report.

The Company disclosed the information on the above events in the regulatory filings (current reports): no. 30/2019 of August 19, 2018 and no. 5/2019 of March 4, 2019.

Revenue

The below table presents the Company's sales revenue in 2019 – 2017.

Table no. 24. Company's sales revenue in 2019 – 2017

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Sales total	12 248 381	9 815 952	8 963 044	125%
Sales revenue	10 680 577	8 618 642	7 792 025	124%
Revenue from sales of goods and materials:	10 526 854	8 506 398	7 664 715	124%
Electricity (without excluding excise tax)	9 468 482	7 555 021	7 117 988	125%
Gas	347 631	277 887	190 507	125%
Greenhouse gas emission allowances	701 607	666 306	336 566	105%
Other	9 134	7 184	19 654	127%
Revenue from sales of services:	153 723	112 244	127 310	137%
Trading services sales	110 256	67 014	52 711	165%
Other	43 467	45 230	74 599	96%
Revenue from other operations	2 089	1 698	1 427	123%
Revenue from financial operations	1 565 715	1 195 612	1 169 592	131%
Revenue from dividend	1 100 861	819 437	560 832	134%
Revenue from bonds and loans interest	389 809	327 447	456 426	119%
Other financial revenue	75 045	48 728	152 334	154%

Revenue from the sales of goods and materials represents 86% of the total revenue, while financial revenue represents 13%, which is a consequence of the implemented Business Model and centralizing of functions by TAURON.

The goal of the adopted solution is to hedge the buy and sell positions of TAURON Capital Group's entities, to perform the function of the Market Operator and the entity responsible for the trading balancing of TAURON Capital Group's subsidiaries and to optimally manage, among others, the property rights and the CO₂ emission allowances.

A relatively large share of revenue from bonds and loans interest is a consequence of the implemented central financing model and *TAURON Group's Liquidity Management Policy*, along with the cash pooling mechanism put in place at TAURON Capital Group, which allows for efficient management of the finances of all of TAURON Capital Group's subsidiaries.

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

1. higher revenue from the sales of electricity as a result of higher electricity sales prices (25.3%), as compared to 2018,
2. increase of revenue from the sales of greenhouse gas emission allowances (sales to TAURON Capital Group's subsidiaries for the purpose of redeeming the allowances in conjunction with the fulfillment of the obligation due to greenhouse gas emissions) as a result of a rise of the sales prices of greenhouse gas emission allowances,
3. higher revenue from the sales of natural gas as a result of an increase of prices and sales volume,

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

1. services related to electricity (+279% as compared to 2018, primarily due to the commencement of the provision of the portfolio management services by TAURON Capital Group's subsidiaries in 2019),
2. management of the portfolio of CO₂ emission allowances (+44%, as compared to 2018).
3. intermediary services related to coal purchase transactions on the market for TAURON Capital Group's subsidiaries (-17% as compared to 2018, due to the lower supply volumes),
4. use of the trademark by TAURON Capital Group's subsidiaries.

Due to its holding operations the Company is reporting material financial revenue. Its rise by 31% is mainly a consequence of higher revenue from dividends (by 34%), higher bonds and loans interest (by 19%), and other financial revenue (by 54%, including positive foreign exchange gains and the valuation of the financial instruments).

The Company's operations are primarily conducted on the territory of Poland. Sales to foreign customers came in at PLN 35.974 million and PLN 97.502 million, respectively, in the years ended on December 31, 2019 and December 31, 2018.

Costs

The below table presents the level and structure of the costs incurred by the Company in 2019 – 2017.

Table no. 25. Structure of the costs incurred by the Company in 2019 – 2017

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Total costs	(12 594 588)	(11 548 235)	(8 043 479)	109%
Cost of goods, materials and services sold	(10 431 139)	(8 472 648)	(7 414 707)	123%
Costs of sales and overheads	(145 672)	(119 408)	(112 060)	122%
Costs of other operations	(4 753)	(5 625)	(3 897)	84%
Costs of financial operations	(2 013 024)	(2 950 554)	(512 815)	68%

The total costs of the Company's operations in 2019 represented 109% of the level of the costs in 2018, mainly as a result of an increase in the costs of goods, materials and services sold, which constituted the largest share in the total costs (83%). The higher costs of purchasing electricity, resulting from a higher purchase price of electricity (by 28.2%) had the largest impact on the increase in these costs by 23% as compared to 2018. The increase in the Company's costs was also affected by the recognition in the financial costs in 2019 of the effects of booking the impairment charges related to the carrying amount of the bonds and loans granted to the subsidiaries stocks and shares in subsidiaries, while the effects of booking the impairment charges related to the carrying amount of the shares in the subsidiaries were recognized in 2019 in the lower amount than in 2018.

The costs of sales and overheads were higher by 22% in 2019, as compared to 2018. The increase was mainly related to the costs of compensations due to the fact that the costs on the revenues from the use of shares were reversed in 2018 decreasing the compared value and the general increase of compensations in 2019. In addition, the impact of IFRS 16 Leases was recognized in 2019 and translated into a higher level of depreciation.

The costs of other operations include mainly premiums paid to the industry organizations and donations, and the decrease of the costs by 16% is primarily due to the reduction of the premiums paid to the organizations as compared to 2018.

The financial costs included mainly:

- an excess of the booked and reversed impairment charges related to the carrying amount of stocks and shares in the subsidiaries,
- update of the bonds and loans,
- interest on debt.

The impairment charges related to the carrying amount of stocks and shares in subsidiaries as well as intra-Group loans and bonds, conducted as of June 30 and December 31, 2019, demonstrated:

- validity of booking write-downs related to the loss of the carrying amount of the shares in TAURON Ciepło in the amount of PLN 168 million,
- validity of reversing write-downs related to the loss of the carrying amount of the shares in TAURON EKOENERGIA in the amount of PLN 185 million,
- validity of booking write-downs related to the permanent loss of the carrying amount of the shares in TAURON WYDOBYCIE in the amount of PLN 99 million
- validity of reducing the carrying amount of the financial assets (shares and debt financing instruments) due to the shares in the subsidiary TAURON WYDOBYCIE. As a result of the impairment tests and the valuation, as of the balance sheet date, of the above financial assets, the pre-tax financial result for 2019 is reduced by PLN 1 510 million.

The impairment tests conducted as of December 31, 2019, took into account the following premises:

- the Company's capitalization persistently staying below the net carrying amount of the assets,
- changes in the global prices of energy related commodities and electricity as well as the strong growth of the CO₂ emission allowances prices,
- high volatility of the electricity prices on the futures market and persistent problems with the lack of liquidity,
- regulatory actions aimed at limiting the increase of the electricity prices for the final customers,
- increased risks related to commercial coal production,

- the effects of the results of the thus far RES auctions and of the very rapid growth of the prosumer and micro-installations subsector in connection with the support programs launched,
- the effects of introducing the provisions of the winter package, including the emission standard, adversely affecting the possibility of the coal fired units' participation in the capacity market after July 1, 2025,
- tightening of the emission standards and persisting unfavorable market conditions from the point of view of the conventional energy's profitability,
- a decrease in the risk-free rate.

Furthermore, the impairment charge related to the shares in PGE EJ 1 in the amount of PLN 4 million, the impairment charge related to the shares in ElectroMobility Poland in the amount of PLN 6 million, the impairment charge related to the shares in Finanse Grupa TAURON in the amount of PLN 24 million were booked, as well as the impairment charge related to the shares in TAURON Sweden Energy in the amount of PLN 21 million was reversed.

Company's assets and financial position

The below table presents the Company's annual standalone statement of financial position, drawn up in accordance with the IFRS.

Table no. 26. Annual standalone statement of financial position drawn up in accordance with the IFRS (material items)

Statement of financial position drawn up in accordance with the IFRS (PLN '000)	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	Change in % (2019/2018)
ASSETS				
Fixed assets	27 010 590	27 166 500	27 371 684	99%
Stocks and shares	21 844 183	21 076 056	20 912 679	104%
Bonds and loans granted	5 047 552	5 852 741	6 392 909	86%
Current assets	3 474 539	2 346 490	2 949 690	148%
Inventory	149 364	409 587	198 428	36%
Trade receivables and other receivables	1 727 952	833 484	719 133	207%
Bonds and loans granted	265 202	205 428	562 776	129%
Cash and equivalents	923 728	465 925	721 577	198%
TOTAL ASSETS	30 485 129	29 512 990	30 321 374	103%
LIABILITIES				
Equity	14 808 177	15 259 836	17 377 906	97%
Long term liabilities	10 947 500	8 533 790	9 530 787	128%
Liabilities due to debt	10 909 597	8 474 344	2 725 763	129%
Short-term liabilities	4 729 452	5 719 364	3 412 681	83%
Liabilities due to debt	3 607 266	4 504 374	2 725 763	80%
Liabilities towards suppliers and other liabilities	697 230	897 632	513 484	78%
TOTAL EQUITY AND LIABILITIES	30 485 129	29 512 990	30 321 374	103%

As of December 31, 2019 fixed assets represented the biggest share of the total assets (89%), where the dominating item is the value of stocks and shares (72% of the total assets) as well bonds as loans granted (19% of the total assets).

The following events had the biggest impact on an increase of the value of stocks and shares by 4% year on year:

1. establishing of the companies TEC1, TEC2 and TEC3 and increasing of the share capitals in the companies TEC1, TEC2 and TEC3 in the amount of PLN 601 million,
2. increasing of the share capital of Nowe Jaworzno Grupa TAURON in the amount of PLN 250 million,
3. increasing of the share capital of EEC Magenta ASI and EEC Magenta 2 ASI in the amount of PLN 12 million.

The additional factors that led to a change of this balance sheet item were the impairment charges related to the stocks and shares that were booked and reversed as a result of impairment tests conducted due to the loss of the

carrying value of stocks and shares in subsidiaries. The impairment tests conducted as of June 30 and December 31, 2019, demonstrated the validity of booking or increasing the already booked write-downs in the following subsidiaries: TAURON Ciepło in the amount of PLN (168) million and TAURON Wydobyście in the amount of PLN (99) million, as well as that of reversing the write-downs on the value of shares in TAURON EKOENERGIA in the amount of PLN 185 million.

The item *Bonds and loans granted* presents the value of the bonds issued by the subsidiaries, purchased by TAURON and the loans granted by TAURON to the subsidiaries, The conversion of TAURON Capital Group's subsidiaries' debt, due to the intra-group bonds, to the intragroup loans, while maintaining the thus far maturities of the financial instruments, was carried out in December 2019.

As of December 31, 2019 and as of December 31, 2018, equity represented, respectively, 49% and 52% of total equity and liabilities.

The liabilities of the Company due to debt, as of December 31, 2019, were related to:

- bonds issued under the bond issue program worth PLN 5 544.5 million, including the subordinated hybrid bonds in the amount of PLN 1 913.4 million,
- loans obtained from the consortium of banks in the amount of PLN 5 305.6 million,
- loans obtained from BGK in the amount of PLN 998.5 million,
- loans from related entities drawn under the *Agreement on the provision of the cash pool service* in the amount of PLN 1 205.4 million,
- loans obtained from the European Investment Bank (EIB) in the amount of PLN 694.5 million (including interest),
- loan from a subsidiary in the amount of PLN 711 million,
- overdraft in the amount of PLN 21.2 million.

In addition, pursuant to IFRS 16 *Leases*, the Company's liabilities due to debt also include a lease liability in the amount of PLN 36.2 million, related to the right of perpetual usufruct of land, leases of office and storage space, parking spaces and cars.

Statement of cash flows

The table below presents the statement of cash flows drawn up in accordance with the IFRS.

Table no. 27. Statement of cash flows drawn up in accordance with the IFRS (material items)

Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Cash flows from operating activities				
Pretax profit / (loss)	(346 207)	(1 732 283)	919 565	-
Adjustments	(152 063)	1 607 137	(673 538)	-
Net cash from operating activities	(498 270)	(125 146)	246 027	
Cash flows from investing activities				
Purchase of stocks and shares	(863 047)	(2 646 353)	(6 169 590)	33%
Purchase of bonds	(420 000)	(160 000)	(350 000)	263%
Loans granted	(1 281 444)	(847 442)	(307 132)	151%
Redemption of bonds	1 190 000	1 334 920	3 547 110	89%
Repayment of loans granted	15 600	421 225	1 000 000	4%
Dividends received	1 100 861	819 437	359 787	134%
Interest received	335 316	289 177	642 017	116%
Net cash from investing activities	74 699	(720 432)	(1 353 288)	
Cash flows from financing activities				
Redemption of debt securities	(2 420 000)	0	(1 650 000)	-
Repayment of loans / credits	(862 318)	(162 318)	(175 695)	531%
Interest paid	(405 881)	(301 978)	(265 223)	134%
Issue of debt securities	500 000	1 350 000	2 707 462	37%

Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Loans taken	5 150 000	0	0	-
Net cash from financing activities	1 934 525	844 776	593 470	229%
Increase/(decrease) in net cash and equivalents	1 510 954	(802)	(513 791)	-
Net FX differences	(239)	(526)	2 038	45%
Cash opening balance	(1 560 034)	(1 559 232)	(1 045 441)	100%
Cash closing balance	(49 080)	(1 560 034)	(1 559 232)	3%

The balance of cash received from operating, investing and financing activities of the Company for 2019, taking into account the opening cash balance, was PLN (49.1) million. In addition, the closing cash balance presented in the Company's balance sheet as of the end of the period in the amount of PLN 923.7 million results from the adjustment of cash by the balance of loans granted and drawn under the cash pooling transactions, due to the fact that they do not constitute cash flows from investing or financing activities, as they are used mainly for the current liquidity management.

4.2. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON for 2019. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

4.3. Key financial ratios and the Alternative Performance Measures

The below table presents key financial ratios of TAURON, which may constitute an important source of information for investors about the financial and operational standing of the Company. The Alternative Performance Measures below as defined by the ESMA Guidelines on Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding the Company's financial results. They constitute standard metrics commonly used in financial analysis, the usefulness of which has been analyzed in terms of the information provided to investors on the financial standing, financial efficiency and cash flows of the Company.

Table no. 28. Key financial ratios of TAURON

#	Item	Definition	2019	2018	2017	Change in % (2019/2018)
1.	Gross Profitability	Gross profit / sales revenue	(3.2)%	(20.1)%	11.8%	-
2.	Net Profitability	Net profit / sales revenue	(4.3)%	(19.8)%	11.0%	-
3.	Return on equity	Net profit / equity as of the end of the period	(3.1)%	(11.2)%	4.9%	-
4.	Return on assets	Net profit / total assets	(1.5)%	(5.8)%	2.8%	-
5.	EBIT (PLN '000)	Operating profit	101 102	22 659	262 788	446%
6.	EBIT margin	(EBIT / sales revenue)	0.9%	0.3%	3.4%	360%
7.	EBITDA (PLN '000)	Operating profit before depreciation	114 198	27 287	268 220	419%
8.	EBITDA margin	EBITDA / sales revenue	1.1%	0.3%	3.4%	338%
9.	Current liquidity ratio	Current assets / short term liabilities	0.73	0.41	0.86	179%

The higher EBIT achieved by the Company in 2019, as compared to 2018, is mainly due to TAURON generating higher margins on the trading operations, in particular on trading in electricity and CO₂ emission allowances.

The 2019 pre-tax and net financial results were impacted by the booked and reversed impairment charges related to the stocks and shares in subsidiaries and the value of loans granted.

The amount of the operating profit is typical for a company conducting operations involving managing a holding entity (costs related to managing TAURON Capital Group are included in the operating activities while revenues gained from dividends are recognized under the financial activities).

The Company's ability to pay its accounts payable was not in jeopardy in 2019.

4.4. Principles of preparing annual financial statements

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

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

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

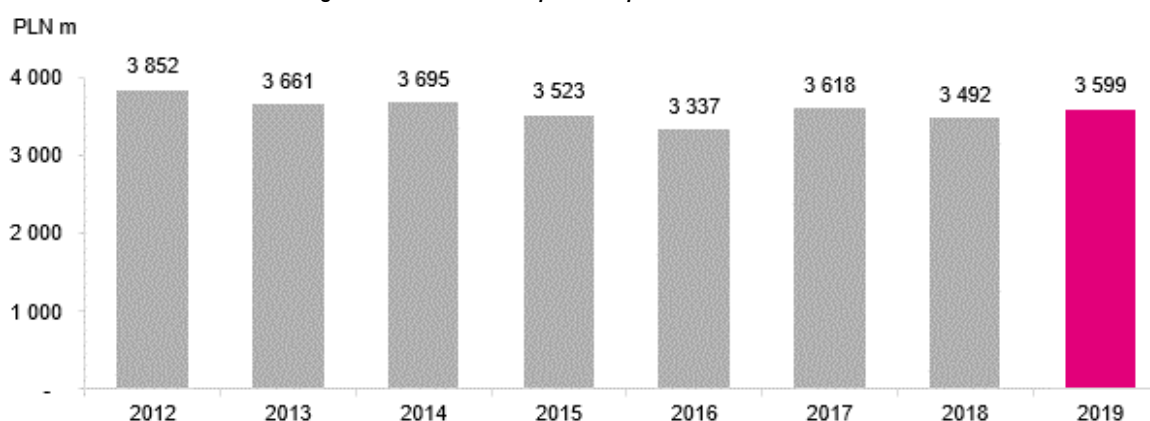
The accounting principles (policy) adopted for drawing up of the consolidated financial statements are presented in note 8 to the *Financial statements of TAURON Polska Energia S.A., drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

5. ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL

5.1. TAURON Capital Group's financial results

The below table presents TAURON Capital Group's EBITDA in 2012-2019.

Figure no. 47. TAURON Capital Group's EBITDA in 2012-2019



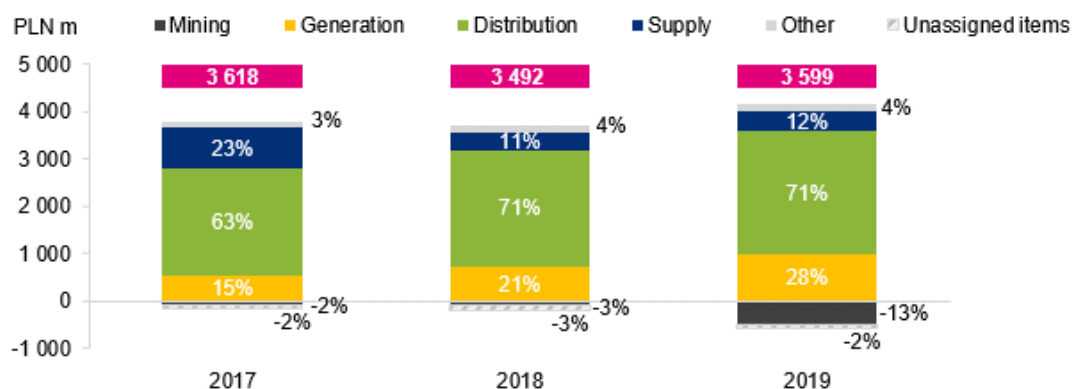
The below table presents TAURON Capital Group's 2019-2017 EBITDA broken down into individual lines of business (segments). Data for the individual segments do not include consolidation exclusions.

Table no. 29. TAURON Capital Group's 2019-2017 EBITDA broken down into individual lines of business (segments)

EBITDA (PLN '000)	2017	2018	2019	Change in % (2019/2018)	Change (2019-2018)
Mining	43 913	(90 262)	(499 865)	-	(409 603)
Generation	537 024	731 372	984 239	135%	252 867
Distribution	2 282 685	2 465 537	2 605 808	106%	140 271
Supply	841 222	372 471	428 577	115%	56 106
Other operations	118 043	135 032	136 186	101%	1 154
Unassigned items	(78 297)	(122 066)	(56 578)	-	66 488
Total EBITDA	3 617 641	3 492 084	3 599 367	103%	107 283

The below figure presents TAURON Capital Group's 2017-2019 EBITDA structure (composition).

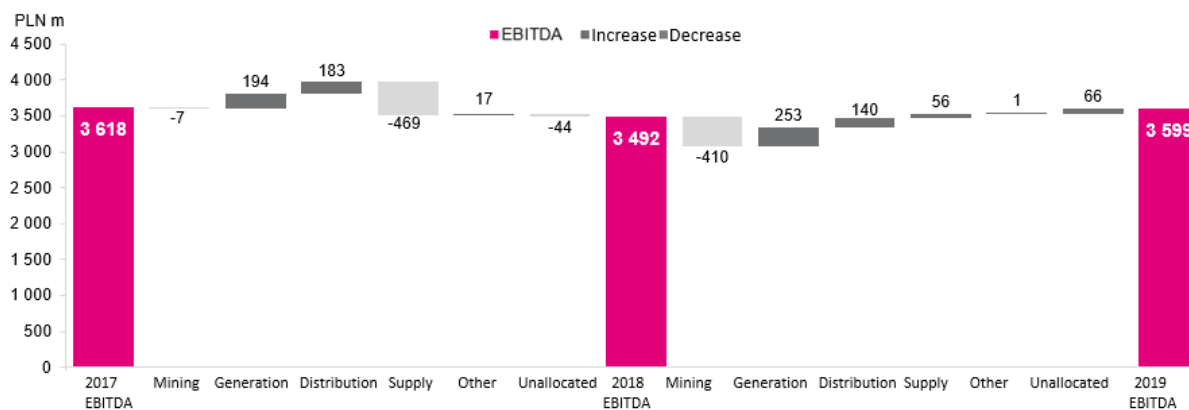
Figure no. 48. TAURON Capital Group's 2017-2019 EBITDA structure (composition).



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

The below figure presents the change in TAURON Capital Group's EBITDA in 2017-2019.

Figure no. 49. Change of TAURON Capital Group's EBITDA in 2017-2019



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

5.2.1. Mining Segment

The below table presents the Mining Segment's 2019-2017 results.

Table no. 30. Mining Segment's 2019-2017 results

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019-2018)
Mining					
Sales revenue	944 433	1 266 024	1 541 425	75%	(321 591)
<i>coal - coarse and medium assortments</i>	<i>236 506</i>	<i>367 449</i>	<i>509 348</i>	<i>64%</i>	<i>(130 943)</i>
<i>thermal coal</i>	<i>658 630</i>	<i>831 875</i>	<i>973 549</i>	<i>79%</i>	<i>(173 245)</i>
<i>other revenue</i>	<i>49 296</i>	<i>66 700</i>	<i>58 528</i>	<i>74%</i>	<i>(17 404)</i>
Operating profit (EBIT)	(1 391 949)	(1 053 469)	(211 070)	-	338 480
Depreciation and write-downs	892 084	963 207	128 034	38%	(71 123)
EBITDA	(499 865)	(90 262)	43 913	-	(409 603)

Mining Segment's revenue was 25% lower in 2019, as compared to 2018, as a consequence of the lower coal volume sold, which was due to the lower production of the commercial coal by TAURON Wydobycie's mining subsidiaries. Sobieski Coal Mine (ZG Sobieski) suffered the biggest drop, which was due to, among others, the performance of the additional mining works to reinforce the longwall complex and fire in 547 coal face area. The lower extraction output by the other coal mines is a consequence of deteriorated geological and mining conditions.

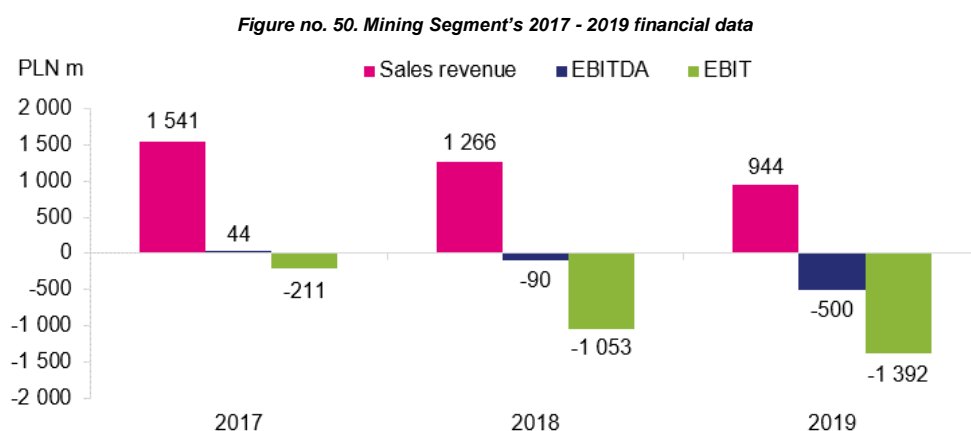
Mining Segment's 2019 EBITDA was significantly lower as compared to the 2018 earnings, which was due to the following factors:

1. lower sales volumes of each product assortment by 22% on average – mainly as a result of the lower production of commercial coal,
2. lower average price of the products sold by 4% on average, as a result of the lower price of coarse and medium coal assortments, which is a consequence of the situation on the coal market, as a result of a decrease of the demand for this commodity and a slight increase of the prices of coal dust sold by 1%,
3. higher coal production variable direct unit cost which is a consequence of a 24% drop in the volume and the higher variable direct costs. The rise of the costs is due to the higher costs of the preparatory works accounted for, which is related to the larger quantity of the coal from the drifts,
4. sales, in 2019, of the production output from the preceding period, while in 2018, some of the coal produced and not sold, had been recognized as assets in the balance sheet.

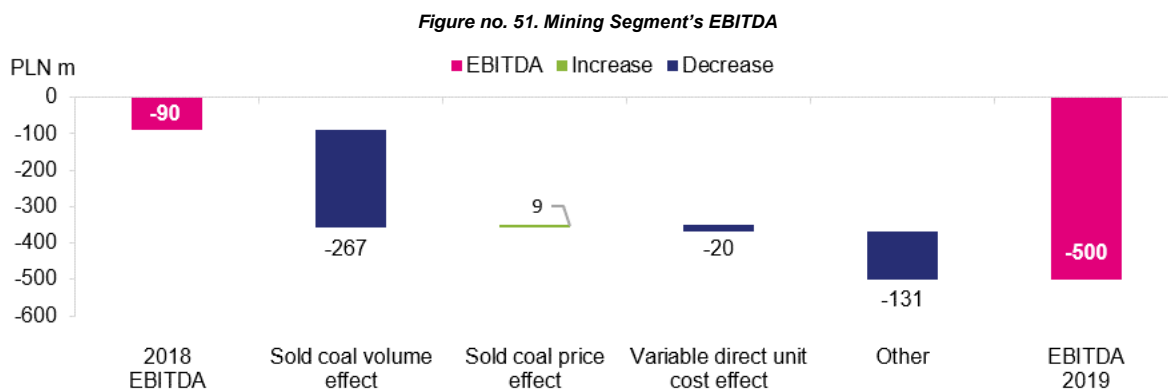
The Segment's EBIT was significantly lower in 2019 than in 2018, mainly due to the impairment charges and the above factors.

TAURON Capital Group recognized, in the 2019 results, the booking of the impairment charges related to the loss of the carrying amount on the balance sheet of the Mining Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 694 million, which is lower than the value recorded in the same period last year.

The below figure presents the Mining Segment's 2017 - 2019 financial data.



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



Major investments

Mining Segment's total capital expenditures came in at PLN 480 million in 2019, including the outlays on the following investment projects:

1. PLN 94 million on the construction of the "Grzegorz" shaft, including the construction of the infrastructure and the accompanying headings,
2. PLN 81 million on the construction of the 800 m level at Janina Coal Mine (ZG Janina),
3. PLN 70 million on Brzeszcze Coal Mine's (ZG Brzeszcze) capex program.
4. PLN 85 million expenditure on the preparation of future production.

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

5.2.2. Generation Segment

The below table presents the Generation Segment's 2019 – 2017 results.

Table no. 31. Generation Segment's 2019 – 2017 results

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019-2018)
Generation					
Sales revenue	4 923 281	4 638 494	4 537 002	106%	284 787

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019-2018)
<i>Electricity</i>	3 793 331	3 598 195	3 484 071	105%	195 131
<i>Heat</i>	826 638	833 410	873 777	99%	(6 772)
<i>property rights related to certificates of electricity origin</i>	253 936	153 637	114 840	165%	100 299
<i>other revenue</i>	49 377	53 252	64 314	93%	(3 786)
Operating profit (EBIT)	(129 097)	196 658	89 645	-	(325 755)
Depreciation and write-downs	1 113 336	534 714	447 379	208%	578 622
EBITDA	984 239	731 372	537 024	135%	252 867

Generation Segment's sales revenue in 2019 was higher by 6%, as compared to 2018, due to the higher electricity sales revenue (due to the higher electricity sales prices) and the higher property rights sales revenue (due to the higher PM OZE sales prices and volume). The lower revenue from the heat sales is a consequence of the lower sales volume which was due to the higher outdoor temperatures year on year.

Generation Segment's EBITDA was 35% higher in 2019, as compared to last year.

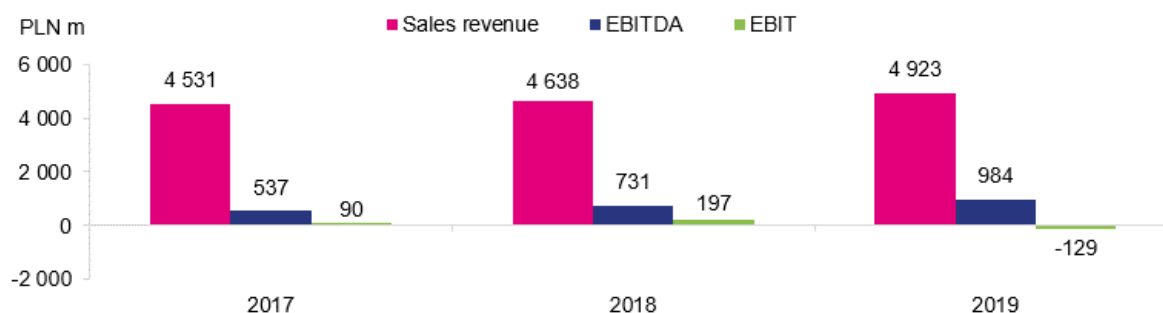
The following factors had an impact on the results achieved:

1. higher margin on electricity (conventional energy) - mainly due to the higher CDS year on year. The recognition of the provision set up in connection with the obligation to present the CO₂ emission allowances for redemption (retirement) related to (including) 883 thousand Certified Emission Reduction (CER) units, had a significant impact on the CDS in 2019
2. higher margin on electricity (RES) - due to the higher electricity and PMOZE sales prices as well as the higher production volumes by the wind and hydro power plants,
3. lower margin on heat – mainly due to the increase in the costs of the CO₂ emission allowances and fuel costs, not fully passed on in the heat tariffs,
4. the result on the opportunistic acquisition of 5 wind farms from the in.ventus group – an event that had a positive impact on the result in 2019,
5. dissolving of the provision related to the employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie – an event that had a positive impact on the result in 2018,
6. other (mainly: the dissolving (reversal) of the provisions related to the refund of the subsidies for the biomass units, the dissolving (reversal) of the provisions for the reclamation of the furnace (combustion) waste landfill, the dissolving (reversal) of the provision for the Voluntary Redundancy Program, the higher revenue from the compensations, an increase in the labor costs resulting from the payroll agreement and the lower costs of rent, lease and perpetual usufruct of land in connection with the implementation of IFRS 16).

TAURON Capital Group recognized, in the 2019 results, the booking and reversing of the impairment charges related to the loss of the carrying amount on the balance sheet of the Generation Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 610 million.

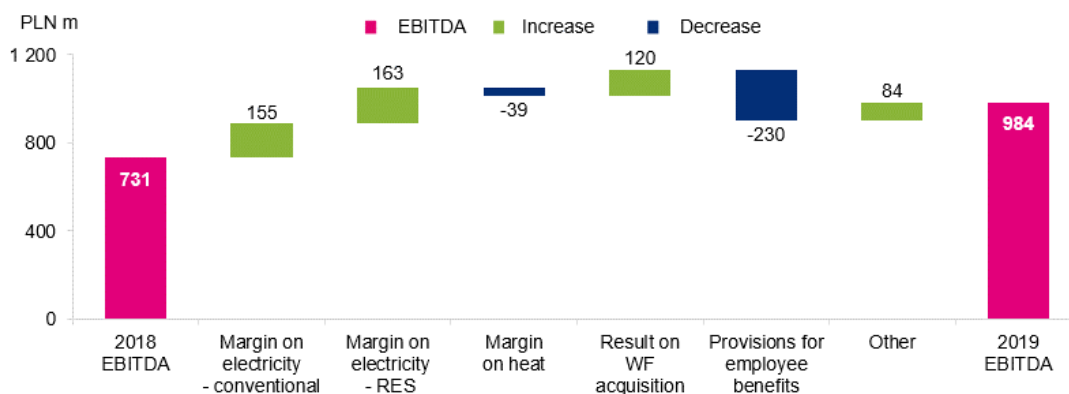
The below figure presents the Generation Segment's 2017 – 2019 financial data.

Figure no. 52. Generation Segment's 2017 – 2019 financial data



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

Figure no. 53. Generation Segment's EBITDA



Major investments (CAPEX)

The Generation Segment's total capital expenditures came in at PLN 1 683 million in 2019, including the outlays on the following strategic investment projects:

1. PLN 1 020 million on the construction of the new 910 MWe unit in Jaworzno,
2. PLN 25 million on investment projects related to expanding and maintaining the district heating networks,
3. PLN 104 million on the implementation of the heat unit at Łagisza Power Plant,
4. PLN 42 million on the adaptation of TAURON Wytwarzanie's generating units to the *BAT conclusions*,
5. PLN 32 million on the restoration of SDW at Łagisza Power Plant
6. PLN 27 million on connecting new facilities,
7. PLN 6 million on connecting facilities heated from the low emission sources to the district heating networks,
8. PLN 215 million on the replacement expenditures and overhaul components at TAURON Wytwarzanie.

Furthermore, the financial costs constitute approx. PLN 166 million of the segment's total capex.

Apart from the above capex the investment project in Stalowa Wola, with the participation of the strategic partner, PGNiG, is underway. TAURON and PGNiG hold a 50% stake each in the special purpose vehicle implementing the project that includes the construction of the 449 MWe CCGT unit, including the 240 MWt heat generation component. In January 2016, the contract with the general contractor Abener Energia S.A was terminated. In March 2017, thanks to the repayment of the institutions financing the project thus far, the signed amendments to the gas and electricity agreements as well as the agreement on the project's restructuring came into force. The agreement was reached and the decision was taken on the construction of the backup heat source. In March 2018, financing was obtained from Bank Gospodarstwa Krajowego S.A. (BGK) and PGNiG. As a result of completing a number of analyses, among others due to the project's advancement level, the contract manager formula (EPCM) was chosen. Energopomiar Gliwice - Energoprojekt Katowice consortium was selected to implement the EPCM project. The project's completion is scheduled for H1 2020. The expected capital expenditures on the project (excluding the financial costs) amount to PLN 1.4 billion.

5.2.3. Distribution Segment

The below table presents the Distribution Segment's 2019 – 2017 results.

Table no. 32. Distribution Segment's 2019 – 2017 results

Item (PLN '000)	2019	2018	2017 ¹	Change in % (2019/2018)	Change (2019-2018)
Distribution					
Sales revenue	6 594 864	6 060 201	5 847 303	109%	534 663
<i>distribution and trading services</i>	6 299 847	5 789 487	5 438 954	109%	510 360
<i>connection fees</i>	80 885	81 129	114 112	100%	(244)
<i>Revenue due for fixing power line collisions</i>	45 058	51 399	37 220	88%	(6 341)
<i>other revenue (rent, goods and materials, construction and assembly services)</i>	169 074	138 186	257 017	122%	30 888

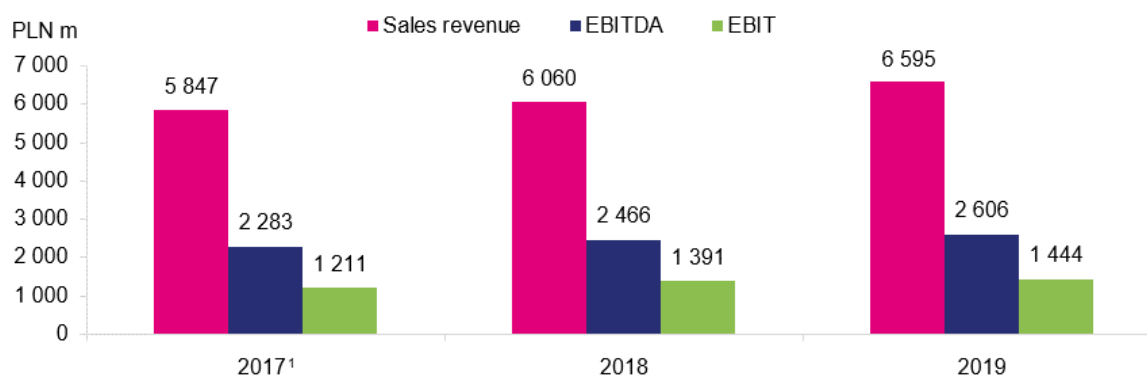
Operating profit (EBIT)	1 443 741	1 391 155	1 210 925	104%	52 586
Depreciation and write-downs	1 162 067	1 074 382	1 071 760	108%	87 685
EBITDA	2 605 808	2 465 537	2 282 685	106%	140 271

In 2019, as compared to 2018, the Distribution Segment reported an 9% sales revenue increase, while the increases of EBIT and EBITDA reached 4% and 6%, respectively. The following factors had an impact on the results:

1. increase of the average rate of the distribution service sales to the final consumers,
2. declining overall electricity delivery volume, including:
 - decrease in group A resulting both from the actions taken by the consumers aimed at reducing electricity consumption from the distribution grid (wider use of own generating facilities and optimization of electricity consumption) as well as the reduction of the production output (coal companies and steel industry),
 - increase of electricity delivery to the final consumers, in particular among the B group consumers, as a result of the continued GDP growth, primarily in the first half of 2019, and in the G group, first of all due to the increase, by 53 thousand, of the number of the household consumers,
3. higher transmission services purchase costs,
4. higher costs of purchasing electricity to cover the balancing difference as a result of higher purchase price, lower volume and the deviation due to the upward adjustment,
5. decrease of the revenue due to fixing power line collisions in connection with the fact that two significant collisions in the WN-110kV grid were fixed in 2018 and a slight drop of the revenue from the connection fees related to the connections of entities mainly to the HV grid,
6. increase of charges for exceeding the contractual connection capacity (power) and the above-standard passive energy off-take.

The below figure presents the Distribution Segment's 2017 – 2019 financial data.

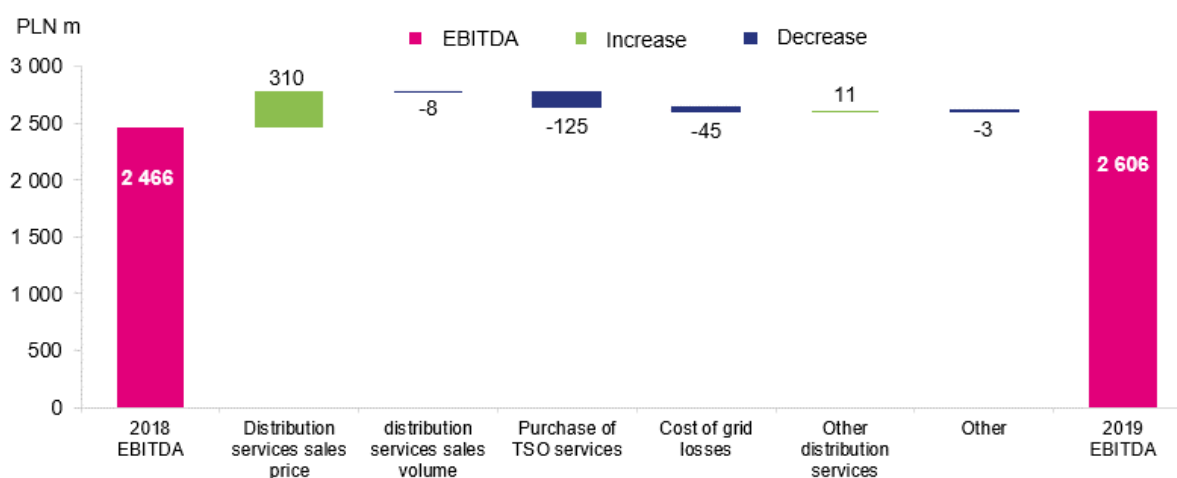
Figure no. 54. Distribution Segment's 2017 – 2019 financial data



¹2017 data includes the results of TAURON Dystrybucja Servis

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

Figure no. 55. Distribution Segment's EBITDA



Major investments (CAPEX)

The Distribution Segment's total capital expenditures came in at PLN 1 785 million in 2019. The main capex directions included:

- PLN 996 million on the investment projects related to the grid upgrades (refurbishments) and replacements
- PLN 676 million on the investment projects related to connecting new consumers.

In addition, the expenditures in the total amount of approx. PLN 117 million were also spent on: communications and IT, buildings and structures, means of transportation, in 2019.

5.2.4. Supply Segment

The below table presents the Supply Segment's 2019 – 2017 results.

Table no. 33. Supply Segment's 2019 – 2017 results

Item (PLN '000)	2019	2018	2017 ¹	Change in % (2019/2018)	Change (2019-2018)
Supply					
Sales revenue	14 907 937	14 219 677	13 567 887	105%	688 260
<i>electricity, including</i>	<i>9 488 091</i>	<i>9 011 153</i>	<i>8 740 196</i>	<i>105%</i>	<i>476 938</i>
<i>revenue from retail electricity supply</i>	<i>7 479 056</i>	<i>7 928 888</i>	<i>7 554 448</i>	<i>94%</i>	<i>(449 832)</i>
<i>greenhouse gas emission allowances</i>	<i>701 607</i>	<i>666 306</i>	<i>336 566</i>	<i>105%</i>	<i>35 301</i>
<i>fuel</i>	<i>1 396 300</i>	<i>1 371 117</i>	<i>1 024 912</i>	<i>102%</i>	<i>25 183</i>
<i>distribution service (transferred)</i>	<i>3 117 588</i>	<i>2 948 306</i>	<i>3 448 567</i>	<i>106%</i>	<i>169 282</i>
<i>other revenue, including trading services</i>	<i>204 351</i>	<i>222 795</i>	<i>17 641</i>	<i>92%</i>	<i>(18 444)</i>
Compensations	952 650			-	952 650
Operating profit (EBIT)	382 185	332 428	832 216	115%	49 757
Depreciation and write-downs	46 392	40 043	9 006	116%	6 349
EBITDA	428 577	372 471	841 222	115%	56 106

¹2017 data does not include the results of TAURON Dystrybucja Serwis

Supply Segment's sales revenue was 5% higher in 2019, as compared to 2018, mainly due to the higher electricity sales revenue (higher electricity sales price on the wholesale market), an increase in the revenues from the sales of the distribution services and the greenhouse gas emission allowances (an increase in the market prices). The fuel sales revenue was also higher as a result of the rising gas fuel sales prices (higher gas fuel sales price along with the higher volume at the same time).

Supply Segment's EBITDA and EBITDA were higher in 2019 than in the preceding year due to the following factors:

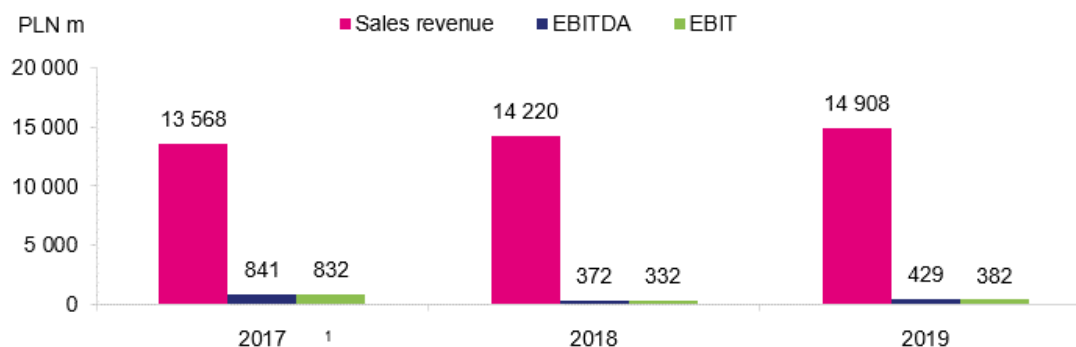
1. electricity volume and prices – a negative impact on the result is mainly due to an increase of electricity market prices and the introduction of the act on "freezing sales prices", this situation has a direct impact on the margin decline, mainly in the mass customers segment, with the total electricity supply volume falling at the same time by 1.8 TWh year on year (from 39.14 TWh to 37.36 TWh, including the retail electricity supply volume – a decline by 0.8 TWh and the electricity wholesale volume – a drop by 1.0 TWh),
2. taking into account in the consolidated financial statements, drawn up as of December 31, 2019, of the estimated adjustments reducing the revenue from the customers, stemming from the need to adjust the prices in this period to the provisions of the amended Act,
3. taking into account in the consolidated financial statements, drawn up as of December 30, 2019, of the price difference and the financial compensation, in connection with TAURON Capital Group trading subsidiaries' right to submit requests for payment to Zarządca Rozliczeń SA (Settlements Manager),
4. cost of the provision set up based on the requirements imposed in the amended act, as described in more detail in note 12 to the Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019, and consumption (using up) of the provision for onerous agreements, set up last year in connection with the introduction of the act on "freezing electricity sales prices",
5. property rights prices – a negative impact on the result due to an increase of the prices of the green certificates,
6. obligation to redeem (retire) property rights – a positive impact on the result is a consequence of a lack of the cogeneration obligations in 2019 (the redemption (retirement) obligation level in force in 2018 was: for PMEC

23.2%, for PMGM 8%, for PMMET 2.3%), with the obligation for the green certificates rising, at the same time, from 17.5% to 18.5% and the obligation for PMOZE-BIO being maintained at 0.50%,

7. other – the recognized (booked) result on the other market (commercial) products sales includes, among others, the result on the sales of the CO₂ emission allowances, the provision of the street lighting service, the result on the other business operations, the impairment charge related to the amount of the accounts receivable and the costs of sales).

The below figure presents the Supply Segment's 2017 – 2019 financial data.

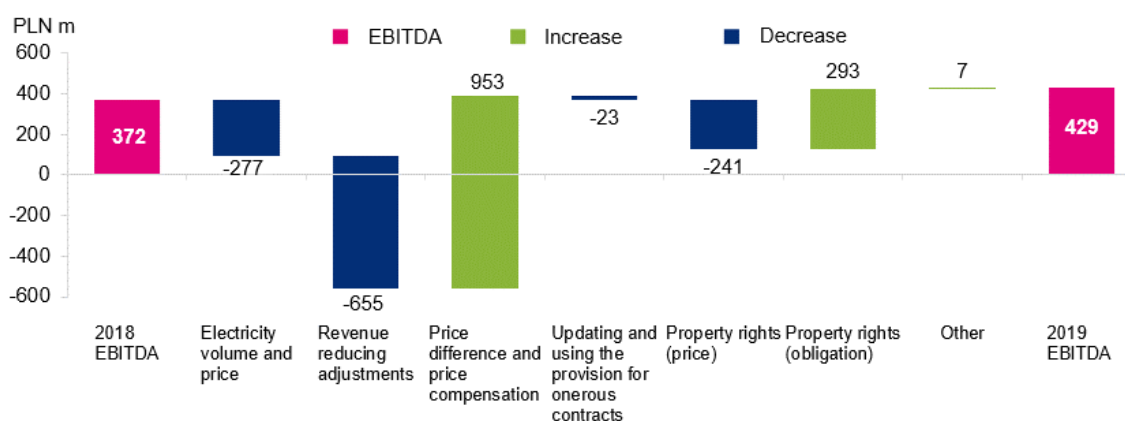
Figure no. 56. Supply Segment's 2017 – 2019 financial data



¹2017 data does not include the results of TAURON Dystrybucja Serwis

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

Figure no. 57. Supply Segment's EBITDA



Major investments (CAPEX)

The Supply Segment's total capital expenditures came in at PLN 47 million in 2019, mainly for activities related to the maintenance and expansion of street lighting.

5.2.5. Other operations

The below table presents the Other Operations Segment's 2019 – 2017 results.

Table no. 34. Other Operations Segment's 2019 – 2017 results

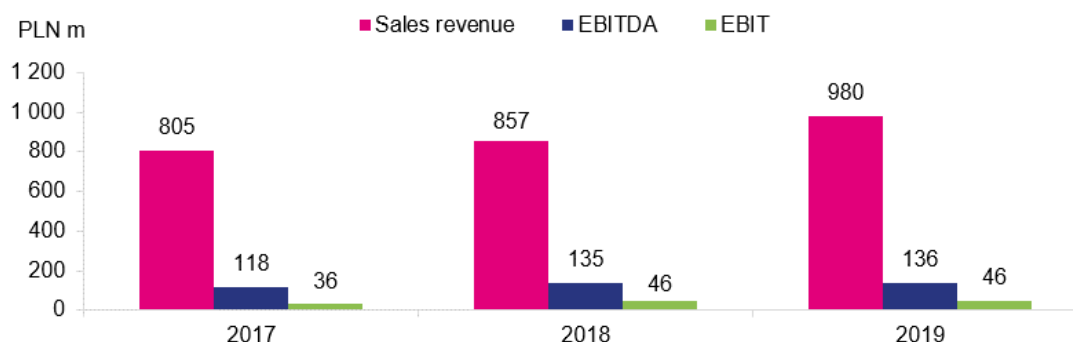
Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019/2018)
Other operations					
Sales revenue	979 911	857 462	804 560	114%	122 449
customer service services	215 785	190 765	198 113	113%	25 020
support services	481 000	424 468	392 394	113%	56 532
Biomass	118 546	78 699	74 248	151%	39 847

Item (PLN '000)	2019	2018	2017	Change in % (2019/2018)	Change (2019/2018)
<i>aggregates</i>	106 573	101 495	101 343	105%	5 078
<i>other revenue</i>	58 007	62 035	38 462	94%	(4 028)
Operating profit (EBIT)	46 152	46 023	35 902	100%	129
Depreciation and write-downs	90 034	88 009	82 141	101%	1 025
EBITDA	136 186	135 032	118 043	101%	1 154

The Other Operations Segment's revenue was 14% higher in 2019, as compared to 2018, which was primarily due to an increase of the revenue from the higher sales of biomass and the support services. In addition, the revenue rose as a result of centralizing the services provided by CUW HR and the sales of the by-products of the coal burning and extraction.

The below figure presents the Other Operations Segment companies' 2017 – 2019 financial data.

Figure no. 58. Other Operations Segment companies' 2017 – 2019 financial data



Major investments (CAPEX)

The Other Operations Segment companies' capital expenditures came in at PLN 133 million in total in 2019. They include mainly expenditures on the IT systems.

In addition, the capital expenditures related to the acquisition of 5 wind farms from the in.ventus group in the amount of PLN 601 million were incurred.

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

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

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

Table no. 35. Structure of the annual consolidated statement of financial position

Consolidated statement of financial position	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017
ASSETS			
Fixed assets	83.6%	87.9%	86.6%
Current assets	16.4%	12.1%	13.4%
TOTAL ASSETS	100.0%	100.0%	100.0%
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	43.4%	49.3%	50.3%
Non-controlling stakes	2.1%	0.4%	0.1%
Total equity	45.5%	49.7%	50.4%
Long-term liabilities	35.7%	30.7%	35.5%

Consolidated statement of financial position	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017
Short-term liabilities	18.8%	19.6%	14.0%
Total liabilities	54.5%	50.3%	49.6%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%	100.0%
Financial liabilities	11 394 246	9 421 718	9 059 844
Net financial liabilities	10 129 572	8 571 889	8 047 158
Net debt / EBITDA ratio	2.8x	2.5x	2.2x
Current liquidity ratio	0.87	0.62	0.95

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

Figure no. 59. Structure of assets

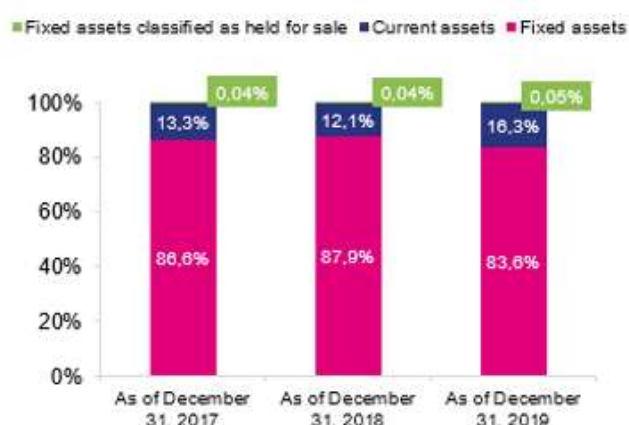
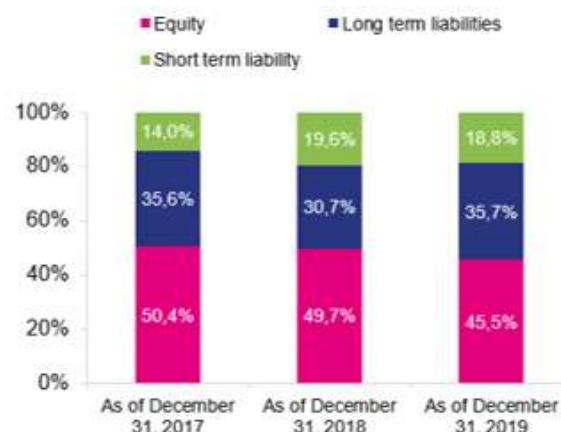


Figure no. 60. Structure of equity and liabilities



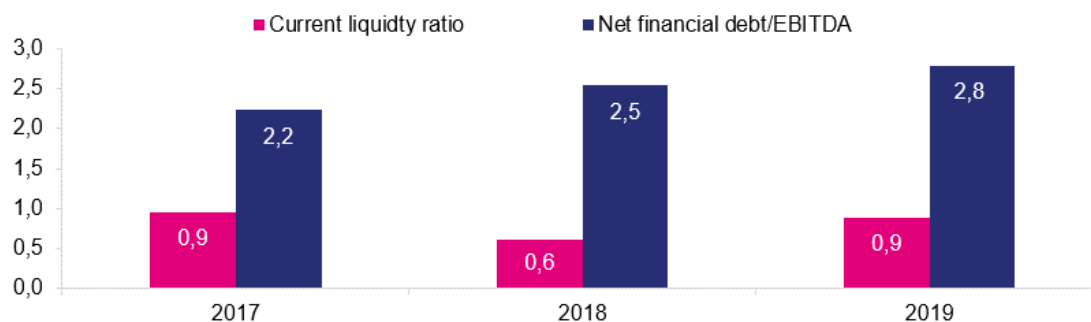
As of December 31, 2019, similar as in 2018, the value of fixed assets constitutes the largest share in the structure of assets. In the structure of fixed assets, the tangible fixed assets of the following Segments constitute the largest share: Distribution (56%), Generation (38%) and Mining (4%).

As of December 31, 2019, the liabilities represent the largest share (54.5%) in the structure of equity and liabilities.

The level of debt of TAURON Capital Group remains at a safe level, which is indicated by the value of the leverage ratio which is below the value agreed upon with the institutions financing TAURON Group's operations. The current liquidity ratio and the net debt to EBITDA ratio remain at a safe level.

The below figure presents the current liquidity ratio and the net debt to EBITDA ratio in 2017-2019.

Figure no. 61. Current liquidity ratio and the net debt to EBITDA ratio in 2017-2019



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

Table no. 36. Annual consolidated statement of financial position - assets (material items)¹

Statement of financial position (PLN '000)	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	Change in % (2019/2018)
ASSETS				
Fixed assets	35 052 287	32 596 304	31 048 542	108%
Tangible fixed assets	31 099 071	29 406 667	28 079 886	106%
Current assets	6 865 478	4 501 173	4 786 474	153%
Cash and equivalents	1 237 952	823 724	909 249	150%
Fixed assets classified as held for sale	22 710	13 712	15 910	166%
TOTAL ASSETS	41 917 765	37 097 477	35 835 016	113%

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

As of December 31, 2019, the statement of the financial position of TAURON Capital Group indicates the balance sheet total higher by approx. 13%. The below figure presents the change in the level of assets and current assets.

Figure no. 62. Change in assets

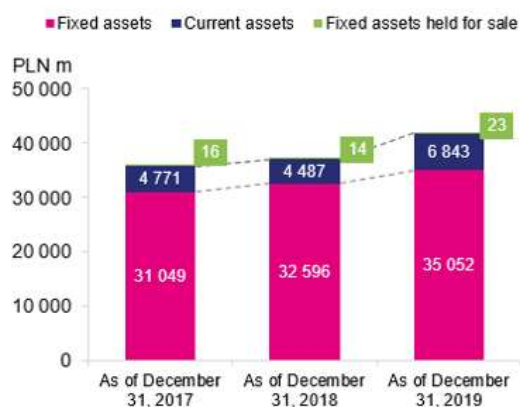
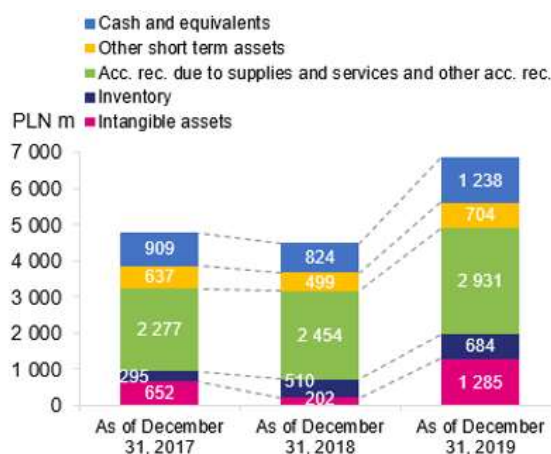


Figure no. 63. Change in current assets



In the year ended on December 31, 2019, TAURON Capital Group, having taken into account the following factors:

1. long-term hovering of the market value of Company's net assets at a level below the balance sheet carrying amount,
2. changes to the commodity, electricity and greenhouse gas emission allowances prices on the worldwide markets;
3. substantial volatility of electricity prices on the futures market and continued problems with a lack of liquidity,
4. regulatory actions aimed at curbing an increase of electricity prices for the final consumers,
5. rising risk related to the commercial coal production,
6. effects of the results of the thus far RES auctions and the very fast growth of the prosumer and micro-installations subsector in connection with the support programs launched,
7. effects of the implementation of the winter package provisions, including the emissions standard, that have an adverse impact on the ability of the coal-fired units to take part in the capacity market after July 1, 2025,
8. tightening of the emissions standards and continued adverse market conditions from the point of view of the conventional power generation's profitability,
9. decrease of the risk-free rate,

recognized (booked) impairment charges and reversed the write-downs related to tangible fixed assets previously booked as a result of the impairment tests conducted as of December 31, 2019 and as of June 30, 2019, of which the Company disclosed information in the regulatory filings (current reports) no. 5/2020 of March 4, 2020, and no. 9/2020 of March 17, 2020. and no. 9/2020 of March 17, 2020. The results of the tests conducted demonstrated the validity of booking write-downs in the total amount of PLN 1 035 million (excess of the booked write-downs over the reversed write-downs).

The value of fixed assets increased by PLN 2 456 million (8%), which is the result of the following events:

1. increase in the value of the tangible fixed assets as a result of capital expenditures on the investment projects related to the tangible fixed assets underway at TAURON Capital Group's subsidiaries (mainly at TAURON Dystrybucja, TAURON Wytwarzanie, Nowe Jaworzno Grupa TAURON and TAURON Ciepło), and also the impairment charges booked as a result of the impairment tests conducted,
2. recognition (booking) in 2019 in the accounting books of the right to use the assets in connection with the entry into force of IFRS 16 *Leases*. At the same time, in accordance with an option allowed by the standard, TAURON Capital Group resigned from adjusting (converting) the comparable data. The data as of December 31, 2018, was prepared based on IAS 17 *Leases*, IFRIC 4 *Determining whether the contract contains a lease* and SIC 15 *Operating lease - special promotional offers*,
3. decrease in the value of the acquired property rights related to the certificates of origin of electricity and greenhouse gas emission allowances as a result of their reclassification as the current assets in connection with the fulfilment of the conditions for the redemption (retirement) of the said assets.

The following factors had an impact on the increase in the value of the current assets by PLN 2 364 million (53%):

1. increase of the level of cash and equivalents by PLN 414 million which is described in more detail in the section on the cash flow account,
2. increase of the value of the certificates of origin of electricity and greenhouse gas emission allowances to be redeemed (retired) by PLN 1 084 million, which is the result of:
 - transferring them from the long term intangible assets to meet the redemption obligation for the current reporting period,
 - purchasing the property rights in order to meet the obligation to present the certificates of origin for electricity for redemption, pursuant to the provisions of the *act of 10 April 1997, Energy Law* and the CO₂ emission allowances to meet the obligation to redeem them for the current reporting period,
 - redeeming a part of the certificates of origin of electricity and the CO₂ emission rights held, due to the fulfilment of the statutory obligation,
3. increase of the value of the accounts receivable from the consumers by PLN 61 million,
4. increase of the accounts receivable due to income tax by PLN 241 million, in connection with the surplus of advance payments made in 2019 above the PGK's taxes due,
5. increase of the accounts receivable due to other taxes and fees by PLN 175 million, mainly as a result of recognizing the accounts receivable due to VAT,
6. increase of the value of other financial assets by PLN 156 million, mainly as a result of recognizing the accounts receivable due to the compensations for the trading subsidiaries - this is applicable to the accounts receivable due to the Financial Compensation for the fourth quarter of 2019, as discussed in detail in note 12 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019*,
7. increase of the value of other non-financial assets by PLN 45 million,
8. increase of the inventory value by PLN 174 million, mainly as a result of the higher coal inventory levels at TAURON Wydobywanie and the Generation Segment's subsidiaries.

The below table presents the annual consolidated statement of financial position – **equity and liabilities**.

Table no. 37. Annual consolidated statement of financial position - liabilities (material items)¹

Statement of financial position (PLN '000)	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	Change in % (2019/2018)
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the parent entity	19 192 226	18 295 824	18 036 446	99%
Non-controlling stakes	900 434	132 657	31 367	679%
Total equity	19 092 660	18 428 481	18 067 813	104%
Long-term liabilities	14 963 274	11 382 254	12 739 852	131%
Liabilities due to debt	11 830 183	8 488 210	9 501 414	139%
Short-term liabilities	7 861 831	7 286 742	5 027 351	108%
Liabilities due to debt	2 484 093	2 475 167	351 382	100%
Total liabilities	22 825 105	18 668 996	17 767 203	122%
TOTAL EQUITY AND LIABILITIES	41 917 765	37 097 477	35 835 016	113%

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

The below figure presents the change in the level of liabilities and equity attributable to the majority shareholders.

Figure no. 64. Change in equity and liabilities

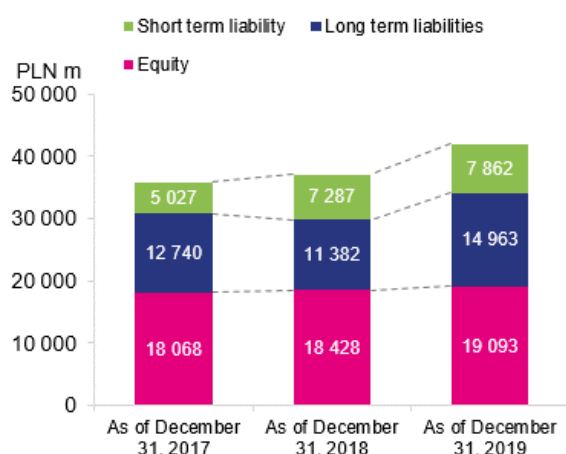
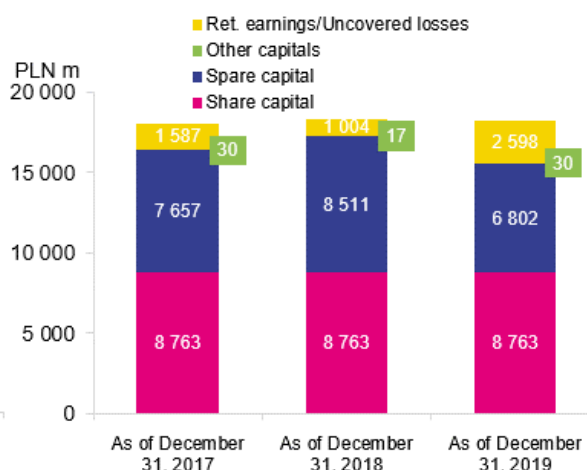


Figure no. 65. Change in equity attributable to majority shareholders



Equity was a material source of financing the assets in 2019 and its share in the balance sheet total stood at 45.5%.

The below figures present the change in the level of short term and long term liabilities.

Figure no. 66. Change in long term liabilities

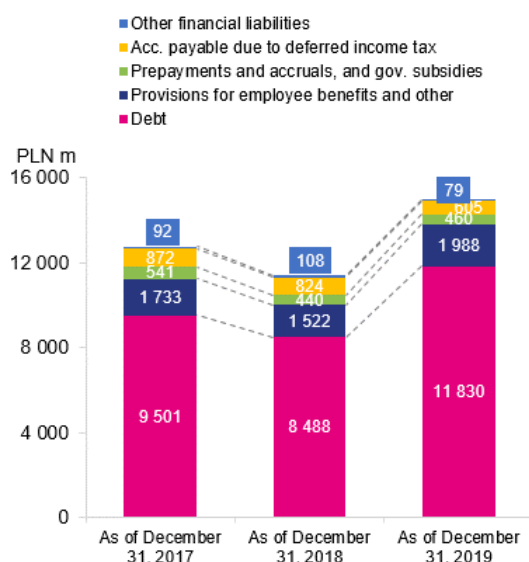
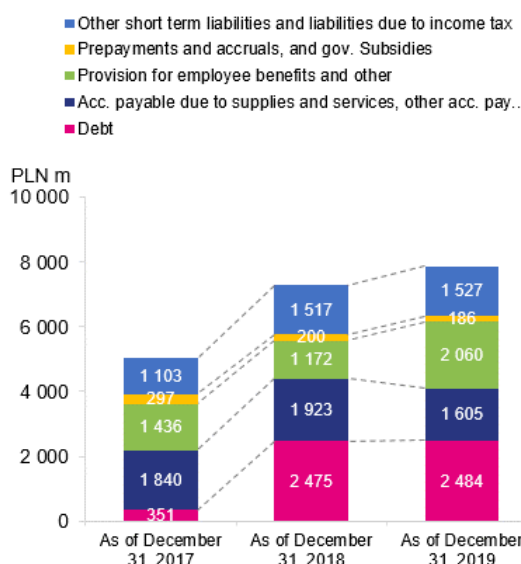


Figure no. 67. Change in short term liabilities



The following factors had an impact on the increase in the value of TAURON Capital Group's long-term liabilities by PLN 3 581 million (31%):

- increase of the liabilities due to debt by PLN 3 342 million, which is the result of:
 - applying IFRS 16 Leases as of January 1, 2019 – an impact worth PLN 938 million. In accordance with the option allowed by the standard, the Group resigned from adjusting (converting) the comparable data,
 - taking out credits and loans in 2019 in the total amount of PLN 4 037 million, with a part of the loan in the amount of PLN 1 840 is related to the replacement of the bond issue program with a loan agreement.
- Increase of the provision related to employee benefits (entitlements) by PLN 199 million, which is due to the updating of their value as a result of the change in the discount rate used in the calculations,
- decrease of the liabilities due to deferred income tax by PLN 218 million.

The value of short-term liabilities of TAURON Capital Group increased by PLN 575 million (8%), which resulted from the following factors:

- increase of accounts payable towards the suppliers by PLN 280.5 million,
- an increase of the provision related to the liabilities due to the certificates of origin of electricity and the CO₂ emissions by PLN 883 million. As of December 31, 2019, TAURON Capital Group recognized a provision related to the liabilities due to the CO₂ emissions for the entire current year, while in 2018 it presented a significant part

of CO₂ emission allowances to be redeemed before the balance sheet date, i.e. December 31, 2018, and therefore, the recognized provision in this respect was accordingly lower

3. decrease of other financial liabilities by PLN 213 million, which is due to the settlement of the CO₂ futures contracts in December 2019 as a result of a drop of the allowances prices in relation to the comparable period, as well as the recognition, as of the balance sheet date of December 31, 2019, of the obligation to repay the overpaid amounts to the consumers and the recognition, related thereto, by TAURON Capital Group of the adjustments reducing revenues from customers for 2019 in connection with the entry into force of the amended act on the “freezing of the sales prices”,
4. increase of liabilities due to other taxes and fees by PLN 183 million, which is the result of the recognition of a higher liability due to VAT.

5.3.2. Consolidated statement of comprehensive income

The below table presents the annual consolidated statement of comprehensive income. Due to the changes in the segments and in order to maintain the comparability, the results are presented for 3 years.

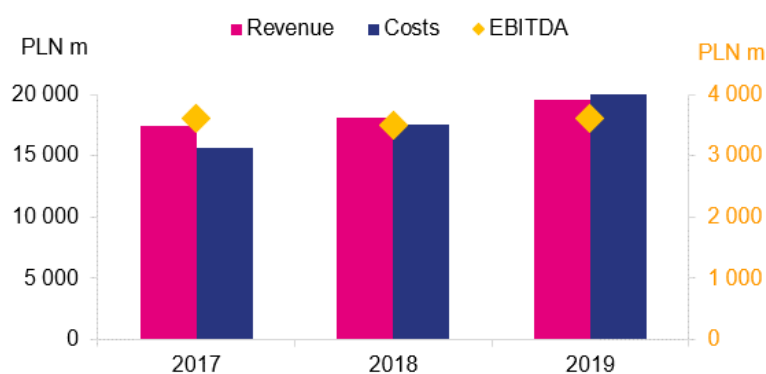
Table no. 38. Annual statement of comprehensive income for 2019-2017¹

Statement of comprehensive income (PLN '000)	2019	2018	2017	Change in % (2019/2018)
Sales revenue	19 558 292	18 121 748	17 424 551	108%
Compensations	952 650			
Own cost of sales (including the costs of sales and overheads), including:	(20 422 371)	(17 546 428)	(15 614 201)	116%
<i>loss of the carrying amount of the non-financial fixed assets</i>	<i>(1 275 480)</i>	<i>(815 410)</i>	<i>(40 857)</i>	156%
Other operating revenues and costs	158 936	160 519	(4 079)	99%
Share in the profit (loss) of the joint venture	47 947	54 890	73 050	87%
Operating profit (loss)	295 454	790 729	1 879 321	37%
<i>Operating profit margin (%)</i>	<i>1.5%</i>	<i>4.4%</i>	<i>10.8%</i>	<i>35%</i>
Cost of interest on debt	(250 800)	(147 372)	(209 322)	170%
Other financial revenue and costs	(60 022)	(138 710)	87 653	43%
Pre-tax profit (loss)	(15 368)	504 647	1 757 652	-
<i>Gross profit margin (%)</i>	<i>0.1%</i>	<i>2.8%</i>	<i>10.1%</i>	<i>-</i>
Income tax	3 685	(297 602)	(374 706)	-
Net profit (loss) for financial year	(11 683)	207 045	1 382 946	-
<i>Net profit margin (%)</i>	<i>0.1%</i>	<i>1.1%</i>	<i>7.9%</i>	<i>-</i>
Total income for financial year	(113 536)	182 523	1 389 312	-
Profit attributable to:				
Shareholders of the parent entity	(10 908)	204 880	1 380 663	-
Non-controlling stakes	(775)	2 165	2 283	-
EBIT and EBITDA				
EBIT	295 454	790 729	1 879 321	37%
EBITDA	3 599 367	3 492 084	3 617 641	103%

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

The below figure presents TAURON Capital Group's 2017-2019 financial results.

Figure no. 68. TAURON Capital Group's 2017-2019 financial results



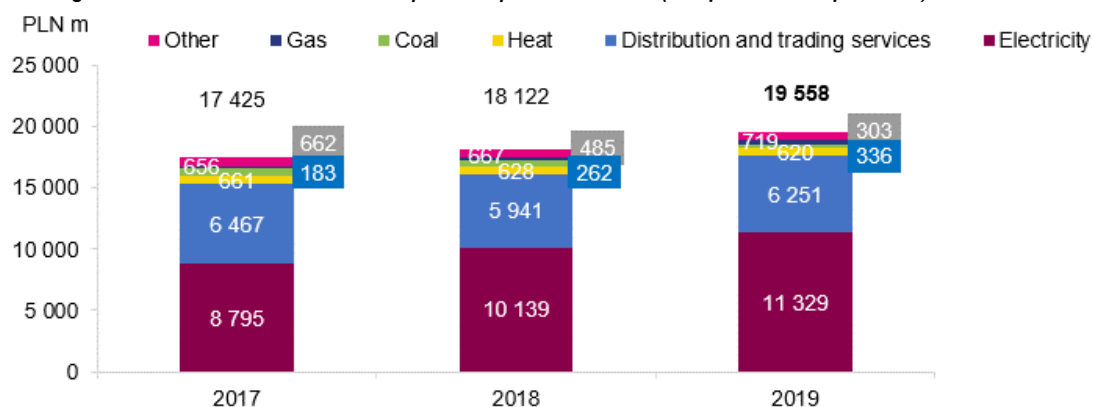
In the reporting period ended on December 31, 2019, TAURON Capital Group generated 8% higher sales revenue, as compared to the values achieved in 2018, due to the following factors:

1. higher revenue from electricity sales (by 12%) – mainly as a result of a 10% increase of the average electricity sales price and a 1% decline of TAURON Capital Group's electricity supply volume,
2. higher revenue from gas sales (by 28%), due to a 6% increase of the gas sales prices and a 21% rise of the volume,
3. lower revenue from heat sales (by 1%) – lower heat and transmission services sales volume due to the higher outdoor temperatures, as compared to 2018,
4. higher revenue from the distribution and trading services sales (by 5%), mainly due to an increase of the rate of the distribution service sales to the final consumers as a consequence of the introduction of the application of IFRS 15 *Revenue from contracts with customers* and the exclusion of the transition fee from the revenue in 2018,
5. lower revenue from coal sales (by 38%) as a result of a decrease of the coal sales volume by 36%, along with the drop of the coal sales price by 3%, mainly due to the increase in the share of cheaper coal dust in the total coal sales.

In addition, in 2019 TAURON Capital Group received compensations for the freezing of the electricity prices - the "electricity act", in the amount of PLN 952.7 million.

The below figure presents the structure of TAURON Capital Group's sales revenue (except for the compensation) in 2017-2019.

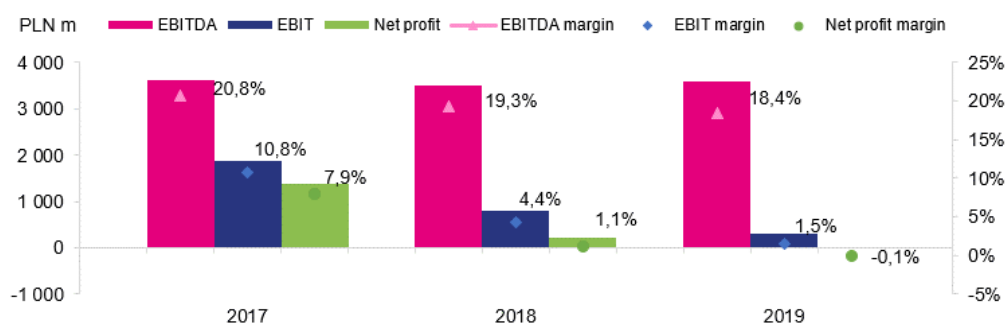
Figure no. 699. Structure of TAURON Capital Group's sales revenue (except for the compensation) in 2017-2019¹



¹Due to the limited comparability of the earlier periods, data is presented in a three-year time frame. Data comprising the earlier periods is presented in section no. 5.7 of this report

The below figure presents TAURON Capital Group's financial results and the level of margins realized.

Figure no. 70. TAURON Capital Group's financial results and the level of margins realized in 2017-2019¹



¹Due to the limited comparability of the earlier periods, data is presented in a three-year time frame. Data comprising the earlier periods is presented in section no. 5.7 of this report

TAURON Capital Group's costs of operations came in at PLN 20.4 billion in 2019, which meant that they were 16% higher than the costs incurred in 2018.

One of the reasons for the rising costs was the booking, in 2019, of the impairment charges related to the tangible fixed assets as a result of the impairment tests conducted as of December 31, 2019 and June 30, 2019, of which the Company disclosed information in the regulatory filings (current reports) no. 30/2019 of August 19, 2019, no. 5/2020 of March 4, 2020. and no. 9/2020 of March 17, 2020.

In the year ended on December 31, 2019, TAURON Capital Group recognized impairment charges in the Generation and Mining Segments and partly reversed (dissolve) the previously booked write-downs in the Generation Segment.

The total impact on the financial result of TAURON Capital Group reached PLN 854.6 million in 2019 (excess of the booked write-downs over the reversed impairment charges), of which PLN 815.8 million was charged to the cost of goods, products, materials and services sold.

Apart from the above mentioned one-off events the level of TAURON Capital Group's costs in 2019 was impacted by the following factors:

1. increase of the depreciation costs, mainly as a result of:
 - beginning of putting into operation of the commissioned investment projects carried out by TAURON Capital Group and therefore the start of depreciating their value in accordance with the adopted depreciation rates,
 - recognition in the current depreciation period of the rights to use assets in connection with the entry into force of IFRS 16 Leases, as of January 1, 2019,
 - update of the depreciation rates as a result of the booked or updated impairment charges related to the assets' carrying amount, as a result of the completed impairment tests,
2. increase of the costs of purchasing electricity, mainly due to a rise, by 32% on average, of the sales prices,
3. decrease of the cost of other external services, which is due to the lower costs of the construction and assembly (erection) services in the current year due to the intensification of the works in 2018 related to the implementation of the investment project - construction of the 910 MW unit in Jaworzno, a partial dissolving of the provision to the reclamation of the combustion waste, the lower costs of the mining services and machinery rentals due to the lower production of coal mines, as well as the lower costs of renting and leasing due to the entry into force of IFRS 16 Leases, as of January 1, 2019,
4. higher volume of electricity purchased from the counterparties (business partners, contractors) from outside TAURON Capital Group, and the lower production of electricity by the generating units,
5. higher costs of materials and electricity consumption, mainly as a result of"
 - higher costs of biomass consumption due to the operation of the units based on this fuel,
 - higher costs of the prices of electricity consumed for the needs of the balancing difference as a result of higher prices,
 - lower costs of materials consumed in the production of the commercial coal and reinforcements of the drifts (longwall galleries) due to the lower extraction output.
6. increase of the costs of the distribution service due to the higher costs of purchasing the transmission services (increase of the grid charges),
7. higher costs of the obligation to retire the greenhouse gas emission allowances, mainly due to an increase of the prices year on year (from 46 PLN/Mg to 65 PLN/Mg),
8. higher labor costs due to the increase of the employment level at TAURON Capital Group's subsidiaries, related to the change in the operational model with respect to coal mining by supporting in-house preparatory works divisions, limiting the use of temporary workers as a consequence of changes to the applicable legal

regulations and the development of the property protection and management operations, as well as the signed wages agreements, an increase of the cost of actuarial reserves due to the reduction of the discount rate. In addition, in 2018 the provision related to employee benefits (entitlements) (cash equivalent for the subsidized consumption of electricity (employee tariff), service anniversary awards and the Company's Social Benefits (Entitlements) Fund (Zakładowy Fundusz Świadczeń Socjalnych)) at TAURON Wytwarzanie, which led to the reduction of the level of these costs in the comparable period,

9. increase in the level of the inventory balance as well as accruals and prepayments, which is mainly due to an increase in the coal inventories coming from the Company's own production,
10. growth of the cost of providing services for the entity's own needs, due to the increase of the in-house resources' engagement in the investment projects carried out by TAURON Capital Group
11. recognizing (booking), in the current reporting period, by the Supply Segment's subsidiaries of the provisions related to the onerous contracts in the amount higher than in 2018. The updating of the provision, set up due to the coming into force of the *act on the amendment to the act on the excise tax and certain other acts*, was a consequence of the adoption in the calculation of the sales price for 2020 for these consumers of the parameters specified in the summons of the President of the Energy Regulatory Office, whose approval in December 2019 results in the inability to obtain revenues from the electricity sales in the amount covering the justified costs of doing business in this respect (it is described in more detail in note 39.2 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019*).

EBITDA margin achieved in 2019 came in at 18.4% and it was 0.9 pp lower, as compared to 2018. As a result of the write-downs booked, the value of which was higher in 2019 than the write-downs booked in 2018, the EBIT margin and the net profit margin were lower in the reporting period than achieved a year ago, reaching 1.5% and (0.1)%, respectively. Should the effects of the impairment charges be disregarded, the EBIT margin and the net profit margin would have reached, respectively, 8% and 5.2%, in 2019 and, respectively, 8.9% and 4.8% in 2018.

In accordance with the presented consolidated statement of comprehensive income, the total comprehensive income of TAURON Capital Group for 2019, taking into account the net profit increased or decreased by the change in the value of the hedging instruments, FX differences arising from the conversion of the foreign entity and the other revenue after tax, stood at PLN (113.5) million in 2019, as compared to PLN 182.5 million generated in 2018.

5.3.3. Statement of cash flows

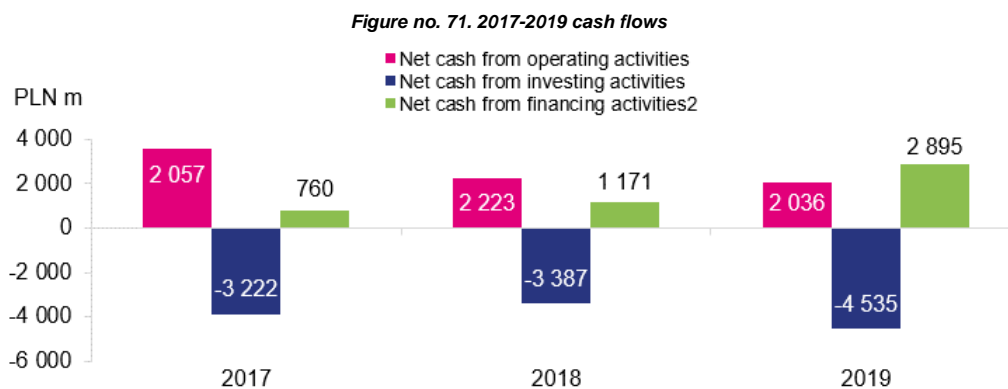
The below table presents the statement of cash flows.

Table no. 39. Statement of cash flows (material items) in 2017-2019¹

Statement of cash flows (PLN '000)	Year ended on December 31, 2019	Year ended on December 31, 2018	Year ended on December 31, 2017	Change in % (2019/2018)
Cash flows from operating activities				
Pre-tax profit / (loss)	(15 368)	504 647	1 757 652	-
Adjustments	2 050 943	1 717 974	1 801 015	119%
Net cash from operating activities	2 035 575	2 222 621	3 558 667	92%
Cash flows from investing activities				
Purchase of tangible fixed assets and intangible assets	(4 035 132)	(3 741 566)	(3 561 758)	108%
Net cash from investing activities	(4 534 738)	(3 387 402)	(3 871 676)	134%
Cash flows from financing activities				
Redemption of debt securities	(2 420 000)	0	(1 650 000)	-
Issue of debt securities and proceeds from taking out credits / loans	5 650 000	1 350 000	2 707 462	418%
Repayment of loans / credits	(867 360)	(168 874)	(154 918)	514%
Interest paid	(212 556)	(160 170)	(184 550)	133%
Net cash from financing activities	2 894 792	1 171 400	759 629	247%
Increase / (decrease) in net cash and equivalents	395 629	6 619	446 620	5 977%
Cash opening balance	807 972	801 353	354 733	101%
Cash closing balance	1 203 601	807 972	801 353	149%

¹Due to the limited comparability of the earlier periods, data is presented in a three-year time frame. Data comprising the earlier periods is presented in section no. 5.7 of this report.

The below figure presents the 2017-2019 cash flows.



The realized positive value of cash flows from operating activities in 2019 was lower than the cash flows realized in 2018 by PLN 187 million. The following factors had the biggest impact on the change in this item of the cash flow account:

1. generating EBITDA higher by PLN 107 million, which recognized a non-monetary result on the opportunistic acquisition of the wind farms in the amount of PLN 120 million,
2. working capital lower by PLN 140 million is the result of:
 - positive change in the balance of accounts receivable mainly from the consumers by PLN 105 million,
 - positive change in the balance of the inventories by PLN 47 million,
 - negative change in liabilities by PLN 601 million as a result of a decrease in liabilities towards suppliers as of December 31, 2019 and December 31, 2018, and a change in the value of the variation margins received by the Company on account of the current exchange settlements, due to the settlement (clearing) of some futures contracts and a change in the valuation of the other futures contracts,
 - incurring a lower, by PLN 456 million, expenditure on the purchase of the CO₂ emission allowances,
 - incurring a higher, by PLN 91 million, expenditure on the purchase of the certificates of origin of electricity,
 - paying a substitution fee due to the fulfilment of the obligation to present the certificates of origin for electricity for redemption, pursuant to the provisions of the *act of April 10, 1997 Energy Law* in the amount of PLN 33 million,
3. payment of the higher, by PLN 32 million, income tax, as a result of:
 - PGK paying income tax in 2019 in the amount higher by PLN 101 million than in 2018,
 - net cash inflow in the amount of PLN 18 million in 2019, due to the tax settlements for the previous years,
 - payment by PGK, in 2018, of the income tax for 2017, in the amount of PLN 46 million,
 - payment of the income tax in 2018 by companies that are not part of PGK in the amount of PLN 3 million, while in 2019 the amount of this cash flow was PLN 0.5 million.

The biggest impact on cash flows from investing activities came from the expenditures to purchase tangible fixed assets, which were higher by PLN 294 million in the reporting period, as compared to the outlays incurred in 2018. The largest expenditures were incurred by the Distribution and Generation Segments.

The positive value of cash flows from financing activities is due to the bond issue completed in 2019, worth PLN 500 million in total, and taking out credits and loans in the total amount of PLN 5 150 million, while at the same time debt securities worth PLN 2 420 were redeemed, as well as credits and loans taken out in the previous years were repaid in the amount of PLN 867 million. In 2019, the bond issue program was replaced by a loan agreement, and therefore the cash received from the first tranche of the loan, of June 28, 2019, was allocated for the redemption of the bonds with a nominal value of PLN 1 840 million.

In addition, in 2019, TAURON Capital Group received an inflow of PLN 780 million, which is related to the cash contributions made by FIK FIZAN and PFR IFIZ for taking up the shares in the increased share capital of Nowe Jaworzno Grupa TAURON. The total amount of interest paid, presented in cash flows from financing activities, reached PLN 213 million.

The below figure presents TAURON Capital Group's 2019 cash flows.

Figure no. 72. TAURON Capital Group's 2019 cash flows



TAURON Capital Group continues its expansion process and still maintains its market position. It should be noted that the balance of cash flows from operating activities is positive, consequently enabling TAURON Capital Group to autonomously finance its current operations.

5.4. Material off-balance sheet items

Material off-balance sheet items included in the consolidated financial statements

As of December 31, 2019, the material contingent liabilities of TAURON Capital Group include:

1. Lawsuits related to the termination of long-term contracts:

- 1) lawsuits filed by the companies that are a part of the following groups: in.ventus, Polenergia and Wind Invest, against PEPKH for determination that the statements submitted by PEPKH on the termination of the contracts for the purchase of electricity and property rights concluded with the above mentioned companies are not valid (are ineffective).

On September 2, 2019, Amon (a Polenergia group company) filed new lawsuits containing the following claims for damages in the total amount of PLN 29 009 000. After the balance sheet date, on February 24, 2020, PEPKH received a letter constituting a change of the lawsuit of Dobiesław Wind Invest Sp. z o.o., in which, apart from the original claim, a lawsuit was filed for the award the claims in the total amount of PLN 34 464 000.

As of the date of drawing up this report the amount of damages claimed in the lawsuits is: EUR 20 397 000 (in.ventus group companies), PLN 115 566 000 (Polenergia group companies), PLN 322 313 000 (Wind Invest group companies).

As of the balance sheet date, the Company set up a provision related to the onerous contracts in the amount of PLN 4 213 000.

The above event is described in detail in section 2.6 of this report.

- 2) lawsuits of the companies that are a part of the following groups: in.ventus, Polenergia and Wind Invest against TAURON for payment of damages and for determination of liability for damages that may arise in the future due to torts, including unfair competition acts. The factual basis for the lawsuits, according to the plaintiff, is the termination by PEPKH of the long term contracts for the purchase of electricity and property rights arising from certificates of origin and alleged management (directing) of this process by TAURON. The amount of damages claimed in the lawsuits is: EUR 12 286 000 (in.ventus group companies), PLN 78 855 000 (Polenergia group companies), PLN 129 947 PLN. (Wind Invest group companies) Furthermore, the plaintiffs indicate in their lawsuits the following values of the estimated damages that may arise in the future: EUR 35 706 000 (in.ventus group companies), PLN 265 227 000 (Polenergia group companies), PLN 1 119 363 000. (Wind Invest group companies),
- 3) statements, submitted by TAURON Sprzedaż subsidiary, on the termination of the long term contracts, concluded with the in.ventus group companies, for the purchase of property rights arising from certificates of origin of electricity from renewable sources. The above Contracts were terminated due to the parties' failure to reach an agreement as a result of the contractual renegotiations in accordance with the procedure set forth in the contracts. The total net amount of the contractual obligations of TAURON Sprzedaż estimated for the 2017-2023 years under the above mentioned terminated contracts would, as of the termination date, reach approx. PLN 417 000 000.
- 4) notifications, received by TAURON Sprzedaż subsidiary, in the cases filed by two Polenergia group companies against TAURON Sprzedaż, of motions for a summons to a conciliation hearing with respect to the total amount of PLN 78 855 000, due to damages for alleged harm done to Polenergia group companies,

as a result of the groundless termination of the long term contract concluded between these companies and PEPKH. The companies indicated in the applications that the company, PEPKH and the liquidators of PEPKH did and continue to do harm to Polenergia group companies, and TAURON Sprzedaż consciously took advantage of this harm and – according to Polenergia group companies - bears full responsibility for such harm. No settlements have been reached at the court hearings.

- 5) lawsuit filed by Hamburg Commercial Bank AG (formerly HSH Nordbank AG) against TAURON Sprzedaż for payment of damages due to a failure of TAURON Sprzedaż to perform agreements on the sale of property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source and liquidated damages assessed due to the termination of the above mentioned agreements. The subject of the statement of claim is the payment by TAURON Sprzedaż, in favor of the bank, of the total amount of PLN 232 879 000 along with the statutory interest for a late payment, accrued from the day of filing the lawsuit until the payment date, including the damages in the total amount of PLN 36 252 000 and the liquidated damages in the total amount of PLN 196 627 000.

The above event is described in detail in section 2.6 of this report.

2. Proceedings initiated by the President of UOKiK:

- 1) proceedings against TAURON Sprzedaż and TAURON Sprzedaż GZE related to the mechanism for automatic extending of the period for settling the charges for electricity supply according to the price list in case a consumer has not taken any actions having been presented with a new offer
- 2) proceedings against TAURON Sprzedaż GZE in conjunction with the suspected applying of a practice violating the collective interests of consumers involving hindering a switch of an electricity supplier
- 3) proceedings against TAURON Sprzedaż in connection with the suspicion of violating the collective interests of consumers by applying practices related to concluding electricity sales agreements over the phone.
- 4) proceedings against TAURON Sprzedaż in connection with the suspicion of violating the collective interests of consumers by introducing changes to the scope of information made available to consumers in applications for concluding or changing the terms of a comprehensive electricity agreement,
- 5) proceedings against TAURON Sprzedaż and TAURON Sprzedaż GZE summoning the companies to provide information on the last resort supply contracts concluded in 2018 and 2019 and to provide the relevant explanations regarding this issue.

3. Proceedings initiated by the President of ERO:

- 1) proceedings against TAURON Dystrybucja concerning imposing of a monetary fine due to a failure to maintain facilities, equipment and installations in due technical condition and the violation of the terms defined in the license for electricity distribution. By way of the decision of the President of ERO a penalty was imposed on TAURON Dystrybucja in the amount of PLN 350 000. The company submitted an appeal against the above decision to the Court of Competition and Consumer Protection (SOKiK). The above company set up a provision in the amount of PLN 351 000,
 - 2) proceedings initiated against TAURON EKOENERGIA with respect to imposing a monetary fine, in connection with the suspected conducting of the operations involving electricity generation at Dąbie 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 the President of ERO a fine of PLN 2 000 was imposed on the company. TAURON EKOENERGIA filed an appeal against the above decision to the Regional Court in Warsaw.
 - 3) proceedings initiated against TAURON Sprzedaż with respect to adapting the terms of the granted license for electricity trading to the legal regulations currently in force. By way of the decision of the President of ERO, TAURON Sprzedaż was obligated to change the license. TAURON Sprzedaż filed an appeal against the above decision to the Court of Competition and Consumer Protection (SOKiK).
 - 4) proceedings initiated against TAURON Sprzedaż with respect to halting the supply of electricity to the final consumer,
 - 5) proceedings initiated against TAURON Sprzedaż GZE with respect to halting the supply of electricity to the final consumer,
 - 6) proceedings against TAURON Sprzedaż GZE with respect to imposing monetary fines, in connection with the detection of the possibility of non-compliance with the obligations specified in art. 9a, clause 1, art. 9a, clause 8 of the *act of April 10, 1997, Energy Law* and art. 12, clause 1 of the *act of May 20, 2016, on energy efficiency*. The above company set up a provision in the total amount of PLN 6 320 000.
4. court dispute between TAURON as a legal successor of Górnośląski Zakład Elektroenergetyczny S.A (GZE) and Huta Łaziska S.A. (Huta Łaziska) as a result of a failure by Huta Łaziska to fulfil the obligation to pay the accounts payable for electricity supplies, which consequently caused the halting of electricity supplies to Huta Łaziska by GZE in 2001 and thus the claim for the payment of damages is PLN 182 060 000 for the alleged losses caused by the halting of electricity supplies.

5. lawsuit brought by ENEA against TAURON as well as TAURON Sprzedaż and TAURON Sprzedaż GZE as third party respondents (defendants), due to the alleged unjustified benefit gained by the Company in connection with the settlements of non-balancing on the Balancing Market, made with PSE (TSO) in the period from January to December 2012. The claim for payment by TAURON amounts to PLN 17 086 000. In case the lawsuit against TAURON is dismissed, the claim for payment by TAURON Sprzedaż and TAURON Sprzedaż GZE amounts to PLN 8 414 000 in total, including interest.
6. lawsuit of Galeria Galena Sp. z o.o. against TAURON Wydobycie for payment of PLN 22 785 000 due to the refund of the expenditures incurred to protect a facility against the impact of mining operations and the lawsuit of Galeria Galena Sp. z o.o. against the legal successors to Kompania Węglowa S.A. The above cases were combined for a joint hearing. No provision has been set up with respect to the above event,
7. lawsuit brought by the consortium: WorleyParsons Nuclear Services JSC, WorleyParsons International Inc and WorleyParsons Group Inc, against PGE EJ 1 for the total amount of PLN 128 million. TAURON, as a shareholder of PGE EJ 1 with a 10% stake in the share capital. TAURON concluded an agreement with PGE EJ 1 and the other shareholders governing the mutual relationships among the parties to the agreement related to the said claims. In accordance with the Company's assessment a potential financial engagement of the Company in PGE EJ1, under the above agreement should not exceed 10% of the claim of the consortium,
8. potential claims not reported by the owners of land with unregulated status due to the lack of detailed records of unregulated land and, as a result, the inability to reliably estimate the amount of potential claims. As of the balance sheet date a provision was set up with respect to the reported court litigations in the amount of PLN 88 070 000. (note 39.1 to the Consolidated financial statements for the year ended on December 31, 2019),
9. potential occurrence of the situations, provided for in the investment agreement signed by the Company with FIZ (Closed Investment Funds - Fundusze Inwestycji Zamkniętych) managed by Polski Fundusz Rozwoju S.A. (Polish Development Fund), constituting a material breach of the above agreement by the Company. Any potential material breach of the agreement on the part of TAURON Capital Group's subsidiaries may lead to a potential invoking of a procedure, which may result in the request (exercising of the option) by FIZ to have the shares in Nowe Jaworzno Grupa TAURON bought back, for the amount invested by FIZ in the shares plus the agreed return and the premium for a material breach and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON to FIZ. After the balance sheet date, on March 27, 2020, an amendment to the above agreement was concluded, changing the catalog of the material breaches of the agreement on the part of the Company. At present, the Company does not identify any risk of a material breach of the above agreement on its part and is of the opinion that there are no real possibilities, including in the future, of an occurrence of material breaches of the agreement that are beyond the Company's direct control. As of the balance sheet date, FIZ holds the shares of Nowe Jaworzno Grupa TAURON in the amount of PLN 880 000 000.

The detailed information related to the off-balance sheet items is provided in notes 50 and 51 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

Off-balance sheet items included in the Standalone financial statements

Standalone financial statements for the year ended on December 31, 2019, include the off-balance sheet items indicated above in clauses 1, 4, 5, 7 and 9.

The detailed information related to the off-balance sheet items indicated above is provided in note 40 to the *Financial statements of TAURON Polska Energia S.A. drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

5.5. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON Capital Group for 2019. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

5.6. Key financial ratios and the Alternative Performance Measures

The below table presents key financial ratios of TAURON, which may constitute an important source of information for investors about the financial and operational standing of the Company. The Alternative Performance Measures below as defined by the ESMA Guidelines on Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding the Company's financial results. They constitute standard metrics commonly used in financial analysis, the usefulness of which has been analyzed in terms of the information provided to investors on the financial efficiency, cash flows and debt of TAURON Capital Group.

Table no. 40. Key financial ratios of TAURON Capital Group¹

Ratios	Definition	2019	2018	2017
PROFITABILITY				
EBIT Margin	Operating profit / Sales revenue	1.5%	4.4%	10.8%
EBITDA Margin	EBITDA / Sales revenue	18.4%	19.3%	20.8%
Net Profitability	Net profit/ Sales revenue	(0.1)%	1.1%	7.9%
Return on Equity (ROE)	Net profit/ Equity at the end of the period	(0.1)%	1.1%	7.7%
LIQUIDITY				
Current liquidity ratio	Current assets (excluding assets held for trade) / Short-term liabilities	0.87	0.62	0.95
DEBT				
Total debt ratio	Total obligations/ total liabilities	0.54	0.50	0.50
Net financial debt/ EBITDA	(Financial liabilities - Cash)/ EBITDA	2.8x	2.5x	2.3x
OTHER RATIOS				
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	(0.01)	0.12	0.79

¹Due to the limited comparability of the earlier periods, data is presented in a three-year time frame. Data comprising the earlier periods is presented in section no. 5.7 of this report.

TAURON Capital Group's net profitability ratio came in at the level of (0.1)% in 2019, as a consequence of recognizing of the balance of the impairment charges, in the 2019 result, in the amount higher than in 2018 and the higher costs of interest on debt. Due to the different values of the impairment charges these ratios are not comparable.

Without taking into account the impairment charges, the net profitability ratio stood at 5.2% in 2019, i.e. it was 0.4 pp higher than the comparable ratio of 4.8% in 2018.

The current liquidity ratio was higher as of December 31, 2019, than as of December 31, 2018, which proves that the financial standing of TAURON Capital Group continued to be stable.

The total debt ratio and the net debt / EBITDA ratio illustrate the share of liabilities in financing TAURON Capital Group. The current level of these ratios enables TAURON Capital Group to obtain external financing required to carry out the planned investment (capex) projects. The levels of both ratios confirm the stable financial position of TAURON Capital Group.

The EPS ratio (calculated in relation to the net result attributable to the shareholders of the parent entity) is negative due to the negative net financial result, for the reasons described above.

The below table presents the reconciliation of the net financial debt, the amount of which, together with the EBITDA amount, is the basis for calculating the net debt / EBITDA ratio.

Table no. 41. Net financial debt reconciliation

Item (PLN m)	2019	2018	2017
Cash and equivalents	1 265	850	1 013
Cash and equivalents – balance acc. to balance sheet	1 238	824	909
Short term investments with the maturity of up to 1 year	27	26	103
Long term financial debt	8 982	6 950	8 710
Long term credits and loans, and other	4 728	703	902
Long term liabilities due to bonds issued	4 255	6 248	7 808
Short term financial debt	2 412	2 471	350
Short term credits and loans, and other	2 323	184	314
Short term liabilities due to bonds issued	89	2 288	36

Item (PLN m)	2019	2018	2017
Total financial debt	11 394	9 422	9 060
Net financial debt	10 130	8 572	8 047

The below table presents the reconciliation of the result at the EBITDA level.

Table no. 42. Reconciliation of the result on the EBITDA level

Item (PLN m)	2019	2018	2017
Net profit (loss)	(12)	207	1 383
Income tax charged to the financial result	(4)	298	375
Financial costs	411	369	313
Financial revenue	(100)	(83)	(191)
EBIT	295	791	1 879
Depreciation charged to the financial result	1 992	1 839	1 693
Change in the balance of write-downs related to the loss of the carrying value of fixed assets and intangible assets	1 312	862	45
EBITDA	3 599	3 492	3 618

5.7. Most significant financial and operating data of TAURON Capital Group for the last 5 years

The below table presents the most significant financial data and operating data of TAURON Capital Group for the last 5 years, i.e. for the 2019 – 2015 period.

Table no. 43. Financial and operating data for 2019-2015¹

Key information	unit	2019	2018	2017	2016	2015	Change in % (2019/2018)
Statement of comprehensive income							
Sales revenue	PLN m	19 558	18 122	17 425	17 646	18 264	108%
Operating profit	PLN m	295	791	1 879	802	(1 901)	37%
Financial revenue (total)	PLN m	100	83	191	125	81	120%
Financial expenses (total)	PLN m	(25)	(11)	(313)	(418)	(368)	234%
Pre-tax profit (loss)	PLN m	(15)	505	1 758	509	(2 188)	-
Income tax	PLN m	4	(298)	(375)	(139)	384	-
Net profit	PLN m	(12)	207	1 383	370	(1 804)	-
attributable to shareholders of the parent entity	PLN m	(11)	205	1 381	367	(1 807)	-
attributable to non-controlling shares	PLN m	(1)	2	2	3	3	-
EBITDA	PLN m	3 599	3 492	3 618	3 337	3 523	103%
Statement of financial position							
Fixed assets	PLN m	35 052	32 542	31 049	29 148	28 124	108%
Current assets	PLN m	6 865	4 556	4 786	4 309	3 947	151%
Total equity	PLN m	19 093	18 428	18 068	16 679	16 048	104%
Total liabilities	PLN m	22 825	18 669	17 767	16 778	16 023	122%
Long-term liabilities	PLN m	14 963	11 382	12 740	11 969	8 584	131%
Short-term liabilities	PLN m	7 862	7 287	5 027	4 809	7 439	108%

Key information	unit	2019	2018	2017	2016	2015	Change in % (2019/2018)
Net financial debt ²	PLN m	10 130	8 572	8 047	7 704	7 886	118%
Capital expenditures	PLN m	4 128	3 838	3 474	3 817	4 175	108%
Cash flow account							
Net cash from operating activities	PLN m	2 036	2 223	3 559	3 064	3 387	92%
Net cash from investing activities	PLN m	(4 535)	(3 387)	(3 872)	(3 627)	(3 942)	134%
Net cash from financing activities	PLN m	2 895	1 171	760	590	(526)	247%
Cash closing balance	PLN m	1 204	808	801	355	328	149%
Ratios							
EBIT Margin	%	1.5%	4.4%	10.8	4.5	(10.4)	35%
EBITDA Margin	%	18.4%	19.3%	20.8	18.9	19.3	95%
Net financial debt/ EBITDA	multiple	2.8x	2.5x	2.2x	2.3x	2.2x	115%
Net earnings per share	PLN / share	(0.01)	0.12	0.79	0.21	(1.03)	-
Operating data							
Commercial coal production	Mg m	3.78	5.01	6.45	6.37	4.91	75%
Gross electricity production	TWh	13.88	16.21	18.41	16.80	18.56	86%
Electricity production from RES	TWh	1.38	0.97	1.30	1.32	1.63	142%
Heat production	PJ	10.85	11.29	12.20	11.52	11.51	96%
Retail electricity supply	TWh	33.73	34.52	34.91	32.04	35.94	98%
Distribution of electricity	TWh	51.73	51.97	51.37	49.68	49.20	100%
Number of customers (Distribution)	m	5.65	5.60	5.53	5.47	5.42	101%

¹The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organization of Segments

²Excluding the issue of hybrid bonds

The below table presents TAURON Capital Group's EBITDA for the last 5 years, i.e. for the 2019 – 2015 period.

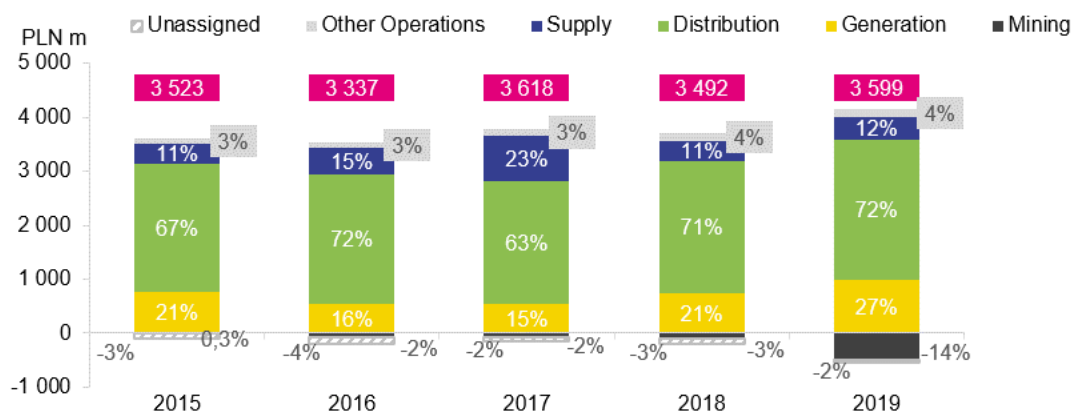
Table no. 44. TAURON Capital Group's EBITDA, broken down into Segments (Lines of Business)¹

#	EBITDA (PLN m)	2019	2018	2017	2016	2015	Change in % (2019/2018)	Change (2019-2018)
1.	Mining	(500)	(90)	(83)	(82)	9	-	(410)
2.	Generation	984	731	537	545	755	135%	253
3.	Distribution	2 606	2 466	2 283	2 395	2 372	106%	140
4.	Supply	429	372	841	490	380	115%	56
5.	Other	136	135	118	115	100	101%	1
6.	Unallocated items	(56)	(122)	(78)	(126)	(94)	-	66
Total EBITDA		3 599	3 492	3 618	3 337	3 523	103%	107

¹The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organization of Segments

The below figure presents the structure of TAURON Capital Group's EBITDA in 2015-2019.

Figure no. 73. Structure of TAURON Capital Group's EBITDA in 2015-2019



Key information for 2015-2019 by Segments

The below figures present the 2015 - 2019 financial data by Segments.

Figure no. 74. Mining Segment's 2015 - 2019 data

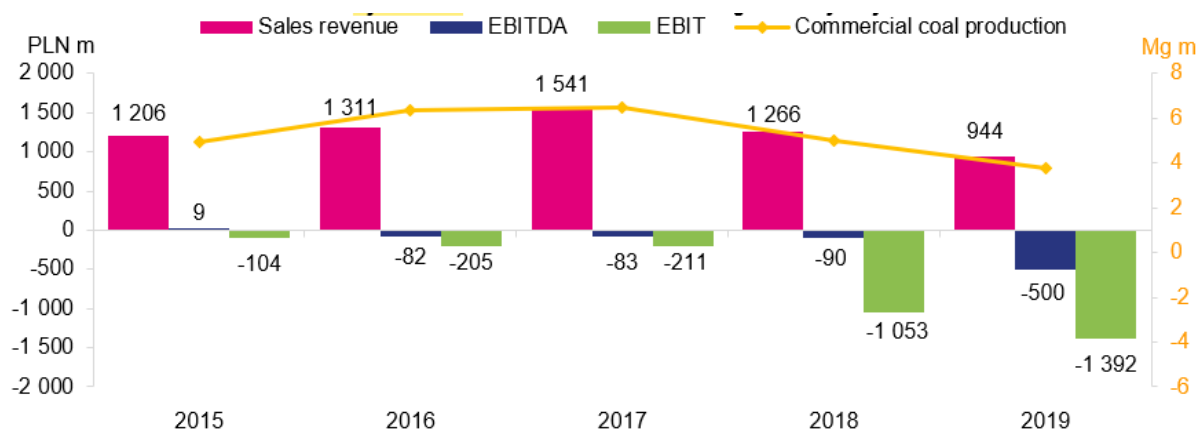


Figure no. 75. Generation Segment's 2015 - 2019 data

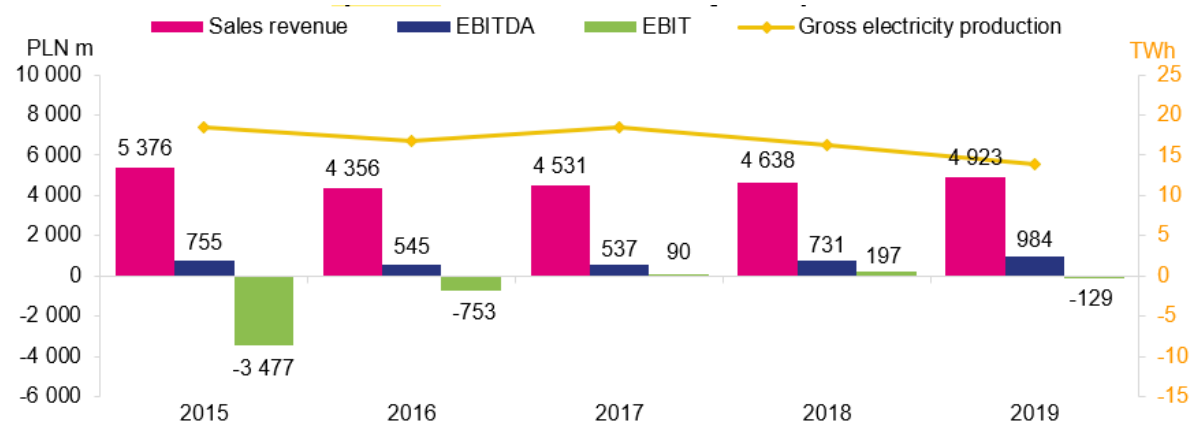


Figure no. 766. Distribution Segment's 2015 – 2019 data

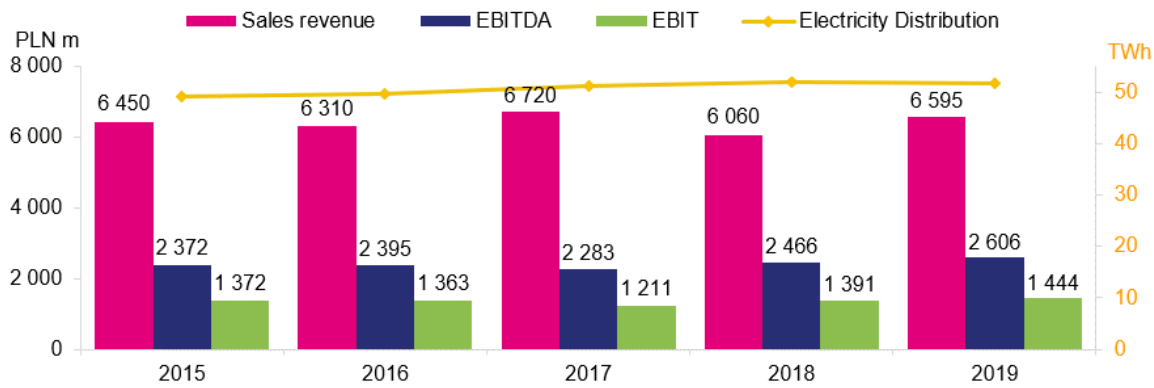


Figure no. 77. Supply Segment's 2015 - 2019 data

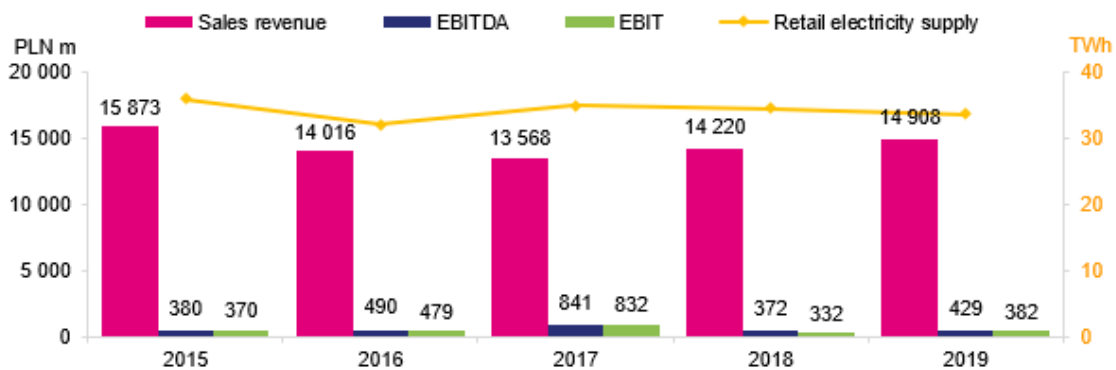
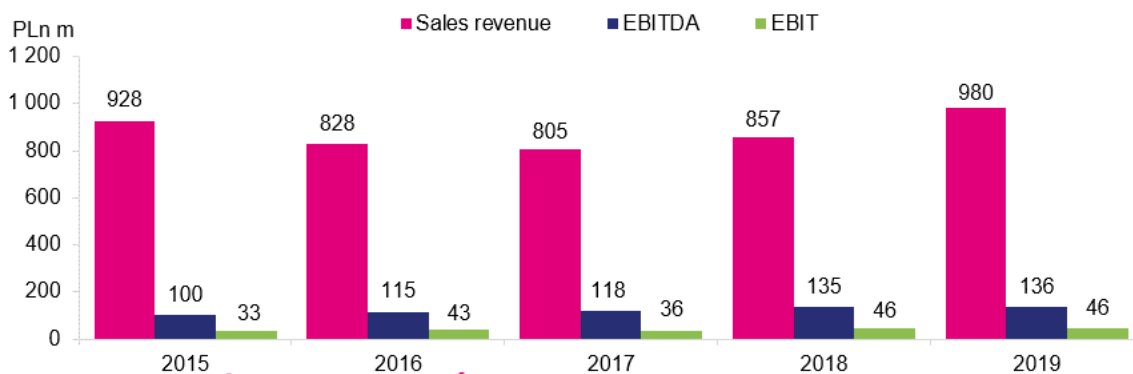


Figure no. 78. Other Operations Segment's 2015 - 2019 data



5.8. What can be expected in 2020

According to the analysts of the World Bank, 2020 will be a period of an economic slowdown in the global economy. The main risk factors for the global economy are the slowdown of the Chinese economy, weakening volume of the global trade, uncertainty on the financial markets, declining pro-risk sentiment and geopolitical tensions, which include tensions between China and the US, Brexit and the conflict between Iran and the US. A factor impacting the global GDP is also the slowdown of the economic growth in the euro zone countries, dropping from the 1.1% GDP growth rate in 2019 to 1% in 2020.

According to the forecasts of the NBP, in 2020-2021 the domestic GDP growth rate will be gradually declining. Poland's GDP growth rate came in at 4.1% in 2019, while the forecast assumes a decline of Poland's economic growth rate to 3.2% in 2020 and 3.1% in 2021.

The inflation rate is forecast to rise to 3.7% in 2020, from 2.3% recorded in 2019, and in the following year the inflation rate is expected to drop to around 2.7%.

The unemployment rate in Poland fell to approx. 3% in 2019, mainly due to an increase in the employment level and a decrease in the labor supply. The unemployment rate is forecast to rise to 3.1% in 2020, with an upward trend expected in the subsequent years.

The energy sector is expected to continue to maintain a low level of demand for the hard coal. Within 2-3 years the demand may fall even by up to approx. 9 million tons, due to the growing production of electricity from the renewable sources. The level of demand for the coal fuel is also affected by a decline in the demand for electricity and a drop of the electricity production in Poland and the growing electricity imports. The rising electricity generation costs – the high prices of the CO₂ emission allowances and the growing competitiveness of the renewable sources will contribute to the decline of the economic efficiency in the conventional generation segment.

An increase in the ecological awareness of the society and a change in the customer's approach to the way of consuming electricity can be observed in the Supply Line of Business, which leads to a decline of the demand for electricity and an increase in the number of prosumers operating on the market. Due to the market price developments a pressure on margins in the Supply Segment is expected.

The majority of investment projects in the power sector, related to the construction of the new generating capacity, were commissioned in 2019. The completing of the investment project in Jaworzno (910 MWe) as well as the commissioning of the CCGT unit in Stalowa Wola (450 MWe), the Żerań combined heat and power (CHP) plant (497 MWe) and the Turów power plant (496 MWe) are planned in 2020.

In the regulatory area, further works will be carried out on the key direction documents for the sector, including: further works on the document and the adoption of *Poland's Energy Policy until 2040*, as well as the regulations with respect to the off-shore wind based energy projects, the adoption of the direction aimed at achieving the EU climate neutrality in 2050. and the adoption, at the EU level, of a regulation establishing the Just Transition Fund. The sector will also be impacted by a change in the policies of the financial institutions with respect to financing the coal-based energy.

It is assumed that all of the above parameters may be adjusted due to the changes in the world economy resulting from the global coronavirus pandemic.

5.9. Current and forecast financial and assets situation (financial and assets outlook)

Taking into account the current market situation, it is expected that the results of TAURON Capital Group in the coming years will be affected by both internal factors as well as external factors.

The results of the **Mining Segment** in the coming years will, to a large degree, be dependent on the work progress in the implementation of the investment projects and the technical and organizational changes introduced. The company assumes the implementation of the restructuring initiatives that are aimed at increasing the productivity and efficiency of the production and optimizing the costs.

It is expected that the financial situation of the **Generation Segment** in the next few years will improve as compared to the current situation, mainly due to the commissioning of the 910 MWe unit in 2020 and due to the revenue from the capacity market. The additional revenue from the capacity market starting from 2021 will allow for compensating the expenditures incurred for the required refurbishments of the generating units in order to adapt them to the *BAT Conclusions*. In order to improve the results activities will be continued throughout the entire line of business to improve its cost efficiency. On the other hand, the demanding market situation and the continuing upward trend of the CO₂ emission allowances prices carry the risk of the degradation of the 1st degree margin on electricity and heat.

In the **Distribution Segment**, the level of remuneration (return) on the invested capital and the cost efficiency improvement measures undertaken will play a key role impacting the operating result. Updating of the regulatory model due to the beginning of the new regulatory period in 2021 will have a significant impact on the results in the coming years, namely the update of the parameters used to determine the weighted average cost of capital, the correction factor used to determine the justified operating expenses and the balancing difference factors used to determine the justified volume of the balancing difference. Undoubtedly, the financial situation of the enterprise will also be affected by the government actions related to supporting the development of the renewable sources and the local energy communities, reducing the emission of harmful substances to the atmosphere and developing the infrastructure for charging electric vehicles.

Supply Segment - the need to curtail the expansion activities, while focusing on the goal of minimizing the number of customers leaving as well as recovering of customers lost in the previous years, has to be kept in mind in the coming years, and also the threats related to the level of electricity tariffs approved by the ERO. In addition, it is estimated that the impact of the regulations, the so-called electricity act, was generally neutral on the 2019 financial results, however, when analyzing the financial situation, the significant increase of the electricity and PMOZE purchase prices on the market should be taken into account, and what follows, the growing pressure on placing the minimum burden, coming from these factors, on the final consumers.

Other operations: the main consumers of the shared services are the Distribution and Supply Segments, for which the projects with respect to customer service are implemented and finalized. While at the same ensuring the highest quality of service. In addition, the services for TAURON Capital Group's subsidiaries are provided, with respect to,

among others, financial and accounting, services, human resources and payroll services, IT services, property security services, fleet management services and real estate management services. These activities enable achieving synergy effects across TAURON Capital Group and improve cost efficiency.

5.10. Principles of preparing annual consolidated financial statements

The consolidated financial statements have been drawn up in accordance with the IFRS approved by the EU.

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

TAURON Capital Group's subsidiaries and the parent entity keep their accounting books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy that is preparing the financial statements in accordance with the accounting principles applicable in the Czech Republic and the companies TEC1, TEC2, TEC 3 and the limited partnerships listed in section 1.3.1 of this report, that are keeping their books and preparing their financial statements in accordance with the accounting act.

The consolidated financial statements contain adjustments which are not included in the ledgers of TAURON Capital Group's entities, introduced in order to bring the consolidated statements into compliance with IFRS.

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

The accounting principles (policy) adopted for drawing up of the consolidated financial statements are presented in note 6 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

6. INFORMATION ON THE AUDIT FIRM

On November 23, 2018, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyt Polska) to conduct an audit of the financial statements and consolidated financial statements of TAURON for the years 2019-2021. On January 11, 2019, TAURON concluded an agreement with Ernst & Young Audyt Polska the Amendment to the agreement with the subject of the agreement covering:

1. audit of the financial statements of the Company for the years 2019-2021, drawn up in accordance with the requirements of the IFRS,
2. audit of the financial statements of selected subsidiaries of TAURON Capital Group for the years 2019-2021, drawn up in accordance with the IFRS,
3. audit of the consolidated financial statements for the years 2019-2021, drawn up in accordance with the IFRS,
4. review of the interim, half year financial statements of the Company, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS,
5. review of the interim, half year consolidated financial statements, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS.

In addition, in accordance with the agreement, TAURON may exercise the option to commission other permitted services including: verification of the interim, half-year and annual consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021, required to prepare the consolidated financial statements and to carry out in 2020 and 2021 the agreed procedures regarding the verification of the subsidiary's report on the update of the Regulatory Asset Base (RAB) and the Regulatory Asset Base for the AMI System (AMI RAB) for the purpose of determining a justified return on capital employed by the President of the Energy Regulatory Office for 2021 and 2022.

In connection with the changes in the organization of TAURON Capital Group described in section 1.3.2. of this report, resulting in the need to include additional subsidiaries in the consolidated financial statements, on December 5, 2019, TAURON concluded, with Ernst & Young Audyt Polska, Amendment No. 1 to the agreement of January 11, 2019, under which the option to commission other permitted services in the form of the verification of the annual and interim, half-year consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021 was extended to include additional companies covered by the consolidated financial statements of TAURON Capital Group.

Prior to 2019 the services provided for the Company by Ernst & Young Audyt Polska included the audit of the standalone financial statements and consolidated financial statements of the Company for the years from 2008 until 2012 and the years from 2017 to 2018 as well as the reviews of the interim, half year standalone financial statements and the consolidated financial statements of the Company for the periods ended on June 30 in the individual years from 2010 until 2012 and from 2017 to 2018. The Company also used, prior to 2018, the advisory and training services provided by Ernst & Young Audyt Polska, to the extent in line with the legal regulations in force and not leading to the limitation of the level of impartiality and independence of the auditor.

The compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries is shown in the below table.

Table no. 45. Compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries

#	Services provided for TAURON Capital Group's subsidiaries	Year ended on December 31, 2019 (PLN '000)	Year ended on December 31, 2018 (PLN '000)
1.	Mandatory audit, including:	1318	1079
	<i>consolidated financial statements</i>	147	124
	<i>standalone financial statements of the parent entity</i>	175	54
	<i>standalone financial statements of the subsidiaries</i>	996	901
2.	Other certifying services provided to TAURON Capital Group, including reviews of financial statements	967	585
3.	Tax advisory services	0	0
4.	Other services (including training) provided for TAURON Capital Group	0	0
	Total	2 285	1 664

7. FINANCIAL RESOURCES AND INSTRUMENTS

7.1. Proceeds from security issues

Bond issue program underwritten by banks

As part of the bond issue Program concluded with the following banks: Bank Handlowy w Warszawie S.A., BGŻ BNP Paribas S.A., Santander Bank Polska S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A. (mBank), MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Oddział w Polsce and Powszechna Kasa Oszczędności Bank Polski S.A., of November 24, 2015, the Company:

- issued on March 25, 2019, bonds with the nominal value of PLN 100 000 000, with the maturity date falling on March 25, 2020,
- purchased on June 28, 2019, bonds in the total amount of PLN 1 839 400 000 in order to redeem them.

The proceeds from the issue were used for TAURON Capital Group's general corporate purposes.

Subordinated bond issue program

On March 29, 2019, the Company issued subordinated (hybrid) bonds with the nominal value of PLN 400 000 000 as part of the subordinated bond issue program concluded with Bank Gospodarstwa Krajowego (BGK) of September 6, 2017.

The financing period is 12 years from the issue date, however in accordance with the nature of hybrid financing the first financing period has been defined as 7 years (the so-called non-call period) during which TAURON shall not be able to redeem the hybrid bonds early and BGK shall not be able to sell the Bonds to third parties early (in both cases subject to the exceptions defined in the documentation). The Agreement also provides for an option to defer the hybrid bonds' interest payment dates until, at the latest, the hybrid bonds' maturity date. The subordinated nature of the bonds means that in case of a bankruptcy or winding up of TAURON the obligations related to the bonds shall be repaid only ahead of the liabilities of TAURON's shareholders. The hybrid bond issue has a positive impact on TAURON Capital Group's financial stability as the bonds are excluded from the calculation of the leverage ratio which is a covenant in some of TAURON's financing programs. Furthermore, 50 percent of the hybrid bonds amount will be classified by the Fitch rating agency as equity in the rating model which will have a favorable impact on TAURON's rating. The hybrid bonds were granted a BB+ rating by the Fitch rating agency.

The proceeds from the issue were used to fund TAURON Capital Group's operating expenses and capital expenditures.

The below table presents the summary of TAURON Capital Group's issued and non-redeemed bonds in 2019 underwritten by entities other than TAURON Capital Group's subsidiaries, listed according to their maturity.

Table no. 46. Summary of TAURON Capital Group's issued and non-redeemed bonds in 2019 underwritten by entities other than TAURON Capital Group's subsidiaries

#	Issuer	Investor	Type and level of interest rate	Issue date	Maturity date	Nominal (par) value ('000)
				25.03.2019	25.03.2020	3 100 PLN
1.	TAURON	BNP Paribas	WIBOR 6M+fixed margin	09.11.2018	09.11.2020	6 300 PLN
				29.02.2016	29.12.2020	51 000 PLN
2.	TAURON	Eurobonds	Fixed interest rate	05.07.2017	05.07.2027	500 000 EUR
3.	Finanse Grupa TAURON (formerly: TAURON Sweden Energy)	German market investors	Fixed interest rate	03.12.2014	03.12.2029	168 000 EUR
4.	TAURON	BGK	WIBOR 6M+fixed margin	2014-2016	2019-2029	1 430 000 PLN
5.	TAURON	EIB	Fixed interest rate	17.12.2018	17.12.2030	400 000 PLN
6.	TAURON	EIB	Fixed interest rate	19.12.2018	19.12.2030	350 000 PLN
7.	TAURON	BGK	WIBOR 6M+fixed margin	29.03.2019	29.03.2031	400 000 PLN
8.	TAURON	EIB	Fixed interest rate	16.12.2016	16.12.2034	190 000 EUR

On November 4, 2019, the Company made the timely redemption of the market listed TPEA1119 series bonds.

7.2. Financial instruments

7.2.1. Application of financial instruments in order to eliminate price changes, credit risk, material disruptions of cash flows and loss of financial liquidity

The financial risk at TAURON Capital Group is managed by TAURON. The centralizing of the financial risk management function is aimed at optimizing the process, including minimizing TAURON's and TAURON Capital Group's costs in the above mentioned respect. As part of the financial risk management in 2019 TAURON Capital Group continued to hedge the risk of volatility in cash flows resulting from its debt based on the WIBOR reference rate.

Moreover, in 2019 TAURON Capital Group hedged its FX exposure arising from the trading operations (mainly due to the purchase of the CO₂ emission allowances) by concluding the forward contracts. In 2019 TAURON Capital Group was also continuing the strategy of hedging its foreign currency exposure generated by interest payments on the financing obtained in EUR by concluding the forward contracts and the CIRS transactions. The goal of these transactions was to hedge against the risk of cash flow volatility resulting from the FX rate fluctuations.

The below table presents active futures derivative transactions as of December 31, 2019 (due to the adopted centralized financial risk management model, the data refers only to TAURON).

Table no. 47. Information on the futures transactions and derivatives as of December 31, 2019

#	Type of transaction concluded	Total denomination of the specific type of transaction ('000)	Currency			Maturity date of the specific type of transaction		Valuation of transaction of the specific type as of December 31, 2019 ('000)
			PLN	EUR	Other	up to 1 year	above one year	
1.	IRS	2 100 000	x			x		69
		1 490 000	x				x	19 393
2.	CIRS	2 095 100	x				x	-12 885
3.	Forward	272 511		x		x		-22 436
		92 330		x			x	-7 408

With respect to hedging the credit risk TAURON Capital Group did not use financial instruments.

As part of *TAURON Group's Portfolio Policy* put in place, the contracting of the electricity sales is followed by the contracting of the CO₂ emission allowances. Such a way of hedging the positions allows for minimizing the risk of the CO₂ costs not being covered by the contracted electricity price. The basis for setting the CO₂ sales price for the emission allowances volume defined this way is the CO₂ price on the exchange from the period in which the CO₂ volume is contracted.

On the other hand, as part of the liquidity loss risk management debt the instruments referred to in section 7.3 are used.

7.2.2. Objectives and methods of financial risk management

The objectives and methods of financial risk management at TAURON and TAURON Capital Group are presented in section 3.3.2 of this report.

7.3. Assessment of financial resources management

TAURON has put a centralized financial management function in place and thus effective management of finances of entire TAURON Capital Group is possible. The main tools enabling effective management include: the implemented central financing model and the appropriate internal corporate regulations as well as the cash pool intra-Group loans service implemented by TAURON Capital Group and the intra-Group bond issue program put in place in 2019. Additionally, the financial management system is supported by the central policy of managing the financial risk at TAURON Capital Group and the central Insurance policy of TAURON Capital Group. In these areas the Company plays the role of the management body and decision maker with respect to the directions of the measures undertaken, enabling determining the relevant limits of the risk exposure.

In accordance with the adopted financing policy the Company is responsible for acquiring the financing for TAURON Capital Group's subsidiaries. Funds acquired both internally (from TAURON Capital Group's subsidiaries generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to TAURON Capital Group's subsidiaries, reporting the requirement for the financing.

The conducted policy of acquiring the funding sources enables, first of all, to increase the possibility of obtaining the financing, decrease the cost of the external capital, reduce the establishing of the number and form of collaterals on the assets of TAURON Capital Group and covenants required by the financial institutions, as well as leads to

the reduction of the administrative costs. The central model of financing also enables acquiring the financing sources that are not available for the individual subsidiaries.

Another key element influencing the efficiency of financial management is the policy of financial liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position of TAURON Capital Group allowing for optimizing the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of the liquidity reserve. The above factors lead to both, cost reduction as well as liquidity safety improvement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overarching goal is to provide for the ongoing financial liquidity at TAURON Capital Group, while at the same time limiting the costs of the short term external financing and maximizing the financial revenue due to investing the cash surpluses. Owing to the cash pooling structure TAURON Capital Group's subsidiaries facing short term funding deficits, may use the funds of the subsidiaries generating the financial surpluses, without the need to acquire the external financing.

Both, the financing policy, as well as TAURON Capital Group's liquidity management policy conducted by TAURON are aimed, apart from increasing the efficiency of managing TAURON Capital Group's finances, first of all, at eliminating threats of limiting or losing TAURON Capital Group's financial liquidity. The guaranteed sources of the financing, obtained with an appropriate lead time, effectively eliminate the risk of TAURON Capital Group losing its liquidity. The description of the liquidity risk is presented in detail in section 3.3.2 of this report.

Moreover, TAURON implemented a unified program of bank guarantees. Under the agreements concluded by the Company with the banks, it is possible to issue guarantees to provide collaterals for the liabilities of TAURON Capital Group's subsidiaries within the centralized limit. The above mentioned measure reduced the costs of the guarantees acquired within TAURON Capital Group and limited the total number of actions required to obtain a guarantee.

In 2019 TAURON and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.

In addition, the Company uses the available overdraft facility, foreign currency loans and the available financing under a syndicated loan agreement, which is used for the general corporate purposes, including to secure the current liquidity situation of TAURON Capital Group.

As of the balance sheet date, the Company also had financing available under the loan agreement concluded on December 19, 2019 with Intesa Sanpaolo S.P.A.

Furthermore, after the balance sheet date the Company concluded additional financing agreements:

1. on February 6, 2020, a program agreement with Santander Bank Polska S.A.,
2. on March 16, 2020, a loan agreement with SMBC BANK EU AG,
3. on March 25, 2020, a syndicated loan agreement with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Spółka Akcyjna) (Joint Stock Company) Oddział w Polsce (Polish Branch).

The detailed information regarding the conclusion of the above agreements is presented in section 2.6. of this report.

The Company is conducting the policy of diversifying its financing instruments, but first and foremost it is seeking to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet their current and future obligations both in the short as well as in the long term. The liquidity risk management is associated with the planning and monitoring of cash flows in the short and long term and involves taking actions aimed to secure the financial resources required to conduct the business operations of TAURON Capital Group's subsidiaries.

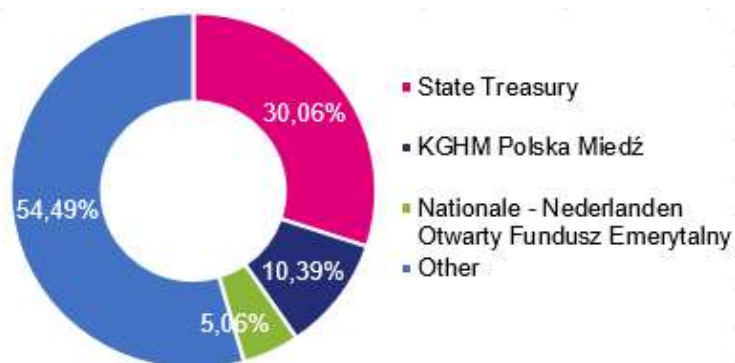
8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

8.1. Shareholding structure

As of December 31, 2019 and as of the date of drawing up this report the Company's share capital stood at, in accordance with an entry in the National Court Register, PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered BB series shares.

The below figure presents the shareholding structure as of December 31, 2019 and as of the date of drawing up this report.

Figure no. 79. Shareholding structure as of December 31, 2019 and as of the date of drawing up this report.



8.2. Dividend policy

As part of its Strategy adopted on September 2, 2016 the Company adopted its dividend policy. In the long term TAURON is planning to pay out a dividend of minimum 40 percent of the consolidated net profit. The Company's intention is to provide a dividend yield that would be competitive versus the yield offered by long term debt instruments issued on the Polish market by investment grade rated companies. The final recommendation on the dividend will be impacted by the additional factors, including in particular:

1. TAURON Capital Group's liquidity position,
2. market situation,
3. implementation of the investment policy,
4. cost and ability to obtain financing,
5. legal requirements and provisions of the financing agreements, in particular related to not breaching the defined level of the leverage ratio,
6. ensuring investment grade rating.

The dividend was last time paid out by the Company in 2015, in the amount of PLN 262 882 409.10 for the financial year 2014. As of 2015, the Company has not paid out any dividend.

8.3. Number and nominal value of the Company's shares, as well as of the shares in units related to the Company, held by members of the Management Board and the Supervisory Board

As of December 31, 2019, and as of the date of drawing up this report, members of the Management Board and members of the Supervisory Board did not have any TAURON shares, nor they held any shares in units related to the Company.

8.4. Agreements related to potential changes to the shareholding structure

The Company has no information on the existence of agreements (including also the agreements concluded past the balance sheet date), as a result of which changes in the proportions of shares held by the existing shareholders and bondholders may occur in the future.

8.5. Share buybacks

In 2019 and as of the date of drawing up this report, TAURON and its subsidiaries did not hold its own shares.

8.6. Employee stock award programs

In 2019 no employee stock award programs were implemented by the Company.

8.7. Shares performance on the Warsaw Stock Exchange (WSE)

TAURON shares have been listed on the Main Market of the Warsaw Stock Exchange since June 30, 2010.

TAURON share price fluctuated between PLN 1.43 and PLN 2.44 (at the closing prices) in 2019. During the last session of 2018 the share price stood at PLN 2.19, while as of the end of 2019 the price reached PLN 1.64.

Despite Poland's persistent solid economic growth, which in this respect continues to be one of the leaders in Europe, the performance of the shares listed on Warsaw Stock Exchange does not reflect this trend. The capitalization of the companies operating in a number of sectors, among others, the energy, banking, chemical, food, clothing and fuel sectors, dropped in 2019.

The Polish stock market, despite the boom prevailing on most of the global capital markets, recorded lower trading volumes and a decreasing number of listed companies. The negative trend observed on the domestic trading floor in 2019 was a consequence of the external factors, such as the trade restrictions between the United States and China and uncertainty about the effects of Brexit, as well as the local factors that had significantly undermined confidence in the capital market.

TAURON stock price followed the negative trends prevailing on the WSE. In the entire 2019 TAURON stock price declined 25.1%, while other domestic energy groups (PGE, ENEA and ENERGA) recorded a more than 20% drop in their capitalization, and WIG-Energia fell by 18.6%.

Investors' attitude to the energy industry remained under strong pressure from the external environment and the growing uncertainty associated with the electricity prices for the final consumers as well as the legal and regulatory changes in this sector. In addition, the valuation of the energy companies was significantly influenced by the tightening global climate policy, which will result in the need for a rapid modification and transition of the energy mix in Poland towards renewable energy. Such a change will entail large capital expenditures that will have to be incurred by the entire energy sector, while limiting its dividend potential.

TAURON Capital Group's response to the expectations of the stakeholders involved taking actions that will result in a change in the structure of the electricity production, the so-called *Green Turn of TAURON*. The modified approach of TAURON Capital Group with respect to the energy mix was defined in the Update of the Strategic Directions. TAURON Capital Group strives to develop low- and zero-emission electricity generation, primarily through investments in renewable energy. Thanks to the implementation of the planned actions, it will be possible to increase the share of low- and zero-emission sources in the generation structure of TAURON Capital Group to nearly 30% in 2025, and more than 65% in 2030. As part of implementing its strategic directions, in September 2019, TAURON Capital Group acquired wind farms with the installed capacity of 180 MW.

As of December 31, 2019, TAURON shares were included in the following stock exchange indices:

1. **WIG - index** that includes all companies listed on WSE's Main Market that meet basic criteria for inclusion in the indices. TAURON's share in WIG: 0.58 percent
2. **WIG-Poland** - national index that groups solely shares of domestic companies listed on WSE's Main Market that meet basic criteria for inclusion in the indices. TAURON's share in WIG-Poland index: 1.21 percent
3. **WIG20** - index calculated on the basis of the value of the portfolio of the shares of 20 largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG20 index: 0.82 percent
4. **WIG30** - index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG30 index: 0.76 percent.
5. **WIG-Energia** - sector based index that comprises companies included in the WIG index and are also qualified to the energy sector. TAURON's share in WIG-Energia: 13.41 percent
6. **RESPECT Index** (calculated until December, 31, 2019) - index that used to group in its portfolio companies that operate in accordance with the highest corporate social responsibility standards. TAURON's share in the RESPECT Index: 1.59 percent

Since January 1, 2020, TAURON shares are included in the WIG-ESG index that includes the shares of companies recognized as socially responsible, i.e. those that comply with the principles of corporate social responsibility, in particular with respect to the environmental, social, economic and corporate governance issues. TAURON's share in WIG-ESG is 4.95%

The below table presents the key data on the Company's shares in 2011-2019.

Table no. 48. Key data on TAURON shares in 2011-2019

#		2011	2012	2013	2014	2015	2016	2017	2018	2019
1.	Share price high (PLN)	6.81	5.61	5.39	5.69	5.29	3.19	4.12	3.28	2.44
2.	Share price low (PLN)	4.65	4.08	3.85	4.04	2.37	2.31	2.75	1.67	1.43
3.	Last share price (PLN)	5.35	4.75	4.37	5.05	2.88	2.85	3.05	2.19	1.64
4.	Capitalization at the end of the period (PLN m)	9 376	8 325	7 659	8 850	5 047	4 995	5 345	3 838	2 874
5.	Capitalization at the end of the period (%)	2.1	1.59	1.29	1.5	0.98	0.9	0.8	0.66	0.52
6.	Book value (PLN m)	15 922	16 839	17 675	18 107	18 837	16 349	17 880	18 967	19 168
7.	P/E	8.1	5.5	5.5	7.8	4.2	-	3.02	3.7	13.9
8.	P/BV	0.59	0.49	0.43	0.49	0.27	0.31	0.31	0.2	0.15
9.	Rate of return ytd ¹ (%)	-16.73	-5.03	-3.64	20.07	-40.78	-1.04	7.02	-28.2	-25.11
10.	Dividend yield (%)	2.8	6.5	4.6	3.8	5.2	-	-	-	-
11.	Trading volume (PLN m)	5 575	3 199	3 104	3 135	3 063	3 199	2 737	3 104	2 001
12.	Trading volume share (%)	2.21	1.7	1.41	1.53	1.5	1.69	1.16	1.52	1.04
13.	Average volume per session	3 721 539	2 667 725	2 793 020	2 489 329	3 190 195	4 662 087	3 261 765	5 622 737	4 508 965
14.	Average number of transactions per session (pcs)	1 373	960	1 022	1 106	1 431	1 465	1 323	1 769	1 699

Source: Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

¹Rate of return calculated taking into account the investor's income from the dividend and assuming that the additional income realized is re-invested. Methodology in accordance with WSE Statistical Bulletin

The below graphs present historical TAURON share price performance and trading volumes, including against WIG20 and WIG-Energia indices.

Figure no. 80. TAURON share price (in PLN) and trading volumes in 2019

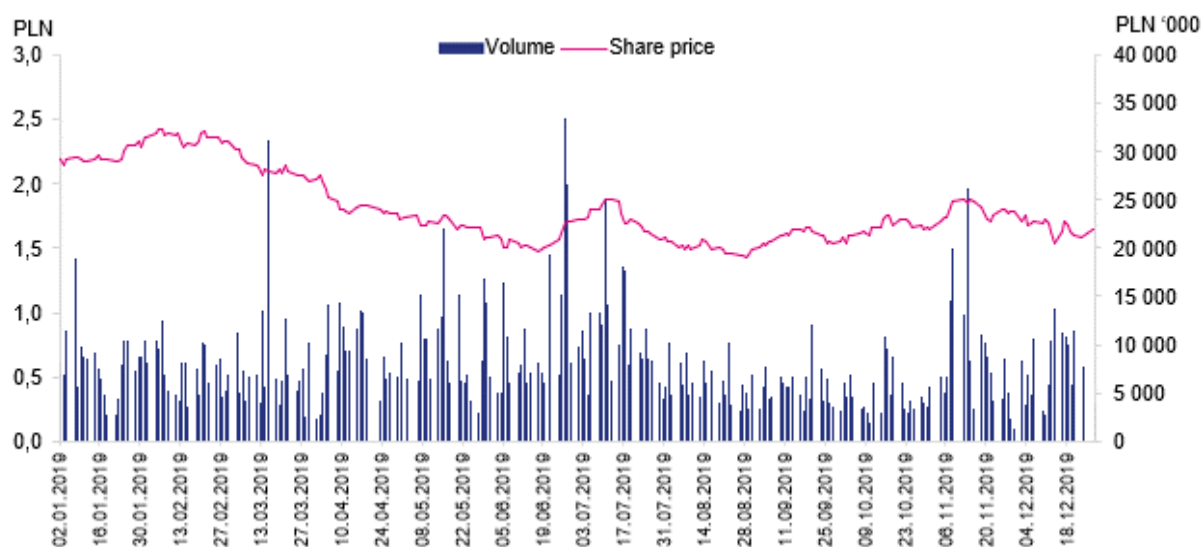
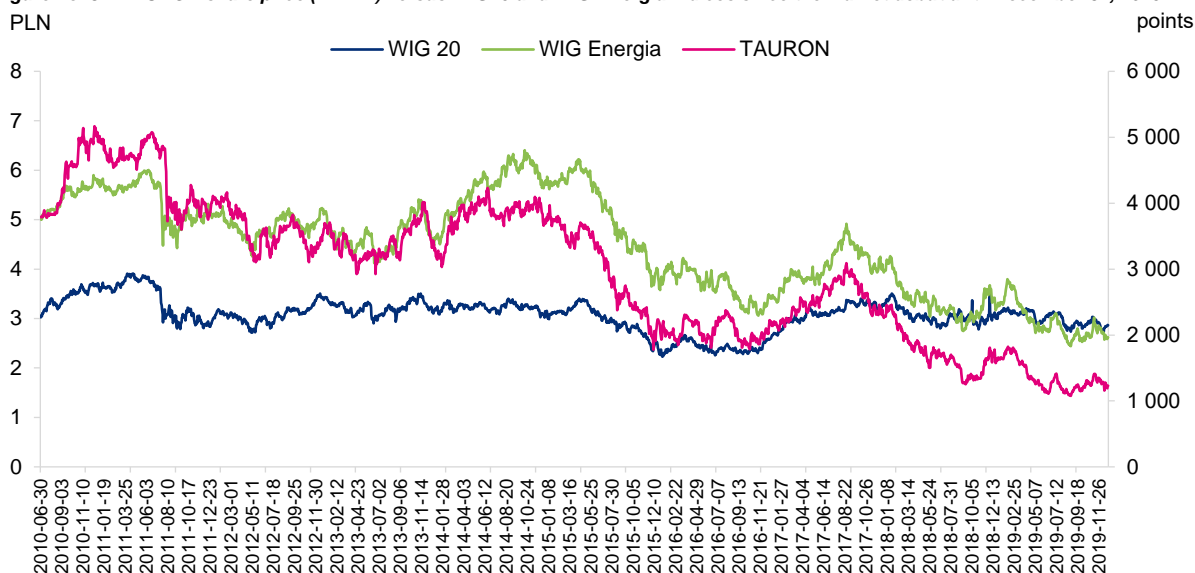


Figure no. 81. TAURON share price and trading volumes since the market debut until December 31, 2019



Figure no. 82. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2019



Recommendations for the shares of TAURON Polska Energia S.A.

Analysts from brokerage houses and investment banks issued, in total, 13 recommendations for TAURON shares in 2019, including:

7 "buy" recommendations
 4 "hold" recommendations
 2 "sell" / "reduce" recommendations

The below table presents a list of recommendations issued in 2019.

Table no. 49. Recommendations issued in 2019

#	Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
1.	20.01.2019	Citi	Hold / PLN 2.50
2.	04.02.2019	mBank Biuro Maklerskie	Buy / PLN 3.12
3.	08.02.2019	Beskidzki Dom Maklerski	Reduce / PLN 2.18
4.	02.04.2019	mBank Biuro Maklerskie	Buy / PLN 2.89
5.	10.04.2019	Societe Generale	Hold / PLN 2.10

#	Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
6.	18.04.2019	PKO BP Biuro Maklerskie	Hold / PLN 2.00
7.	13.05.2019	Biuro Maklerskie Santander	Hold / PLN 1.80
8.	25.06.2019	mBank Biuro Maklerskie	Buy / PLN 2.52
9.	06.09.2019	Societe Generale	Buy / PLN 2.30
10.	09.09.2019	Biuro Maklerskie Santander	Buy / PLN 2.10
11.	10.09.2019	Wood&Co	Buy / PLN 2.06
12.	06.11.2019	mBank Biuro Maklerskie	Buy / PLN 2.45
13.	04.12.2019	TRIGON Dom Maklerski	Sell / PLN 1.40

8.8. Investor relations

Transparent, accurate and regular communications is the foundation of TAURON's investor relations (IR) program. It is provided not only in the form of mandatory activities required by law, i.e. by disclosing information in the current and periodic regulatory filings, but it is also supplemented via many additional activities and tools addressed directly to all the stakeholders. As a consequence The Company places a lot of weight on building good relations with all stakeholder groups, which, as a consequence, high quality communications leads to a higher level of trust among the investors, financing institutions and business partners. Building relationships with the investors is based on both implementing the best practices used around the world as well as setting the highest standards on the Polish capital market.

In 2019, analysts, journalists and shareholders had access to a wide spectrum of information about TAURON Capital Group using various communication tools.

As part of its investor relations program the Company organized quarterly earnings conferences as well as participated in investor conferences and roadshows in Poland and abroad. During meetings with the investors the members of TAURON's Management Board and the key managers were presenting TAURON Capital Group's strategy, discussing the key capex projects, the financial situation as well as the current standing and outlook for the energy sector.

In connection with the publication of the periodic reports, the Company organized earnings conferences for investors and analysts, each time attended by several dozen representatives of the capital market and media. You could also participate in these events on-line in Polish and English or listen to them by phone. It was also possible to follow them at a later date. Thanks to this, all interested parties were guaranteed equal access to the information.

Besides meetings accompanying the publication of the periodical reports, in 2019 members of the Management Board and representatives of the Investor Relations Team took part in more than a dozen conferences and roadshows, during which several dozen meetings with managers and capital market analysts were held. The representatives of TAURON met with institutional investors not only in Poland, but also in Austria and the Czech Republic.

An initiative that was positively received by the investor community was to organize, in cooperation with the PKO BP Brokerage House, the Institutional Investor Day. As part of the event, several dozen fund managers visited the construction site of the largest investment project of TAURON Capital Group, i.e. a 910 MW generating unit in Jaworzno. In addition, the representatives of the management staff of TAURON Capital Group presented to the participants of the Institutional Investor Day selected issues related to the Generation and Distribution Segments.

In 2019, similar as in the previous years, TAURON also participated in the events addressed to the individual investors. The Company was, inter alia, a partner of the "WallStreet" conference in Karpacz organized by the Individual Investors Association. As part of the regular communications with this sizeable group of investors, 4 chats with the representatives of the Management Board took place in 2019, with approximately one hundred individual investors taking part each time.

In connection with the growing role of the online channels and the social media, much emphasis was placed on their development with respect to the communications with the investors. Broadcasts of events important for the investors were provided via the YouTube service: earnings conferences, GMs, investor days and comments of the President of the Management Board on the financial results. On the other hand, announcements of significant events were published by the Company on Facebook. TAURON also has a corporate profile on Twitter where entries related to, among others, investor relations appear. Being aware of the fact that the website is a significant source of information for the investors, in particular, the Investor Relations tab; the Company takes care of its content and validity of the content provided therein. The *Investor Relations* section contains a lot of useful

information on the current events, financial results or TAURON Capital Group's strategy. It also provides presentations and video broadcasts of conferences summarizing the financial results.

Activities with respect to investor relations are appreciated by the capital market participants and investors. In 2019, the Company received further awards for the high quality of its investor relations.

The below table presents a timeline of the investor relations highlights and activities that took place in 2019.

Table no. 50. Timeline of the investor relations highlights and activities that took place in 2019

#	Date	Highlight (event)
1.	03.04.2019	Full year 2018 stand-alone and consolidated earnings reports published
2.	04.04.2019	TAURON Management Board's meeting with analysts and fund managers to present FY 2018 earnings, Warsaw
3.	04.04.2019	Chat for individual investors as part of cooperation with the Individual Investors Association
4.	11.04.2019	Meetings with the fund managers, IPOPEMA, Warsaw
5.	08.05.2019	Company's Ordinary General Meeting, Katowice
6.	27.05.2019	Q1 2019 consolidated earnings report published
7.	28.05.2019	TAURON Management Board's meeting with analysts and fund managers to present Q1 2019 earnings, Warsaw
8.	29.05.2019	Chat for individual investors as part of cooperation with the Individual Investors Association
9.	12.06.2019	Meeting of the Management Board with Raiffeisen Capital Management fund managers and Erste Securities analysts, Warsaw
10.	09-10.09.2019	Participation in the 16th Annual Emerging Europe Investment Conference, Pekao Investment Banking, Warsaw
11.	25-26.09.2019	Participation in the Energy, Mining and Fuels conference organized by Dom Maklerski PKO BP, Kraków Investor Day at TAURON Polska Energia S.A., Jaworzno
12.	30.09.2019	H1 2019 consolidated earnings report published
13.	01.10.2019	TAURON Management Board's meeting with analysts and fund managers to present H1 2019 earnings, Warsaw
14.	01.10.2019	Chat for individual investors as part of cooperation with the Individual Investors Association
15.	08-10.10.2019	Participation in the Erste Group Investor Conference, Vienna, Austria
16.	13.11.2019	Q3 2019 consolidated earnings report published
17.	15.11.2019	TAURON Management Board's meeting with analysts and fund managers to present Q3 2019 earnings, Warsaw
18.	15.11.2019	Chat for individual investors as part of cooperation with the Individual Investors Association
19.	21.11.2019	Company's Extraordinary General Meeting, Katowice
20.	15-16.11.2019	Participation in Santander's Annual Utility / Oil & Gas / Metals & Mining Sector Conference, Warsaw
21.	04-06.12.2019	Participation in WOOD's Winter Wonderland - Emerging Europe Conference, Prague, Czech Republic

9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 70, clause 6, sub-clause 5) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodical information disclosed by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a non-member state (i.e. Journal of Laws of 2018, item 757), the Company's Management Board presents the statement on the application of corporate governance in 2019.

9.1. Indication of applied set of corporate governance rules

In 2019 the Company was subject to the corporate governance rules, described in the document *Best Practice of WSE (GPW) Listed Companies 2016* (Best Practice 2016), adopted by the Supervisory Board of the WSE (GPW) in resolution no. 26/1413/2015 of October 13, 2015, which came into force on January 1, 2016.

The text of the Best Practice 2016 the Company is subject to is published on the GPW website at the address: <https://www.gpw.pl/dobre-praktyki>.

9.2. Indication of abandoned rules of corporate governance

In 2019 the Company did not apply the following detailed rules provided in the Best Practice 2016:

1. IV.Z.2. concerning ensuring of publicly available real-time broadcasts of general meetings, due to the lack of the relevant provisions of the Articles of Association enabling the aforementioned broadcast. In order to enable the application of the rule, the Company's Management Board requested the Ordinary GM of the Company to adopt the relevant amendment to the Company's Articles of Association ensuring publicly available real-time broadcast of general meetings. However, the Ordinary GM of the Company convened on 8 June 2016 did not adopt the amendment to the Company Articles of Association proposed by the Company Management Board in this respect,
2. VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of compensation of members of the Company's management board and key managers to the actual long-term financial standing of the Company and long-term shareholder value creation as well as the Company's stability. This rule was not applied due to the compensation and bonus system applicable in TAURON in relation to members of the Management Board of the Company and its key managers stipulates that the level of compensation will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,
3. VI.Z.2. concerning tying the compensation of members of the management board and key managers to the Company's long-term business and financial goals. The period between the allocation of options or other instruments linked to the Company's shares under the incentive scheme and their exercisability should be no less than two years. 2 years This rule was not applied due to the compensation and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers does not provide that compensation should be tied to instruments linked with the Company shares.

In 2019 the following rules provided in the Best Practice 2016 did not apply to the Company:

1. I.Z.1.10. concerning posting the financial projections on the Company website - if the company has decided to publish them - published at least in the last 5 years, including information about the degree of their achievement. This principle did not apply to the Company due to the fact that the Company did not publish the financial forecasts,
2. III.Z.6. stating that where the Company has no separate internal audit function in its organization, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated - due to the fact that the Company has a separate Internal Audit Department in its organizational structure.

Furthermore, the Management Board of the Company, adopting the detailed rules of Best Practice 2016 designated as: I.Z.1.3, I.Z.1.15, I.Z.1.16, II.Z.1, II.Z.6, II.Z.10.1, II.Z.10.2, II.Z.10.3, II.Z.10.4, V.Z.5, V.Z.6, VI.Z.4., indicated the manner of applying them. The detailed description of the manner of applying the above rules is provided in the *Information on the status of applying by the Company of the recommendations and rules provided in Best Practice 2016*, provided on the Company's website at address: <https://www.tauron.pl>.

Information concerning abandonment of the recommendations provided in Best Practice 2016 for application

In 2019 the Company did not apply only the recommendation provided in Best Practice 2016, designated as IV.R.2 concerning ensuring a possibility to shareholders to participate in the GM using electronic communication means, due to the lack of such shareholders' expectation. This decision is expressed by the failure of the Company GM on 8 June 2016 to adopt the relevant amendments to the Company Articles of Association ensuring publicly available real-time broadcast of general meetings.

The other recommendations provided in the Best Practice 2016 were applied by the Company in 2019.

9.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial

The internal audit and risk management system with respect to the process of drawing up the financial statements and consolidated financial statements is implemented on 3 levels:



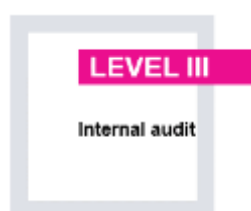
Pursuant to the adopted internal regulations TAURON Capital Group's subsidiaries operate based on the organizational regulations and have defined organizational structures where the applicable business units are assigned the responsibility for preparing the financial statements and the consolidated financial statements. Such units are obligated to perform ongoing control of the tasks vested and the functional control of their activities. Based on TAURON Capital Group's Business Model put in place the Process Documentation of Megaprocess 3.4 Accounting was

implemented, containing, among others, processes associated with the financial reporting of the Company and TAURON Capital Group. The process documentation defines the responsibilities of the business units within the reporting processes.



TAURON Capital Group has put the Risk Area in place, whose role is to oversee and establish TAURON Capital Group's risk management system. These functions are implemented within the Company by the Corporate, Market and Credit Risk Management Teams. The purpose of the risk management is to improve the predictability of attaining strategic objectives by TAURON Capital Group, including stable creation of the financial result through early identification of threats allowing preventive activities to be undertaken. Risk management standards applicable at TAURON Capital Group have been defined in TAURON Group's Corporate Risk Management Strategy and in the

policies for managing the specific risks. The ERM system encompasses all of TAURON Capital Group's lines of business and the business processes carried out within TAURON Capital Group, including the process of preparing the financial statements. The risks associated with this process are managed, monitored and reported within the ERM System. The goal of the standardization is to ensure consistency in managing the individual risk categories, defining the general principles, standards and tools of the system's architecture. The oversight of the ERM system at TAURON Capital Group is performed by the Risk Committee. The risk management system is described in more detail in section 3.2. of this report.



The Audit and Control Area is functioning within TAURON Capital Group, with the goal to plan and implement the audit tasks, including the advisory and opinion (feedback) providing activities as well as the performance of the control tasks, including the ad-hoc inspections commissioned. The audit and advisory activities are carried out by two teams: the Strategic Audit Team dealing with the strategic tasks covering TAURON Capital Group and the Operational Audit Team carrying out specialized operational tasks at the level of the individual subsidiaries and lines of business areas of TAURON Capital Group. The control activities are organized in a similar manner, carried out at

the group level by the Internal Control Team and at the level of the subsidiaries by the inspectors employed at these subsidiaries. In addition, within the Audit and Control Area, a specialized unit is in place, specializing in controlling the IT, OT and security systems area. Such organization of the area is aimed at enabling the scope of audits and controls to cover the entire operations of the organization both from the point of view of the needs of TAURON Capital Group and those of the individual subsidiaries. In addition, since 2018, the Audit and Control Area has been conducting works aimed at building and developing a model for a periodic assessment of the Internal Control System functioning at the Company and at entire TAURON Capital Group. The results of the assessment of the Internal Control System are presented to the Management Board and the Audit Committee of the Company's Supervisory Board.

Most important aspects related to internal audit and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Supervision over application of consistent accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statements

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS) approved by the European Union the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's stand-alone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Team and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for economic and financial affairs (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A., whose membership, competence and description of activities are provided in clauses 9.11.3 and 9.11.6 of this report.

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are drawn up using an IT tool used to consolidate financial statements, providing system control with respect to the coherence (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. Granted rights are also subject to periodic verification.

Due to the integration of the accounting functions and the transfer of TAURON Capital Group's material subsidiaries' financial and accounting services to CUW-R (Shared Services Center – Accounting) TAURON Capital Group's financial and accounting processes were gradually unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments.

TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.

Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

Full year financial statements of the Company and full year consolidated financial statements of TAURON Capital Group are subject to an audit by an independent certified auditor. In 2018 the Company appointed an entity authorized to audit and review the financial statements of the material subsidiaries of TAURON Capital Group and the consolidated financial statements. The agreement with the entity authorized to audit financial statements was concluded to conduct an audit of the financial statements and consolidated financial statements for the years 2019-2021 and to conduct a review of the interim, half year financial statements and the interim, half year consolidated financial statements for the half year periods ended on June 30, 2019, June 30, 2020 and June 30, 2021,

Rule related to changing the Company's and TAURON Capital Group's audit firm

The following rule was established in the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*, adopted by the Audit Committee of the Company's Supervisory Board on October 16, 2017:

1. maximum period of continuous orders for audits to be conducted by the same audit company or an entity related to that audit company or any member of the network operating in the European Union countries that such audit companies are members of, shall not exceed 5 years,
2. after a 5-year duration of the order neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

9.4. Shareholders holding substantial blocks of shares

The below table presents shareholders holding, as of December 31, 2010 and as of the date of drawing up this report, directly or indirectly substantial blocks of the Company's shares

Table no. 51. Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2010 and as of the date of drawing up this report

#	Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total number of votes
1.	State Treasury	526 848 384	30.06%	526 848 384	30.06%
2.	KGHM Polska Miedź	182 110 566	10.39%	182 110 566	10.39%
3.	Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88 742 929	5.06%	88 742 929	5.06%

Since the date of publishing the previous periodical report, i.e. since November 13, 2010, until the date of drawing up this report the Company did not receive any notifications from its shareholders of any changes in the ownership structure of the substantial blocks of TAURON shares.

9.5. Holders of securities providing special control rights

The Company did not issue securities that would grant special control rights with respect to the Company.

9.6. Restrictions on exercising the voting right

Restrictions on exercising the right to vote are included in § 10 of the Company's Articles of Association which are available on the Company's website: <https://www.tauron.pl>.

The above restrictions on exercising the voting right are formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the company shall be limited so that none of them can exercise more than 10% of the total votes in the company at the General Meeting of Shareholders.
2. The restriction on exercising the voting right mentioned in clause 1 above shall not apply to the State Treasury and entities controlled thereby in the period during which the State Treasury, together with entities controlled thereby, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company
3. Votes of shareholders who have a parent / subsidiary relationship within the meaning of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
4. A shareholder, in the understanding of § 10 of the Articles of Associations, shall be any party (entity), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity) that does not hold the company's shares, and in particular to a user, lien holder, party (entity) entitled on the basis of a depository receipt under regulations of the *Act of July 29, 2005 on financial instruments trading*, as well as a party (entity) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
5. A parent company and subsidiary company, for the purposes of § 10 of the Company's Articles of Association, shall be understood, accordingly, as a party (entity)
 - 1) with a status of a controlling undertaking, controlled undertaking or, at the same time, both the status of a controlling undertaking and controlled undertaking in the understanding of the *Act of February 16, 2007 on the protection of competition and consumers*, or
 - 2) with a status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company, co-controlled company or one that has both the status of a parent company (including a higher level parent company) and the status of a subsidiary (including a lower level subsidiary company and a co-controlled company) in the understanding of the *Act of September 29, 1994 on accounting*, or
 - 3) which has (parent company) or one which is under controlling influence (subsidiary company) in the understanding of the *Act of September 22, 2006 on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or
 - 4) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity) or other parties (entities) on conditions defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring substantial blocks of the Company's shares.
6. Aggregation of votes is based on totaling the number of votes held by individual shareholders that are members of the Shareholders' Cluster

7. Reduction of votes involves decreasing the total number of votes in the company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the company. Reduction of votes shall take place in accordance with the following rules
 - 1) number of votes of a shareholder who holds the largest number of votes in the company among all shareholders that are members of the Shareholders' Cluster shall be reduced by a number of votes equal to a surplus above 10% of total votes in the company held by all shareholders that are members of the Shareholders' Cluster,
 - 2) if, despite the above mentioned reduction, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,
 - 3) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
 - 4) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.
8. Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
10. A party (entity) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity) shall be null and void.

9.7. Restrictions on transfer of the ownership right to securities

As of December 31, 2019, and as of the date of drawing up this report the Company's Articles of Association do not envisage restrictions on the transfer of the ownership right to the Company's securities.

However, in accordance with the *act of July 24, 2015 on the control of some investments* (Journal of Laws of 2020, item 117), an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – Minister of Energy of its intention to do so, unless such obligation rests on other entities.

9.8. Rules on appointing and dismissing managing and supervising persons and their powers

9.8.1. Management Board

Rules on appointing and dismissing members of the Management Board

Management Board of the Company shall be composed of 1 to 6 persons, including the President and Vice Presidents. Members of the Management Board shall be appointed and dismissed by the Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. Each of the Management Board members can be dismissed or suspended in office by the Supervisory Board or the GM.

In order to recruit a person with whom an agreement on performing the management board level function at the Company, Supervisory Board announces the competition and conducts a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a member of the Management Board must meet the requirements set forth in §16 clauses 3 and 4 of the Company's Articles of Association. The announcement of the qualification process is

published on the Company's web site at the address: <https://www.tauron.pl>. and in the Public Information Bulletin of the Ministry of Energy. The Company notifies the shareholders of the results of the qualification procedure.

Management Board's competence

Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Company's Articles of Association, to the scope of competence of the General Meeting of Shareholders or Supervisory Board, shall be within the scope of competence of the Management Board.

In accordance with the Company's Articles of Association, all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Management Board, in particular, the following issues listed in the below table, as of December 31, 2019, and as of the date of drawing up this report.

Table no. 52. Management Board's competence as of December 31, 2019, and as of the date of drawing up this report

Matters that require a resolution of the Management Board	
1.	Management Board by-laws,
2.	Company's organizational regulations,
3.	establishment and liquidation of branches,
4.	appointment of a proxy,
5.	taking on credits and loans,
6.	approving annual material and financial plans of the Company and of the Capital Group as well as the Capital Group's Corporate Strategy,
7.	assuming contingent liabilities within the meaning of the Act of September 29, 1994 on accounting, including granting 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 PLN 40 000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association,
11.	disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 3 of the company's Articles of Association,
12.	defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 3 item 9 of the company's Articles of Association,
13.	rules of conducting sponsoring activities,
14.	adoption of the annual plan of sponsoring activities,
15.	matters which the Management Board refers to the Supervisory Board or the General Meeting of Shareholders for review

9.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

Supervisory Board shall be composed of 5 to 9 persons, appointed for a common term of office lasting three years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association members of the Supervisory Board shall be appointed and dismissed by the General Meeting of Shareholders, subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities in the understanding of § 10 clause 5 of the Articles of Association, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company, the State Treasury, represented by the minister competent to handle the State Treasury's affairs, shall be entitled to appoint and dismiss members of the Supervisory Board in the number equal to half of the maximum number of members of the Supervisory Board defined in the Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:
 - 1) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of members in the Supervisory Board that would correspond to the maximum number of members of the Supervisory Board defined in the Articles of Association in case such a motion is submitted to the Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
 - 2) shall be excluded from the voting at the General Meeting of Shareholders on appointing and dismissing other members of the Supervisory Board, including independent members of the Supervisory Board; this shall not, however, apply to the case when the Supervisory Board cannot act due to its membership being smaller than required by the Articles of Association, and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Supervisory Board in accordance with the distribution of seats in the Supervisory Board defined in this section
2. during the time when the State Treasury, together with the State Treasury controlled entities in the understanding of § 10 clause 5 of the Articles of Association, hold a number of the company's shares that entitle them to exercise less than 25% of the total number of votes in the company, the State Treasury, represented

by the minister competent to handle the State Treasury's affairs, shall be entitled to appoint and dismiss one member of the Supervisory Board..

3. appointing and dismissing members of the Supervisory Board by the State Treasury pursuant to the above mentioned clause 1) or 2) shall take place by means of a statement submitted to the Company.

In accordance with the Best Practice 2016 at least two members of the Supervisory Board shall meet the criteria of independence. A phrase an "independent member of the Supervisory Board" shall denote an independent member of the Supervisory Board in the understanding of Appendix II to the *European Commission's Recommendation of February 15, 2005 related to the role of non-executive directors or members of a supervisory board of publicly listed companies and a supervisory board's committee* (2005/162/EC) and the additional criteria indicated in the Best Practice 2016 .

Members of the Supervisory Board shall submit to the Company, prior to their appointment as members of the Supervisory Board, a written statement on compliance with the independence criteria mentioned in the Best Practice 2016. In case a situation occurs where the independence criteria are not complied with a member of the Supervisory Board shall be obligated to forthwith inform the Company thereof. The Company shall provide information on the compliance of the members of its Supervisory Board on its website at the address: <https://www.tauron.pl>.

Supervisory Board's competence

Supervisory Board shall continuously oversee the Company's activities in all areas of its operations.

According to the Company's Articles of Association the Supervisory Board's tasks and competences shall include in particular the matters listed in the below table, as of December 31, 2019, and as of the date of drawing up this report.

Table no. 53. Supervisory Board's competence as of December 31, 2019, and as of the date of drawing up this report

Matters that require a resolution of the Supervisory Board

Competences related to providing opinions

1. evaluate the Management Board's report on the Company's operations (Directors' Report) as well as the financial statements for the last financial year with respect to their compliance with books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements, provided they are drawn up,
2. evaluate the Management Board's recommendations on profit distribution or loss coverage,
3. submit a written report to the General Meeting of Shareholders on the outcome of activities covered in clauses 1 and 2,
4. prepare once a year and submit to the General Meeting:
 - 1) evaluation of the Company's situation, including the assessment of the internal control, risk management systems, compliance and internal audit functions, including all significant control mechanisms, in particular, those related to financial reporting and operations
 - 2) report on activities of the Supervisory Board comprising at least information concerning: composition of the Supervisory Board and its Committees, compliance with the independence criteria by Members of the Supervisory Board, number of meetings of the Supervisory Board and its Committees and self-assessment of the Supervisory Board,
 - 3) assessment of the method of fulfilment of information obligations by the Company, in relation to the application of corporate governance principles defined in the Regulations of the Exchange and provisions related to current and periodical information submitted by issuers of securities,
 - 4) assessment of rationality of sponsoring, charitable policy, or other similar policy pursued by the Company, or information concerning the lack of such policy
5. prepare, along with the report on the results of the Company's annual financial statements' evaluation, the Supervisory Board's opinion on the financial viability of the Company's capital (equity) investments in other commercial law entities made in the given financial year,
6. provide opinions on the Capital Group's Corporate Strategy,
7. provide opinions on the rules of conducting sponsoring activities,
8. provide opinions on the annual plan of conducting sponsoring activities as well as on the annual report on its implementation,
9. provide opinions on the reports drawn up, by the Management Board, on entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,
10. provide opinions on the Management Board's motions regarding matters referred to in § 35 of the Company's Articles of Association, excluding motions regarding members of the Supervisory Board
11. provide opinions on the changes of the rules of divesting fixed assets, defined in § 38¹ of the Company's Articles of Association.

Competences that include

1. selecting a certified auditor to carry out an audit of the Company's financial statements and the Capital Group's consolidated financial statements,
2. defining the scope and deadlines for submitting the company's and the Capital Group's annual material and financial plan by the Management Board,
3. approving the Company's and the Capital Group's material and financial plan by the Management Board
4. adopting the consolidated text of the Company's Articles of Association, drawn up by the Company's Management Board,
5. approving the Management Board's by-laws,
6. approving the organizational regulations of the Company's enterprise,
7. approving the capital group's compensation policy,
8. purchasing real estate asset components within the meaning of the *act of September 29, 1994* with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 5% of the total assets within the meaning of the *act of September 29, 1994*, determined on the basis of the last approved financial statements,subject to the provisions of § 20, clause 6 of the Company's Articles of Association,

Matters that require a resolution of the Supervisory Board

9. disposing of fixed asset components, within the meaning of the *act of September 29, 1994*, classified as intangible assets, property, plant and equipment or long term investments, including making a contribution to a company or cooperative if the market value of these components exceeds PLN 20 000 000 or 5% of the total assets within the meaning of the *Accounting Act of 29 September 1994* determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 6 of the Company's Articles of Association, as well as handing over these components for use to another entity for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject of the legal transaction exceeds PLN 500 000 or 5% of the total assets, with handing over these components for use in the case of:
 - 1) lease, tenancy and other contracts for the transfer of an asset for use by other entities for a fee - market value of the subject of legal action means the value of services for: one year - if the asset was transferred on the basis of an agreement concluded for an indefinite period, the entire duration of the agreement - in the case of contracts concluded for a fixed period,
 - 2) loan contracts and other free contracts for the handing over of an asset for use by other entities - the market value of the subject of legal transaction is the equivalent of benefits that would be due if the lease or tenancy agreement were concluded, for: one year - if the asset is handed over under the contract concluded for an indefinite period, the entire duration of the contract - in the case of contracts concluded for a definite period,
10. assuming contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of PLN 20 000 000,
11. issuing bills of exchange of the value exceeding the equivalent of PLN 20 000 000,
12. making an advance payment on account of the expected dividend,
13. taking up or purchasing shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994* determined on the basis of the last approved financial statements,
14. selling shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994* determined on the basis of the last approved financial statements,
15. concluding a material agreement with a shareholder holding at least 5% of the total number of votes in the Company or a related company, with a proviso, that this obligation shall not cover typical transactions and concluded at arm's length as part of the business operations conducted by the Company with entities that are members of the Capital Group,
16. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
17. amending an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, increasing the compensation above the amount mentioned in section 16 above,
18. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount is not envisaged,
19. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets within the meaning of the *act of September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
20. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets in the understanding of the act of September 29, 1994 on accounting, determined on the basis of the last approved financial statements,
21. granting a permission to establish the Company's branches abroad,
22. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders of companies in which the company holds more than 50% of shares, with respect to the following matters:
 - 1) selling and leasing out the company's enterprise or its organized part as well as establishing a limited proprietary right on them if their value exceeds the PLN equivalent of EUR 5 million,
 - 2) dissolving and liquidating the company
23. defining the manner of exercising the voting right by a representative of TAURON during the GMs of companies (subsidiaries) with respect to which the Company is a dominating entrepreneur within the meaning of art. 4 section 3 of the *act of February 16, 2007 on competition and consumer protection*, with respect to the following issues:
 - 1) company setting up another company,
 - 2) change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
 - 3) merging, transforming, splitting, dissolving and liquidating the company,
 - 4) increasing or decreasing the company's share capital,
 - 5) selling and leasing out the company's enterprises or its organized part and establishing a limited property right thereupon,
 - 6) redeeming (retiring) of shares,
 - 7) setting the compensation of members of Management Boards and Supervisory Boards,
 - 8) provision on claims for remedying damage inflicted when setting up the company or performing management or supervision,
 - 9) matters mentioned in art. 17 of the *act of December 16, 2016 on the principles of managing state assets*, subject to § 15 clause 4 of the Company's Articles of Association, with the exception of the matters relating to legal transactions referred to in § 20. clause 6 of the Company's Articles of Association, and with the exception of matters regarding the acquisition or disposal of fixed assets constituting or intended to constitute assets necessary to conduct business operations with respect to the distribution of electricity by a company that is an operator of the power distribution system.

Competences related to the Management Board

1. appoint and dismiss members of the Management Board,
2. establish the rules of compensation and the amounts of compensation for the members of the Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Management Board from office for important reasons,
4. delegate members of the Supervisory Board to temporarily perform duties of the members of the Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Management Board shall not exceed the compensation established for the Member of the Management Board to replace whom the Member of the Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions in the Company shall be concluded and conclude such agreement to perform the management board functions in the Company,
7. grant a permission to Members of the Management Board to take positions in governing bodies of other companies

Other competences of the Company's Supervisory Board

Matters that require a resolution of the Supervisory Board

1. approve the Management Board's annual report on the supervision over the implementation of investment projects
2. prepare reports on overseeing the implementation of investment projects by the Management Board, including fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of expenditures related thereto
3. approve the reports drawn up by the Management Board on :
 - 1) entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,
 - 2) applying good practices defined by the Prime Minister on the basis of art. 7, clause 3 of the *Act on the principles of state assets management with respect to corporate governance*, corporate social responsibility and sponsorship,
4. pass regulations describing in detail the Supervisory Board's procedures.

9.9. Description of the procedure of amendment of TAURON Polska Energia S.A.'s Articles of Association

Amendments to the Company's Articles of Association shall be made in accordance with the provisions of the Code of Commercial Companies, in particular: amendments to the Company's Articles of Association shall take place by means of resolution of the GM, passed by the majority of 3/4 of the votes, and then shall require issuing of a decision by a competent court on entering the change into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

In accordance with the Company's Articles of Association, a material amendment to the subject of the operations requires 2/3 of the votes in the presence of persons representing at least half of the share capital.

9.10. Procedures of the General Meeting of Shareholders, its fundamental powers and description of shareholders' rights and the manner of exercising thereof

The Company's General Meeting of Shareholders' procedures and its empowerments are defined in the Company's Articles of Association and in the Regulations of the *General Meeting of Shareholders of TAURON Polska Energia S.A.* (GM Regulations) which are available on the Company's website at the address: <http://www.tauron.pl/>.

Procedures of the General Meeting of Shareholders

General Meeting of Shareholders shall be convened by a notice published on the company's website and in a manner defined for providing current information by public companies. In case the General Meeting is convened by an entity or a body other than the Management Board on the basis of regulations of the Code of Commercial Companies, as convening a General Meeting of Shareholders requires the Management Board's cooperation, the Management Board shall be obligated to perform any activities required by law in order to convene, organize and conduct General Meetings of Shareholders that take place either at the Company's seat or in Warsaw.

General Meeting of Shareholders shall be opened by the Chairperson of the Supervisory Board, and in case he/she is absent the following persons shall be entitled to open the General Meeting of Shareholders in the given order: Vice Chairperson of the Supervisory Board, President of the Management Board, a person designated by the Management Board or the shareholder who registered at the General Meeting of Shareholders such number of shares that grant the right to exercise the highest number of votes. Then, the chairperson of the General Meeting of Shareholders shall be elected from among persons entitled to participate in the General Meeting of Shareholders.

General Meeting of Shareholders shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the company's Articles of Association state otherwise. General Meeting of Shareholders may order a break in the meeting by the majority of two thirds of votes. Breaks shall not exceed 30 days in total.

A break in the GM session may take place only in exceptional situations indicated on a case-by-case basis in the justification to the resolution, prepared based on reasons presented by a shareholder requesting the announcement of the break.

The GM resolution concerning a break shall clearly indicate the date of resumption of the session, however, such a date must not create a barrier for participation of the majority of shareholders in resumed meeting, including minority shareholders.

Competence of the General Meeting of Shareholders

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting of Shareholders as of December 31, 2019, and as of the date of drawing up this report.

Table no. 54. Competence of the General Meeting of Shareholders as of December 31, 2019, and as of the date of drawing up this report

Matters that require a resolution of the General Meeting of Shareholders	
1.	reviewing and approving the financial statements of the Company and the consolidated financial statements of the Capital Group for the previous financial year for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of the Capital Group
2.	granting the acknowledgement of the fulfillment of duties to the members of the Company's corporate bodies,
3.	profit distribution and coverage of loss,
4.	appointing and dismissing members of the Supervisory Board,
5.	suspending members of the Management Board in performance of their duties,
6.	establishing the amount of compensation for members of the Supervisory Board, subject to § 29 clause 4 of the company's Articles of Association,
7.	establishing the principles of determining compensation and the amount of compensation of members of the Management Board taking into account the provisions of the act of June 9, 2016 on the principles of determining compensation of the management personnel of certain companies,
8.	selling and leasing out the Company's enterprise or its organized part as well as establishing a limited proprietary right on them,
9.	concluding a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person,
10.	increasing and decreasing the Company's share capital,
11.	issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling their holder to subscribe or acquire the shares,
12.	purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies,
13.	mandatory redemption of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies,
14.	setting up, using and liquidating reserve capitals,
15.	using supplementary capital,
16.	provisions related to claims to repair damage caused while establishing the company or serving on the management board or performing supervision,
17.	merger, transformation and division of the Company,
18.	redemptions (retirements) of shares,
19.	amendment to the Articles of Association and change of the subject of the Company's operations,
20.	dissolving and liquidating the Company.

In accordance with the provisions of the Code of Commercial Companies the decision on the issue and repurchase of shares shall be included within the competence of the General Meeting.

Description of the shareholders' rights and the manner of exercising thereof

The below table presents the description of the Company's shareholders' rights related to the General Meeting of Shareholders in accordance with the Company's Articles of Association, Code of Commercial Companies and the Regulations of the General Meeting of the Shareholders.

Table no. 55. Description of the Company's shareholders' rights related to the General Meeting of Shareholders

#	Shareholders' rights	Description of shareholders' rights
1.	Convene a General Meeting of Shareholders	Shareholders representing at least 1/20 of the share capital, may request convening of an Extraordinary General Meeting of Shareholders. Such request should include a concise justification. It may be submitted to the Management Board in writing or in an electronic form, to the company's e-mail address, provided by the company on its website under the <i>Investor Relations</i> tab. Shareholders representing at least a half of the share capital or at least a half of all votes in the company may convene an Extraordinary General Meeting of Shareholders and appoint a chairperson of such General Meeting.
2.	Include matters (items) in the agenda of the General Meeting of Shareholders	Shareholders representing at least 1/20 of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting of Shareholders. Such request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Management Board not later than 21 days prior to the set date of the General Meeting of Shareholders in electronic form to the Company's e-mail address or in writing to the Company's address.
3.	Become acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list at the company's Management Board's seat for 3 weekdays preceding directly the General Meeting of Shareholders. Shareholders may also request that the list of shareholders be sent to them free of charge by electronic mail, providing the address to which the list should be sent.
4.	Participate in the General Meeting of Shareholders	Only persons who are Shareholders 16 days before the date of the General Meeting of Shareholders (date of registering to participate in the General Meeting of Shareholders) shall have the right to take part in the General Meeting of Shareholders. In order to participate in the General Meeting shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting of Shareholders to an investment (brokerage) company running their securities account. Such request should be submitted not earlier than following the announcement on convening of the General Meeting of Shareholders and not later than on the first weekday following the day of registering the participation in the General Meeting of Shareholders.
5.	Represent a shareholder by a proxy (power of attorney)	Shareholders may take part in the General Meeting of Shareholders as well as exercise the voting right in person or through a proxy (power of attorney). Shares' co-owners may take part in the General Meeting of Shareholders and exercise the voting right only through a joint representative (proxy). A proxy (power of attorney) may represent more than one shareholder and vote differently based on shares of each shareholder.
6.	Elect the Chairperson of the General Meeting of Shareholders	Shareholders shall elect the Chairperson of the General Meeting of Shareholders from among the persons entitled to take part in the General Meeting of Shareholders. Each of the participants of the General Meeting of Shareholders shall have the right to propose one candidate for the post of the Chairperson. Chairperson shall

#	Shareholders' rights	Description of shareholders' rights
		be elected by a secret ballot, by an absolute majority of votes. In case there is just one candidate for the Chairperson, election can take place by acclamation.
7.	Elect the Returning Committee	Each shareholder may propose no more than 3 candidates for members of the Returning Committee to be elected by the General Meeting of Shareholders, and vote for maximum 3 candidates.
8.	Submit a draft resolution	During the General Meeting of Shareholders a shareholder shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting of Shareholders, as part of the given item of the agenda, or put forward his/her own draft of such resolution. Proposals of changes or draft resolutions, including justifications, may be submitted in writing to the Chairperson or verbally to be recorded in the minutes of the meeting.
9.	Raise an objection	Shareholders who voted against a resolution and, after the General Meeting of Shareholders has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such objection is raised later, which however shall not take place later than by the time the General Meeting of Shareholders is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. Shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting.

9.11. Composition of TAURON Polska Energia S.A.'s management and supervision bodies and their committees, its changes and the description of their operations

9.11.1. Management Board

The current, fifth term of office of the Management Board began its run on March 16, 2017. On March 15, 2017 the Supervisory Board dismissed, effective as of the end of the day, all members of the Management Board of the Company and appointed, as of March 16, 2017, members of the Management Board for the fifth common term of office. In accordance with the Company's Articles of Association the common term of office shall last 3 years.

Composition of the Management Board as of December 31, 2019 and as of the date of drawing up this report

1. Filip Grzegorzcyk - President of the Management Board,
2. Jarosław Broda - Vice President of the Management Board for Asset Management and Development,
3. Marek Wadowski - Vice President of the Management Board for Finance.

Changes to the Management Board's composition in 2019

As of January 1, 2019, the Management Board was composed of the following persons: Filip Grzegorzcyk (President of the Management Board), Jarosław Broda (Vice President of the Management Board for Asset Management and Development), Kamil Kamiński (Vice President of the Management Board for Customer and Corporate Support) and Marek Wadowski (Vice President of the Management Board for Finance).

On September 21, 2019, the Supervisory Board dismissed Kamil Kamiński from the Management Board and the function of Vice President of the Management Board for Customer and Corporate Support.

There had been no other changes to the composition of the Company's Management Board by the date of drawing up this report.

Experience and competences of members of the Management Board



Filip 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. A graduate of the Executive Master of Business Administration studies (AESE Business School, EM Normandie, UEK Cracow School of Business).

He also completed the Summer Advanced Course program in the European Law at the University of London, King's College, Centre of European Law as well as the International Business and Trade Summer School program at Catholic University of America – Columbus School of Law and Ecole de droit français Université d'Orléans. He speaks fluent English and French.

He has broad professional experience in the fuel and energy sector. In 2015-2016 he served as the Deputy Minister of the State Treasury responsible for ownership supervision and legislative processes and a member of the Standing Committee of the Council of Ministers. In 2011-2014 he was associated with Kompania Węglowa S.A. as a management board proxy for energy sector development and the director of corporate affairs at Węgłokoks Energia sp. z o.o. In 2007-2008 he was the Vice President of TAURON Polska Energia S.A. for capital group management.

He holds the position of Associate Professor at the University of Economics in Cracow.

As the President of the Management Board he manages the work of the management board, performs the rights and obligations of the employer and oversees the following areas of the company's operations: legal, corporate, strategy as well as communications and marketing, regulations and international affairs, audit and control, human resources, security and compliance, Compliance Officer and Social Dialogue Commissioner.



Jarosław Broda - Vice President of the Management Board

A graduate of the Warsaw School of Economics, a holder of a postgraduate diploma in project management from the Kozmiński University

He has experience in the area of energy sector's consolidation and operation, privatization of state-owned utility groups, developing processes associated with the restructuring and strategy building as well as energy entities' expansion projects.

Since the beginning of his professional career he has been associated with the energy sector's entities, holding senior executive and managerial positions. He gained his professional experience working at the Ministry of State Treasury as well as at TAURON and GDF Suez Energia Polska. Recently associated with GDF Suez Energia Polska – Katowice and GDF Suez (Branch Energy Europe) where he was responsible for market analyses and developing the company's expansion strategy, regulatory management and M&A projects. He was also involved in developing the sales and marketing expansion strategy in Europe. Since mid-2015 he was responsible for developing the commercial strategy and the contract for difference related to the nuclear project in Great Britain.

As the Vice President of the Management Board for Asset Management and Development he oversees the following areas of the company's operations: investment projects, mergers, acquisitions and divestments, asset management, mining asset management, research and development, work (occupational) health and safety, risk and the WHS Commissioner.



Marek Wadowski - Vice President of the Management Board

A graduate of the Faculty of Economics of the University of Economics in Katowice. He also completed post graduate studies at École Supérieure de Commerce Toulouse where he obtained Mastère Spécialisé en Banque et Ingénierie Financière diploma and the Executive MBA studies at the Kozmiński University in Warsaw.

He has professional experience in the field of financial, controlling and accounting process management in industry (power sector, mining, steel industry), as well as in financing of investment projects and international commercial transactions. He was involved in the implementation of the due diligence projects and valuations of many enterprises (using income-based, equity and comparison valuation methods).

From the beginning of his professional career he was associated with the energy, mining and steel sector entities, acting in the capacity of the President or the Vice-President of the Management Board and holding senior

managerial positions. He gained his professional experience working at BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries. From 2008, acting in the capacity of the Vice-President of the Management Board in charge of the financial division at Jastrzębska Spółka Węglowa S.A. Capital Group's subsidiaries, he was responsible, inter alia, for structuring commercial transactions, implementing the foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquiring funds from the consortium of banks in the form of a bond issue program. He was also involved in the IPO of JSW S.A. (implementation of the IAS, modification of the management information system, preparing the IPO prospectus, talks with investors). He held the position of the President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in the bond issue program for Kompania Węglowa and was dealing with the acquisition of debt financing from the consortium of banks.

As the Vice President of the Management Board for Finance oversees the following areas of the Company's operations: financial management, controlling, accounting and taxes, analyses, purchasing and administration, IT, market operator and trade services, trading, fuel trading, portfolio management and the Data Protection Officer.

The detailed description of the experience and competences of the members of the Management Board is published on the Company's website at the address: <https://www.tauron.pl>.

Description of the procedures

Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice* which are available on the Company's website at the address: <https://www.tauron.pl>. When performing their duties members of the Management Board shall be acting in accordance with the principles included in the Best Practice 2016.

Two members of the Management Board or one member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

Meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. Meetings of the Management Board shall also be convened on the motion of the majority of Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's seat on the date set by the person that convened the meeting. In justified cases the Management Board's meetings may be held outside the Company's seat. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board.

Management Board shall vote in an open ballot. The result of the ballot shall be recorded in the minutes of the meeting. President of the Management Board shall order a secret ballot at the request of any member of the Management Board.

Resolutions of the Management Board shall be passed by an absolute majority of votes in the presence of 3/5 of the members of the Management Board. In case of an equal number of votes the President of the Management Board shall have a casting vote. Management Board may pass resolutions by voting in writing or using means of direct remote communications. Voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Vice President of the Management Board designated thereby, including setting the deadline for casting votes by members of the Management Board. Submission of a dissenting opinion shall be allowed. Such dissenting opinion shall be recorded in the minutes of the meeting, including the justification thereof. Decisions of the Management Board related to ongoing issues that do not require passing of a resolution shall be recorded solely in the minutes of the meeting.

The internal split, among members of the Management Board, of the tasks and responsibilities for the individual areas of the Company's operations, as defined in the *Organizational Regulations of TAURON Polska Energia S.A.* and including the independent work positions as well as organizational units reporting directly to the Executive Directors, whose work is managed (supervised) by members of the Company's Management Board directly or via the Managing Directors, is defined by the Company's Management Board Resolution No. 397/V/2019 of November 13, 2019 regarding the assignment of individual business areas of the Company and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A. as subsequently amended.

The structure of the Company's business areas reporting to the individual members of the Management Board is presented on the diagram (flowchart) showing the split of responsibilities of the members of the Company's Management Board, described in section 1.6.5. of this report and posted on the Company's web site at the address: <https://www.tauron.pl>.

9.11.2. Supervisory Board

The current, 5th term of office of the Supervisory Board, began on May 29, 2017, i.e. on the day of holding the Ordinary GM of the Company approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the 4th term, i.e. for the financial year 2016. In accordance with the Company's Articles of Association it shall be a common term of office and it shall last for 3 years.

The composition of the Supervisory Board as of December 31, 2019

1. Beata Chłodzińska - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Barbara Łasak-Jarszak - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Jan Płudowski - Member of the Supervisory Board,
7. Marcin Szlenk - Member of the Supervisory Board,
8. Katarzyna Taczanowska - Member of the Supervisory Board
9. Agnieszka Woźniak - Member of the Supervisory Board.

Changes to the composition of the Supervisory Board in 2019 and by the date of drawing up this report

As of January 1, 2019, the Supervisory Board was composed of the 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 May 8, 2019, the Company's Ordinary General Meeting dismissed Radosław Domagalski-Łabędzki and Paweł Pampuszko from the Supervisory Board of the Company of the 5th common term of office and appointed Rafał Pawełczyk and Katarzyna Taczanowska to the Supervisory Board of the Company of the 5th common term of office.

On July 26, 2019, the mandate of Rafał Pawełczyk, a member of the Company's Supervisory Board, expired due to death.

On December 6, 2019, the Extraordinary GM appointed Grzegorz Peczkis to be a member of the Company's Supervisory Board of the 5th common term of office.

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, as of March 24, 2020, dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board and appointed Mr. Andrzej Śliwka to be a member of the Company's Supervisory Board.

The composition of the Supervisory Board as of the date of drawing up this report

1. Beata Chłodzińska - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Jacek Szyke - Secretary of the Supervisory Board,
4. Barbara Łasak-Jarszak - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Jan Płudowski - Member of the Supervisory Board,
7. Marcin Szlenk - Member of the Supervisory Board,
8. Andrzej Śliwka - Member of the Supervisory Board,
9. Katarzyna Taczanowska - Member of the Supervisory Board.

Information on the independence of members of the Supervisory Board

The phrase "an independent member of the Supervisory Board" denotes independence of a member of the supervisory board within the meaning of Appendix II to the Recommendation of the European Commission of February 15, 2005, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) and taking into account the Best Practice 2016. At least two members of the Supervisory Board should meet the criteria of independence within the meaning of the above. Recommendation.

The table below presents information on the fulfillment by the members of the Company's Supervisory Board of the independence requirements specified in the above mentioned Recommendation and the *Best Practice 2016* as of December 31, 2019 and as of the date of drawing up this report.

Table no. 56. Fulfillment by the members of the Company's Supervisory Board of the independence requirements, as of December 31, 2019 and as of the date of drawing up this report

#	First and last name	Fulfillment of the independence requirements	
		as of December 31, 2019	as of the date of drawing up this report
1.	Beata Chłodzińska	Meets independence requirements	Meets independence requirements
2.	Teresa Famulska	Meets independence requirements	Meets independence requirements
3.	Jacek Szyke	Meets independence requirements	Meets independence requirements i
4.	Barbara Łasak - Jarszak	Meets independence requirements	Does not meet independence requirements
5.	Grzegorz Peczkis	Meets independence requirements	Meets independence requirements
6.	Jan Płudowski	Meets independence requirements	Meets independence requirements
7.	Marcin Szlenk	Meets independence requirements	Meets independence requirements
8.	Andrzej Śliwka	-	Does not meet independence requirements
9.	Katarzyna Taczanowska	Does not meet independence requirements	Does not meet independence requirements
10.	Agnieszka Woźniak	Does not meet independence requirements	-

Experience and competences of the members of the Supervisory Board

Beata Chłodzińska - Chair of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University. She is a licensed legal counsel.

In 2001-2016 she was associated with the Ministry of State Treasury where she was providing legal services, most recently as the Deputy Director at the Legal and Litigation Department. She is currently working at PKN Orlen S.A. in the legal area.

She gained professional experience associated with supervising the operations of the State Treasury owned companies by, among others, holding seats on the supervisory boards of the following companies: Polska Agencja Prasowa S.A. with its seat in Warsaw, Centrum Techniki Okrętowej S.A. with its seat in Gdańsk, Chemia Polska sp. z o.o. with its seat in Warsaw, Międzynarodowa Korporacja Gwarancyjna sp. z o.o. with its seat in Warsaw.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since August 12, 2015. In the Supervisory Board of the 5th common term of office she is the Chair of the Supervisory Board, the Head of the Nominations and Compensation Committee of the Supervisory Board, as well as a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice, a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice.

She has been associated with the University of Economics in Katowice since 1981. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998-2013 she was working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of approximately 150 domestic and foreign publications in the field of finance, mainly public finance (including taxes and tax systems) and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducts numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff as part of the post-graduate studies and in cooperation with, among others, the Polish Economic Society (Polskie Towarzystwo Ekonomiczne) and the Accountants Association in Poland (Stowarzyszenie Księgowych w Polsce). Since 2007 she has been working at the State Examination Commission on Tax Advisory Services, where she has been the Head of the Commission since 2010. Since 2007 a member of the Financial Education Committee of the Polish Academy of Science, where she was a member of the Board of the Committee in 2011-2015. Furthermore, she is a member of the Main Board of the Polish Finance and Banking Association (Zarząd Główny Polskiego Stowarzyszenia Finansów i Bankowości), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries (Centrum Informacji i Organizacji Badań Finansów Publicznych i Prawa Podatkowego Krajów Europy Środkowej i Wschodniej) and Polish Economic Society (Polskie Towarzystwo Ekonomiczne).

She was awarded the following orders and accolades: Silver Cross of Merit (Srebrny Krzyż Zasługi), Silver Medal for Long-term Service (Srebrny Medal za Długoletnią Służbę), Medal of the Commission of National Education

(Medal Komisji Edukacji Narodowej), awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2015. In the Supervisory Board of the 5th common term of office she is the Vice-Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

Jacek Szyke - Secretary of the Supervisory Board

A graduate of the Faculty of Economics of Łódź University and of the Faculty of Electric Engineering of the Technical University in Poznań where he also obtained a PhD in technical science.

He has yearslong professional experience associated with the utility scale power industry where he climbed up all levels of the career ladder, starting with an intern, through foreman, Head of the Safety and Instrumentation and & Control Department (Zakład Energetyczny Kalisz and Łódź), Engineer On Duty Responsible for the Operation (Elektrociepłownia Łódź), up to the position of the Chief Engineer (Zakład Energetyczny Łódź and Płock) and General Manager (Zakład Energetyczny Płock and Elektrociepłownia Siekierki). He also worked as the Contract Manager in Libya. The owner and President of the JES ENERGY consulting company.

State orders awarded: Golden Cross of Merit (Złoty Krzyż Zasługi), Knight's Order (Krzyż Kawalerski). Industry orders awarded: Distinguished for the following sectors: Power, Construction, Communications, Firefighting, Culture and Heat industry.

The author of more than 100 articles, publications and books, including: "Wspomnienia o tradycji i zwyczajach pracy w energetyce" (Memories of traditions and customs related to working in the power utilities sector), "O energetyce z sentymentem" (About electric utilities sector with a sentiment), "Historia Polskiej Elektroenergetyki" (History of Poland's Power Industry), "Złota Księga Elektroenergetyki" (Golden Book of Power Industry), "Grupa TAURON - monografia" (TAURON Group – monograph).

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since September 14, 2010. In the Supervisory Board of the 5th common term of office he is the Secretary of the Supervisory Board and the Head of the Strategy Committee of the Supervisory Board as well as a member of the Audit Committee of the Supervisory Board.

Barbara Łasak - Jarszak - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University.

Between January 1997 and February 2017 she was working at the Legal Department of the Ministry of State Treasury. Between April 1998 and February 2017 she headed an organizational unit of the Legal Department providing legal services for the Ministry. Since March 1 2017 the Head of the State Property and Finance Division of the State Treasury Department of the Chancellery of the Prime Minister where she is dealing with, among others, with the issues related to the new principles of managing the state owned property.

In 1999-2001 a member of the Disciplinary Commission of the Ministry of State Treasury. In 1999-2005 deputy public finance auditor for the Minister of State Treasury.

He has yearslong professional experience of holding seats on supervisory boards of State Treasury owned companies, including: ZPP "Lenora" sp. z o.o., Koneckie Zakłady Odlewnicze S.A., Uzdrowisko Busko-Zdrój S.A., ŚWWG Polmos S.A., Stocznia Gdynia S.A., Archimedes S.A., PSO "Maskpol" S.A., ZG "Dom Słowa Polskiego" S.A. in liquidation, Fundusz Rozwoju Spółek S.A., Zakłady Mięsne Nisko S.A.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 29, 2017. In the Supervisory Board of the 5th common term of office she is a member of the Nominations and Compensation Committee of the Supervisory Board.

Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

He gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Polish Patent Office.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019. In the Supervisory Board of the 5th common term of office he is a member of the Strategy Committee of the Supervisory Board.

Jan Płudowski - Member of the Supervisory Board

A graduate of the Faculty of Electric Engineering of the Silesian University of Technology in Gliwice. He also completed post-graduate studies at the Faculty of Electric Engineering of the Gdańsk University of Technology, at the University of Economics (formerly K. Adamiecki Academy of Economics) in Katowice in the field of corporate finance management and at the Faculty of Management and Services Economics of the University of Szczecin in the field of marketing and corporate management.

Professionally associated with the power sector, he gained professional experience by climbing up all levels of the career ladder. He was working, among others, as the Regional Chief Power Engineer (PKP Śląska Dyrekcja Okręgowa Kolei Państwowych (Polish State Railways' Silesian Regional Board) in Katowice), Director of Zakład Energetyki Kolejowej (Railways' Power Unit) in Katowice and the Head of the Power Management Department (PKP Dyrekcja Energetyki Kolejowej (Polish State Railways' Power Unit Board) in Warsaw), Director of the Cash Flow Office ("PKP Energetyka" sp. z o.o. in Warsaw). He is currently holding the position of the Project Coordinator Director at "PKP Energetyka" S.A. in Warsaw.

In 2007-2008 he was a member of the Supervisory Board of Spółka Energetyczna Jastrzębie S.A.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since December 30, 2016. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board and a member of the Strategy Committee of the Supervisory Board.

Marcin Szlenk - Member of the Supervisory Board

A graduate of the Warsaw School of Economics – a master's degree in economics, field of expertise: Management and Marketing, as well as Finance and Banking.

He completed the Executive MBA program of the University of Warsaw and University of Illinois, as well as the Post-graduate European Financial, Economic and Legal Relations Studies at the Warsaw School of Economics. Since 2007 he has been a member of the Chartered Institute of Management Accounting (CIMA). In 2016 he completed the Global Management Development Program organized by the Johnson Matthey Group.

He has a broad professional experience from many years of working as a financial controller and director in diverse business environments. In 1999-2002 a Senior Auditor at Arthur Andersen. In 2002-2010 a Financial Controller at Magneti Marelli Aftermarket Sp. z o.o., and then Automotive Lighting Polska Sp. z o.o. (both companies owned by the FIAT Group). In 2010-2012 he worked as the European Financial Controller at Axion. Since 2012 he has been the Financial Director and a Member of the Management Board of Johnson Matthey Battery Systems Sp. z o.o., and since 2017 a Member of the Management Board of Johnson Matthey Poland Sp. z o. o.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since April 16, 2018. In the Supervisory Board of the 5th common term of office he is a member of the Audit Committee of the Supervisory Board.

Andrzej Śliwka - Member of the Supervisory Board,

A graduate of the Faculty of Law and Administration of the University of Gdańsk. He completed the Taxes and Tax Law post-graduate studies at the University of Gdańsk as well as the attorneys-at-law's training of the Warsaw Bar Association of Attorneys-at-Law (Okręgowa Izba Radców Prawnych w Warszawie). He is a licensed legal counsel.

He specializes in corporate law, business contracts and the investment process. In addition, he has also been dealing with: real estate law, due diligence processes, as well as conducting court litigations, in his professional career thus far.

He is currently the Deputy Director of the 1st Department of Ownership Oversight at the Ministry of State Assets and is a member of the expert team for increasing the efficiency of Supervisory Boards, which is a part of the Commission for the reform of ownership oversight.

He has been a member of the Supervisory Board of TAURON Polska Energia S.A. since March 24, 2020.

Katarzyna Taczanowska - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Warsaw University, registered on the list of attorneys-at-law of the Warsaw Bar Association of Attorneys-at-Law (Okręgowa Izba Radców Prawnych w Warszawie).

Ms. Katarzyna Taczanowska has many years of professional experience in providing legal services for business entities that she has been offering since 2003. She was a partner at the GWW Woźny and Partners (GWW Woźny i Wspólnicy) law firm, since 2009 until now she has been a partner at the Kudlak, Taczanowska-Wileńska sp.k. law firm.

In 2009-2012 she was the Director of the Legal Office at Towarzystwo Funduszy Inwestycyjnych PZU S.A. (PZU S.A. Investment Funds Company). She was a member of the Supervisory Boards of PZU Życie S.A., LOT Aircraft Maintenance Services sp. z o.o. and IDA Management sp. z o.o.

Since July 2018 Ms. Katarzyna Taczanowska has been the General Director for Corporate and Legal Affairs at KGHM Polska Miedź S.A.

She has been a member of the Supervisory Board of TAURON Polska Energia S.A. since May 8, 2019. In the Supervisory Board of the 5th common term of office she is a member of the Audit Committee of the Supervisory Board.

The detailed description of the experience and competences of the members of the Supervisory Board is published on the Company's website at the address: <http://www.tauron.pl>.

Description of the procedures

The detailed description of the Supervisory Board's operations is provided in the Code of Commercial Companies, the Company's Articles of Association and in the *Regulations of the Supervisory Board of TAURON Polska Energia S.A.* with its registered office in Katowice, which is available on the Company's website at the address: <http://www.tauron.pl>.

The main form of the Supervisory Board overseeing the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. Meetings of the Supervisory Board shall be convened by the Chairperson of the Supervisory Board or Vice Chairperson of the Supervisory Board by presenting a detailed agenda:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a written request of each member of the Supervisory Board,
4. at a written request of the Management Board.

Meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all members of the Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. Notifications of the Supervisory Board's meeting shall be sent by fax or electronic mail and confirmed by phone. In the notification of the Supervisory Board's meeting the Chairperson shall define the date of the meeting, venue of the meeting and the detailed draft agenda. Supervisory Board shall meet on as needed basis, however not less frequently than once every 2 months. Supervisory Board may hold meetings without convening a formal meeting if all members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may occur when all members of the Supervisory Board are present at the meeting and no one raises an objection against the agenda. An issue not included in the agenda should be included in the agenda of the next meeting.

Participation in a meeting of the Supervisory Board shall be a Supervisory Board member's duty. A member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a member of the Supervisory Board shall require a resolution of the Supervisory Board. Members of the company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

Supervisory Board may seek opinions of legal counsels who provide regular legal advice for the company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to seek their opinion and make the right decision. In the above mentioned cases the Supervisory Board shall pass a resolution on commissioning the selected expert (auditing, consulting company) to carry out the work, obligating the Company's Management Board to conclude an applicable agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence by the Vice Chairperson. For important reasons, with the consent of the majority of members of the Supervisory Board present at the meeting, the chairperson chairing the meeting shall be obligated to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Supervisory Board. Supervisory Board shall make decisions in the form of resolutions. Supervisory Board's resolutions shall be passed mainly at its meetings. Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all its members have been invited in the appropriate way defined in the Regulations. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all members of the Supervisory Board are present and nobody raises an objection. This shall not apply to resolutions

on excusing a Supervisory Board's member's absence at the meeting. Resolutions shall be voted on in an open ballot. A secret ballot shall be ordered:

- at the request of at least one member of the Supervisory Board,
- in personnel related matters

In accordance with the company's Articles of Association the Supervisory Board may pass resolutions in writing or using means of direct remote communications. Passing a resolution in such way shall require a prior notification of all members of the Supervisory Board of the content of the draft resolution. Passing resolutions this way shall not apply to appointing the Chairperson, the Vice Chairperson and the Secretary of the Supervisory Board, appointing or suspending from office a member of the Management Board and dismissing these persons, as well as other matters that require a secret ballot vote. When voting on a resolution in the aforementioned way a member of the Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". In case a member of the Supervisory Board fails to indicate his/her vote by the time defined by the Chairperson the resolution shall not be passed. A resolution with a note that it has been passed in writing or by voting using means of direct remote communications shall be signed by the Chairperson of the Supervisory Board. Resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

Members of the Supervisory Board shall be allowed to take part in the meeting and vote on resolutions during such meeting using means of direct remote communications, i.e. a conference call or a video conference, subject to a proviso that at least half of its members are present at the meeting's venue indicated in the notification of the meeting and a secure communications link is technically possible.

Members of the Supervisory Board shall take part in meetings and exercise their rights and responsibilities in person, and while performing their duties they shall be obliged to act with due diligence. Members of the Supervisory Board shall be obliged to keep confidential information related to the company's activities that they have acquired in connection with holding their seat or on another occasion. Supervisory Board shall perform its activities collectively.

Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision actions on their own for a defined period of time. Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Supervisory Board, submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: <http://www.tauron.pl>.

Supervisory Board may appoint from among its members permanent or temporary (ad-hoc) working groups, committees to perform specific actions. Supervisory Board's standing committees shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

9.11.3. Audit Committee

Members of the Audit Committee for the current term were appointed on June 20, 2017 by the Supervisory Board from among its members. In 2019 the Audit Committee was composed of five members.

Due to the change to the membership of the Supervisory Board of the Company for the 5th term, introduced in 2019, the Supervisory Board also made changes to the membership of the Audit Committee.

Members of the Audit Committee as of December 31, 2019 and as of the date of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Jan Płudowski - Member of the Audit Committee,
3. Marcin Szlenk - Member of the Audit Committee,
4. Jacek Szyke - Member of the Audit Committee,
5. Katarzyna Taczanowska - Member of the Audit Committee.

Changes to the Audit Committee's membership in 2019 and by the date of drawing up this report

As of January 1, 2019, the Audit Committee was composed of the following members: Teresa Famulska (Head of the Audit Committee), Radosław Domagalski – Łabędzki, Jan Płudowski and Jacek Szyke.

On May 8, 2019, the Company's Ordinary General Meeting dismissed Radosław Domagalski-Łabędzki from the Supervisory Board of the Company of the 5th common term of office.

On May 27, 2019 the Company's Supervisory Board appointed Katarzyna Taczanowska to be a member of the Audit Committee.

There had been no other changes to the composition of the Audit Committee by the date of drawing up this report.

Information on the independence of members of the Audit Committee as of December 31, 2019

The membership (composition) of the Audit Committee is in compliance with the requirements defined in the *act of May 11, 2017 on certified auditors, audit companies and public supervision*. The evaluation of independence and the statutory requirements with respect to the knowledge and skills of the individual members of the Audit Committee was made by the Supervisory Board based on the relevant statements submitted by the members of the Audit Committee. All of the members of the Audit Committee, except for Katarzyna Taczanowska, comply with the statutory requirements related to independence.

The Head of the Audit Committee Teresa Famulska, as well as Marcin Szlenk have knowledge and skills in the field of accounting and auditing financial statements. Two members of the Audit Committee: Jacek Szyke and Jan Płudowski, have knowledge and skills in the field of energy, i.e. the Company's industry.

The way the members of the Audit Committee have gained the knowledge and skills in the above mentioned fields is indicated in section 9.11.2. of this report, as part of the description of the experience and competences of the Supervisory Board.

Tasks and competence of the Audit Committee

In 2019 the Audit Committee was performing the tasks and competences defined in the current legal regulations in force and in the *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.* adopted by the Supervisory Board.

The Audit Committee held 10 meetings in total during the period covered by this report.

The tasks and competence of the Audit Committee as of December 31, 2019, and as of the date of drawing up this report, are presented in the below table.

Table no. 57. Competence of the Audit Committee as of December 31, 2019, and as of the date of drawing up this report,

Competence of the Audit Committee
<ol style="list-style-type: none">1. monitoring:<ul style="list-style-type: none">• the Company's financial reporting process,• the effectiveness of internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting• the performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and arrangements of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company2. controlling and monitoring of independence and impartiality of the chartered accountant (certified auditor) and the audit firm, in particular in case other services than an audit are provided for the benefit of the Company,3. performing the evaluation of independence of the certified auditor and expressing consent for performing by him of permitted services not constituting the audit within the Company,4. developing the policy for selecting the audit company to perform the audit,5. developing a policy for performing by the auditing company conducting the audit, entities related to the auditing company and members of the auditing company's corporate network of permitted services not constituting the audit,6. defining the procedure for selecting the auditing company by the Company,7. presenting to the Supervisory Board of the recommendation for selection of the auditing company responsible for performing the statutory audit or review of financial statements, as required under Art. 130, clauses 2 and 3 of the <i>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</i>, in line with policies referred to above in items 4 and 5,8. informing the Supervisory Board of audit results and explaining as to who did the audit contribute to trustworthiness (accuracy) of financial reporting in the Company, and also what was the role of the Audit Committee in course of the audit,9. presenting recommendations aimed at ensuring reliability of the financial reporting process within the Company,10. performing other activities vested with audit committees pursuant to the <i>act of May 11, 2017 on certified auditors, auditing companies and public oversight, Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities, repealing the Commission Decision 2005/909/EC and the act of September 29, 1994 on accounting</i>.

Allowed non-audit services provided by an audit firm

The following allowed non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries by an audit firm auditing the financial statements in 2019:

1. confirmed in writing verification of the annual and interim standalone reporting packages of selected TAURON Capital Group's subsidiaries required to prepare the annual and interim consolidated financial statements,

2. completing the agreed procedures for the verification of the report of TAURON Dystrybucja subsidiary in connection with the requirement to estimate RAB and AMI RAB for the needs of determining the justified return on capital employed by the President of ERO.
3. confirmed in writing verification of the annual and interim standalone consolidation packages for TEC1, TEC2 and TEC3 subsidiaries as well as the Polish limited partnerships acquired from the in.ventus group, prepared for the years 2019.

In connection with the provision of the above services the Audit Committee performed an evaluation of the independence of the audit firm Ernst & Young Audyt Polska and expressed its consent for the provision of the above services.

Main assumptions of the policy for appointing an audit firm to conduct the audit and the policy of providing the allowed non-audit services by entities related to such audit firm and by a member of the audit firm's network

In connection with the coming into force of the *act of May 11, 2017, on certified auditors, auditing companies and public oversight*, the following regulations, adopted by the Audit Committee on October 16, 2017, were in force in 2019:

1. *Policy for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,*
2. *Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. and*
3. *Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to such audit firm and by a member of the audit firm's network.*

Policy for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the selection of the audit firm to conduct the Audit and Review of the Company's financial statements with the legal regulations. The policy defines, in a clear manner, the principles and rules of the process for the appointment of the audit firm to audit the reports of TAURON as a public interest unit, principles of the procedure for the appointment of the audit firm, principles of preparing the recommendations of the Audit Committee related to the appointment of the audit firm, as well as the principles of the rotation of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of TAURON. The key assumptions adopted in the policy include the fact that the process for the appointment of the auditor shall be based on the applicable legal regulations, ensuring the transparency and objectivity of the process for the appointment of the auditor and including in the process of the requirements necessary for the timely and correct performance of the audit services for the Company.

Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the process for the appointment of the audit firm to conduct the Audit and Review of the Company's financial statements with the legal regulations, as well as ensuring that the audit and review of the financial statements are conducted at a high quality level, within a specified time frame, while ensuring independence, objectivity, transparency and credibility of the audit firm and certified auditors. The procedure defines in detail and accurately the individual stages of the appointment of the audit firm, including indicating the authorities and organizational units responsible for such stages. Furthermore, the procedure defines the general conditions for the participation in the proceedings and the criteria for the selection of the audit firm as well as the time frame of the auditor selection process. The most important assumptions assumed in the procedure include adopting a clear and transparent, based on the legal regulations, split of the responsibilities in the process for the appointment of the auditor, as well as defining transparent and non-discriminatory conditions for the participation in the tender procedure and criteria for the appointment of the audit firm that the company may apply.

Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to such audit firm and by a member of the audit firm's network is aimed at defining clear rules aimed at meeting the requirement of the independence of the audit firm conducting the audit of the Company, in case such firm or entities that are members of its network are providing non-audit services. This policy defines the principles related to the provision for the benefit of TAURON Capital Group's entities, by the audit firm conducting the audit at TAURON, entities related to the audit firm and a member of the audit firm's network, of additional non-audit services or non-review services, in particular the conditions for the admissibility of the provision of allowed services, the principles of the Audit Committee conducting an assessment of the threats and safeguards of the independence of the audit firm, as well as control mechanisms with respect to observing the principles of the independence of the certified auditor at TAURON Capital Group. The most important assumptions adopted in the policy include defining clear rules for the Audit Committee to conduct an assessment of threats and safeguards of the independence of the audit firm and expressing consent for the provision of non-audit services, based on the compliance with the legal regulations and the purposefulness of the provision of such services.

Recommendations of the Audit Committee related to the appointment of the audit firm

The Audit Committee did not recommend an appointment of the audit firm to the Supervisory Board of TAURON in 2019.

On November 23, 2018, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyty Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyty Polska) to conduct an audit of the financial statements and consolidated financial statements of TAURON for the years 2019-2021. On January 11, 2019, TAURON concluded an agreement with Ernst & Young Audyty Polska the Amendment to the agreement with the subject of the agreement covering:

In 2018, the audit firm was selected to audit and review the financial statements and consolidated financial statements of TAURON for the years 2019-2021. Based on the recommendation of the Audit Committee, the Supervisory Board selected the audit company which met the applicable conditions and was appointed as a result of the Company's public procurement proceedings, in accordance with the applicable criteria, including an indication of a second alternative entity to perform these activities and providing the justification for the preferences behind the selection of the recommended audit firm.

The detailed description of the activities of the Audit Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: <http://www.tauron.pl>.

9.11.4. Nominations and Compensation Committee

Members of the Nominations and Compensation Committee for the current term were appointed on June 30, 2017 by the Supervisory Board from among its members. In 2019 the Nominations and Compensation Committee was composed of three members.

Members of the Nominations and Compensation Committee as of December 31, 2019

1. Beata Chłodzińska - Head of the Nominations and Compensation Committee,
2. Barbara Łasak - Jarszak - Member of the Nominations and Compensation Committee,
3. Agnieszka Woźniak - Member of the Nominations and Compensation Committee.

Changes to the Nominations and Compensation Committee's membership in 2019 and by the date of drawing up this report

As of January 1, 2019, the Nominations and Compensation Committee was composed of the following members: Beata Chłodzińska (Head of the Nominations and Compensation Committee), Barbara Łasak - Jarszak and Agnieszka Woźniak.

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board.

Members of the Nominations and Compensation Committee as of the date of drawing up this report

1. Beata Chłodzińska - Head of the Nominations and Compensation Committee,
2. Barbara Łasak - Jarszak - Member of the Nominations and Compensation Committee.

Tasks and competence of the Nominations and Compensation Committee

The tasks and competence of the Nominations and Compensation Committee did not change in 2019.

The tasks and competence of the Nominations and Compensation Committee, as of December 31, 2019 and as of the date of drawing up this report, are presented in the below table.

Table no. 58. Competence of the Nominations and Compensation Committee, as of December 31, 2019 and as of the date of drawing up this report

Competence of the Nominations and Compensation Committee
<ol style="list-style-type: none">1. recommending to the Supervisory Board a recruitment procedure for the positions of members of the Company's Management Board,2. evaluating candidates for members of the Management Board and providing the Supervisory Board with opinions in this respect,3. recommending to the Supervisory Board a form and content of agreements to be concluded with members of the Management Board,4. recommending to the Supervisory Board a compensation and bonus system for members of the Management Board,5. recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons,6. recommending to the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties, along with a compensation proposal

The detailed description of the activities of the Nominations and Compensation Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: <http://www.tauron.pl>.

9.11.5. Strategy Committee

Members of the Strategy Committee for the current term were appointed on June 30, 2017 by the Supervisory Board from among its members. In 2019 the Strategy Committee was composed of four members from July, 26, 2019, to December 16, 2019, while during the remaining periods of the year it was composed of five members.

Members of the Strategy Committee as of December 31, 2019

1. Jacek Szyke - Head of the Strategy Committee,
2. Beata Chłodzińska - Member of the Strategy Committee,
3. Grzegorz Peczkis - Member of the Strategy Committee,
4. Jan Płudowski - Member of the Strategy Committee,
5. Agnieszka Woźniak - Member of the Strategy Committee.

Changes to the Strategy's Committee's membership in 2019 and by the date of drawing up this report

As of January 1, 2019, the Strategy Committee was composed of the following members: Jacek Szyke (Head of the Strategy Committee), Beata Chłodzińska, Paweł Pampuszko, Jan Płudowski i Agnieszka Woźniak.

On May 8, 2019, the Company's Ordinary General Meeting dismissed Paweł Pampuszko from the Supervisory Board of the Company of the 5th common term of office.

On May 27, 2019 the Company's Supervisory Board appointed Rafał Pawełczyk to be a member of the Strategy Committee.

On July 26, 2019, the mandate of Rafał Pawełczyk, a member of the Company's Supervisory Board, expired due to death.

On December 16, 2019 the Company's Supervisory Board appointed Grzegorza Peczkis to be a member of the Strategy Committee.

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board.

Members of the Strategy Committee as of the date of drawing up this report

1. Jacek Szyke - Head of the Strategy Committee,
2. Beata Chłodzińska - Member of the Strategy Committee,
3. Grzegorz Peczkis - Member of the Strategy Committee,
4. Jan Płudowski - Member of the Strategy Committee.

Tasks and competence of the Strategy Committee

The tasks and competence of the Strategy Committee did not change in 2019.

The tasks and competence of the Strategy Committee as of December 31, 2019 and as of the date of drawing up this report are presented in the below table.

Table no. 59. Competence of the Strategy Committee as of December 31, 2019 and as of the date of drawing up this report

Competence of the Strategy Committee
<ol style="list-style-type: none">1. evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board,2. recommending to the Supervisory Board the scope and deadlines for submitting the long term strategic plans by the Management Board,3. evaluating the impact of planned and currently undertaken strategic investment projects on the Company's assets,4. monitoring the implementation of strategic investment tasks,5. evaluating activities related to the use of material Company's assets,6. providing opinions on strategic documents submitted to the Supervisory Board by the Management Board

The detailed description of the activities of the Strategy Committee in the last financial year is provided in the report on the activities of the Supervisory Board submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: <http://www.tauron.pl>.

9.11.6. Description of the activities of the Committees of the Supervisory Board

The detailed description of the activities of the Committees of the Supervisory Board is provided in the Regulations of the individual Committees of the Supervisory Board.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of their tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of 3 to 5 members, while the Strategy Committee is composed of 3 to 7 members. The activities of the individual Committees are managed by their Chairpersons (Heads).

Meetings of the Committees are convened by the Chairperson (Head) of the specific Committee on his / her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held on as needed basis. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson of the specific Committee or a person appointed by him / her submits motions, recommendations and reports to the Supervisory Board .

The Committees of the Supervisory Board pass resolutions if at least a half of their members were present at the meeting and all their members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using means of direct remote communication.

Members of the Committees of the Supervisory Board may also participate in meetings and vote of the adopted resolutions by using means of direct remote communication, i.e. tele- or videoconferences.

The Company's Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on their memberships, the number of meetings held and participation in the meetings during the year, as well as on their main activities.

The Company's Management Board provides the possibility to use the services of external advisers by the Committees to the extent required for performing the obligations of the Committees.

9.12. Description of the policy of diversity applied with respect to the Company's authorities

TAURON Group's Diversity Policy (Diversity Policy), put in place in 2017, was in force at the Company and TAURON Capital Group in 2019, with its goal to reinforce the awareness and organizational culture open to diversity.

In accordance with the above Diversity Policy diversity and openness are an integral part of TAURON Capital Group's business operations. TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees, and in particular to the management bodies and its key managers. Also, actions have been undertaken to prevent discrimination by fostering appropriate work atmosphere as well as building and strengthening positive relationships among the personnel and developing organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),

The diversity policy is also applied with respect to the cooperation (relationships) with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, the following regulations are put in place at TAURON Capital Group.

1. Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination at TAURON Group,
2. Policy of Respect for Human Rights defining the principles of respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect,
3. Training and competence development programs conducive to and supporting the creation of an atmosphere for the development of each employee,
4. Regulations ensuring fairness and objectivity with respect to work organization and compensation, including among others:
 - TAURON Group's Compensation Principles
 - Human Resources Management Policy at TAURON Group,
 - regulations with respect to benefits (entitlements),
 - flexible forms of work time and ability to work remotely.
5. Programs and regulations dedicated to women, ensuring equal opportunities for them and support in combining professional life with private life, e.g.:

- reduced working time for pregnant women,
- "Mum works" program put in place in the distribution line of business, with the goal to build a friendly work environment for mothers,
- Program Magenta meetings as part of the KobięcaMoc (WomenPower) campaign - for women students of electrical engineering faculties, whose goal is to provide support for girls, among others in selecting a career path.

6. TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy,

7. TAURON Group's Competence Model.

The detailed data and indicators related to diversity in terms of age, gender and the steps taken as well as the results stemming from the implementation of the Diversity Policy are provided in section 2.8 of this report.

With respect to the members of the corporate authorities of TAURON, i.e. the Management Board and the Supervisory Board, persons acting as Members of the Management Board are appointed by the Supervisory Board, while Members of the Supervisory Board are appointed by the Company's GM and the Minister of State Assets acting within the statutory powers of the State Treasury.

Members of the Management Board are appointed by the Company's Supervisory Board after conducting a qualification procedure designed to verify and assess their qualifications and selecting the best candidate. The notice of the qualification process is published on the Company's web page and in the Public Information Bulletin of the Ministry of State Assets. The competition is open for any person that meets the requirements provided in the Company's Articles of Association and defined by the Supervisory Board, specified in the notice. Due to no special requirements placed on such features as, among others, gender, type of education, age and professional expertise, the Supervisory Board is able to ensure comprehensive and diverse approach when assessing and selecting candidates to the Company's Management Board.

As of December 31, 2019, the Company's Management Board was composed of 3 men, and the Company's Supervisory Board included 5 women and 4 men. The age structure of the members of the Company's Management Board was as follows: over 30-40 years - 1 person, over 40-50 years - 2 persons, while in case of the Company's Supervisory Board: over 40-50 years - 5 persons, over 50-60 years - 1 person, above 60 years - 3 persons.

Information on the qualifications and professional experience of persons appointed as members of the Management Board and the Supervisory Board is published in the applicable securities filings (current reports) and on the Company's website at the address: <https://www.tauron.pl>.

10. STATEMENT ON NON-FINANCIAL INFORMATION

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the Accounting Act of 29 September 1994 (Journal of Laws of 2019, item 351), instead of the statement on non-financial information, the Company drew up a Non-financial Report of TAURON Capital Group for 2019, in the form of a separate document posted on the Company's website at the address: <https://www.tauron.pl>.

The above Report was drawn up in accordance with:

1. Article 49b, clause 1 and art. 55, clause 2b-e of the *accounting act of September 29, 1994*, as subsequently amended, which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information;
2. Global Reporting Index guidelines - GRI Standards (core level).

11. MANAGEMENT AND SUPERVISORY PERSONNEL COMPENSATION POLICY

11.1. Compensation system for members of the Management Board and key managers

11.1.1. General information on the adopted compensation system for members of the Management Board

Compensation system for members of TAURON's Management Board

Principles of compensation for members of the Company's Management Board defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016, *on the principles for determining compensation of members of the Management Board*, as subsequently amended, and detailed by the Supervisory Board of the Company pursuant to the resolution of December 19, 2016, *on determining compensation of members of the Management Board of TAURON Polska Energia S.A.*, as subsequently amended, had been in force at the Company until November 20, 2019.

With a view to clarifying the principles of compensation for members of the Company's Management Board, at the request of the Company's shareholder, the State Treasury, the Extraordinary General Meeting of TAURON was held on November 21, 2019, which, by way of a resolution, defined the new the principles of compensation for members of the Company's Management Board (Rules for determining compensation), thereby repealing the rules in force thus far.

The above Principles for determining the compensation were specified in detail by the Company's Supervisory Board by way of a resolution of January 27, 2020, *on the amendment of Resolution No. 94/IV/2016 of the Supervisory Board of TAURON Polska Energia S.A. of December 19, 2016, on determining the compensation of Members of the Management Board of TAURON Polska Energia S.A.* At TAURON, the principles of the compensation of members of the Company's Management Board are in accordance with the provisions of the *act of June 9, 2016 on the principles for determining the compensation of the management personnel of certain companies*, as subsequently amended.

The adopted Principles for determining compensation define the compensation system for members of the Company's Management Board in connection with the outstanding tasks aimed at the implementation of the adopted Strategy, directions of expansion and financial plans. The overriding objective of the adopted compensation system is to ensure an incentive-based compensation of the most senior management staff and to create the foundations for their development.

Policy of compensation for members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A. (Compensation Policy), adopted by the Company's Supervisory Board on October 23, 2017, was in force in 2019.

The overall objectives of the compensation policy are:

1. ensuring a consistent and motivational compensation system for members of the Management Board,
2. linking the compensation rules with monitoring of the implementation of adopted strategic plans and implementation of the financial plans,
3. setting the level of compensation for the Company's Management Board members in connection with the implementation of the management objectives set,
4. increasing the Company's value through the development of the most senior management staff,
5. improving the compensation systems leading to the implementation of the Company's strategy and expansion directions.

Model of compensation for members of the Company's Management Board members is based on a two-component system for determining compensation, where the total compensation of a member of the Company's Management Board is composed of a fixed part constituting the monthly base wage and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management objectives (KPI).

System of compensation for members of the Management Board assumes linking the variable part of the compensation with the outstanding management objectives stemming from the provisions of the *act of June 9, 2016 on the principles for determining compensation of the management personnel of certain companies*, as subsequently amended, and set, based upon these provisions, by the GM and the Supervisory Board of the Company. The goal of adopting, in the system of compensation, of the dependence of the compensation's variable part on achieving the management goals set is aimed, in particular, at implementing the adopted Strategy, the

directions of the Company's expansion and financial plans, it also shapes a new organizational culture of the Company.

Taking into account the applicable regulations, the level of compensation for members of the Management Board is determined by the Supervisory Board within the range determined by the Company's GM.

The variable compensation of members of the Management Board of TAURON constitutes up to 60% of the fixed compensation for the financial year, assuming the management objectives, set by the GM and detailed by the Supervisory Board for the given financial year, have been achieved.

Variable compensation for achieving financial management objectives is granted based on the data from the audited consolidated financial statements of the Company for the given financial year. Variable compensation for achieving non-financial management objectives is due in connection with achieving specific goals in the given financial year based on the assessment of their achievement by the Supervisory Board.

The overall management objectives set by the GM include::

1. achieving EBITDA at the level approved in the Material and Financial Plan for the given financial year,
2. achieving the Net debt/EBITDA ratio at the level approved in the Material and Financial Plan for the given financial year,
3. maintaining the rating of TAURON Polska Energia S.A. at an investment grade level,
4. achieving of the effects of the implemented restructuring programs or programs aimed at improving the efficiency of TAURON Capital Group,
5. implementation of the Strategy, investment projects in accordance with the optimal schedule and budget from the point of view of project profitability and the condition of TAURON Capital Group,
6. implementation of the key investment projects for energy security, in particular with respect to electricity generation and distribution, including investment projects related to BAT in 2020-2021,
7. sales of new products (sales of products that include electricity and products that are synergic with electricity and gas),
8. improving quality indicators for customer service or other operational indicators,
9. increase in TAURON Capital Group's innovations through the implementation of research and development works, pilot projects as well as deployments, taking into account the effective use of funds allocated for this purpose

Members of the Management Board of the Company are neither covered by the bonus program based on the capital (equity) of the Company, nor do they receive any compensation or awards due to the performance of their functions in the governing bodies (authorities) of TAURON Capital Group's subsidiaries.

System of compensation for members of the Management Board of TAURON Capital Group's subsidiaries

In all of TAURON Capital Group's subsidiaries for which TAURON is a parent company within the meaning of art. 4, clause 3 of the *act of February 16, 2017, on the protection of competition and consumers*, as subsequently amended, the principles of compensation for the members of the management authorities are applied in accordance with the *act of June 9, 2016 on the principles of determining compensation of the management personnel of certain companies*. The above was defined in the *Policy for determining the compensation for the members of the authorities of the Subsidiaries* and the *Principles of determining compensation for the members of the corporate authorities of the Subsidiaries*.

The principles of compensation for members of the management bodies (authorities) of the subsidiaries are, similar as at TAURON, based on a two-component system for determining compensation, where the total compensation is composed of a fixed part and a variable part dependent on fulfilling specific, results based criteria, i.e. achieving the management objectives. Linking of the compensation's variable part to achieving the management objectives set is of major importance in TAURON Capital Group's management process and is aimed at prioritizing the directions for expansion of the individual subsidiaries.

The management objectives that the variable compensation is linked to may, in particular, include:

1. increase of the net profit or EBITDA or a positive change of the growth rate of one of those figures;
2. achieving or changing the production or sales value;
3. amount of the revenue, in particular revenue from sales, from the operating activities, from the other operating or financing activities;
4. reducing losses, reducing the overhead costs or costs of the business operations conducted (operating expenses);
5. implementation of the strategy or restructuring plan;
6. achieving or changing certain indicators, in particular profitability, financial liquidity, management efficiency or solvency;
7. implementing investment projects, taking into account in particular the scale, rate of return, innovations, on-time implementation (delivery);

8. change of the company's market position, calculated as market share or according to other criteria or relationships with the counterparties (business partners, contractors) designated as the key counterparties (business partners, contractors) according to the defined criteria;
9. implementation of the personnel policy conducted and an increase of the workforce commitment.

Compensation policy and compensation report

On October 16, 2019, the *act on the amendment to the act on the public offering and conditions governing the introduction of financial instruments to an organized trading system, as well as on public companies and certain other acts* was passed, which imposed, on the company's GM, an obligation to adopt a compensation policy for the members of the management board and supervisory board.

The above amendment defines the scope of issues that the above mentioned policy should cover, including, among others, in particular:

1. description of the fixed and variable components of the compensation, as well as the bonuses and other pecuniary and non-monetary benefits that may be granted to the members of the management board and the supervisory board,
2. indication of the relative proportions of the components of compensation referred to in section 1 above,
3. explanation of how the pay and working conditions of the employees of the company other than the members of the management board and the supervisory board were taken into account when establishing the compensation policy,
4. indication of the period for which employment contracts, commission job performance contracts, specific task performance contracts or other contracts of a similar nature were concluded with the members of the management board and the supervisory board, as well as indication of the periods and terms of the termination of these contracts, and if no agreement has been concluded with a member of the management board or the supervisory board - an indication of the type and period for which the employment relationship between the member of the management board or the supervisory board and the company was established, as well as the period and conditions for terminating such a legal relationship,
5. description of the main features of the additional pension and retirements programs, as well as early retirement programs
6. description of the decision-making process carried out to establish, implement and review the compensation policy,
7. description of the measures taken to avoid or manage conflicts of interest related to the compensation policy,
8. indication of how the compensation policy contributes to the implementation of the business strategy, long-term interests and the stability of the company.

Pursuant to the above amendment, the company's GM may authorize the supervisory board to detail the elements of the above mentioned policy, while a resolution regarding such a policy should be adopted at least every 4 years.

Based on the review of the compensation system, the Supervisory Board prepares, on an annual basis, a report on the compensations and submits it to the GM for the GM to issue an opinion on such report. This report should include the results of the completed comprehensive review of the compensations, including all of the benefits, regardless of their form, received by the individual members of the management board and the supervisory board or due to the individual members of the management board and the supervisory board in the last financial year, in accordance with the above mentioned compensation policy.

The compensation policy for the members of the management board and the supervisory board will be adopted by the OGM approving the Company's financial statements for the financial year 2019 and posted, along with the resolution regarding its adoption, on the Company's website.

11.1.2. General information on the adopted compensation system for key managers

The principles concerning the compensation and bonus system for the key managers and other employees are defined in the *Regulations of the Compensation for the Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

In 2019 the *Principles of Compensation at TAURON Group* were in force, constituting the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for the key managers based on the management by objectives system consistent throughout TAURON Capital Group, representing a combination of the planning process, efficiency (performance) measurement process and assessment process.

The compensation and bonus system for the key managers in force envisages that the level of compensation should be tied to the financial situation of TAURON Capital Group and the Company over a year's time frame, in connection with the achievement (implementation) of the strategic goals.

The overarching assumption of the compensation system in force is to ensure the optimum and motivating compensation level, based on the value and type of work in the given position as well as the quality of work and effects achieved by the employees.

The structure of the compensation is composed of the following elements:

1. fixed part - constituting the base salary determined in accordance with the table of level (tier) categories applicable at the Company and the monthly rates of the personal level (tier). The allocated level of the basic salary reflects the value and type of work as well as the quality of the employee's work, defined based on the assessment of the employee's competence level,
2. variable part - which is dependent on the performance results, defined based on the level of accomplishing the targets and tasks within the MBO bonus system,
3. benefits - which are defined in the internal regulations of the Company.

The MBO bonus system based on the market principles of awarding bonuses ensures focusing of the activities of the key management staff on attaining the objectives aimed at implementing the Strategy, as well as the individual strategic objectives and expansion directions of TAURON Capital Group's individual subsidiaries. This system allows for cascading of the objectives defined by the Company's Management Board at TAURON Capital Group level and at the Company level, down to the concrete, parameterized tasks vested with the employees at the lower levels of the organization. In addition, the MBO bonus system has been linked with the process based management system implemented at TAURON Capital Group, inter alia by aligning the objectives with the Mega-processes defined within TAURON Capital Group. Therefore, the Management by Objectives culture introduced reflects the specific features of the individual functions implemented at the Company and allows for the use of the mechanisms enabling dialogue between the superior and the subordinate during the process of setting and assessing the objectives, leading to attaining the overall efficiency throughout the entire organization.

At the same time, this tool enables precise correlating of the KPIs defined for the members of the Management Board with the objectives defined for the given year for the key managers of the Company. An initial assessment of the accomplished objectives takes place after the elapse of the first 6 months and after the year has ended, the members of the Management Board make the final assessment of the KPI performance by the key managers.

11.1.3. Principles, conditions and amount of compensation for members of TAURON Polska Energia S.A.'s Management Board and entities that are part of TAURON Capital Group

Compensation of members of the Management Board of TAURON

The compensation of the members of the Company's Management Board is determined by the Company's Supervisory Board. The total amount of compensation understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, due or paid by the Company to the members of the Management Board in 2019 reached the gross amount of PLN 4 557 000.

The compensation of the members of the Company's Management Board in 2019, broken down into components, is presented in the below table.

Table no. 60. Compensation of members of the Company's Management Board in 2019, broken down into components

#	First and last name	Period of holding the position in 2018	Compensation ¹ (PLN '000)	Variable compensation ¹ (PLN '000)	Other benefits ¹ (PLN '000)	Total (PLN '000)
1.	Filip Grzegorzczak	01.01.2019. - 31.12.2019	793	407	3	1 203
2.	Jarosław Broda	01.01.2019 - 31.12.2019	740	444	0	1 184
3.	Kamil Kamiński	01.01.2019 - 21.09.2019	536	436	14	986
4.	Marek Wadowski	01.01.2019 - 31.12.2019	740	444	0	1 184
Total			2 809	1 731	17	4 557

¹ excluding markups (surcharges)

The Company does not have any obligations towards the former members of the Management Board due to pensions or benefits of similar nature.

At the same time, it is indicated that, because of the Company's obligations towards the former members of TAURON's Management Board, the total amount of PLN 517 000 PLN was paid out in 2019 due to the payment of the compensation for refraining from performing competing activities (the non-compete clauses).

Members of TAURON's Management Board did not receive compensation or bonuses for performing the functions in the corporate bodies (authorities) of TAURON Capital Group's subsidiaries in 2019.

All members of the Company's Management Board received compensation in 2019, in accordance with the applicable contract for the provision of the management services in accordance with the *act of June, 2016, on the principles of determining compensation of the management personnel of certain companies*.

Compensation of members of the Management Boards of TAURON Capital Group's subsidiaries

The compensation of the members of the Management Boards of TAURON Capital Group's subsidiaries is determined taking into account the scale of the given subsidiary's operations, in particular:

1. average annual headcount,
2. annual net revenue (turnover) from the sales of goods, products and services as well as the financial operations,
3. total assets on the balance sheet at the end of the year.

Based on the above criteria, the categories of subsidiaries are defined, which determine the amount of the fixed compensation of the members of the subsidiaries' management authorities.

The principles of compensation for the members of the Management Boards of TAURON Capital Group's subsidiaries are published on the website at the address: <https://www.tauron.pl>.

11.1.4. Agreements concluded with management personnel that envisage compensation in case of their resignation or dismissal from the position held, with no important reason, or if their dismissal or resignation takes place as a result of the merger of the Company as a result of a takeover

The agreements (contracts) on the provision of the management services concluded both with the members of TAURON's Management Board as well as with the members of the Management Boards of TAURON Capital Group's individual subsidiaries, envisage, in case of the termination or renouncement of the agreement by the Company for reasons other than defined therein, a payout of the severance payment in the amount of three times the fixed part of the compensation, on the condition they have performed their function over a period of at least 12 months prior to the termination of the agreement.

Furthermore, due to the members of TAURON's Management Board, as well as the members of the Management Boards of TAURON Capital Group's individual subsidiaries having access to confidential information the disclosure of which could expose the Company and TAURON Capital Group's subsidiaries to losses, the agreements on the provision of the management services include the non-compete clauses applicable after the expiry of the term of office. Under the above mentioned agreements the members of the Management Board are obligated to refrain from conducting competitive activities for a specified period in return for the compensation.

Members of the Company's Management Board had not held the positions of members of the Management Boards of TAURON Capital Group's subsidiaries prior to being appointed as members of the Company's Management Board.

11.1.5. Non-financial components of compensation due to members of the Management Board and key managers

Non-financial components of the compensation of members of the Management Board

Members of the Management Board, in accordance with the agreements on the provision of the management services, are entitled to the reimbursement by the Company of the cost of training up to the net amount of PLN 15 000 in a calendar year, and as of February 2020, to have the Company refinance their basic contribution to the participation in the Employee Pension Program operated at the Company.

Non-financial components of the compensation of key managers

Staff members employed at the key positions by the Company are entitled to take advantage of the following benefits and non-financial components of the compensation offered by the Company:

1. participation in the Employee Pension Program operated by the employer (under the condition of being employed by the Company or one of TAURON Capital Group's subsidiaries over a period of at least 1 year),
2. use of the medical package financed with the Company's funds,
3. use of a company car allocated for their exclusive use,
4. use of the cash allowance to the accommodation in case the availability of the employee is required due to the nature of his / her work and scope of responsibilities and his / her permanent residence is located at a substantial distance from the Company's registered office.

11.1.6. Information on changes to the compensation policy during the last financial year

On May 8, 2019, the Ordinary GM of the Company amended the resolution of the Extraordinary GM of the Company of December 15, 2016, *regarding the principles of determining compensation of Members of the Management Board* by changing the overall management objectives.

On November 21, 2019, the Extraordinary General Meeting of the Company repealed the resolution of the Extraordinary General Meeting of the Company of December 15, 2016, *regarding the principles of determining compensation of Members of the Management Board*, as subsequently amended, at the same time defining the new principles for the compensation of members of the Management Board and setting the new management goals.

The detailed list of the management objectives is presented in section 11.1.1. of this report.

11.1.7. Assessment of the functioning of the compensation policy in terms of the fulfilment of its objectives, in particular the long-term growth in shareholder value and stability of the company's performance

The applied compensation system for members of the Management Board is in accordance with the *Act of June 9, 2016 on the principles for determining compensation of the management personnel of certain companies*. The incentive based and consistent system is provided, linked with the monitoring of the annual financial plans and the adopted Strategy and development (expansion) directions. *Policy of compensation for members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A.* in force at the Company is in line with the Best Practice 2016 principles and defines, in particular, the form, structure and the manner of determining the compensation of members of the Management Board.

The form, structure and level of the compensation correspond to the market conditions and are oriented towards enabling the recruitment and retaining individuals fulfilling the criteria required to manage the Company in a manner that would take into account the shareholders' interests (building the Company's value for the shareholders), as well as prevent arising of conflicts of interest among members of the Management Board and the shareholders. At the same time, they are structured in a manner that is transparent for the investors so as to build their confidence in the Company and enable them to express their opinions using the applicable procedures.

The disbursement of the variable components of the compensation is linked to the pre-defined, measurable management objectives that support the long-term stability of the Company and TAURON Capital Group.

The criteria the fulfilment of which determines obtaining of the variable components of the compensation and the level thereof are defined in accordance with the SMART methodology, i.e. they display such features as: precision, measurability, achievability, materiality and timing references.

The compensation and bonus system for both members of the Management Board of the Company as well as the key managers in force at TAURON supports the accomplishment (implementation) of the strategic goals and takes into account the determination of the compensation depending on the financial situation of the Company and TAURON Capital Group over one year period.

11.2. Compensation system for members of the Supervisory Board

In 2019 the system of compensation for members of the Supervisory Board of the Company defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016 *on determining compensation for members of the Supervisory Board, as subsequently amended*, was in force, adopted as the implementation of the provisions of the *act of 9 June 2016 on the principles for determining compensation of the management personnel of certain companies* (Journal of Laws of 2016, item 1202).

In accordance with the above mentioned Resolution of the Extraordinary GM the monthly compensation of members of the Supervisory Board is determined as a product of multiplying the assessment base mentioned in art. 1, clause 3, item 11 of the *act of 9 June 2016 on the principles for determining compensation of the management personnel of certain companies*, and the multiplier:

- for the chairperson of the Supervisory Board – 1.7
- for the other members of the Supervisory Board – 1.5

Members of the Supervisory Board are entitled to receive the compensation irrespective of the frequency of the formally convened meetings.

The compensation is not due for a month in which a member of the Supervisory Board was not present at any of the formally convened meetings, for unjustified reasons. The decision on excusing or a failure to excuse the absence of a member of the Supervisory Board at its meeting is taken by the Supervisory Board by way of a resolution.

The compensation is calculated on a pro rata basis, in relation to the number of days when the function was performed, in case the appointment or dismissal occurred in the course of the calendar month.

The Company covers the costs incurred in connection with the performance of the functions assigned to the members of the Supervisory Board, in particular: the costs of the round trip between the place of residence and the venue of the Supervisory Board's meeting or a meeting of the Supervisory Board Committee, the costs of the individual supervision and the costs of accommodation and board.

Compensation of the supervision personnel

The compensation of the members of the Company's Supervisory Board in 2019 is presented in the below table.

Table no. 61. Compensation of the members of the Company's Supervisory Board in 2019

#	First and last name	Period of holding the position in 2019	Compensation (PLN '000)
1.	Beata Chłodzińska	01.01.2019 - 31.12.2019	102
2.	Teresa Famulska	01.01.2019 - 31.12.2019	90
3.	Jacek Szyke	01.01.2019 - 31.12.2019	90
4.	Radosław Domagalski - Łabędzki	01.01.2019 - 08.05.2019	32
5.	Barbara Łasak - Jarszak	01.01.2019 - 31.12.2019	90
6.	Paweł Pampuszko	01.01.2019 - 08.05.2019	32
7.	Rafał Pawelczyk	08.05.2019 - 26.07.2019	20
8.	Grzegorz Peczkis	06.12.2019 - 31.12.2019	6
9.	Jan Płudowski	01.01.2019 - 31.12.2019	90
10.	Marcin Szlenk	01.01.2019 - 31.12.2019	90
11.	Katarzyna Taczanowska	08.05.2019 - 31.12.2019	58
12.	Agnieszka Woźniak	01.01.2019 - 31.12.2019	90
Total			790

The Company does not have any obligations towards the former members of the Supervisory Board due to pensions or benefits of similar nature.

12. OTHER MATERIAL INFORMATION AND EVENTS

12.1. Material proceedings pending before the court, competent arbitration authority or public administration authority

The below table presents material proceedings pending before the court, competent arbitration authority or public administration authority in 2019.

Table no. 62. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2019

#	Parties to the proceeding	Description of the proceedings including the value of the object of litigation and the Company's position
Proceedings involving TAURON		
1.	Huta Łaziska (plaintiff) TAURON (as a legal successor to GZE) and State Treasury represented by the President of ERO (defendants)	<p>Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of ERO of October 12, 2001 related to the resumption of electricity supply to the plaintiff.</p> <p>Value of the object of litigation: PLN 182 060 000.00</p> <p>Initiation of the proceeding: the lawsuit of March 12, 2007</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>By way of the ruling of May 28, 2019, the Regional Court in Warsaw dismissed the Huta Łaziska's lawsuit in whole and ruled that Huta Łaziska shall refund each defendant the costs of the proceedings. The ruling is not legally binding.</p> <p>Huta Łaziska filed an appeal on July 25, 2019, appealing against the above mentioned ruling in whole</p>
2.	Head of the Mazovian Customs and Tax Office (authority conducting the investigation) TAURON (party)	<p>Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the three investigations carried out by the Head of the Mazovian Customs and Tax Office are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from the following entities: Castor Energy sp. z o.o. (Castor Energy) and Virtuse Energy sp. z o.o. (Virtuse Energy)</p> <p>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</p> <p>Date of initiating the proceeding: Castor Energy sp. z o.o. – October 2014 and August 2016, Virtuse Energy sp. z o.o. – December 2016</p> <p>Company's position: in the Company's opinion during the verification of both counterparties (business partners, contractors), due diligence was adhered to, the Company acted in good faith and should have the right to deduct the tax assessed on the invoices documenting the electricity purchase from the counterparties (business partners, contractors) Castor Energy and Virtuse Energy.</p>
3.	ENEA (plaintiff) TAURON (defendant)	<p>Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment in connection with the settlements related to the non-balancing of the Balancing Market with PSE between January and December 2012</p> <p>Value of the object of litigation: PLN 17 085 846.49</p> <p>Initiation of the proceeding: the lawsuit of December 10, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
Lawsuits pertaining to the termination, by the PEPKH subsidiary, of the agreements related to the sales of electricity and property rights arising from the certificates of origin		
4.	Dobiesław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	<p>Object of litigation: lawsuit for payment of damages and determination of liability for the future.</p> <p>Value of the object of litigation: PLN 34 746 692.31</p> <p>Initiation of the proceeding: the lawsuit of June 30, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
5.	Dobiesław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	<p>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)</p> <p>Value of the object of litigation: PLN 183 391 495.00</p> <p>Date of initiating the proceeding: June 30, 2017</p> <p>Company's position: the Company considers the claims as being without merit.</p> <p>On November 29, 2019, the Regional Court in Cracow dismissed the case as a result of the withdrawal of the lawsuit by the plaintiff.</p>

#	Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
6.	Gorzyca Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: PLN 39 718 323.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
7.	Pękanino Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: PLN 28 469 073.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
8.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: PLN 27 008 100.00
		Initiation of the proceeding: the lawsuit of June 29, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
9.	in.ventus sp. z o.o. Mogilno I sp. k. (plaintiff) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: EUR 12 286 229.70 (i.e. PLN 53 587 619.46 at NBP's average exchange rate of June 29, 2018)
		Initiation of the proceeding: the lawsuit of June 29, 2018
		Company's position: the Company considers the claims covered by the lawsuit as being without merit. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute.
10.	Amon sp. z o.o. and Talia sp. z o.o. (formal co-participation on the plaintiff's side) TAURON (defendant)	Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.
		Value of the object of litigation: Amon – PLN 47 556 025.51; Talia – PLN 31 299 182.52
		Initiation of the proceeding: the lawsuit of April 30, 2018
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
Proceedings involving TAURON Capital Group's subsidiaries related to the termination, by a subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin		
1.	Gorzyca Wind Invest sp. z o.o. Pękanino Wind Invest sp. z o.o. Dobiesław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.
		Value of the object of litigation: Gorzyca – PLN 112 353 945.05; Pękanino PLN 64 116 908.85
		Date of initiating the proceeding: Gorzyca – May 18, 2015, Pękanino – May 20, 2018, DWI – May 18, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
2.	Dobiesław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to award damages.
		Value of the object of litigation: PLN 42 095 462.00
		Initiation of the proceeding: the lawsuit of June 14, 2017
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.
3.	Nowy Jarosław Wind Invest sp. z o.o. (plaintiff) PEPKH (defendant)	Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.
		Value of the object of litigation: PLN 69 282 649.20
		Initiation of the proceeding: the lawsuit of June 3, 2015
		Company's position: the Company considers the claims covered by the lawsuit as being without merit.

#	Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
4.	Amon sp. z o.o. (plaintiff) PEPKH (defendant)	<p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 40 478 983.22</p> <p>Initiation of the proceeding: the lawsuit of May 22, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit. On July 25, 2019 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court:</p> <ul style="list-style-type: none"> determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon sp. z o.o., for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties determined that Amon's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. <p>The ruling is not legally binding.</p> <p>PEPKH disagrees with the ruling and filed an appeal on October 25, 2019.</p>
5.	Amon sp. z o.o. (plaintiff) PEPKH (defendant)	<p>Object of litigation: plea to determine awarding of damages due to a failure to perform, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin.</p> <p>Value of the object of litigation: PLN 29 009 189.38</p> <p>Initiation of the proceeding: September 2, 2019</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
6.	Talia sp. z o.o. (plaintiff) PEPKH (defendant)	<p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 46 078 047.43</p> <p>Initiation of the proceeding: the lawsuit of May 21, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit. On March 6, 2020 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court:</p> <ul style="list-style-type: none"> determined that PKH's statements on the termination of long term agreements, concluded between PEPKH i Talia, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages <p>The ruling is not legally binding.</p> <p>PEPKH disagrees with the ruling and will file an appeal.</p>
7.	Mogilno III Mogilno IV Mogilno V Mogilno VI (plaintiff) PEPKH (defendant)	<p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity null and void, and to award damages.</p> <p>Value of the object of litigation: Mogilno III – equivalent of EUR 3 651 402.56; Mogilno IV – equivalent of EUR 3 765 458.12 EUR; Mogilno V – equivalent of EUR 3 505 331.82; Mogilno VI – equivalent of EUR 2 231 812.61</p> <p>Initiation of the proceeding: the lawsuit of May 25, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute.</p>
8.	Mogilno I Mogilno II (plaintiff) PEPKH (defendant)	<p>Object of litigation: lawsuit for payment of damages for the losses arisen as a result of a failure to perform agreements for the sale of property rights by PEPKH.</p> <p>Value of the object of litigation: Mogilno I – equivalent of EUR 3 583 336.19 EUR; Mogilno II – equivalent of EUR 3 659 538.72</p> <p>Initiation of the proceeding: the lawsuits of November 7, 2018</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute.</p>
9.	Hamburg Commercial Bank AG (formerly HSH Nordbank AG) (plaintiff) TAURON Sprzedaż (defendant)	<p>Object of litigation: lawsuit for payment of damages due to TAURON Sprzedaż's failure to perform agreements for the sale of property rights arising from the certificates of origin constituting the confirmation of electricity generation from a renewable energy source and the liquidated damages assessed due to the termination of the above mentioned agreements.</p> <p>Value of the object of litigation: PLN 232 878 578.36</p>

Company's position: the Company considers the claims covered by the lawsuit as being without merit. In the letter drawn up jointly by the parties of September 3, 2019, the Plaintiff withdrew the lawsuit and waived its claim, and therefore the parties jointly submitted a request to discontinue the proceeding (dismiss the case) in whole. By way of the decision of September 5, 2019 the court discontinued the proceeding (dismissed the case). The decision is legally binding.

12.2. Information on agreements concluded by TAURON Capital Group's subsidiaries

12.2.1. Agreements significant for TAURON Capital Group's operations

Loan agreement to replace the bond issue program

On June 19, 2019, a loan agreement worth PLN 6.07 billion was signed between the Company as the borrower and Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Oddział w Polsce and Powszechna Kasa Oszczędności Bank Polski S.A. as lenders.

The above agreement basically replaced the bond issue program worth up to PLN 6.27 billion, concluded on November 24, 2015, including the subsequent amendments (Bond Issue Program), with the above mentioned banks and BNP Paribas Bank Polska S.A. that continues to finance the Company under the Bond Issue Program in the amount based on the bonds taken up thus far, whose maturities, as defined in the terms and conditions of the bond issue fall not later than by the end of 2020.

The key parameters of the financing defined in the above agreement, including the level of margin, the effective term of financing and the level of the individual lenders' financial exposure have not been changed as compared to the Bond Issue Program. The financing available to the Company under the agreement amounts to:

- a) PLN 6.07 billion until December 31, 2021,
- b) PLN 5.82 billion until December 31, 2022.

In accordance with the above agreement, on June 28, 2019, the Company drew the funds under the loan in the amount of PLN 1 839 600 000, to be used to redeem the bonds in the same amount, held by the bondholders that were the parties to the above mentioned agreement. Moreover, the funds will be used, among others, to implement the activities outlined in the update of the strategic directions that complemented TAURON Group's 2016-2025 Strategy and assumed an increased share of the renewable sources in TAURON Group's generation assets.

Due to the signing of the above agreement, the banks' undertaking to take up bonds issued under the Bond Issue Program has been cancelled, and thus the Company will not be placing any further bond issues under the program.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 24/2019 of June 19, 2019.

Signing of the transaction documents related to the acquisition of the wind farms

On September 3, 2019, the subsidiaries: TEC1, TEC2 and TEC3 signed the transaction documents related to the acquisition by of 5 wind farms owned by the in.ventus group and the receivables held by Hamburg Commercial Bank AG with its registered office in Hamburg against the wind farm operating companies. Wind farms are located in northern Poland and were commissioned in 2009-2011. Their total installed capacity is 180 MW, and the average annual electricity production is approx. 450 000 MWh.

The above transaction was executed through the acquisition by the above mentioned subsidiaries of the Polish partnerships that owned the wind farms and the German partnerships that were their limited partners (Project Companies). The above subsidiaries assumed all rights and obligations of the existing partners of the Project Companies and, at the same time, acquired the receivables held by Hamburg Commercial Bank AG against the Project Companies.

The total acquisition price was agreed in the transaction documents at EUR 137.1 million and will be subject to adjustments resulting, in particular, from the effects of the cooperation between the parties. The acquisition price was calculated using the "locked-box" mechanism as of December 31, 2018.

The purchase price was paid from the funds coming from the recapitalization by TAURON of the TEC1, TEC2 and TEC3 companies acquiring the above Project Companies.

The above terms of the wind farm acquisition transaction were adopted by the Management Board of TAURON on August 27, 2019. On September 2, 2019, the resolution on determining the manner of exercising the voting right by the sole shareholder, i.e. TAURON, at the extraordinary General Meetings of TEC1, TEC2 and TEC3 with respect to granting approval of the acquisition of fixed assets and increasing the share capital as well as taking up shares in the above-mentioned subsidiaries by TAURON in connection with the transaction was passed by TAURON's

Supervisory Board. On July 24, 2019, the President of UOKiK issued clearance for the concentration involving TAURON taking over control of the companies operating the wind farms.

Based on the signed transaction documents, on September 3, 2019, Hamburg Commercial Bank AG withdrew the lawsuit filed against TAURON Sprzedaż whose subject was the payment of damages in the amount of PLN 36.3 million and the liquidated damages in the amount of PLN 196.6 million, therefore, the parties jointly requested that the proceedings be discontinued in their entirety. By way of the decision of September 5, 2019, the court discontinued the proceedings. The court's decision became legally binding on September 19, 2019.

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

The acquisition of the wind farms is in line with the update of the strategic directions announced on May 27, 2019, that complemented TAURON Group Strategy for 2016-2025, which provided for a significant increase in the share of the low- and zero-emission sources in the structure of TAURON Capital Group's installed generation capacity.

TAURON disclosed the information on the events related to the acquisition of the wind farms in the regulatory filings (current reports) no. 27/2019 of July 25, 2019, no. 31/2019 of August 27, 2019, no. 34/2019 of September 2, 2019 and no. 35/2019 of September 3, 2019.

Signing of the loan agreement with Intesa Sanpaolo S.P.A.

On December 19, 2019, a loan agreement worth PLN 750 000 000 was concluded between TAURON and Intesa Sanpaolo S.P.A., acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), the proceeds from which may be used to cover TAURON Capital Group's capital expenditures, including, in particular, the outlays related to:

- broadly understood renewable energy,
- electricity distribution, including grid extension and upgrade,
- refinancing of TAURON's existing financial debt,

with a caveat that the said financing will not be used to finance or refinance projects related to the coal assets.

In accordance with the above agreement TAURON will be able to utilize the funds within 4 months from the date of concluding the agreement (after the suspending conditions that are standard for this type of financing have been met). The loan repayment will take place after 5 years have elapsed from the date of concluding the above agreement. Interest will be calculated based on the WIBOR floating interest rate, increased by the bank's margin.

The acquisition of a new source of financing by concluding the loan agreement contributes to the shoring up of TAURON's financial stability.

The Company disclosed the information on the above event in the regulatory filing (current report) no. 58/2019 of December 19, 2019.

12.2.2. Transactions with related entities on terms other than at arm's length

All transactions with related entities are concluded at arm's length.

The detailed information on the transactions with related entities is provided in note 52 to the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group drawn up in accordance with the IFRS approved by the EU, for the year ended on December 31, 2019.*

12.2.3. Signed and terminated credit and loan agreements

Working capital credits and short term loans

In accordance with the financing model adopted by TAURON Capital Group, only TAURON may act as a party to working capital credits and short-term loans raised with external institutions.

TAURON Capital Group is using a cash pooling service, implemented under the true cash pooling service agreement concluded with PKO BP (of October 9, 2017 with the validity term until December 17, 2020). The cash pooling structure is based on daily limits granted to the individual participants by the agent managing the service, the function performed by TAURON. As a result of implementing the cash pooling mechanism, the cash transfers are performed between accounts of the participants of the service and the agent's account.

In connection with the cash pooling structure TAURON uses the following services offered by PKO BP:

- overdraft limit in the amount of PLN 300 000 000, based on the overdraft agreement concluded with the bank in October 2017, with the repayment date falling on December 29, 2020, and
- intraday limit in the amount of PLN 500 000 000, effective until December 17, 2020. The intraday limit is a daily limit which must be fully repaid by the end of each day on which it was used.

As part of financing its ongoing operations the following agreements were also in force in 2019:

- overdraft agreement with BGK, up to the amount of EUR 45 000 000, concluded with BGK in 2016, as subsequently amended, with the repayment date of December 31, 2020. The overdrawn amount is used for financing of the transactions of purchase/ sale/ exchange of CO₂ emission allowances, trading in electricity and gas made on the European exchanges,
- overdraft agreement concluded with mBank on March 30, 2018 for the amount not exceeding of USD 500 000, including the amendment of March 26, 2019, as a result of which the loan amount was reduced to USD 200 000 USD, to be used for financing the ongoing operations, in particular, for financing the collateral margin and commodity products transactions. The repayment deadline of the loan falls on March 31, 2020.

The purpose of above described foreign currency loans is to mitigate the FX risk related to the trade transactions concluded.

The below table presents the detailed summary of TAURON Capital Group's working capital loan and credit agreements effective in 2019, listed according to the repayment date and the amount as of December, 31, 2019.

Table no. 633. Summary of TAURON Capital Group's working capital loan and credit agreements effective in 2019 (listed according to the repayment date)

#	Parties to the agreement	Type of agreement	Interest rate	Amount of credit/loan ('000)	Date of agreement	Repayment date	As of December 31, 2019 ('000)
1.	TAURON - mBank	Overdraft	LIBOR 1M + fixed margin	200 USD	27.03.2018	31.03.2020	199 USD
2.	TAURON - BGK	Overdraft	EURIBOR 1M + fixed margin	45 000 EUR	30.12.2015	31.12.2020	4 804 EUR
3.	TAURON - PKO BP	Intraday limit	None	300 000 PLN	09.10.2017	17.12.2020	0 PLN
4.	TAURON - PKO BP	Overdraft	WIBOR O/N + fixed margin	300 000 PLN	09.10.2017	29.12.2020	0 PLN

Investment credits and loans

In 2019 TAURON signed loan agreements:

1. up to the amount of PLN 6 070 000 000 with the commercial banks: Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Oddział w Polsce and Powszechna Kasa Oszczędności Bank Polski S.A, as a replacement of the bond issue program with the loan agreement,
2. up to the amount of PLN 750 000 000 with Intesa Sanpaolo S.P.A.

The detailed information related to the above agreement is provided in section 12.2.1 of this report.

The below table presents a detailed summary of TAURON Capital Group's investment credit and loan agreements effective in 2019, listed according to the repayment date.

Table no. 64. Summary of TAURON Capital Group's investment credit and loan agreements effective in 2019, (listed according to the repayment date)

#	Parties to the agreement	Interest rate	Amount of credit/loan ('000)	Date of agreement	Repayment date	Balance as of December 31, 2019 ('000)
1.	KW Czatkowice – WFOŚiGW	Floating rate	914 PLN	12.05.2016	31.05.2021	168 PLN
2.	TAURON – EIB	Fixed rate	210 000 PLN	24.10.2011	15.12.2021	42 000 PLN
3.	TAURON – EIB	Fixed rate	300 000 PLN	24.10.2011	15.12.2021	60 000 PLN
4.	TAURON Wytwarzanie – WFOŚiGW	Base rate + fixed margin	40 000 PLN	25.10.2010	15.12.2022	12 000 PLN
5.	TAURON - Banks – Loan providers	Base rate + fixed margin	6 070 000 PLN	19.06.2019	31.12.2022	5 289 600 PLN
6.	KW Czatkowice - WFOŚiGW	Floating rate	293 PLN	05.11.2018	30.11.2023	229 PLN
7.	TAURON – EIB	Fixed rate	450 000 PLN	03.07.2012	15.06.2024	184 091 PLN
8.	TAURON – EIB	Fixed rate	200 000 PLN	03.07.2012	15.09.2024	90 909 PLN
9.	TAURON – EIBI	Fixed rate	250 000 PLN	03.07.2012	15.09.2024	113 636 PLN
10.	TAURON - Intesa	Base rate + fixed margin	750 000 PLN	19.12.2019	19.12.2024	0 PLN
10.	TAURON – EIB	Fixed rate	295 000 PLN	18.07.2014	15.03.2027	221 250 PLN

#	Parties to the agreement	Interest rate	Amount of credit/loan ('000)	Date of agreement	Repayment date	Balance as of December 31, 2019 ('000)
11.	TAURON - BGK	WIBOR 6M + fixed margin	1 000 000 PLN	19.12.2018	20.12.2033	1 000 000 PLN

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2019.

On March 16, 2020, TAURON concluded a loan agreement with SMBC BANK EU AG for the amount of PLN 500 000 000 and on March 25, 2020, it concluded a syndicated loan agreement for the amount of PLN 500 million with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Spółka Akcyjna) (Joint Stock Company) Oddział w Polsce (Polish Branch).

The information about the conclusion of the above loan agreements is provided in section 2.6 of this report.

12.2.4. Loans and sureties granted as well as sureties and guarantees received

Loans granted

In December 2019, TAURON and the Subsidiaries converted the debt due to the intra-Group bonds into intra-Group loans with the maturity of the loans corresponding to the original maturities of the bonds. The total amount of debt due to the intra-Group bonds subject to the conversion into intra-Group loans was PLN 4 535 000 000.

In addition, in 2019, TAURON granted financing to TAURON Wydobycie in the amount of PLN 1 400 000 000 in the form of 2 loans to be used for the repayment of the liabilities under the cash pool and 3 loans in the total amount of PLN 370 000 000, to be used for the repayment of the accounts payable due to the bonds in accordance with their maturities.

The below table presents a summary of Tauron Capital Group's intra-Group loans granted and effective in 2019.

Table no. 65. Summary of TAURON Capital Group's intra-Group loans granted and effective in 2019

#	Parties to the agreement	Interest rate	Repayment date	Total loan amount ('000)
1.	TAURON Ciepło - TAURON	Fixed rate	02.2020 - 09.2025	975 000 PLN
2.	TAURON Dystrybucja - TAURON	Fixed rate	02.2020 - 11.2025	3 000 000 PLN
3.	TAURON Ekoenergia - TAURON	Fixed rate	06.2025	160 000 PLN
4.	TAURON Wydobycie - TAURON	Fixed rate	02.2020 - 12.2029	1 970 000 PLN
5.	TAURON Wytwarzanie - TAURON	Fixed rate	09.2020	200 000 PLN

In addition, as of the reporting date, the intra-Group loans are in place, granted among the project companies acquired in September 2019 by TAURON Capital Group from the in.ventus group with the total amount of PLN 125 596 000, of which PLN 48 259 000 is subject to write-off.

In 2019 TAURON continued the financing of:

- joint subsidiary in the form of loan that were used to finance the current operations of EC Stalowa Wola, financing the VAT settlements and financing the agreements concluded by EC Stalowa Wola with the subcontractors,
- PGE EJ 1 in the form of 2 loans with the repayment terms of 3 years from the date of concluding the individual contracts

The below table below presents the summary of loans for the jointly controlled subsidiaries and affiliated companies granted by TAURON and in force in 2019 at TAURON Capital Group, listed according to the repayment date.

Table no. 66. Summary of loans for the jointly controlled subsidiaries and affiliated companies granted by TAURON and in force in 2019 at TAURON Capital Group (listed according to the repayment date)

#	Parties to the agreement	Interest rate	Date of agreement	Repayment date	Loan principle amount as of December 31, 2019 ('000)
1.	EC Stalowa Wola - TAURON	WIBOR 1M + fixed margin	11.04.2018	30.09.2020	5 100 PLN
2.	PGE EJ 1 - TAURON	Fixed rate	08.11.2017	06.11.2020	2 940 PLN
3.	PGE EJ 1 - TAURON	Fixed rate	02.03.2018	02.03.2021.	4 800 PLN
4.	EC Stalowa Wola - TAURON	Fixed rate	28.02.2018.	30.06.2033	310 851 PLN

#	Parties to the agreement	Interest rate	Date of agreement	Repayment date	Loan principle amount as of December 31, 2019 ('000)
5.	EC Stalowa Wola - TAURON	Fixed rate	30.03.2018	30.06.2033	7 000 PLN
6.	EC Stalowa Wola - TAURON	Fixed rate	19.12.2018	30.06.2033	8 535 PLN
7.	EC Stalowa Wola - TAURON	Fixed rate	12.03.2019	30.06.2033	5 175 PLN

Apart from the above mentioned loans, the Company did not grant other loans in 2019.

After the balance sheet date, loans in the total amount of PLN 631 175 000 were granted at TAURON Capital Group.

Sureties and guarantees granted

Principles of granting collaterals by TAURON and its subsidiaries are based on the applicable corporate internal regulations in force.

The below table presents the summary of corporate sureties and guarantees granted by TAURON, effective in 2019, listed according to the validity date.

Table no. 67. Summary of sureties and guarantees granted by TAURON effective in 2019 (listed according to the validity date)

#	Beneficiary	Agreement / collateral	Entity whose liabilities constitute the subject of collateral	Liability amount under agreement ('000)	Date of agreement	Validity date
1.	Entrepreneurs (businesses) and consumers who have concluded a contract with TAURON EKOENERGIA on the basis of the electricity trading license granted by the President of the Energy Regulatory Office	Corporate guarantee	TAURON EKOENERGIA	16 400 PLN	09.11.2017	19.07.2019
2.	GAZ-SYSTEM	Guarantee agreement	EC Stalowa Wola	1 667 PLN	05.04.2017	30.07.2020
3.	BGK	Guarantee agreement	EC Stalowa Wola	3 644 USD	31.10.2019	30.07.2020
4.	Polska Spółka Gazownictwa	Guarantee agreement	TAURON Sprzedaż	20 000 PLN	30.03.2016	30.11.2020
5.	PSE	Guarantee agreement	Nowe Jaworzno GT	33 024 PLN	29.10.2018	31.12.2020
6.	BGK	Guarantee agreement	EC Stalowa Wola	9 959 PLN	08.11. 2018	30.01.2021
7.	BGK	Guarantee agreement	EC Stalowa Wola	1 328 USD	31.10.2019	24.04.2021
8.	WFOŚiGW	Guarantee agreement	KW Czatkowice	914 PLN	01.06.2016	15.06.2021
9.	WFOŚiGW	Guarantee agreement	KW Czatkowice	293 PLN	05.11.2018	31.12.2023
10.	Fund advisors	Guarantee agreement	Nowe Jaworzno GT	2 500 PLN	29.12.2017	28.09.2025
11.	Bondholders	Corporate guarantee	TAURON Sweden Energy	168 000 EUR	03.12.2014	03.12.2029
12.	PSE	Guarantee agreement	TAURON Wytwarzanie	5 000 PLN	04.08.2014	Indefinitely

Besides TAURON the other subsidiaries of TAURON Capital Group did not grant any sureties.

As part of the framework agreements in force, at the request of the Company, in 2019 bank guarantees were issued for the liabilities of TAURON Capital Group's subsidiaries, which as of December 31, 2019 amounted to PLN 587 320 000. The most important item is the bank guarantee granted by MUFG Bank, Ltd. on behalf of the Company as a collateral for BGK's claims against EC Stalowa Wola. The guarantee is valid until April 11, 2020.

On February 5, 2019, TAURON concluded a new guarantee cap (limit) agreement with MUFG Bank, Ltd., under which Amendment No. 1 to the bank guarantee was issued to provide a collateral for BGK's claims against EC Stalowa Wola under the loan agreement concluded on March 8, 2018, between EC Stalowa Wola as a borrower, and BGK and PGNiG as lenders.

On February 5, 2019, TAURON concluded a new bank guarantee cap agreement with Caixabank S.A.:

1. up to the amount of PLN 80 000 000 with the availability cap for the period of 36 months from the date of concluding the agreement, with a proviso that the period of validity of the bank guarantees issued under the agreement shall not exceed the effective term expiration by more than 12 months,
2. up to the amount of PLN 20 000 000 with the availability cap for the period of 24 months, with a proviso that during the agreement term, bank guarantees with a maximum validity of 84 months may be issued.

The above agreements with Caixabank S.A., for the total amount of PLN 100 000 000, replace the bank guarantee cap agreement of July 12, 2016, which has been terminated.

The below table presents the summary of the bank guarantees granted from January 1, 2019 to December 31, 2019, listed according to the validity date.

Table no. 68. Summary of bank guarantees granted (listed according to the validity date)

#	Bank	Company	Beneficiary	Type guarantee	Amount ('000)	Validity term
1.	Santander Bank	TAURON	IRGiT	Accounts payable	20 000 PLN	27.03.2019 - 31.05.2019
2.	Santander Bank	TAURON	IRGiT	Accounts payable	30 000 PLN	05.04.2019 - 31.05.2019
3.	Santander Bank	TAURON	IRGiT	Accounts payable	50 000 PLN	08.04.2019 - 31.05.2019
4.	CaixaBank	TAURON	IRGiT	Accounts payable	50 000 PLN	01.06.2019 - 31.07.2019
5.	CaixaBank	TAURON	IRGiT	Accounts payable	19 000 PLN	29.08.2019 - 30.09.2019
6.	CaixaBank	TAURON	PSE	Bid bond	7 906 PLN	23.09.2019 - 17.10.2019
7.	CaixaBank	TAURON	PSE	Bid bond	7 409 PLN	16.10.2019 - 31.10.2019
8.	CaixaBank	KW Czatkowice	PGE	Bid bond	1 925 PLN	02.08.2019 - 29.12.2019
9.	CaixaBank	TAURON Dystrybucja	ELEKTROBUDOWA	Payment	7 579 PLN	11.12.2019 - 29.12.2019
10.	CaixaBank	TAURON Wydobycie	PKP	performance bond	105 PLN	01.01.2019 - 31.12.2019
11.	CaixaBank	TAURON Sprzedaż	Welcome Airport Services	performance bond	111 PLN	22.11.2019 - 30.01.2020
12.	CaixaBank	TAURON	IRGiT	Accounts payable	25 000 PLN	01.08.2019 - 31.01.2020
13.	CaixaBank	TAURON	IRGiT	Accounts payable	25 000 PLN	27.08.2019 - 31.01.2020
14.	CaixaBank	TAURON	IRGiT	Accounts payable	11 000 PLN	29.08.2019 - 31.01.2020
15.	CaixaBank	KW Czatkowice	PGE	Bid bond	300 PLN	20.12.2019 - 17.02.2020
16.	CaixaBank	TAURON Dystrybucja Serwis	S&I Poland	performance bond	488 PLN	17.04.2019 - 29.02.2020
17.	CaixaBank	TAURON Sprzedaż	Wodociągi Kieleckie	performance bond	253 PLN	13.11.2019 - 01.03.2020
18.	CaixaBank	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna	performance bond	106 PLN	01.01.2019 - 30.03.2020
19.	CaixaBank	KW Czatkowice	PGE Energia Ciepła	performance bond	258 PLN	01.01.2019 - 30.03.2020
20.	CaixaBank	KW Czatkowice	Zespół Elektrociepłowni Wrocławskich	performance bond	48 PLN	01.01.2019 - 30.03.2020
21.	MUFG Bank Ltd.	TAURON	BGK	Accounts payable	517 500 PLN	12.04.2019 - 11.04.2020
22.	CaixaBank	TAURON Sprzedaż	Główny Instytut Górnictwa	performance bond	103 PLN	07.11.2019 - 31.07.2020
23.	CaixaBank	TAURON Sprzedaż	Centrum Onkologii	performance bond	947 PLN	30.07.2019 - 30.10.2020
24.	CaixaBank	TAURON Wydobycie	PKP	performance bond	106 PLN	01.01.2019 - 31.12.2020
25.	CaixaBank	TAURON Sprzedaż	Akademia Wychowania Fizycznego	performance bond	251 PLN	04.11.2019 - 30.01.2021
26.	CaixaBank	TAURON Sprzedaż	GPW	performance bond	703 PLN	20.12.2019 - 31.01.2021
27.	CaixaBank	TAURON Sprzedaż	Telewizja Polska	performance bond	3 089 PLN	06.11.2019 - 30.04.2021
28.	CaixaBank	TAURON Dystrybucja Serwis	S&I Poland	warranty and guarantee	100 PLN	27.06.2019 - 25.06.2021

#	Bank	Company	Beneficiary	Type guarantee	Amount ('000)	Validity term
29.	CaixaBank	TAURON Dystrybucja Serwis	Budimex	performance bond	107 PLN	04.11.2019 - 30.11.2021
30.	CaixaBank	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna	performance bond	417 PLN	04.11.2019 - 31.03.2022
31.	CaixaBank	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna	performance bond	235 PLN	12.11.2019 - 31.03.2022
32.	CaixaBank	KW Czatkowice	PGE Energia Ciepła	performance bond	100 PLN	20.12.2019 - 31.03.2022
33.	CaixaBank	KW Czatkowice	Zespół Elektrociepłowni Wrocławskich	performance bond	120 PLN	27.12.2019 - 31.03.2022
34.	CaixaBank	TAURON Dystrybucja Serwis	Generalna Dyrekcja Dróg Krajowych i Autostrad	performance bond	50 PLN	25.06.2019 - 28.07.2029
35.	CaixaBank	TAURON Dystrybucja Serwis	Generalna Dyrekcja Dróg Krajowych i Autostrad	performance bond	50 PLN	25.06.2019 - 28.07.2029

Apart from the guarantees issued under TAURON's framework (master) agreements, at the instruction of TAURON Czech Energy banks issued 4 guarantees as collaterals for accounts payable, as summarized in the below table.

Table no. 69. Summary of bank guarantees granted in 2019 at the instruction of TAURON Czech Energy (listed according to the validity date)

#	Bank	Company	Beneficiary	Type of collateral	Amount ('000)	Validity term
1.	PKO BP Czech Branch	TAURON Czech Energy	OTE, a. s.	accounts payable	15 000 CZK	01.06.2019 - 31.05.2020
2.	UniCredit Bank Czech Republic and Slovakia	TAURON Czech Energy	OKTE a.s.	accounts payable	200 EUR	01.07.2019 - 30.06.2020
3.	UniCredit Bank Czech Republic and Slovakia	TAURON Czech Energy	OKTE a.s.	accounts payable	500 EUR	01.07.2019 - 30.06.2020
4.	PKO BP Czech Branch	TAURON Czech Energy	Slovenské elektrárne, a.s.	accounts payable	500 EUR	21.03.2019 - 31.01.2021

In the period from January 1, 2019 to December 31, 2019, the bank guarantees granted before January 1, 2019 for the total amount of PLN 19 417 000 ceased to be applicable (effective).

After the balance sheet date, the Company concluded:

- on January 28, 2020, a guarantee cap (limit) agreement with MUFG Bank, Ltd., under which, at the Company's instruction, Amendment No. 2 to the bank guarantee was issued, up to the amount of PLN 517 500 000, extending the guarantee effective term until April 11, 2021,
- on March 13, 2020, an agreement on issuing a guarantee under the BGK credit line, with a cap of PLN 500 000 000. The cap is effective until March 13, 2021, and can be used as a collateral of the Company's liabilities towards IRGiT. On March 18, 2020, at the Company's instruction, BGK issued 5 bank guarantees of PLN 100 000 000 each, with the effective terms of June 30 (3 guarantees), July 31 and August 31, 2020.

After the balance sheet date, at the instruction of TAURON Czech Energy, an amendment to the bank guarantee issued in 2018 in the amount of CZK 30 000 was issued, extending its effective term until January 31, 2021.

As of the date of drawing up this report, the amount of the bank guarantees granted is PLN 1 091 913 000.

In order to provide collaterals for the transactions carried out by TAURON on the Polish Power Exchange (TGE) and due to the participation in the settlements (clearing) guarantee system managed by IRGiT, on December 18, 2019, three-party agreements on the transfer of title to the collateral were concluded by TAURON Wytwarzanie, TAURON and IRGiT. Under the agreements, TAURON Wytwarzanie transferred the rights to collaterals to IRGiT in the amount of 9 795 035 tons.

Sureties and guarantees received

The below table presents the summary of collaterals received by TAURON, effective as of December 31, 2019.

Table no. 70. Summary of collaterals received by TAURON, effective as of December 31, 2019

#	Entity whose liabilities constitute the subject of collateral	Entity issuing collateral	Type of collateral	Amount in currency ('000)	Validity term
1.	PKP CARGO S.A.	Credit Agricole Bank Polska S.A.	guarantee	2 270 PLN	from 01.01.2018 to 30.01.2020
2.	Consortium: DB Cargo Polska S.A., CTL Logistics sp. z o.o., Rail Polska sp. z o.o.	mBank S.A.	guarantee	201 PLN	from 19.12.2018 to 30.01.2020
3.	Consortium: DB Cargo Polska S.A., CTL Logistics sp. z o.o., Rail Polska sp. z o.o.	mBank S.A.	guarantee	423 PLN	from 19.12.2018 do 30.01.2020
4.	Rail Polska sp. z o.o.	UNIQA TU S.A.	guarantee	100 PLN	from 01.01.2018 to 30.01.2020
5.	Rail Polska sp. z o.o.	UNIQA TU S.A.	guarantee	212 PLN	from 26.01.2018 to 30.01.2020
6.	Consortium: DB Cargo Polska S.A., CTL Logistics sp. z o.o., Rail Polska sp. z o.o.	Sopockie TU ERGO HESTIA S.A.	guarantee	201 PLN	from 01.01.2018 to 31.01.2020
7.	Consortium: DB Cargo Polska S.A., CTL Logistics sp. z o.o., Rail Polska sp. z o.o.	Sopockie TU ERGO HESTIA S.A.	guarantee	423 PLN	from 01.01.2018 to 31.01.2020
8.	Polenergia Obrót S.A.	Bank Pekao S.A.	guarantee	750 EUR	from 23.10.2015 to 31.03.2021

Management Board of the Company

Katowice, March 30, 2020

Filip Grzegorzcyk - President of the Management Board

Jarosław Broda - Vice President of the Management Board

Marek Wadowski - Vice President of the Management Board

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this report is presented below.

Table no. 71. Explanation of abbreviations and acronyms as well as trade terms used in the report

#	Abbreviation and trade term	Full name / explanation
1.	Abener Energia	Abener Energia S.A. with its registered office in Campus Palmas Altas (Sevilla).
2.	AKPiA	I&C (Instrumentation and Control).
3.	The Update of the Strategic Directions	Document entitled <i>The Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on May 27, 2019, that complemented the document entitled <i>TAURON Group Strategy for 2016-2025</i> , adopted by TAURON's Management Board on September 2, 2016
4.	Amon	Amon sp. z o.o. with its registered office in Łebcz.
5.	ARA	Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports
6.	ARE	Agencja Rynku Energii S.A. with its registered office in Warsaw.
7.	BASE (BASE Contract)	A baseload contract for the supply of electricity at all hours of the period, e.g. the BASE contract for March 2020 is related to the supply of the same amount of electricity during all hours of the month of March 2020.
8.	BGK	Bank Gospodarstwa Krajowego with its registered office in Warsaw.
9.	Bioeko Grupa TAURON	Bioeko Grupa TAURON Sp. z o.o. with its registered office in Stalowa Wola.
10.	B+R	Research and Development.
11.	B+R+I	Research, Development and Innovations.
12.	CAO	Central Allocation Office – auction office for the cross-border transmission capabilities in Central and Eastern Europe.
13.	CAPEX	Capital Expenditures.
14.	Cash pooling	True cash pooling structure, implemented under the cash management agreement, is based on daily limits granted to the individual participants by the agent managing the service, i.e. TAURON. As a result of the implementation of the cash pooling mechanism, cash transfers are made between the accounts of the service participants and the Agent's account.
15.	CC4ES	Cybersecurity Conference for Energy Sector
16.	CDS	Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO ₂ emission allowances.
17.	Color certificates	Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: green - certificates of origin of electricity from RES, blue - certificates of origin of electricity generated from agricultural biogas. yellow - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, red - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), violet - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing, white - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors)
18.	CIRS	Currency Interest Rate Swap - transaction involving a swap between counterparties (business partners, contractors) of interest payments assessed on amounts denominated in various currencies and determined according to various interest rates
19.	CPI	Consumer Price Index.
20.	CRO	Deviation Settlement Price (Cena Rozliczeniowa Odchylenia) - the price at which PSE (transmission system operator) accounts for deviations in the production or consumption of electricity by the electricity balancing market (RB) participants.
21.	CSI	Customer Satisfaction Index – index used in marketing to determine the level of customer satisfaction with the products or services offered by a company
22.	CSR	Corporate Social Responsibility.

#	Abbreviation and trade term	Full name / explanation
23.	CUW	Shared Services Center (Centrum Usług Wspólnych - CUW), (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services).
24.	CVaR	Credit Value at Risk - risk measure determining the maximum possible credit risk loss with a given probability and within a specified time frame.
25.	CVC	Corporate Venture Capital - Venture Capital (VC) investments carried out by VC funds with the intention of achieving not only financial goals, but also strategic (industry) goals set by a large company (corporation) which is the capital donor for this fund. VC are capital investments made on the OTC market in business ventures that are in the early stages of development. CVC is a development of VC as a way of investing capital and is to have a positive impact on the industry objectives of TAURON Capital Group.
26.	DMS	Distribution Management System.
27.	Best Practices 2016	<i>Best Practices of WSE Listed Companies 2016</i> , in force as of January 1, 2016
28.	DSM	Demand Side Management
29.	DSR	Demand Side Response
30.	EIB	European Investment Bank with its registered office in Luxembourg.
31.	EBIT	Earnings Before Interest and Taxes.
32.	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
33.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. (Combined Heat and Power Plant – CHP) with its registered office in Stalowa Wola.
34.	EEC Magenta ASI	EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw.
35.	EEC Magenta 2 ASI	EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw
36.	EEC Ventures	EEC Ventures limited liability company limited joint stock partnership with its registered office in Warsaw
37.	EEC Ventures 2	EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw
38.	EEX (EEX exchange)	European Energy Exchange) - European energy exchange in Leipzig, where contracts and derivatives for electricity for various European countries are traded, as well as primary auctions of CO ₂ emission allowances are conducted.
39.	ElectroMobility Poland	ElectroMobility Poland S.A. with its registered office in Warsaw.
40.	EMAS	EcoManagement and Audit Scheme.
41.	EMCO	Energy Management Company - a company dealing with comprehensive energy management for the customer.
42.	ENEA	ENEA S.A. with its registered office in Poznań.
43.	ENERGA	ENERGA S.A. with its registered office in Gdańsk.
44.	EPCM	Engineering Procurement Construction Management - construction, engineering and procurement management service (Contract Manager).
45.	EPEX (EPEX exchange)	European Power Exchange SE - electricity exchange operating in Germany, France, Great Britain, the Netherlands, Belgium, Austria, Switzerland and Luxembourg.
46.	ERM	Enterprise Risk Management.
47.	ESCO	Energy Service Company - an enterprise providing energy services or other energy efficiency improvement measures for an electricity user / consumer
48.	ESG	Environmental, Social and Governance - environmental, social and corporate governance factors used in the investment decision making process.
49.	EU ETS	European Union Emission Trading System
50.	EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO ₂) equivalent to the air, within the meaning of Article 2 section 4 of the <i>act of July 17, 2009 on the management system of emissions of greenhouse gases and other substances</i> , which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>Act of April 28, 2011 on the system of greenhouse gases emission allowances trading</i>
51.	EUR	Euro - a common European currency introduced in some EU member states
52.	EWI	Early Warning Indicator.
53.	Finanse Grupa TAURON	Finanse Grupa TAURON sp. z o.o. with its registered office in Katowice.
54.	FIIK	Fundusz Inwestycji Infrastrukturalnych – Kapitałowy (Infrastructure Investment Fund – Equity).

#	Abbreviation and trade term	Full name / explanation
55.	FIP	Feed-in premium - system of subsidies to the market price, which is a form of support for the generation of electricity from renewable energy sources
56.	FIT	Feed-in tariff - guaranteed tariff system, which is a form of support for the generation of electricity from renewable energy sources
57.	FIZ	Fundusz Inwestycyjny Zamknięty (Closed-end investment fund)
58.	FIZAN	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end private equity investment fund)
59.	GAZ-SYSTEM	Transmission Pipelines Operator (Operator Gazociągów Przesyłowych) GAZ-SYSTEM S.A. with its registered office in Warsaw.
60.	GPW	Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A.) with its registered office in Warszawie.
61.	TAURON Capital Group	TAURON Capital Group Polska Energia S.A.
62.	GUS	Central Statistics Office (Główny Urząd Statystyczny).
63.	GZE	Górnośląski Zakład Elektroenergetyczny S.A. with its registered office in Gliwice.
64.	HEMS	Home Energy Management System.
65.	ICE (ICE exchange)	InterContinental Exchange - commodity and financial exchange, where, among others, contracts for oil, coal, natural gas and CO ₂ emission allowances are traded.
66.	IOS	Flue gas desulphurization installation
67.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. with its registered office in Warsaw.
68.	IRS	Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market
69.	KECX	Property rights confirming the generation of electricity in high-efficiency coal fired cogeneration.
70.	KGHM Polska Miedź	KGHM Polska Miedź S.A. with its registered office in Lubin.
71.	KGMX	Property rights confirming the generation of electricity in high-efficiency gas fired cogeneration.
72.	KMETX	Property rights confirming the generation of electricity in high-efficiency cogeneration using methane coming from mine demethanation.
73.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
74.	Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
75.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
76.	BAT Conclusions	Best Available Techniques with respect to large combustion plants (LCP), introduced by way of the Executive Decision of the European Commission (EU) no. 2017/1442 of July 31, 2017 (
77.	KPI	Key Performance Indicators – key financial and non-financial indicators used as ways to measure progress of achieving goals of an organization.
78.	KRI	Key Risk Indicators.
79.	KSE	National Power System (Krajowy System Elektroenergetyczny)
80.	Ksh	<i>Act of September 15, 2000, Code of Commercial Companies</i>
81.	KW Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. with its registered office in Krzeszowice.
82.	LNG	Liquefied Natural Gas.
83.	Łagisza Grupa TAURON	Łagisza Grupa TAURON sp. z o.o. with its registered office in Katowice.
84.	Magenta Grupa TAURON	Magenta Grupa TAURON sp. z o.o. with its registered office in Katowice.
85.	MAR	Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse
86.	Marselwind	Marselwind sp. z o.o. with its registered office in Katowice.
87.	MBO	Management By Objectives - system of management by objectives, in which the assessed Employee implements the objectives assigned thereto in the settlement period and is assessed on their accomplishment. The outcome of the assessment of the achievement of the objectives set is the basis for making a decision regarding the acquiring by the assessed Employee of the bonus entitlement.
88.	Ministry of State Assets	Ministry of State Assets with its registered office in Warsaw (until November 15, 2019, Ministry of Energy).
89.	Mg	Mega gram - million grams (1 000 000 g), i.e. a ton.

#	Abbreviation and trade term	Full name / explanation
90.	Business Model	Document entitled <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).
91.	IAS	International Accounting Standards
92.	IFRS	International Financial Reporting Standards
93.	NBP	National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw.
94.	NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.
95.	Nowe Jaworzno Grupa TAURON	Nowe Jaworzno Grupa TAURON sp. z o.o. with its registered office in Jaworzno.
96.	Line of Business (Segment)	Seven areas (segments) of TAURON Capital Group's core operations set up by the Company: Trading, Mining, Generation, RES, Heat, Distribution and Supply
97.	UN	United Nations (Organizacja Narodów Zjednoczonych – ONZ) with its registered office in New York, was established on October 24, 1945 as a result of the United Nations Charter signed on June 26, 1945 in San Francisco, becoming effective.
98.	OPEC	Organization of the Petroleum Exporting Countries with its registered office in Vienna.
99.	OPEX	Operating Expenses.
100.	DSO (OSD)	Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD)
101.	TSO (OSP)	Transmission System Operator (Operator Systemu Przesyłowego - OSP)
102.	OTC (OTC market)	Over The Counter Market – European OTC market.
103.	RES (OZE)	Renewable Energy Sources (Odnawialne Źródła Energii - OZE)
104.	OZEX	Property rights confirming the production of energy from renewable energy sources.
105.	PEAK (PEAK contract)	Peak contract for the supply of electricity during business hours (8-22) on business days, e.g. the PEAK contract for March 2020 is related to the supply of the same amount of electricity on all business days in March 2020 between 8 and 22.
106.	PEC Tychy	Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. with its registered office in Tychy.
107.	PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. with its registered office in Warsaw.
108.	PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund) with its registered office in Warsaw.
109.	PFR IFIZ	PFR Inwestycje Fundusz Inwestycyjny Zamknięty (PFR Investments Closed-end Investment Fund)
110.	PGE	PGE Polska Grupa Energetyczna S.A. with its registered office in Warsaw.
111.	PGE EJ 1	PGE EJ 1 sp. z o.o. with its registered office in Warsaw.
112.	PGK	Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK).
113.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw.
114.	GDP (PKB)	Gross Domestic Product (Produkt Krajowy Brutto)
115.	PLN	Polish złoty currency symbol - zł
116.	PMEC	Property rights related to the certificates of origin confirming generation of electricity in the other co-generation sources
117.	PMEF	Property rights related to the energy efficiency certificates
118.	PMGM	Property rights related to the certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW
119.	PMMET	Property rights related to the certificates of origin confirming generation of electricity in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing
120.	PMOZE	Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009
121.	PMOZE_A	Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009
122.	PMOZE-BIO	Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
123.	POPC	Digital Poland Operational Program.(Program Operacyjny Polska Cyfrowa – POPC).

#	Abbreviation and trade term	Full name / explanation
124.	Paris Accord	The first universal and legally binding global climate agreement, adopted under the United Nations Framework Convention on Climate Change, signed on April 22, 2016, ratified by the EU on October 5, 2016.
125.	PRO	Partnership, Development, Boldness (Partnerstwo Rozwój Odwaga – PRO) - key corporate values reflecting the way TAURON Capital Group wants to achieve its business goals.
126.	PSE	Polskie Sieci Elektroenergetyczne S.A. with its registered office in Konstancin-Jeziorna .
127.	RB	Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced.
128.	RDB	Intraday Market - a market operating on the POLPX TGE), where trading is carried out in a continuous trading formula, 24 hours a day. Instruments with delivery on the next day are traded, with their trading starting at 14:00 the day before the delivery and gradually exiting the market one hour before the start of the delivery.
129.	RDBg	Intraday Gas Market - a market operating on the POLPX (TGE), where trading is carried out on the day of delivery in the continuous trading system.
130.	RDN	Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery.
131.	RDNg	Day Ahead Gas Market - a market operating on the POLPX (TGE), where trading is carried out every day and is conducted in the continuous trading system..
132.	REMIT	Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on the integrity and transparency of the wholesale electricity market
133.	RESPECT Index	Stock market index grouping stock market companies operating in accordance with the sustainable growth principles
134.	GDPR (RODO)	Regulation (EU) of the European Parliament and of the Council 2016/679 of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)
135.	ROI	Return on Investment - profitability ratio used to measure efficiency.
136.	RTT	Futures Commodity Market (Rynek Terminowy Towarowy – RTT) - market operating on the POLPX (TGE), where trading in contracts is carried out in the continuous trading system and in the auction system.
137.	SAFI	System Average Interruption Frequency Index
138.	SCE Jaworzno III	Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. with its registered office in Jaworzno.
139.	SCR	Selective Catalytic Reduction - flue gas denitrification system.
140.	Segment, Segments of Operations (Operating Segments)	TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following five Segments (also called Line of Business in this report): Mining, Generation, Distribution, Supply and Other operations.
141.	SIDC	Single Intraday Coupling - European Electricity Intraday Market in the XBID model. It enables cross-border trade in electricity among entities in most EU countries.
142.	SLA	Service Level Agreement
143.	SNG	Synthetic (Substitute) Natural Gas
144.	SOKiK	Court of Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów – SOKiK)
145.	SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded with delivery not later than 3 days after the date of the transaction's conclusion (most often it is one day before the date of delivery). The operation of the SPOT market for electricity is strongly tied to the operation of the balancing market run by the TSO.
146.	Company / TAURON	TAURON Polska Energia S.A. with its registered office in Katowice.
147.	Company's Articles of Association	Document entitled <i>Articles of Association of TAURON Polska Energia S.A.</i>
148.	Stop Loss	A mechanism aimed at maintaining the S-P results at an acceptable level by reducing the excessive losses based on the valuation of an open position
149.	Strategy	Document entitled <i>TAURON Group's Strategy for 2016-2025</i> adopted by the Management Board on September 2, 2016
150.	Sustainable Development Strategy	Document entitled <i>TAURON Group's Sustainable development strategy for 2017-2025</i> , adopted by the Management Board on August 1, 2017, which is an update of the document entitled <i>TAURON Group's Sustainable development strategy for 2016-2018 with an outlook until 2020</i> .
151.	SUG	Spółka Usług Górniczych sp. z o.o. with its registered office in Jaworzno.
152.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its registered office in Dąbrowa Górnicza.
153.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its registered office in Dąbrowa Górnicza.

#	Abbreviation and trade term	Full name / explanation
154.	TAMEH Czech	TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic).
155.	TAURON / Company	TAURON Polska Energia S.A. with its registered office in Katowice.
156.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its registered office in Katowice.
157.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic).
158.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its registered office in Cracow.
159.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with its registered office in Tarnów.
160.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with its registered office in Wrocław
161.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its registered office in Jelenia Góra.
162.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with its registered office in Wrocław.
163.	TAURON Serwis	TAURON Serwis sp. z o.o. with its registered office in Katowice.
164.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its registered office in Cracow.
165.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with its registered office in Gliwice.
166.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with its registered office in Stockholm (Sweden).
167.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with its registered office in Katowice.
168.	TAURON Wydobycie	TAURON Wydobycie S.A. with its registered office in Jaworzno.
169.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with its registered office in Jaworzno.
170.	TEC1	TEC1 sp. z o.o. with its registered office in Katowice.
171.	TEC2	TEC2 sp. z o.o. with its registered office in Katowice.
172.	TEC3	TEC3 sp. z o.o. with its registered office in Katowice.
173.	TGE (POLPX)	Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw.
174.	TGEozebio	Property rights confirming the generation of electricity from renewable energy sources using agricultural biogas
175.	TU	Towarzystwo Ubezpieczeń (Insurance Company)
176.	EU (UE)	European Union (Unia Europejska - UE)
177.	UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK)
178.	ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki - URE)
179.	USA	United States of America
180.	USD	United States Dollar - US dollar's international acronym
181.	VaR	Value at Risk - a measure of risk that determines the maximum possible change in the value of the Portfolio with the given probability and within a specified time frame.
182.	VPP	Virtual Power Plant - integration of distributed energy sources
183.	WACC	Weighted Average Cost of Capital - the weighted average cost of capital of the company, weighted respectively by the share of debt and equity in the company's capital structure.
184.	WFOŚiGW	Regional Environment Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) in Katowice or in Cracow .
185.	RAB (WRA)	Regulatory Asset Base (Wartość Regulacyjna Aktywów – WRA).
186.	AMI RAB (WRA AMI)	Regulatory Asset Base for the AMI system.
187.	Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. with its registered office in Tarnów.
188.	GM (WZ/ZW)	General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW)
189.	S-P result	sales minus purchase - the value of the current and future financial flows related to the trading activities in the markets for energy and related products, generated in the given financial year. The value is the sum of the first-degree margin on the closed position and the first-degree margin on the open position based on the fair value (Marked to Market - MTM) including the transaction costs incurred.

#	Abbreviation and trade term	Full name / explanation
190.	ZG	Coal Mine (Zakład Górniczy - ZG) (Janina Coal Mine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze).
191.	ZW	Generation Plants (Zakłady Wytwarzania – ZW) (Katowice, Tychy, Bielsko-Biała, Kamienna Góra, Tychy).
192.	XBID	Cross Border Intraday Coupling – the Intraday Market model launched in 2018 as a joint initiative of the energy exchanges and the TSOs from the European countries (currently interconnects 21 countries), aimed at creating an integrated, uniform cross-border Intraday Market across Europe model.

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