



NON-FINANCIAL REPORT

of TAURON Capital Group
for the financial year 2020

TABLE OF CONTENTS

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD	5
1. INFORMATION ON THE REPORT AND LEGAL BASIS	6
1.1. Information on the principles, structure and methodology of the Report	6
1.2. Reporting methodology	6
1.3. Reporting standard	7
1.4. Stakeholder mapping	7
1.5. Material aspects of the reporting	9
1.6. GRI indices described in this chapter	12
2. TAURON CAPITAL GROUP'S VALUE CHAIN AND ITS BUSINESS AND OPERATIONAL MODEL	13
2.1. Our capitals and relationships among them	14
2.1.1. TAURON Group's financial capital	14
2.1.2. TAURON Group's natural capital	15
2.1.3. TAURON Group's production capital	17
2.1.4. TAURON Group's human capital	19
2.1.5. TAURON Group's intellectual capital	21
2.1.6. TAURON Group's social capital	23
2.1.7. Value creation model and relations among capitals	24
2.2. TAURON Group's value levers (drivers)	25
2.2.1. Customer-centricity	26
2.2.2. New businesses	26
2.2.3. Modern infrastructure	27
2.2.4. Ability to access and use the natural capital	27
2.2.5. Investment and restructuring potential	28
2.2.6. Personnel and organizational culture	28
2.3. TAURON Capital Group's values	29
2.3.1. Mission, vision	29
2.3.2. Corporate values	30
2.3.3. Corporate Social Responsibility Code of Conduct	30
2.4. TAURON Group's Business Model	33
2.5. Principles of TAURON Polska Energia S.A.'s management	35
2.5.1. Management Board of TAURON Polska Energia S.A.	36
2.5.2. Supervisory Board of TAURON Polska Energia S.A.	37
2.5.3. General Meeting of TAURON Polska Energia S.A.	41
2.5.4. Description of the principles applied to amend the Articles of Association of TAURON Polska Energia S.A.	41
2.6. Principles of TAURON Group's management	41
2.6.1. Code of TAURON Group	42

2.6.2. TAURON Group Business and Operational Model document assumptions	42
2.7. TAURON Capital Group's organization	43
2.7.1. Process based organization.....	43
2.7.2. Organization by Lines of Business.....	44
2.7.3. Formal and legal organizational structure.....	45
2.8. Changes to the principles of TAURON Polska Energia S.A. and TAURON Capital Group's management.	46
2.9. TAURON Capital Group's strategy and business model in the context of climate protection requirements	49
2.10. GRI indicators described in this chapter.....	53
3. ENVIRONMENT CONDITIONS DETERMINING THE CHOICE OF TAURON CAPITAL GROUP'S STRATEGY AND THE ASSUMPTIONS THEREOF	55
3.1. Conditions of the environment determining the choice of TAURON Group's strategy in the long, medium and short term and the assumptions of such strategy.....	55
3.1.1. TAURON Group against the backdrop of the world's greatest challenges – coronavirus pandemic.....	55
3.1.2. TAURON Group against the backdrop of the world's greatest challenges –climate changes and insufficient resources	56
3.1.3. TAURON Group against the market backdrop in the short, medium and long term – Europe.....	57
3.1.4. TAURON Group against the market backdrop in the short, medium and long term – Poland.....	60
3.2. TAURON Capital Group's strategic determinants related to the external environment.....	62
3.3. TAURON Capital Group's Strategy and the Green Turn of TAURON.....	68
3.4. Key non-financial capital efficiency ratios (metrics, performance indicators) of TAURON Group with respect to the capitals.....	70
3.5. GRI indices described in this section	73
4. TAURON CAPITAL GROUP'S POLICIES AND DUE DILIGENCE PROCESSES AND THE PRESENTATION OF THE RESULTS OF THEIR APPLICATION.....	74
4.1. TAURON Group's PROClient Social Policy	74
4.2. TAURON Group's Diversity Policy	89
4.3. TAURON Group's Environmental Policy	93
4.4. TAURON Group's Climate Policy	109
4.5. TAURON Group's Human Rights Respect Policy	134
4.6. TAURON Group's Human Capital Management Policy	135
4.7. TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy	146
4.8. TAURON Group's Anti-corruption Policy.....	148
4.9. TAURON Group's WHS Policy.....	152
4.10. Strategic Research Agenda (SAB)	156
4.11. TAURON Group's Corporate Purchasing Policy	161
4.12. TAURON Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries	161
4.13. Personal data protection policy for TAURON Group's entities.....	162
4.14. TAURON Capital Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.....	164
4.15. TAURON Group's due diligence procedures	165
4.15.1. Internal control and audit procedure	165

4.15.2. Most important aspects of internal control and risk management with respect to the process of drawing up financial statements and consolidated financial statements	166
4.16. GRI indices described in this section	167
4. TAURON CAPITAL GROUP'S MAIN RISKS.....	169
AND THE MANAGEMENT THEREOF.....	169
5.1. What TAURON Group expects as a result of the regulatory and market changes	169
5.2. Three line defense model	169
5.3. TAURON Capital Group's risk management objective and principles.....	170
5.4. TAURON Group's risk management strategy.....	170
5.4.1. Risk management system architecture.....	171
5.4.2. Risk management process	172
5.4.3. Roles and responsibilities of the risk management system's participants	173
5.4.4. Risk control and monitoring rules.....	174
5.4.5. Risk management tools.....	175
5.4.6. Risk model	175
5.4.7. Assessment of the adequacy and the functioning of the risk management system	175
5.5. Risks related to TAURON Group's sustainable development.....	176
5.5.1. Social Risk.....	176
5.5.2. Risk related to climate change	177
5.5.2.1. Physical Risk.....	177
5.5.2.1. Climate Risk related to the transition	179
5.5.3. Human Capital Management Risk.....	180
5.5.4. WHS Risk	181
5.5.5. Internal Communication Risk	182
5.5.6. Environmental Risk.....	183
5.5.7. Purchasing Process Risk	183
5.5.8. Legal Risk.....	184
5.5.9. Compliance Risk.....	185
5.6. GRI profile indices described in this section	186
6. GRI INDEX.....	187

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

the past year was extremely intense, important and rich in experiences for us. The recent months have been a time of a number of challenges and changes, but also an opportunity to implement specific goals that we can confidently call today a joint success. We adapted to the new realities quickly and efficiently, and the introduced procedures related to the functioning of companies operating in the conditions of the Covid-19 pandemic allowed us to ensure continuity of production and supply of electricity to our customers.

The development of renewable energy sources has invariably remained our priority. We completed the implementation of the first photovoltaic farm located on the Group's post-industrial land in Jaworzno in December 2020. The electricity generated by this installation will power more than two thousand households.

We are also operating nine onshore wind farms with the total capacity of 381 MW, and by 2025 we want to increase this potential to more than 1000 MW of installed capacity. In line with international trends, we have connected almost 100 000 RES micro-installations with the total capacity of 658 MW to our distribution grid, as a result of our activities with respect to prosumer energy development

Last year, we also completed the construction of our final projects in the conventional energy field - a 910 MW coal-fired unit in Jaworzno and a 450 MW CCGT unit in Stalowa Wola. They are efficient, modern generation units, adapted to meet demanding environmental protection standards, that will constitute an important element of Poland's energy security.

As in previous years, also in 2020 we undertook a number of initiatives aimed at guaranteeing the financial resources required to ensure TAURON Group's sustainable development. At this point, it is worth to mention Poland's first issue of sustainable development bonds, as part of which we issued five-year bonds worth PLN 1 billion, with the proceeds to be spent on the Group's energy transition.

We want the Report that we are submitting to you to be a comprehensive and transparent document presenting the relationships between the Group's business model and the Strategy described by the non-financial indicators as well as the due diligence policies and procedures required for the implementation thereof. The discussion of the risks and methods how to manage them is an important part of the Report.

The layout and content of the publication are based on the structure and guidelines of the international reporting standard GRI (Global Reporting Initiative). The goal of this comprehensive presentation of our operations is to make the stakeholders, especially investors, financial institutions, insurers and customers familiar with TAURON Capital Group's activities and directions of expansion.

Despite the numerous challenges facing the Polish energy sector, I am convinced that that the consistent implementation of the assumptions of the Green Turn of TAURON initiated in May 2019 will have a positive impact upon the TAURON Group's market position and prospects.

In 2021, we are focusing on further expansion and modern solutions, while not forgetting our previous accomplishments. We will strive to maintain financial stability, take into account the interests of stakeholders, provide employees with a sense of security and tangible benefits for investors.

During the past year, I was able to find out multiple times that TAURON's success depends primarily on the people who make up the company - their ability to cope with adverse circumstances, the ability to respond flexibly and make the right decisions. They are the ones who deserve special thanks.

On behalf of the Management Board of TAURON Polska Energia S.A. I would also like to thank all external stakeholders for the trust they place in us and commitment to building TAURON Group's value.

Yours respectfully,



acting as the President of the Management Board
/ Vice President of the Management Board of
TAURON Polska Energia S.A.

1. INFORMATION ON THE REPORT AND LEGAL BASIS

1.1. Information on the principles, structure and methodology of the Report

The 2019 Non-financial Report presented contains data and indicators regarding TAURON Capital Group (hereinafter alternatively referred to as the Group, TAURON Group and TAURON) as well as TAURON Polska Energia S.A., which is the parent company in TAURON Capital Group. (hereinafter referred to as TAURON Polska Energia, Company).

The report was prepared in accordance with:

- Article 49b, clause 1-8 and art. 55, clause 2b-e of the Accounting Act of September 29, 1994, as subsequently amended, which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information;
- Global Reporting Index guidelines - GRI Standards (core level).

Non-financial data was compiled on the basis of a dialogue with the stakeholders carried out according to the AA1000SES standard.

The business model, key non-financial performance indicators, policies and the due diligence procedures applied, as well as the potential risks and the risk management system, are provided in this Report from the point of view of the entire TAURON Capital Group and are presented on a consolidated basis.

The subject matter scope of the Report has not changed significantly as compared to 2019, however it has been extended by adding content related to TAURON Capital in the light of the world' greatest challenges that include the coronavirus pandemic as well as climate change and insufficiency of resources. The Report covers those subsidiaries that are responsible for generating 98% of the Group's revenue. As a result the following subsidiaries are included: TAURON Polska Energia, TAURON Wydobywanie, TAURON Wytwarzanie, Nowe Jaworzno Grupa TAURON, TAURON Ciepło, TAURON Ekoenergia, TAURON Dystrybucja, TAURON Nowe Technologie, TAURON Dystrybucja Pomiarów, Bioeko Grupa TAURON, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Obsługa Klienta, Kopalnia Wapienia „Czatkowice”, Spółka Usług Górniczych, TAURON Serwis, the special purpose vehicles set up to manage the wind assets, TAURON Czech Energy, TAURON Ubezpieczenia and Wsparcie Grupa TAURON. This set of companies, also included in the Financial Statements, is representative for all of the Group's lines of business. This approach enables understanding the way they are operated, but also their impact on the environment.

TAURON Capital Group's reporting process takes place on an annual basis (the Non-financial Report of TAURON Capital Group for 2019 was published on April 1, 2020).

Due to the growing importance of non-financial data, the Non-financial Report has been prepared for the second time in the history of TAURON Group, constituting an independent, autonomous document. Earlier the Group had conducted this reporting using a Statement on non-financial data, as a part of the Management Board's Report on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the ended financial year.

As part of the process of drawing up the Report, documents, policies, due diligence procedures, risk management principles and other information materials related to the operations of TAURON Capital Group were analyzed.

An external consultant representing the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków) participated in drawing up the document. All content published in the Report has also been subjected to an internal audit.

1.2. Reporting methodology

The preparation of the content of this Report was performed in the following stages:

- Confirming the map of stakeholders and defining the material aspects of the reporting;
- Conducting a materiality analysis of issues to be covered in the Report;

- Collecting the data illustrating the implementation of the policies with respect to the business model, Strategy and the corporate social responsibility goals, as well as the due diligence and risk management principles and the way they are managed at TAURON Capital Group
- Drawing up this Report based on the collected data in accordance with the Accounting Act of September 29, 1994, as subsequently amended, the European Commission Communication 2019/C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information and based on the reporting standard Global Reporting Index - GRI Standards (core level).

1.3. Reporting standard

Seeing growing interest in non-financial data that allows for understanding of the organization in a broader context, this Report presents the content that can be used by the stakeholders interested in the value creation process by TAURON Capital Group, including, in particular, the investors, analysts and bondholders, employees, customers, suppliers, business partners, local communities, legislators, regulators and decision makers.

This Report is based on the Global Reporting Index standard - GRI Standards (core level). The Report presents indices from the categories of the basic description (Foundation, GRI 101), profile indices (General Disclosures, GRI 102), management approach (Management Approach, GRI 103) and selected topic specific Standards, coming from the economic (Economic, GRI 200), environmental (Environmental, GRI 300) and social (Social, GRI 400) series.

The indices described in this Report are presented in the final part of the document. They are also provided at the end of each of the topic specific parts.

When selecting the materials, we were guided by the principle of materiality and care that the message addressed to our stakeholders should be credible and comprehensive. When drafting the texts we applied the principle of brevity and the principle of linking the information presented. The reporting activities also used the principle of taking into account relations with stakeholders.

1.4. Stakeholder mapping

Each of the Group's stakeholder groups has different expectations and requirements with respect to the Group, and also impacts its operations in a different way. Also, with respect to each of them TAURON has for many years been pursuing a policy of social responsibility, both at the level of the entire Group as well as that of the individual subsidiaries. All these activities are aimed at building the so-called sustainable (balanced) value by combining the shareholder value with the value for the other stakeholders.

Partnership relations, based on mutual understanding and trust, are of key importance for TAURON Capital Group, as an organization exerting a significant impact on its environment, due to the scale of its operations, turnover volume and profile, as well as having full awareness of it and taking full responsibility for it. Therefore, the cooperation with the stakeholders constitutes the foundation for the Group to achieve success in both business operations as well as social activities. For this reason, TAURON is, in a partnership like, fully transparent manner, developing relations with the stakeholders, being aware of their importance for the long term strategy and the sustainable (balanced) approach to the business operations. The basis of this process is a dialogue aimed at getting to know the mutual expectations and possibilities as well as implementing the agreements reached.

With the above purpose as the starting point, the process of identifying and mapping TAURON Capital Group's stakeholders was carried out in December 2019 in cooperation with the experts from the AGH University of Science and Technology and the Institute of Accounting and Taxes. It was considered as the initial and basic stage of developing functionalities related to sustainable development as well as the basis for conducting a comprehensive materiality analysis for the purpose of this Report. Johnson & Scholes methodology was used as part of this step.

Based on that, the following groups of TAURON Capital Group's stakeholders were identified:

- local communities,
- public administration,
- investors, shareholders, analysts,
- suppliers,
- industry organizations
- local government,
- media,
- customers,
- employees,
- banks, capital providers,
- regulators.

The second stage of the stakeholder mapping process, carried out in accordance with the Johnson & Scholes methodology, involved an assessment of the degree of interest - orientation of the stakeholders towards the organization and the degree of the organization's interest - orientation towards the stakeholders, as well as the degree of the impact of the stakeholders on the organization and the degree of the organization's impact on the stakeholders. This way, TAURON Capital Group's internal determinants related to the relations with the stakeholders (the organization's interest in the stakeholders and the impact of the stakeholders on the organization and the impact of the organization on the stakeholders) and the external determinants related to these relations (level and type of the interest of the stakeholders in TAURON Group) were analyzed. The obtained results confirmed the existence of the above identified groups of TAURON Capital Group's stakeholders. As it turned out that, among the responses to the Group's posts or messages, no stakeholders outside the previously identified groups had been found.

Completing the above activities allowed for preparing the final map of TAURON Capital Group's stakeholders. Johnson & Scholes stakeholder matrix was created this way, as shown in Figure no. 1.

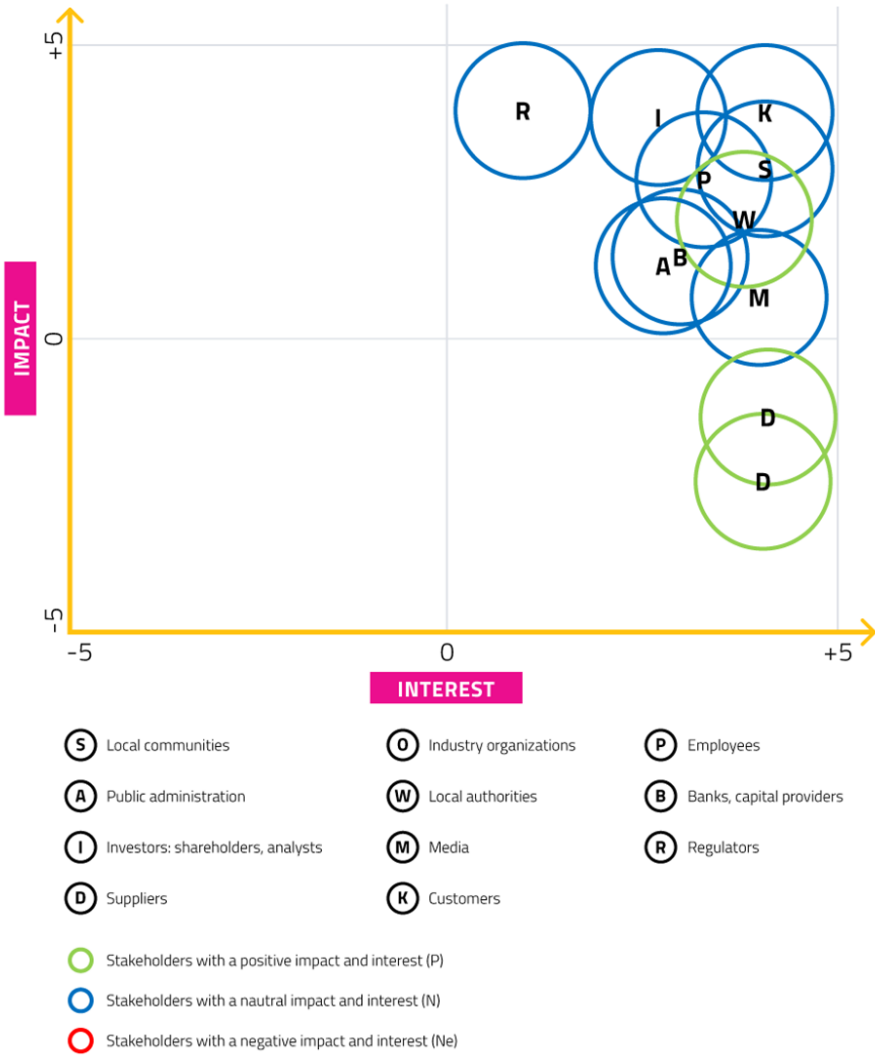


Figure no. 1. Johnson & Scholes matrix illustrating the map of TAURON Capital Group's stakeholders in 2019

When conducting the above mapping process at the end of 2019, it was concluded that the map of stakeholders presented in Figure 1 is also valid for 2020.

1.5. Material aspects of the reporting

The starting point for the process of selecting material aspects of reporting in this Report are:

- Johnson & Scholes matrix (section 1.4) developed as a result of stakeholder mapping, prepared at the end of 2019;
- AA1000 Stakeholder Engagement Standard – 2015 Edition (the co-called AA1000 SES standard).

Based on the above assumptions, in cooperation with the experts from the AGH University of Science and Technology and the Institute of Accounting and Taxes, the process of selecting important reporting aspects was carried out, with the involvement of key stakeholders, identified in the Johnson & Scholes matrix, in the December 2020 - January 2021 time frame.

In accordance with the principles of market analysis and the AA1000 SES standard, the process of defining material reporting aspects was composed of:

- quantitative research - surveys,
- qualitative research – workshops and interviews.

They were implemented in two groups of stakeholders from the key categories:

- internal stakeholders – developing the perspective of TAURON Group,
- external stakeholders – developing the perspective of TAURON Group's environment.

The quantitative research was used for the initial, statistical determination of the importance (weight) of the issues to be reported. Qualitative research, on the other hand, was to obtain the confirmation by stakeholder representatives from key groups of the importance (weight) of the issues identified as a result of the quantitative research.

Due to the epidemic limitations, both types of research were conducted on-line. The quantitative research was based on online surveys, while the qualitative research was based on individual interviews with experts conducted using electronic applications, as well as on-line workshops carried out with the use of Internet platforms. Their preparation and implementation was undertaken by an independent research and development unit - the AGH University of Science and Technology.

In case of the internal stakeholders, the quantitative and qualitative research covered the managerial staff and employees of TAURON Capital Group. The perspective developed this way takes into account the opinions of the entire Group. Therefore, separate points of view of the individual subsidiaries are not specified, as the Group is treated as a whole. Within its framework, however, it is possible to identify individual areas (Mining, Generation, Heat, RES, Distribution, Customer Service and Sales) for which the indicators that are the most important from the point of view of their operations have been selected and reported.

Almost 600 responses from internal stakeholders were collected based on the on-line questionnaire. As part of the qualitative research, on December 18, 2020, several-hour-long workshops with the Group's management were held. The meeting was attended by managers, among others, dealing with strategy, customer, environment, risk, human resource management, compliance and communications.

With respect to external stakeholders, the research process covered the following groups of key stakeholders: public administration, banks and capital providers, suppliers, investors, shareholders and analysts, customers, media, industry organizations (including the ones related to corporate social responsibility and environmental organizations), regulators as well as the local government. The quantitative study was conducted between December 15, 2020 and January 6, 2021. As a result, more than 450 stakeholder responses were obtained. The above was the basis for the stakeholder panel conducted on January 8, 2021, with the representatives of all the above-mentioned key stakeholder groups participating therein, additionally also representatives of the universities (AGH).

The results of the identification by the external and internal stakeholders of the materiality level of non-financial issues for 2020 to be reported by TAURON Capital Group are presented in the materiality matrix, presented in Figure 2.

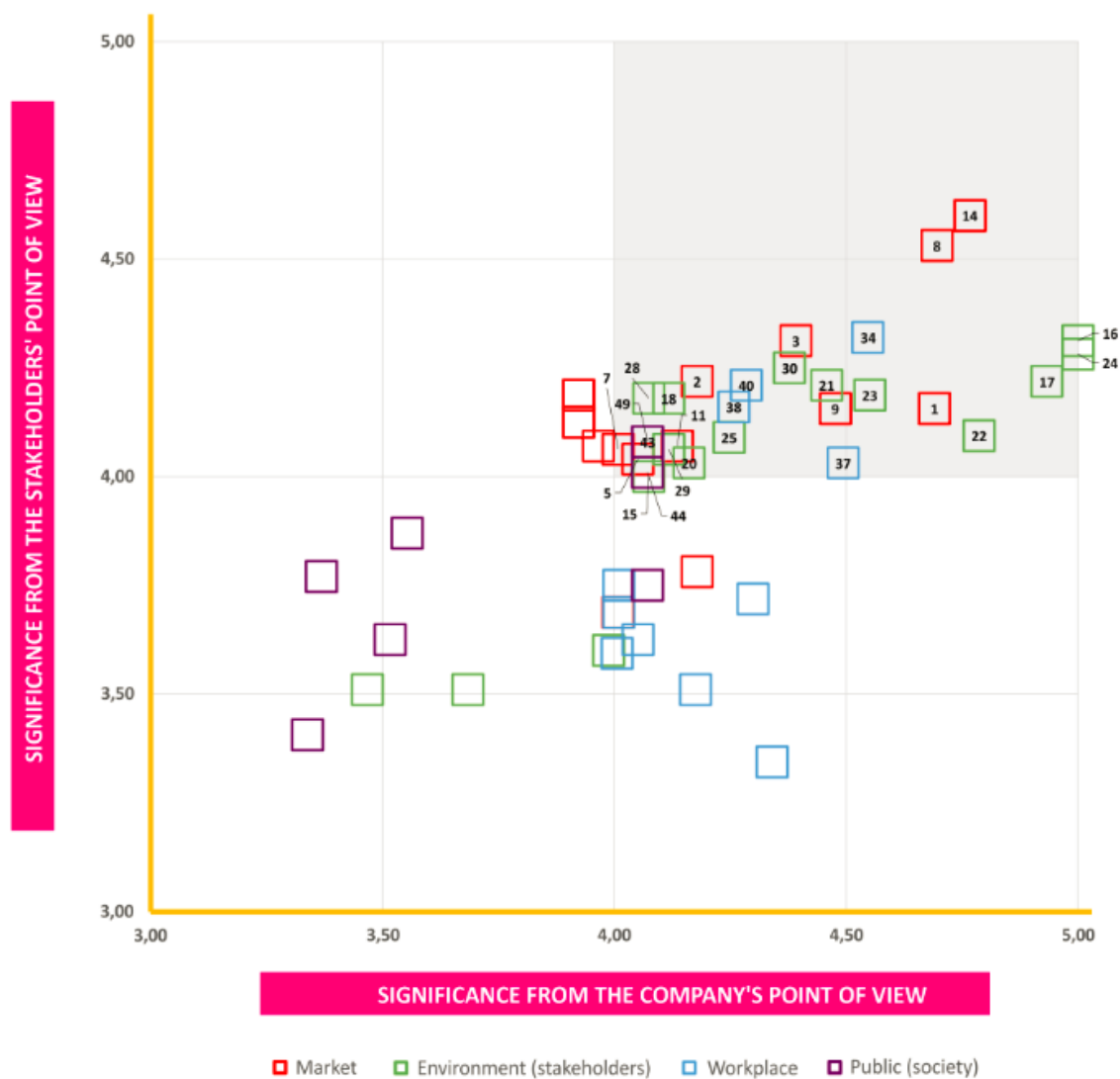


Figure no. 2. The level of significance of the individual non-financial issues for TAURON Capital Group and its environment (stakeholders)

Based on the results of stakeholder indications, material non-financial issues (with a weight of 4 (important) and higher (very important)) to be reported by TAURON Capital Group for 2020 were summarized. They are presented in table no. 1.

Table no. 1. Non-financial issues selected by stakeholders during the materiality analysis to be reported by TAURON Capital Group

The number in the group of issues considered	Issues selected during the materiality analysis	SUSTAINABLE DEVELOPMENT AREA
1	Ensuring energy security - efficient provision of access to electricity and heat	MARKET
2	Investment projects aimed at increasing customer access to electricity supply (capital expenditures on new generation capacity, the refurbishment of the existing assets and the expansion of the RES-based generation capacity portfolio)	MARKET
3	Transparency of the offering and a responsible sales process (access to the information on the products and services, comprehensible sales language, clear bill / invoice, security of customer data)	MARKET

5	Ethics in marketing, adherence to high ethical standards in communications	MARKET
7	Customer service standards, implementation of new customer service channels and significant technological solutions, complaint handling system, consumer service	MARKET
8	Security of customer data	MARKET
9	Introduction of the European Green Deal	MARKET
11	The company's policy towards prosumers	MARKET
14	The role of coal-based energy in the energy mix and in creating added value	MARKET
15	Climate change, progressive global warming and weather anomalies related thereto	ENVIRONMENT
16	Investments aimed at increasing the share of energy produced from renewable sources and energy storage technologies, as well as supporting sustainable development	ENVIRONMENT
17	Minimizing the negative impact of the company on the natural environment (through the investment projects undertaken, energy and water saving (efficiency) solutions, reduction of the emissions; waste management, etc.)	ENVIRONMENT
18	Environmental management strategy, environmental management systems and risk management - a comprehensive, integrated approach of the company to the analysis of environmental impact at each stage of the company's operations (adopted policies, strategies, norms, standards, setting environmental targets)	ENVIRONMENT
20	Investing in environmental protection projects, financing research projects, with respect to reducing the negative impact on the environment, investments to increase the share of energy from renewable sources	ENVIRONMENT
21	Efficient management of water resources (measuring consumption, reducing consumption, water and sewage management, impacting water reservoirs) and sewage	ENVIRONMENT
22	Efficient management of the consumption of the raw materials used in the electricity production process	ENVIRONMENT
23	Efficient management of energy consumption (metering, targets, reduction/optimization of consumption)	ENVIRONMENT
24	Emissions to the atmosphere (types and quantity of substances emitted - measurements, targets)	ENVIRONMENT
25	Waste management	ENVIRONMENT
28	Educational activities for employees, suppliers, customers and local communities, engaging customers in environment protection	ENVIRONMENT
29	Research and development initiatives as well as innovative solutions related to the natural environment protection and energy saving (efficiency)	ENVIRONMENT
30	The use of innovative technologies, products and services that are environmentally friendly	ENVIRONMENT
34	Promotion of occupational health and safety (OHS) rules	WORK PLACE

37	Education and development of the employees at various levels in the organization	WORK PLACE
38	Internal communication with the employees	WORK PLACE
40	Maintaining equal opportunities in the workplace, diversity management policy, workforce age and knowledge management, family-friendly company and work-life balance	WORK PLACE
43	Support for the society in the fight against the SARS CoV-2 virus	SOCIETY
44	Supporting the local community, developing a good neighborhood policy; activities at the level of individual subsidiaries	SOCIETY
49	Conducting a dialogue with the stakeholders	SOCIETY

1.6. GRI indices described in this chapter

- GRI 101 Reporting principles and basics
- GRI 102-14 Statement from senior decision maker
- GRI 102-40 List of stakeholder groups
- GRI 102-42 Identifying and selecting stakeholders
- GRI 102-43 Approach to stakeholder engagement including the frequency of engagement by type and stakeholder group
- GRI 102-44 Key topics and concerns raised by stakeholders and the response from the organization also by reporting them
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-46 Defining report content and topic boundaries
- GRI 102-47 List of material topics
- GRI 102-49 Changes in reporting (significant changes from previous periods covered by the report regarding material topics and topic boundaries)
- GRI 102-50 Reporting period
- GRI 102-51 Date of most recent report (if published)
- GRI 102-52 Reporting cycle
- GRI 102-54 Claims of reporting in accordance with the GRI Standards using Core or Comprehensive option
- GRI 102-56 External assurance (Confirmation of credibility)
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 102-55 GRI Index

2. TAURON CAPITAL GROUP'S VALUE CHAIN AND ITS BUSINESS AND OPERATIONAL MODEL

TAURON Capital Group is a fully integrated energy group with its operations encompassing all elements of the electricity and heat value chain: from mining and procuring raw materials, through generation, distribution and supply to the final consumers,

The Group is made up of autonomous commercial law companies. The Group is led by TAURON Polska Energia S.A. (with its registered office in Katowice) as the parent entity (hereinafter called alternately the Company). TAURON Capital Group is one of Poland's largest electric utilities.

The Group's business model overlaps with the value chain: from mining and procuring thermal fuel, through generation, electricity and heat trading and distribution, up to the supply to the final consumers. In response to the current and future challenges, the value chain has been expanded by adding the innovations ecosystem and the so-called new businesses that are set up at the interface between the innovations ecosystem and the core operations segments (lines of business). They also cover the gradual transition from the operations linear cycle to the closed cycle (circle) operations, which contributes to implementation of the circular economy assumptions. Figure no. 3 presents lines of business as part of the value chain in terms of their contribution to TAURON Group's EBITDA.

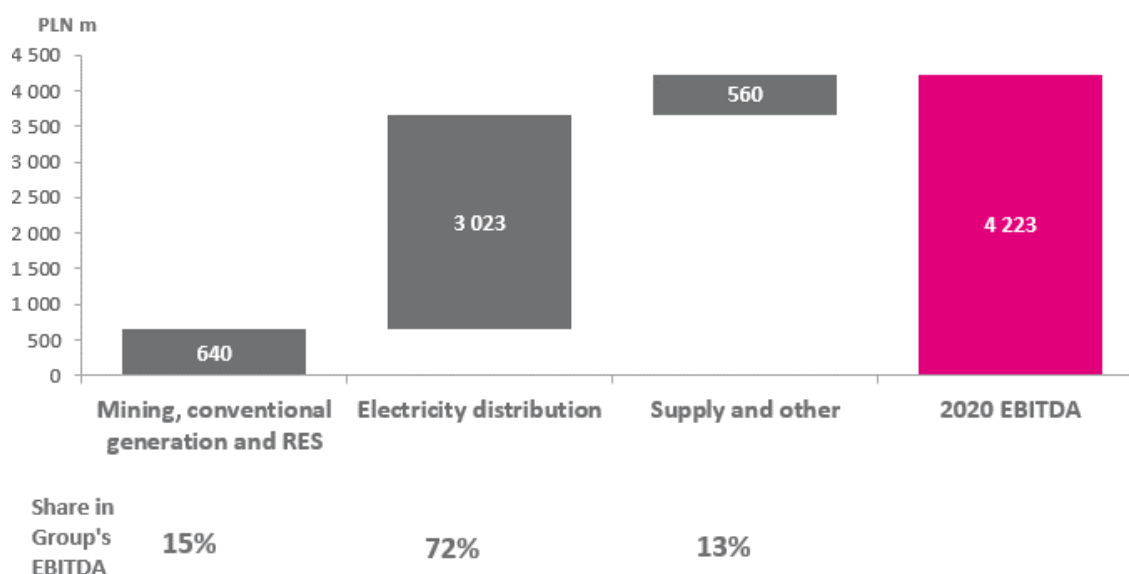


Figure no. 3. EBITDA's share in TAURON Capital Group's value chain in 2020

TAURON Capital Group is Poland's largest electricity distributor. Using its more than 241 000 km long distribution grids, it delivers electricity to more than 5.7 million consumers, in the area that covers approx. 57 900 km², which constitutes more than 18,5 percent of Poland's territory. TAURON's electricity distribution volume came in at 50.26 TWh in 2020. In terms of electricity supply to the final consumers TAURON Group is number two, with its supply volume of approximately 28.5 TWh per annum. On the other hand, in terms of production volume TAURON Group is the third largest electricity generator on the Polish market, with the annual net production of 11.4 TWh and installed capacity of 6.1 GW. To produce electricity the Group's conventional installations are using hard coal and biomass, renewable energy source units are utilizing the energy of wind and the kinetic energy of falling water. TAURON Capital Group is managing 9 wind power plants and 34 hydroelectric power plants, and it is operating 1 180 km of district heating networks. The construction of a 5 MW photovoltaic power plant on TAURON Group's post-industrial land in Jaworzno was completed in 2020 and the construction of solar farms with a total capacity of 6 MW in Choszczno is in the final stage.

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, it allows for optimizing the building of the value of TAURON Group as a whole, taking advantage of the economies of scale of the business conducted and the synergies resulting from the collaboration of the individual links of the value chain.

TAURON Group's value is built based on the processes of capital processing and transformation, while taking into account the levers of TAURON Group's value that are discussed in sections 2.1 and 2.2 of this Report, respectively. The implementation of processes based on capital is carried out with strict observance and compliance with the

Group's values, which are presented in sub-chapter 2.3, and with the use of an effective business model, presented in sub-chapter 2.4, and the management principles presented in sub-chapter 2.5. The business model and management principles are, in turn, the starting point for the implementation of the Group's Strategy. By structuring the activities and arranging them into logical, cooperating business processes, it is possible to build the value of TAURON Group as a whole in an optimum manner, taking advantage of the economy of scale of the business operations conducted and synergies resulting from the cooperation among the individual links of the value chain.

2.1. Our capitals and relationships among them

TAURON Group creates value for shareholders, inter alia, by investing in modern energy and shoring up the financial position. Value creation is possible thanks to the processing and transformation of TAURON Group's capitals - financial, natural, production, human, intellectual and social.

2.1.1. TAURON Group's financial capital

Financial capital is extremely important, both for the current operations of TAURON Group, as well as its expansion in the future. The sources of financing are: the Company's equity, funds generated from business operations conducted and liabilities. Currently, the Group is implementing a number of capital-intensive investment projects, mainly in the electricity distribution line of business. The capital expenditures came in at more than PLN 4 billion in 2020.

Investments in the electricity sector and activities aimed at the transition towards a low-emission economy are and will be supported by the EU funds. It is imperative that the support received should enable the development of zero-emission production technologies while maintaining competitiveness. The financial sector is increasingly reducing its involvement in financing activities related to greenhouse gas emissions. This is the result of new regulations supporting the financing of environmentally sustainable activities.

TAURON Group is using external financing in the form of loans and bond issues, as well as special-purpose funds and other instruments supporting modern, environmentally friendly investment projects.

TAURON Group issued bonds worth PLN 1 billion in 2020, with the proceeds to be used for the Group's energy transition. It was the first Sustainable Development bonds issue in Poland. The funds obtained from this operation will be allocated to the implementation of the Green Turn of TAURON.

TAURON is generating financial results that enable its further expansion and implementation of strategic projects. In spite of changes in the business environment, the growing revenues and cost optimization allow the Company to continue to continue generating a stable result and maintain the net debt to EBITDA ratio at a safe level.

Key data on TAURON Group's financial capital in 2018-2020 is presented in Table no. 2.

Table no. 2. Key data on TAURON Group's financial capital in 2018-2020

Key capital data	2020	2019	2018
Equity [PLN m]	16 412	19 093	18 428
Fixed assets [PLN m]	31 736	35 052	32 596
Distribution segment's RAB [PLN m]	18 255	17 470	16 940
Net debt [multiple]	2,5x	2,8x	2,5x
Capital expenditures [PLN m]	4 039	4 128	3 838

TAURON Group's management of financial capital is performed as follows:

- maintaining financial stability thanks to activities aimed at optimizing expenses and the structure of assets,
- implementation of the investment program and rationalizing the capital expenditures incurred,
- steadfast implementation of the financing optimization plan,
- developing capital (equity) partnership as part of the Corporate Venture Capital initiatives,
- increasing the share of revenue from the regulated market (capacity market),
- cooperation with banks and financial institutions,
- searching for optimal sources of financing,
- preferential loans to finance environmental investment projects,
- financial risk hedging,
- efficient liquidity management through the cash pooling service.

The results achieved as part of TAURON Group's management of financial capital are presented in table no. 3.

Table no. 3. Results achieved by TAURON Capital Group in 2018-2020 as part of the management of financial capital

Results achieved:	2020	2019	2018
Sales revenue [PLN m]	20 850	19 558	18 122
EBITDA [PLN m]	4 223	3 599	3 492
EBITDA margin [%]	20,3%	18,4%	19,3%
Cash flow from operating activities [PLN m]	4 042	2 036	2 223
Net debt/EBITDA ratio [multiple]	2,5x	2,8x	2.5x
Net profit (loss) [PLN m]	(2 488)	(12)	207
Long term rating*	BBB-	BBB	BBB

* On May 21, 2020, Fitch ratings agency affirmed TAURON Polska Energia's long term foreign and local currency ratings of "BBB-" with a stable outlook

2.1.2. TAURON Group's natural capital

Natural capitals defined by TAURON Group that the Company uses and has an impact upon - minerals (coal, oil, gas, limestone), air, water, solar energy, biomass - are used in the entire chain of its operations. The Group's goal is to use natural capitals while minimizing the negative impact upon the environment and climate. The confirmation of this approach is the continuation of the activities that stem from the Update of the Strategic Directions adopted by the Management Board in 2019, thanks to which the weight of the individual natural capitals used in business processes will be gradually changing in TAURON Group's value chain. The turn towards renewable energy sources will lead to the successive increase in the use of wind energy and solar radiation, while reducing the consumption of non-renewable resources, i.e. solid fossil fuels or limestone.

The changes in the use of natural capital will be implemented gradually, so as to ensure the supply of electricity to the customers.

Currently, TAURON Group has a stable base of raw materials ensuring the supply for the conventional production assets and for the external consumers. The base in the form of fossil fuels is also a guarantee of stable electricity production in periods of intermittent or extreme weather conditions that have a negative impact on the security of the power system.

TAURON Group's natural capital includes renewable and non-renewable natural resources. Non-renewable resources deposits are exploited in a responsible, rational, regulated, systematic and sustainable manner.

The resources and raw materials used by TAURON Group are presented in tables no. 4 and 5.

Table no. 4. Non-renewable resources deposits exploited by TAURON Capital Group in 2020

Number of deposits	Mineral	Number of coal mines	Total mining area km ²	Recoverable reserves ton m
8	Main mineral hard coal	3	218.77	340.3*
1	limestone	1	1.34	68.2
1	Accompanying mineral methane	1		

* In case of both TAURON Wydobycie and Kopalnia Wapienia "Czatkowice", the resources have been determined on the basis of the status as of 31/12/2019, less production for 2020. The level of operable resources as of 31/12/2020 will be known in March this year. after the inventory taking of resources has been completed, which takes into account not only losses related to extraction, but also changes in the deposit resources due to more accurate resource data, losses and resource reclassifications made.

Table no. 5. GRI 301-1. Raw materials used by TAURON Capital Group in 2018, 2019 and 2020

TOTAL	2020	2019	2018
NON-RENEWABLE RESOURCES *			
Net coal [tons]	4 888 015	6 082 657	7 271 605
Net coal production [tons]	4 541 216	3 784 980	Not reported
Sludge [tons]	249 980	315 247	311 511
Natural gas [m ³]	12 067 032	8 220 614	8 413 515
Heating oil [tons]	26 324	26 575	30 642
Diesel oil [m ³]	6 289	6 857	9 942
Limestone [tons]	197 288	252 865	316 793
Limestone production [tons]	1 722 376	1 717 980	1 561 433
RENEWABLE RESOURCES			
Agro biomass [tons]	124 203	88 220	71 189
Forest biomass [tons]	553 537	332 592	238 742

* Includes the consumption and production by the Group's subsidiaries.

With respect to the basic raw materials used in the Group, the principle of proximity is applied, which reduces the carbon footprint associated with transportation.

The renewable natural resources used by the Group include:

- biomass,
- water used by 34 diversion (run-of-river) and impoundment hydroelectric power plants as well as in conventional power generation technological processes,
- wind powering 9 wind power plants,
- solar energy (the construction of a 5 MW photovoltaic power plant on TAURON Group's post-industrial land in Jaworzno was completed in 2020, the construction of photovoltaic farms with a total capacity of 6 MW in Choszczno is in the final stage. Both PV farm locations will be fully reported starting from 2021).

The climate changes observed, including the intensifying hydrological drought in recent years, have a direct impact upon the availability of the resources considered as renewable, such as water. Sustainable use of these resources is carried out in the energy industry, among others, based on the operational limits on the quantity of water taken directly from the environment (surface and groundwater intakes). The results achieved by TAURON Group as part of the above activities in 2020 are presented in Table no. 6.

Table no. 6. Maximum daily limits for direct water intake from the environment in force in 2020

Source	Maximum daily value m ³ /d		
	Water from coal mines drainage (incl. underground water to be used for coal mines' needs)	Underground water	Surface water
TAURON Wydobycie	137 348 (11 330)		
TAURON Wytwarzanie		14 376	555 667**
TAURON Ciepło			7 209,6
TAURON Dystrybucja		13	
TAURON Ekoenergia		3,8	
Kopalnia Wapienia Czatkowice		3,5	240

* The above table does not include the limits of the so-called reverse intakes of water for energy purposes in hydropower plants, or limits stemming from the civil law contracts concluded with external suppliers .

** The value includes the so-called reverse water intake in an open cooling system.

The tools supporting responsible management of the resources that constitute the natural capital of TAURON Group, going beyond the mandatory conditions of administrative decisions, include: TAURON Group's Environmental Policy and TAURON Group's Climate Policy. The policies comprehensively address all types of activities carried out within the Group, related to the impact on the environment and the use of its resources in accordance with the principles of sustainable development.

One of the Group's key expansion directions adopted is to seek to achieve the complete utilization of its waste, which in almost 100% is converted into products and can be used for commercial purposes. The achievement of this goal is implemented, among others, by minimizing the stream of waste generated thanks to product innovation, supply chain management and a conscious process of decommissioning some of the assets from service, as well as by promoting the use of waste generated during the product's life cycle and thus reducing the amount of waste deposited in the environment by placing it on the market for use as substitutes for natural materials.

The results achieved by TAURON Group in 2019-2020 as a result of the above actions are presented in Table no. 7.

Table no. 7. Results achieved by TAURON Capital Group in 2018, 2019 and 2020 as part of the management of natural capital

Results achieved:	2020	2019	2018
Direct greenhouse gas emissions – CO ₂ (tons)	10 093 648	12 215 945	16 604 240
Nitrogen oxides – NO _x (tons)	7 491	10 709	16 105
Sulfur dioxide – SO ₂ (tons)	7 051	10 386	16 911
Total dust (tony)	435	636	1 001
Other (tons) (such as: HCl, HF, carbon monoxide, ammonia, methane, metals)	34 882	33 522	37 000
Total quantity of non-hazardous waste (including combustion waste and mineral extraction waste) (tons)	1 729 672	1 366 974	3 540 064
Dumpsite waste (tons)	8 958	5 539	4 639

2.1.3. TAURON Group's production capital

The carrying amount of all of TAURON Group's assets is more than PLN 35 billion. TAURON Group's assets are very diverse, which is due to both the characteristics of the individual segments, as well as the significant differences in the age of the individual machines and devices.

The development of the Group's operations is in line with the European and global trends, and the coming years will be a period of the generation segment's transition. The plan is to retire inefficient coal-fired units and develop new low and zero emission sources. It is assumed that by 2025 their share in the installed capacity will stand at around 30%, and in 2030 reach over 65%. Such actions will allow for reducing the emission of all pollutants by 2030, including CO₂ emissions by more than half. As of the end of 2020, almost all of 120 MW units were shut down, except for two at the Stalowa Wola Branch, whose shutdown date was postponed until February 2021 (970 MW in total). Further units with a total capacity of 2.5 GW, mainly the 200 MW units, will be decommissioned in the years 2026-2030, while at the same time the development of low and zero-emission generation sources will be continued. Two high-efficiency conventional units were commissioned in 2020: a 910 MW coal-fired unit in Jaworzno and a 450 MW CCGT unit in Stalowa Wola. These units have contracts in place as part of the Capacity Market and in the coming years they will play an important role in the functioning of the National Power System. Additionally, the construction of a 5 MW photovoltaic power plant on TAURON Group's post-industrial land in Jaworzno was completed in 2020, and the construction of photovoltaic farms with a total capacity of 6 MW in Choszczno is in the final stage

The largest contribution to TAURON Group's financial result is made by the Distribution Line of Business, in which the largest capital expenditures are also incurred - the region of PLN 2 billion per annum. The changing environment, in particular the development of renewable energy sources, also of the prosumer type, has a large impact on the need to upgrade and expand, as well as adapt the existing grid infrastructure. In addition, the growing expectations of customers and the approach of the Energy Regulatory Office have an impact on the need to improve the quality and reliability of electricity supply. In view of the above, TAURON Dystrybucja in implementing a cable grid construction program, increasing the share of cable lines in the distribution grid and thus improving the quality indicators, security of electricity supply and resistance against weather conditions, including the ever more frequently occurring sudden (freakish) weather conditions associated with climate change.

In 2020, the largest capital expenditures in the Generation line of business were incurred to finalize the construction of a 910 MW power generating unit in Jaworzno and to adapt the generating units to the new environmental standards.

The key data on TAURON Group's production capital in 2018-2020 is presented in Table no. 8.

Table no. 8. Key data on TAURON Group's production capital in 2018-2020

Key data on the capital	2020*	2019	2018
Hard coal extracting coal mines	3	3	3
Hard coal fired power plants (quantity)	6	5	5
Hard coal fired power plants (installed capacity)	5.2 GWe; 1,3 GWt	4.3 GWe; 1.35 GWt	4.3 GWe; 1.2 GWt
Combined heat and power plants (quantity)	4	4	4
Combined heat and power plants (installed capacity)	0.35 GWe; 1.2 GWt	0.35 GWe; 1.2 GWt	0.35 GWe; 1.2 GWt
Proprietary district heating networks - TAURON Ciepło (length)	888 km	857 km	844 km
Heat supply	11.6 PJ	12.0 PJ	12.4 PJ
Hydroelectric power plants (quantity)	34	34	34
Hydroelectric power plants (installed capacity)	133 MW	133 MW	133 MW
Wind power plants (quantity)	9	9	4
Wind power plants (installed capacity)	381 MW	381 MW	201 MW
Electricity distribution lines (length)	241 600 km	237 000 km	235 000 km
Transformers (distribution)	60 900	58 900	58 800
MV/LV stations	59 100	60 900	59 800
HV/MV stations HV/MV	493	491	490
Capital expenditures (PLN billion)	4 039	4 128	3 838
Depreciation (PLN billion)	1 954	1 992	1 839

* As of 31.12.2020

TAURON Group's management of the production capital is performed, first and foremost, through efficient operations, as well as growth and modernization investments, among others:

- connecting new consumers (and producers) to the distribution grid, expanding and upgrading the grid in order to improve the quality and reliability of the power supply for electricity consumers;
- new capacity in renewable technologies and improving the productivity of the existing assets;
- new modern generation capacity, key for energy security;
- adapting the generating units to the operational conditions in force beyond 2021, resulting from the introduction of the BAT conclusions
- expanding and upgrading the district heating network;
- investments aimed at improving the efficiency of coal mining.

The results achieved in 2018-2020 as part of TAURON Group's management of production capital is presented in Table no. 9.

Table no. 9. GRI 301-1, EU2. Results achieved by TAURON Capital Group in 2018-2020 as part of TAURON Group's management of production capital

Results achieved	2020	2019	2018
Commercial coal production by segment groups: coal dust, medium size lump coal, large size lump coal, eco-pea coal	4.54 million Mg	3.78 million Mg	5.01 million Mg
Net electricity production	11.4 TWh	12.7 TWh	14.9 TWh
including electricity production from RES	2.0 TWh	1.4 TWh	0.97 TWh
Heat distribution	8.44 PJ	8.51 PJ	8.78 PJ
Heat generated	11.63 PJ	10.85 PJ	11.29 PJ
Electricity distribution	50.26 TWh	51.73 TWh	51.97 TWh

2.1.4. TAURON Group's human capital

Human capital of TAURON Group includes employees: their knowledge, experience, skills, attitudes and motivation. The future of the Group will depend on many factors, but the employees will have the greatest impact thereupon.

The range of the Group's business operations, both in terms of geography as well as competence areas, employing more than 25 500 employees, has a significant impact upon the complexity of the human capital management process. Depending on the employee's workplace in the Group's value chain, human capital management and organization of personnel policy are adapted accordingly in terms of training and development, improvement of information flow, career development opportunities and ensuring competitive working conditions. Employee satisfaction surveys are conducted periodically and their results are the basis for developing and implementing action plans that aim to increase engagement and create an attractive workplace. It is also extremely important to maintain standards with respect to compliance with the principles of ethics, respect for diversity and counteracting mobbing and discrimination at all of TAURON Group's subsidiaries.

All activities for employees are also important due to projected demographic changes and a falling number of professionally active people. Creating jobs, TAURON Group strives to attract the best employees. In order to achieve that goal patronage classes are created with an offer tailored to the future HR needs of the Group's subsidiaries. A number of initiatives are also undertaken that strengthen the image of TAURON Capital Group as a good and desired employer.

The key data on TAURON Group's human capital is presented in Table no. 10.

Table no. 10. Key data on TAURON Group's human capital in 2019-2020

Key data	2020	2019	2018
Number of employees (in persons as of 31.12)	25 572	26 086	25 829
Share of women among the workforce	21.5%	21.4%	21.5%
Share of men among the workforce	78.5%	78.6%	78.5%
Share of college graduates among the workforce	34.8%	33.8%	33.2%
Share of high school graduates among the workforce	43.5%	43.3%	43.1%
Share of vocational and elementary school graduates among the workforce	21.7%	22.9%	23.7%

Rotation rate	6.67%	6.51%	6.45%
---------------	-------	-------	-------

TAURON Capital Group's human capital management is performed, first and foremost, through:

- management of employee competences in accordance with TAURON Group's Competence Model,
- career development conversations as a tool supporting the process of Management by Objectives, with the main assumption aimed at developing employee competences through dialogue between the superior and the employee,
- periodic surveys of TAURON Group's employees satisfaction level, the results of which are the starting point for undertaking initiatives aimed at improving job satisfaction and comfort, and thus increasing business efficiency,
- actions aimed at eliminating the risk of a generation gap through active cooperation with the schools,
- implementation of a project under the Knowledge, Education, Development Operational Program (PO WER) entitled: Developing a model of vocational and practical training program in the power sector, and TAURON Group's actively joining the strategy for responsible development in the field of dual education,
- active involvement in shaping academic education paths,
- cooperation with numerous educational institutions and adapting the offering of apprenticeships and internships by the Group's subsidiaries,
- supporting the idea of sharing knowledge and competences through the implementation of such programs as the Internal Coaches or Development Squared,
- activities aimed at developing employees' awareness of cybersecurity in the context of remote work,
- promoting a culture of learning and knowledge sharing through proprietary and innovative development and training programs,
- development of leadership competences through dedicated development programs and post-graduate studies,
- access to the latest expert knowledge and current market trends in various areas of life as part of periodic lectures by TAURON Group Open University,
- Talent Management program, with the goal to support the employee development process and the utilization of the personnel's potential within TAURON Group,
- active use of the e-learning platform to implement training aimed at developing industry knowledge and interpersonal skills,
- taking care of employees' well-being, by undertaking a series of actions promoting a healthy and active lifestyle and making work time more flexible,
- programs for young parents and women returning to work after having a child,
- workshops for employees at pre-retirement age,
- improving efficiency by optimizing the utilization of competences within the Group,
- ensuring the competitiveness of remuneration systems by implementing transparent, motivational (incentive-based) and market-based rules,
- employee benefit packages taking into account the needs of the personnel,
- increasing work efficiency by introducing digital solutions.

Through active management of human capital TAURON Group achieved in 2020-2020 the results presented in Table no. 11.

Table no. 11. Results achieved by TAURON Capital Group in 2018-2020 as part of TAURON Group's management of human capital

Results achieved	2020	2019	2018
Number of training course hours	295 000	478 000	449 000
Number of the participants of TAURON Group Open University (in 2020 the number of Tauronet views)	7 000	2 700	785
Number of training courses conducted by Internal Coaches	84	167	215
Number of Internal Coaches	86	83	76
Number of persons trained by Internal Coaches	1 100	1 800	2 100

Number of interns/apprentices	263	655	748
Number of patronage classes	53	47	44
Number students in patronage classes	1 000	1 300	no data
Number of participants in the Development Squared initiative	950	no data	no data

2.1.5. TAURON Group's intellectual capital

Using its business experience and employees' competences TAURON Group is developing to meet the challenges of the future energy sector. The key to maintaining competitiveness is modern management, the use of new technologies, digitization, corporate governance and relationships with the stakeholders, with all these elements jointly forming a compatible and consistent system that allows to efficiently conduct operations at every link in the value chain. Fast changing environment also implies the need to focus on innovation as well as research and development activities.

The potential of intellectual capital covers workforce capital, internal structural capital and external structural capital. It is worth emphasizing that the main component of TAURON Group's intellectual capital is the employees' knowledge and their aggregate competences. Internal structural capital is another important component of intellectual capital. This capital includes technologies, methods and processes that enable the Group to function. Furthermore, research, development and innovation activities are carried out as part of internal projects and including the participation of business partners and the academic community. The last component, external structural capital, is related to intangible market factors. This capital includes the company's brand and reputation, the network of associates and relations with the stakeholders, with a particular emphasis on relationships with suppliers and customers. TAURON Group strives to deepen cooperation with the suppliers of technology and know-how, represented both by large industrial conglomerates, as well as by small companies - mainly startups.

Effective intellectual capital management provides a chance to increase adaptive flexibility and carry out transformational activities aligned to changes in the market environment. TAURON Group adopted the Intellectual Property Policy in 2019, which was a set of rules and standards of conduct with respect to intellectual property management and a description of good practices that are expected from counterparties (contractors) and associates, as well as TAURON Group's Regulations of Intellectual Property Management that constitutes internal corporate documentation, superior in relation to the individual processes associated with intellectual property management.

As a result of the adopted documentation, processes related to employee originated technical improvement ideas as well as filing utility models, industrial designs and patents were regulated and implemented.

In 2020 TAURON Wytwarzanie obtained 5 patents (including one jointly with Kopalnia Wapienia "Czatkowice"), and TAURON Dystrybucja obtained a protection right for a utility model. The said solutions are the result of research and development works carried out within the Group and provide the exclusive use of the given solution for commercial or professional purposes on the territory of Poland.

Intangible and legal value, being an important aspect of the enterprise value, translates into building its competitive advantage. TAURON Group, apart from the formal regulation of the said scope of matters, also attaches importance to promoting the idea of employee originated technical improvements among employees, communicates and provides information related to intellectual property rights through contests, webinars and press articles.

The key data on TAURON Group's intellectual capital in 2018-2020 is presented in Table no. 12.

Table no. 12. Key data on TAURON Group's intellectual capital in 2018-2020

Key data on capital – main components of TAURON Group's intellectual capital
<ul style="list-style-type: none"> • The Group's strategy focused on creating innovations; • Strategic Research Agenda – a road map for the Group's research and development as well as innovative activities; • Knowledge and competences of the Group's employees; • Catalogue of best practices related to the implemented management systems and internal procedures; • A developed model of cooperation with universities and vocational schools.

TAURON Group's management of the intellectual capital is performed, first and foremost, through:

- implementation of projects with respect to research, development and innovations in the following portfolios: the customer and his/her needs, intelligent grid services, distributed energy, low-emission production technologies,
- use of dedicated NCBiR programs, Horizon 2020, KIC InnoEnergy, the Research Fund for Coal and Steel RFCS
- cooperation with start-ups: accelerator programs (Pilot Maker Elektro ScaleUp, KPT ScaleUp, TAURON PROGRES), CVC EEC Magenta,
- TAURON's participation in the Govtech Program,
- cooperation with the Electric Power Research Institute (EPRI),
- development of the platform called Innovation Zone,
- workshops with the representatives of universities and research institutes,
- cooperation with the leading universities, research units and technology companies from Poland and the EU,
- organization of competitions for the Group's employees aimed at supporting innovation,
- development of IT systems, digitization and robotic automation of selected processes.

The results achieved as part of TAURON Group's management of intellectual capital in 2018-2020 is presented in Table no. 13.

Table no. 13. Results achieved as part of TAURON Group's management of intellectual capital in 2018-2020

Results achieved	2020	2019	2018
The number of new research and development projects launched in all of the Group's lines of business	10 (including 8 projects conducted in cooperation with start-ups)	18 (including 9 projects conducted in cooperation with start-ups)	16
Number of projects underway in the R&D Area	52	67	57
Total value of projects underway	PLN 109 million	PLN 178 million	PLN 261 million
Co-financing obtained from external sources for the implementation of the R&D projects	PLN 42 million	PLN 48 million	PLN 45 million

In 2018, a Corporate Venture Capital (CVC) type fund - EEC Magenta, was established jointly with the Polish Ventures Development Fund, the National Center for Research and Development and EEC Ventures.

In 2019, EEC Magenta's first investment projects were carried out – a PLN 13 million investment in the company Reliability Solutions (RS), specializing in predicting and minimizing the effects of failures. This is the fund's first investment project. Continuing to build the strategic position of TAURON Capital Group with respect to startups, EEC Magenta carried out further investments in 2020, expanding its investment portfolio and currently it has 6 innovative startups therein.

The cooperation with several startups was continued, as part of the ScaleUp acceleration programs, in 2019. TAURON became involved in the government acceleration program dedicated to electromobility (Elektro ScaleUp). As a result of its implementation, 6 pilots were carried out with the involvement of 5 of TAURON Group's subsidiaries.

In 2020, TAURON continued working on projects with startups also as part of the KPT ScaleUp program, which in the second round of recruitment provided 6 innovative solutions, including Nanobots (a platform for collecting and standardizing data from IoT devices (sensors located in urban space) using various protocols, analyzing the collected data using artificial intelligence or machine learning, and sharing data in real time).

As part of the TAURON PROGRES proprietary acceleration program launched in 2019, two pilot projects were implemented in 2020, including one with respect to digitization of service processes.

In 2018, the cooperation with the EPRI Institute (USA) was established.

In 2019 and 2020, as part of the cooperation with EPRI, TAURON participated in two research programs: with respect to energy storage and identifying the needs of electricity consumers.

Patents, inventions, know-how developed as part of R&D projects, increasing the potential to improve the Group's financial result in the coming years - 13 inventions with patent protection in place and another 7 being under registration.

TAURON brand's strong market position and recognition.

Modern IT systems supporting the core operations and customer service.

Licenses for the core operations: coal mining, electricity and heat production, distribution and trading.

2.1.6. TAURON Group's social capital

TAURON Group's social capital is based on developing mutual relations both within the organization as well as towards the external environment (stakeholders). The foundation for developing such relationships is TAURON Group's Strategy, and the main principles are described in TAURON Group's Corporate Social Responsibility Code of Conduct (more on that topic in sub-chapter 2.3.3. of the Report).

Social dialogue, that is related to both the existing production assets as well as the implementation of new investment projects, plays an important role in developing social capital. TAURON Group is conducting a good neighbor policy, under which it aims to improve the living conditions of local communities and cooperates with local government authorities. The Group is also involved in a number of undertakings for the benefit of the stakeholders, such as charity and education activities, cooperation with academic centers, employee volunteering and providing support for many important sports and cultural events.

The Group's involvement in climate protection and counteracting climate change is playing an increasingly important role in the development of social capital. The response to social challenges in this respect is TAURON Group's Climate Policy and TAURON Group's Environmental Policy adopted to be implemented (more on that topic in sub-chapters 4.3 and 4.4 of the Report). at the end of 2019.

An important element shaping the social capital of TAURON Group in the coronavirus era were activities aimed at developing the safety culture - understood as the continuous engraining of knowledge, shaping attitudes and teaching how to behave in practice in a given situation. The Group was involved in a number of educational campaigns addressed to both employees as well as local communities. In 2020, there were also projects aimed at minimizing the social effects of the coronavirus pandemic and supporting the fight against it.

The key data on TAURON Group's social capital is presented in Table no. 14.

Table no. 14. Key data on TAURON Capital Group's social capital in 2020

Key data

- TAURON Group's Corporate Social Responsibility Code of Conduct
 - Developing ethical culture and compliance management among employees
 - Building lasting relationships and active dialogue with the stakeholders
 - Cooperation with responsible suppliers in accordance with the principles of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries
 - Implemented and applied: TAURON Group's Diversity Policy and Respect for Human Rights Policy
 - Continuous promotion of an occupational safety culture
 - Engaging employees in the company's development through special events
 - Personnel education and development
 - Implemented and applied TAURON Group's PROCustomer Social Policy
 - Implemented and applied Personal Data Protection Policy for TAURON Group's entities
 - Support for local initiatives through TAURON Foundation
 - Initiatives related to counteracting COVID-19
-

TAURON Group's management of return on the capital is performed, first and foremost, through:

- promoting the compliance culture, which in combination with TAURON Group's Competence Model, motivates employees to achieve business goals in accordance with the law, internal and intra-corporate regulations, and ethics,
- shaping the work environment based on respect, openness, integrity and justice, and respect for human work through the implementation and application of specific principles of conduct (including, inter alia, Diversity Policy, TAURON Group's Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination, Policy of Respect for Human Rights),
- developing a Work Health and Safety (WHS) culture at all of TAURON Group's subsidiaries
- developing the Purchasing Organization Support System called TAURON Group's Purchasing Platform,
- active cooperation with trade unions,
- Social Dialogue Ombudsman's activities,
- developing procedures for the protection of personal data,
- activities seeking to achieve total transparency of the practices applied in relations with customers implemented as part of PROCustomer Social Policy;
- undertaking initiatives aimed at combating the spread of the COVID-19 pandemic.

The results achieved as part of TAURON Capital Group's management of social capital in 2018-2020 are presented in the below table.

Table no. 15. Results achieved as part of TAURON Capital Group's management of social capital in 2018-2020

Results achieved	2020	2019	2018
Number of meetings with trade union organizations functioning at the Group's subsidiaries	334	329	249
Percentage of employees covered by collective bargaining agreements	95.6 %	95.7%	93.9%
Occupational accident frequency rate	8.3	7.8	7.7
New key and consolidated categories, in which particular importance is attached to financial optimization of the purchasing	As part of the business operations conducted, as required	As part of the business operations conducted, as required	As part of the business operations conducted, as required
Regular meetings with local communities to provide information on the business operations conducted and its impact on the residents	As part of the business operations conducted	As part of the business operations conducted	As part of the business operations conducted
Number of local and pro-social initiatives that TAURON Foundation has joined	144	158	147
Number of corporate social responsibility projects implemented	18	11	9
Number of cases of non-compliance and complaints regarding products and services of TAURON Capital Group with respect to providing information	0	0	
Number of COVID-19 counteracting initiatives implemented for employees and communities	11	-	-

2.1.7. Value creation model and relations among capitals

Capitals as well as their mutual relations are constantly changing due to a number of factors, including, among others, changes in the market and regulatory environment. The implementation of the actions envisaged in the strategy allows for a sustainable transition of the Group and increases the investment potential for the development of renewable energy sources. The effects of such activities are and will be visible in all capitals. The transition towards the zero and low emissions will also have an impact on each segment of the Group's operations.

Financial capital is the basis for the efficient use and development of TAURON Group's other capitals, the production capital in particular, it supports the development of intellectual capital and human capital and improves the efficiency of the use of natural capital. Through the implementation of investment projects, TAURON Group is constantly increasing the potential of its production capital. The development of this capital is carried out using the best available technologies and reduces the impact of the Group's business operations on climate and environment.

The use of modern technological and technical solutions improves and develops new competences in the intellectual capital, which also contributes to the development of the human capital, improves the use of the production capital and strengthens TAURON Group's competitive position. The Group's business operations, primarily coal mining as well as electricity and heat production using conventional sources, consume natural resources. The overall business operations of TAURON Group, the provision of safe and stable electricity and heat supplies for its customers, continuously develops relations with the external environment (stakeholders), including the social stakeholders, which leads to an increase of the Group's value.

The relationships among the capitals as well as the value creation model at TAURON Capital Group in 2020 is presented in Figure no. 4.

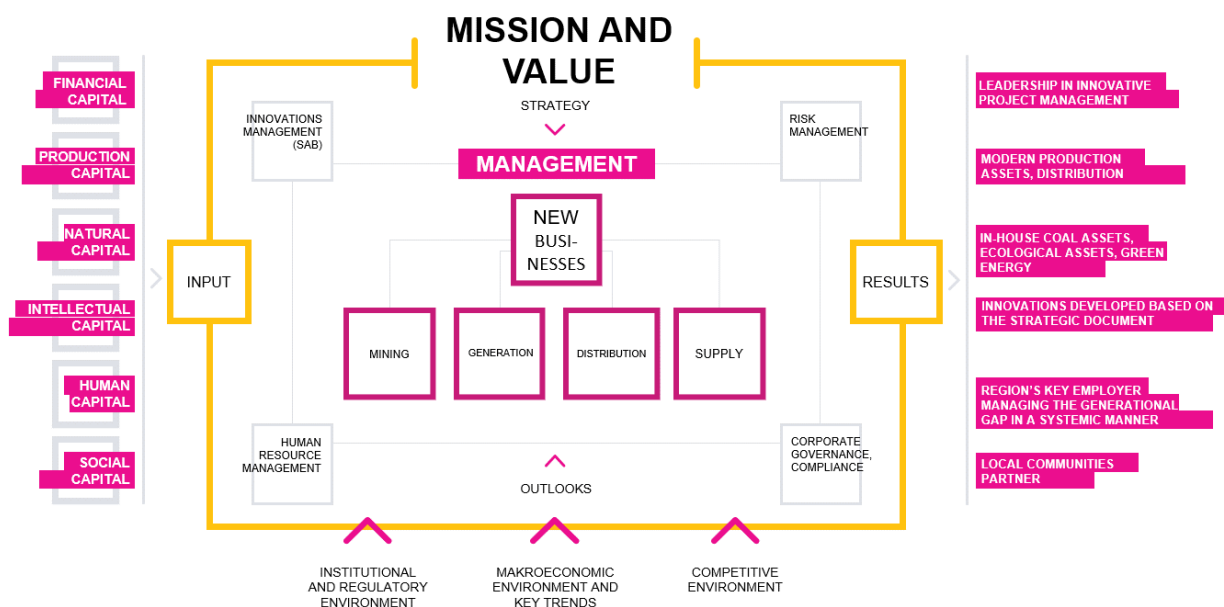


Figure no. 4. Value creation model and relationships among capitals at TAURON Capital Group in 2020

2.2. TAURON Group's value levers (drivers)

TAURON Group's Strategy for 2016-2025 currently in place and the Update of Strategic Directions, defined as the Green Turn of TAURON, adopted in May 2019, takes into account changes in the market and regulatory environment in order to use the resources available in the optimum manner. The activities implemented as part of TAURON Group's Strategy focus on building lasting relationships with the consumers of the products and services and they constitute the basis for the Group's growth, treating customer-centricity as one of the most important value levers.

TAURON Capital Group is operating in all key areas of the energy market, and therefore it is managing each successive element of the energy chain: starting from extraction and acquisition of the thermal fuel, through generation, trading and distribution of electricity and heat, up to the supply thereof to the final consumers. Modern infrastructure is a significant lever of value in order to ensure stable electricity supply at a competitive price, meet stringent environmental standards and reduce the negative impact on the climate. TAURON Group's value chain has also been extended to include the innovation ecosystem, thanks to which one of TAURON Group's value levers include new businesses that are developed at the interface between innovation and key business segments.

As part of the Green Turn of TAURON the Group attaches great importance to investments in renewable energy sources and to replacing exhausted conventional sources with modern solutions. In this respect, significant value levers include natural capital as well as the investment and restructuring potential, which, on one hand, allow for achieving the greatest possible independence from external suppliers, and, on the other hand, provide the potential to respond to changes and adapt thereto.

In order to achieve the goals outlined in TAURON Group's Strategy in the best possible way and to follow the Green Turn of TAURON, it is also necessary to develop competences and strengthen the commitment of the workforce. Organizational culture and employees are therefore an important value lever. Organizational culture and employees enable implementing current as well as future business goals that will constitute a source of competitive advantage.

Analyzing its value levers, the Group is highlighting the market and regulatory changes, progressing climate changes, and is analyzing and implementing preventive measures that would allow for continuing its business

operations in the long run. It is assumed that the transition of TAURON's value levers will be taking place in an evolutionary manner, through the implementation of the Group's Strategy.

2.2.1. Customer-centricity

According to TAURON Group's Strategy and the Update of Strategic Directions, defined as the Green Turn of TAURON, the customer is always at the center of attention. In all of its activities TAURON focuses on developing lasting relationships with the consumer of its products and services, and the strengthening of the customer relations is the basis for the Group's assumed growth. The number of customers - both those who are connected to the distribution grid, as well as those who have chosen the products and services offered by TAURON Group - continues to grow.

In the short and medium term, TAURON Group's priority is to improve its products and services in response to customer needs, also by shaping the offering in accordance with the sustainable development principles. Over the past year, there has been a significant acceleration in the construction of individual, prosumer photovoltaic installations. This is a trend which, in the opinion of TAURON Group, will be continued and should result in expanding the scope of cooperation with the customers. In this aspect, the Group is becoming a partner and the supplier-consumer relationship will evolve towards services sharing.

The next goal is to simplify and optimize the communications processes between the customer and TAURON Group, as well as to continuously improve electronic communications channels. TAURON Group wants to continue activities aimed at improving the quality of the services provided, and an example of this is the launched online platform for the exchange of information with the customer called the Opinion Zone, which is promoting the slogan: "Your voice has power! We will hear. We will improve". This platform enables conducting systematic and extensive research, which is the starting point for introducing improvements in customer service and developing useful products and services.

TAURON Group is offering customers modern products and services to meet the customized expectations of selected groups. For this reason, an innovation ecosystem has been created, which, apart from issues related to continuous improvement of technology and reduction of negative impact on the environment, is equally focused on the tailoring the offering to the needs of the current and future customers in the best possible manner. It is assumed that electricity cost increases are likely to translate into increased interest in the activities aimed at improving energy efficiency, which will amplify the demand for products and services related to the improvement of energy efficiency. This will allow TAURON Group to enrich the range of products and services offered. The improvement of energy efficiency will result, in addition to the financial aspects, also from the growing public awareness of the need to reduce the negative impact on the climate.

In the long run, TAURON Group's priorities with respect to customer centricity will remain unchanged, and the issues related to providing high quality products and services as well as an easy, interactive communications platform will be key to achieving success on the market. The tools of mutual communications will be subject to change, shifting towards an increasing role of interactivity, shortening of the processes and increasing the transparency. It is assumed that a further development of individual power generation installations and the expected digitization of the metering (smart metering) will increase competition on the energy and energy related services market, while deepening TAURON Group's partnership relations with customers.

The topic of customer-centricity is discussed in detail in section 4.1 TAURON Group's PRO Customer Social Policy.

2.2.2. New businesses

In the current model, electricity is produced centrally and distributed to meet the demand of the final consumers. However, this model is undergoing some changes as a result of the growing importance of the prosumer market, the development of renewable energy sources, the evolution of artificial intelligence and the Internet of Things. TAURON Group's new businesses focus on various areas of activity (e.g. e-mobility program, Internet program, energy efficiency, distributed cogeneration, energy storage, smart home, smart city). To this end, in the short term, TAURON Group, using its competences, human, technical and organizational resources as well as customer relations, is conducting extensive research and development as well as innovative activities to pave the way to new revenues.

TAURON Group's new businesses are associated both with the research and development ecosystem, but also with the mergers and acquisitions process. Such an approach not only allows for developing proprietary ideas, but also for taking advantage of the experience of external entities. Income based on the traditional power sector model has limited growth potential, therefore it is necessary to develop new activities.

In the medium and longer run, it is assumed that changes to the operating model of the energy industry will take place as it will be extending its offering by adding new products and services, reducing the share of the traditional product, which is the production of electricity from conventional sources. Technologies related to the use of green

hydrogen for electricity storage are raising high hopes. The new businesses and innovations will prepare TAURON Group for the market challenges.

It is assumed that the share of income from the new businesses will not be of key importance for many years to come, due to the very high value of the core operations related to the fuel-energy-distribution chain, but this value will be gradually rising. TAURON Group's aspiration is for new businesses to bring the Group maximum possible benefits arising from the already appearing and coming changes.

2.2.3. Modern infrastructure

The development of modern infrastructure is extremely important due to the increasing decarbonization and the EU energy and climate policy, the increase in the prices of the CO₂ emission allowances, the progressing process of reducing the financing of the coal investments or changes in the behavior of individual and business customers. As part of the Green Turn of TAURON, the Group's assets are being optimized by potentially making the portfolio of the mining and heating assets more flexible or by shutting down all old coal-fired units (keeping only modern conventional units: Łagisza 460 MW and Jaworzno 910 MW). In 2020, TAURON Group, despite the coronavirus pandemic, completed major investments, such as the construction of a 910 MW unit in Jaworzno and a 450 MW CCGT unit in Stalowa Wola. The resulting infrastructure uses the latest electricity production technology and environment protection installations, allowing it to meet the most stringent standards.

TAURON Group is also continuing an expansion and modernization of its electricity distribution grid. Thanks to the modern infrastructure, TAURON will provide reliable electricity supply and ability to connect distributed energy sources.

In accordance with the Update of the Strategic Directions that assumes an increase in the share of the low- and zero-emission sources in TAURON Group's generation mix to more than 65% in 2030, TAURON Group's subsidiaries are steadfastly developing projects related to new RES capacities. In 2020, TAURON Group completed the construction of a 5 MW photovoltaic farm on the post-industrial land of the decommissioned coal-fired power plant in Jaworzno. In accordance with the assumptions of the Green Turn of TAURON, by 2025 the Group is planning to have approx. 300 MW in photovoltaic farms and approx. 1100 MW in onshore wind energy. Moreover, TAURON Group's ambition is to use offshore wind, which is a large and inexhaustible resource of clean energy, however, any involvement in this type of infrastructure will depend on public support for such projects and the Group's financial capabilities.

2.2.4. Ability to access and use the natural capital

All aspects of TAURON Group's operations take into account the impact on the local environment, as well as the quality and price of the products and services that it is offering to the customers. TAURON Group's customers are also the beneficiaries of the Group's efforts related to protecting the quality of the natural environment and the way its resources are managed. The Group's great assets include its natural resources that constitute a part of the natural capital that it uses to provide customers with its products and services. Water, land and air are resources that are impacted by TAURON Group's business operations. With these resources in mind every effort is made to reduce this impact. TAURON Group strives to convert 100% of its combustion and mining waste into products.

TAURON Group's coal mining assets play an important role in the value chain. They are its first link, and thanks to the investment projects underway, they are to guarantee the supply of suitable quality coal to TAURON Group's generating units. Currently, the Group is taking steps to transition its energy mix, which is associated with the reduction of the share of conventional energy based on coal in favor of the development of renewable energy sources.

Beside the important role of coal, water is an important natural resource for TAURON Group, as it is, among others, widely used in the electricity production processes. By using closed cooling water circuits at TAURON Group's power plants, the consumption of this resource is limited to the necessary minimum. TAURON Group has also taken steps to recover this resource through mine drainage processes and reuse the water recovered from the mines in its technological processes.

In addition to the conventional coal-fired generating units, TAURON Group also uses dropping water's energy and wind energy to produce electricity. TAURON Group is operating 34 hydroelectric power plants located in the south of Poland and 9 wind farms, located mainly in the northern part of the country.

Solar radiation is also an important natural resource. TAURON PV program is being implemented at TAURON Group, under which further installations will be built, among others on land that has been rehabilitated or requires rehabilitation as a result of long-term industrial activity (mainly at the sites of former power plants or furnace waste landfills).

TAURON Group also has a limestone mine in its asset portfolio, where it acquires, among others, sorbent for flue gas desulphurization at conventional power plants. The raw material obtained is also widely used outside the energy sector - it is used in agriculture, steel making, construction, lime, cement, sugar and road building industries.

In the long term, the impact of TAURON Group's business operations on natural resources will be declining, both due to the need to meet the expected tightening of the environmental standards and climate policy, investments in new, low- and zero-emission energy sources, and due to the permanent shutdown of inefficient conventional units.

2.2.5. Investment and restructuring potential

The Group allocates around PLN 3-4 billion per annum for capital expenditures, most of which are investments in the distribution grids. The detailed data on capital expenditures is presented in section 2.1.1 TAURON Group's financial capital.

In 2020, investments in new generation units were completed: the CCGT unit in Stalowa Wola with a capacity of 450 MW and a 910 MW unit in Jaworzno. As part of the Update of the Strategic Directions, new shutdown schedules for 120 MW and 200 MW units were developed and adopted. As of the end of 2020, all 120 MW units were shut down, except for two units at the Stalowa Wola Branch, whose shutdown date was postponed to February 1, 2021 (970 MW in total). Further units with a total capacity of 2.5 GW will be decommissioned, in the years 2026-2030, mainly the 200 MW units,. At the same time, involvement in the development of offshore wind farms is assumed. Apart from investment projects, TAURON Group is also implementing initiatives aimed at optimizing the Group's costs.

Both in the short and medium as well as long term, TAURON Group is planning to increase its capital expenditures related to a change of its energy mix. Successive tightening of the environmental and pro-climatic requirements, combined with the obsolete generation fleet, provides room for the construction of new generating units in renewable and low-emission technologies, as well as for significant changes to the distribution grids, including the ones related to the development of distributed (dispersed) power generation. TAURON Group will be performing its activities in this respect in accordance with the definition of environmentally sustainable investments, based on the provisions of the European Green Deal.

2.2.6. Personnel and organizational culture

TAURON Group's human resources management model allows for efficient and appropriate use of employees' knowledge and skills. TAURON strives to be a responsible employer and one that is creating an organizational culture that takes into account the expectations of various social groups in the creation and implementation of the business strategy. The TAURON Group's business model is based on three key values: Partnership, Development and Boldness (PRO values), on which the organizational culture has been based.

The defined values of TAURON Group are a recommendation of attitudes and rules of behavior when performing everyday work. Values constitute the basis of the organizational culture and are guideposts on the path to the implementation of the Group's Strategy, as well as in relations with colleagues, customers, partners and the environment (stakeholders). For this reason, one of the Group's priorities is to care for safety and increase the professional potential of the workforce, as well as support the employees in developing career paths. TAURON Group has been recognized by the Polish Association of Human Resources Management and received the Highest HR Quality Certificate. This certificate is awarded to companies that apply the best practices and tools for human capital management.

Generational changes visible on the macro scale have also affected the energy industry. The young generation expects not only stable earnings from the place of employment, but also development opportunities in a modern organization. The generational gap is becoming more and more apparent today and steps are being taken to provide the best possible staff for TAURON Group's subsidiaries in the medium and long term. Due to the workforce age and the need to provide appropriate staff in the medium and long term, a number of activities aimed at acquiring suitable, qualified employees in the future are already carried out, which is taking place, for example, through cooperation with schools and launching of classes under patronage.

Value lever (driver) prospects

Some of TAURON Group's value levers are particularly important in the near term, while others will become more and more important as changes expected in the environment materialize and new challenges appear. Regardless, all value levers are complementary and make up TAURON Capital Group's entire business operations. They complement one another and shape the Group's presence and future. We have no doubt, however, that both today as well as in the near and more distant future, TAURON's most important asset will be the customers. Over time, through changes to the energy model, it is assumed that customers will also become partners and, as prosumers, will use natural resources and shape the image of the future power sector.

In the long run, the key capitals, in addition to the social capital of the customer relations - on which TAURON Group will focus, will be the intellectual capital and the natural capital. The ability to offer innovative solutions, ensuring the development of young employees and respect for the environment, including climate, are the most important success factors that will determine TAURON Group's growth in the future.

The prospects of value levers as well as the significance and impact of the individual elements on TAURON Capital Group is presented in Figure no. 5.

VALUE LEVER (DRIVER)	VALUE LEVER IMPACT/MATERIALITY		
	Short term outlook	Medum term outlook	Long term outlook
Customer centricity	^	^	^
New businesses	>	^	^
Modern infrastructure	^	^	^
Access to natural resources	^	>	>
Investment and restructuring potential	^	>	^
Employees and organizational culture	^	^	^

Figure no. 5. Prospects of value levers as well as the significance and impact of the individual elements on TAURON Capital Group

2.3. TAURON Capital Group's values

2.3.1. Mission, vision

Mission

We deliver state-of-the art solutions with passion and commitment to produce energy in a constantly changing world.

Vision

We are the company that responds best to customer needs in the Polish power sector.

The mission and vision of TAURON Capital Group are derived directly from the profile of its operations the basis of which is the efficient functioning in order to ensure security of energy supply for Poland's residents and companies operating in Poland. In the era of intense changes in the market environment, progressing digitization, social mobility and the negative impact of human activities on the environment and climate, there is a visible change customer expectations. They are becoming more and more active and aware of the quality of services provided, and expect a broad and comprehensive offering as well as modern customer service channels, while the highest standards of environmental protection are maintained and the climate impact is minimized.

Providing modern solutions in a constantly changing world and stable conditions for the development of the offering in line with customer expectations has become not only the basis for creating TAURON Capital Group's strategic directions, but also an expression of our social responsibility, including with respect to the environment and climate.

2.3.2. Corporate values

TAURON Capital Group's corporate values are a signpost on the road to the implementation of the assumptions of the Strategy, as well as in relations with employees, customers, business partners and the other stakeholders.

Values are also symbols and determinants of the Group's organizational culture. It is important for us not only what we are doing, but also the way in which we are achieving the set goals together.

TAURON Capital Group's values are described by the acronym PRO (Partnerstwo (Partnership), Rozwój (Development), Odwaga (Boldness)):

PARTNERSHIP

- We are partners for customers and each other in achieving shared goals.
- We are building lasting relationships - based on trust and mutual respect.
- We are getting involved in what is important to our customers and the Group.

DEVELOPMENT

- We are innovative - we break down barriers, set trends and create change.
- We are constantly developing competences, skills and knowledge.
- We are looking for better and better solutions - we meet the current and future needs of customers, continuously improving the quality of our services.

BOLDNESS

- We talk boldly and openly about problems and the most daring ideas.
- We are determined to implement what we believe in, to achieve shared goals.
- We face the challenges of a changing environment with commitment and passion.

2.3.3. Corporate Social Responsibility Code of Conduct

Since 2017 TAURON Capital Group has been applying the principles of the Corporate Social Responsibility Code of Conduct (hereinafter the Code) - a key document on TAURON Capital Group's ethical culture. This set of principles and values, which is an impulse to create our own organizational culture, serves us as the foundation for the functioning of the organization and the implementation of strategic goals.

The document was based on the mission, vision and corporate values of TAURON Capital Group.

The Code defines the most important values and principles of conduct that should be followed by employees and stakeholders of the Group in the areas related to:

- workplace,
- natural environment,
- stakeholders.

It also describes the Fraud Reporting System in place at TAURON Capital Group.

The adoption of the Code by the Management Board of TAURON Polska Energia on April 4, 2017, was related to the Compliance Management System being developed by the Group. Since then, we have been constantly improving the culture of compliance, understood as a set of specific principles of conduct in compliance with the law, internal and intra-corporate regulations, and ethical standards, which, combined with our values, support the achievement of business goals.

Each employee of TAURON Group - regardless of the type of employment contract, seniority, position or function performed - is obliged to comply with the provisions of TAURON Group's Corporate Social Responsibility Code of Conduct.

Due diligence procedures

Due diligence procedures in place under the Corporate Social Responsibility Code of Conduct include a compliance management reporting system, as well as rules related to counteracting conflict of interest and other irregularities (deficiencies).

After the end of every quarter the Compliance Officer (Power of Attorney) prepares a written report for the Audit Committee with respect to the tasks completed, and after the end of each half-year, he/she draws up a written report for the Supervisory Board of TAURON Polska Energia S.A. with respect to the tasks completed.

In addition, after the end of every calendar year, by January 31, the Compliance Officer (Power of Attorney) prepares a written Compliance Report on the functioning of the Compliance Management System at TAURON Group. The report includes, among others, an assessment of the adequacy and effectiveness of the Compliance Management System adopted in the period covered by the report, the degree of the Compliance Plan implementation, indication of measures taken or proposed in cases of non-compliance or the risk of non-compliance.

Document update

The graphic design of TAURON Group's Corporate Social Responsibility Code of Conduct was updated in 2020, in line with the new Visual Identification System.

Conflict of interest

TAURON Group is operating in a transparent manner, respecting the provisions of law, the provisions of internal and intra-corporate regulations as well as the highest ethical standards, which translates into actions aimed at eliminating situations that may lead to a conflict of interest.

The basis for preventing conflicts of interest at TAURON Group is the principle set out in TAURON Group's Corporate Social Responsibility Code of Conduct, according to which: "We avoid situations that could potentially cause a conflict of interest." A conflict of interest in case of an employee of TAURON Group occurs when, acting in his/her own interest or in the interest of any entity, the employee simultaneously carries out activities against the interest of TAURON Group. We openly communicate (in accordance with the rules in force at TAURON Group in this respect) cases that constitute or may constitute a source of conflict of interest, and we take actions aimed at eliminating the adverse consequences of such situations."

In 2020, the Rules for Counteracting Conflict of Interest at TAURON Group were adopted. Their purpose is to: identify circumstances that constitute a conflict of interest or may cause it, define the rules for preventing, identifying and managing a conflict of interest, and increasing the level of awareness among employees in terms of identifying, avoiding and disclosing a conflict of interest.

In the event of receiving a notification of a conflict of interest, the Compliance Officer conducts a fact finding investigation and also answers employee questions based on specific factual status.

Conflict of interest registers are kept in order to document circumstances or events that may result or result in the emergence of a conflict of interest at the subsidiaries.

In addition, it should be noted that a practical manifestation of counteracting conflicts of interest at TAURON Group is the submission by the members of the tender committees and experts, for the needs of the given purchasing procedure, of statements on not having a legal or factual relationship with a contractor, that could raise reasonable doubts as to their impartiality.

What's more, in accordance with the *Labor Regulations* in force at TAURON Polska Energia S.A., one of the employee's basic obligations is to inform the superior about taking up additional employment, commencing business operations or performing specific jobs (orders), the scope of which may lead to a conflict of interest between him/her and the employer.

Information campaign with respect to counteracting a conflict of interest at TAURON Group

In 2020, after the entry into force of the detailed Rules for counteracting a conflict of interest at TAURON Group, an information campaign was carried out via the internal intranet, the purpose of which was to explain the issue of a conflict of interest to employees of TAURON Group's subsidiaries in an understandable manner.

As part of the information campaign, mailing was sent to employees, a message was published and a dedicated tab was created on the intranet. Additionally, the information was published on the official website www.tauron.pl.

Actions taken and results obtained

The year 2020 was characterized by a further growth with respect to building a comprehensive Compliance Management System at TAURON Group. The current epidemiological situation in connection with the SARS-COV-2 virus had a significant impact on the tasks performed. Some of the tasks planned to be performed according to TAURON Group's Compliance Plan for 2020 had to be adapted to the changing environment or postponed to be implemented at another time. The above mentioned the situation had an impact, in particular, on the tasks that required in person meetings with employees, such as training sessions or conducting investigative (fact finding) proceedings. Due to the restrictions on gatherings in place, the role of online media has increased significantly (e.g. Skype, Teams). The tasks performed so far in the classic form have been almost completely replaced by the electronic form. For this purpose, among others, electronic registers (e.g. database of credibility ratings) have been developed.

Due to an increase in the efficiency of the work performed, the above mentioned changes should be viewed as positive.

One of the main tasks of the Compliance Officer and Compliance Coordinators at TAURON Capital Group is to periodically organize and conduct training courses on compliance issues. The above activities are aimed at increasing employee awareness with respect to, among others, preventing fraud, reporting irregularities, rules on accepting and giving gifts, procedures for verifying contractors preventing conflict of interest.

Due to the prevailing pandemic, in addition to e-learning training, TAURON Capital Group conducted a number of online meetings and training sessions in 2020, with approx. 5 300 employees taking part therein.

129 messages related to the operations of TAURON Group's Compliance Area were sent in 2020, via the Group's intranet and mailing sent to the employees, regarding, e.g. the introduction of the Procedure for counteracting money laundering and financing of terrorism at TAURON Group, the introduction of the intra-corporate regulation on counteracting conflict of interest at TAURON Group, the adoption and application of the Rules of conduct during inspections (audits) at TAURON Group and the invitations to this year's Virtual Compliance Day

It should be mentioned that two e-learning training courses on compliance issues have been posted on the e-learning platform dedicated for TAURON Group's personnel, i.e.:

1. training on TAURON Group's Corporate Social Responsibility Code of Conduct,
2. training on TAURON Group's Compliance Management System, covering the following topics:
 - verification of contractors - presentation why the issue of verification of contractors is so important for the security of the Group and when to apply for an assessment of the contractor's credibility,
 - evaluation of external entities when organizing joint undertakings - presentation of the procedure for establishing cooperation with an external entity with respect to, for example, promotion or sponsorship and to whom the application for an external entity evaluation should be submitted,
 - reporting irregularities - presenting the available channels for reporting fraud at TAURON Capital Group and building awareness regarding warning signals about the possibility of a potential fraud being committed,
 - rules on accepting and giving gifts - building awareness about the type of gifts that can be received or given and defining the conditions in which their acceptance or giving is unacceptable,
 - counteracting corruption - showing what corrupt activities and unethical behaviors are, and who TAURON Group's Anti-Corruption Policy is applicable to.

76.16% of employees with access to the e-learning platform were trained on the Corporate Social Responsibility Code of Conduct at TAURON Group as of December 31, 2020, and 75.97% of eligible persons completed the training with a positive result.

79.69% of employees with access to the e-learning platform were trained on the Compliance Management System at TAURON Group as of December 31, 2020. 79.25% of eligible persons completed the training with a positive result.

Virtual Compliance Day 2020

On November 30, 2020, the second edition of the Compliance Day took place at TAURON Polska Energia, this time conducted online. The purpose of this undertaking was to promote knowledge among TAURON Group employees with respect to compliance management.

As part of Virtual Compliance Day 2020, 5 training sessions on the subject of compliance, mobbing and counteracting money laundering and terrorist financing were conducted. In total, 550 employees of TAURON Group's subsidiaries were trained.

As part of the event, 5 panel sessions on specific topics were carried out:

1. "Integrity and changes to the rules of liability of members of corporate authorities (officers) following the amendment to the Code of Commercial Companies" – the panel was dedicated for the Members of the Management Boards of TAURON Group's subsidiaries,
2. "Mobbing – the legal and psychological aspects" – the panel was dedicated for the Members of the Ethics Committee of TAURON Group and the personnel of TPE S.A. Human Resources Area,
3. "News from the compliance industry. Integrated implementation of ISO 37301 (Compliance), 37001 (Anti-Bribery) and 37002 (Whistleblowing) standards in response to the need for a holistic approach to compliance management" - the panel dedicated to TAURON Group's Compliance Coordinators,
4. "Get to know Compliance at TAURON Group ... and find out what we do?" - the panel dedicated for the employees hired by TAURON Group in 2020 as well as for all interested parties.
5. "AML vs. the obligations of TAURON Group's Subsidiaries" - the panel dedicated for the personnel of CUW - R TAURON Obsługa Klienta sp. o.o. and TAURON Ubezpieczenia sp. z o.o.

2.4. TAURON Group's Business Model

TAURON Group's business operations aimed at implementing its mission and vision based on its values and the Corporate Social Responsibility Code of Conduct are conducted based on seven Lines of Business, defined in accordance with the Group's value chain links: Mining, Generation, Heat, Renewable Energy Sources (RES), Trading, Distribution and Supply. Within the structure of TAURON Group, which is a vertically integrated enterprise, the Distribution System Operator (hereinafter DSO) is functioning in the Distribution Line of Business. The Business and Operating Model has been developed taking into account the requirements related to unbundling (i.e. separating the electricity distribution operations from the operations with respect to electricity production and supply of such electricity to the final consumers), set out in the Compliance Program and the generally applicable legal regulations, taking into account the DSO's legal, functional and organizational separation within the structure of TAURON Group.

Additionally, there are other subsidiaries operating as part of the Group, whose operations are focused on providing support services for the Group's other subsidiaries, such as, for example, accounting and human resources services, IT services, security services, insurance services. Customer service is provided by one of the Group's subsidiaries for the Supply Line of Business and, taking into account the independence of the DSO and other unbundling rules, for the Distribution Line of Business.

TAURON Group's business model is presented in figure no. 6.

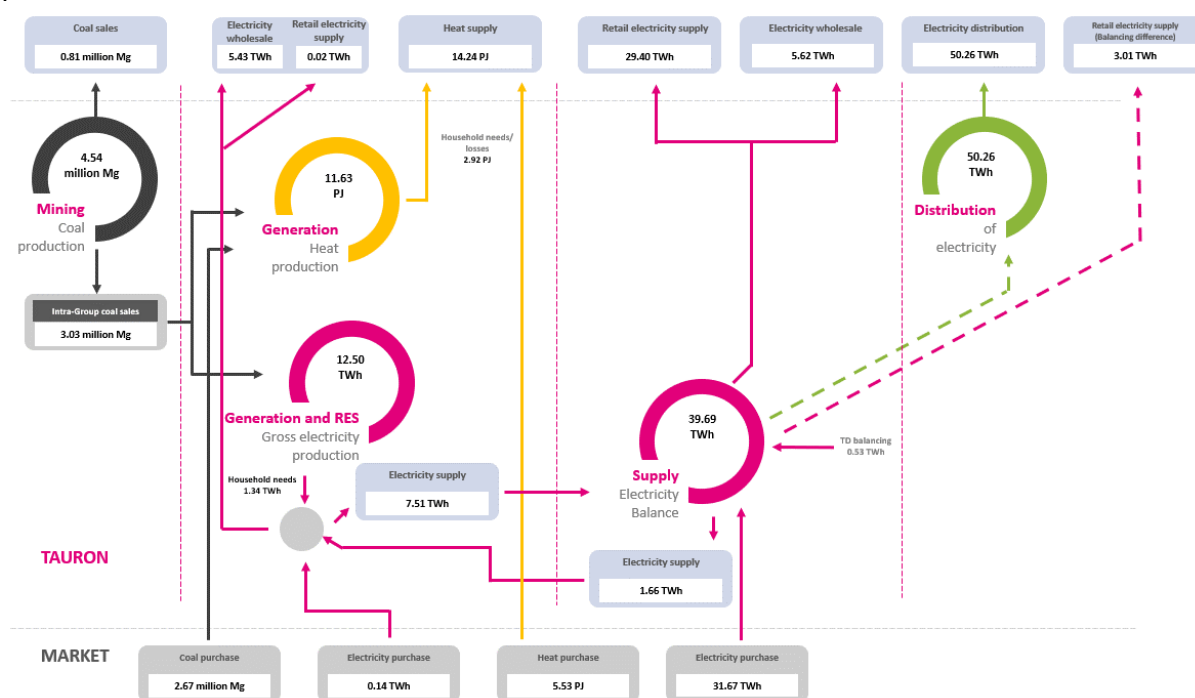


Figure no. 6. TAURON Group's business model in 2020

Mining

It comprises mainly hard coal mining, processing and sales to the utility scale power plants, heating industry and individual customers. Apart from hard coal mining, other mining operations are also conducted, involving open pit extraction of limestone, as well as its processing and sales within the Group and outside the Group.

The operations of this Line of Business are conducted by the following subsidiaries: TAURON Wydobycie S.A., Kopalnia Wapienia "Czatkowice" sp. z o.o. and Spółka Usług Górniczych sp. z o.o.

The current structure of TAURON Wydobycie S.A. is based on the model composed of the Center (Centrum), with its seat in Jaworzno, and three production plants (coal mines): Zakład Górniczy Sobieski (Sobieski Coal Mine) in Jaworzno, Zakład Górniczy Janina (Janina Coal Mine) in Libiąż and Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine) in Brzeszcze. The Center's operations include, among other, shared functions management, planning and sales. The production facilities are mainly dealing with hard coal mining and processing. This Line of Business also includes a subsidiary that provides mining works services – Spółka Usług Górniczych sp. z o.o.

Kopalnia Wapienia "Czatkowice" sp. z o.o. is an open pit mine, extracting high quality carbonate limestone deposits, located in the Krzeszowice municipality.

The limestone from the Czatkowice deposit is used in the power generation, steel making, construction, lime, cement, sugar, road building industries, as well as in agriculture.

Generation

It comprises electricity generation using conventional sources and renewable energy sources, including the biomass burning process. The operations are conducted by TAURON Wytwarzanie S.A. subsidiaries and Nowe Jaworzno Grupa TAURON sp. z o.o., the company responsible for the construction and operation of the new power generation unit in Jaworzno with the capacity of 910 MW. Electricity generation by the conventional units is carried out by 6 power plants with the total capacity of approx. 5.2 GWe and 1.3 GWt and by two biomass-fired generating units with the total capacity of 105 MWe. The total capacity of approx. 5.2 GWe is made up of 5.1 GWe in coal fired units and 0.1 GWe in biomass units. The power plants are located in the following cities: Łaziska Górne, Będzin, Trzebinia, Stalowa Wola and Jaworzno. This Line of Business also includes the TAURON Serwis sp. z o.o. subsidiary that provides technical maintenance (support) services. In addition, a project to build a 5 MW photovoltaic farm was completed in 2020, built on the site of a former coal-fired power plant.

Heat

It comprises heat generation, transmission and distribution as well as supply, using co-generation sources. Heat generation is carried out by 4 combined heat and power plants, with the total capacity of approx. 0.35 GWe and 1,2 GWt, located in the following cities: Katowice, Tychy and Bielsko-Biała, as well as by local boiler houses. The generating units are using hard coal and biomass for their production. The heat operations are conducted by TAURON Ciepło sp. z o.o. and SCE Jaworzno III sp. z o.o. subsidiaries, that are, in total, operating approx. 1 180 km of the distribution heating networks on the territory of, among others, Bielsko-Biała, Czechowice-Dziedzice, Katowice, Dąbrowa Górnicza, Sosnowiec, Chorzów, Siemianowice Śląskie, Jaworzno, Zawiercie and Mysłowice, with 888 km of TAURON Ciepło's own networks, and 121 km of SCE Jaworzno III's networks.

Renewable Energy Sources

It comprises electricity generation using renewable energy sources, except for biomass burning, which, according to the Business Model, is carried out within the Generation and Heat Lines of Business. Electricity production from biomass is also classified as renewable energy at TAURON Group.

This line of business is managing 34 hydroelectric power plants with the total capacity of 133 MW, located primarily in the south of Poland, and 9 wind based power plants with the total capacity of 381 MW, located primarily in the north of Poland. The segment's operations are conducted by TAURON Ekoenergia sp. z o.o., TAURON Ekoserwis sp. z o.o. subsidiaries and the group of special purpose vehicles set up to manage the RES assets.

Distribution

It comprises electricity distribution using the distribution grid located in the south of Poland. TAURON Capital Group distributes electricity on the territory of the following regions: Małopolska, Lower Silesia, Opole and Silesia, and partly also Świętokrzyskie, Podkarpackie, Łódzkie, Wielkopolska and Lubuskie.

The operations are conducted by TAURON Dystrybucja S.A. subsidiary that performs the function of the DSO, including guaranteeing independence and compliance with the unbundling requirements.

The operational functions (activities) are carried out by 11 branches located in Będzin, Bielsko-Biała, Częstochowa, Gliwice, Jelenia Góra, Cracow, Legnica, Opole, Tarnów, Wałbrzych and Wrocław. The operations of TAURON Dystrybucja are supported by the TAURON Dystrybucja Pomiarów sp. z o.o. subsidiary.

Trading

It comprises electricity wholesale trading, as well as trading and management of the CO₂ emission allowances and property rights arising from the certificates of origin of electricity, as well as fuels.

Such operations are conducted by TAURON Polska Energia S.A. and TAURON Czech Energy s.r.o. subsidiaries. The Trading Line of Business also includes the procurement of biomass, as well as the utilization of the mining and burning by-products carried out by Bioeko Grupa TAURON sp. z o.o. subsidiary.

Supply

It comprises the supply of electricity and natural gas, as well as related products, to the final consumers. The operations are conducted by TAURON Sprzedaż sp. z o.o. and TAURON Sprzedaż GZE sp. z o.o. subsidiaries.

The supply operations are conducted nationwide and, on a smaller scale, on the Czech and Slovak markets. This Line of Business also includes services related to street lighting, as well as energy efficiency and smart technologies services carried out primarily by TAURON Nowe Technologie S.A. subsidiary. The company is managing approx. 745 thousand street lamps.

The other operations are a part of a separate line of business called Shared Services Centers. It includes such services, provided for TAURON Group's subsidiaries as, among others, accounting and human resources services, as well as IT services, carried out by TAURON Obsługa Klienta sp. z o.o. subsidiary, managing insurance policies for all of the Group's subsidiaries – TAURON Ubezpieczenia sp. z o.o. subsidiary, security and order keeping services – Wsparcie Grupa TAURON sp. z o.o. subsidiary. The goal of such a division of competences is to relieve the Lines of Business from the obligation to carry out the processes that are not directly associated with their core business operations (non-core operations related processes), and also to reduce the costs of performing such processes thanks to the economies of scale and the improvement of operational efficiency. As part of the operations of TAURON Obsługa Klienta sp. z o.o., customer service is also provided for the TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. subsidiaries and, taking into account the independence of the DSO and compliance with other unbundling rules, for TAURON Dystrybucja S.A.

Figure no. 7 presents the structure of TAURON Capital Group's Line of Business.

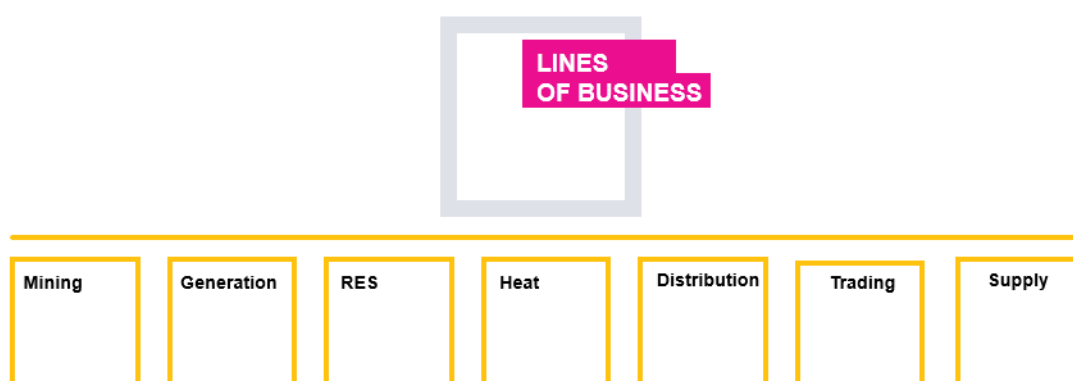


Figure no. 7. TAURON Capital Group's Lines of Business in 2020

2.5. 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 S. A., 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. to the competence of the General Meeting or the Supervisory Board shall be within the competence of the Company's Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for making statements on behalf of the Company.

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

The Company carries out its tasks through:

1. separate organizational units (business units):
 - Business areas, comprising independent work positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by members of the Company's Management Board directly,
 - Teams, constituting organizational units (business units) reporting to the Executive Directors. The activities of the team are managed by the Team Leader (Manager).
2. independent work positions:
 - 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 work positions that may be entrusted to, in particular, Power of Attorneys, Inspectors, Spokespersons,

3. temporary organizations – Project Teams set up with the goal to implement tasks and projects of the Company.

2.5.1. Management Board of TAURON Polska Energia S.A.

The current sixth term of office of the Management Board of TAURON Polska Energia S.A. began its run on July 15, 2020.

The Supervisory Board of TAURON Polska Energia S.A. dismissed all Members of the Management Board of TAURON Polska Energia S.A. of the 5th joint term of office, on July 14, 2020, effective as of the end of the day and appointed, as of July 15, 2020, the Members of the Management Board of TAURON Polska Energia S.A. of the 6th joint term.

In accordance with the Articles of Association of TAURON Polska Energia S.A. the common term of office shall last 3 years.

The composition of the Management Board of TAURON Polska Energia S.A. as of December 31, 2020 is as follows:

1. Wojciech Ignacok - President of the Management Board,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management,
3. Marek Wadowski - Vice President of the Management Board for Finance.

The composition of the Management Board TAURON Polska Energia S.A. as of the day of drawing up this Report is as follows:

1. Marek Wadowski - acting as the President of the Management Board / Vice President of the Management Board for Finance,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The changes to the composition of the Management Board of TAURON Polska Energia S.A. that took place in 2020 and by the day of drawing up this Report, as well as the descriptions of the experience and competences of the Members of the Management Board of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

Competence and description of the procedures of the Management Board of TAURON Polska Energia S.A.

Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Articles of Association of TAURON Polska Energia S.A., to the competence of the General Meeting of Shareholders or the Supervisory Board, shall be within the competence of the Company's Management Board.

The competences of the Management Board of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

The Management Board of TAURON Polska Energia S.A. is acting pursuant to the Code of Commercial Companies and other legal regulations, the provisions of the Articles of Association of TAURON Polska Energia S.A. and the provisions of the By-laws of the Management Board of TAURON Polska Energia S.A., which is available on the website of TAURON Polska Energia S.A.: <http://www.tauron.pl>. When performing their duties the members of the Management Board of TAURON Polska Energia S.A. are acting in accordance with the principles provided in the Best Practice of WSE Listed Companies 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 TAURON Polska Energia S.A. 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 TAURON Polska Energia S.A.

Meetings of the Management Board of TAURON Polska Energia S.A. are convened by the President of the Management Board or a Vice President of the Management Board designated by the President of the Management Board. Meetings of the Management Board are also convened at the request of the majority of Vice Presidents of the Management Board, as well as the Chairperson of the Supervisory Board. Meetings are held at the Company's headquarters, on the date set by the person that convened the meeting. In justified cases, meetings of the Management Board may take place outside the registered office of the Company. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair meetings of the Management Board.

The Management Board votes in an open ballot. The result of the ballot is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot at the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the members of the Management Board. In the event of an equal number of votes (a tie), the President of the Management Board has the casting vote. The Management Board may pass resolutions by voting in writing or using means of direct remote communications. Voting in accordance with the above mentioned procedures is ordered by the President of the Management Board or a member of the Management Board designated by the President of the Management Board, along with the setting of the deadline for casting votes by members of the Management Board. A dissenting opinion may be submitted. Such dissenting opinion is recorded in the minutes of the meeting including the justification thereof. The decisions of the Management Board related to ongoing issues that do not require passing of a resolution are recorded solely in the minutes of the meeting.

In accordance with the Articles of Association of TAURON Polska Energia S.A., all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Management Board of TAURON Polska Energia S.A.

The internal split, among members of the Management Board of TAURON Polska Energia S.A., of the tasks and responsibilities for the Company's individual lines of business, as defined in the Organizational Regulations of TAURON Polska Energia S.A. and covering independent work positions and organizational (business) units reporting directly to the Executive Directors whose work is managed (supervised) by the Members of the Management Board, is defined in the Resolution of the Company's Management Board no. 351/VI/2020 of November 3, 2020, on the assignment of the Company's individual lines of business and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A. which replaced the Resolution of the Company's Management Board no. 397/V/2019 of November 13, 2019 on the assignment of the Company's individual lines of business and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A.

The structure of the lines of business of TAURON Polska Energia S.A. reporting to the individual members of the Management Board of TAURON Polska Energia S.A. is defined in the diagram presenting the split of responsibilities of the members of the Management Board of TAURON Polska Energia S.A., discussed in section 2.8 of this Report and published on the Company's website: <https://www.tauron.pl>.

Rules on appointing and dismissing Members of the Management Board of TAURON Polska Energia S.A.

The Management Board of TAURON Polska Energia S.A. 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 of TAURON Polska Energia S.A. for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. In accordance with the Articles of Association of TAURON Polska Energia S.A., each of the Members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

In order to recruit a person with whom an agreement on providing the management services at TAURON Polska Energia S.A., the Company's Supervisory Board announces a competition and conducts a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a member of the Company's Management Board must meet the requirements set forth in § 16, clauses 3 and 4 of the Articles of Association of TAURON Polska Energia S.A. The announcement of the qualification process is published on the Company's web site at the address: <https://www.tauron.pl>. and in the Public Information Bulletin of the Minister competent to exercise the rights related to the State Treasury's shares. The Company notifies the shareholders of the results of the qualification procedure.

2.5.2. Supervisory Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Supervisory Board, began its run on July 15, 2020, i.e. on the date of holding the Ordinary General Meeting of TAURON Polska Energia S.A. approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the fifth term, i.e. for the financial year 2019. In accordance with the Company's Articles of Association it is a common term of office and it lasts 3 years.

In accordance with the *Articles of Association of TAURON Polska Energia S.A.* it is a common term of office and it shall last 3 years.

The composition of the Supervisory Board of TAURON Polska Energia S.A. as of December 31, 2020 is as follows:

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,

4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Barbara Piontek - Member of the Supervisory Board.

The composition of the Supervisory Board TAURON Polska Energia S.A. as of the day of drawing up this Report is as follows

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board

The changes to the composition of the Supervisory Board of TAURON Polska Energia S.A. that took place in 2020, as well as the descriptions of the experience and competences of the Members of the Supervisory Board of TAURON Polska Energia S.A are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

Competence and description of the procedures of the Supervisory Board of TAURON Polska Energia S.A.

Supervisory Board shall perform continuous oversight over the Company's activities in all areas of its operations.

The competences of the Supervisory Board of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

The Company's Management Board of TAURON Polska Energia S.A. is acting pursuant to the Code of Commercial Companies and other legal regulations, the provisions of the Articles of Association of TAURON Polska Energia S.A. and the provisions of the By-laws of the Supervisory Board of TAURON Polska Energia S.A., which is available on the website of TAURON Polska Energia S.A.: <http://www.tauron.pl>. When performing their duties the members of the Supervisory Board of TAURON Polska Energia S.A. are acting in accordance with the principles provided in the Best Practice of WSE Listed Companies 2016.

The main form of the Supervisory Board of TAURON Polska Energia S.A. overseeing the Company's operations are the meetings of the Supervisory Board. The Supervisory Board is performing its duties collectively. The meetings of the Supervisory Board of TAURON Polska Energia S.A. shall be convened by the Chairperson of the Supervisory Board or a Vice Chairperson of the Supervisory Board, presenting the detailed agenda:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a written request of each member of the Supervisory Board,
4. at a written request of the Management Board.

The meetings of the Supervisory Board of TAURON Polska Energia S.A. are held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all members of the Company's Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. Notifications of the Company's Supervisory Board's meeting shall be sent by fax or electronic mail. In the notification of the Company's Supervisory Board's meeting the Chairperson shall define the date of the meeting, venue of the meeting and the detailed draft agenda. The Company's 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 Company's Supervisory Board are present at the meeting and no one raises an objection against the agenda. An issue not included in the agenda should be included in the agenda of the next meeting.

Participation in a meeting of the Supervisory Board shall be a Supervisory Board member's duty. A member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a member of the Supervisory Board shall require a resolution of the 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 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 Company's 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 of its members have been invited in the appropriate way defined in the By-laws of the Supervisory Board of TAURON Polska Energia S.A. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the Articles of Association of TAURON Polska Energia S.A., 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 Articles of Association of Polska Energia S.A., 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 and the participation of at least half of the members of the Supervisory Board in passing the resolution. The Supervisory Board may pass resolutions this way in personnel related matters as well as in other matters the resolutions of which require a secret ballot vote, unless none of the Members of the Company's Supervisory Board raises an objection. When voting on a resolution in the aforementioned way a member of the Company's Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution, with a note that it has been passed in writing or by voting using 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 Company's Supervisory Board may take part in a meeting of the Company's Supervisory Board using means of direct remote communications, i.e. a conference call or a video conference. In case Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using means of direct remote communications, resolutions shall be passed if at least half of the Members of the Company's Supervisory Board members take part in the vote,

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 performing their duty or on another occasion.

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>.

The Supervisory Board of TAURON Polska Energia S.A. may appoint from among its members permanent or temporary (ad-hoc) working groups, committees to perform specific actions. The standing committees of the Supervisory Board of TAURON Polska Energia S.A. shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.,
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.,
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.

The composition, tasks and principles of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

The information the composition of the committees of the Supervisory Board of TAURON Polska Energia S.A. and the changes thereof that took place in 2020, as well as the descriptions of their competences and activities are provided in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

Rules on appointing and dismissing Members of the Supervisory Board of TAURON Polska Energia S.A.

Supervisory Board shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association of TAURON Polska Energia S.A., the Members of the Supervisory Board of TAURON Polska Energia S.A. shall be appointed and dismissed by the General Meeting of Shareholders, subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10, clause 5 of the Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise at least 25% of the total votes in the Company, the State Treasury shall be entitled to appoint and dismiss members of the Company's Supervisory Board in the number equal to half of the maximum number of members of the Company's Supervisory Board defined in the Articles of Association of TAURON Polska Energia S.A. (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:
 - 1) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of members of the Company's Supervisory Board that would correspond to the maximum number of members of the Company's Supervisory Board defined in the Articles of Association of TAURON Polska Energia S.A. in case such a motion is submitted to the Company's Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
 - 2) shall be excluded from the right to vote at the General Meeting of Shareholders on appointing and dismissing the other Members of the Company's Supervisory Board, including the independent Members of the Company's Supervisory Board; this shall not, however, apply to the case when the Company's Supervisory Board cannot act due to its membership being smaller than required by the Articles of Association of TAURON Polska Energia S.A., and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Company's Supervisory Board in accordance with the distribution of seats in the Supervisory Board defined in this section,
2. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10, clause 5 of the Articles of Association of TAURON Polska Energia S.A., hold a number of the company's shares that entitle them to exercise less than 25% of the total number of votes in the Company, the State Treasury, represented by the minister competent to exercise the rights related to the State Treasury's shares, shall be entitled to appoint and dismiss one member of the Company's Supervisory Board,
3. appointing and dismissing members of the Company's Supervisory Board by the State Treasury pursuant to the above mentioned clause 1 or 2 shall take place by means of a statement submitted to the Company.

In accordance with the Best Practice of WSE Listed Companies 2016 at least two members of the Company's Supervisory Board should meet the criteria of independence. A phrase an "independent member of the Supervisory Board" shall denote an independent member of the Supervisory Board within the meaning 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 supervisory board's committees (2005/162/EC) and the additional criteria indicated in the Best Practice of WSE Listed Companies 2016.

In accordance with the Best Practice of WSE Listed Companies 2016 at least two members of the Supervisory Board of TAURON Polska Energia S.A. meet the criteria of independence within the meaning of the above mentioned Recommendation.

Members of the Supervisory Board of TAURON Polska Energia S.A. 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 of WSE Listed Companies 2016. In case a situation occurs where the independence criteria are not complied with a member of the Supervisory Board shall be obligated to inform the Company promptly thereof.

Information on the fulfillment by the Members of the Supervisory Board of TAURON Polska Energia S.A. the independence criteria specified in the above-mentioned Recommendation and in the Best Practice of WSE Listed Companies 2016 is posted on the Company's website at: <https://www.tauron.pl>, and is presented in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

2.5.3. General Meeting of TAURON Polska Energia S.A.

Competence and description of the procedures of the Supervisory Board of TAURON Polska Energia S.A.

The procedures and empowerments of the General Meeting of TAURON Polska Energia S.A. are defined in the Articles of Association of TAURON Polska Energia S.A. and in the Regulations of the General Meeting of Shareholders of TAURON Polska Energia S.A. which are available on the website of TAURON Polska Energia S.A. at the address: <http://www.tauron.pl/>.

The competences of the General Meeting of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

General Meeting of Shareholders shall be convened by a notice published on the website of TAURON Polska Energia S.A. at the address: <http://www.tauron.pl/>, and in a manner defined for providing the current information by public companies. In case the General Meeting is convened by an entity or a body other than the Management Board on the basis of the 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 defined by law in order to convene, organize and conduct a General Meeting of Shareholders that take place either at the Company's registered office or in Warsaw.

General Meeting of Shareholders shall be opened by the Chairperson of the Supervisory Board of TAURON Polska Energia S.A., 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 Company's Supervisory Board, President of the Company's Management Board, a person designated by the Company's Management Board or a shareholder who registered at the General Meeting of Shareholders such a number of shares that entitle him/her to exercise the highest number of votes. Subsequently, the chairperson of the General Meeting of Shareholders shall be elected from among the persons entitled to participate in the General Meeting of Shareholders.

General Meeting of Shareholders shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Articles of Association of TAURON Polska Energia S.A. state otherwise. General Meeting of Shareholders may order a break in the meeting by the majority of two thirds of the votes. Breaks shall not exceed 30 days in total.

A break in the General Meeting's session may take place only in exceptional situations indicated each time in the justification of the resolution, prepared based on the reasons presented by a shareholder requesting the ordering of a break.

The resolution of the General Meeting on ordering a break shall clearly indicate the date of the session's resumption, however, such a date shall not create a barrier for the participation of the majority of shareholders in the resumed meeting, including the minority shareholders.

Description of the shareholders' rights and the way they are exercised

The description of the shareholders' rights and the way they are exercised is provided in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

2.5.4. Description of the principles applied to amend the Articles of Association of TAURON Polska Energia S.A.

Amendments to the Articles of Association of TAURON Polska Energia S.A. are made in accordance with the provisions of the Code of Commercial Companies, in particular: an amendment to the Articles of Association of TAURON Polska Energia S.A. takes place by way of a resolution of the General Meeting, passed by the majority of three fourths of the votes, and then requires issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Articles of Association of TAURON Polska Energia S.A., including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by way of a resolution.

In accordance with the Articles of Association of TAURON Polska Energia S.A., a material change to the subject of the operations of TAURON Polska Energia S.A. requires two thirds of the votes in the presence of persons representing at least half of the share capital.

2.6. Principles of TAURON Group's management

The management of TAURON Group is carried out based on two internal documents: the Code of the Group and TAURON Group's Business and Operational Model.

2.6.1. Code of TAURON Group

The management of TAURON Group is based on the leading role of the corporate center, i.e. the parent company - TAURON Polska Energia S.A., which manages the subsidiaries that are a part of the Lines of Business and the shared service centers. The relations with respect to making decisions are regulated by the Code of the Group, which is the core regulatory act of TAURON Group. The Code of the Group regulates its operations, ensuring the accomplishment of the goals through tailored solutions with respect to the management of TAURON Group's entities, including, enabling achieving of the effects assumed in the Strategy.

2.6.2. TAURON Group Business and Operational Model document assumptions

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

This document defines the high-level architecture of processes, as well as the functions and tasks of the Corporate Center, Lines of Business and other units. Moreover, in order to provide flexibility, resilience and adaptation of TAURON Group to the changes in the environment, in particular those resulting from climate change, the current Business and Operational Model of TAURON Group takes into account the role of ESG (Environmental, Social Responsibility, Corporate Governance) as an increasingly important tool of the communication with the environment (stakeholders). The Business and Operational Model was developed taking into account the requirements related to the unbundling.

The foundations of the Business and Operational Model include:

- building the value of TAURON Group as a whole (priority of the economic interest of the Group, which does not always have to coincide with the economic interest of individual subsidiaries or Lines of Business),
- environment protection and adaptation to the challenges stemming from climate change,
- focus on customers (internal and external),
- adhering to the Group's values (PRO values),
- accelerating and simplifying the decision making processes,
- taking advantage of TAURON Group's personnel knowledge and qualifications.

To ensure efficient management, the division of the roles and responsibilities was implemented in accordance with the business model (described in sub-chapter 2.4) in force, based on assigning process competences to the Corporate Center, the Lines of Business and the Shared Services Centers. This division is presented in figure no. 8.

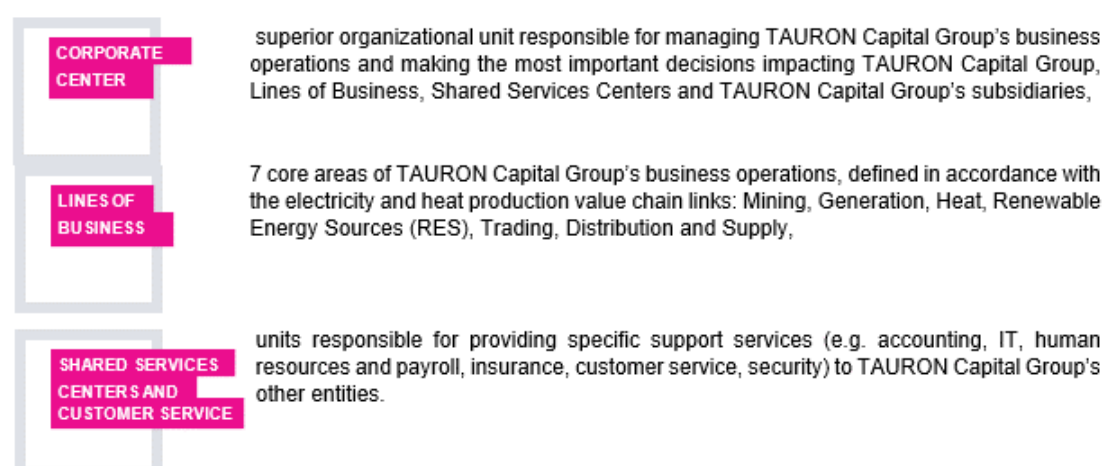


Figure no. 8. The division of obligations (duties) and responsibilities under TAURON Capital Group's business model in 2020

2.7. TAURON Capital Group's organization

TAURON Capital Group's organization, that implements the Group's business model described in sub-chapter 2.4, should be viewed according to three aspects:

- process (business) related aspect – based on the process structure that clearly defines responsibilities and how processes are implemented. The advantages stemming from the way key business processes are conducted build value and impact the competitive position of TAURON Group,
- line of business related aspect – related to the profile of the operations conducted and the place within the Group's value chain,
- equity related aspect – the structure of the formal and legal domination of the Group's subsidiaries.

2.7.1. Process based organization

The regulations implemented in 2018, along with the Business Model, introduced the management by processes within TAURON Capital Group. During the 2020 works on the update of the Business and Operational Model, the functions and tasks performed as part of process management were reviewed.

The process documentation describes the split of competences and recurring actions performed, operational processes, including the descriptions of exchanged products and services. Processes are the superior organization in relation to the organizational structure of the individual subsidiaries and run horizontally across entire TAURON Group.

Based on the main products, TAURON Capital Group's processes were divided into three groups: management, operational and support processes.

The chart presented in figure no. 9 presents mega-processes identified at TAURON Group (the highest process level).



Figure no. 9. TAURON Capital Group's mega-processes in 2020

The owners of the mega-processes (the highest process level) are the indicated TAURON Polska Energia S.A. directors. The process documentation (maps, diagrams and process sheets) defines and describes decision making powers (competences) and actions to be undertaken by the individual organizational units within TAURON Capital Group's various companies. The owners of the mega-processes decompose these into lower level processes and appoint their owners. Each process has its owner and process metrics defined by the higher level process owner. The process documentation defines the course of action (interdependencies) and decision competences for the recurring processes.

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

The essence of the management by processes lies in the continuous search for and implementation of efficiencies along with the clear and transparent division of competences and responsibilities. Processes are modified accordingly to improve their efficiencies. The process documentation is published in the intranet and available to all employees of the Group.

The competences and process interdependencies described in the process documentation supplement the competences stemming from the organizational structure of the individual subsidiaries and support the operations of the Group's subsidiaries as a single entity.

2.7.2. Organization by Lines of Business

TAURON Capital Group's operations are implemented, as described in the sub-chapter on the Business model, based on seven Lines of Business (Mining, Generation, Heat, Renewable Energy Sources (RES), Trading, Distribution and Supply).

A Line of Business is a company, several companies or a separate part of a company owned by TAURON Group, responsible for the implementation of specific tasks related to the Group's core business. Lines of Business are responsible for implementing the core processes and support at the Line of Business level and they participate in management processes and support processes implemented at the Group level. They are presented, including the assignment of the individual subsidiaries of TAURON Group thereto, in figure no. 10.

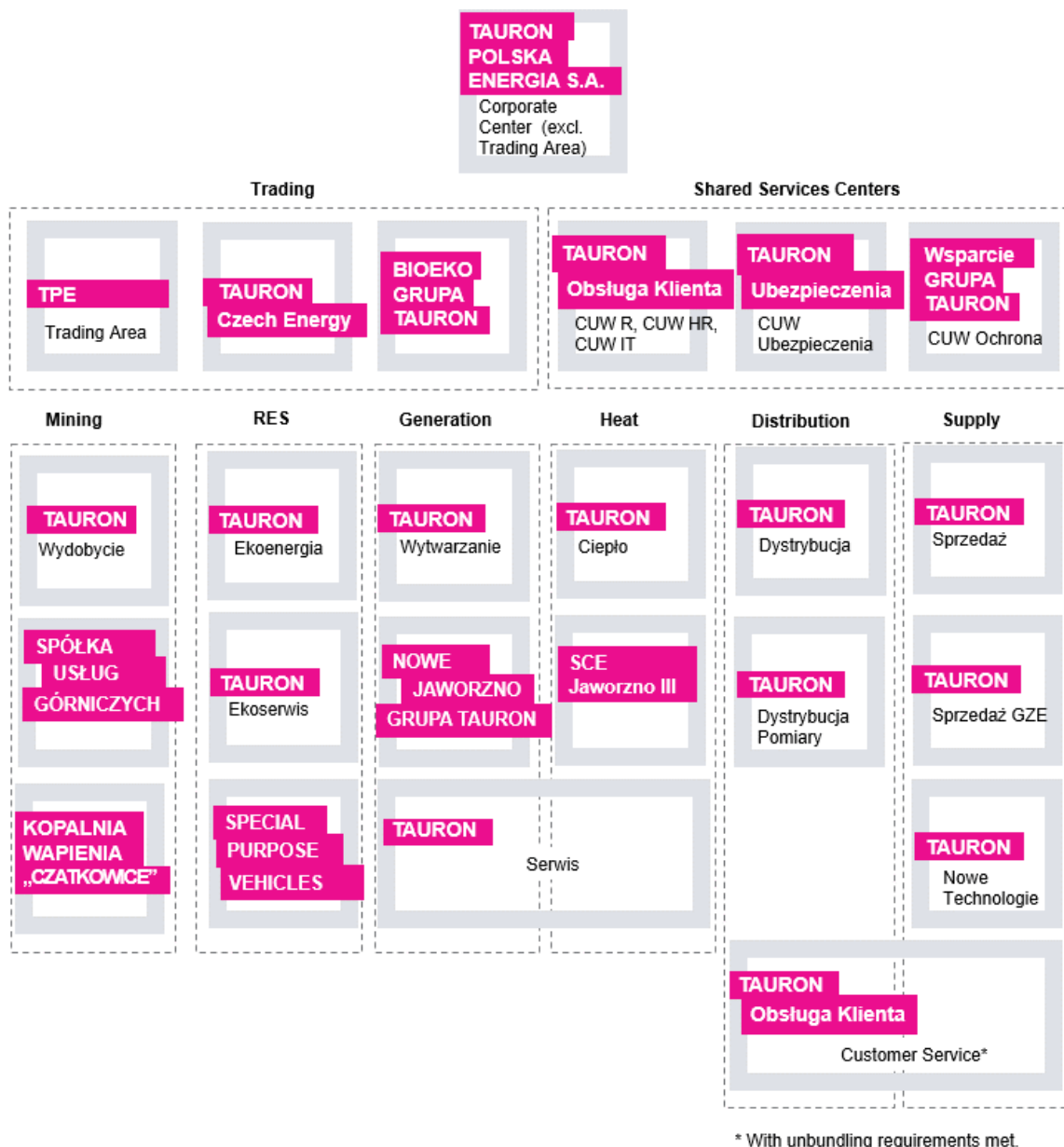
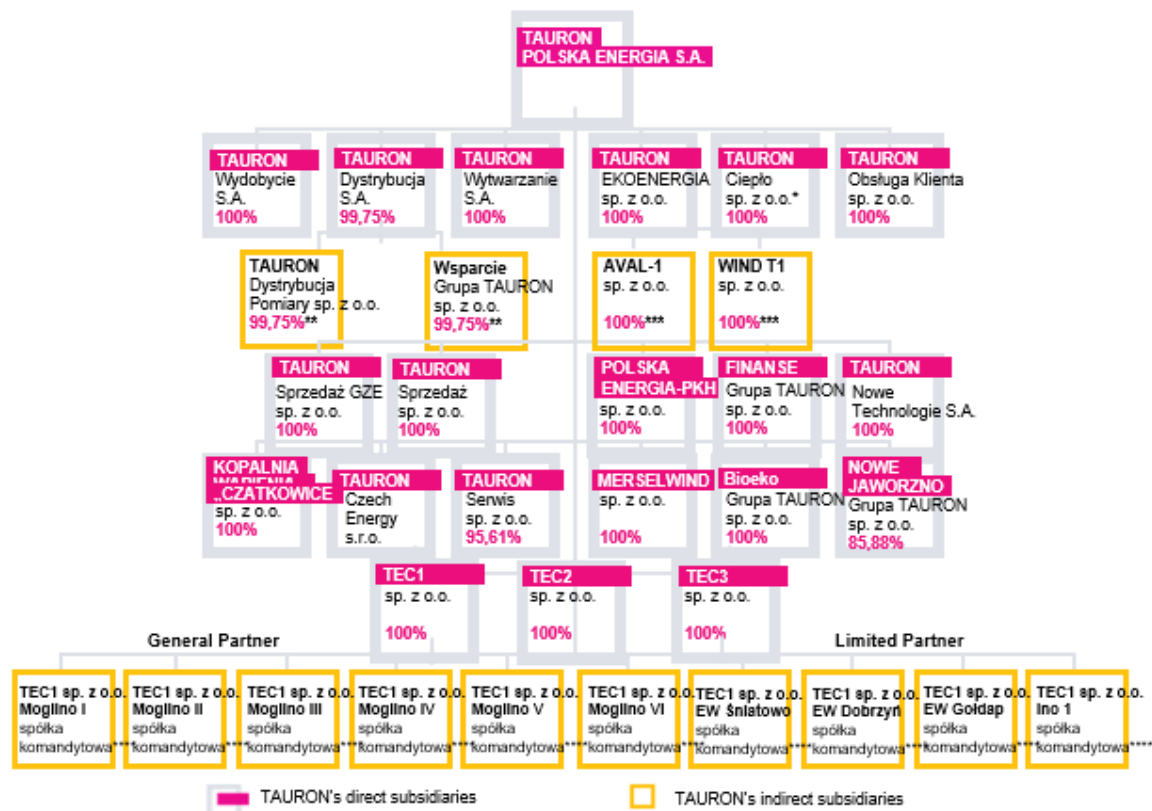


Figure no. 10. Assignment of TAURON Capital Group's subsidiaries to Lines of Business and Shared Services Center (CUW) in 2020

2.7.3. Formal and legal organizational structure

As of December 31, 2020, TAURON Capital Group's subsidiaries, besides the TAURON Polska Energia S.A. parent company, included 34 subsidiaries subject to consolidation and 4 jointly controlled entities (co-subsiaries) included in the consolidated financial statements as of December 31, 2020 of TAURON Polska Energia S.A. based on the equity method, i.e. Elektrociepłownia Stalowa Wola S.A., TAMEH HOLDING Sp. z o.o., TAMEH POLSKA Sp. z o.o., TAMEH Czech s.r.o.

TAURON Capital Group's structure is presented in figure no. 11.



*As of the balance sheet date, TAURON Capital Group assessed that in relation to the net assets of the TAURON Ciepło subsidiary, the conditions for classifying the above assets as a group for disposal, classified as held for sale were met.
 **The shares in TAURON Dystrybucja Pomiarów and Wsparcie Grupa TAURON are held by TAURON Polska Energia S.A. indirectly via TAURON Dystrybucja subsidiary, TAURON Polska Energia S.A. is a user of the shares of TAURON Dystrybucja Pomiarów.
 ***The shares in Aval-1 and Wind T1 is held by TAURON indirectly via TAURON Ekoenergia subsidiary.
 ****In the following limited partnerships: TEC1 is the General Partner, TEC3 is the Limited Partner.

Figure no. 11. Core TAURON Capital Group's subsidiaries in 2020, including the parent company's shareholding therein

Parent company's organizational structure

TAURON Polska Energia S.A is TAURON Capital Group's parent company, performing the role of the corporate center. The company's operations are managed by the Management Board within which the competences for managing the business units were split among the President of the Management Board and the Vice Presidents of the Management Board. Figure no. 13 in section 2.8 presents the current split of competences within the Management Board of TAURON Polska Energia S.A.

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

Changes to the principles of the Company's management

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

The organizational structure of TAURON Polska Energia as of December 31, 2020, and as of the day of drawing up this Report is presented in Figure no. 12.

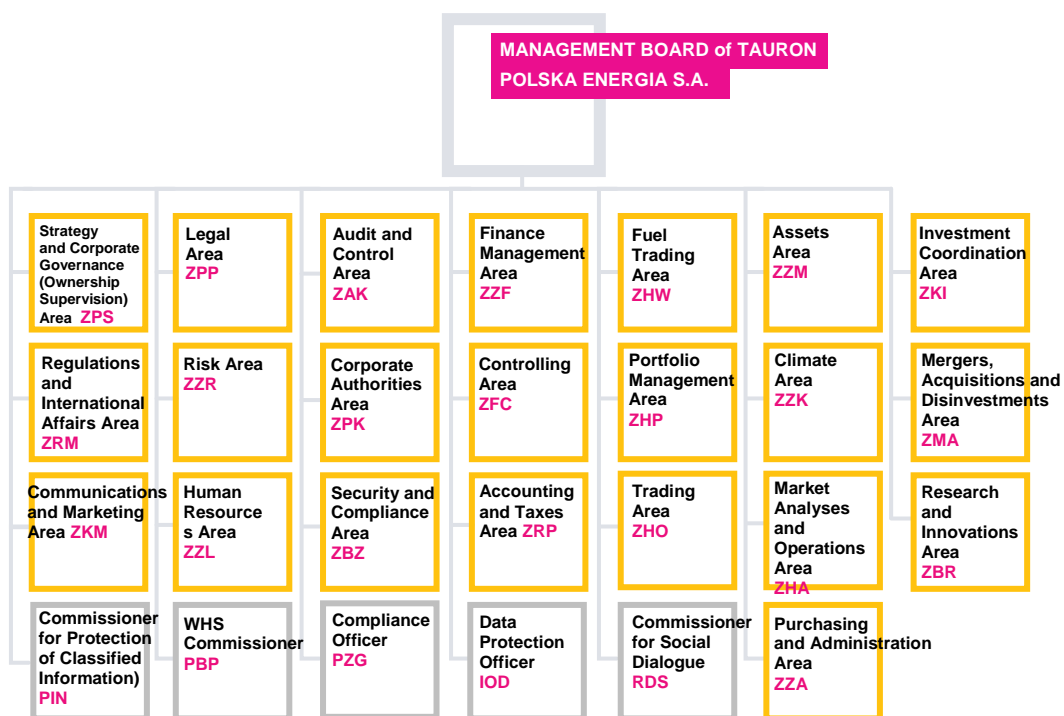


Figure no. 12. Organizational diagram of TAURON Polska Energia S.A. as of December 31, 2020, and as of the day of drawing up this Report.

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

As of November 3, 2020, the Management Board of TAURON Polska Energia S.A., by way of a resolution, assigned to the Members of the Management Board of TAURON Polska Energia S.A., directly, the individual lines of business and the independent work positions.

The diagram showing the division of responsibilities of the Members of the Management Board of TAURON Polska Energia S.A. as of the day of drawing up this Report is presented in Figure no. 13.

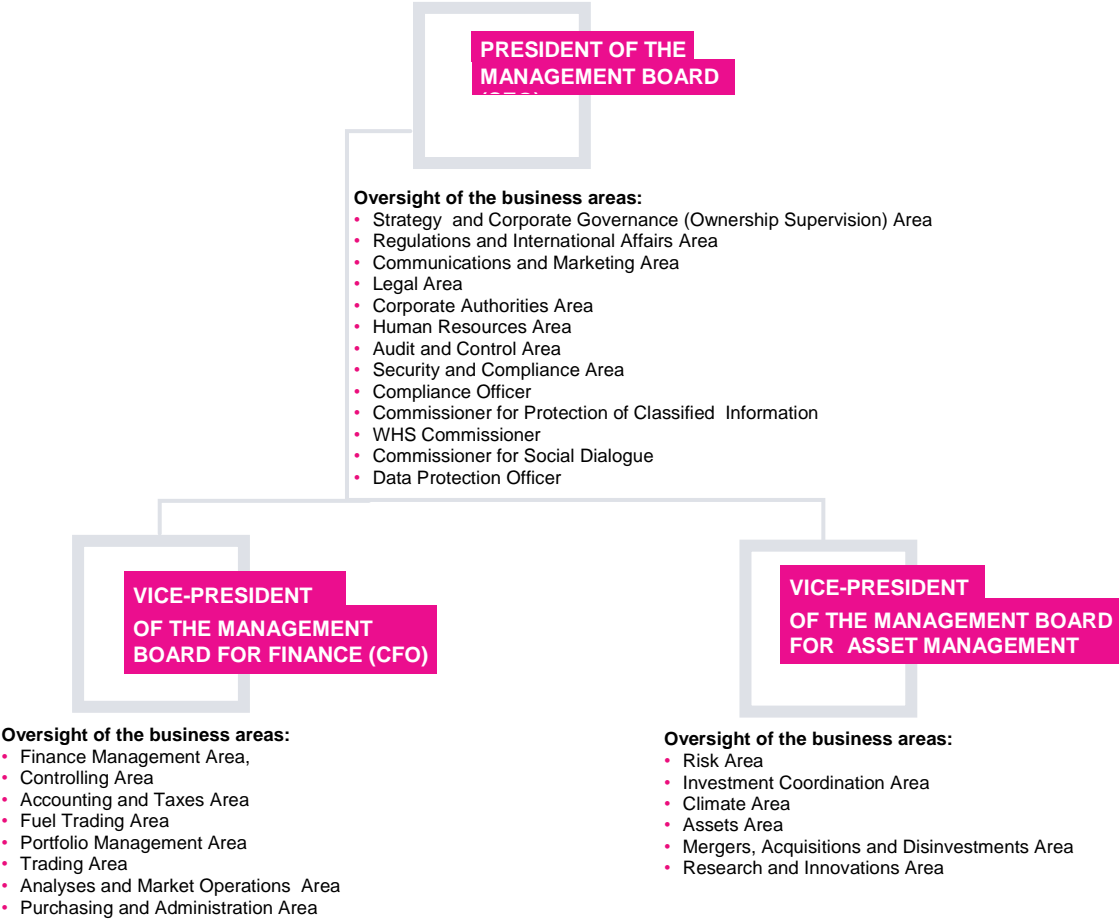


Figure no. 13. The diagram showing the division of responsibilities of the Members of the Management Board of TAURON Polska Energia S. A. as of the day of drawing up this Report

Changes to the principles of TAURON Capital Group’s management

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

The updated Business and Operational Model of TAURON Group was developed taking into account the requirements related to the unbundling (i.e. separation of the operations with respect to electricity distribution from the operations involving the generation and supply of such electricity to the final consumers), established in the Compliance Program and generally applicable legal regulations, taking into account the legal, functional and organizational separation of the DSO within the structure of TAURON Capital Group.

Furthermore, the functions and tasks performed within all of TAURON Capital Group’s mega-processes were reviewed, which was done jointly with their owners, and the provisions were updated or the required additional functions and tasks were formulated, appropriately assigning competences to the Corporate Center, Lines of Business and Shared Services Centers.

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

2.9. TAURON Capital Group's strategy and business model in the context of climate protection requirements

Being aware of the progressing climate changes and their effects, as well as of the important role and tasks of the power sector in the broadly understood transition to a low emission economy, TAURON Group is taking actions aimed at reducing the negative impact of TAURON Group on climate and the environment and taking the greatest possible advantage of the opportunities associated therewith. The Group was organized in a long chain of operations covering virtually all of the value building stages: from acquiring fuel, up to supplying the product to the final consumer. Such organization allows to impact the quality of the processes implemented at each stage of value creation, and thus optimize and, if required, change the way of doing business so as to respond to the current and future challenges. TAURON Group is changing towards the implementation of the assumptions of the European Green Deal, which is reflected, inter alia, in the Green Turn of TAURON. For the energy industry, the climate impact includes both, weather related occurrences, as well as regulatory changes and changes in customer attitudes. All of this is not without significance for the business model and Strategy,

In line with the European Green Deal, the transition of the European economy towards a sustainable future takes place on many levels. TAURON Group recognizes the risk of significant changes in the regulatory area, both at the European, as well as the national level, aimed at minimizing the negative impact on the climate by introducing further restrictions for coal based power generation, mainly tightening of the climate regulations and the departure of the financial institutions and insurers from the cooperation with entities operating coal assets. The above is the main determinant for the development of RES at TAURON Group, as well as for the implementation of the principles of the so-called circular economy. However, one should be aware of Poland's current energy mix, including that of TAURON Group, based on fossil fuels, historically associated with the large coal resources held, ensuring energy security. The departure of the energy industry from that model will be a process that must be spread over time and for which funds will be required to provide investment opportunities and activities mitigating the social implications of the changes taking place.

In order to standardize the approach to financing environmentally sustainable investments a framework for financial market participants was created at the European Union level that allows for classifying economic activity as environmentally sustainable. Such an approach, presented mainly in the European Commission Communication 2019/C 209/01 and in the Taxonomy document of June 2019, as well as in the Regulations of the European Parliament and of the Council no. 2019/2088 and 2020/852, allows for a uniform indication which investments and consequently, the revenues, can be qualified as sustainable and thus contribute to the achievement of the environmental objectives. Contributions to mitigating climate change include, among others: generation and distribution of electricity from renewable sources. In this respect, TAURON is gradually increasing the share of production from renewable sources thanks to investments in wind and photovoltaic power plants and the modernization of hydropower plants. TAURON is also implementing a distribution grid modernization and expansion program, thanks to which it is possible to connect more renewable sources, including the prosumer ones. In 2020, nearly 100 thousand prosumer installations were connected to TAURON Dystrybucja's grid with a total capacity of more than 650 MW, the cumulative capacity of prosumer installations connected to TAURON Dystrybucja's grid is more than 970 MW. The use of the best available technologies can also be considered as a contribution to mitigating climate change - such a solution is the 910 MW unit in Jaworzno, commissioned in 2020, which is a unit with a supercritical parameters boiler providing the highest possible efficiency, which will replace the old generation assets with higher emissions.

In accordance with the Update of the Strategic Directions, adopted in May 2019, TAURON Group will reduce its emissions by more than 50% by 2030, as shown in Figure no. 14.

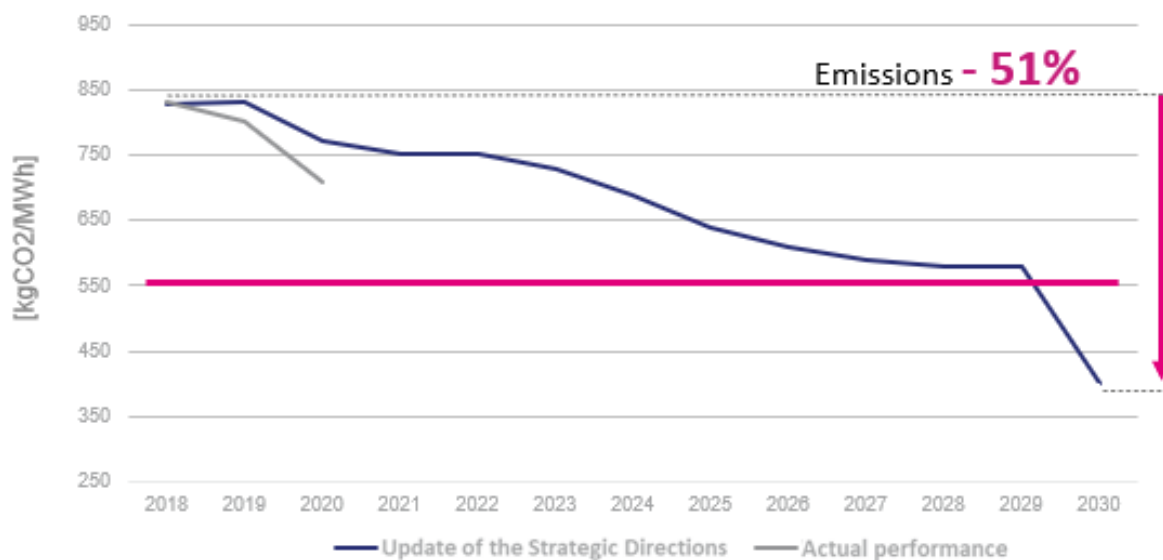


Figure no. 14. Planned CO₂ emissions by TAURON Capital Group in 2018-2030

With respect to the protection of water resources, TAURON places great emphasis on saving water in technological processes, e.g. by using closed cooling circuits in conventional power plants. In case of hydroelectric power plants, environmental requirements are met, e.g. by building and maintaining systems that enable fish migration (the so-called fish passes).

Due to the adopted business model, it is important for TAURON Group is to implement the assumptions of the circular economy. This applies in particular to the initial links of the value chain. In the mining line of business, gangue (barren rock) is mined as a by-product, while ash and slag are produced in the conventional generation segment. TAURON Group strives to convert 100% of its furnace (combustion) and mining waste into products. Thanks to the actions taken, they become products used, for example, in road building, construction industry, or as a material used for the construction of flood embankments.

Another activity related to the achievement of environmental targets, implemented within TAURON Group, is pollution prevention. It is achieved mainly through investment and modernization activities, involving the construction and operation of the technological lines that treat flue gases (e.g. electrostatic precipitators, flue gas desulphurization and denitrification) and wastewater (sewage treatment plants), as well as organizing processes in a manner that minimizes waste generation. Actions taken and results achieved, related to environment protection, including those associated with water consumption and waste management, are presented in chapter 4.3. TAURON Group's Environmental Policy.

Due to the technologies used, business operations in the energy sector may generate a number of negative impacts on the climate, in particular emissions from fossil fuel combustion sources, or drainage and degradation of the land as a result of mining activities. TAURON Group reduces its negative impact on the environment and climate thanks to the continuous modernization of conventional generating units, expansion of capacity in renewable energy sources, capturing and economic use of methane from coal deposits, limiting losses in electricity and heat distribution or retiring ineffective coal-fired units.

Positive effects can also be indicated, such as water damming and its accumulation during periods of heavy rainfall and the release during periods of drought, which not only allows for reducing the effects of drought, but also reduces the risk of inundation or flooding. The expansion of the heating infrastructure makes it possible to replace non-ecological individual coal-fired boilers with district heating. Modernization and expansion of the electricity distribution grid improves the reliability of electricity supply and enables connecting an ever increasing number of distributed electricity producers using renewable sources, including prosumers. As a result of its investment activities TAURON Group's production of electricity from renewable sources is gradually increasing, contributing to the mitigation of climate change. TAURON Capital Group's 2020 electricity production from renewable sources, broken down into generation technologies and from other sources, is presented in subchapter 4.4.

The Group's current Strategy responds to the current market, regulatory, technological and customer relationship challenges. The business model employed by TAURON Group allows for the implementation of strategic assumptions and thus supports the achievement of strategic goals. Referring to the terms of the Paris Accord (COP 21), which included an action plan assuming limiting global warming to a value below 2°C, it should be indicated

that the currently implemented Strategy and the business model of TAURON Group are in line with the implementation of this goal. In case the expected limitation of the temperature increase does not materialize, the measures and actions taken will have to be more radical, and their implementation will have to be significantly accelerated. Table 16 presents our understanding of the current situation and activities with respect to regarding shoring up the resilience of the business model to climate change.

Table no. 16. Changes to TAURON Capital Group's business model in the short, medium and long term

temperature rise scenario	Short term (until 2025)	Medium term (until 2035) Check point 2030		Long term (until 2050)
		Up to the check point	Past the check point	
< 2 °C	<p>We have solutions ready – we are implementing TAURON Group's Strategy:</p> <ul style="list-style-type: none"> • Shutdown of obsolete 120 MW coal fired units (approx. 1 GW). • Participation in implementing system solutions for the coal-fired units, conducted at the government level (NABE). • Prepared plan to change the fuel mix including a plan to invest in low and zero emission sources (approx. 900 MW in wind power plants + 300 MW in solar power plants). The completion of the above activities will allow for increasing the RES share to approx. 28% of the installed capacity. • New high efficiency and lower emission 910 MW unit in Jaworzno has been commissioned 	<ul style="list-style-type: none"> • Shutdown of the 200 MW coal fired units • Participation in the off-shore wind farm construction project • Service and product offering for the prosumers • Construction of successive large RES installations. It is assumed that low and zero emissions capacity will increase by further 1.4 GW. The completion of the above activities will allow for increasing the RES share to approx. 66% of the Group's capacity. 	<ul style="list-style-type: none"> • Maintaining profitable coal fired units as regulating and intervention sources. • Significant role of the distribution in the local balancing • Building installations that use "green hydrogen" 	<p>* Preparation of the development assumptions for the years 2030+</p>
> 2°C	<ul style="list-style-type: none"> • Option to sell the Heat Line of Business – including the coal fired generating units. • Option to sell a coal mine / mining company – government works underway on the system-wide solution for the coal mining assets. • Growing role of the distribution and increasing expenditures on adapting the grid to the rapid growth of the RES mini- and micro-installations 	<p>Adapting the mining operations to the demand of the Group's coal fired generating units</p>	<p>Limiting the mining operations to the level based on the Group's generating units regulating and intervention operation</p> <ul style="list-style-type: none"> • Maintaining the leading role of the distribution, including the need to commence building energy storage facilities for the local balancing 	<p>*Preparation of the development assumptions for the years 2030+</p>

* The main determining factors (drivers) for formulating the applicable provisions are: 1) Passing of Poland's Energy Policy; 2) Results of the government works on the system-wide solutions for the coal mining and conventional power generation.

Based on the scenario assuming warming at a maximum level of 2°C, changes in the external environment will be rather evolutionary, as a result of the growing awareness of the society and businesses and the ever increasing availability of the new technologies. If the evolutionary activities cannot stop the temperature rise and the forecasts will be clearly indicating that there is a high probability of exceeding the average temperature rise by more than 2 °C above the value from the pre-industrial era, changes in the external environment, in particular with respect to the regulations, organization of the power (energy) system and the power (energy) production model, as well as the customer awareness and behaviors will be very deep and fast. As of today, we can plan counteracting climate change taking into account the available technologies and the best knowledge as well as, very importantly, the availability of financial resources. The potential emergence of modern and breakthrough technological solutions and their commercialization may lead to fundamental changes in the entire energy sector's functioning model.

The growing energy awareness, combined with the rising energy cost, will lead to the ever higher and rising interest in energy efficiency, energy saving and electricity production from the renewable energy sources (RES). More and more customers will accept higher electricity costs as long as it is produced without the negative impact on the climate. Social pressure and the EU regulations are causing Poland to introduce increasingly more stringent environmental standards and a rising taxation of the CO₂ emissions (fees for the CO₂ emissions). The continuous increase in the CO₂ emission allowances prices is also associated with the use of the regulatory mechanisms leading to the reduced supply of the emission allowances, the EU's commitments to reduce the emissions by 55% in 2030 will be implemented through the supply controls – that is why the development of low- and zero-emission energy sources is so important. The next version of the BAT conclusions is expected to be released in the second half of the decade. The adaptation of the coal fired units to the more stringent emission standards may prove to be impossible technologically or very expensive and ultimately economically unjustified for the older generation sources. In response to the above, TAURON Group is already today assuming a gradual decommissioning of the old coal-fired units. The first of such steps was the permanent shutdown of the coal-fired units with a total capacity of 970 MW at the turn of 2020 and 2021. In accordance with the Strategy, further coal-fired units will gradually be retired by 2030.

The improvement of energy efficiency and the levels of greenhouse gas emissions in 2020 are presented in section 4.4 TAURON Group's Climate Policy.

The EU's new requirements imposed on the financial institutions practically cut off the coal technologies from the European funding sources. At the same time, investors and financial institutions are eager to participate in the RES projects. We assume that no European aid funds will be available for the development of the coal-based electricity generation sector, and for the gas fired generation sources such access will be limited. With respect to the power and heat generation sector, aid funds will be allocated solely to the restructuring and mitigation of the social effects as well as the transition of the energy towards electricity generation from RES. TAURON Group acquires financing to support the Green Turn of TAURON, allocating funds for investments that contribute to the implementation of the environmental goals - mainly with respect to electricity distribution and renewable generation sources. The list of funds obtained for pro-climate investments is presented in section 4.4 of this Report.

With respect to renewable energy sources, offshore wind energy is a technology that could play an important role in the current decade. It is assumed that in the first phase support will be granted to projects with a total capacity of approx. 5.9 GW, in the second phase, beyond 2025, as a result of an auction, this capacity may be increased by another approx. 5 GW. It should be mentioned that at the EU level the offshore strategy assumes the construction of more than 300 GW of capacity by 2050 as part of the development of offshore wind energy. In order to take full advantage of this potential, it is necessary to develop technologies that enable energy storage. One of such solutions is the production of hydrogen using electricity from renewable sources. The European hydrogen strategy envisages the construction of approx. 40 MW of capacity in electrolyzers interworking with renewable sources by 2030 and a further development of this technology by 2050. Work is underway in Poland on the "Polish Hydrogen Strategy until 2030". The draft document assumes that these activities will cover both the energy sector, as well as transportation and manufacturing industry. TAURON, acting in line with the indicated trends, both develops energy storage technologies (more about the projects in section 4.10 Strategic Research Agenda), but also carries out activities aimed at developing offshore wind energy – among others, an agreement was signed in 2020 on the cooperation in the joint implementation of offshore wind farm projects in the Polish economic zone. TAURON informed investors of this event in the current report (regulatory filing) no. 56/2020 of December 29, 2020. In January 2021, PGE, Enea and TAURON also concluded a letter of intent regarding cooperation with respect to offshore wind energy.

The rising share of the wind farms in the production mix will lead to the higher price volatility. A similar situation occurs with respect to the PV sources. Prosumer installations and large-scale installations operating today and forecast to be launched cause and will cause a still higher price volatility. Electricity during the peak hours of renewable energy production will be cheap, therefore it is likely to worsen the economic efficiency of such installations. The solution to this issue is technology diversification. TAURON Group does not focus on one renewable energy technology. Another solution to this problem can be energy storage technologies - both using storage facilities based on electrochemical cells as well as based on the production and storage of hydrogen using redundant, cheap electricity. As of today, both of these energy storage technologies are being developed by TAURON Group.

The rising number of the intermittent (non-controllable) renewable energy sources, as well as the growing number of prosumer installations are ever increasingly affecting the power system from the technical and commercial point of view. Rising energy efficiency of the customers and growing production from the prosumer installations lead to a drop of the demand for the electricity generated by the system (utility scale) sources. This trend, combined with the rising prices of the fossil fuels and/or the increase in the environmental and climate costs (CO₂ emission and the costs of the other emissions) related thereto, causes a shift in the role of the system (utility scale) power plants (in particular, the coal fired ones) from the position of primary sources to that of complementary and stabilizing ones.

TAURON Group's Strategy places a strong emphasis on the development of renewable energy sources. The modern 910 MW coal-fired unit in Jaworzno, commissioned in 2020, is the last coal-based generation unit, and the investment plans envisage the expansion of capacity in onshore and offshore wind technologies and the construction of photovoltaic farms. The first effects of implementing such strategy included doubling of the wind farms capacity in 2019.

The nature of the transmission systems and distribution grids is changing. This is mainly due to the development of distributed energy and requires the allocation of significant investment outlays for the expansion and adaptation of the grid to bi-directional flows. The technical solutions and network topologies are also significantly affected by the extreme weather conditions. Their increasing number and intensity makes it necessary to use the solutions resilient against, in particular, strong winds. This leads to the need to build cable and insulated networks (for the medium and low voltage grids) and upgrade the overhead networks, especially in the built-up and forest areas. TAURON Dystrybucja, as the Distribution System Operator, has, for years, been, implementing investment tasks to improve the quality and reliability of electricity supplies, mainly through automation, modernization of the existing grid and its expansion. Such activities improve network management, allow for a faster response to the grid disruptions, enable connecting further renewable energy sources and, inter alia, thanks to cabling, they reduce the possibility of a negative impact of weather and climate phenomena on the grid.

Climate changes observed in recent years do not significantly affect the way TAURON Group uses its natural capitals. Temperature rise associated with climate change has a negative impact on the production from hydroelectric power plants (due to the hydrological drought), but thanks to the development of photovoltaic and wind generation, including off-shore, the Group will be able to use such renewable generation sources even to a larger degree. In the long run, TAURON Group's impact on natural resources will be decreasing, both due to the need to meet the expected tightening of environmental requirements and climate policy, as a result of investments into new, low- and zero-emission energy sources, but also thanks to the permanent shutdown of obsolete conventional units.

Climate change, in particular the rise in temperature, mainly in the winter months, reduces the need for heat and electricity for the heating purposes. When planning the consumption of natural resources, the Group will have to take into account such changes. Being aware of the non-renewable nature of the hard coal sources consumed, the Group uses them in a responsible and efficient manner. The Group's transition towards low- and zero-emission energy will impact the business model, shifting revenue generation place within the value chain. In turn, the implementation of this scenario will have an impact on human capital, causing the need to change the qualifications of some employees and hire people with new skills. Thanks to the transition being implemented, there is also a chance that dedicated and qualified persons might become interested in working at TAURON Group, as they would be offered an opportunity to build career paths in the new renewable technology fields. The challenges associated with therewith and the opportunity to work in a stable industry will become one of the factors changing the perception of the energy sector by young generations, as an industry viewed as modern and climate neutral. More on TAURON Group's capitals in section 2.1 Our capitals and relations among them.

TAURON Group has no significant impact on climate change through deforestation, forest degradation or changes to land use. More information on this topic can be found in section 4.3 and 4.4, describing TAURON Group's Environmental Policy and Climate Policy.

Taking into account the above-mentioned scenarios and TAURON Group's potential responses, the Management Board of TAURON Polska Energia adopted, in May 2019, the Update of the Strategic Directions, supplementing TAURON Group's Strategy for 2016-2025. More on TAURON Group's Strategy in section 3.3 TAURON Capital Group's Strategy and the Green Turn of TAURON.

2.10. GRI indicators described in this chapter

- GRI 102-1 Organization name
- GRI 102-2 Activities, brands, products and services
- GRI 102-3 Location of headquarters
- GRI 102-4 Location of operations - including the number of countries in which the organization operates, along with the names of those countries, where the main operations of the organization are located, or which are particularly important in relation to topics related to sustainable development discussed in the report
- GRI 102-5 Ownership and legal form
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization

- GRI 102-10 Significant changes during the reporting period regarding size, structure, ownership form or value chain
- GRI 102-11 Precautionary principle
- GRI 102-16 Values, ethics code, principles, standards, and norms of behavior
- GRI 102-17 Internal and external mechanisms enabling obtaining advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-18 Governance structure
- GRI 102-22 Composition of the top management authority
- GRI 102-23 Top management authority
- GRI 102-24 Method of selecting the top management authorities
- GRI 102-26 Role of the top management body in the environment, purpose, values and strategy
- GRI 102-28 Evaluation of the results of the top management body
- GRI 102-32 Role of the top management body in reporting
- GRI 102-25 Conflict of interest
- GRI 201-2 Financial implications and other risks and opportunities associated with climate change
- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. Impact of these activities on society,
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area with indication of material topics within the given area
- GRI 102-2 Activities, brands, products, and services
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes to the organization and its supply chain in the reported period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-25 Conflict of interests
- GRI 201-2 Financial implications and other risks and opportunities related to climate change
- GRI 203-1 Supported infrastructure investments and services for the benefit of society through commercial activities, transfer of goods and pro-bono activities. The impact of these activities on society
- GRI 103-2 The management approach and its components in the areas: environmental, social, human rights, anti-corruption, HR, including indicating material topics in the given area

3. ENVIRONMENT CONDITIONS DETERMINING THE CHOICE OF TAURON CAPITAL GROUP'S STRATEGY AND THE ASSUMPTIONS THEREOF

3.1. Conditions of the environment determining the choice of TAURON Group's strategy in the long, medium and short term and the assumptions of such strategy

3.1.1. TAURON Group against the backdrop of the world's greatest challenges – coronavirus pandemic

The greatest challenge of 2020 for all of the world's economies was the emergence of the infectious disease COVID-19. The pandemic led to a series of social and economic disruptions and, as a consequence, to a global recession. At the end of 2019, the World Bank forecast a slowdown in the economic growth of the world economy from approx. 3% to 2.8% in 2020. After the outbreak of the infection, the forecasts for 2020 changed and in 2020 the global economy not only failed to grow, but it even contracted by 4.3%.

The Polish economy has been one of the world's fastest growing economies in recent years. The country's economic growth rate averaged 4.2% in 2019. The rise of COVID-19 infections and the government actions aimed at minimizing the risk of an increase in the number of infections led to a freeze of the national economy. Ultimately, Poland's GDP growth rate came in at -2.8% in 2020.

A decline in production, a halt or delays of investments, a decrease of private consumption, a drop in exports and imports are the effects of a pandemic that affect the functioning of the economy. The outbreak of the coronavirus also resulted in an increase in the prices of goods and services. Poland's inflation rate was approx. 3.4% yoy in 2020. The index was mainly influenced by the observed increase in food prices and health related costs. The registered unemployment rate at the end of the second quarter of 2020 was approx. 6.1% and continued at this level until the end of the year.

ARA spot coal prices in the first half of the year fell from 55 USD/t at the beginning of the year to approx. 40 USD/t and in the second half of the year they gradually returned to the level observed at the beginning of the year. The difficult situation on the coal market in Poland has been observed for a long time and the hard coal production volume has been gradually decreasing year by year. Hard coal extraction in Poland fell by 13% in the January-November 2020 timeframe - more than 7 million Mg less coal was extracted during the 11 months of 2020 than in the previous year.

The coronavirus pandemic has had a significant impact on the country's electricity demand. Lock-down caused that many energy-consuming enterprises shortened their working time, and some companies closed their operations for economic reasons. In the first half of the year, domestic electricity production decreased by about 8%. Throughout 2020, a 4% decrease in production was observed, and a 2.3% decrease in electricity demand. Electricity prices in annual contracts were highly volatile, with a visible downward trend in the first two quarters of the year. The average annual BASE electricity price amounted to approx. PLN 233 / MWh and was almost 13% lower than the average price in 2019.

The coronavirus pandemic has had a significant impact on Poland's electricity demand. Lock-down meant that many energy-consuming enterprises shortened their working time, and some companies shut down their operations for economic reasons. Domestic electricity production decreased by approx. 8% in the first half of the year. For the full 2020, a 4% decline in production was observed, while demand for electricity dropped by 2.3%. Electricity prices under annual contracts were highly volatile, with a visible downward trend in the first two quarters of the year. The average annual BASE electricity price amounted to approx. 233 PLN/MWh and was almost 13% lower than the average price in 2019.

The prices on the CO₂ emission allowances market in the first two months of 2020 were more or less stable, at approx. 26 EUR/Mg. In March, the CO₂ prices dropped sharply, to approx. 15 EUR/Mg. The freezing of the economies resulted in a decrease of industrial production, which in turn led to a drop in demand for the EUA allowances. In the second half of the year, despite the COVID-19 pandemic underway, the prices of the emission allowances rose significantly. In December, the average price stood at 31 EUR/Mg.

3.1.2. TAURON Group against the backdrop of the world's greatest challenges – climate changes and insufficient resources

There is no doubt that humans impact the climate system, and this fact is evidenced by the increase in the concentration of greenhouse gases in the atmosphere and the observed warming. There is also no doubt regarding the relationship between this rise and the increase in the temperature on Earth. The concentration of carbon dioxide in the atmosphere has reached very high value over the recent decades. We are observing successive, shameful records: the highest temperature, the hottest summer, the smallest area of the Arctic ice cover in the history of satellite measurements, etc. Extreme weather conditions are becoming more and more common.

It should be emphasized that energy and climate change issues are closely related, as the manufacturing industry, transportation and energy sectors are responsible for the majority of the EU's greenhouse gas emissions. The assumption is that a reduction of emissions in the energy sector is easier to achieve in a shorter timeframe than in the other sectors mentioned above, due to the focus on solid fossil fuels and the possibility of providing substitution using renewable sources. As a result, transforming electricity generation is of essential importance for tackling climate change. Satisfying energy needs while reducing greenhouse gas emissions is the main challenge for the EU, and especially for Poland.

Climate change and progressing environment degradation pose a threat for Europe and the rest of the world and require an urgent response. To meet these challenges, the European Council called for more efforts to combat climate change and asked the European Commission to accelerate the works on the EU's climate neutrality, in line with the EU's international commitments under the Paris Accord.

As a result, the European Green Deal strategy was announced in December 2019, and the 2050 climate neutrality target was approved. The European Green Deal is a newly proposed EU growth strategy that aims to transform the European Union into a climate-neutral, fair and prosperous society with a sustainable, resource-efficient and competitive economy. The European Green Deal requires a holistic approach, i.e. the participation of all of the EU actions and policies in achieving its goals; all of the current policies related to climate neutrality will be subjected to a review and, if required, revised in line with the greater climate ambitions. It is assumed that reforms will be implemented, first and foremost, in those sectors of the economy that have the greatest impact on climate change and the environment, including the mining and energy sectors.

In addition, the European Council approved a new binding EU target in December 2020, assuming the reduction of the national net greenhouse gas emissions by at least 55% by 2030, as compared to the 1990 levels.

It should be emphasized that achieving climate neutrality by 2050, as a result of the social and economic transition, will be a great challenge for Poland and the Polish energy sector. The regulations stemming from the European Green Deal will have a significant impact on the operations of TAURON Group in the short and long term. More information on the Group's impact on the climate and adaptation to climate change is provided in section 4.4 of TAURON Group's Climate Policy.

Dependence on fossil fuels, in addition to a significant impact on the climate, means that the industrial sector based thereupon must take into account their supply limitations, deterioration of the availability conditions and finally exhaustion, which in the long run leads to the worsening conditions for economic growth. Insufficiency of the resources in the energy sector is controlled using operational limits stemming from the legal mechanisms, e.g. licenses specifying the allowed scope of extraction of a hard coal or limestone deposit, or water law permits specifying limits for the use of water resources in case of activities related thereto. The quantities of water taken directly from the environment (surface and groundwater intakes), as well as the quantities and quality of wastewater that can be discharged into the environment are limited. For these reasons, whenever possible, technical solutions allowing for the so-called closing of the circuits, i.e. reusing water within technology process circuits with lower quality requirements. Also, the use of water to produce electricity in hydropower plants is limited by additional conditions specified individually for each power plant, such as the water damming level or the minimum flow due to the biological requirements

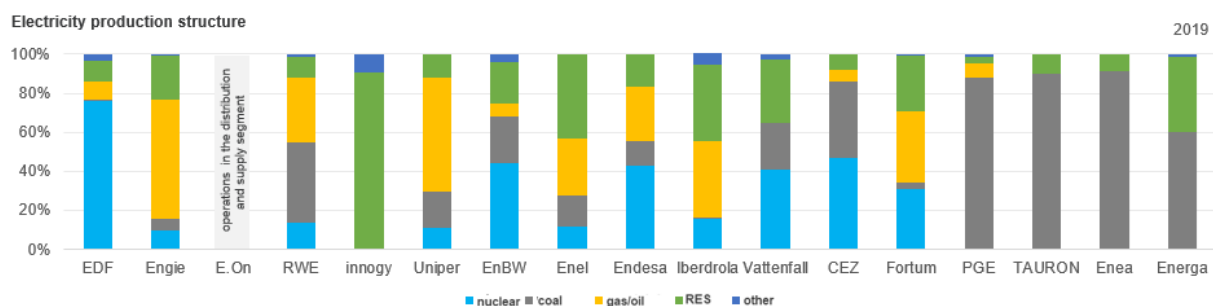
Insufficiency of resources can also constitute an opportunity for the energy and mining industries, as these sectors can be a source of materials that can replace the increasingly limited natural aggregates. The ashes, slag, gypsum from desulphurization processes, produced as by-products for years, or post-mining aggregates that accompany coal processing, are becoming more and more sought after on the market, due to the fact that such substances, produced as integral parts of the energy production process, as a result of burning solid fuels and processing of extracted minerals, can be used without any further processing in an environmentally safe manner as substitutes for natural aggregates.

More information on the Group's use of the environment and the circular economy in section Environmental Policy (4.3) and sub-section Natural capital (2.1.2).

3.1.3. TAURON Group against the market backdrop in the short, medium and long term – Europe

All of the energy groups in Europe are seeing changes taking place in their environment. Currently the main trend is the broadly understood development of renewable energy sources. This is accompanied by decarbonization, electrification of the transportation, energy efficiency or decentralization of electricity generation as well as the improvement of the quality and security of electricity supply. This is reflected in the European energy groups' generation mixes and installed capacity.

Figure no. 15 presents a comparison of the generation mix and installed capacity among selected largest energy groups in Europe.



	GW	EDF	Engie	E.On	RWE*	innogy	Uniper	EnBW	Enel	Endesa	Iberdrola	Vattenfall	CEZ	Fortum	PGE	TAURON	Enea	Energa
2018 total	126,5	104,3	5,3	41,7	3,6	36,6	13,4	85,6	22,7	46,7	31,1	14,8	13,7	16,2	5,0	6,3	1,3	
2018 RES	31,6	24,8	5,3	4,3	3,6	3,6	3,7	39,2	6,5	29,2	11,7	1,7	4,9	0,9	0,4	0,4	0,5	
2018 solar	1,7	2,2	0,0	b.d.	0,0	-	0,0	2,4	0,1	0,5	0,0	b.d.	0,0	0,0	-	0,0	0,0	
2018 wind	8,2	5,4	5,3	b.d.	3,0	-	1,1	8,2	1,7	16,1	2,6	b.d.	0,2	0,5	0,2	0,1	0,2	
2018 hydro	21,5	16,5	-	b.d.	0,5	3,6	2,5	27,8	4,7	12,6	8,9	b.d.	4,7	0,4	0,1	0,1	0,2	
2019 total	122,3	96,8	-	43,4	3,6	34,3	13,8	84,4	23,4	52,1	30,5	14,6	14,2	17,8	5,2	6,3	1,4	
2019 RES	32,3	26,9	-	10,0	3,6	3,6	4,4	42,2	7,4	32,0	12,1	1,7	5,2	1,0	0,7	0,4	0,5	
2019 solar	1,8	2,6	-	0,1	0,0	-	0,0	3,1	0,4	1,0	0,0	b.d.	0,3	0,0	-	0,0	0,0	
2019 wind	7,8	7,4	-	8,6	3,1	-	1,7	10,3	2,3	17,8	3,0	b.d.	0,2	0,6	0,4	0,1	0,2	
2019 hydro	22,5	16,3	-	1,2	0,5	3,6	2,5	27,8	4,7	13,2	8,9	b.d.	4,7	0,4	0,1	0,1	0,2	

*RWE's installed capacity as of 31.12.2018 is the installed capacity including innogy (capacity excluding innogy stood at 36.6 GW, including 0.3 GW in RES)

Figure no. 15. Comparison of the generation mix and installed capacity among selected largest energy groups in Europe.

Source: Proprietary compilation based on the annual reports of the European energy groups presented

As compared to the European market, Polish energy groups are characterized by a large share of coal technologies in their generation capacity. Electricity production among the European energy groups presented is much more diversified. Generating units based on coal do not have a majority share in their fuel mix.

Analyzing the installed capacity over the years 2019/2018, the trend of investing in renewable energy sources and departing from coal is clearly visible. An example of this is Endesa or Iberdrola, whose installed capacity based on RES went up. In 2018 declined as compared to the previous year and, additionally, an increase in RES capacity was observed. Structural changes took place on the German market among the main energy companies in 2019, as a result of which the E.On group became a distribution and supply company.

The growing trends associated with capital expenditures in renewable energy sources and a greater focus on the customer and his/her needs are visible in the plans and strategic directions of the energy companies presented, as illustrated in Table no. 17.

Table no. 17. Summary of the plans and strategic directions of selected sixteen of the largest energy groups in Europe

Environment protection <small>17 Grup</small>	Development of low and zero emission assets Carbon footprint reduction <small>15 Grup</small>	Climate neutrality <small>10 Grup</small>
Generation assets restructuring <small>15 Grup</small>	Customer and his/her needs <small>11 Grup</small>	Electromobility <small>11 Grup</small>
Digitization, smart metering <small>14 Grup</small>	Smart activities/products <small>14 Grup</small>	Energy storage <small>11 Grup</small>
Development of hydrogen technology <small>5 Grup</small>	Efficiency improvement/financial stability <small>7 Grup</small>	Use of drones, artificial intelligence, robotization <small>4 Grupy</small>

Source: Proprietary compilation based on the annual reports of the European energy groups presented

The main strategic directions of the European groups presented (for 2018) should be supplemented with those that were strongly emphasized in the reports for 2019, namely: environment protection, development of low- and zero-emission assets and a departure from electricity generation based on the coal fuel (carbon footprint reduction) towards achieving climate neutrality.

In Europe, out of 17 analyzed energy groups, 10 of them declare climate neutrality. Vattenfall plans to achieve full decarbonization in 2030, Uniper in 2035, CEZ, RWE and E.On plan to achieve this goal in 2040. The latter company wants to achieve climate neutrality by offering its customers green energy. Further energy groups: Enel, Endesa, EDF, Iberdrola and PGE declare climate neutrality in 2050.

In addition to the development of renewable energy sources, the activities related to the modernization of energy infrastructure through digitization and smart metering are gaining momentum. Currently, a common practice is to link investments in RES with PPAs (i.e. Power Purchase Agreements). The operations of the companies will focus on the customer and his/her needs, as well as electromobility. Along with the increase in the supply of renewable energy sources, including also small prosumer installations, the activity related to electricity storage is becoming more important.

TAURON Group is taking note of the trends in the power sector and taking active efforts in all of the areas presented, making changes and focusing on the challenges of the so-called energy of tomorrow, which was already reflected in the update of the strategic directions announced in May 2019, referred to as the Green Turn of TAURON.

Expansion of Renewable Energy Sources - declarations of energy companies

As the environment is changing, energy companies are updating their plans and strategic goals. Figure 16 presents the declarations of the European power companies regarding capital expenditures and expansion of the RES assets.

Growth of Renewable Energy Sources declarations of selected energy companies in Europe

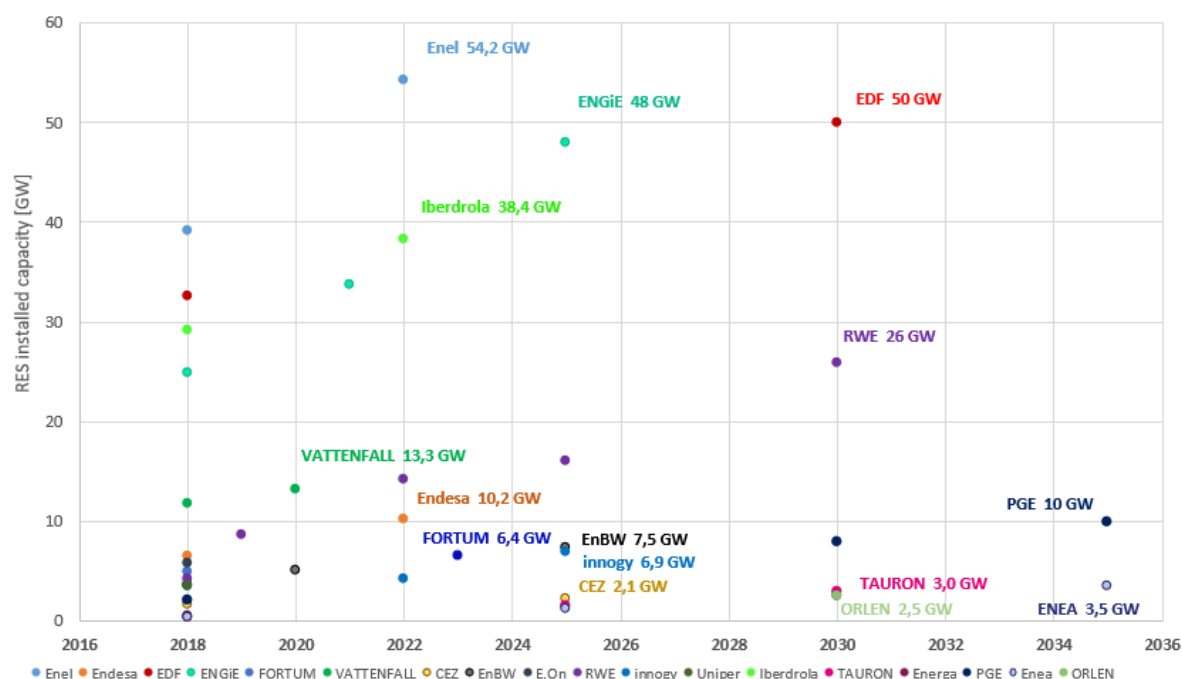


Figure no. 16. Declarations of the European power companies regarding capital expenditures and expansion, in the coming years, with respect to new generation capacity based on the RES assets

Source: Proprietary compilation based on the annual reports of the European energy groups presented

In 2018, an Italian company Enel had the highest installed RES capacity among the energy companies presented with 39.2 GW. In its strategic plans, it assumes allocating 38% of its capital expenditures in the years 2019-2021 for investments in renewable energy sources (it is approx. EUR 10.6 billion). The second group, whose installed RES capacity was 32.6 GW in 2018, is French EDF, that is planning to increase the installed capacity of its green assets to 50 GW by 2030. ENGIE Group, the second company operating in France, is planning to increase its capacity by 9 GW in 2019-2021 (from 24.8 GW in 2018 to 33.8 GW in 2021) and ultimately the expansion of RES to approx. 48 GW of installed capacity in 2025. Iberdrola, an energy company operating mainly in Spain, is planning to expand RES capacity from 29 GW in 2018 to approx. 38 GW in 2022. Swedish Vattenfall declares another 2.3 GW of installed RES capacity by 2020. Endesa, a Spanish energy group, had 6.5 GW of installed capacity in renewable energy sources in 2018. Its plans include an increase in capacity in wind and solar assets to 10 GW in 2022. By 2050, the group would like to produce 100% of its electricity volume from renewable energy sources. RWE, a company operating on the German market, after the acquisition of new RES assets, which took place in 2019, updated its strategic directions. It is aspiring to be the third company in Europe in terms of RES installed capacity. Therefore, they declared an expansion of their renewable energy generation fleet by 2-3 GW of installed capacity per year. Taking into account the declarations, it is estimated that in 2030 RWE will have at least 26 GW of capacity in green assets. Innogy is planning an additional 7 GW of RES capacity by 2025. Another German energy group, EnBW, has declared an increase to approx. 7.2 GW of capacity in renewable assets by 2025. In 2018, Uniper had 3.6 GW of installed capacity in renewable energy sources and is one of the companies that are not directly declaring an increase in the renewable sources capacity, but it has announced a gradual departure from coal and a reduction of the carbon footprint, and ultimately climate neutrality in 2035. A Czech company CEZ is planning to increase its assets to 2.1 GW by 2025, from 1.7 GW in 2018 to 2.1 GW of installed capacity. FORTUM Group is assuming an increase of the installed capacity in wind energy and photovoltaics in its plans.

On the domestic market, PGE Group had the largest installed capacity in RES in 2018, i.e. 2.2 GW. The Group is seeking to reduce the impact on the natural environment and reduce the emissions of its production by, inter alia, the expansion of the RES portfolio. The Group's activities with respect to RES are mainly focused on the construction of offshore wind farms, photovoltaic farms and onshore wind farms. PGE's ambition is to achieve approx. 8 GW of installed RES capacity, including 2.5 GW of offshore wind capacity by 2030. In 2035, the group is already planning approx. 10 GW of renewable energy capacity, and by 2050 it plans to achieve climate neutrality. According to the new 2019 strategic plan, Enea intends to increase its RES installed capacity to 2.5 GW in 2030 and 3.5 GW by 2035. Energa Group was incorporated into the structure of the PKN ORLEN fuel and energy group

in the first half of 2020. The strategic investment of ORLEN Group in the energy sector is the construction of offshore wind farms on the Baltic Sea with a capacity of approx. 1.7 GW by 2030. With respect to onshore wind farms and photovoltaic installations, ORLEN Group plans to achieve a total installed capacity of 0.8 GW in 2030. By 2030, the total capacity of ORLEN Group's RES assets will top 2.5 GW. The Group assumes achieving emission neutrality by 2050.

In the Update of the Strategic Directions TAURON Group declared an increase of its low and zero emission installed capacity to approx. 1.6 GW by 2025, and to approx. 3 GW by 2030. The Group is also considering its involvement in developing off-shore wind assets.

CO₂ emission reductions – declarations of energy companies

Power sector companies are adapting generating units to the requirements related to decarbonization and the transition to zero-emission electricity generation in their strategic declarations. Figure no. 17 illustrates the declarations of the power companies related to the CO₂ emission reduction targets by 2035.

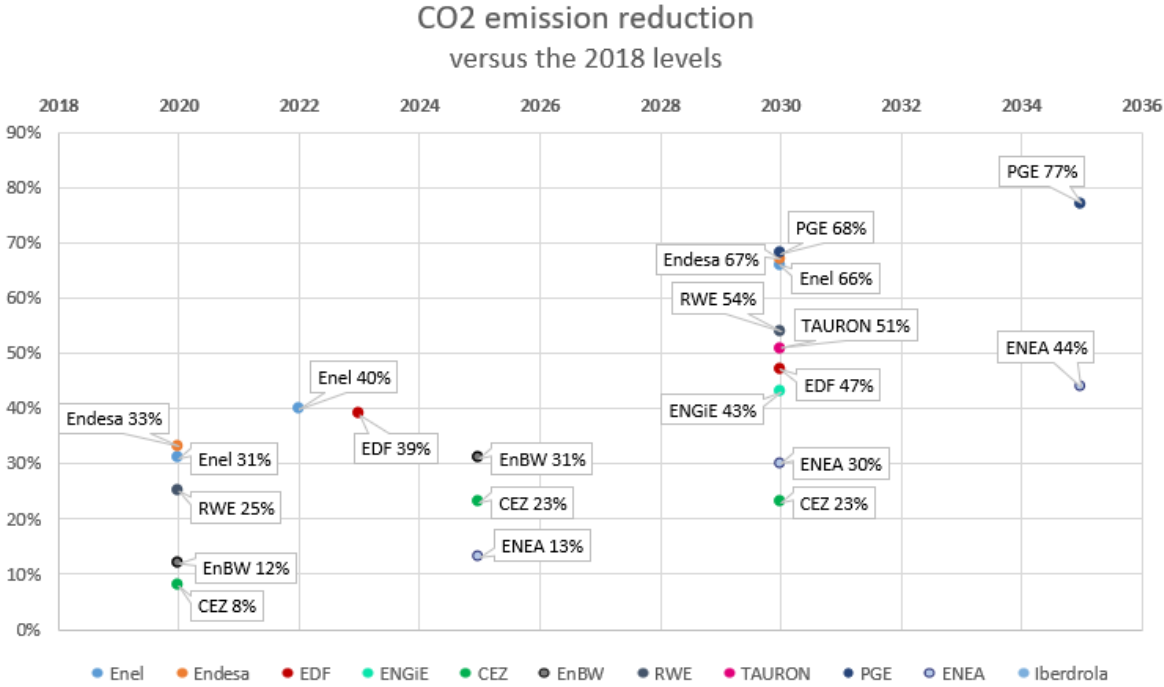


Figure no. 17. CO₂ emission reduction targets of the European energy companies

Source: Proprietary compilation based on the annual reports and presentations of the European energy groups

Endesa Group has the most ambitious plans among the European energy groups, and its goal is to achieve 100% production of electricity with zero emissions by 2050. Pursuing this goal, the group is planning a reduction of CO₂ emissions by 67% (as compared to the 2018 level) by the end of 2030. Another group planning a large reduction of emissions is Enel – a reduction by 66% in 2030.

RWE is planning a 54% reduction in emissions in 2030, and a full decarbonization of its generation assets portfolio in 2040. EDF Group has set itself the goal of achieving a zero-emission level by 2050, planning to reduce emissions by 47% in 2030

Among the Polish energy groups, TAURON Group is planning to reduce emissions by approx. 50% by 2030. PGE has declared a reduction of specific CO₂ emissions by 68% by 2030, and Enea by 30%. ORLEN Group assumes a drop of emission in its energy line of business by 33% by 2030 (versus 2020).

3.1.4. TAURON Group against the market backdrop in the short, medium and long term – Poland

In addition to TAURON Capital Group, 3 large, vertically integrated energy groups: PGE, ENEA and ENERGA as part of Orlen Group, are currently operating on the energy market in Poland. The consolidated energy groups (PGE, TAURON, ENEA, ENERGA) had a 67% market share in the electricity generation sub-sector.

Generation

TAURON Group is one of the main producers of electricity in Poland. The Group's share in the domestic electricity generation market, measured by gross electricity production, came in at approx. 8% after 9 months of 2020. The Group is the third largest electricity generator on the Polish market. The Group's gross electricity production stood at 12.5 TWh in 2019.

Figures 18 and 19 present information on electricity generated in Poland during 9 months of 2020 and installed capacity as of September 30, 2020.

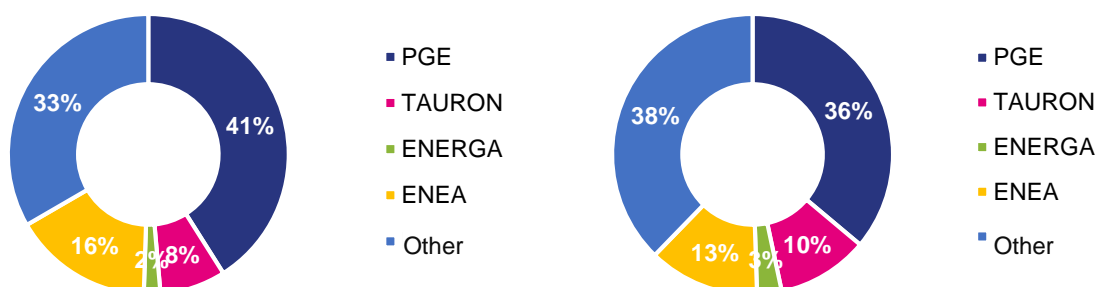


Figure no. 18. Gross electricity production - estimated market shares after 9 months of 2020.

Figure no. 19. Installed capacity - estimated market shares after 9 months of 2020

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

Distribution

TAURON Group is a leader on the Polish market in terms of the number of distribution customers and the volume of electricity distributed. The Group's share in the distribution of electricity to the final consumers stood at approx. 36% (taking into account 5 largest distributors) in the first three quarters of 2020. TAURON Capital Group's distribution grids cover more than 18% of the country's territory. Figure no. 20 presents the estimated market shares of the individual energy groups in the distribution of electricity according to the data for the first three quarters of 2020. TAURON Group's electricity distribution volume came in at 50.26 TWh in 2020.

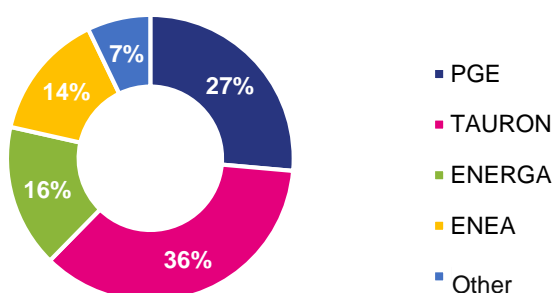


Figure no. 20. Electricity distribution - estimated market shares after 9 months of 2020

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

Supply

When comparing the data after the first three quarters of 2020, TAURON Group was the second, after PGE, largest supplier of electricity in Poland. TAURON Group's retail electricity supply reached 32.4 TWh for the full year 2020. The number of the Supply Segment's customers stood at approx. 5.6 million in 2020.

Figure no. 21 presents the estimated market shares of the individual energy groups in the supply of electricity to the final consumers, according to the data for the first three quarters of 2020.

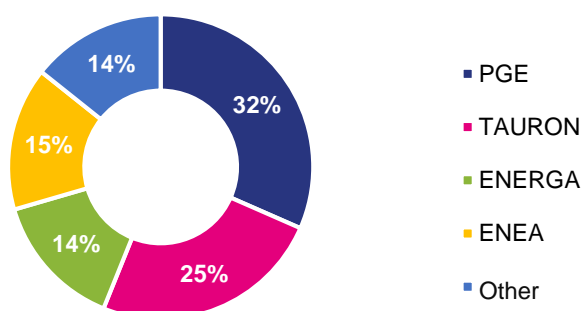


Figure no. 21. Electricity supply to the final consumers - estimated market shares after 9 months of 2020

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

3.2. TAURON Capital Group's strategic determinants related to the external environment

Recent years have brought, and the subsequent years will, as shown in sub-section 3.1 of this Report, bring a lot of significant changes in the external environment of TAURON Capital Group. The most important of them, from the point of view of the Group's business operations, are the climate and environment related regulatory changes. The global warming, increase of the pollution and a serious smog problem in Poland that have been observed for years, are forcing specific actions to minimize the negative impact of business operations on the environment.

Short term outlook

It is assumed that the power sector will focus its efforts on the development of renewable sources. On one hand, this will be the result of an increase in prices on the wholesale electricity market, and on the other hand, it will also be the consequence of the strong support for the development of renewable energy sources and the growing cost competitiveness of such technology as compared to the ever more expensive conventional electricity generation. The noticeable fast growth of photovoltaics in Poland is primarily associated with the cost competitiveness of the technology and the launch of extensive support programs that significantly reduce investment costs. The possibility of achieving at least partial independence of rising electricity prices is also important. Binding national RES targets for 2020 prompted Poland to introduce a system of incentives, among others for the prosumers, that result in increased interest in this technology. The development of prosumer photovoltaics installations is possible, among others, thanks to the funding from the government programs. According to the Polish Energy Policy (PEP), it is assumed that the achievable capacity in PV technologies will reach 4.9 GW in 2025. In the short term, the installed capacity in onshore wind technology will also increase - according to the assumptions of the PEP, the estimated onshore wind power in Poland will stand at approx. 9.6 GW in 2025. The amendment to the distance act (the so-called 10H) can be an impulse spurring further development of wind energy. Offshore wind farms are a new and promising investment direction. According to investors' declarations, the production of electricity from the first wind farm in the Polish zone of the Baltic Sea will start as early as 2025. The most advanced works are carried out by PGE, PKN Orlen and Polenergia, and the grid connection conditions were issued for approx. 10.6 GW of capacity. According to the PEP 2040, offshore capacity will stand at approx. 0.7 GW by 2025.

The pressure to decarbonize the energy sector, observed in recent years, is gaining momentum, which is reflected in the regulations aimed at increasing environmental requirements for the coal-fired units, deepening the decline of their economic profitability, and in many cases resulting in a permanent lack of profitability. The effects of the pandemic lead to a faster loss of competitiveness of the conventional sources than previously assumed and the need to intensify activities allowing for a faster development of renewable electricity generation technologies. Additionally, a change of the approach of the financial sector leading to lending only to environmentally sustainable investments will accelerate the transition of the energy sector. The estimates included in the PEP indicate that approx. 2.6 GW of capacity will be retired from the national system in 2021-2025. Hence, the share of the individual sources in Poland's generation mix will change. It should be emphasized, however, that despite the growing number of renewable energy installations, coal will continue to be the basic fuel in the domestic energy sector until 2025.

Based on the changes observed on the European energy market and the situation of the domestic energy groups, it can be concluded that the energy business model will be modified. The mergers underway and planned - both the domestic as well as the European deals - indicate that fuel companies (e.g. Equinor-Statoil, ORLEN-Energa, PGNiG) are making investments in the energy sector. Efforts are also made to transform the business models of

energy groups, place conventional energy into separate entities and focus activities on RES, distribution and supply of electricity and new products. Changes should also be expected with respect to the functioning of the energy sector on the Polish market, in this regard work is underway on the government programs for mining and coal-based energy.

In terms of the macroeconomics, in the coming years, it is assumed that the growth in demand for electricity will be continued. Despite the expected decline in the energy intensity of the Polish economy, stabilization of the economic growth rate and the improvement of energy efficiency, there will be an increase in electricity consumption per capital. This will be the consequence of the development of electromobility and the wider spreading of the use of electricity, for example, for heating purposes in connection with counteracting low emissions. The electrification of heating (combined with an increase of the importance of district heating) will be rising along with a growth of environmental awareness and the intensification of activities related to smog reduction. In the coming years, the development of new energy storage technologies to a level that would enable their cost efficient implementation on a system-wide scale should not be expected. Significant regulatory restrictions on the use of fossil fuels for electricity production and energy price volatility due to the large share of uncontrollable (intermittent) sources can be an impulse for the wider spreading and use of energy storage facilities for system purposes. The nature of transmission systems and distribution grids is changing from the traditional direction of energy flow from the power plant to the transmission system, and further to the distribution grid and customers, to increasing flows in the opposite direction, i.e. from the low voltage grids to the higher voltage grids. This forces undertaking investment activities aimed at grid metering, including data transmission and IT systems supporting network management in order to maintain stability through flow control (load capacity of network elements), voltage and short-circuit power control. The low and medium voltage networks require large expenditures on modernization, so that they can absorb the avalanche of distributed generation installations. Distribution grids, especially in areas with low electricity consumption density, become a guarantee of stability and security, as well as a kind of "energy storage" for the prosumer sources and the other renewable energy sources.

According to TAURON Group, the most important issues that will affect the energy sector until 2025 include:

- European and national regulations: further reduction of CO2 emissions resulting in increased prices of emission allowances, increased obligation with respect to the share of electricity from renewable energy sources and increased energy efficiency; implementation of Poland's Energy Policy until 2040,
- limitation of financing possibilities for investments in coal assets by the financial sector,
- decommissioning of some conventional generating units due to the high costs of adaptation to the more stringent environmental requirements and their deteriorating competitive position versus other energy sources,
- integration of the European energy market and the reduction of the importance of the local markets in favor of the regional markets related thereto, rising capabilities for physical cross-border flows,
- ability to separate self-balancing areas, e.g. energy clusters, and the ability to provide additional services for them (balancing, aggregation, DSM, capacity reservation, etc.),
- development of technology related to energy storage,
- fast growth of the prosumers and the need to provide services at an appropriate quality level - timely implementation of the PV installation grid connection.

Medium term outlook

In terms of electricity generation, the fast development of renewable energy sources is forecast to continue in the 2025-2030 time frame. A further decrease in the costs of installing renewable energy sources and the development of electricity storage facilities will be of significant importance. Technological changes for wind farms, with favorable regulations, will translate into the repowering of installations, thus increasing the capacity and improving the efficiency of their utilization. The development of energy storage will have a positive effect on the stability of electricity supply. The EU level regulations will continue to support the development of renewable energy sources and at the same time impose the ever higher costs and restrictions on conventional energy, making it permanently unprofitable.

It is estimated that intensive expansion of photovoltaic installations in Poland will continue further. According to the forecasts provided in the PEP 2040, an increase in capacity in PV installations up to more than 7 GW is expected in 2030. As regards the development of wind capacity until 2030, the PEP 2040 indicates an increase in offshore wind installations' capacity to approx. 3.8 GW, and in onshore wind installations' capacity - approx. 9.6 GW. By 2030, further shutdowns of unprofitable coal-fired units will take place. However, there is a chance for large, modern conventional power generating units, the main role of which will be to stabilize the national power system. However, it is assumed that their functioning will be directly dependent on the condition of climate and environment at the end of the third decade of the century. The expansion of flexible gas-fired units is also considered. It is estimated in the PEP that approx. 4 GW of generation capacity will be retired in the 2026-2030 time frame. As a consequence it is forecast that the share of coal in the national energy mix will decrease significantly.

The most important factors affecting the level of electricity demand include a further improvement of energy efficiency and, at the same time, still large potential for electricity consumption growth. Consumer awareness will be increasing further in connection with the digitization processes, access to the prosumer installations and smart grid solutions. An ever broader range of services based on the smart grid infrastructure, in particular smart meters, is assumed. The role of the demand side management services (DSR/DSM) will also increase, which will largely result from the development of smart technologies and market mechanisms. Due to the avalanche growth of prosumer installations, there will be a need to further develop transmission systems and distribution grids in order to adapt them to greater load variability, as well as to support bi-directional flows. A great opportunity is the growing awareness of threats to air quality resulting from low emissions and transportation. The generation sector, with the introduction of appropriate regulations, may become the greatest beneficiary of changes in the way energy is used for heating and transportation. At the same time, it will be a challenge for distribution grids and district heating networks, which will have to take into account an increase in loads. Growing energy awareness in combination with increasing energy costs will cause more and more interest in energy efficiency, energy saving and in-house production of energy from RES. Economic incentives and better technologies will result in the intensification of thermo-modernization activities and increased purchases of less and less energy-consuming devices (including in households). Additionally, the popularity of pro-ecological behavior will grow. More and more customers will accept the higher cost of electricity, provided it comes from ecological generation sources.

Long term outlook

According to available forecasts, the role of the renewable sources will be steadfastly growing at the expense of the conventional ones in the long term. Renewable energy sources are gaining their share in the global energy system faster than any other fuel in history. The British conglomerate BP, in its Annual Energy Outlook 2020, estimates that by 2040 renewable energy sources will be the main source of energy in the world, and in addition, the production of electricity from the wind and PV sources will dominate in all of 3 scenarios for the development of the electricity production market (Rapid, Net Zero, Business-as-usual). Renewable energy will be pushing out coal-based energy over the next two decades and will replace coal as the main source of electricity generation in 2040. In the longer term, there will also be a significant transition of our national energy mix by increasing the share of renewable energy sources to more than 60% by 2040, as well as potentially nuclear energy and a simultaneous further decline in the share of carbon sources. Taking into account the rising costs of coal-based energy as a result of the climate policy, its importance will be marginalized. In the time frame up to 2050, the greatest challenge for Poland will be to ensure stable electricity supplies to support the country's economic growth with increasing wealth levels, with the simultaneous need for energy transition through investments in low-emission technologies. The future of the energy sector will depend not only on its environmental impact, but also on the required adaptations to climate change. Changes in climatic conditions will have an impact on the conditions of electricity distribution or changes in the demand for electricity and heat. Infrastructure will require preparation for the effects of extreme weather and climate related events, which may cause direct damage (e.g. hurricanes, intense storms, hail, rime and snowfall may damage transmission and distribution lines), as well as indirect damage, being the long-term consequences of extreme weather and climate related events (e.g. droughts or floods). In the long term, the possibility of the emergence of breakthrough technologies on the market that can significantly affect the energy business, e.g. fuel cells, should be taken into account. It is forecast that hydrogen technologies will be spreading widely in energy, manufacturing industry and transportation, ammonia will be used on a large scale as one of the hydrogen fuels, energy storage technologies will be significantly developed and new energy transmission technologies will be developed. In the scenario with no breakthrough technologies, the energy sector will most likely expand in an evolutionary manner, based on the already known and commercialized technologies.

It is also possible that the years 2030-2040 will be a period during which a deep review of economic development scenarios, depending on the intensity of climate change, will be required. If the ultimate temperature increase estimated for that time frame exceeds 2 °C, then we are forecasting a further tightening of environmental standards towards a substantial reduction of the CO₂ emissions and extremely stringent emission standards for nitrogen and sulfur oxides as well as mercury and dust. Tightening climate policy will result in a reduction in the supply of the CO₂ emission allowances under the ETS, which will lead to a significant increase in the prices of these allowances. In the event that global temperature forecasts indicate an increase below 2 °C, a scenario where high-efficiency profitable coal assets will be maintained is possible, with a simultaneous reduction of emissions through the development of low and zero-emission generation sources and limited expansion of coal fired assets, conditioned on the demand for coal fuel and the possibility of obtaining it at competitive costs.

With the responsible development of the world in mind, the 2030 Sustainable Development Goals were adopted by all UN member states (193 countries in total, including Poland) in September 2015, setting the framework for an action strategy based on the concept of sustainable development. The agenda presents 17 sustainable development goals, and 169 detailed tasks related thereto, to be achieved by 2030. The following UN goals provide the framework for the formulation of policies for the sustainable development (growth) of economies worldwide:

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Clean and Affordable Energy
8. Economic Growth and Decent Work
9. Innovation, Industry, Infrastructure
10. Reducing Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice and Strong Institution
17. Partnership for the Goals

Figure no. 22 presents the UN Sustainable Development Goals.



Figure no. 22. UN Sustainable Development Goals 2030 (the so-called Agenda 2030)

Source: website

European energy companies place a great weight on the implementation of the UN Sustainable Development Goals, as they emphasize it in their reports and stock market publications. Figure 23 presents the Goals on which selected European energy companies focus most in their activities. They are primarily:





-  Goal 7 – Providing everyone with access to sources of stable, sustainable and modern energy at an affordable price
-  Goal 9 – Build resilient (stable) infrastructure, promote sustainable industrialization and foster innovations
-  Goal 11 – Make cities and residential settlements safe, resilient (stable), sustainable and supporting social inclusion
-  Goal 13 – Take urgent actions to combat climate change and its consequences



Figure no. 23. Implementation of the UN Sustainable Development Goals by selected European energy companies

Source: Proprietary compilation based on the annual reports and presentations of the European energy groups

TAURON Group also wants to contribute and contributes to the implementation of the UN Sustainable Development Goals in its operations, through the activities indicated below, presented in Figure 24.

Sustainable development of TAURON Group



Figure no. 24. 2030 UN Sustainable Development Goals at TAURON Capital Group

Source: Proprietary compilation

TAURON Group is also supporting other UN goals in its operations, through activities for the benefit of the local community, among others, in the fight against low emissions, educational and information campaigns, engagements in natural environment protection projects, by planting trees in forest areas or caring for the life of animals. The Group also attends national and European discussions as well as projects with respect to climate related energy transition. TAURON Group also cares about the highest standards in relations with customers and stakeholders, based on a two-way dialogue, and in its actions meets the needs of disadvantaged customers and sensitive consumer groups. The Group is guided by the principle of equal treatment of employees, respect for human rights and anti-discrimination

Table no. 18. Main external factors that impact the selection and implementation of TAURON Capital Group's strategic directions

Political and regulatory	Environmental	Economic and market related	Social	Technological
<ul style="list-style-type: none"> European Green Deal – EU climate neutrality by 2050 project Further tightening of environmental standards (related to emissions of pollutants, use of water, waste management, etc.), Need to adapt generating units to the BAT conclusions Winter package and limitation of support systems for conventional energy (EPS 550) EU taxonomy and its impact on the possibilities of financing investment projects in the energy sector RES and energy efficiency directives, EU ETS emissions trading system Operation of the capacity market, support for individual RES technologies Funds for the energy transition and post-covid stimulation of the economy (Just Transition Mechanism, Modernization Fund, EU Recovery Fund and others) Poland's Energy Policy Draft, National Plan for Energy and Climate Risk of introducing regulations in the banking sector leading to an increase in capital allocation ratios for loans dedicated to financing coal assets Work on government programs for the mining industry and conventional energy 	<ul style="list-style-type: none"> Increase in average global temperature as a result of greenhouse gas emissions High level of dust air pollution in Poland (smog) High level of greenhouse gas emissions - Poland emits 18% more greenhouse gas per capita into the atmosphere and over 3 x more in relation to GDP than the EU average Increasingly frequent occurrence of extreme weather conditions - droughts, hurricanes, severe heat waves, heavy rains and floods (causing not only the destruction of households, but also of the transportation and energy infrastructure) Further rising of sea levels; irreversible changes in river ecosystems and the Baltic Sea (eutrophication, loss of water biodiversity) Depletion of natural resources Increased importance of the circular economy and minimizing of waste generation Increase in the importance of limiting the effects of sewage, biogenic waste, municipal waste and fuels in seas and oceans 	<ul style="list-style-type: none"> Rising electricity generation costs (high prices of CO₂ emission allowances), decreasing economic profitability of coal units Reduction or lack of financing for conventional energy, preferential financing for RES Rising RES generation due to continuously increasing RES cost competitiveness and higher electricity prices, Increase in costs of materials, services and labor Limited possibilities of thermal coal mining (deposits getting more and more difficult to access, lack of coal with appropriate parameters), increase of coal imports for power generation purposes Thermal modernization activities, increase of energy efficiency Generational and competence gap problem Threat to stability of production and supply of electricity, risk of power shortage in the system 	<ul style="list-style-type: none"> Increase in anti-carbon sentiment among the public Increase in the society's ecological awareness Willingness to incur higher costs of electricity, if it comes from RES Improvement of the image of companies using energy from RES Increased customer awareness and customer requirements in terms of the quality of services provided and customer service, changing customer needs Change in the customer's approach to the way electricity is consumed Negative perception of waste storage 	<ul style="list-style-type: none"> Falling prices for renewable and distributed technologies Fast development of prosumer energy, island, off-grid installations Need to adapt the grid to the two-way electricity flow Development of electromobility Development of energy storage facilities Digitization of the energy sector, development of smart metering Technology development with respect to the circular economy Emergence of energy self-sufficient buildings - Near Zero Emission Buildings

3.3. TAURON Capital Group's Strategy and the Green Turn of TAURON

In accordance with the current Strategy in place and the Update of the Strategic Directions adopted, the increase in the value of the Group will be based primarily on

- regulated and stable Distribution segment,
- development of low and zero emission sources in terms of greenhouse gas emissions,
- conventional generation assets eligible for support,
- sales of energy and energy related products and services tailored to customer need.

In accordance with the Strategy TAURON Group is and will be investing in the development of low emission and zero emission power generation, primarily through investments in renewable energy sources and grid infrastructure. By 2025 the Group is planning to invest in on-shore wind farms, photovoltaic farms and commence the process of engaging in the construction of off-shore wind farms. With respect to conventional power generation, permanent decommissioning of the highest emitting 120 MW units and, after 2025 – the 200 MW units, is planned. As of the end of 2020, all 120 MW power generating units were shut down, except for the two units at the Stalowa Wola Branch, whose shutdown date was postponed until February 1, 2021 (970 MW in total)., TAURON Group will have installed capacity of approx. 5.7 GW in 2025, of which approx. 28% will be low and zero-emission sources (onshore wind approx. 1.1 GW; PV approx. 0.3 GW; hydro approx. 0.1 GW). 5 wind farms with a total installed capacity of 180 MW were acquired in 2019, and as a consequence TAURON Group doubled its installed capacity in wind technology.

Further investments will allow the Group to achieve an approx. 66% share of low and zero-emission capacity by 2030 (additional 1.2 GW in offshore wind and 200 MW in PV). Thus, at the end of 2030, TAURON Group will have a capacity of approx. 4.6 GW, with nearly 2.3 GW in wind technologies and 0.5 GW in PV.

As part of the update of the strategic directions, the implementation of strategic options was assumed, among others, enhancing the flexibility of the Group's asset portfolio by aligning the mining assets with the Group's planned, declining demand for fuel, divesting the heat assets, reorganizing the Generation segment and equity investments portfolio.

More information on the implementation of TAURON Capital Group's strategy and the update of the strategic directions is provided in the Management Board's Report on the Operations of TAURON Capital Group for 2020, Chapter 1.4. TAURON's Strategy and Priorities.

TAURON Group participates in the works on the systemic solutions that would enable the transition of the hard coal and lignite mining sector, conducted at the government level and has high hopes for such works. The solutions developed should provide the possibility to transform and limit mining operations, while ensuring social acceptance for such process.

Works are underway at the government level on the system that would provide demand for the capacity of the conventional units, which, due to their inability to participate in the capacity market (high emissions level) and low production volume, should be retired for economic reasons. TAURON Group's representatives are participating in these works.

The progressing climate change and its projected effects call for fundamental changes to the role and directions of the energy companies' expansion. In view of the most important trend, which is the transition to a low-emission economy, TAURON Group takes into account, in its activities and strategic plans, the fact that long-term success depends on sustainable development and corporate social responsibility. A manifestation of that is the integration, already at the strategic level, of the financial and non-financial factors, including the environmental and climate related aspects, social impact and governance. It stems from the conviction that in order to exist and grow, a business should be run in a way that takes into account both economic aspects as well as the social or environmental interests, and a balance must be struck among them. Business goals, sustainable development and transition of TAURON Group towards Poland's leading low-emission energy group are implemented in accordance with TAURON Group's Strategy for the years 2016-2025 and the Update of the Strategic Directions - the so-called Green Turn of TAURON.

The implementation of business goals is supported by building and continuously improving the management culture, friendly work environment based on the principles of diversity and compliance, as well as maintaining lasting relations with local communities and developing initiatives with respect to social and business partnership. This approach maximizes benefits for both economic as well as social growth. The activities carried out as part of TAURON Group's sustainable development are based on the 3P model - relating to both economic gain (profit), people associated with the company (people) and care for the ecological aspect of the operations (planet). They are in line with the sustainable development goals for 2015-2030 adopted by the United Nations and comply with the CSR standards defined by the International Standardization Organization in the ISO 26000 standard "Guidance on social responsibility". TAURON Group's priority is customer orientation and ensuring the security of energy

supply, as well as developing a product and service offering that will fully reflect customer expectations. As part of its business activities the Group cares about maintaining good relations with customers by striving for the highest customer service standards, comprehensiveness and quality of the offering. This translates into improved efficiency, increased customer loyalty and satisfaction, or a decrease in the number of complaints. TAURON Group has been undertaking a number of initiatives aimed at minimizing the negative impact of its operations on the natural environment for years. The Green Turn of TAURON, i.e. investments in RES and the transition of the Group's energy mix are among the Group's most important strategic activities in this respect. In the environment protection area TAURON Group sets itself goals that include efficient management, recovery and re-use of the resources, implementing environment management systems (ISO, EMAS), investing in modern technologies, continuous modernization of production assets, optimization of production processes, increasing resource utilization efficiency, educating the society and defining requirements for the suppliers. TAURON Group's employees constitute a key group of stakeholders. The aspects related to building long-term relationships based on diversity, ensuring safety in the workplace, creating development opportunities and an appropriate level of ethical culture and values are important in this regard. TAURON Group also attaches importance to establishing long-term relationships with the company's immediate environment, through activities for the benefit of local communities, cooperation with academic centers and promoting the sustainable development subject among stakeholders and encouraging them to be responsible, as well as conducting a transparent policy of communication with the stakeholders.

The Group's strategic activities in three perspectives are presented below.

TAURON Group's Strategy, along with the Update of the Strategic Directions, is in line with the market and regulatory trends identified in the time frame up to 2025. Until 2025 TAURON Group will focus on ensuring financial stability by increasing operational efficiency and optimizing processes as well as on a sustainable transition related to the change of the Group's energy mix towards reducing emissions. This plan will be implemented through the gradual shutdown of obsolete coal-fired units and the development of low- and zero-emission sources. The main result of the Group's activities will be a change in the energy mix so that low and zero emission sources will constitute approximately 28% of the installed capacity in 2025. At the same time, TAURON will work on improving the quality of distribution services and developing the sales offering.

In the medium term TAURON Group will focus on further reductions of emissions through investments in low- and zero-emission sources, while keeping only modern coal-fired units in the production portfolio. The modernization and expansion of the grid will continue to be an important investment area. TAURON Group is planning to gradually shut down 200 MW coal-fired units in the years 2025-2030. In line with the Group's Strategy the electricity generation segment's main expansion area will be investments in low- and zero-emission sources, including involvement in the development of offshore wind energy. Thanks to the investments in new generation installations and a reduction in the number of coal fired units, the Group's generation mix will change in 2030, when more than 65% of assets will be low- and zero-emission installations, which is in line with the climate policy aimed at reducing emissions. Investments in the modernization and development of a modern distribution grid aimed at maintaining the high level of electricity deliveries will be continued. Being aware of the increase in ecological awareness among the public, TAURON Group is also planning activities related to offering products and services in line with this market trend.

In its long-term planning TAURON Group takes into account the major importance of environment and climate protection related issues. We are currently working on the assumptions for developing a new strategy. The main guideline is to prepare development scenarios that will ensure long-term profitable business operations immune to climate change and, at the same time, minimize the impact of the Group's operations on the environment by reducing the emissions of the generation sources. The scenarios taken into account will depend on the intensity of changes taking place in the environment, in particular on the assumptions of Poland's Energy Policy, the decisions taken by the government as part of the climate initiatives and regulatory directions shaped during the global climate summits. The implementation of the European strategy of climate neutrality by 2050 will determine the shape of the Polish energy sector in the long term, which will also be reflected in the strategic decisions of TAURON Group, whose directional goals and actions should be a consistent response to the European and national guidelines regarding the shape and model of the sector's functioning. TAURON Group will be steadfastly striving to further diversify its generation sources in terms of the fuel used and to modernize its generation capacity.

As a summary, Figure 25 illustrates the response of TAURON Capital Group to the changes in the external environment.

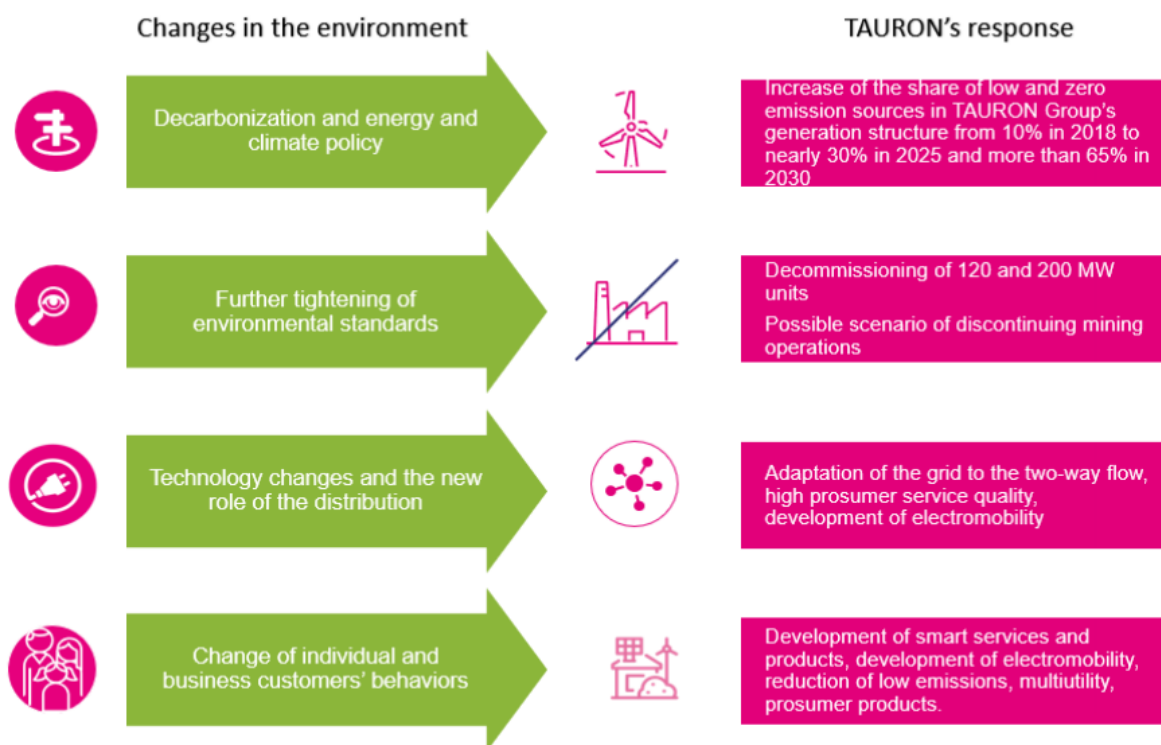


Figure no. 25. TAURON Capital Group's responses to the changes taking place in the external environment

3.4. Key non-financial capital efficiency ratios (metrics, performance indicators) of TAURON Group with respect to the capitals

In order to make the best use of the value levers (drivers) set as part of TAURON Group's Strategy for 2016-2025 (along with the Update of the Strategic Directions of 27 May 2019), as well as to ensure efficient (from the point of view of the individual capitals) implementation of TAURON Capital Group's Sustainable Development Strategy, key non-financial efficiency ratios (metrics, performance indicators) related to the Group's operations are defined.

They are presented in Table no. 19, including their values obtained in 2019 and 2020.

Table no. 19. TAURON Capital Group's key non-financial efficiency ratios (metrics, performance indicators), including their values obtained in 2019 and 2020

Area of activity defined in TAURON Capital Group's Sustainable Development Strategy	Key non-financial efficiency ratio (performance indicator)	Name of capital / Element related to capital	Ratio (indicator) nature	GRI reference	Value of the ratio (metric, performance indicator) in the year	
					2019	2020
Reliability and quality of supply of products and services for the customer	Number of customers of TAURON Capital Group's Distribution Line of Business	Financial capital / Distribution Segment's RAB	Stimulant	EU3	221 335	216 551
		Financial capital / Capital expenditures				
		Financial capital / Cash flow from operating activities				

	Number of cases of non-compliance and complaints related to products and services of TAURON Capital Group with respect to providing information	Financial capital / Cash flow from operating activities				
		Financial capital / Net profit	Destimulant	417-2	0	0
		Financial capital / Long term rating				
	Frequency of planned power outages - number of outages / consumer / year	Financial capital / Cash flow from operating activities (minutes)	Destimulant	EU 28	0.28	0.19
		SAIFI				
Orientation towards the customer and his/her needs	Number of individual and business customers of TAURON Capital Group's Supply Line of Business	Financial capital / Sales revenue				
		Financial capital / EBITDA				
		Financial capital / EBITDA margin	Stimulant	102-6 102-40	5 511 946	5 590 108
		Financial capital / EBITDA margin				
		Financial capital / Net profit				
		Financial capital / Long term rating				
	Value of the Customer Satisfaction Index (CSI) for TAURON Capital Group's customers	Social capital / Implemented and applied TAURON Group's PROClient Social Policy	Stimulant		83	83
Environment protection	Percentage share of TAURON Capital Group's RES installed capacity in the Group's total installed capacity	Production capital / Installed capacity in hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant		12%	10.5%
					11%	17%
	Percentage share of TAURON Capital Group's electricity production based on RES in the Group's total electricity production	Production capital / Electricity production by hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	EU2		
					Production capital / Heat production by biomass fired combined heat and power plants	6%
		Direct greenhouse gas emissions by TAURON Capital Group – (tCO ₂ e)	Natural capital / Direct greenhouse gas emissions – CO ₂ (tons)	Destimulant	305-1	12 215 945
	Total weight of non-hazardous waste (including UPS and UPW) generated by TAURON Capital Group	Natural capital / Total amount of non-hazardous waste (including UPS and UPW) (tons)	Destimulant	306-2	1 366 974	1 729 672

		Intellectual capital /				
	Number of meetings with trade union organizations at the Group's subsidiaries	Social capital / Human capital Developing relationships based on dialogue / Organizational culture based on PRO values	Stimulant		329	334
		Human capital / Number of employees				
	Number of employees at TAURON Capital Group	Human capital / Number of trainings courses conducted by Internal Coaches (Trainers)	Nominant	102-8	26 086	25 572
		Intellectual capital / Knowledge and competences of the Group's employees				
		Social capital / Personnel education and development				
Work safety, ethical culture and employee engagement	Accident rate at TAURON Capital Group	Social capital / Organizational culture based on Partnership, Development, Boldness values	Destimulant	403-9	7.8	8.3
		Human capital / Share of women among the workforce				
	Share of women among TAURON Capital Group's workforce	Social capital / Diversity Policy and Respect for Human Rights Policy implemented and applied	Nominant	405-1	21.4%	21.5%
		Human capital / Number of training session hours				
	Number of training session hours at TAURON Capital Group	Human capital / Number of training session hours	Stimulant	404-1	478 000	295 000
		Social capital / Support for local initiatives through TAURON Foundation				
	Number of local and social initiatives that TAURON Foundation has joined	Social capital / Support for local initiatives through TAURON Foundation	Stimulant		158	144
		Social capital / Implemented and applied TAURON Group's PROclient Social Policy				
Social and business partnership	Number of projects with respect to corporate social responsibility implemented by TAURON Capital Group	Social capital / Developing lasting relationships and active dialogue with the stakeholders	Stimulant		11	18
		Social capital / Support for local initiatives				

Number of TAURON Capital Group's meetings with local communities held in order to provide information on the operations conducted and its impact on the residents	Social capital / Implemented and applied TAURON Group's PROClient Social Policy	Stimulant	Continuously, in line with the ongoing operations	Continuously, in line with the ongoing operations
	Social capital / Developing lasting relationships and active dialogue with the stakeholders			
	Social capital / Support for local initiatives through TAURON Foundation			
Number of initiatives implemented by for the employees and communities, related to counteracting COVID-19	Social capital / Developing lasting relationships and active dialogue with the stakeholders	Stimulant	-	11
	Social capital / Support for local initiatives			

3.5. GRI indices described in this section

- GRI 102-2 Activities, brands, products, and services
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes in the organization in the supply chain during the reporting period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 201-1 Value added generated and distributed
- GRI 201-4 Government support - state ownership
- GRI 203-1 Investments w products and services

4. TAURON CAPITAL GROUP'S POLICIES AND DUE DILIGENCE PROCESSES AND THE PRESENTATION OF THE RESULTS OF THEIR APPLICATION

In order to systematize the activities conducted, as well as to precisely define the objectives and periodically monitor the degree of their implementation, the Management Board of TAURON Polska Energia adopted the following Policies for use at TAURON Capital Group:

- TAURON Group's Customer Oriented (PRO-customer) Social Policy (PROClient Social Policy),
- TAURON Group's Diversity Policy,
- TAURON Group's Environmental Policy,
- TAURON Group's Climate Policy,
- TAURON Group's Human Rights Respect Policy,
- TAURON Group's Human Resources Policy,
- TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy,
- TAURON Group's Anticorruption Policy,
- TAURON Group's Work Health and Safety (WHS) Policy,
- Strategic Research Agenda,
- TAURON Group's Corporate Purchasing Policy,
- TAURON Group's Subsidiaries Contractors (Counterparties) Code of Conduct Policy,
- Personal Data Protection Policy for TAURON Group entities,
- TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.

The above mentioned documents ensure compliance of TAURON Capital Group's operations with the requirements specified in art. 49 b, clause 2 and 3 of the Accounting Act. They also represent an important part of conducting a transparent communication policy with the numerous stakeholders of TAURON Capital Group, who may familiarize themselves with the annually published reports on their implementation.

Each of the above documents contains an exhaustive description of actions taken by TAURON Capital Group's subsidiaries to achieve the intended goals in the given area. The following sub-sections present the main principles, methods and tools implemented by TAURON Capital Group under the individual policies and the results of their application in 2020.

4.1. TAURON Group's PROClient Social Policy

Pursuant to TAURON Group's Strategy for 2016-2025 adopted in 2016, the vision according to which TAURON strives to be a company that is best responding to customer needs in the Polish energy industry was defined. Based on the above, in 2017 the Management Board of TAURON Polska Energia S.A. adopted TAURON Group's PRO Client Social Policy for use.

The document is aimed at developing appropriate organizational and business conditions required to achieve the strategic goals of TAURON Capital Group with respect to customer and market environment relations.

The policy is a collection of main assumptions applied in the customer sales and service process. It also defines measures taken by TAURON Capital Group as part of a dialogue with the customers, highlights the importance of developing long lasting relations both with the customers as well as with the market environment, and it also defines the responsibilities lying on the company's side with respect to this very large (the number of TAURON Capital Group's employees is presented in Table no. 20) and extremely significant group of stakeholders.

Table no. 20. GRI EU 3. Number of TAURON Capital Group's individual and business customers as of December 31, 2020

Supply group type	Supply Line of Business	Transmission and Distribution
Individual	5 164 732	17 401
Business (including institutions)	425 376	199 150
Total	5 590 108	216 551

Due diligence procedures and internal regulations

By implementing the assumptions of the PRO Customer Social Policy TAURON Capital Group is responding in the best possible manner to customer needs, focusing its efforts on the following principal issues:

- making sure the highest standards are met in the relationships with the customers, based on transparency, mutual respect and trust,
- continuous bi-directional communications, based on a dialogue,
- surveying customer opinions (feedback), experiences and expectations,
- responding to customer needs through a clear offering, satisfying their needs and meeting expectations.

Marketing research

Due diligence procedures implemented as part of the PRO Customer Social Policy include primarily periodic surveys. It is important for us to get to know our customers as much as we can and, based on that, to be able to even more fully respond to their needs. The monitoring of the marketing communications is done in cooperation with market analysts. The summary of such surveys conducted in 2020 is presented in Table no. 21.

Table no. 21. Surveys carried out by TAURON Capital Group in 2020 as part of the due diligence procedures

Subject of the survey	Time when the survey was conducted
Surveys on products / services:	
Service survey: thermal comfort management	03.2020
Gas potential survey	03.2020
MOBISTYLE product survey	03.2020
SME e-invoice service survey	03.2020
Renewal offering survey	04.2020
Eco-pea coal survey, purchasing attitudes	09.2020
Household segment assistance service survey	09.2020
SME assistance service survey	10.2020
SME segment CashDirector service survey	11.2020
Energy storage purchase customer satisfaction survey	12.2020
Monitoring of coherence and transparency of the marketing communications, including in particular the communications related to the new products and offerings, including:	
Survey on effectiveness of the campaign and campaign spots "Service ace from TAURON" („As serwisowy od TAURONA")	09-12.2020
Mystery shopper research at Customer Service Centers and Partner Outlets (2 waves)	Q3, Q4.2020
Survey on awareness of assistance product possession by customers – household segment	09.2020
Survey on familiarity with TAURON offering	12.2020

Meeting the needs of disadvantaged customers and sensitive consumer groups

As part of the due diligence procedures also educational activities addressed to the disadvantaged groups, first of all customers sensitive to energy pricing and seniors, were conducted. The summary of such surveys and their quantity conducted in 2019 is presented in Table no. 22.

Table no. 22. Educational activities carried out by TAURON Capital Group in 2020 as part of the due diligence procedures

Information campaigns	Activities conducted as part of the campaign
	4.7 thousand ebook downloads from the My TAURON (Mój TAURON) service
	Promotion on industry and local portals
	Promotion in social media
E-book „Bezpieczeństwo pod kontrolą z TAURONEM” (Safety under control with TAURON)	2.3 thousand completed quizzes on safety.
campaign promoting good practices of safe use of the Internet. The e-book was addressed to TAURON's customers, with particular emphasis on the elderly, who are most exposed to cybercrime. The campaign was also to familiarize customers with the new requirements for login passwords to TAURON websites, explaining where the need for this type of security comes from	Quiz available on local web portals.
	more than 27 thousand unique viewings of article on safety on local web portals
	Information printed on payment forms sent to customers
	Wide-ranging online campaign
E-book „Fotowoltaika dla domu” (Photovoltaics for a house)	Dedicated landing page – www.tauron.pl/ebook
It is a comprehensive source of information on photovoltaics for individual customers. The publication was aimed at increasing the knowledge and awareness of photovoltaics among household owners. In addition, the guide aimed to highlight the benefits (ecological and economic) of photovoltaic installations for individual customers.	Promotion of the publication in industry and national media (online and press)
	Promotion in social media
	More than 30 publications in the media
	Approx. 15 000 e-book downloads
	Creative mailing to 30 editors
REPORT „Naprawiamy czy wyrzucamy” (We repair or throw away)	Promotion in social media
TAURON Sprzedaż published the report "We repair or throw away" in 2020. The document is a compilation of information in a nutshell on Poles' attitudes regarding the purchase of new home electronics/household appliances, repair of devices in the event of a failure, as well as dealing with old devices suitable for disposal. The report was prepared on the basis of a study commissioned by TAURON. 1000 respondents from all over the country took part in it. The report was divided into three areas: Purchase of new equipment, Failures, repairs and Electro-waste. The main purpose of the publication of the report was to educate the company's customers in terms of care for the natural environment. Promoting ecological attitudes among customers.	Promotion on industry portals
	Paid online campaign
	60 mentions in the media (press, internet TV)
	Paid online campaign
E-book „Naprawiamy” (We repair)	Promotion among TAURON's customers (My TAURON service, mailing)
The "We repair" guide is one of the elements of TAURON's campaign promoting ecological attitudes - encouraging to repair broken home electronics/household appliances. The guide includes, among others practical advice on the profitability of repairing various types of devices, as well as information on the global scale of the problem of electro waste and tips on how everyone can contribute to combating this problem.	Promotion of the publication in the industry online services
The guide was available to TAURON customers who have an account in the My TAURON service, as well as to those who visited the tauron.pl/servisanci website.	More than 3 000 e-book downloads

Information campaigns	Activities conducted as part of the campaign
Competition „Świąteczna moc dEKOrowania” (Christmas power of dECOrating)	Information campaign on YT (3 training videos)
In December 2020, TAURON organized a nationwide competition called "Christmas power of dECOrating". The competition's task was to make Christmas decorations from waste - waste paper, plastic or metal. Any technique of performing the work was allowed, it was important that the materials used should be given a second life.	Promotional video shown in the VOD service
	Almost 4 000 participants
	Almost 12 thousand photographs sent
The ecological competition was aimed at promoting ecological attitudes - drawing attention to the fact that every person, by changing their habits, can contribute to the fight against the global problem of excess waste and its disposal. The competition is primarily aimed at providing education with respect to recycling, upcycling and appropriate waste management.	40 laureates

Customer service through the highest quality sales and service channels

Seniors, pregnant women, persons with young children and the disabled are treated as privileged persons in TAURON Capital Group's stationary contact channel,.

In 2020, for privileged persons, at Customer Service Centers (Punkty Obsługi Klienta - POK):

1. Provision of priority service was continued;
2. Priority service marking was maintained:
 - in the form of internal marking in waiting rooms for customers,
 - in the form of marking on queuing machines at POKs with a queuing system,
 - in the form of marking parking spaces for the disabled, at POKs' parking areas.

In the telephone contact channel for the disabled people and seniors the following services were provided::

1. Telephone support with the filling of the Application to conclude a contract after the death of a party to the contract. A courier was added to the process, who would deliver the completed application to be signed by the new consumer.
2. The number of customer contact numbers was optimized and a new IVR was implemented for the service hotline.

In the online channel:

1. Handover and Acceptance Protocol (PZO) and the Application to conclude or amend a contract (WOZ) were digitized – a customer can conclude / assign the contract without the need to visit the Customer Service Center, as well as without having to download the application from www.auron.pl, print, scan and ship it.
2. Functionality of the website: www.auron.pl, on which it is possible to increase the contrast and font size was maintained.

Responsibility towards the customer at the time of the SARS-CoV-2 pandemic

In connection with the COVID-19 pandemic, pro-customer solutions that make it possible to resolve issues without leaving home have been introduced and promoted:

1. Virtual POK has been launched <https://www.auron.pl/dla-domu/obsługa-i-pomoc/wirtualny-pok>, where all issues that can be resolved by the customers without leaving home are accessible.
2. TAURON's automatic assistant, chats and chatbots, that demonstrate customers how they can resolve their issue, have been implemented.
3. Tools have been implemented that allow the customer to perform, in the self-service mode, popular processes with respect to settlements, such as changing the forecast amount or changing the tariff group.
4. Documents digitized in 2019 have been promoted among customers:
 - Handover and Acceptance Protocol (PZO),
 - Application to conclude or amend a contract (WOZ),

thanks to them, the customer can conclude/transfer the contract without the need to visit a Customer Service Center (POK), as well as without the need to download an application from the website www.auron.pl, print, scan and send it.

5. The customer service and My TAURON (Mój TAURON) mobile application have been promoted, using which the customer independently resolves issues related to electricity and gas.

In 2020, TAURON Dystrybucja improved the quality of service in the process of accepting micro-installation applications by introducing an online form for submitting micro-installation grid connection applications - ZM forms. The service of sending the grid connection conditions to customers' e-mail addresses was launched, in compliance with the sensitive information protection rules. The forms of applications used in the process of connecting to the grid contain information encouraging to use the possibility of submitting such applications in the electronic version on the website tauron-dystrybucja.pl. New content was published on the tauron-dystrybucja.pl website, describing the connection process, prepared by the language consultant involved in the TAURON speaks the way humans do project (TMPL).

To ensure the safety of its employees and customers, TAURON Group decided to temporarily close its Customer Service Centers (POK). During this time, customer traffic was rerouted to the other customer service channels:

- telephone,
- online (website tauron.pl, customer service channel and mobile application Mój TAURON) and TAURON Dystrybucja website www.tauron-dystrybucja.pl).

After their re-opening the stationary facilities were adapted to all sanitary requirements. Also the requirement to make an appointment by phone via the hotline for the customers with combined contracts 32 606 0 606 and the TAURON Dystrybucja hotline 32 606 0 616 was introduced.

Due to the COVID-19 pandemic, in accordance with the legal regulations introduced TAURON Dystrybucja ceased to suspend electricity supply to customers. The restoration of the right to suspend electricity supply to households and entities for which restrictions on operations or temporary restrictions on the scope of operations were established, took place after 6 months had elapsed from the date of the announcement of the epidemic state or the state of epidemic, i.e. after September 20, 2020.

Temporary restrictions were introduced on the performance of works on the metering systems inside customers' premises (meter readings and maintenance works). The works on the metering systems and related to the rectification of failures that required entry to the premises were carried out with the consent of the customer and with the use of the required personal protective equipment by the relevant personnel.

In order to provide protection against Covid-19, the employees used personal protective equipment, i.e. face masks or face shields covering the mouth and nose, disposable gloves and disinfectants.

When taking readings of the metering systems inside the premises, the representatives of the company first asked for the meter reading without going inside the premises.

In case of premises or persons subject to isolation, quarantine or epidemiological supervision, customers were asked to provide such information upon contact with a TAURON Dystrybucja representative before starting any works. The relevant tasks were carried out at a later, agreed upon date.

Actions taken and results achieved

Among the activities implemented as part of the PRO Client Social Policy, making sure that we provide clear and transparent communication with clients is of key importance. In order to implement this stipulation, we are conducting the "TAURON speaks the way humans do" project, as well as numerous social campaigns.

TAURON speaks the way humans do

"TAURON speaks the way humans do" (TAURON mówi po ludzku - TMPL) is a project implemented for several years, that involves simplifying formal and legal documents, messages and letters addressed to the customers. In 2017, we started cooperation with Tomasz Piekot's Language Workshop, which trained several hundred people, who are in direct contact with customer service, with respect to simplifying the official language used. Language consultants have also been selected who act as ambassadors of simple communication at TAURON Obsługa Klienta, TAURON Sprzedaż and at TAURON Dystrybucja.

As part of the TMPL project in 2020:

- 38 new language consultants were trained - two editions of the online course and the Certification exam conducted by Prof. Piekot,
- requirement to agree upon all documents, messages, and marketing materials with plain language consultants before sending them out to customers or publishing was introduced,
- a website dedicated to the project was updated on the Group's intranet, where users will find: writing style handbook (stylobuk - a handbook of effective communication with customers), information on the consultants and language tips written by the consultants,
- TOK and TS trainers participated in 9-hour workshops: Train the trainer: How to conduct on-line training,

- a two-hour workshop was held - how to use the Teams capabilities in on-line training.

Additionally at TAURON Dystrybucja S.A.:

- 2 training courses for the management personnel were conducted by Prof. Piekot,
- a webinar, preceded by the opportunity to submit questions, was conducted by Prof. Piekot,
- Language Clinic was developed - language consultants write short articles on various aspects of simple language that are published once a month in the TAURON Dystrybucja intranet
- simple language trainers were prepared for online training (train the trainers online),
- 4 stationary training sessions were complete, during which 52 employees were trained,
- 140 templates of letters to customers were linguistically and graphically simplified,
- process of simplifying the content posted on the website www.tauron-dystrybucja.pl has been started

In 2020, TAURON Group also worked on simplifying further letters addressed to customers - nearly 70% of them were changed. Their quantities are shown in Figure no. 26.

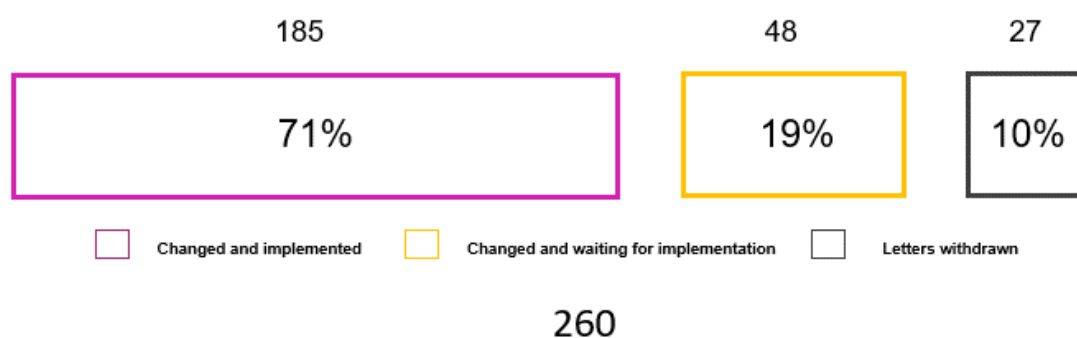


Figure no. 26. Number of simplified letters addressed by TAURON Capital Group to its customers in 2020

The above activities are conducive to the development of processes of reliable and comprehensible information on the products and services offered.

As a result, in 2020, similar as in the previous year, no cases of non-compliance of products and services with respect to the information and labeling thereof, as well as no cases of non-compliance regarding marketing communications were reported in the entire TAURON Capital Group.

In accordance with the principles arising from the PRO Client Social Policy, we are making sure that the marketing message sent by us and our partners should always be not only in line with the law, but also with good practices. The above is illustrated in tables no. 23 and no. 24.

Table no. 23. GRI 417-2. Cases of non-compliance of TAURON Capital Group's products and services with respect to the information and labeling thereof in 2020

Number of cases of non-compliance with:	TAURON Dystrybucja	TAURON Sprzedaż	TAURON Nowe Technologie	Kopalnia Wapienia „Czatkowice”	Bioeko Grupa TAURON	TOTAL NUMBER OF CASES
Regulations - resulting in a fine or penalty	0	0	0	0	0	0
Regulations - resulting in a warning	0	0	0	0	0	0
Internal codes of conduct	0	0	0	0	0	0
TOTAL NUMBER OF CASES	0	0	0	0	0	0

Table no. 24. GRI 417-3. Cases of TAURON Capital Group's non-compliance regarding marketing communications in 2020

	TAURON Dystrybucja	TAURON Sprzedaż	TAURON Nowe Technologie	Kopalnia Wapienia „Czatkowice”	Bioeko Grupa TAURON	TOTAL NUMBER OF CASES

Regulations - resulting in a fine or penalty	0	0	0	0	0	0
Regulations - resulting in a warning	0	0	0	0	0	0
Internal codes of conduct	0	0	0	0	0	0
TOTAL NUMBER OF CASES	0	0	0	0	0	0

Handling of complaints

Complaint handling processes are an effective way of obtaining information on the quality of services provided. Thanks to efficient management, they could be used to improve customer service mechanisms and impact customer satisfaction level.

Complaints addressed to TAURON are coming in by traditional mail, e-mail, telephone, using the forms available on the website www.tauron.pl and via eBOK / My TAURON (Mój TAURON). Subsequently, they are registered in the electronic documentation circulation system (SOD). The complaint handling system in place at TAURON Capital Group in 2019 is shown in Figure no. 27.

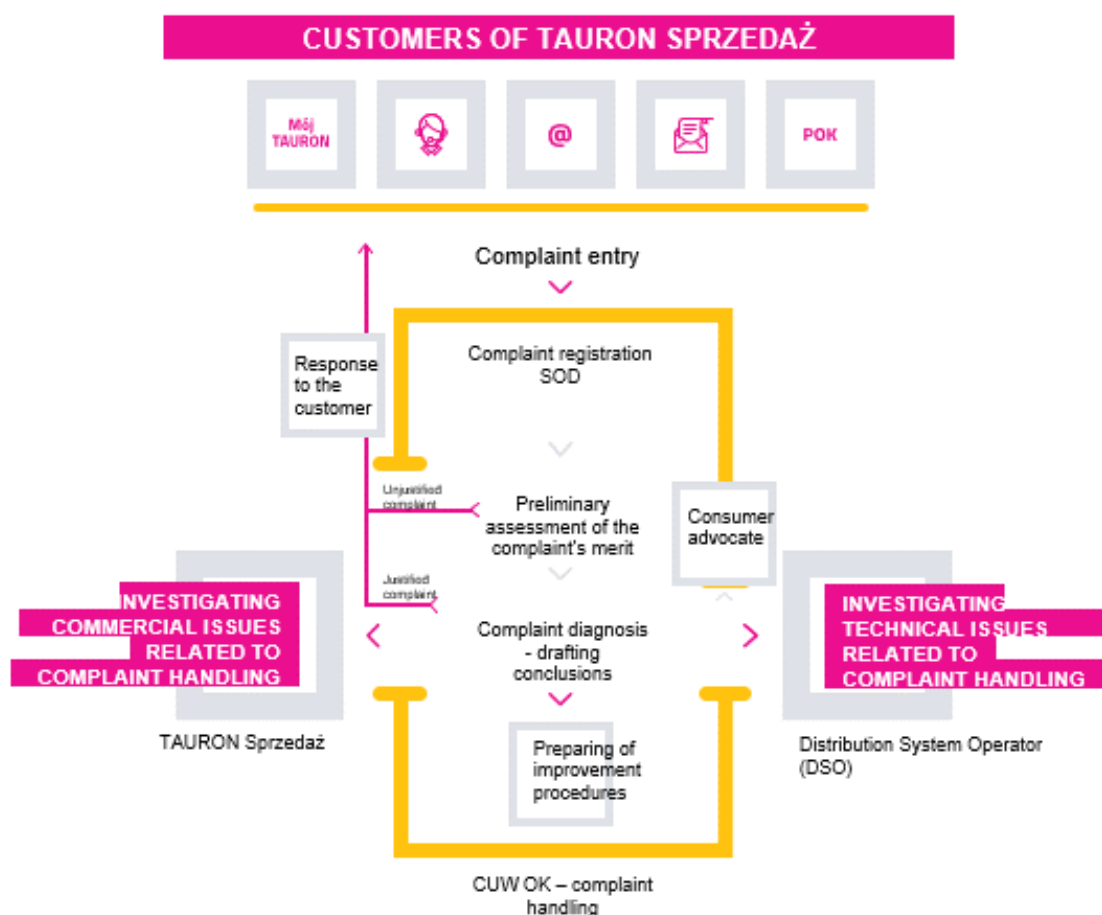


Figure no. 27. Customer complaint handling system in place at TAURON Capital Group in 2019

All comments and complaints are reviewed. The time and manner of response are determined by precise and stringent internal procedures. According to them, each complaint coming from the customer is thoroughly analyzed in order to correctly and effectively identify the causes of non-compliance and determine their place of origin. The fact of an occurrence of irregularities is reported to the owner of the business process who is responsible for implementing corrective actions, for the purpose of an ad hoc review of the complaint and providing an answer. The end result is the introduction of preventive actions in order to eliminate the identified non-compliance in the future. The diagnosed cases, corrective and preventive actions taken are included in the periodically verified, with respect to the repeatability of complaints, Cards of Diagnosis related to the causes of complaints

Establishing of uniform complaint management rules ensures their reliable and timely review, as well as allows to define the principles of cooperation between the Complaint Center and business process owners. The complaint handling system in place at TAURON Dystrybucja since 2019 is shown on Figure no. 28.

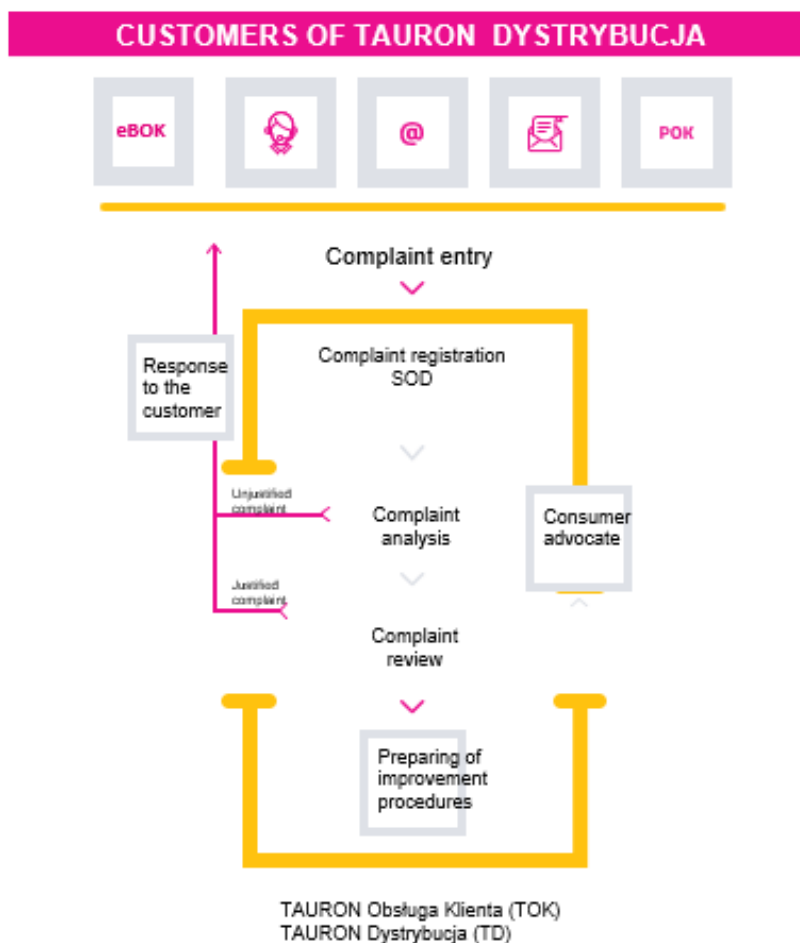


Figure no. 28. Customer complaint handling system in place at TAURON Dystrybucja

In order to best understand the customer's point of view, TAURON Dystrybucja and TAURON Obsługa Klienta (Customer Service) have been conducting periodic workshops, prepared based on the complaints, since 2013. Together with the personnel of the lines of business that the given complaint is applicable to, the causes and potential alternative solutions are analyzed.

This practice contributes to the implementation of a self-learning organization concept.

Customer Satisfaction Index

Customer experience in TAURON Capital Group is understood as the sum of interactions with the customer, not only during customer service, but also at all other points of contact with the company. Experience research in 2020 was carried out each month via online and telephone surveys, and quarterly via the hotline.

They focused primarily on collecting information on the level of customer loyalty (NPS) after going through a given process and on what effort (CES) they put into solving their issue at TAURON.

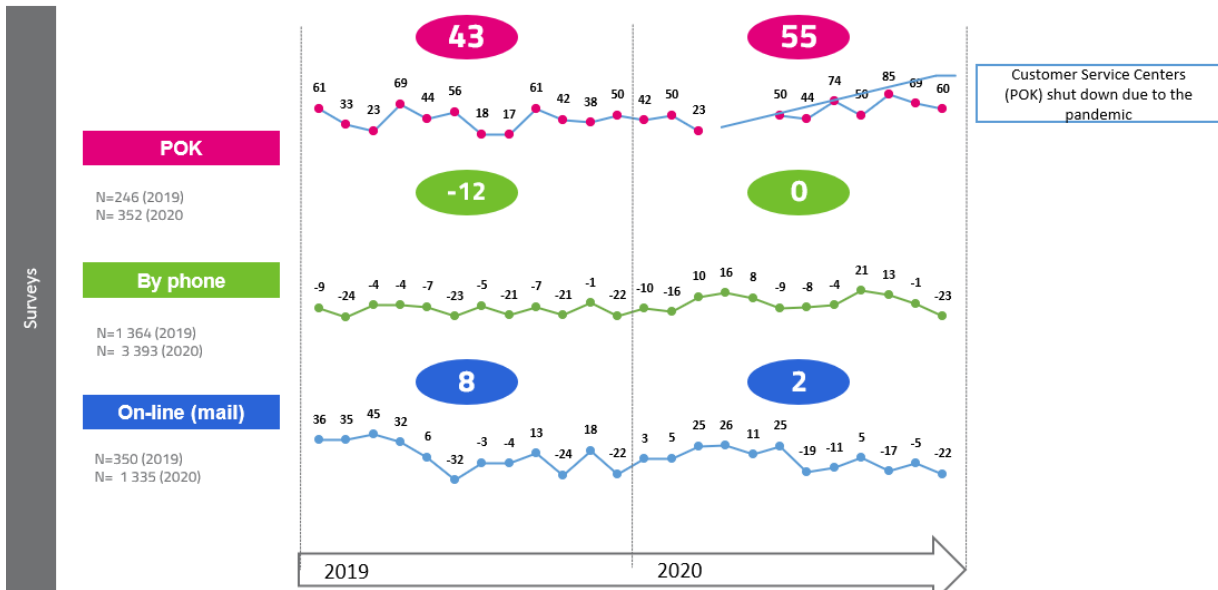
Customer experience surveys are carried out by TAURON Group in two ways:

- 1 Customer experience in areas where the customer is most often dealing with the company directly, i.e. in the process of discussing connections, contracts (agreements), settlements (billing), debt collection and filing a complaint is tested.

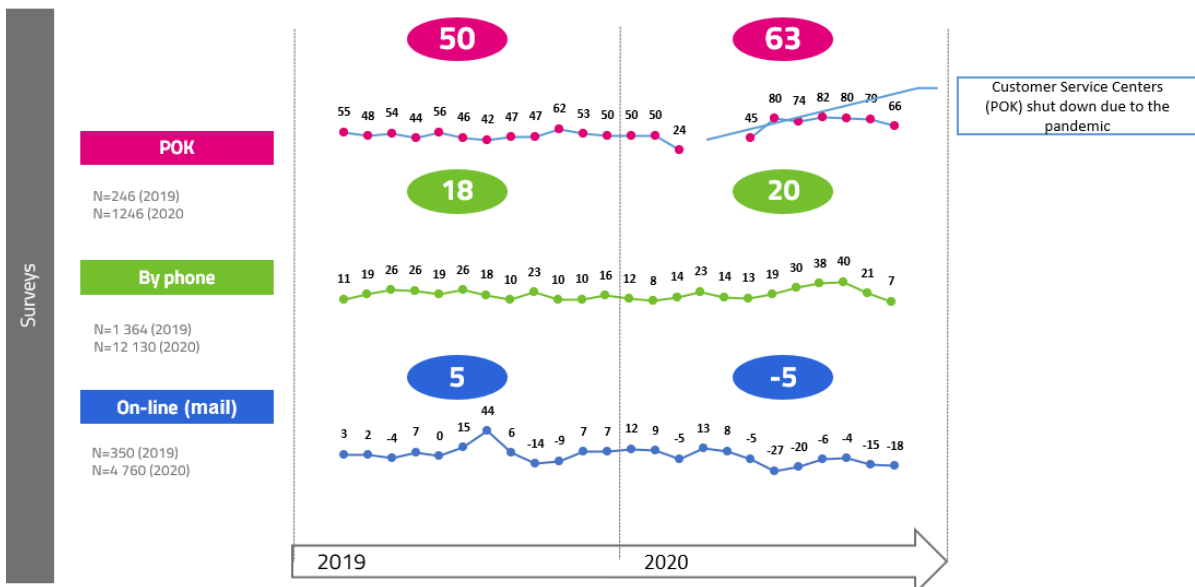
The charts presented on Figures no. 29 and no. 30 show the loyalty level (NPS) of customers following the given process that they have participated in and what effort they put into solving their issue at TAURON (CES).

The results obtained indicate what improvements and changes should be introduced to meet the customers' expectations regarding the customer service provided. The complaint area has been covered by the research since August 2020, hence there is no reference to the previous year.

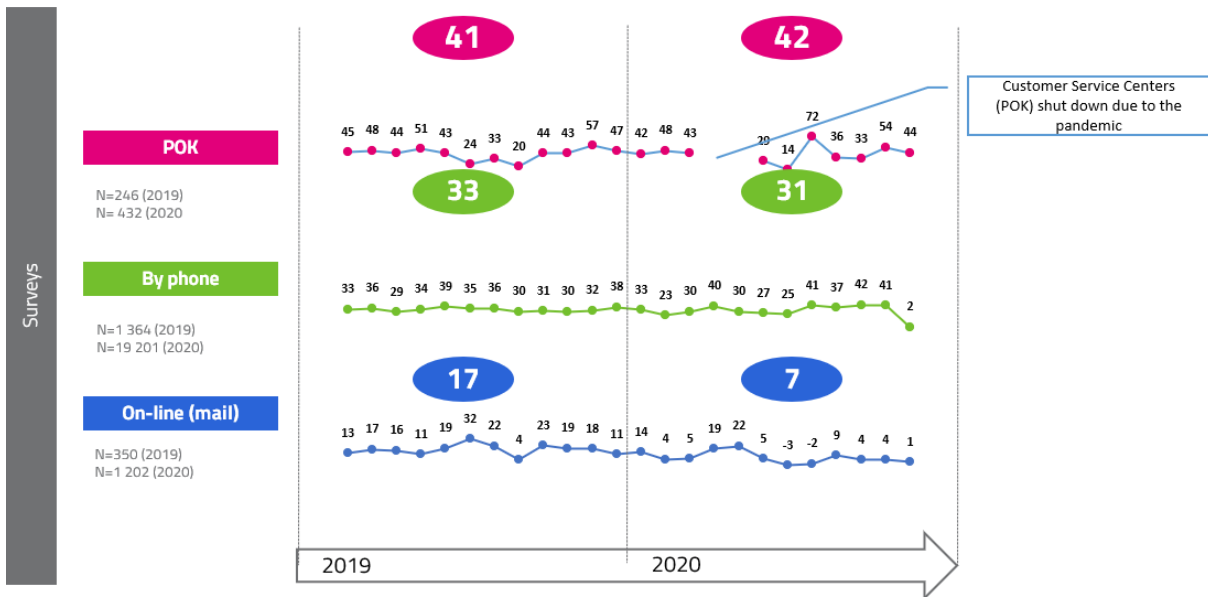
NPS- results with respect to grid connections



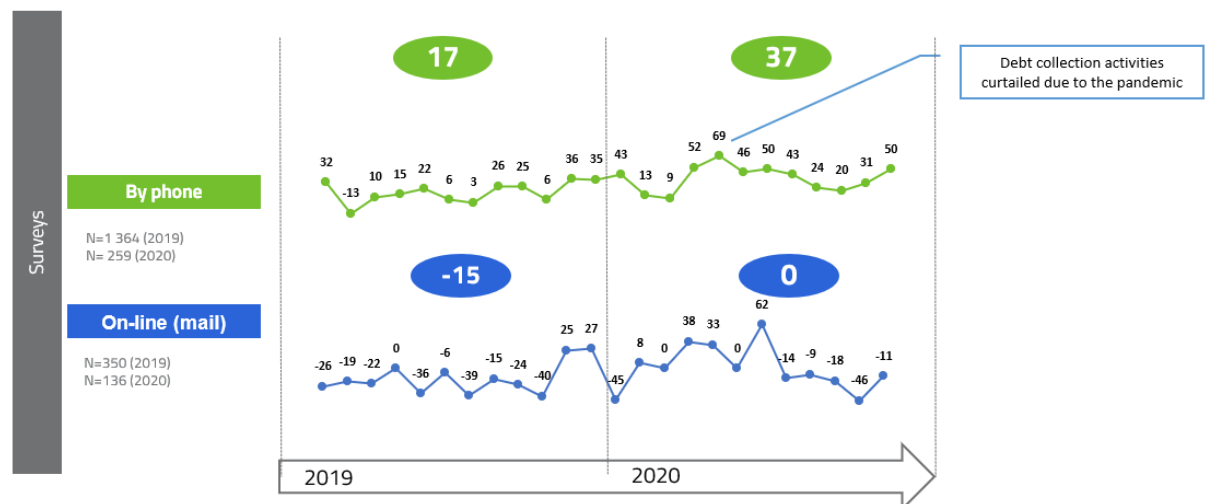
NPS- results with respect to contracts (agreements)



NPS- results with respect to billing and payments



NPS- results with respect to debt collection

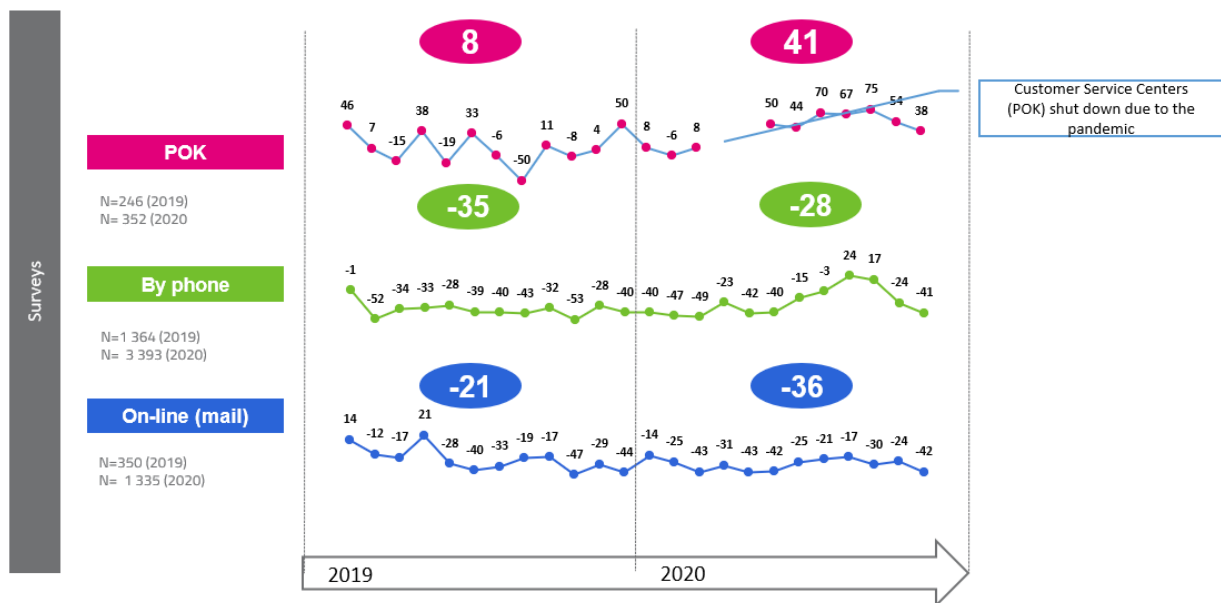


NPS- results with respect to complaint handling

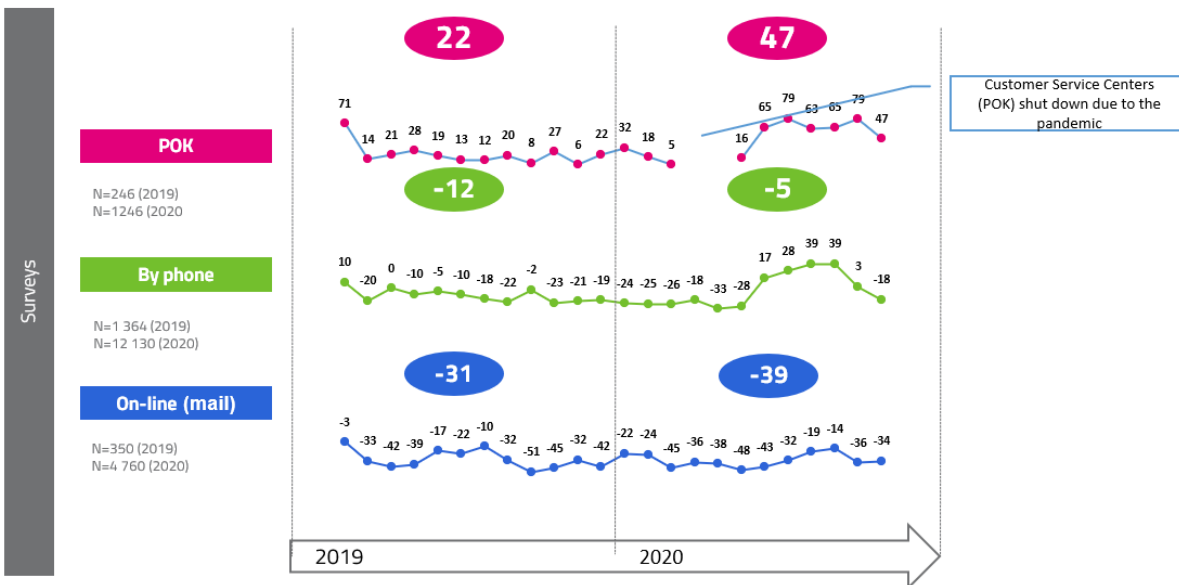


Figure no. 29. Results of the customer loyalty level (NPS) survey among customers from TAURON Capital Group's household segment in 2020, as compared to 2019

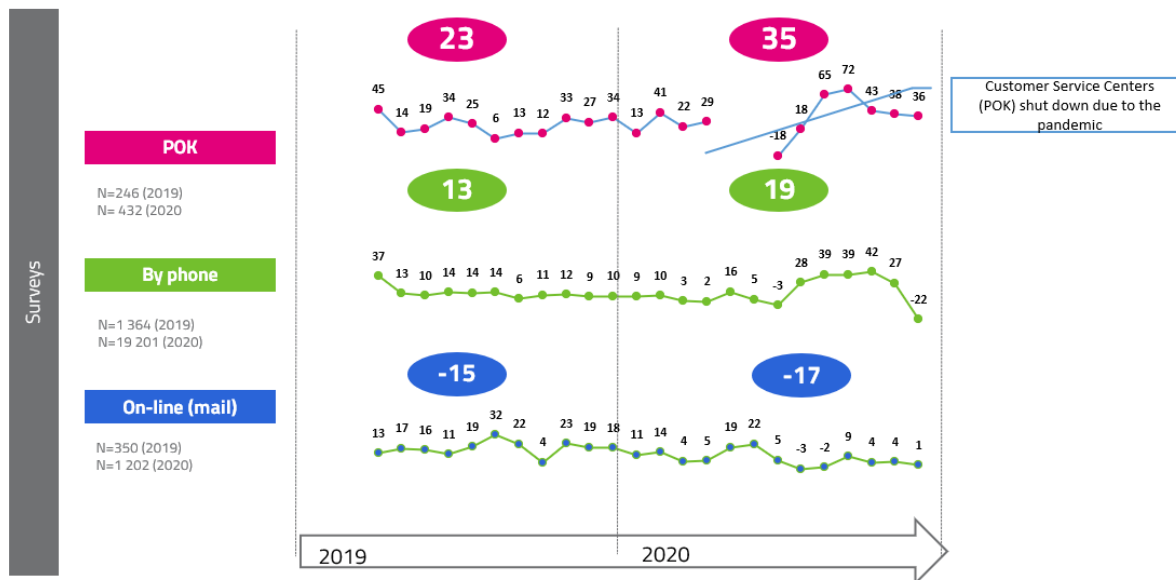
CES- results with respect to grid connections



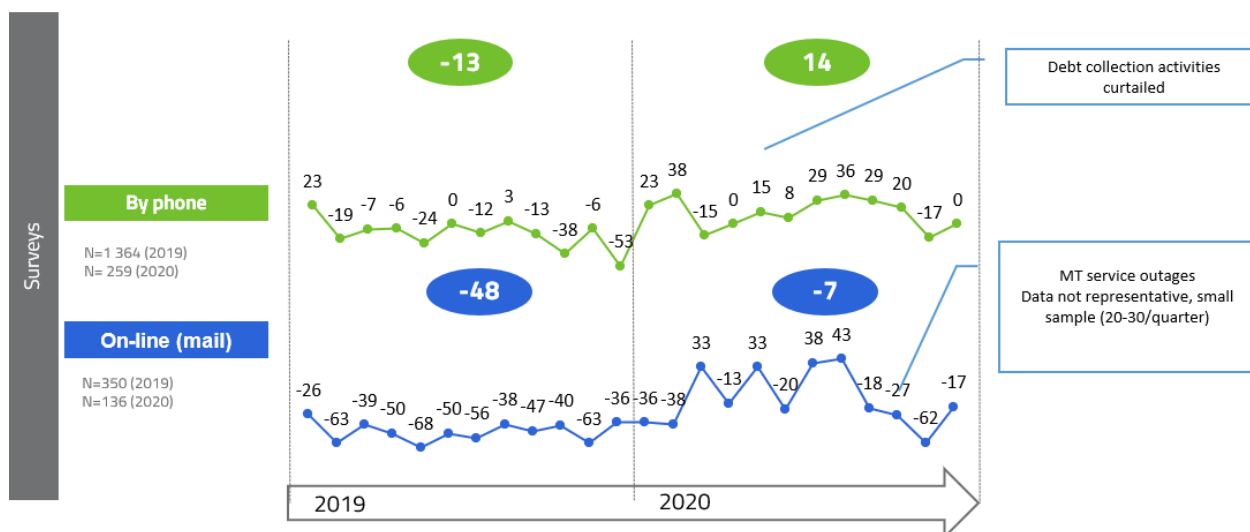
CES- results with respect to contracts (agreements)



CES- results with respect to billing and payments



CES- results with respect to debt collection



CES - results with respect to complaint handling



Figure no. 30. Results of the customer effort (CES) survey among customers from TAURON Capital Group's household segment in 2020, as compared to 2019

2

Once a year, through an independent research agency, we also analyze customer satisfaction level in the following segments: households, small and medium enterprises, business. As part of this study, it is also important for us to find out how TAURON Group ranks against the competition

Each time a randomly selected group of TAURON's customers and a group of customers of other energy companies - Enea, PGE, Innogy and Energa, take part in the survey. In accordance with the schedule, the study was conducted in August and September 2020 by PBS sp. z o.o. agency.

Figure no. 31 presents the results of the customer satisfaction survey conducted in the household segment, as compared to the previous years.



Figure no. 31. Results of the customer satisfaction survey conducted among customers from TAURON Capital Group's household segment in 2020, as compared to the previous years.

In the household segment, the overall customer satisfaction level and the loyalty level are relatively stable. TAURON obtained at least the same high marks as in the previous edition of the survey in almost all of the surveyed areas. The exception is customer service, where a slight drop was recorded, mainly due to the slightly lower results of satisfaction with customer service over the online channels. The image of TAURON has not changed significantly, as compared to the previous edition of the survey, except for the aspect related to taking care of the environment, which, after the decline in 2019, is now attributed slightly more often to TAURON Group. Small positive fluctuations in other image aspects are not statistically significant, but indicate the stabilizing of TAURON's image among the customers.

Customer satisfaction indices among business customers

Stabilization of the main indicator for business customers: satisfaction and loyalty, can be observed for another year in a row. All aspects are assessed at a similar level as in the previous edition of the survey. After last year's drop, there was a slight increase in the satisfaction of business customers with respect to prices, primarily in terms of the offering's price to quality ratio and the solutions offered. Noticeable improvements were also observed with respect to failures and outages, mainly in the context of providing information on the failures.

On the other hand, a decline in the survey results can be observed with respect to contracts, which is first and foremost caused by a worse assessment of the aspect related to TAURON's willingness to negotiate non-price terms of the contract, as well as with respect to products. Customers, slightly less frequently than in the previous edition of the survey, are able to spontaneously, or with assistance, indicate specific TAURON products.

TAURON's image has not changed significantly as compared to the previous edition of the survey. TAURON is perceived primarily as a company that is easy to cooperate with, it is trustworthy, keeps its promises and sticks to its declarations and treats customers with respect. Still the lowest rated image aspect is the one regarding the appreciation of regular customers.

Figure no. 32 presents the results of the customer satisfaction survey conducted among TAURON Capital Group's business customers in 2020.



Figure no. 32. Results of the customer satisfaction survey conducted among TAURON Capital Group's business customers in 2020, as compared to the previous years

Customer satisfaction index among small and medium size enterprises (SME)

A slight decrease in the level of general satisfaction and loyalty of TAURON group's customers can be observed in this edition of the survey,. The level of these two main indicators this year is average as compared to the competition. However, it should be remembered that the samples of the competing companies' customers surveyed in the research project were small. Invariably, the most important areas for customers that affect their overall satisfaction and loyalty (directly or indirectly) are failures and outages, prices and tariffs, image and customer service. Prices have the biggest impact on the satisfaction of the SME segment customers and in this edition of the survey they were rated at a similar level as in the previous edition of the survey. The prices that in this wave of the survey were assessed similarly to the previous wave of the survey have the greatest impact on customer satisfaction in the case of SME customers. Another important aspect - according to the analyses - is customer service, including, in particular, telephone contact. This aspect is also rated, another year in a row, higher as compared to the previous edition of the survey. At the same time, the overall customer service satisfaction is slightly lower. Invariably, very important from the point of view of the impact on general satisfaction is also the company's image, which has stabilized at a relatively good level since the previous edition of the survey. Failures are the aspects that have a smaller (but still significant and greater than last year) impact on the overall rating and customer loyalty. With respect to failures the company is assessed by the SME customers at a similar level as in the previous year. At the same time, customers from this segment have most likely experienced unplanned outages less frequently in the last 12 months. The results of the SME customer satisfaction survey are presented in Figure no. 33.

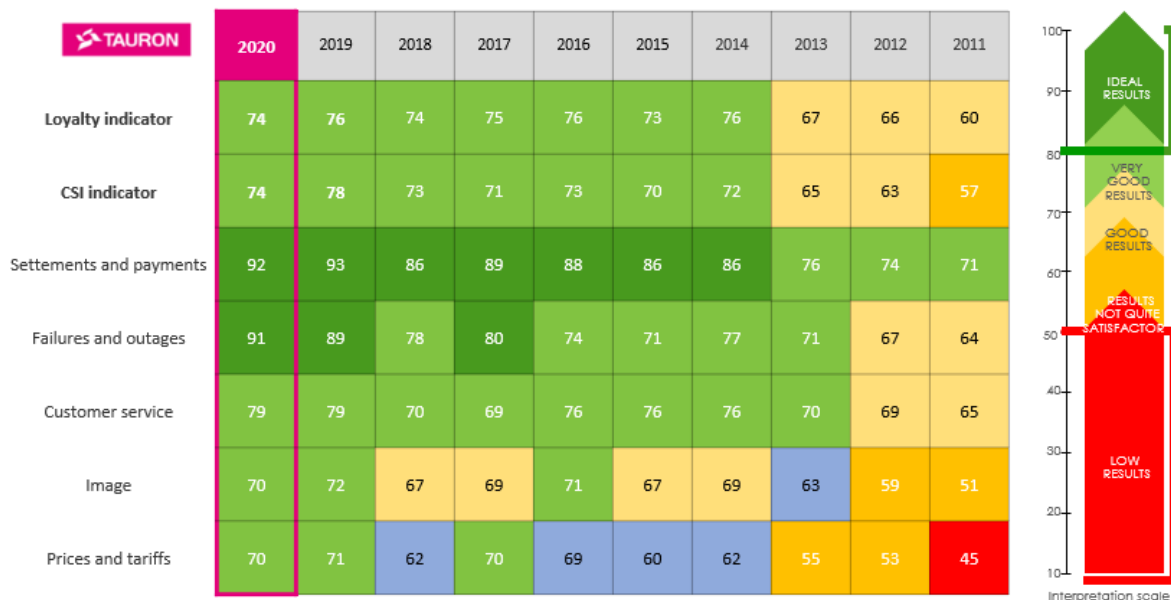


Figure no. 33. Results of the customer satisfaction survey conducted among TAURON Capital Group's customers in the small and medium size enterprises segment in 2020, as compared to the previous years.

4.2. TAURON Group's Diversity Policy

In accordance with TAURON Group's Diversity Policy (hereinafter: Diversity Policy) adopted in 2017, diversity and openness are an integral part of business operations. The Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees. The Diversity Policy is also applied in the cooperation with the external partners of the Group, i.e. companies, universities, schools or other business entities.

Due diligence procedures and internal regulations

The due diligence procedures in place under the Diversity Policy include first and foremost activities aimed at:

- developing the work environment based on respect, openness, reliability and fairness (justice),
- ensuring versatility and diversity, in particular with respect to gender, education, age and professional experience,
- building organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),
- preventing discrimination by fostering appropriate work atmosphere as well as building and strengthening positive relationships among the personnel

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, in combination with the strengthening of the culture of equal treatment regardless of age, gender, appearance, disability, views or beliefs and ensuring equal opportunities in terms of remuneration or professional development, there are regulations ensuring fairness and objectivity with respect to work organization and remuneration, e.g.

- TAURON Group's Compensation Principles,
- applied regulations with respect to benefits (entitlements),
- implemented flexible forms of work time and ability to work remotely,

and solutions dedicated for women, ensuring equal opportunities for them and support in combining professional life with private life, e.g.

- reduced working time for pregnant women.

Actions taken and results achieved

By implementing the Diversity Policy TAURON Capital Group is seeking to provide the work environment based on respect and fairness (justice), within which each employee may fully realize his/her individual potential. The work on the Knowledge and Age Management project began in 2020. It is a process involving intellectual capital management and supporting an organizational culture based on knowledge sharing.

We are accomplishing this goal through the implementation of numerous training programs, supporting the development of the competences of each employee.

The most important among them include:

- Purchasing management in business - a project aimed at improving purchasing, negotiating and commercial qualifications. 32 employees of the Group participated in the project;
- TAURON Group Open University - the goal of creating and continuing the idea of the University is to provide employees with constant access to knowledge and information on current topics, related to both business as well as personal development or the individual passions of employees
- Talent Management Program in place at TAURON Polska Energia S.A., aimed at supporting the employee development process and taking advantage of their potential;
- TAURON Group's Internal Trainers Academy is a form of activities supporting development of competences within TAURON Group;
- Development Squared - is a series of weekly webinars conducted by the HR personnel from selected subsidiaries of TAURON Group. Webinars are conducted in four thematic areas: development, knowledge sharing, cooperation, health
- mentoring program – “Magenta meetings” at TAURON Dystrybucja as part of the KobietaMoc (WomenPower) campaign - for women students of electrical engineering faculties. The program's goal is to provide support for women, among others in selecting a career path;
- "Mum works" program – the program is targeted at women employed at TAURON Group, whose children are under six years of age, and pregnant women. Persons joining the program have the opportunity to perform their job duties outside the place of employment (remotely) as part of a telework arrangement, or take advantage of the individual (customized) scheduling of the working time, depending on the nature of the tasks carried out at a given position. Those mums who are still on a parental or child care leave receive a newsletter containing information on the life of the company, allowing them to keep in touch with the workplace. Pregnant women can take advantage of the individual (customized) scheduling of the working time or telework, and in addition reduce the working time by two hours a day during the period of pregnancy, while maintaining the amount of remuneration. The goal of the "Mum works" program is to increase the comfort of work for future and current mothers. The program is to increase the number of women returning to work after having a child, allowing more flexible adaptation of working time to their needs. It is also to ensure that women do not lose contact with the organization during their absence caused by the maternity or child care leave. The percentage of returns to work after parental leave, as well as the retention rate are presented in Table no. 25;
- Parenting webinars - the goal of the initiative is to provide support for the employees in reconciling various life roles - professional and parental. The topics of the webinars were related to motivation, independence, authenticity, creativity, building self-confidence, or how to support a child in remote learning, balancing screen time with other activities;
- Continuation of activities with respect to creating intergenerational brigades - experienced employees share their professional knowledge, passing on the secrets of the art of mining to younger employees;
- Disseminating knowledge of diversity among employees using the available information channels, i.e.: work health and safety training, management personnel meetings, giant screens, notice boards.

Activities aimed at implementing a new HR process - Development Conversation, have been conducted at TAURON Group since 2019. The goal of the initiative is the development of the organization by building a culture of dialogue between the supervisor and the employee and the possibility of focusing on the employee's development in accordance with his/her needs, as well as the organization's business capabilities and needs. The development conversation is based on TAURON Group's existing Competency Model and assumes the need for continuous development of these competences in relation to changing business challenges. The activities carried out at the Group's selected subsidiaries in 2020 demonstrated a number of benefits brought by open communication and individual approach to the needs of employees, taking into account the directions of development of the organization. As the conversations may concern both the manner of fulfilling professional duties, attitude, motivation, as well as mutual expectations - they can be an opportunity to introduce positive changes in diverse teams.

One of the important activities undertaken as part of the Diversity Policy is also cooperation with the educational community, which translates into the creation of patronage classes in which students have the opportunity to gain practical experience related to the potential future job. The internship and apprenticeship programs support the development of skills of young people, and mentors have the opportunity to share their knowledge and experience, which translates into managing knowledge within the organization. By the end of 2020, TAURON had covered 53 classes with its patronage, including 9 new ones.

TAURON Group organizes numerous apprenticeships and internships. 2020 was different in comparison to the previous years due to the epidemic, which reduced the number of apprenticeships and internships in the Group. 263 people took part in the apprenticeships and internships programs at TAURON Group in 2020. As part of the implementation of the Diversity Policy, there were several foreigners among the interns. The detailed description of the above activities and projects is provided in the section regarding Human Resources Management Policy.

Risks that may have an adverse impact on the application of the Diversity Policy related to the Group's operations

The risk areas related to non-compliance with the principles of the Diversity Policy include:

- occurrence of mobbing and discrimination, in particular due to age, sex, education, origin, race, in particular in terms of equality of the rules of remuneration and promotion, and equal opportunities with respect to access to training
- increase in social unrest related to unequal treatment,
- increasing employee turnover,
- occurrence of a competence gap,
- loss of the external image and confidence in the TAURON brand.

Table no. 25. GRI 401-3. Parental leave at TAURON Capital Group in 2019

	TAURON Group's total	Women	Men
Percentage of returns to work	80%	56%	90%
Retention rate following a parental leave	94%	82%	97%

Being aware of the positive impact of a diverse work environment on the knowledge and experience sharing processes, the breakdown of the workforce and the management board of TAURON Group by age and gender is presented in tables no. 26 and 27.

Table no. 26. GRI 405-1. Composition of TAURON Capital Group's workforce broken down by age and gender as of 31.12.2020

	MANAGEMENT BOARD AND DIRECTORS			HIGHER AND LOWER LEVEL MANAGEMENT PERSONNEL			OTHER ADMINISTRATIVE STAFF (WHITE COLLAR POSITIONS)			BLUE COLLAR POSITIONS			TAURON Group		
	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <
Number of employees	174			2 721			9 109			13 568			25 572		
	0	82	92	22	1 446	1 253	774	4 929	3 406	1 444	6 686	5 438	2 236	13 183	10 153
women	0	24	10	2	318	164	368	2 390	1 531	28	291	377	396	3 009	2 069
men	0	58	82	20	1 128	1 089	406	2 539	1 875	1 416	6 395	5 061	1 800	10 002	7 854
SHARE IN PERCENTAGE (in reference to all of the company's employees)	1%			11%			35%			53%			100%		
Share in percentage (in reference to the number of employees in the given employment category)															
TOTAL	-	47%	53%	1%	53%	46%	8%	54%	37%	11%	49%	40%	9%	52%	40%
women	-	14%	6%	0%	12%	6%	4%	26%	17%	0%	2%	3%	2%	12%	8%
men	-	33%	47%	1%	41%	40%	4%	28%	21%	10%	47%	37%	7%	39%	31%

Table no. 27. Composition of the Management Boards of TAURON Capital Group's subsidiaries as of December 31, 2020, broken down by gender and age

	TAURON Group		
	≤ 30 i.e. up to 30 years (inclusive)	above 30 up to 50 years (inclusive)	above 50 years <
Number of Management Board employees		41	
TOTAL	0	20	21
women	0	2	1
men	0	18	20
Composition of the Management Board in percentages broken down by age and gender [%]			
(percentage share versus entire Management Board) TOTAL	-	49%	51%
(percentage share versus all women in the Management Board) women	-	67%	33%
(percentage share versus all men in the Management Board) men	-	47%	53%

4.3. TAURON Group's Environmental Policy

Environment protection is a strictly controlled and regulated area in the energy and mining industry. Notwithstanding the applicable general provisions, TAURON Group, taking responsibility for the consequences of using natural resources and adopting in July 2017 a document entitled TAURON Group's Environmental Policy, and TAURON Group's Climate Policy in November 2019, emphasized that it was ready to take actions that went beyond legal obligations.

TAURON Group's Environmental Policy (Environmental Policy) adopted by the Management Board in 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 will follow in environment related matters. The Environmental Policy is the benchmark for assessing all of the activities of TAURON Capital Group's subsidiaries in the area of environment protection and environmental management.

The Environmental Policy documents the values and the vision followed by TAURON Capital Group with respect to making an impact on the natural environment. The main principle of the Environmental Policy is to limit both the direct, as well as the indirect impact on the environment and to conduct responsible communications, ensuring the understanding of the operations of TAURON Capital Group that may impact the environment.

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

Due diligence procedures and internal regulations

Due to diverse production and service profiles of TAURON Capital Group's subsidiaries, their impact on the environment varies significantly, therefore the principles of 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. Some of TAURON Capital Group's subsidiaries have implemented a certified environment management system in accordance with the

ISO14001 standard. TAURON Wytwarzanie, representing conventional electricity generation, has additionally received the European Community's Eco-Management and Audit Scheme (EMAS), the EU's environmental certification system, aimed at creating a sustainable development culture in an organization and efficient management of available resources and energy, operating pursuant to Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on voluntary participation by organizations in the European Community's Eco-Management and Audit Scheme.

Nowe Jaworzno Grupa TAURON facility commissioned in November 2020 is characterized by the highest environment management quality standards, high efficiency of fuel energy conversion into electricity and is equipped with the most modern environment protection devices with respect to flue gases treatment, water conditioning and sewage treatment. The fuel for the new unit is one of the best quality fuels on the market.

TAURON Capital Group is monitoring the main aspects of the direct and indirect environment impact of its operations on an ongoing basis. Such types of measures include, for example, monitoring the emissions of NOx, SOx compounds and dusts into the atmosphere presented in Table no. 28, 28-a and 28-b.

Table no. 28. GRI 305-7. Emissions of the NOx, SOx compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2019 and 2020

TOTAL		
	2020	2019
NOx	7 490 740	10 708 789
SOx	7 050 794	10 385 711
Total dust	435 182	636 538
Other (including methane)	34 881 760	33 521 927
Total aggregate emissions into the atmosphere [kg]	49 858 476	55 252 966

Table no. 28-a. GRI 305-7. Emissions of NOx, SOx compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2019 and 2020, per individual subsidiaries

	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
NOx	684	770	6 238 530	9 394 343	1 102 230	1 275 974	37 668	37 701	111 628	-	7 490 740	10 708 789
SOx	27	32	5 392 053	8 312 491	1 537 689	2 017 940	55 188	55 248	65 837	-	7 050 794	10 385 711
Total dust	6 507	8 440	282 085	438 670	82 311	139 994	44 372	49 434	19 907	-	435 182	636 538
Other	0	0	4 551 863	6 121 356	1 366 787	1 755 165	28 956 862	25 645 406	6 248	-	34 881 760	33 521 927
Total aggregate emissions into the atmosphere [kg]	7 218	9 242	16 464 532	24 266 861	4 089 017	5 189 074	29 094 090	25 787 789	203 620	-	49 858 476	55 252 966

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

Table no 28-b. GRI 305-7. Operating limits of emissions of significant compounds into the air at TAURON Capital Group's individual subsidiaries, applicable in 2020

SOURCE	Maximum annual number of tons		
	NOx	SO ₂	Dust
TAURON Wytwarzanie	31 198.7	43 872.9	4 136.0
TAURON Ciepło	3 037.6	4 234.2	469.4
Nowe Jaworzno Grupa TAURON	3 380.6	3 380.6	227.8
TAURON Wydobywanie	37.8	55.6	63.3
Kopalnia Wapienia Czatkowice	Not determined*	Not determined*	36.2

* Emissions are not determined for the substance, the emission of which does not exceed 10% of the reference value (benchmark) or 10% of the permitted levels in the air averaged for the hour.

TAURON Group's 2020 emissions are well below the levels set as maximum permitted annual loads of substances released into the atmosphere according to the permits. The above is due to the fact that all working generating units of TAURON Wytwarzanie and TAURON Ciepło achieve the sulfur dioxide, nitrogen dioxide and dust concentration levels below the current permitted values, and the SO₂ and NO₂ concentration levels for the 200 MW units and biomass fired boilers (RES) reach a similar level to the new lower limits set out in the BAT conclusions that will apply from 2021.

In 2020, despite the COVID 19 pandemic, almost all of the investment tasks related to the modernization of the air protection installation at Łaziska and Jaworzno III Power Plants, scheduled for this period, were completed, and thanks to that the coal units planned for further operation, which are also the participants of the capacity market, will be prepared by August 2021 for the new environmental requirements specified in the BAT conclusions, which will then become effective. TAURON Group's costs and expenditures for projects related to environment protection are presented in Table 29.

Table no. 29. TAURON Group's costs and expenditures for projects related to environment protection (excluding climate-related expenditures)

TAURON Group's total costs of environment protection	PLN 307 million
including investment outlays related to environment protection	PLN 280 million
Share of investment outlays in environment protection costs	approx. 91 %
Share of environment protection investments in the Group's total capital expenditures of the Group	approx. 7 %

TAURON Group's total capital expenditures on projects directly related to environment protection in 2020 came in at nearly PLN 280 million, which represented approx. 91% of TAURON Capital Group's total outlays on environment protection and approx. 7% of expenditures, thus increasing the value of fixed assets used for the protection of the environment.

Actions bringing environmental effects taken and results achieved

The coal power units, modernized ecologically, will meet the requirements of the "BAT conclusions" and, at the same time, will contribute to a further reduction of the emissions of sulfur dioxide, nitrogen oxides and dust to the atmosphere, and to the additional reduction of emissions of other air pollutants, such as hydrogen chloride and hydrogen fluoride as well as mercury.

The program aimed at adapting TAURON Group's generating units to comply with the operational conditions in force beyond 2021 included TAURON Wytwarzanie's following ecological investments:

- Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installations,
- Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the existing selective catalytic reduction (SCR) installations,

- Łaziska Power Plant, units no. 9 and 10 – the refurbishment of the wet flue gas desulfurization (FGD) installation, including erecting the additional desulfurization level, connecting the flue gas ducting and construction of the new plastic flue gas ducting in the stack,
- Łaziska Power Plant – the refurbishment of the flue gas desulfurization (FGD) installation's sewage treatment plant.

The total budget of the Program, based on the concluded contracts for the implementation of the above projects, is currently (due to the occurrence of COVID-19 a budget increase is possible) approx. PLN 270 million, of which approximately PLN 234.5 million was spent in 2020.

The program of adapting to the "BAT conclusions", in terms of the pro-ecological investment projects, was mostly completed in December 2020, and its closing is expected, among others due to the COVID-19 impact, in the second half of 2021, after a series of the performance tests, during which the emission limit values compliant with or stricter than the requirements of the "BAT conclusions" will be verified.

TAURON Group's other production units, which will be operated in the subsequent years from 2021 onwards and to which the requirements of the "BAT conclusions" will apply, will also meet them, because they have either been modernized in previous years in such a way that they meet the requirements of the "BAT conclusions" or have obtained appropriate derogations.

The expected ecological effects for the environment stemming from the implementation of the BAT Program and specified solely for TAURON Group's modernized generation units (Łaziska Power Plant and Jaworzno III Power Plant units) will allow, in the coming years, to reduce the emissions of sulfur oxides and nitrogen oxides into the air, as compared to 2019, by the following amounts:

SO₂ emissions reduction – reduction of emissions by a total of approx. 153 tons/year,
(Łaziska Power Plant units no. 9 and 10)

NO_x emissions reduction – reduction of emissions by a total of approx. 697 tons/year,
(Jaworzno III Power Plant, units no. 1, 3, 5 and Łaziska Power Plant, units no. 9-12)

TAURON Ciepło is currently implementing an investment project in Kamienna Góra that involves the construction of a gas-fired cogeneration system with a capacity of approx. 3 MW, which is the next stage of abandoning solid fuels in the process of generating district heat.

As part of the investment and sustainable development program, the tasks related to connecting new facilities to TAURON Ciepło's district heating networks were carried out and the Low Emission Elimination Program was continued by successive connecting of the individual facilities, previously heated using solid fuels.

TAURON Ciepło modernized the water management system at Zakład Wytwarzania Tychy.

TAURON Dystrybucja, by implementing the modernization and replacement of the existing assets on an ongoing basis, especially the tasks related to the alteration of the switchgear switchrooms or transformer/switch substations, directly contributes to the improvement of the soil and groundwater safety.

TAURON Group assumes responsibility for taking care of the natural environment and the consequences of using its resources. The Group's subsidiaries estimate that the amount of charges to be paid for the business use of the environment in 2020 is approximately PLN 30.43 million, which is illustrated in Table no. 30.

Table no. 30. Estimated charges for the business use of the environment by TAURON Capital Group due for 2020

#	Subsidiary name	Charges ¹ for the business use of the environment due for 2020 (PLN '000)
1.	TAURON Wytwarzanie	11 520
2.	TAURON Wydobycie	14 973.5
3.	TAURON Ciepło	2 393
4.	TAURON Dystrybucja	199.9
5.	KW Czatkowice	60.0
6.	TAURON Nowe Technologie	< 0.8**
7.	TAURON Obsługa Klienta	2.2
8.	TAURON Ekoenergia	543.3* **
9.	TAURON Sprzedaż	< 0.8**

#	Subsidiary name	Charges ¹ for the business use of the environment due for 2020 (PLN '000)
10.	Bioeko Grupa TAURON	4.4
11.	Nowe Jaworzno Grupa TAURON	785 ***
12.	Wsparcie Grupa TAURON	2.9
Total		30 484.2

¹Partly estimated data, the annual settlement has not been completed.

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

** extent of using the environment does not generate charges, as their amount is below the threshold starting from which fees are paid.

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

Following the principle of resource efficiency, TAURON Group is monitoring and optimizing also the consumption of water used for technological process purposes on an ongoing basis. This is done by closing the water circuits and by recirculating water with relatively good parameters to other production processes, with lesser requirements, for reuse.

The Group's energy production facilities with the highest generation efficiency (NJGT's 910 MW unit and TAURON Wytwarzanie's Łagisza Power Plant in Będzin) and the highest quality requirements for the steam and water (combined) cycles, were equipped with water conditioning (treatment) installations based on modern membrane techniques. This means the minimum use of chemicals in the treatment process, which makes the entire process safe for the natural environment. In some water treatment processes, electrolysis processes are used instead of chemicals.

The consumption of water used in the production processes by TAURON Capital Group in 2020 is shown in Tables no. 31 and no. 31-a.

Table no. 31. GRI 303-3. TAURON Capital Group's total water consumption per source in 2019 and 2020

[m ³ /year]	TOTAL	
	2020	2019
rivers	117 712 190	143 447 469
wetlands	0	0
ground water	46 458 181	45 969 125
rain water picked up directly and stored	318 988	163 701
water from the city network	3 613 660	5 359 483
Other	15 941 437	17 752 749
Total volume of water consumed from all sources taken into account	184 044 456	212 692 527

Table no. 31-a. GRI 303-3. TAURON Capital Group's total water consumption per source broken down by subsidiaries in 2019 and 2020

[m3/year]	TAURON Wydobycie		Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Surface water (rivers, lakes) including water from wetlands														
rivers	0	0	48 465	42 556	117 350 726	142 955 276	312 999	449 637	0	0	0	-	117 712 190	143 447 469
wetlands	0	0	0	0	0	0	0	0	0	0	0	-	0	0
Other:														
ground water	45 471 280	44 883 908	92	89	986 281	1 084 646	0	0	528	482	0	-	46 458 181	45 969 125
rain water picked up directly and stored	0	0	0	0	318 988	163 701	0	0	0	0	0	-	318 988	163 701
water from the city network	792 963	159 789*	22 688	13 563	1 680 253	4 053 940	1 116 587	1 130 698	1 169	1 494	0	-	3 613 660	5 359 483
Other	0	0	0	0	14 565 846	16 736 118	759 936	1 016 631	0	0	615 655	-	15 941 437	17 752 749
Total volume of water consumed from all sources taken into account	46 264 243	45 043 697	71 245	56 208	134 902 094	164 993 681	2 189 522	2 596 966	1 697	1 976	615 655	-	184 044 456	212 692 527

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

* Zakład Górniczy Janina (Janina Coal Mine) – Initiative "Increase of the consumption of water from own sources in the technological processes". The objective achieved is the reduction of water purchased from Wodociągi Chrzanowskie sp z. o.o.

TAURON Group is continuously optimizing waste water treatment processes. Wastewater treatment methods are also modernized to improve the efficiency of these processes. The quality and quantity of wastewater is subject to ongoing monitoring. The total volume of waste water generated as a result of TAURON Capital Group's operations in 2020, including its utilization method (destination), is shown in Table no. 32 and no. 32-a.

Table no. 32. GRI 306-1. Total volume of TAURON Capital Group's waste water [m3] in 2019 and 2020 by quality and utilization method (destination)

Waste water dump site taking into account emergency heat dumps	TOTAL m ³	
	2020	2019
Waste water discharged into the sewage system (municipal companies)	815 147	842 750
Waste water discharged by means of transportation to the waste water treatment plant	524	515
Waste water discharged to the surface water:		
Rivers	128 817 551	166 320 385
Other	153 285	0
Total waste water volume	129 786 507	167 163 649

Table no. 32-a. GRI 306-1. Total volume of TAURON Capital Group's waste water [m³] in 2019 and 2020 by quality and utilization method (destination), per subsidiary

Waste water dump site taking into account emergency heat dumps	Waste water volume [m ³]												TOTAL	
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Wydobycie		TAURON Ciepło		TAURON Ekoenergia		Nowe Jaworzno Grupa TAURON ¹⁾			
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Waste water discharged into the sewage system (municipal companies)	0	0	114 400	109 395	287 587	291 774	412 367	440 460	793	1 121	0	-	815 147	842 750
Waste water discharged by means of transportation to the waste water treatment plant	0	0	0	0	385	372	0	0	139	143	0	-	524	515
Waste water discharged to the surface water:														
Rivers	33 605	28 672	85 205 063	123 329 315	43 455 515	42 801 956	122 855	159 966	513	476	0	-	128 817 551	166 320 385
Other	0	0	0	0	0	0	0	0	0	0	153 285 *	-	153 285	0
Total waste water volume	33 605	28 672	85 319 463	123 438 710	43 743 487	43 094 102	535 222	600 426	1 445	1 740	153 285	-	129 786 507	167 163 649

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

* Discharge of sewage through the company's sewage system to the sewage treatment plant of TAURON Wytwarzanie (civil law agreement) and further after treatment, discharge of sewage to surface waters.

Circular economy - Actions taken and results achieved

TAURON Capital Group is undertaking numerous actions aimed at minimizing the negative impact on the environment. Regarding this aspect it is also actively looking for new directions and areas of activity in order to reuse the by-products of its operations. To this end, in accordance with the principles of the circular economy, it is implementing the combustion and mining by-products management (utilization) processes.

Tables no. 33 and 33-a as well as 34 and 34-a present the total weight of waste by type and utilization (handling) method.

Table no. 33. GRI 306-2. Total weight of hazardous waste [t] in 2019 and 2020, by waste type and waste utilization (handling) method

	2020	2019
Reuse	101.6	6,1
Recycling	541.4	137.7
Recovery (including energy recovery)	103.0	1 086.3
Neutralization	148.8	186.6
Storage	5.1	45.5
Other *	52.4	141.0
TOTAL WASTE WEIGHT	952	1 603

* The Group does not generate nuclear waste.

Table no. 33-a. GRI 306-2. Total weight of hazardous waste [t] in 2019 and 2020, by waste type and waste utilization (handling) method, per subsidiary

	weight of hazardous waste [tons]																
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Wydobycie		TAURON Ciepło		TAURON Ekoenergia		TAURON Dystrybucja		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL		
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	
Reuse	0.0	0.0	9.3	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	92.3	0.0	0.0	-	101.6	6.1
Recycling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	541.4	137.7	0.0	-	541	138
Recovery (including energy recovery)	0.0	0.0	76.6	51.9	0.0	0.0	8.0	1.1	0.0	0.0	0.0	18.4	1 033.4	0.0	-	103	1 086
Neutralization	0.0	0.0	10.1	5.1	0.0	0.0	3.0	7.9	0.0	0.0	0.0	135.7	173.6	0.0	-	149	187
Storage	0.0	0.0	0.5	12.0	3.4	1.9	1.0	1.3	0.0	0.0	0.0	0.2	30.3	0.0	-	5	46
Other	26.2	27.2	0.0	0.0	26.2	38.5	0.0	0.0	0.0	0.0	75.35	0.0	0.0	0.0*	-	52	141
TOTAL WASTE WEIGHT	26.2	27.2	96.5	75.1	29.6	40.4	12.0	10.3	0.0	75.4	788.0	1 375.0	0.0*	-	952	1 603	

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

* Due to the short period of operation of the unit after commissioning, the operational waste that could be a source of hazardous waste was not subject to balancing. This type of waste from the maintenance services is managed by specialized external entities.

Table no. 34. GRI 306-2. Total weight of non-hazardous waste [t] in 2019 and 2020, by waste type and waste utilization (handling) method

	2020	2019
Reuse	0	0.0
Recycling	3 606	2 200.1
Recovery (including energy recovery)	1 434 488	1 249 574.6
Neutralization	274	1 360.3
Dump (landfill)	8 958	5 539.5
Storage	30 701	104 375.6
Composting	0	0.0
Other	251 644	3 924,2
TOTAL WASTE WEIGHT	1 729 672	1 366 974

Table no. 34-a. GRI 306-2. Total weight of non-hazardous waste [t] in 2019 and 2020 by quality and utilization method (destination), per subsidiary

	weight of non-hazardous waste [tons]															
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Wydobycie		TAURON Ciepło		TAURON Ekoenergia		TAURON Dystrybucja		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Reuse	0	0	0	0	0	0	0	0	0	0	0	0	0	-	0	0,0
Recycling	0	0	872	168	0	0	0	0	0	0	2 734	2 032	4 672	-	3 606	2 200
Recovery (including energy recovery)	0	0	166 308	184 172	1 231 386	846 401	36 304	218 022	0	0	490	979	1 374	-	1 434 488	1 249 575
Neutralization	0	0	14	169	0	0	9	8	0	0	251	1 183	1 241	-	274	1 360
Dump (landfill)	0	0	8 958	5 540	0	0	0	0	0	0	0	0	0	-	8 958	5 540
Storage	0	0	893	436	28 485	103 463	1 323	422	0	0	0	55	0	-	30 701	104 376
Composting	0	0	0	0	0	0	0	0	0	0	0	0	0	-	0	0
Other	286	178	2 005	3 065	248 883	554	0	0	200	127	0	0	269	-	251 644	3 924
TOTAL WASTE WEIGHT	286	178	179 050	193 550	1 508 754	950 418	37 636	218 452	200	127	3 475	4 249	269	-	1 729 672	1 366 974

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

4.3 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2020, with as much as 65% of that quantity brought to the market as full value products to be used, among others, in the construction, road building, mining or agricultural sector. This means that in 2020 the share of by-products in waste increased by 14% as compared to 2019. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization, among others in land reclamation, macro-leveling and filling of the post-mining voids in mining.

Figure no. 34 presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019.

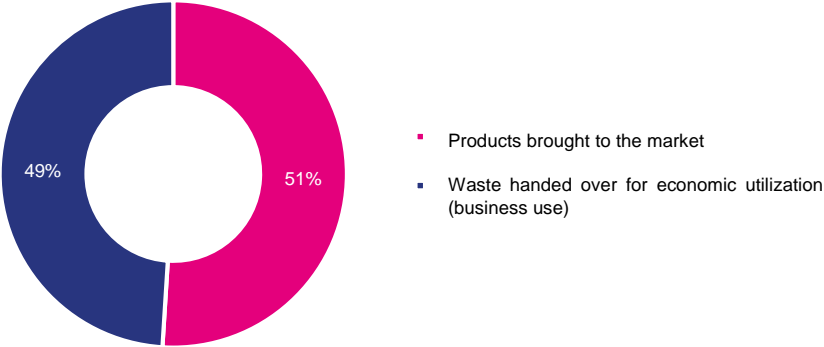


Figure no. 34. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019.

Figure no. 35 presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020.

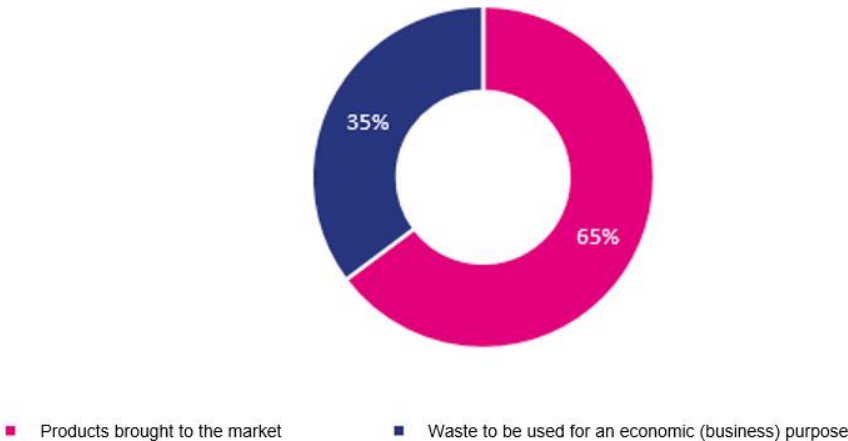


Figure no. 35. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020

TAURON Capital Group is seeking to implement the model of circular economy. It is planned that the maximum quantity of the process waste generated should be used within TAURON Capital Group, thus reducing the consumption of natural resources and the carbon footprint.

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

TAURON Capital Group's power plants produced 132 thousand Mg of ashes in 2020 that was used as valuable raw material in fire prevention by the coal mines. 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 by-products of the combustion of fuels for the energy generation purpose, i.e. 181 000 Mg, is reused in various industries.

Figure no. 36 presents the structure (composition) of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2020.

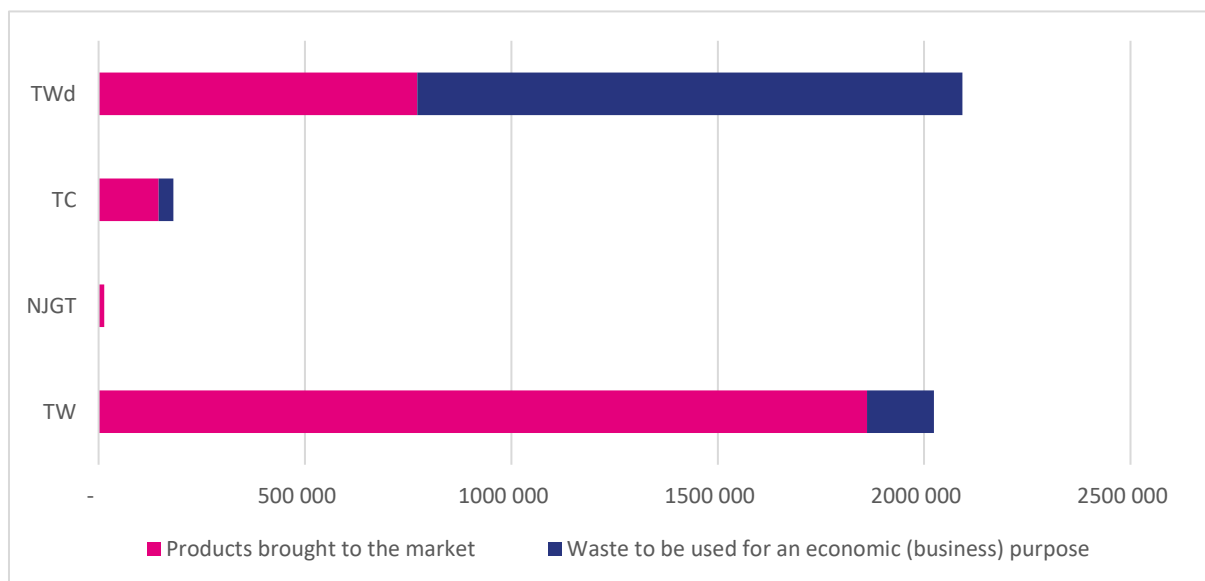


Figure no. 36. Structure (composition) and quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2020

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

The Group focuses on local cooperation and the use of waste materials, using the waste stored in settling tanks and at waste dump (landfill) sites. More than 800 000 tons of ash and slags were delivered to the construction of the S19 expressway near the Stalowa Wola power plant.

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

The reclamation of the energy waste landfill in Kędzierzyn-Koźle, after the former Blachownia Power Plant, was completed in 2020. Accepting of the waste for landfill at this site was discontinued in January 2014, and its final closure process began in 2019. The furnace waste landfill is an above the ground landfill and covers a total area of approx. 74 ha. The reclamation is carried out in two stages: as the technical and biological reclamation.

Biodiversity

The Group has knowledge of the areas that are valuable from the nature point of view, whose locations are subject to the Group's impact, including the NATURA 2000 network areas. One of such areas is even created as part of the industrial infrastructure of Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine), which was established in order to provide the hydrotechnical protection of the Upper Vistula against saline underground waters coming from the drainage of hard coal mines. The "Brzeszcze" underground water retention and dosing reservoir, as well as the place of discharge, is located in the Natura 2000 protected area: Special Bird Protection Area "Stawy w Brzeszcze" (Brzeszcze Ponds) PLB 120009, with an area of 3 065.9 ha. This area covers the breeding pond complexes in the upper Vistula valley, located on both sides of the river. The Vistula river, meandering in its valley, creates small oxbow lakes. There are about 14 species of birds from Annex I of the Birds Directive (out of 180 contained in the directive) and 5 species from the Polish Red Book (PCK) in the nature refuge. During the breeding season, the area is inhabited by at least 1% of the national population of the following bird species from the Polish Red Book: Little bittern, Purple heron, Whiskered tern, Black-crowned night heron, Common moorhen, Gadwall, Common redshank, Black-headed gull, Black-necked grebe. A relatively high numbers are reached by: Eurasian bittern, Black tern and Great crested grebe.

In addition, Kopalnia Wapienia "Czatkowice" is also conducting environmental monitoring pursuant to the legal provisions.

Actions taken and results achieved

Ekoenergia has completed the three-year post-implementation monitoring with respect to avifauna and chiropterofauna, carried out for the Marszewo wind farm (18 MW - Nosalin), located in the vicinity of Nosalin and Pałowo in the Postomino municipality. In February 2020, the results of the post-implementation monitoring, indicating a minor scale collision of the fauna with the turbines of the said wind farm, were approved by the Regional Director for Environmental Protection in Szczecin, who accepted them in full and thus did not raise any objections to the continued operation of the facility.

The main conclusions from the monitoring carried out by Kopalnia Wapienia "Czatkowice" in 2020 are as follows:

- from the chiropterofauna monitoring:

In 2020, as part of the chiropterofauna monitoring, research was carried out in the winter shelters of bats and in their feeding grounds. It was determined that 578 bats from 8 species hibernated in the winter shelters penetrated. The condition of the population of the Horseshoe bat and the Geoffroy's bat (bats from Annex II of the Habitats Directive) in the winter shelters is suitable (FV assessment). In case of the lesser horseshoe bat, the large bed and the crested bed a gradual increase in numbers is observed in the largest winter shelters of the Bat Cave (Jaskinia Nietoperzowa) and the Raclawicka Cave (Jaskinia Raclawicka). In case of the other objects and bats, no negative changes are observed as compared to the previous years, both in terms of the assessment of the number of bats population and the condition of their habitats. The assessment of the habitat conditions at the Raclawicka Cave (Jaskinia Raclawicka), one of the key winter shelters of the Kraków Upland, has not changed as compared to the previous years. Two colonies of breeding bats of the Horseshoe bat and the Geoffroy's bat were found in the monastery in Czerna. In case of both species, the number of colonies was higher than in the previous years. The hunting and field listening activities completed indicate that in the areas where trees were planted, the activity of bats was slightly higher than the activity observed in the previous years.

- from the assessment of the conservation status of the natural habitats and the degree of damage to the trees in the vicinity of the mine:

The field studies conducted did not show any changes in the condition of the natural habitats and stands of trees in the Eliaszkówka nature reserve, in the Natura 2000 "Czerna" and "Dolinki Jurajskie" areas. Although the monitoring of the conservation status of the natural habitats has shown that the condition of the natural habitats in this area is unsatisfactory, but it is a confirmation of the previous assessments made as part of the State Environmental Monitoring.

The lower ratings of the conservation status of the natural habitats are mainly related to the disturbed composition as well as the vertical and spatial structure of the stands of trees, which in turn stems from the earlier forest management. The expansion of *Impatiens parviflora* may also have a significant impact on the deterioration of the condition of the natural habitats. However, these indicators are not related to the exploitation of limestone at Kopalnia „Czatkowice”.

The observed damage to the tree trunks and the degree of defoliation do not differ significantly from the values typical for similar stands of trees in this geographical region. The degree of damage increases with the age of trees and is not significantly dependent on the distance from the mine. The combination of the botanical studies and the data from the measurements of suspended dust also did not show any significant correlations that could result from the negative impact of the concentration of suspended dust on the studied vegetation.

- from the ornithological monitoring in the protection zone (forested by the mine):

A very large biodiversity of birds continued to be observed - 32 species in total, which is comparable to the observations from the previous years. This diversity can be explained by the immaturity (different stages of succession) of the described ecosystem and the impact of the ecotone factor, which is a sharply marked transition zone between different biocenoses. In this case, the area covered by the study is surrounded by arable fields, meadows and forests, which noticeably affect the monitored area.

2 species from Annex 1 of the Birds Directive were found in 2020 - red-backed chrysanthemum and rowan. These species are currently finding optimal conditions for growth in the area covered by the study.

The Kopalnia Wapienia „Czatkowice” protection zone (strip) covered by the study is a very attractive breeding ground for many species of birds, including those that are scarce or endangered in Poland and Europe. Thanks to proper management, the described area provides a shelter and enables breeding of a number of bird species, including many of those that are deprived of breeding habitats year by year.

Due to the protection and restoration of biodiversity, in 2020 TAURON Ekoenergia commenced investment tasks aimed at restoring routes for the migratory fish species in the Bóbr River within the Olszna and Kraszewice hydro-junctions. Salmonids will be taken into account when designing fish passes. It should be noted that the Olszna site

is located within the borders of the Natura 2000 area - bird areas (PLB020005), while the following protected species: Amur bitterling, Common barbel, Common nase, Common dace, Vimba, Crucian carp, Stone loach, Spined loach, Misgurnus fossilis, Brown trout, Sea trout, Thymallus thymallus, Burbot, European bullhead, European river lamprey, Brook lamprey and European eel, currently inhabit the waters of the Bóbr river.

4.4. TAURON Group's Climate Policy

TAURON Group's pro-climatic activities had begun before the announcement of the Communication 2019/C 209/01 and the attachments related thereto (the first documents announcing pro-climate legislation for enterprises in the European Union). The Group introduced the Update of the Strategic Directions in May 2019, as part of which the so-called Green Turn of TAURON is being implemented. With respect to the above the Management Board of TAURON Polska Energia S.A. also adopted to be applied the document entitled: TAURON Group's Climate Policy, in November 2019.

Effectively counteracting the climate change and the sustainable development are the two main objectives of TAURON Group's Climate Policy. This document is also in line with the assumptions of the Green Turn of TAURON strategic concept.

The goal of the Policy is to set the directions for counteracting climate change and the sustainable development of the Group's Lines of Business, through a just transition towards achieving climate neutrality in the future. The Policy constitutes the basis for TAURON Group to manage its operations in such a way so as to mitigate the risks associated with the climate, reduce the Group's negative impact on the climate and maximize the positive effects of the climate change throughout the entire value chain. A comprehensive discussion of the climate-related issues is particularly important due to the diversity of TAURON Group's generation sources (presented in tables no. 35 and 35a as well as 36 and 36a).

Table no. 35. GRI EU1. TAURON Capital Group's installed capacity, broken down into main types of the raw material and the regulatory requirements in 2019 and 2020

Installed capacity in MW by the type of fuel used	TOTAL	
	2020	2019
Hard coal	7 157 *	6 361
Natural gas and coke oven gas	165	165
Biomass	381	381
Heating oil	269	129
Wind based electricity	381	381
Hydroelectricity	133	133

* The increase in the installed capacity in coal is related to the commissioning of a high-efficiency 910 MWe unit in 2020, which ultimately is to replace the "old" 120 MWe coal-fired units, which, due to the methodology of disclosing the installed capacity as of December 31, 2020, are still included in the licenses and administrative decisions, however, the actual production from these units is already being replaced by the production from the new unit.

The Group also has photovoltaic micro-installations operated for in-house needs. TAURON Ekoenergia has panels with the capacity of 12.26 kW installed on the roofs of its buildings, operated for the company's in-house needs, while TAURON Dystrybucja has 120 kW of such capacity.

Table no. 35-a. GRI EU1. TAURON Capital Group's installed capacity, broken down into main types of the raw material and the regulatory requirements, per subsidiary in 2019 and 2020

Installed capacity in MW by the type of fuel used	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		Kopalnia Wapienia „Czatkowice”		New wind based assets Total for 10 companies		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2020	2019	2019	2020	2019	2020	2019	2020	2019
Hard coal	4186 MWe 953 MWt	4186 MWe 1071 MWt	307 MWe 796 MWt	307 MWe 797 MWt	-	-	-	-	-	-	914.6 MWe	-	7 157	6 361
Natural gas and coke oven gas	-	-	164 MWt	164 MWt	-	-	1 MWt	1 MWt	-	-	-	-	165	165
Biomass	105 MWe 166 MWt	105 MWe 166 MWt	40 MWe 70 MWt	40 MWe 70 MWt	-	-	-	-	-	-	-	-	381	381
Heating oil	140 MWt	-	129 MWt	129 MWt	-	-	-	-	-	-	-	-	269	129
Wind based electricity	-	-	-	-	201	201	-	-	180	180	-	-	381	381
Hydroelectricity	-	-	-	-	133	133	-	-	-	-	-	-	133	133

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary according to the license as of December 31, 2020.

Table no. 36. GRI EU1. TAURON Capital Group's installed capacity, broken down into types of generation units in 2019 and 2020

Installed capacity in MW by the type of generation unit:	TOTAL	
	2020	2019
Power plants (MWe)	5 720	4 805
Power plants (MWt)	1 259	1 237
Combined heat and power plants (MWe)	347	347
Combined heat and power plants (MWt)	1 014	1 014
Heat plants (MWt)	146	147

Table no. 36–a. GRI EU1. TAURON Capital Group's installed capacity, broken down into types of generation units, per subsidiary in 2019 and 2020

Installed capacity in MW by the type of generation unit:	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		Kopalnia Wapienia „Czatkowice”		New wind based assets Total for 10 companies		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Power plants (MWe)	4 291	4 291	-	-	334	334	-	-	180	180	914.6	-	5 720	4 805
Power plants (MWt)	1 259	1 237	-	-	-	-	-	-	-	-	-	-	1 259	1 237
Combined heat and power plants (MWe)	-	-	347	347	-	-	-	-	-	-	-	-	347	347
Combined heat and power plants (MWt)	-	-	1 014	1 014	-	-	-	-	-	-	-	-	1 014	1 014
Heat plants (MWt)	-	-	145	146	-	-	1*	1*	-	-	-	-	146	147

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary according to the license as of December 31, 2020.

* Kopalnia Wapienia „Czatkowice” plant boiler room / heat plant.

One of the most important commitments with respect to climate change 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.

TAURON Group's Climate Policy refers to all types of activities and operations carried out within TAURON Group's value chain, the effects of which have an impact upon climate change or constitute the implication thereof, including in particular:

- measures that enable reducing the global warming,
- measures with respect to TAURON Group's adaptation to the climate changes underway.

The Policy is applicable to all of the Group's subsidiaries, although each of them has detailed goals and tasks stemming from the policy.

Due diligence procedures and internal regulations

TAURON's Climate Policy is in accordance with the provisions of the EC Communication 2019/C209/01 and the TCFD Report for the energy sector appended thereto and fulfills the provisions thereof.

The due diligence procedures that accommodate the climate sensitive issues, implemented gradually in 2020, have been included in:

- 1) Risk management - process based management of climate risk in the short, medium and long term (2020 - 2025 - 2030) was implemented starting from 2020.
- 2) Asset management - adaptation to the climate change, aimed at reducing the impact of the physical risks related to the climate, has been included in TAURON Group's asset management policy since 2020.
- 3) Human capital, employee training and recruitment management - the Group does not yet have a policy on the employees that would reference the climate change, but is aware of the need to prepare such a policy in the near future in order to invest in the skills necessary during the transition to the low-emission technologies in the subsequent years.

Due to the fact that three subsidiaries, TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON, are covered by the obligation to participate in the so-called European Emissions Trading System (ETS), the climate related issues are included in the operational decision making processes at such subsidiaries. In 2020, the organizational regulations of TAURON Polska Energia S.A. changes took place as a result of which the Climate Area was established. Changes were introduced to the organizational regulations of TAURON Polska Energia S.A. in 2020, as a result of which the Climate Area was established.

Adaptation to climate change

TAURON Group's Climate Policy defines the basic priorities with respect to the adaptation to the climate change. The gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in case of the Lines of Business sensitive to the volatility of temperature, rainfall and wind strength, is implemented as part of the system-wide approach to Asset Management.

Also with respect to the new operations or investment projects, the risks associated with the climate change are taken into account, as an additional criterion for the assessment thereof, in particular the physical risks, when placing (siting) new investment projects.

Based on the document Poland's Environmental (Ecological) Policy 2030 and the ISOK (National IT Protection System) portal, regions were identified that were more exposed to the physical risk related to climate, in order to prioritize the adaptation of the assets to climate change in the regions potentially more exposed to acute or long-term physical risk related to climate. The Group's assets are mostly located in southern Poland, which, according to the data disclosed in Poland's Environmental (Ecological) Policy 2030 and in the ISOK system, is less exposed to desertification than the areas of central Poland. Due to their location, the Group's assets are also outside the area that may be transforming due to the forecast sea level rise.

Due to the cooling systems used, TAURON Group's conventional power plants are much less exposed to the need to reduce production due to the shortage of water than the power plants with the so-called open cooling systems. The above factor puts TAURON at an advantage as compared to the other energy groups operating in Poland and in Europe.

The consequences of the extreme weather conditions are most strongly felt by TAURON Ekoenergia and TAURON Dystrybucja subsidiaries.

At TAURON Ekoenergia, the hydrological drought and uneven precipitation, resulting in longer periods with no rainfall, intermittent abrupt precipitation (torrential rains) periodically lead to the inability to generate electricity. The number of days on which the electricity production at TAURON Ekoenergia did not take place due to the low water level in the rivers, is presented in Table no. 37.

Table no. 37. The number of days on which the electricity production at TAURON Ekoenergia did not take place in 2020 due to the low water levels in the rivers

River	Power Plant	The number of days in the month with no production												Total
		January	February	March	April	May	June	July	August	September	October	November	December	
Odra	Brzeg						10	12	2	6	27	14		71
	Janowice						5							5
	Kopin						4	1			10			15
	Wały Śląskie						3				14			17
Bóbr	Bobrowice IV	5							2	6	4			17
	Bobrowice II	4							2	9	2			17
Nysa Kłodzka	Opolnica				20	11	1	3	15	17	4			71
	Bystrzyca				4			16	5	5	7			37
	Ławica					1	1				6			8
	Nysa						1				9			10
Wisła	Dąbie						4				7			11
	Przewóz										5			5
Kamienna	Szklarska Poręba II								3	24				27

At TAURON Dystrybucja, the increase in the frequency and intensity of hurricanes and strong winds, incidentally accompanied by whirlwinds and lightnings can, in extreme cases, result in mass failures, and as a consequence, breaking of the power lines, as well as periodic and local flooding. The percentage of this type of failures at TAURON Dystrybucja in 2020 is illustrated in Table no. 38.

Table no. 36. Share of mass failures in total failures at TAURON Dystrybucja in 2020

Share of mass failures in total failures	Number of mass failures
9.7%	2

Failures often result in interruptions in the supply of electricity, the frequency and duration of which are illustrated in tables no. 39 and 40.

Table no. 39. GRI EU 28. Frequency of the interruptions in the supply of electricity to the consumers of TAURON Dystrybucja in 2020

Interruption type	SAIFI * (number of interruptions / consumer / year)
Scheduled	0.19
Unscheduled, excluding the disaster type interruptions	2.00
Unscheduled, including the disaster type interruptions	2.00
Total	2.19

* SAIFI (System Average Interruption Frequency Index) – the indicator of the average system frequency of long and very long interruptions, representing the number of consumers exposed to the effects of all these interruptions during the year divided by the total number of consumers served

Table no. 40. GRI EU 29. Average duration of the interruptions in the supply of electricity distributed by TAURON Dystrybucja in 2020

Interruption type	SAIDI* (minutes / consumer / year)
Scheduled	26.60
Unscheduled, excluding the disaster type interruptions	98.02
Unscheduled, including the disaster type interruptions	98.42
Total	125.02

* SAIDI (System Average Interruption Duration Index) - the indicator of the average system duration of a long and very long interruption, expressed in minutes per consumer per year, which is the sum of the products of its duration multiplied by the number of consumers exposed to the effects of this interruption during the year divided by the total number of consumers served.

Overhead infrastructure is also disadvantaged by the more frequent occurrence of temperatures oscillating around zero degrees Celsius in winter and the weakening of the stands of trees, making trees more susceptible to the damage caused by the wind. This is mitigated by the steps taken, inter alia, aimed at increasing the share of the cable lines as compared to the overhead ones (illustrated in Table no. 41).

Table no. 41. Targets and implementations regarding the adaptation of the distribution assets to climate change by increasing the share of MV cable lines in relation to the total length of the MV lines (%), cables / overhead lines

Target measure	MV cable length share in relation to the total length of the MV lines (%), unit	
Year	Target	Implementation
2019	-	38.4
2020	38.65%*	38.73%
2025	41.00%*	-
2030	45.00%	-

* Targets for 2020 and 2025 have been recalculated taking into account the specificity of new connections to the MV grid and the pace of RES development, and in accordance with the forecast of the specificity of the grid load.

The consequences of the more frequent temperature extremes and the occurrence of milder winters are also felt by TAURON Ciepło, however these are not only the adverse effects.

According to our data and analyses, winters have been much milder in the area served by TAURON Ciepło (Silesia-Dąbrowa metropolitan area, and Zawiercie and Olkusz) over the last few years. This fact, of course, translates into a reduction in the demand for heat supply for the purpose of heating apartments and buildings.

An additional factor is the thermo-modernization of buildings, which also has an impact on reducing heat demand. The trends of changes during the heating season are shown in Figures no. 37 and 38.



Figure no. 37. Chart of the weighted average air temperature in Poland during the heating season - trend of changes in 2011-2020 [°C].

In the same period of 2002 to 2020, the length of the heating season was extended by 20 days, which somewhat mitigated the difference resulting from an increase in the season temperature. However, this does not make up for an increase in outside temperatures.

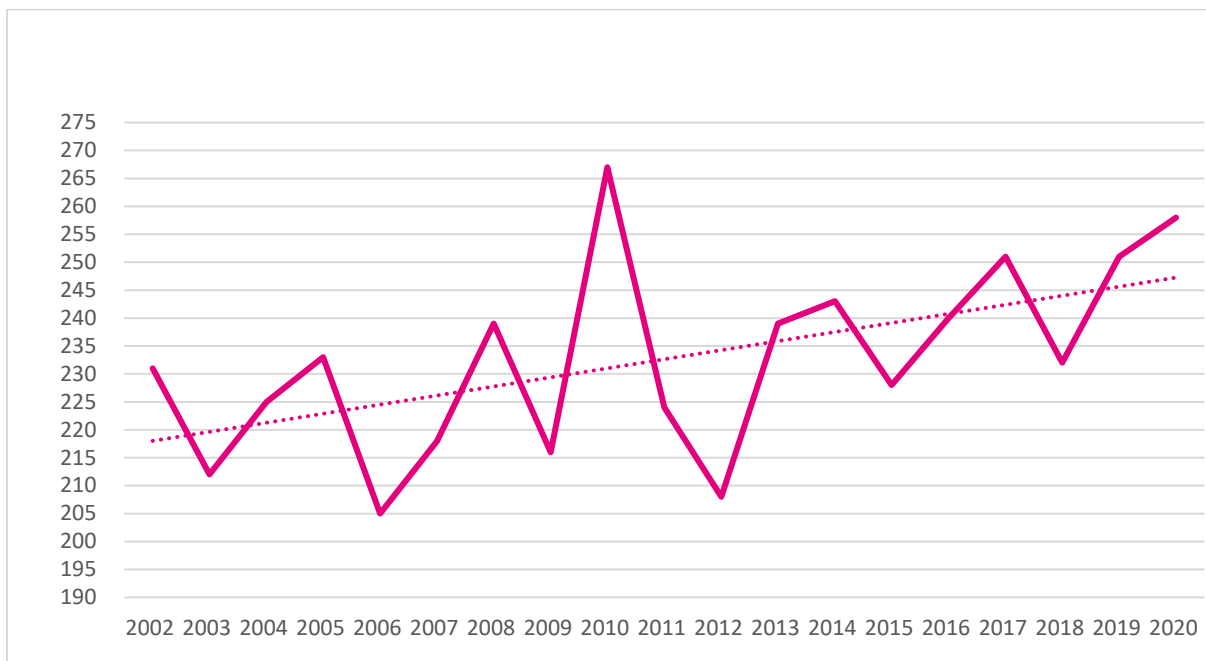


Figure no. 38. Length of the heating season in the years 2002 - 2020. The data is applicable to PEC Katowice in the years 2002-2011 and TAURON Ciepło in the years 2011-2020 [days].

Comparing the 2020 data to the 2019 data, the heat production as well as the demand for heat supplies at TAURON Ciepło, during the heating period were at a very similar level, with a very small difference in heat production (decline) amounting to approximately 0.5%. The length of the season and the average temperature of the heating season were at a very similar level in 2020 and 2019, and the situation related to the coronavirus did not change the preferences of the district heating users.

In addition to the long term reduction plans related to the ultimate change in the Group's fuel mix, the reduction of the greenhouse gas emissions is also achieved through smaller ongoing reduction measures, adequate to the line of business, and such reductions made in 2020 are reflected in Table No. 42.

Table no. 42. GRI 305-5. Reduction of greenhouse gas emissions by TAURON Capital Group in 2020

Initiative	Nature of the initiative mandatory (stemming from legal provisions) / voluntary	Reduction of greenhouse gas emissions [tCO ₂]
TAURON Wytwarzanie conversion of types of fuels used - conversion of a biomass-only boiler (Stalowa Wola, Jaworzno II),	voluntary	535 885
TAURON Ciepło Change in the type of fuels used	voluntary	199 243
KW "Czatkowice" Modernization of the plant's technological process system and liquidation of the 6 MWt coal fired boiler house	voluntary	2116
TAURON Dystrybucja Jelenia Góra Branch at ul. W. Pola 47 carried out an investment project consisting in the construction of renewable energy sources in the form of ground source heat pumps interworking with the lower source in the form of vertical wells. In connection with the implementation of the above investment project, the existing boiler house was shut down	voluntary	248,2
TAURON Dystrybucja Thermo-modernization was implemented at 5 locations (Opole Branch - 3, Częstochowa Branch - 1 and Jelenia Góra Branch - 1). The coal-fired boiler house in Opole was shut down.	voluntary	123,7*
TOTAL REDUCTIONS		737 616

* Due to the change of the boiler room and the transfer of the heat supply service, the GHG emission from Scope 1 became Scope 2

Actions taken and results achieved

Cooperation with partners to counter climate change

TAURON Group engages in the public discussion on energy transition concerning climate-related issues on an ongoing basis. Despite the COVID-19 pandemic, it also began cooperation with non-business partners in 2020.

A webinar devoted to the Group's Climate Policy was held for TAURON Polska Energia employees in May 2020, as part of the so-called internal trainers program, attended by nearly 40 employees from various organizational units.

TAURON cooperated in the works of the working group on energy as part of the project Zero-emission Polska 2050. A chance for the economy and climate, established of the initiative of WWF Poland. The project ended in September 2020 with the publication of a report, and its aim was to create a different perspective on the issue of climate neutrality in Poland among the representatives of the public sector, business and non-government organizations, outlining the main directions of intervention in the area of construction, energy, agriculture and forestry, as well as transportation.

Matters related to energy transition were also discussed on an ongoing basis during such working groups as the "Regional Energy Council" at the Silesian Union of Municipalities and Counties or the "Regional Team for the Initiative of Mining Regions at the Marshal of Silesia". In 2020, TAURON was also operationally involved in the work on the Regional Just Transition Plans.

TAURON also supported in November 2020 the organization of an event dedicated to climate change, which was the Metropolitan Climathon 2020. This marathon of creativity on climate protection was held on-line in 2020, and was devoted to the issue of drought in the city. The concept of Climathon is to jointly develop solutions responding to specific climate challenges at the given place, during 24-hour events that take place simultaneously in more than 100 cities around the world in 47 countries. This year's metropolitan edition was organized under the slogan: Metropolis in the era of global warming - water retention and drought prevention.

Improving the efficiency of the production processes that have an impact on the climate change

TAURON Group's business model has both a positive as well as a negative impact on the climate. The operations related to the burning of fossil fuels, which are the core business operations of TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON, as well as unorganized emissions of methane into the atmosphere from Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine), owned by TAURON Wydobycie, are important sources of greenhouse gas emissions. Methane emissions come from the mine ventilation, over which the company has no direct influence and cannot control it in a technically justified manner. The emissions constitute the so-called off-balance sheet methane emissions, which are calculated and included in the charges for the use of the environment for the business purposes.

In addition, ZG Brzeszcze is equipped with a mine methane extraction (drainage) plant, in which, in 2020, 100% of methane was obtained and utilized (sold) in the quantity of approx. 40 million Nm³ of methane, thus it was not a source of direct methane emissions to the atmosphere and was used in the combustion processes by external entities as an energy source.

Direct greenhouse gas emissions due to the secondary operations of TAURON Wytwarzanie, TAURON Ciepło, Nowe Jaworzno Grupa TAURON, as well as the Group's other subsidiaries do not account for a significant share and, above all, are related to the combustion of fuels in the engines of the production machines and cars. Direct greenhouse gas emissions by TAURON Capital Group in 2020 are presented in tables 41 and 41-a.

Table no. 43. GRI 305-1. Direct greenhouse gas emissions [tCO₂] by TAURON Capital Group in 2019 and 2020

	TOTAL AGGREGATE	
	2020	2019
Emission related to electricity generation	8 848 777	11 080 519
Emission related to heat generation	1 227 458	1 114 956
Emissions from gas leaks, including those associated with accidents	460	623
Emissions related to the transportation of materials, products and waste	16 954	19 847

Total direct emissions	10 093 648	12 215 945
Biogenic emission	754 122	471 242

Table no. 43-a. GRI 305-1. Direct greenhouse gas emissions [tCO₂] by TAURON Capital Group in 2019 and 2020, per subsidiary

	Greenhouse gas emissions [tCO ₂]													
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobywanie		TAURON Dystrybucja		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL AGGREGATE	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Emissions related to electricity generation	0	0	8 007 159	10 232 576	624 146	847 943	-	-	0	0	380	-	8 848 777	11 080 519
Emissions related to heat generation	5 291	8 449	521 536	329 447	700 251	776 801	-	-	380	258	87	-	1 227 458	1 114 956
Emissions from gas leaks, including those associated with accidents	0	0	373,0	500,5	0	0	0	0	87	123	3 319	-	460	623
Emissions related to the transportation of materials, products and waste	3 704	3 139	1 231	2 636	1 246	0	1 876	1 370	8 884	12 701	3 786	-	16 954	19 847
Total direct emissions	8 995	11 588	8 530 086	10 565 160	1 325 643	1 624 745	1 876	1 370	9 351	13 082	0	-	10 093 648	12 215 945
Biogenic emissions	-	-	535 361	413 089	218 761	58 152	0	-	0	-	0	-	754 122	471 242

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 43-b. GRI 305-1. Indirect greenhouse gas (CO₂) emissions by TAURON Capital Group in 2020 in connection with the operations of the subsidiaries (Scope 2)

Indirect greenhouse gas emissions [tCO ₂ e]		
	2020	Explanations
Indirect emissions related to the use of electricity purchased and transmission losses related to electricity distribution	427 118	It includes all electricity purchased by the Group's subsidiaries and the volume of electricity related to transmission losses in connection with the operations conducted by TAURON Dystrybucja S.A. ¹⁾
Indirect emissions related to the transportation of fuels (including biomass)	8 346	It includes the transportation of hard coal and biomass to the following subsidiaries ²⁾ : TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON ³⁾
Total indirect emissions	435 464	-

¹⁾ The indicators (metrics) used to calculate indirect GHG emissions related to the use of the electricity purchased and transmission losses is assumed based on the underlying data: <https://www.tauron.pl/tauron/o-tauronie/spolki-grupy/tauron-sprzedaz-gze/struktura-paliw>, i.e. in the same value equal to 0.733664 Mg CO₂e / MWh.

²⁾ The indicators (metrics) used to calculate indirect GHG emissions for the related to the transportation of materials are assumed in accordance with the underlying data: „Guidelines for Measuring and Managing CO₂ Emission from Freight Transport Operations. A. McKinnon (UK)” respectively:

- transportation of fuel by trucks on the roads - 62 g CO₂e / ton-km (the mean value for two data sources) and 68 140 298 tkm as the total number of ton kilometers calculated based of the actual weights of fuel loads and the average length of the road routes,
- transportation of fuel by rail - 22 g CO₂e/ton-km and 187 341 015 tkm as the total number of ton-kilometers calculated on the basis of the actual weights of fuel loads and the average length of the railway routes taking into account the routes for the transportation of the coal fuels.

Ton-kilometers take into account the weight of the materials transported from the place of initial fuel loading to the destination (Group's subsidiaries).

Ton-kilometers for the transportation of biomass take into account a rational averaged distance of 70 km for the entire volume of biomass from the producer to the destination and withing the maximum radius of 100 km for at least 90% of the deliveries.

Transports commenced at the end of 2019 were not taken into account.

³⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

Actions taken for the climate are also reflected in various types of investment projects carried out by TAURON Capital Group's subsidiaries in 2020 and in the previous years, which have a direct and indirect impact on reducing fuel and energy consumption as well as reducing or avoiding gas emissions to the atmosphere.

The Group's subsidiaries are undertaking a number of activities aimed at improving energy efficiency, which is reflected in the acquisition of energy efficiency property rights in the quantity of 715 toe in 2020. The Group's subsidiaries with the highest primary energy savings potential are getting ready to implement an energy management system.

The number of electric vehicle charging stations connected to the power grid of the Group's subsidiary went up by another 64 stations in 2020.

TAURON Nowe Technologie, a subsidiary dedicated to the operation and maintenance of street lighting in the area of the Group's operations, continued in 2020 the program of replacing the street lights with the energy-saving lighting (approx. 28.4 thousand units), which will allow for annual savings in the final electricity consumption by the consumers (21 municipalities) in the estimated amount of approx. 8 267 MWh/year.

At the end of 2020, TAURON Wytwarzanie completed the construction of a photovoltaic farm in Jaworzno (5 MWe), and the effects of the production from that renewable energy source will be accounted for starting from 2021.

Preparation and adaptation of the infrastructure taking into account the need to adapt to climate change is one of the significant items of TAURON Capital Group's capital expenditures. As part of these activities, among others, the alteration and replacement of the grid (including adaptation to the RES grid connections), modernization of stations in order to increase their efficiency, replacement of lighting with the energy-saving solutions, construction of "e-mobility" and "e-grid" infrastructure were carried out. The expenditures on the projects related to climate change adaptation are presented in Table no. 44.

Table no. 44. Expenditures on the projects related to climate change adaptation

Total capital expenditures related to TG's climate change adaptation projects	PLN 197 million
Share of the capital expenditures related to climate change adaptation projects in the Group's total investment outlays	approx. 4.9 %

TAURON Group's total capital expenditures on the projects directly related to climate change measures and the adaptation to climate change came in at nearly PLN 197 million in 2020, which represented approx. 4.9% of the Group's total investment outlays.

The operations of TAURON Ekoenergia, which are based entirely on the production of electricity from renewable sources, have a positive impact on the climate. As a result of the optimization of the wind farms' production assets

and favorable conditions at the locations thereof, very good results were achieved, both in the form of a significant reduction of the in-house needs ratio (efficiency) as well as an increase in the electricity produced from RES. Tables no. 45 and 45-a present the volume of electricity produced by TAURON Group's generation units in 2020, broken down by the main energy sources.

Table no. 45. GRI EU2. Volume of net electricity and heat generated by TAURON Capital Group, broken down into main energy sources in 2019 and 2020

	Electricity [GWh]		Heat [GJ]	
	2020	2019	2020	2019
Hard coal	9 179	10 921	8 261 963	7 899 203
Sludge	163	193	342 560	337 304
Natural gas and coke oven gas	2,22	5,53	287 507	128 768
Biomass	628	394	940 709	572 312
Wind	936	644	0	0
Hydro	395	356	0	0
Liquid fuels	74	92	211 557	91 319
TOTAL	11 377	12 604	10 044 296	9 028 906

Table no. 45-a. GRI EU2. Volume of net energy generated by TAURON Capital Group, broken down into main energy sources, per subsidiary in 2019 and 2020

	TAURON Wytwarzanie				TAURON Ciepło				TAURON Ekoenergia				New wind based assets Total for 10 companies				Nowe Jaworzno Grupa TAURON ¹⁾				TOTAL			
	Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]		Electricity [GWh]		Heat [GJ]	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Hard coal	8 100	9 812	3 032 232	2 384 473	848	1 108	5 229 731	5 514 730	0	0	-	-	0	0	-	-	230	-	-	-	9 179	10 921	8 261 963	7 899 203
Sludge	108	123	168 483	156 756	55	71	174 076	180 548	0	0	-	-	0	0	-	-	0	-	-	-	163	193	342 560	337 304
Natural gas and coke oven gas	2	6	3 940	5 077	0	0	283 567	123 691	0	0	-	-	0	0	-	-	0	-	-	-	2.22	5.53	287 507	128 768
Biomass	473	370	669 275	409 379	154	24	271 434	162 933	0	0	-	-	0	0	-	-	0	-	-	-	628	394	940 709	572 312
Wind	0	0	0	0	0	0	0	0	472	462	-	-	464	182	-	-	0	-	-	-	936	644	0	0
Hydro	0	0	0	0	0	0	0	0	395	356	-	-	0	0	-	-	0	-	-	-	395	356	0	0
Liquid fuels	73	91	102 868	35 797	1	1	108 689	55 522	0	0	-	-	0	0	-	-	0	-	-	-	74	92	211 557	91 319
TOTAL	8 757	10 401	3 976 799	2 991 481	1 058	1 203	6 067 497	6 037 425	867	818	-	-	464	182	-	-	230	-	-	-	11 377	12 604	10 044 296	9 028 906

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Both the assumption of a warming at the level of at most 2 °C, as well as the assumption of a warming by more than 2 °C will translate into TAURON Group's business model and strategy. However, their expected consequences may be different over time. The so-called energy mix of the electricity produced will have to undergo a gradual change. The Sustainable Development Indices that will reflect the transition process denote: RES Capacity Growth Index (shown in Table no. 46) and the Emission Reduction Index (shown in Table no. 47).

Table no. 46. Targets for the minimum declared average annual increase in RES capacity planned by TAURON Capital Group in 2020-2030

Sustainable Development Index in the given calendar year				
Sustainable Development Index	2020 target	2025 target	2027 target	2030 target
RES Capacity Growth Index	8%	8%	8%	8%
Result achieved	27 %	-	-	-

RES Capacity Growth Index denotes the index of the average annual increase of installed capacity in RES, calculated as follows:

$$JWZM_{OZE_r} = \frac{WM_{OZE_r}}{(r - 2018)}$$

where:

$JWZM_{OZE_r}$ [%] denotes the unit index of increasing RES capacity in year r;

WM_{OZE_r} [%] denotes the installed capacity change index;

r denotes calendar year;

2018 is the base year (the calculation was adopted following the adoption of the Climate Policy in November 2019, i.e. before the settlement of the year 2019 as defined by the emissions trading scheme).

The installed capacity change index is calculated as follows:

$$WM_{OZE_r} = \frac{M_{OZE_r} - M_{OZE_{2018}}}{M_{OZE_{2018}}}$$

where:

WM_{OZE_r} [%] denotes the installed capacity change index;

M_{OZE_r} [MW_e] denotes the installed capacity of RES units in year r, excluding biomass fired units, and the units of TAURON Ciepło Sp. z o.o.

$M_{OZE_{2018}}$ [MW_e] denotes the installed capacity of RES units in the base year, excluding biomass fired units and the units of TAURON Ciepło Sp. z o.o.

Table no. 47. The minimum declared CO₂ emission reduction rate for gross electricity production planned by TAURON Capital Group in 2018-2030 [Mg CO₂/MWh]

Sustainable Development Index in the given calendar year				
Sustainable Development Index	2020	2025	2027	2030
Emission Reduction Index	2%	2%	2%	2%
Result achieved	6%			

Emission Reduction Index denotes the average annual CO₂ emission reduction index for gross electricity production, calculated as follows (excluding the units of TAURON Ciepło):

$$JWRE_r = \frac{WE_{CO_2,2018} - WE_{CO_2,r}}{WE_{CO_2,2018} \times (r - 2018)}$$

where:

JWRE_r [%] denotes the average annual CO₂ emission reduction index in year r;

WE_{CO₂,r} [MgCO₂/MWh] denotes the CO₂ emission index in year r, accounted for under the Community Emission Trading Scheme;

WE_{CO₂,2018} [MgCO₂/MWh] denotes the CO₂ emission index in the base year, accounted for under the Community Emission Trading Scheme;

r denotes a calendar year;

2018 is the base year (the calculation was adopted following the adoption of the Climate Policy in November 2019, i.e. before the settlement of 2019 as defined by the emissions trading scheme).

The CO₂ emission index is calculated as follows:

$$WE_{CO_2,r} = \frac{E_{CO_2(ee)r}}{P_{ee(brutto)r}}$$

where:

WE_{CO₂,r} [MgCO₂/MWh] denotes the CO₂ emission index for gross electricity production

E_{CO₂(ee)r} [MgCO₂] denotes the CO₂ emissions in year r for gross electricity production from fossil fuels and biomass as well as RES in year r

P_{ee(brutto)r} [MWh] denotes gross electricity production from fossil fuels and biomass as well as RES in year r.

The Group's dependence on the natural capital varies in different lines of business. Mining, Generation and Heat Line of Business depends on the fossil fuel resources, which are not very sensitive to the climate change. As their physical availability is not dependent on the rate of the global warming. TAURON Group's dependence on the individual types of the natural capital in 2019 and 2020 is presented in tables no. 48-52.

Table no. 48. GRI 302-1. Total consumption of energy from non-renewable sources (in-house and acquired) in GJ (gross chemical energy of fuels) at TAURON Capital Group in 2019 and 2020

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
hard coal	87 111 351	107 648 968	12 732 980	15 729 478	0	0	0	0	0	0	2 172 985	-	102 017 316	123 378 446
natural gas and coke oven gas	27 807	65 524	351 523	159 493	0	0	0	0	59 962	71 295	0	-	439 292	296 313
Sludge	1 326 569	1 510 651	662 881	853 802	0	0	0	0	0	0	0	-	1 989 451	2 364 453
heating oil	882 855	1 014 513	144 724	78 864	0	0	0	0	0	0	65 839	-	1 093 417	1 093 377
liquid fuels	16 606	22 209	16 822	162 316	25 315	18 493	1 344	1 960	49 990	42 355	194	-	110 270	247 333
TOTAL	89 365 188	110 261 866	13 908 930	16 983 953	25 315	18 493	1 344	1 960	109 952	113 650	2 239 017	-	105 649 746	127 379 922

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 49. GRI 302-1. Total consumption of energy from renewable sources in GJ (gross chemical energy of fuels) at TAURON Capital Group in 2019 and 2020, per subsidiary

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
biomass	5 712 043	4 478 060	2 072 414	546 983	0	0	0	0	0	0	0	-	7 784 457	5 025 044
wind	0	0	0	0	0	0	120 625	120 341	0	0	0	-	120 625	120 341
hydro	0	0	0	0	0	0	20 383	20 155	0	0	0	-	20 383	20 155
TOTAL	5 712 043	4 478 060	2 072 414	546 983	0	0	141 008	140 496	0	0	0	-	7 925 465	5 165 540

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 50. GRI 302-1. Total energy consumption (purchased and in-house) by type in GJ (Electricity purchased and generated used for the needs of the organization - heating, cooling, electricity, steam) at TAURON Capital Group in 2019 and 2020, per subsidiary

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobywanie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
electricity	3 744 271	4 441 849	743 907	817 554	1 271 330	1 283 312	145 292	152 277	71 820	82 302	109 144	-	6 085 764	6 777 294
heat	772 116	744 191	194 107	200 250	240 356	253 551	956	984	4 962	0	77 068	-	1 289 565	1 198 976
TOTAL	4 516 388	5 186 040	938 014	1 017 804	1 511 686	1 536 863	146 248	153 261	76 782	82 302	186 212	-	7 375 329	7 976 270

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 51. GRI 302-1. Energy supply in GJ (net less in-house needs) at TAURON Capital Group in 2019 and 2020, per subsidiary

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobywanie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
electricity	30 821 153	36 654 304	3 809 911	4 331 014	0	0	3 120 101	2 944 537	0	0	0	-	38 579 789	43 929 855
heat	3 976 799	2 991 481	6 067 497	6 037 425	0	0	0	0	0	0	0	-	10 044 296	9 028 906
TOTAL	34 797 952	39 645 785	9 877 408	10 368 439	0	0	3 120 101	2 944 537	0	0	0	-	48 624 086	52 958 760

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 52. GRI 302-1. Total energy consumption by the organization in GJ at TAURON Capital Group in 2019 and 2020, per subsidiary

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobywanie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		ŁĄCZNIE	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
total energy consumption by the organization	60 262 672	80 280 182	7 041 950	8 180 302	1 511 686	1 555 356	-2 831 501	-2 648 820	131 782	195 952	1 596 605	-	67 713 194	87 562 971

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Due to generating electricity in hydropower plants, the RES Line of Business is highly exposed to the risk of outages or reduction of production as a result of prolonged droughts, which 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 listing of assets most exposed to such restrictions.

The Group is also monitoring the rate of energy consumption related to its operations on an ongoing basis, as shown in the indices in Table no. 53.

Table no. 53. GRI 302-3. Energy consumption at TAURON Capital Group in 2020, per subsidiary

	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		TAURON Ekoenergia Nowe Aktywa Wiatrowe		Nowe Jaworzno Grupa TAURON ¹⁾	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Energy consumption rate [%] (energy consumption for in-house needs / gross energy production)	11.51%	11.60%	8.13% *	8.24% *	4.48%	4.97%	0.68%	2.19%	11.64% **	-
Energy consumption rate - electricity [%] (electricity consumption for in-house needs / gross electricity production)	11.41%	11.18%	16.71%	16.22%	4.48%	4.97%	0.68%	2.19%	11.64% **	-
Energy consumption rate - heat [%] (heat consumption for in-house needs / gross heat production)	12.31%	16.51%	2.74% *	2.74% *	-	-	-	-	-	-

* Does not take into account the replenishment of the heat carrier losses in district heating networks.

** It does not take into account the consumption of process steam for the unit's start-up needs. Due to the relatively short period of operation from the unit's commissioning and due to the still ongoing works related to the optimization of the individual systems and installations, the energy consumption index will systematically improve until the value declared at the design stage is reached.

TAURON Group has inventoried, during inventory energy audits, potential tasks related to reducing energy consumption. The targets related to energy consumption were set based on such measures, as shown in Tables no. 54, 54-a and 54-b.

Table no. 54. Targets, and results achieved, with respect to energy consumption set to be achieved by TAURON Capital Group by 2030

Subsidiary	Target	2019	2020	2025 Target	2030 Target
Kopalnia Wapienia "Czatkowice"	Electricity consumption rate [kWh/t]	22.7	22.7	21.1	20.0
	Result achieved		22.6		
TAURON Wydobycie	Electricity consumption rate* [kWh/t]	70.9	60.0	50.8	48.3
	Result achieved		60.0		

* excluding the additional consumption due to the construction of the Grzegorz Shaft.

Table no. 54 - a. Targets, and results achieved, with respect to energy consumption set to be achieved by TAURON Capital Group by 2030, per subsidiary

	TAURON Wytwarzanie			TAURON Ciepło			Nowe Jaworzno Grupa TAURON	
	2020	2025	2030	2020	2025	2030	2025	2030
Energy consumption rate [%] (energy consumption for in-house needs / gross energy production)	10.9 %	11.1%	8.73%*	8.88% *	8.44% *	9.1% *	8.63%**	8.16%**
Result achieved	11.5 %		8.13%*					
Energy consumption rate - electricity [%] (electricity consumption for own needs / gross electricity production)	10.7%	10.8%	15.05%	15.61%	17.09%	10.5%	8.63%**	16%**
Result achieved	11.4%		16.71%					
Energy consumption rate - heat [%] (heat consumption for own needs / gross heat production)	12.6%	13.9%	2.77%	2.98% *	2.89% *	9.2% *		
Result achieved	12.3%		2.74%*					

* Does not take into account the replenishment of the heat carrier losses in district heating networks. The fluctuations of the rate for TAURON Ciepło in the 2025 and 2030 time frame result from a change in: planned increase in heat demand by approx. 1.6 TJ and commissioning of the new gas fired heat generation sources that will complement the existing infrastructure of high-efficiency coal fired cogeneration (unit emission indices will be reduced).

** The target set assuming the average annual load of the generating unit above 70% of the nominal rated power

The 2020 targets in terms of energy consumption indicators for TAURON Wytwarzanie and TAURON Ciepło subsidiaries reached values higher than those assumed in terms of energy consumption for electricity production. The reasons for this can be as follows:

- need to operate TAURON Wytwarzanie units as centrally controlled (dispatched) generation units that stabilized the power system in the south of Poland in highly volatile energy flow conditions, also with respect to international trade (imports/exports). This resulted in the operation of the units at sub-optimal operating points (high volatility of the efficiency of the individual generating units);
- much more frequent than assumed number of start-ups and shutdowns of TAURON Wytwarzanie generation units;
- high heat production combined with the reduction of the operation in the condensation mode at TAURON Ciepło translated into a slightly better result of the energy consumption index for heat production and worse than assumed for electricity production.

Table no. 54- b. Target, and result achieved, for transmission losses set to be achieved by TAURON Dystrybucja by 2030

Subsidiary	Index name	2020 Target	2025 Target	2030 Target
TAURON Dystrybucja	Value of the balancing difference index *	4.14 %	3.96 %	3.90 %
	Result achieved	4.45 %		

* Index calculated as of 31.12 for the last 12 months, as the quotient of energy lost in the grid to the value of energy fed into the grid

Climate related opportunities

The Group can turn the climate related risk into opportunities by offering products and services that contribute to mitigating climate change or adapting thereto. TAURON Group is observing a clear trend underway that involves a redirection of the consumers' and business customers' choices towards products and services that are less harmful to the climate. This is a key factor leading to the development of the so-called ECO line. Such an offering increases the resilience of the product portfolio against climate change,

EKO product lines (business and individual customers) are products that allow, among others, for the conscious purchase by the Group's customers of electricity produced by renewable energy installations or by low-emission

generation sources and confirmed by the applicable certificates from independent institutions (Polish Energy Certification Society, TUV Sud). The EKO products sales results are presented in Table no. 55.

Table no. 55. Increase in 2020 vs. 2019 of the sales of TAURON Capital Group's products aimed at achieving the climate neutrality target

Sales of selected EKO Line products and service		Metric type	Increase
EKO product line	EKO Premium	Increase in the value of issued Certificates of Origin issued	51.3 %
	EKO Biznes		
	EKO Standard		
EKO electricity for an individual customer		Change in the number of customers choosing the product at the end of the period - y/y	162.2 %
Photovoltaics		Change in the quantity of installations sold	567 %
Passive Power Compensation		Change in the quantity of services sold	81.8 %
Enterprise Energy Audit		Change in the quantity of services sold	16.7 %
Implementation of the replacement of street lighting with low-energy lighting		pcs.	28 414

As a principle, TAURON does not take on targeted financing, with funds dedicated directly to the given investment task, as it obtains funds that enable financing of TAURON Group's corporate and investment activities. Pursuant to the terms of some of the agreements, TAURON is obliged to implement the indicated investment projects, comply with specific sustainable development indicators, as well as act in accordance with the principles of environmental and social policy, the implementation of which is confirmed by relevant reports submitted to the financial institutions. Additionally, in some financing agreements, TAURON undertakes not to allocate funds from the given financing to finance activities related to the operations of the generation and mining lines of business.

Table no. 56 presents the allocation of funds from TAURON Group's individual sources of financing for investment purposes aimed at minimizing the negative impact of the Group's operations on the climate.

Table no. 56. Summary of financing obtained by TAURON Capital Group for pro-climate investment projects

Financing entity	financing instrument	loan amount under the contract	debt as of 31.12.2020 r.	financing purpose
European Investment Bank	subordinate bonds	190 000 000.00 EUR	190 000 000.00 EUR	financing of investment projects aimed at expanding and upgrading the power grid infrastructure in Poland in 2016-2020 in accordance with its strategic investment plan
European Investment Bank	subordinate bonds	350 000 000.00 PLN	350 000 000.00 PLN	financing of investment projects in the electricity distribution grid in southern and southwestern Poland in 2018-2020
European Investment Bank	subordinate bonds	400 000 000.00 PLN	400 000 000.00 PLN	financing of investment projects in the electricity distribution grid in southern and southwestern Poland in 2018-2020
European Investment Bank	loan	295 000 000.00 PLN	191 750 000.00 PLN	financing of an investment project composed of two Components with respect to expanding the electricity distribution grid, implementing a smart metering program as well as modernization and repairs of the existing small hydropower plants
European Investment Bank	loan	900 000 000.00 PLN	306 818 181.95 PLN	financing of the implementation of a 5-year investment program (2011-2015), aimed at strengthening, modernizing and expanding the electrical grids of Tauron Dystrybucja S.A.
European Investment Bank	loan	300 000 000.00 PLN	30 000 000.00 PLN	financing of the implementation of the project involving the construction and commissioning of a high-efficiency coal fired cogeneration unit of the latest generation (CHP, combined heat and power plant), including the associated infrastructure, located on the site of the existing power plant in Bielsko-Biala in southern Poland
		210 000 000.00		
European Investment Bank	loan		21 000 000.00 PLN	financing of the construction of a new biomass-fired circulation fluidized-bed boiler (150 MWt) to replace one of the existing coal-fired boilers that will be decommissioned as obsolete, as well as the overhaul of the existing steam turbine (50 MWe), including the auxiliary infrastructure on the site of Power Plant Jaworzno III (Unit II) in southern Poland

Intesa Sanpaolo S.P.A. operating via Intesa Sanpaolo S.P.A. Spółka Akcyjna Oddział w Polsce	loan	750 000 000.00	PLN	750 000 000.00	PLN	covering the expenses related to the implementation of investment projects or groups of investment tasks of TAURON Group covering (i) broadly understood power generation based on renewable energy sources and (ii) distribution of electricity, among others the expansion and upgrade of the grid and connecting new customers, as well as refinancing of the existing Financial Debt
A series bond issue (TPE1025)		1 000 000 000	PLN	1 000 000 000	PLN	The proceeds from the Bond issue may be used to: (i) finance the RES projects construction/acquisition costs, (ii) finance the Group's distribution operations as well as the general corporate activities related to RES or the zero-emission energy transition, and (iii) refinance the Group's debt taken on to finance the above projects. The proceeds from the Bond issue cannot be used to finance new and existing coal-fired units, the operations of TAURON Wydobycie S.A. and the operations of TAURON Wytwarzanie S.A. (in case of projects other than those indicated in the paragraph above)
WFOŚiGW (Regional Protection and Water Fund)	Environment Management KWC loan	914 000.00	PLN	229 476.60	PLN	Reduction of limestone dust emissions at the raw material landfill at Kopalnia Wapienia "Czatkowice" sp. z o.o.
WFOŚiGW (Regional Protection and Water Fund)	Environment Management TW loan	40 000 000.00	PLN	8 000 000.00	PLN	Construction of a RES Production Unit at PKE S.A. Jaworzno III Power Plant - Power Plant II
WFOŚiGW (Regional Protection and Water Fund)	Environment Management TW loan	11 318 300.00	PLN	8 546 430	PLN	Construction of a photovoltaic farm in Jaworzno
WFOŚiGW (Regional Protection and Water Fund)	Environment Management KWC loan	292 955.60	PLN	170 880.60	PLN	Thermo-modernization of the Car Service Station at Kopalnia Wapienia "Czatkowice" sp. z o.o.

4.5. TAURON Group's Human Rights Respect Policy

TAURON Group's Corporate Social Responsibility Code of Conduct indicates that TAURON Capital Group is guided by the principle of equal treatment of employees and does not tolerate discrimination on any basis, in particular due to age, gender, race, nationality, religion, sexual orientation, appearance, fitness or different views. The aim of the Policy of Respect for Human Rights is to present the principles of TAURON Capital Group regarding respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect in the workplace.

The policy defines the principles of TAURON Capital Group dedicated to respecting and protecting human rights, including, among others:

- prohibition of mobbing and discrimination,
- prohibition of slavery and forced labor,
- ban on employing children and minors,
- freedom of association,
- observing employment and remuneration conditions,
- work health and safety (WHS),
- employee engagement (commitment),
- countering cases that involve violations of human rights.

Furthermore, the regulation also defines TAURON Capital Group's rules dedicated to the human rights respect and protection with respect to interacting with the stakeholders, in particular counterparties (contractors) and business partners, as well as with respect to local communities.

Due diligence procedures and internal regulations

The basic regulations related to the Policy of Respect for Human Rights at TAURON Capital Group are TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.

In accordance with the provisions of the Policy of Respect for Human Rights, every employee, counterparty (contractor) and an external entity/business partner is required to:

- respect and promote respect for human rights and ensure their protection,
- refuse to participate in any situations that may involve a violation of human rights, mobbing and discrimination, and unequal treatment.

Each employee should pay attention to signals and circumstances that may potentially suggest the possibility of unequal treatment. If such doubts arise, employees should report them via communications channels defined in TAURON Capital Group's procedures, in particular in the above mentioned TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.

Actions taken and results achieved

The Ethics Committee is operating at TAURON Group in order to consider potential violations of the rules. "Mobbing - legal and psychological aspects" training for its members, the personnel of the Human Resource Area of TPE S.A. and the Compliance Team was conducted as part of the Virtual Compliance Day 2020. As part of the event a "Get to know Compliance at TAURON Group ... and find out what we do" panel was also held. All of TAURON Group's employees could participate in it.

Anonymous reports of violations submitted by employees to the Ethics Committee are forwarded to the Compliance Officer for investigation. As part of periodic risk monitoring, the Compliance Team verifies the number of notifications received by the Ethics Committee in matters falling within its competence area.

The communications channel enabling employees to provide information in a confidential and anonymous way is the Abuse Reporting Form, available on the website <https://www.tauron.pl/tauron/o-tauronie/formularz zgloszenia-naduzycia>.

In addition, issues regarding violations of the principles set out in the Corporate Social Responsibility Code of Conduct can be reported to the Compliance Officer in person or in writing, by phone: +48 32 774 22 22, or to the e-mail address: compliance@tauron.pl.

Several dozen trade union organizations that associate about 71% of employees are operating within TAURON Capital Group. Additionally, in order to ensure proper dialogue and exchange of experience, the Social Council of TAURON Capital Group was established, which represents the trade union organizations

The introduction of the Policy of Respect for Human Rights at TAURON Capital Group contributes to raising awareness of respect for human rights and promoting their protection.

4.6. TAURON Group's Human Capital Management Policy

Due to numerous changes in the environment, both internal as well as external, in 2020 TAURON Group's Human Capital Management Policy was updated. The document focuses on acquiring, developing and maintaining competencies that are key to organizational efficiency and achieving the Group's strategic goals in a specific reality.

The goal of the regulations contained in this policy is the broadly understood support of employees and managers in creating an environment conducive to dialogue, introducing changes and striving for the development of the organization. Among the priorities set by the Policy, there are also issues such as creating an organizational culture based on cooperation and partnership, supporting bottom-up initiatives, independence and development of the personnel.

The policy defines the mission and vision of TAURON Group's human capital management, which are presented in Figure 39.

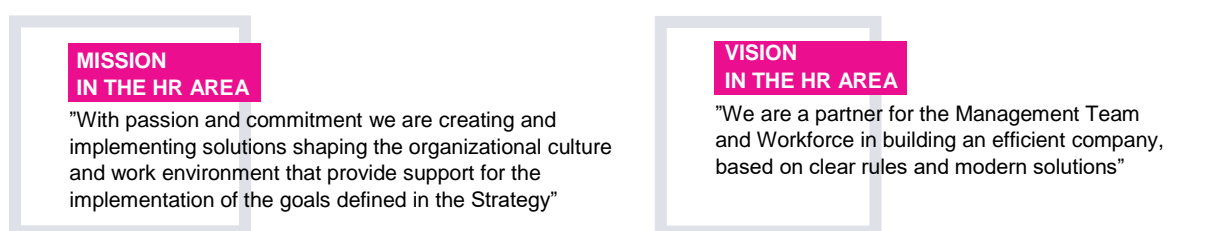


Figure no. 39. TAURON Capital Group's human capital management Mission and Vision

The document also sets out strategic areas of activities related to employee issues. They include:

- organization development,
- efficiency management,
- competences and development management.

In each area, specific goals were set and activities aimed at achieving them were identified. Their comprehensive description is presented in Table no. 57.

Table no. 57. Strategic areas of activities defined by TAURON Capital Group's human capital management

Area: Organization development	
Goal: We implement and promote organizational culture that supports TAURON Group's development.	Process
We strengthen employee engagement and create a safe and inspiring work environment; <ul style="list-style-type: none"> • We are open to communication with employees, • We actively obtain and provide feedback, • We engage employees in improving the work environment. 	Employee Opinion Survey Employee communication Employer Branding Management by objectives
We are building the image of TAURON Group as an attractive employer - both inside and outside the organization: <ul style="list-style-type: none"> • We survey the opinion of employees, • We create tools that allow us to ensure easy and efficient communication with employees, • We cooperate with universities and schools. 	Employee Opinion Survey Employee communication Employer Branding Management by objectives
We ensure an efficient flow of information and create conditions for a partner dialogue with the workforce: <ul style="list-style-type: none"> • We strengthen cooperation among areas and among generations: • We create an environment that is friendly to the exchange of knowledge and experience, • We promote knowledge sharing 	Social dialogue Development initiatives Knowledge and age management
We build relationships with customers and strengthen awareness with respect to environment protection, climate change and we are committed to promoting the Green Turn of TAURON	Employer Branding
We support TAURON Group in the process of changes through access to knowledge and market solutions: <ul style="list-style-type: none"> • We design development programs and provide knowledge, • We monitor market trends and solutions. 	Development initiatives
Area: Organization efficiency management	
Goal: We focus on efficiency management.	Process
We clearly and consistently define roles, tasks and required authorizations at work positions.	Position evaluation system Job description book

<p>We define clear compensation rules, based on market conditions, that motivate people to work efficiently:</p> <ul style="list-style-type: none"> • We support the implementation of tasks and goals that stem from the Strategy, • We create performance related employee compensation systems, • We build tools that support management by objectives. 	<p>Employment, wages and benefits management Management by objectives Social dialogue</p>
<p>We minimize the risks associated with human capital management.</p>	<p>TAURON Group's risk management system</p>
<p>We care about compliance with the principles of ethics and diversity:</p> <ul style="list-style-type: none"> • We conduct educational activities, • We care for an environment free from mobbing and discrimination. 	<p>Regulations related to diversity, ethics and counteracting mobbing and discrimination</p>
<p>We optimize, standardize and digitize the Human Capital Management Area processes. Owing to this, we increase the flexibility and efficiency of the organization.</p>	<p>Human Capital Management Mega-process</p>
<p>Area: Competences and development management</p>	<p>Process</p>
<p>Goal: We support the development of competences</p>	
<p>We ensure that employees' competences are aligned to the needs of the changing energy sector:</p> <ul style="list-style-type: none"> • We develop new competences and prepare for change management, • We focus on acquiring new qualifications and improving employees' competences. 	<p>Development initiatives Recruitment</p>
<p>We create a culture based on self-development:</p> <ul style="list-style-type: none"> • We support employees through various individual development tools. 	<p>Employee Opinion Survey Employee communication Employer Branding Management by objectives</p>
<p>We ensure the continuity of competences for the energy sector by educating pupils and students.</p>	<p>Recruitment</p>
<p>We take care of employee retention:</p> <ul style="list-style-type: none"> • We create opportunities for development for employees and ensure a motivating atmosphere at work, • We implement pro-employee solutions. 	<p>Development initiatives Employee induction</p>
<p>We provide knowledge transfer between generations:</p> <ul style="list-style-type: none"> • We implement development programs, • We implement internal training programs, • We care about the exchange of experiences between generations. 	<p>Knowledge and age management Development initiatives</p>
<p>We care about the development of leadership competences of the Management Personnel.</p>	<p>Competence model Development conversation</p>
<p>We create and improve tools for the development, motivation and evaluation of the Employees' potential.</p>	<p>Development conversation</p>

Tables no. 58-61 present the key data with respect to the area of human resource management, including the number of employees by gender, age and type of labor contract, as well as the percentage of employees covered by the collective bargaining agreements.

Table no. 58. GRI 102-8-a. Number of TAURON Capital Group's employees by type of labor contract and gender as of 31.12.2020, per subsidiary

NUMBER OF EMPLOYEES	TAURON Polska Energia	TAURON Wydobywanie	TAURON Wytwarzanie	TAURON Ekoenergia	TAURON Dystrybucja	TAURON Nowe Technologie	TAURON Dystrybucja Pomiary	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Czech Energy	TAURON Obsługa Klienta	TAURON Ciepło	Kopalnia Wapienia Czatkowice	Polska Energia Pienwsza Kompania Handlowa	Bioeko Grupa TAURON	Wsparcie Grupa TAURON	TAURON Serwis	Nowe Jaworzno Grupa TAURON	TOTAL
LABOR CONTRACTS																			
TOTAL NUMBER OF EMPLOYEES UNDER LABOR CONTRACTS, INCLUDING:	450	6 458	2 375	179	7 810	105	1 459	317	9	15	2 582	1 440	293	3	148	1 318	442	169	25 572
women	200	566	389	40	1 180	36	258	167	6	8	1 856	251	44	3	28	428	29	14	5 503
Men	250	5 892	1 986	139	6 630	69	1 201	150	3	7	726	1 189	249	0	120	890	413	155	20 069
INCLUDING:																			
FOR A DEFINITE PERIOD OF TIME (including for a trial period and as a substitute):	33	46	33	17	321	5	10	65	0	0	408	22	36	0	69	372	44	1	1 482
women	16	6	2	4	62	1	5	27	0	0	299	5	5	0	7	118	6	1	564
men	17	40	31	13	259	4	5	38	0	0	109	17	31	0	62	254	38	0	918
FOR AN INDEFINITE PERIOD OF TIME:	417	6 412	2 342	162	7 489	100	1 449	252	9	15	2 174	1 418	257	3	79	946	398	168	24 090
women	184	560	387	36	1 118	35	253	140	6	8	1 557	246	39	3	21	310	23	13	4 939
men	233	5 852	1 955	126	6 371	65	1 196	112	3	7	617	1 172	218	0	58	636	375	155	19 151

Table no 59. GRI 102-8-d. Number of TAURON Capital Group's employees under other contracts than a labor contract by gender and type of labor contract as of 31.12.2020, per subsidiary

NUMBER OF EMPLOYEES	TAURON Polska Energia	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Ekoenergia	TAURON Dystrybucja	TAURON Nowe Technologie	TAURON Dystrybucja Pomiaru	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Czech Energy	TAURON Obsługa Klienta	TAURON Ciepło	Kopalnia Wąpienia Czatkowice	Polska Energia Pierwsza Kompania Handlowa	Bioeko Grupa TAURON	Wsparcie Grupa TAURON	TAURON Serwis	Nowe Jaworzno Grupa TAURON	TOTAL
EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT																			
TOTAL NUMBER OF EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT:	11	193	68	9	33	7	19	20	0	1	128	9	16	6	5	847	47	7	1 426
women	5	12	16	3	9	1	10	7	0	1	105	1	7	1	1	219	3	0	401
men	6	181	52	6	24	6	9	13	0	0	23	8	9	5	4	628	44	7	1 025
PERSONS UNDER MANAGEMENT CONTRACTS:																			
women	0	0	0	0	0	0	0	1	0	0	1	0	0	0	0	1	0	0	3
men	3	3	3	2	5	2	2	3	0	0	2	3	2	1	2	1	0	2	36
SELF EMPLOYED PERSONS:																			
women	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	2
men	0	0	0	0	1	0	0	6	0	0	0	0	0	0	0	0	0	0	7

EMPLOYEES UNDER THE GROUP'S SUPERVISION:	0	0	0	0	0	0	13	0	0	0	121	0	0	0	0	0	0	0	1	135
women	0	0	0	0	0	0	10	0	0	0	101	0	0	0	0	0	0	0	0	111
men	0	0	0	0	0	0	3	0	0	0	20	0	0	0	0	0	0	0	0	24
PERSONS ON POSTGRADUATE INTERNSHIPS:	0	16	1	0	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	23
women	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
men	0	16	1	0	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	23
PERSONS PROVIDING SERVICES UNDER A CIVIL LAW AGREEMENT	2	170	61	3	18	2	0	5	0	0	0	2	10	5	2	842	43	0	1 165	
women	2	12	16	1	8	0	0	5	0	0	0	0	6	1	1	216	3	0	271	
men	0	158	45	2	10	2	0	0	0	0	0	2	4	4	1	626	40	0	894	
EMPLOYEES OF THE SUPERVISORY BOARD	6	4	3	4	2	3	4	4	0	1	4	4	4	0	1	3	4	4	55	
women	3	0	0	2	0	1	0	0	0	1	3	1	1	0	0	2	0	0	14	
men	3	4	3	2	2	2	4	4	0	0	1	3	3	0	1	1	4	4	41	

Table no. 60. GRI 102-8-c. Employment of employees at TAURON Capital Group based on a permanent labor contract type by gender as of 31.12.2020, per subsidiary

NUMBER OF EMPLOYEES	TAURON Polska Energia	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Ekoenergia	TAURON Dystrybucja	TAURON Nowe Technologie	TAURON Dystrybucja Pomiary	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Czech Energy	TAURON Obsługa Klienta	TAURON Ciepło	Kopalnia Wapienia Czatkowice	Polska Energia Pierwsza Kompania Handlowa	Bioeko Grupa TAURON	Wsparcie Grupa TAURON	TAURON Serwis	Nowe Jaworzno Grupa TAURON	TOTAL
WORKING UNDER A LABOR CONTRACT, INCLUDING:																			
FULL TIME:	440	6 456	2 361	177	7 785	105	1 457	315	6	14	2 567	1 438	292	3	146	1 282	439	169	25 452
women	192	565	385	40	1 164	36	257	166	4	7	1 846	250	44	3	28	400	28	14	5 429
men	248	5 891	1 976	137	6 621	69	1 200	149	2	7	721	1 188	248	0	118	882	411	155	20 023
PART TIME:	10	2	14	2	25	0	2	2	3	1	15	2	1	0	2	36	3	0	120
women	8	1	4	0	16	0	1	1	2	1	10	1	0	0	0	28	1	0	74
men	2	1	10	2	9	0	1	1	1	0	5	1	1	0	2	8	2	0	46

Table no. 61. GRI 102-41. Percentage of TAURON Capital Group's employees covered by collective bargaining agreements as of 31.12.2020, per subsidiary

	TAURON Polska Energia	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Ekoenergia	TAURON Dystrybucja	TAURON Nowe Technologie	TAURON Dystrybucja Pomiarów	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Czech Energy	TAURON Obsługa Klienta	TAURON Ciepło	Kopalnia Wapienia Czatkowice	Polska Energia Pierwsza Kompania Handlowa	Bioeko Grupa TAURON	Wsparcie Grupa TAURON	TAURON Serwis	Nowe Jaworzno Grupa TAURON	TOTAL
Total number of persons employed (from table 102-8-a)	450	6 458	2 375	179	7 810	105	1 459	317	9	15	2 582	1 440	293	3	148	1 318	442	169	25 572
Total number of employees covered by collective bargaining agreements	0	6 444	2 375	177	7 795	92	1 455	317	9	0	2 582	1 421	292	0	0	1 318	0	169	24 446
Percentage of employees covered by collective bargaining agreements	0%	99.8%	100%	98.9%	99.8%	87.6%	99.7%	100%	100%	0%	100%	98.7%	99.7%	0%	0%	100%	0%	100%	95.6%

Due diligence procedures and internal regulations

The documents supporting the implementation of the goals of TAURON Capital Group's Human Capital Management Policy include:

- TAURON Group's compensation principles;
- Policy of Recruitment, Selection and Adaptation of Employees of TAURON Group's Subsidiaries
- Regulations for improving the qualifications of the employees, in place at TAURON Group's individual subsidiaries;
- TAURON Group's competency model;
- TAURON Group's regulations of the Internal Trainers Academy;
- Regulations of the Investment Project Management Academy Program - TAURON Group's PM Academy;
- TAURON Group's Principles of Cooperation with Schools and Universities as well as Internships and Apprenticeships Program;
- Regulations of the "Join" Program – TAURON's internship PROgram;
- Regulations of TAURON Group's Ambassador Program.

Actions taken and results achieved

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

In 2020, TAURON Group faced the challenge of quickly identifying potential problems, to which it had to respond equally quickly. Remote work using online tools, virtual meetings and teleconferences has become a necessity today, and not, as before, a choice that was given to employees. All this entailed not only the need to redefine the ways of functioning in the new reality, but above all to define the crisis management system, which is aimed at taking appropriate steps to limit or minimize the negative effects of the epidemic

One of the due diligence procedures implemented as part of the Human Capital Management Policy is the ongoing monitoring of the metrics related to the human resources management area at all of TAURON Group's subsidiaries. Particular emphasis was placed on constructive and open dialogue with the workforce. TAURON Group's subsidiaries held 334 meetings of the employers with the trade union organizations in 2020. In total, the trade union organizations had about 18.1 thousand members among TAURON Group's employees (i.e. 71% of the total number of employees) at the end of 2020.

During regular meetings and consultations the representatives of the workforce are informed about issues related to:

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

In addition, steps are taken to raise business awareness and promote pro-efficiency and engaging attitudes.

Employee satisfaction surveys

The due diligence procedures also include employee satisfaction surveys conducted every two years. In the second edition of the survey, conducted at the Group's key subsidiaries in April 2019, each of more than 26 000 employees had an opportunity to express his/her opinion on how they assess the individual aspects of work at the subsidiary and at TAURON Group, answering 39 questions in an anonymous survey. In 2020, the activities of the Capital Group focused on the implementation of initiatives stemming from the analysis of the research results. They include:

- periodic meetings summarizing the implementation of current tasks and future tasks carried out by the Team/Area;
- training in the development of soft skills, with particular emphasis on the area of efficient communication and coping with stress;
- verification of the procedures functioning in the Area in terms of supporting efficient implementation of tasks;
- communication of the Group/Company strategy along with its translation into individual areas of the Company.

Moreover, in 2019, as a result of updating the strategic directions of TAURON Capital Group and introducing the Green Turn of TAURON program, the challenges and objectives of the human resource management area were verified. At that time, priority areas were designated for the development of the Capital Group's organization and human capital:

- recruitment and onboarding,
- training, age and knowledge management,
- development conversation,
- potential management,
- cooperation with the education sector,
- outplacement and employer branding;

As the next step the tasks were assigned to these priorities, aimed at improving the most important processes and strengthen the organization's ability to create and respond quickly to the business changes by ensuring the optimal number and quality of the competences. The direction to the activities planned for 2020-2023 was also given.

Highest Quality HR Certificate for TAURON Polska Energia

TAURON Polska Energia participated in 2020 in the study organized by the Polish Association of Human Resources Management entitled Top Quality HR. As part of the study, the Association verified and gave the highest marks to the individual areas of human capital management, among others: motivation and compensation systems, employee development, recruitment and competence management, employee communication and building the employer's brand. The Group's new initiative - Development Squared (Rozwój do Kwadratu), under which more than 960 employees took part in various types of webinars, was particularly appreciated. The positive result of the study led to obtaining the Highest Quality HR Certificate.

Development and training

Current market trends and technological development, changes taking place both globally as well as locally, a competitive market and increasing requirements force much faster pace and flexibility in terms of development activities. Employee development and improvement is permanently inscribed in TAURON Group's strategy, and the implementation of the development activities takes place on the basis of the Regulations for improving the qualifications of the employees, in place at the Group's individual subsidiaries. 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 empowerments to the employee, broadening the scope of his/her responsibility, participation in the task or project teams,

20% of the development activities are based on learning from others, including the ongoing support and regular feedback from your direct superior and colleagues,

10% of the development activities involve participation in various forms of educational and training activities (internal and external).

TAURON Capital Group's employees can choose from a wide range of internal training and external development opportunities, among others, in the form of participation in industry conferences, seminars, workshops, specialist training, e-learning training or language courses.

Table no. 62 presents the key data on employee training at TAURON Capital Group as of December 31 in 2018-2020.



Table no. 62. Key data on employee training at TAURON Polska Energia and TAURON Capital Group as of December 31, 2018, December 31, 2019, December 31, 2020.

#	Key data on employee training	TAURON Polska Energia			TAURON Capital Group		
		December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2018	December 31, 2019	December 31, 2020
1.	Average number of training hours per employee by job (position) group, including:	177	176	57	125	109	62
	Management Board and Directors	85	88	10	63	45	26
	Management positions	53	51	15	33	32	14
	Administrative staff (white collar positions)	30	28	16	12	14	9
	Blue collar positions	9	9	1	17	18	13
2.	Number of training hours per employee by gender, including:	16 771	16 766	6 801	456 179	477 618	294 945
	Women	6 961	6 624	2 996	77 305	79 871	49 704
	Men	9 810	10 142	3 806	378 874	397 747	245 240

Key statistics on the training carried out at TAURON Group in 2020 are presented in figure no. 40.

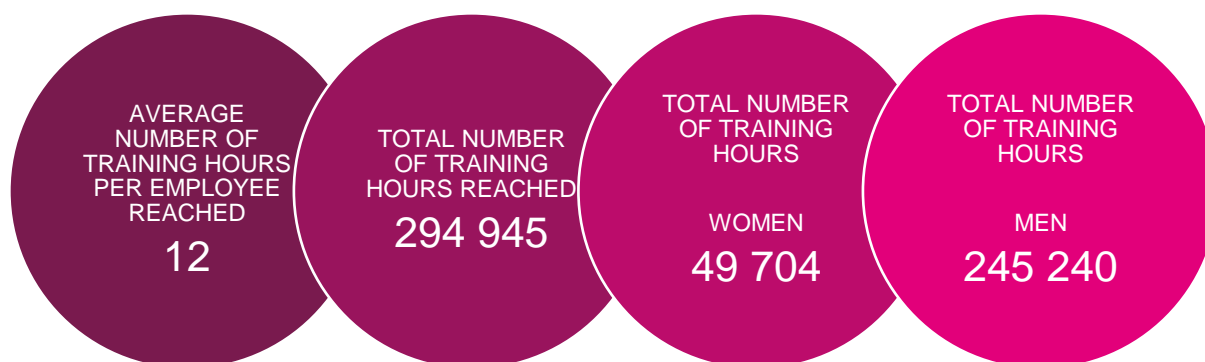


Figure no. 40. GRI 404-1 - The number of training hours per employee at TAURON Capital Group in 2020

Development Conversation

One of the more important projects carried out as part of TAURON Group's human capital management is the Development Conversation process. Based on the Group's Competence Model in place, the initiative assumes the need for the continuous development of the employees' competences in line with the changing business challenges. Development Conversations carried out in 2020 at the Group's selected subsidiaries demonstrated a number of benefits that open communication and individual approach to the employees' needs, in combination with the directions of the organization's development, bring.

Purchasing Studies

The successive, third edition of the postgraduate studies, organized in cooperation with the Jagiellonian University, entitled Purchasing management in business, was continued in 2020. The main assumption of the program is to improve the purchasing, negotiating and commercial (trading) qualifications of the Purchasing Area staff. Participation in the dedicated studies is an offering addressed to the outstanding employees of TAURON Group. 32 participants took part in the completed edition.

TAURON Group Open University

TAURON Group's employees have continuously had the opportunity to participate in lectures conducted as part of the TAURON Group Open University since 2014. The initiative constitutes a platform enabling an exchange of views and experiences, it also gives the opportunity to gain knowledge and additional competences.



Due to the epidemic situation the initiative was moved online in 2020. 5 lectures were carried out online, attended by almost 7 thousand employees.

Internal Trainers (Coaches) Academy

The goal of the initiative is to provide support for 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 the training needs, designs the training and supports the process of implementing the new competences in the organization. 86 internal trainers completed a total of 84 training sessions for more than 1 100 of TAURON Group's employees in 2020.

Activities undertaken in response to the epidemic situation

Development Squared

A new initiative, launched in June 2020, is Development Squared - a series of weekly webinars conducted in four thematic areas: development, knowledge sharing, cooperation, health. The project was developed as a response to the difficult situation related to the COVID-19 pandemic that made it impossible to conduct training in a classic form. Thanks to Skype and Office 365 technology, fully interactive meetings are possible, that make participants more active. The project's participants include all of TAURON Group's employees with access to the intranet (approximately 17 000 persons).



24 webinars were held in 2020, on 14 different topics, conducted by 10 trainers. More than 950 of TAURON Group's employees took part in the initiative.

E-learning

In addition to the training courses carried out using the traditional method, TAURON Capital Group provides its employees with continuous access to training on the e-learning platform, which is particularly important during the pandemic and the restrictions related thereto. The undisputed advantages of this form of education include the flexibility of its implementation and the ability to adjust it to the individual pace of knowledge absorption of the given employee. The e-learning training formula also significantly reduces the costs of the training courses, while at the same allowing them to be attended by a larger number of employees. On a daily basis, TAURON Group's employees have constant, unlimited access to training available on the special e-learning platform. It includes both training courses on the group-wide regulations, specialist training courses on IT systems, as well as training courses developing leadership and interpersonal competences.



In 2020, TAURON Group's employees, thanks to the e-learning training courses, got to know, inter alia, the latest rules related to cybersecurity, details of the anti-money laundering and terrorist financing prevention procedures. In total, nearly 16 000 employees participated in 41 000 e-learning training courses in 2020.

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

A space dedicated to managers was created on the TAURON Group intranet in 2020. The managerial staff can constantly read specialist articles on the subject of broadly understood management. Tools to support team management, interesting on-line events (Mediateka) and recommended books are available.

As part of the zone, a special initiative "#wzMOCnij się" (power up yourself) was launched and webinars on change management, an on-line training platform and tools to support the development conversation process were made available.

Articles were published on issues particularly important for team management while working remotely or in a hybrid mode, for example:

- Remote reality - how to overcome the distance - how to break the barrier of distance in a team that works online,
- How to keep employees engaged in a remote work situation,
- VUCA - how to cope in the changing reality,
- Manager=Mentor,
- Return to the office - practical advice related to the gradual return of employees to the office after a period of long-term remote work,
- Appreciation as a tool for motivating employees.



Support for the employees

TAURON Group's employees were able to use a dedicated telephone support line and talk to an external advisor in 2020. What's more, the Group's selected subsidiaries held training sessions with respect to mental resistance, among others, entitled "Effective action in a stressful time of a pandemic", "Stress, how to deal with it", which were developed to identify the psychological mechanisms responsible for the emergence and persistence of negative consequences of stress and the techniques to deal with them

Quick Tips

Communication and constant contact with the employee became extremely important during the pandemic. The entire Capital Group undertook preventive and informational activities aimed at raising awareness and understanding of the current regulations and the applicable rules of counteracting COVID - 19. Quick tips is a series of weekly short cards on the homepage of TAURON Group's intranet - Tauronet for employees of the entire Capital Group. In 2020, 32 cards were posted in 2020. The advice pieces included those concerning: micro breaks during work or building relationships when working remotely. Information campaigns were also carried out at individual companies, such as "Safe at work - remember about the new habits", "Quarantine or isolation", "Take care of yourself and others", "Support children during the pandemic".

Two hours for the Family



Also this year, TAURON Group organized the Family Week for its workforce. Due to the pandemic, it was run under the slogan "Rodzinną MegaMoc. Trzymajmy się razem!" (Family MegaPower. Let us stick together!) All events were held virtually and were primarily aimed at providing support for TAURON employees during the difficult lockdown period.

Almost 15 000 employees with access to the intranet, were able to actively participate in all the events.

This way company was reducing the feeling of isolation and alienation, and emphasizing the importance of staying at home so that others would be safe and healthy. As part of the campaign, among others, competitions, on-line workshops on recording, directing and editing videos, and an on-line lecture on strengthening immunity were held.

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

TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy regulates the standards of the process of recruitment and induction (onboarding, orientation) of TAURON Group's new employees.

The policy also specifies the rules related to filling both vacant as well as the newly created jobs with people with the desired professional qualifications and competences. The policy sets out assumptions regarding the selection of employees, understood as all actions taken to fill the vacancy: from the moment of defining the staffing needs until the moment of completing the adaptation of a newly recruited employee. 938 employees were hired by TAURON Group in 2020. The detailed data on TAURON Group's employment structure is provided in section 4.6 of this Report. TAURON Group's human resources management policy.

Due diligence procedures and internal regulations

Due diligence procedures employed under the Policy include, first of all, the following structured forms of recruitment:

- open internal recruitment (announcements in TAURON Group's intranet, recommendations (referrals) by employees of other employees as potential candidates, e-mail to all employees),
- closed internal recruitment (recommendations (referrals) by employees of other employees as potential candidates, employees with a development potential),
- external recruitment (advertisements in the press, online, at universities, recommendations (referrals) by employees of persons from outside TAURON Group's subsidiaries as potential candidates, recruitment agencies).

Priority is given to internal recruitment at TAURON Group, which has a positive effect on the development of human resources within the Group, creates opportunities for promotion or taking an equivalent position in another business unit, and creates natural career paths and encourages employees to further their improvement and development.

Every employee selection process requires an individual approach, depending on the specifics of the given position. The selection of the given recruitment method is preceded by the examination of the internal or external labor market (depending on the selected recruitment form), as well as the analysis of the budget allocated to the given recruitment process.

In order to achieve the best recruitment results with the most optimal cost approach possible, an efficient selection of employees at TAURON Group is based on the following assumptions and principles:

- selecting employees based on the long-term employment and staff development plans, taking into account planned personnel changes (promotions, transfers, layoffs, etc.),
- integration with TAURON Group's Human Resources Management Policy in place,
- focus on creating choice opportunities through searching for at least several candidates for one job position to be filled,
- standardization of the criteria used in the selection of employees for specific positions and the application of methods, principles and procedures allowing for an objective comparison of individual candidates within one recruitment process,
- reliability, impartiality and professionalism applicable to all participants in the selection process without any exceptions;
- every time maintaining high standards of contact and communication with the candidates (specific rules, among other with respect to inviting the candidates for interviews, forms and scope of providing feedback),
- maintaining standards related to the use of the selection tools,
- ethical behavior towards the candidates, including, for example, meeting deadlines, providing information on the results of the recruitment process,
- ensuring the confidentiality of the recruitment process for the candidates at all the stages thereof.

Due to the COVID-19 pandemic underway in 2020, the processes of recruitment as well as induction and adaptation of new employees were carried out online, in accordance with the highest standards and with the use of modern technologies.

Actions taken and results achieved

In order to adapt to the changes taking place on the labor market, a number of initiatives that enhance the image of TAURON Capital Group as a good and desirable employer are undertaken at TAURON Group.

Job (Career) Fairs

Participation in Job (Career) 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 during the 22nd edition of the Engineering Job and Entrepreneurship Fair in Gliwice and the 4th Dual Education Conference - EDUAL in 2020. Participation in the above initiatives enabled promoting the current job offers, apprenticeships and internships coming from all of the Group's subsidiaries. This form of the employer branding activities also provides an opportunity to conduct an initial interview with the potential candidates, as well as to promote the organizational culture, attitudes and values that the Group follows.

Employee Referral Program

The Employee Referral Program was continued at TAURON Group in 2020. This is an additional recruitment activity that allows for reaching more candidates through the involvement of the Group's employees in the search process. The goal of the program is to acquire candidates with the required potential, i.e. with the desired professional qualifications and competences, based on the referrals of the people who are already employed by the organization.

The document regulating the implementation of the activities in this area are the Rules for making employee referrals in the recruitment process at TAURON Group. The main benefits of implementing the Program include, among others, the optimization of the recruitment costs, shortening of the duration of the recruitment, as well as strengthening of the involvement of the Group's employees and of the awareness of their impact on shaping the human resources at TAURON Group.

Cooperation with the education sector

The cooperation of TAURON Capital Group with the education sector focuses primarily on the process of joint practical (hands-on) training of future professionals. The projects undertaken with schools, universities (TAURON Group cooperates with 12 partner universities) or local governments are also aimed at promoting TAURON Group and the energy industry among pupils, students and graduates. As part of cooperation with the educational community in 2020, internship and apprenticeship programs were organized, cooperation with student organizations, career offices and research clubs was undertaken, numerous lectures and profession teaching lessons were organized.

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

- scholarships for the best students of patronage classes;
- modeling of the didactic processes, organization of training courses, educational meetings both for students of the school as well as its teaching staff
- participation of TAURON's Employees in conducting qualification exams, e.g. for the profession of a miner; exploitation of deposits and underground mining techniques;
- possibility for students to participate in subject matter lectures/workshops conducted by TAURON's employees;
- possibility of students to participate in lectures/workshops aimed at developing students' interpersonal skills;
- organizing practical classes as well as apprenticeships and internships in real working conditions;
- equipping laboratories with the equipment required to conduct experiments related to electricity.
- establishing, in cooperation with secondary schools, of the project entitled TAURON Laboratories. As part of that project, classrooms for teaching science and vocational subjects at schools covered by the Group's patronage are furnished in a comprehensive manner.

GrEnFin Project

TAURON Polska Energia is taking part in an international project entitled GrEnFin - Greening Energy Market and Finance, which was prepared by the University of Bologna. The project was financed by the European Commission as part of the Erasmus + program, KA2 - Knowledge Alliances. Its goal is to provide energy sector stakeholders (electricity suppliers, private companies, research institutes, etc.) with the training of a sustainable energy specialist on the labor market. The result of the project will be the development of a master's degree program for EU students in green energy and finance, as well as the development of a training program for the employees from the energy sector already active on the labor market. The academy made up of students and professionals will be conducting summer schools together to test the pilot training module. Additionally, a university pilot class will be launched to test the new path of the master's degree program studies. Thanks to the participation in the project, TAURON Group will be able to contribute to the process of sustainable transition of the European Union's economy by investing in knowledge and competences with respect to higher education and vocational training.

As part of the project the following activities were carried out:

- 10 educational visits to TAURON Group's facilities, attended by nearly 300 persons;
- 8 workshops on interpersonal skills, conducted by TAURON Group's employees for pupils and students (330 persons);
- 7 innovative projects, conducted both with the universities as well as other companies.

4.8. TAURON Group's Anti-corruption Policy

The basic document regulating the area of preventing corruption at TAURON Capital Group is TAURON Group's Anti-corruption Policy. The overriding goal that guided the creation and implementation of the Policy was to define uniform rules and standards of conduct that allow for the identification, countering and mitigation of the risk of corruption activities as well as other fraud (abuse) at the subsidiaries.

The implementation and compliance with the Anti-corruption Policy is to ensure the compliance of the operations of TAURON Capital Group's subsidiaries with the applicable law, the internal and intra-corporate regulations, as well as the ethical principles, thus ensuring proper protection of the interests, reputation and image of the subsidiaries and TAURON Capital Group, as well as the transparency of actions towards the external entities.

The Policy applies to all of the employees, members of the management board and supervisory bodies of the subsidiaries, as well as the proxies and the powers of attorney. The Group also requires compliance with the standards of behavior set out in the Policy by the external entities.

The goal of the Policy is to counteract not only corruption activities, but also other abuse (fraud), which include, for example:

- theft or misappropriation of company assets (cash, materials, products, tools, equipment) or the property of external entities with which the employee has business relations,
- deliberate falsifying of company documents or entering false information and data into their content,
- managing the company's documentation in an unreliable (inaccurate) or untruthful manner, in particular destroying, deleting, concealing, altering or falsifying documents regarding the company's operations,
- deliberate disclosing of information inconsistent with the facts in the financial statements,
- using the company's resources for private purposes.

The areas susceptible to the risk of corruption or other fraud related to the operations of TAURON Capital Group include in particular:

- purchasing (procurement) proceedings,
- cooperation with the external entities,
- implementation of the investment processes,
- transactions with related entities,
- expenses related to business trips or entertainment,
- representation and advertising expenses, including invitations and gifts,
- expenditures on the marketing and consulting services,
- cash transactions
- donations and sponsorship agreements.

The following ways of implementing the Anti-corruption Policy by TAURON Capital Group are defined:

1. The Group exercises due diligence to ensure that contacts with the external entities are open and transparent, so as to exclude the possibility of corruption and other abuse.
2. The Group undertakes to take appropriate (in particular lawful), adequate and proportionate actions in relation to the occurrences of corruption activities and other abuse. In particular, the company shall notify law enforcement authorities of any potential violations of the legal regulations in the event of a justified suspicion of such violations.
3. Employees and external entities are encouraged to provide information on the violations of the Policy as well as other irregular behaviors.
4. Raising of the employees' awareness with respect to the possibility of identifying corrupt activities and other abuses is ensured through information activities, training, initiatives related to the elimination of corruption events, enabling proper understanding of the Policy and the application of its principles by employees in their daily work.
5. Cooperation with the external entities in order to eliminate corruption activities and other abuse (fraud).

Due diligence procedures and internal regulations

The standards recommended for the compliance management system with respect to counteracting corruption and protecting whistleblowers at the companies listed on the Warsaw Stock Exchange of 08.10.2018 contain the recommendations on how to shape the Compliance function at an organization, as well as on the introduction of solutions that minimize the risk of the emergence of unethical behavior, conducive to corruption and conflict of interest. In addition, these standards indicate what actions exhaust the features of the concept of due diligence with respect to shaping the organization's procedures and processes aimed at preventing corruption.

The activities of the Compliance Officer and the Compliance Coordinators at TAURON Capital Group are based on the guidelines presented in the standards set out by the Best Practice of WSE Listed Companies.

TAURON Capital Group's due diligence can be demonstrated based on, among others:

- adoption and application of TAURON Group's Corporate Social Responsibility Code of Conduct,
- adoption and application of TAURON Group's Compliance Policy,
- regulating the compliance management function at TAURON Group,
- adoption and application of TAURON Group's Anti-Corruption Policy,
- adaptation to the recommendations regarding the ban on creating mechanisms to finance property and personal gains,

- conducting compliance training,
- starting the process of implementing anti-corruption clauses to be included in the contracts,
- adoption and application of the TAURON Group's Rules for accepting and giving gifts,
- regulating of the sponsorship issues,
- regulating and implementing of TAURON Group's Fraud (Abuse) Reporting System and conducting of the fact finding investigations,
- implementation and application of TAURON Group's Contractors (Counterparties) Credibility Assessment (Vetting) Procedure,
- implementation and application of the Principles (Code) of Conduct for controls at TAURON Group's subsidiaries.
- implementation and application of the TAURON Group's Procedure for counteracting money laundering (anti-money laundering) and financing of terrorism.

The intra-corporate regulations in force at TAURON Group regarding standard clauses and contract templates (draft contracts) were reviewed in 2020, in particular aiming to introduce the so-called anti-corruption clauses and other compliance clauses. Anti-corruption clause samples, prepared together with the Legal Area of TAURON Polska Energia S.A., were inserted into TAURON Group's contract templates (draft contracts).

In addition, the compliance risks were monitored on an ongoing basis. As part of the monthly risk monitoring, the risk of internal fraud, the risk of external abuse, the risk of unethical behavior, the risk of non-compliance due to a breach of the law and the risk of corruption are reported.

Actions taken and results achieved

Among the activities undertaken as part of TAURON Group's Anti-corruption Policy, the functioning of the system for reporting, investigating and probing corruption activities and other abuse (fraud) is of key importance.

Each employee is obliged to study the provisions of the Policy, to strictly comply with its content and to sign an appropriate statement on having familiarized himself/herself with the Policy. Such statements, in a hard copy, are stored in the employee's personal files.

Newly hired employees are also familiarized with the Policy. They confirm this fact by signing the statement.

In addition, at the beginning of 2020, the staff of the compliance departments//areas at Spółka Usług Górniczych and TAURON Wydobycie took steps aimed at extending the scope of the periodic WHS training in order to include the topics related to compliance and GDPR. From September 2020, as part of the mandatory work health and safety (WHS) training, the personnel of the above subsidiaries are familiarized with the following compliance issues:

- TAURON Group's Compliance System,
- Basic concepts of compliance at TAURON,
- TAURON Group's Anti-Corruption Policy,
- Counteracting mobbing and discrimination at TAURON Group.

Employees are also required to promptly provide information on any justified suspicion of corruption or other fraud (abuse). To this end, TAURON Capital Group provides:

- appropriate communication channels allowing employees and external entities to securely (including anonymously) report potential violations,
- confidentiality of the data of the reporting person and the information provided,
- protection against all forms of retaliation for the individuals who report corrupt activities and other abuse (fraud) in good faith.

The following communication channels have been identified at TAURON Group, through which any type of irregularity can be reported:

- in person: to the immediate superior or the Compliance Officer or the Compliance Coordinator,
- in writing, to the following address: Compliance Officer, ul. Ks. Piotra Ściegiennego 3, 40 -114 Katowice,
- by phone: + 48 32 774 22 22,
- via e-mail: compliance@tauron.pl,
- using Abuse (Fraud) Report form available at:
<https://www.tauron.pl/tauron/o-tauronie/formularz-zgloszenia-naduzycia/>

used to report behavior inconsistent with the applicable law, internal or intra-corporate regulations of TAURON Capital Group or ethical standards set out in TAURON Group's Corporate Social Responsibility Code of Conduct.

External entities, in particular the contractors (counterparties) and other stakeholders of TAURON Group's Subsidiaries, in case of identifying irregularities within the operations of TAURON Group, also have the option of using the Abuse (Fraud) Report Form.

In special cases, notifications can be sent in writing directly to the Company's Supervisory Board.

Specific notification channels comply with the requirements set out in the Public Offering Act.

Superiors who receive reports of potential corrupt activities or other abuse (fraud) should immediately inform the Compliance Officer of this fact, and in case of a company (subsidiary) other than TAURON Polska Energia - the Compliance Coordinator.

Upon receipt of the notification, the Compliance Officer, and in a company (subsidiary) other than TAURON Polska Energia S.A. the Compliance Coordinator, confirms its receipt to the person submitting the report, with the exception of anonymous reports, and he/she verifies its accuracy and undertakes, with due diligence, follow-up actions to investigate the circumstances indicated in the report in accordance with TAURON Capital Group's procedures in force in this respect.

The Compliance Officer, and in a company (subsidiary) other than TAURON Polska Energia S.A. the Compliance Coordinator informs the person submitting the report about the final result of the fact finding investigation or about its extension due to the ongoing analysis of the factual situation described in the notification.

All the reports received are subject to entry in the Fraud Register, and an explanatory protocol is drawn up for each fact finding investigation.

In the event corruption actions or other abuse (fraud) have been confirmed, the subsidiaries take corrective actions aimed at preventing similar events in the future. The Compliance Officer, and at companies (subsidiaries) other than TAURON Polska Energia S.A. the Compliance Coordinators undertake educational and information activities in order to provide understandable and easily available information on the rules of reporting corrupt activities or other abuse (fraud) at TAURON Capital Group.

TAURON Polska Energia S.A. provides monitoring of the procedures as well as the internal and intra-corporate regulations in force at TAURON Capital Group, also with a view to make improvements and develop a system of counteracting corruption and other abuse (fraud).

A total of 63 potential cases of abuse (fraud) were reported at TAURON Group in 2020, including 33 notifications via the Abuse (Fraud) Report Form.

Due diligence procedures functioning as part of the Anti-Corruption Policy also include TAURON Group's Rules of accepting and giving gifts introduced in January 2019. The rules supplement the applicable TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Anti-Corruption Policy with respect to giving and accepting gifts by persons performing work for TAURON Capital Group's subsidiaries.

The purpose of the described document is to develop awareness among the employees of TAURON Capital Group's subsidiaries regarding the type of gifts (including invitations) that can be received or handed in connection with the performance of official duties, and to define the conditions in which their acceptance or handing is unacceptable. The implementation and compliance with the Rules is to eliminate situations where accepting gifts could affect the business decisions taken by the Group's subsidiaries.

The general rule obligates all of the employees to refrain from accepting gifts from customers or other employees that could result in exerting an influence on the recipient or could give rise to the obligation to take or forego a specific action with respect to the official duties entrusted thereto, or affect current or future business decisions of TAURON Capital Group's subsidiaries.

An employee of TAURON Capital Group may accept a gift only if the criteria specified in the above-mentioned Rules are collectively met. Any doubts regarding the appropriateness of accepting a gift should be consulted with an immediate superior or the Compliance Officer at TAURON Polska Energia.

TAURON Group's Rules for accepting and giving gifts are adapted to the requirements set out in the "Standards recommended for the compliance management system with respect to countering corruption and the whistleblower protection system in place at companies listed on the markets organized by the Warsaw Stock Exchange" adopted on October 8, 2018 by the Warsaw Stock Exchange.

Anti-trust activities

TAURON Capital Group implemented TAURON Group's Procedure for Countering Bid Collusion in July 2018. The purpose of the document is to define uniform rules of conduct to be applied during the purchase order (contract) award procedure, which will allow for the detection, notification and prevention of bid collusion among contractors entering into procedures organized by the contracting authority (employer).

TAURON Capital Group's purchasing cells are required to take part in training sessions on bid collusion and detection of cartels organized in cooperation with entities dealing with anti-trust protection at least once a year.

Verification (vetting) of contractors (counterparties)

In order to ensure protection against the risk of establishing cooperation with entities operating not in accordance with the provisions of law, good customs and commercial practices, and in particular to reduce the risk of participation in the tax fraud and money laundering schemes, TAURON Capital Group has introduced TAURON Group's Contractors (Counterparties) Credibility Assessment (Vetting) Procedure.

The contractor's credibility is assessed (vetted) by TAURON Capital Group based on the following information:

- legal and financial characteristics,
- thus far operations,
- contract terms,
- equity (capital) and personal ties.

In addition, TAURON Group has been applying the co-called split payment mechanism since July 2018. It is one of the methods used to combat VAT fraud and scams. The application of the split payment mechanism has been indicated by the Ministry of Finance as one of the prerequisites of the due diligence process to be applied by the buyers of goods in domestic transactions.

1230 contractor (counterparty) credibility (vetting) reports were issued throughout TAURON Group in 2020.

In addition, the process of assessing (vetting) external entities with which TAURON Group's subsidiaries were planning to implement projects with respect to communication, promotion, sponsorship, marketing, HR or other types of financial involvement that could give rise to reputation risk, was conducted in 2020. A total of 203 external entities were verified (vetted) by TAURON Group.

Counteracting money laundering and financing of terrorism

TAURON Group adopted TAURON Group's Procedure for counteracting money laundering and financing of terrorism.

The purpose of the document is to ensure TAURON Capital Group's compliance with the requirements of the Act of March 1, 2018, on counteracting money laundering and financing of terrorism. The procedure regulates issues related to the exchange and protection of information within the Group and covers with its scope all of the Group's subsidiaries.

The internal procedure regulates, inter alia, issues related to customer identification, transaction registration, risk assessment, financial security measures, ongoing monitoring of customer business relations, rules for providing information to the General Inspector of Financial Information and training.

In a situation where the company also acts as an obligated institution (specified in Article 2, clause 2 of the above-mentioned Act), it is obligated to introduce an internal procedure for counteracting money laundering and financing of terrorism.

It should be emphasized that TAURON Group does not accept any business relations with entities involved in money laundering or financing of terrorism, including those subject to financial sanctions or specific restrictive measures in force on the territory of Poland.

4.9. TAURON Group's WHS Policy

TAURON Group's Work Health and Safety (WHS) Policy is a set of regulations aimed at continued improvement of work (occupational) health and safety standards. By applying the provisions provided therein TAURON Capital Group steadfastly seeks to eliminate work related accidents as well as minimize the occurrence of occupational diseases and the number of potentially accident prone incidents.

The safety of employees, customers, contractors, guests and the other stakeholders is an absolute priority that has a significant impact on the decisions and actions taken by TAURON Capital Group's subsidiaries.

The policy defines the principles of operation, as well as the rules of conduct that serve the implementation of TAURON Capital Group's four basic goals with respect to work health and safety (WHS), i.e.:

- eliminating accidents at work of all persons employed by and working for the benefit of TAURON Capital Group's subsidiaries and any other persons in the area where the subsidiaries are conducting their operations,
- ensuring optimal working conditions for all persons employed by and working for TAURON Capital Group
- raising the qualifications of the employees of TAURON Capital Group, aimed at increasing competences with respect to improving their safety and the safety of other employees as well as persons who find themselves in the area of their work,
- improving an effective work health and safety (WHS) management system.

Due diligence procedures and internal regulations

Work Health and Safety (WHS) Policy is the overarching, binding for all entities present on TAURON Capital Group's sites, document describing the Group's uniform system of occupational health and safety.

As part of the Group's Work Health and Safety (WHS) Policy, each of the subsidiaries, due to the specifics of its operations, has its own regulations in this area, which are fully compliant with the requirements and applicable laws. In addition, the work health and safety (WHS) regulations are adapted to the nature of the work and tasks performed. At the subsidiaries whose operations profile involves production and distribution, i.e. TAURON Wydobycie, TAURON Wytwarzanie, TAURON Ciepło, Kopalnia Wapienia „Czatkowice”, TAURON EKOENERGIA and TAURON Dystrybucja – the issues related to the protection of the health and life of employees are of particular importance, which is expressed in extensive safety systems, as well as inspections of working conditions, compliance with the work health and safety regulations and rules at the individual work stations.

The most important documents regulating the work health and safety (WHS) issues include TAURON Wydobycie's Integrated Work (Occupational) Safety and Health Management System, TAURON Ciepło's Work (Occupational) Health and Safety Management Procedures or TAURON Wytwarzanie's Quality, Environment Protection and Work Safety Policy.

External entities that carry out work at the Group's subsidiaries are also obliged to comply with the applicable procedures, including with respect to health and safety of employees. The employees of external companies (contractors and subcontractors) are also required to have up-to-date medical examinations (clearances) as well as appropriate qualifications and authorizations for the works performed. Some of TAURON Capital Group's subsidiaries (especially those where working conditions are particularly dangerous) also introduce additional requirements and training for external entities.

Actions taken and results achieved

Due to the steadfast pursuit of an improvement of work safety, information and educational activities are intensified at TAURON Group. They include the campaigns conducted in 2020:

- "TWOJE bezpieczeństwo w TWOICH rękach" ("YOUR safety in YOUR hands")(TAURON Ciepło): During the project, the employees repeated appropriate behaviors and correct rules of conduct at a given position multiple times. All of the actions undertaken as part of the Campaign were to lead to the elimination of the threats at source, developing safe work habits in employees and shaping a safety culture at the company,
- "Wróćmy szczęśliwi do domu" ("Let us come back home happy") (TAURON Serwis) – information campaign,
- Work Health and Safety Knowledge Competition conducted on-line (at Tauron Ciepło),
- Modular training for people managing employees with respect to safe work organization and fire safety (TAURON Ciepło),
- Implementation of the Work Health and Safety (WHS) Improvement (TAURON Ciepło, TAURON Wytwarzanie, TAURON Ekoenergia, TAURON Obsługa Klienta, TAURON Wydobycie, Wsparcie Grupa TAURON),
- Thematic campaigns (TAURON Obsługa Klienta) related to:
 - Ergonomics Day,
 - Road Traffic Safety Day,
 - World Day without a mobile phone,
 - World Safety Day,
 - World Eyesight Day,
 - World Diabetes Combating Day,
- 10 main rules of work health and safety (WHS) (TAURON Wytwarzanie),
- Continuation of activities undertaken as part of the "4Z" program - raising the employees' awareness of safety when operating belt conveyors, expanding knowledge with respect to threats occurring at work stations and developing the ability to identify them, along with the introduction of elements aimed at improving the safety culture of the employees (TAURON Wydobycie);
- "5 minut dla bezpieczeństwa" ("5 minutes for safety") (TAURON Wydobycie),

- Launching the "1 Minuta na BHP" ("1 Minute for WHS") series (TAURON Polska Energia);
- Promoting the "Zero wypadków" ("Zero accidents") idea (Wsparcie Grupa TAURON),
- Searching for and implementing new technologies and working methods in terms of work health and safety (WHS) (Wsparcie Grupa TAURON).

An important element in promoting the work health and safety (WHS) rules is continued raising of the awareness of the employees and subcontractors, mainly through dedicated training courses, which in 2020 were conducted in the form of online meetings and workshops, as well as via an interactive e-learning platform.

Accident frequency rates

214 accidents occurred at TAURON Group's subsidiaries in 2020, leading to the total of 218 persons getting injured. There was 1 fatal accident among them. The total number of accidents increased by 12 incidents in 2020 as compared to 2019. The number of the most tragic accidents, i.e. fatalities, decreased from 2 incidents in 2019 to one case in 2020. However, the number of minor accidents increased from 200 in 2019 to 211 accidents in 2020. As compared to 2019, when 4 larger scale (group) accidents were recorded, in which the number of persons injured was 8, in 2020, there were 2 such accidents in which 4 persons were injured. As compared to the previous year, no major (severe) accidents were recorded in 2020. The accident frequency rate was 8.3 in 2020. The accident frequency rate was 7.8 in 2019. The employee accident rate (accident frequency rate) broken down by gender (Injury rate - IR) is presented in Table no. 63.

Table no. 63. GRI 403-9. Employee accident rate (accident frequency rate) broken down by gender at TAURON Capital Group in 2020

TOTAL NUMBER OF ALL ACCIDENTS	214
Women	12
Men	206
NUMBER OF FATAL ACCIDENTS AT WORK	1
Women	-
Men	1
NUMBER OF MINOR ACCIDENTS AT WORK	211
Women	12
Men	201
NUMBER OF MAJOR ACCIDENTS AT WORK	-
Women	-
Men	-
NUMBER OF GROUP ACCIDENTS	2
Women	-
Men	4
ACCIDENT FREQUENCY RATE	8.3
Accident frequency rate = (number of accidents at work x 1000) / average employment in 2020	
Women	0.5
Men	8.0
ACCIDENT SEVERITY RATE	64.0
Accident severity rate = Total number of days of inability to work of victims of accidents at work / Number of persons injured in accidents at work (excluding fatalities)	
Women	53.3

Due to the steadfast pursuit of a decrease in the number of accidents, activities promoting safe behavior at the workplace are continuously intensified. They include numerous training courses, covering both the employees as well as external entities performing work for TAURON Capital Group's subsidiaries. The percentage of TAURON Group's employees trained in 2020 is presented in Table no. 64.

Table no. 64. GRI EU18. Percentage of TAURON Capital Group's employees, contractors and subcontractors that have undergone WHS training in 2020

2020	Nowe Jaworzno Grupa TAURON	TAURON Ciepło	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Dystrybucja Pomiary	TAURON Serwis
Percentage of employees employed by contractors who underwent the above WHS training	100%	51%	100%	16%	70%	100%

TAURON Wytwarzanie has in place an applicable internal normative act regarding the hiring of external companies, with respect to the application of the provisions and rules of Work Health and Safety, which includes, inter alia, the requirements for training the employees of external companies. Pursuant to those provisions TAURON Wytwarzanie conducts training for the supervision personnel of the external companies with respect to threats to safety and health occurring at workplace, as well as aimed at familiarizing them with the internal regulations in force at the company, with regard to work health and safety as well as fire safety.

Contractors, on the other hand, are obliged to train persons performing the subject of the contract/order with respect to threats to safety and health occurring at workplace and during the performance of the works, as well as familiarize themselves with the internal normative acts in force at TAURON Wytwarzanie, with regard to work health and safety as well as fire safety, in accordance with the scope of work. Every time in case of subcontractors, the Contractor is obliged to fulfill the obligations described above. Conducting the above mentioned trainings is confirmed in writing.

At TAURON Wydobycie all employees of external companies, i.e. contractors and subcontractors, attend additional WHS training under the Geological and Mining Law Act, before starting work at the company's coal mines. The above-mentioned trainings are conducted with respect to work health and safety, running coal mine operations as well as fire safety, occurring threats, work order and discipline, rescue plan, communication and alerting rules, knowledge of the work area, as well as reporting accidents and threats.

Procedures for counteracting SARS-CoV-2

TAURON Group's obligation to ensure safe and hygienic work conditions during the SARS-CoV-2 virus pandemic led to the establishment on March 11, 2020, of the Team for monitoring the impact of the epidemiological situation on TAURON Group's operations. Similar dedicated crisis management teams were set up at the Group's individual subsidiaries. Their main tasks included and include:

- monitoring of the state of the epidemiological threat and the ongoing monitoring of the availability of the employees and services provided by TAURON Group's subsidiaries,
- developing and recommending solutions aimed at reducing the risk and their effects on TAURON Group's resources,
- keeping the employees informed on an ongoing basis by means of adequate messages distributed throughout the organization or at the individual subsidiaries.

Preventive actions - SARS-CoV-2

TAURON Capital Group has undertaken a number of preventive organizational and tangible actions aimed at protecting the employees of the individual subsidiaries and maintaining the continuity of the operations of the critical infrastructure. Due to the emergence of the epidemic threat, all of TAURON Group's subsidiaries have introduced new solutions, depending on the specifics of their operations. The most important of them include:

- introducing lists of key and critical employees for the operations of the given subsidiary and the ongoing monitoring of their availability,
- preparatory actions in the event of the need to lodge (accommodate) the employees operating the critical infrastructure on site;
- broader (frequently even unlimited) introduction of remote work opportunities based on providing adequate security and the development of the IT infrastructure and VPN connections,

- restricting the movement of the employees to the necessary minimum, as well as face to face (direct) meetings with the customers and contractors (counterparties), and recommending the use of videoconferencing (also by restricting the use of company cars),
- providing the employees with personal protective equipment such as masks, disposable gloves and hand disinfectants, and additionally at the entrances to TAURON Group's facilities, an obligation to measure the body temperature of people entering was introduced,
- from the beginning of the epidemic, where possible, multiple disinfections of premises and offices,
- introduction of the rules of conduct (procedures) at all of TAURON Group's subsidiaries in the event of the appearance of infected people or persons required to quarantine.

4.10. Strategic Research Agenda (SAB)

TAURON Capital Group is carefully analyzing changes in the environment that affect its entire value chain. Its individual elements determine or are likely to have a significant impact on that chain in the foreseeable future. We see an intense development and potential importance of distributed power generation sources, advancing digitization of the distribution grids and the change in the role of the electricity consumer, who, from being a passive market participant, is turning into its active player or even the so-called prosumer. We do not perceive the technological progress as a threat, but as an opportunity to become the sector's leader of innovation.

Due diligence procedures and internal regulations

R&D and innovation activities that TAURON Capital Group is placing a strong emphasis on in its Strategy, are reflected in the Strategic Research Agenda (SAB) adopted in 2018 and steadfastly implemented in 2020. Portfolio based management of research and development projects has been introduced by TAURON Capital Group as part of the Research and Development Area, in line with the priority directions of innovative as well as research and development activities.

SAB is a document that precisely describes the directions for the development of innovations and provides a more detailed elaboration of the Strategy. A separate project portfolio has been created for each direction, in which key challenges, development goals and research areas have been identified. Such a structure of the SAB supports the selection of specific projects and rejection of others, as well as allows for an optimal allocation of the financial resources. SAB includes the following portfolios:

- Customer and His/Her Needs;
- Intelligent Grid Services;
- Distributed Power Generation;
- Low Emission Generation Technologies.

This way TAURON Capital Group's research and development as well as innovation activities are implemented and expanded based on the complete and detailed strategic assumptions - with the clearly defined goals and results set on the time horizon.

SAB is consistent with and complementary to the other strategic documents, developed or adopted by TAURON Capital Group, including, first and foremost, with respect to the investment (capex) projects or asset management.

Actions taken and results achieved

The implementation of SAB takes place on several levels, forming the so-called innovation ecosystem, including in the pro-climate context. In addition to the traditionally understood research and development activities (research and development projects, cooperation with the scientific units and innovative business partners), the cooperation with start-ups, implemented through the accelerator programs and the Corporate Venture Capital (CVC) - EEC Magenta fund, has also gained significant importance at TAURON Capital Group.

Research and investment projects aimed at ensuring the reliability of electricity supply and promoting sustainable development within the Group and by TAURON Group are illustrated in Table no. 65.

Table no. 65. GRI EU DMA. Research and investment projects in 2020 aimed at ensuring the reliability of electricity supply and promoting sustainable development within the Group and by TAURON Capital Group

INVESTMENT PROJECT CATEGORIES	Investment project type – investment project name (broken down into categories in the table)	Investment project description	Costs (incurred in conjunction with the implementation of the investment project) PLN
Renewable energy technologies	Developing a platform that aggregates the generation and control (adjustment) potential of the distributed renewable energy sources and energy storage facilities (units) as well as selected categories of consumers whose demand can be controlled (managed)	The implementation works related to an innovative Virtual Power Plant platform (hereinafter referred to as "VPP"), developed in 2017-2021, - allowing for the aggregation of the generation and control (adjustment) potential of the distributed renewable energy sources, energy storage facilities (units) and selected categories of controllable loads. Adaptation of the Lubachów Hydroelectric Power Plant (Elektrownia Wodna Lubachów) infrastructure to operate in the Virtual Power Plant mode.	2 581 652.72
TOTAL COSTS IN THE CATEGORY			2 581 652.72
Electricity distribution	Distributed energy 2.0 operating model - self-balancing power grid areas	The goal of the Project is to verify the technologies that would enable setting up of local power sub-grids, called micro grids. As part of the Project, a pilot micro grid installation will be built and tested in terms of: maintaining the balance and continuity of power supply, quality of electricity, operational safety from the perspective of the consumers, devices and networks, as well as economic aspects of the entire solution. Based on that, guidelines will be developed enabling the interoperation of microgrids with the electricity distribution grid. The result of the Project will be a fully functional and tested pilot installation (operating in the actual conditions) as well as the detailed technical documentation of the solution, that would allow for its implementation both on the Polish as well as the foreign market.	516 397.96
	MV/LV station monitoring system with a functionality enabling detecting events in the medium voltage grid	The goal of the project is to verify the technical assumptions and evaluate the business usefulness of the metering system provided by the company iGrid, selected as part of the startup support accelerator program: Pilot Maker. The system allows for a faster detection of some events occurring in the medium voltage grid, based on the measurements on the 0.4 kV side, as compared to the solution based on the balancing meters, as a result of which it is possible to locate faults in the MV distribution grid faster.	32 823.78
	System for assessing the propagation and improving the electricity quality parameters in the distribution grids (SOPJEE)	The project's goal is to develop a system for assessing the propagation and improving the electricity quality parameters (SOPJEE) in the distribution grids. TAURON Dystrybucja's existing metering infrastructure (more than 220 stationary and more than 200 mobile measurement points) will be used for this purpose, as well as a new, extended system for the monitoring and evaluation of the propagation of electricity quality parameters (JEE) will be built.	141 819.60

TOTAL COSTS IN THE CATEGORY			691 041.34
Transmission and distribution technologies	Distribution grid operation automation	Development of an innovative system for effective monitoring and support of the protection devices that meet the DMS (Distribution Management System) assumptions, along with the development of the protection controller prototype (including sirens) in the MV network.	861 333.27
	Integrated Grid Diagnostics System	The goal of the project is to conduct R&D works aimed at developing a prototype of an IT system supporting the process of managing the population of HV/MV transformers based on the multi-parameter analysis of the measurement results (ZSDS for short).	1 367 442.27
TOTAL COSTS IN THE CATEGORY			2 228 775.54
Advanced technologies (storage, recovery, etc.)	Hybrid system for reducing the emissions of acid components and fly ash in the flue gases	The goal of the project is to test, in the conditions of a demonstration installation, a hybrid filter installed to replace an electrostatic precipitator. The hybrid filter responds to the market demand for a universal and flexible solution enabling the modernization of the existing dust removal and treatment systems or the construction of the new ones. In addition, the compactness of the solution allows for the installation of the device in places where the local conditions or the existing infrastructure prevents expansion or modernization.	115 641.20
	Flexibility of the existing power generating units with limited capital expenditures	The project focuses on developing an improved flexibility control and monitoring system (IFCAMS) that impacts the flexible use of the coal-fired generating units. It is expected that the technology developed will allow the power plants to be operated efficiently, taking into account the new requirements for power ramp up/ramp down. The use of IFCAMS will shorten the power ramp up/ramp down time and will reduce the operating costs related to numerous unit failures (thanks to the reduction of the current technical minimum).	165 468.64
	Development of the industrial design of carbonate fuel cells and ceramic electrolyzers enabling the integration with the power-to-gas installations	The goal of the project is to improve the chemical energy storage process (a substitute for natural gas, SNG), mainly based on the higher efficiency of the high temperature electrolysis and the use of the carbonate fuel cells for CO ₂ capture from the flue gases, which does not require the supply of electricity from the power plant to the capture system. In addition, both of the innovations introduced enable their integration on the heat and electricity generation side.	1 354 135.05
	Energy storage systems for the DSO needs	Demonstration project involving the use of the stationary energy storage system as the grid operation stabilization element, Smart Grid element (ESS Cieszanowice),	6 263 305.49

	Development and implementation of a technological process for reducing the HCl emissions in the flue gas from the fluidized bed boilers	The goal of the project is to adapt TAURON Wytwarzanie's Generating Units in an optimal manner to the new environmental and market requirements, in force beyond 2021, related to the Commission Implementing Decision (EU) 2017/1442 of July 31, 2017 establishing the best available techniques (BAT) conclusions for large combustion plants. The works were carried out at the Siersza power plant.	69 863.36
	Developing and testing an adaptive electricity storage system based on the second life of the batteries coming from electric vehicles	The goal of the project is to develop a prototype of a battery storage in two capacity variants, based on the reuse of the lithium-ion batteries from the electric transportation, and to test it, in 3 use cases, including the preliminary definition of the model of the production accompanying processes related to the transformation of the batteries for a new application and supply chain model.	158 229.69
	Development and implementation of a technological process for the processing of waste from the fluidized bed boilers, using CO ₂ for the production of a cement substitute	The goal of the project is the construction and commissioning of a demonstration installation for the processing of waste from the fluidized bed boilers, using CO ₂ in the production process of the composites for applications in the construction industry and/or in the geo-engineering applications, to fill the post-mining voids in hard coal mining. The project is in line with the assumptions of the Circular Economy.	415 003.57
TOTAL COSTS IN THE CATEGORY			8 541 647.00
	Development of advanced technology for the monitoring and predictive analysis of the technical condition of the boiler to increase the reliability of the boiler unit	The origin of the project is associated with the need to improve the availability (dispatchability) of the 460MWe unit. The technologies being developed should definitely increase the efficiency and reduce the costs of the diagnostics of the heat exchange surface inside the boiler, improving its availability and increasing the economic efficiency of its operation. The goal of the project is to develop two complementary technologies/tools for the advanced diagnostics of the wear of the heat exchange elements inside the boiler. The first solution would be used for the precise (detailed) monitoring of the technical condition of the heat exchange elements inside the boiler, which could operate at high temperatures, the second solution would be used for the analysis and interpretation of the results obtained in the context of the prediction of the erosive wear of the heating surfaces of the boiler's furnace chamber and the required repairs (overhauls).	938 333.84
Innovative related services (e.g. remote meters)	Development and demonstration of a computer system for operation control and management of the availability (dispatchability) and reliability of the industrial infrastructure based on artificial intelligence algorithms	The goal of the project is to create a prototype modular computer system based on artificial intelligence algorithms to increase the reliability of Tauron Group's generation infrastructure. The goal will be achieved through the creation of a hybrid IT infrastructure, which will include adaptive predictive/prescription models interoperating with the control systems, optimization algorithms, numerical models, databases, and algorithms controlling the health of the energy devices.	4 008 000.00
	Internet of Things (IOT)	Developing the Internet of Things technology in cooperation with the city of Wrocław. The project's goal is to develop and implement an IT architecture for collecting and managing data from the selected areas of a smart city, the deployed solution assumes scaling up with respect to the number of sensor devices and the functional areas supported. In the first phase, the project focuses on air quality monitoring, waste management, smart street lighting and parking areas management, subsequently the city road traffic monitoring functionality was added. The IT environment developed, along with the recommendations, will be the basis for creating and offering the ultimate product to the cities and municipalities.	1 116 700.00

HEMS (Home Energy Management System)	The goal of the Program, addressed to a retail customer, is to prepare TAURON Group to acquire a new revenue stream for the Group's subsidiaries, by developing a strategy, organization and model for the provision of the services and selling products under HEMS, based on the existing as well as the new products and services. Activities related to HEMS focus on maximizing the energy potential of houses and devices, customer convenience and smart use of ecological products. To achieve these goals, modern solutions are used, i.e. artificial intelligence, smart home technology, etc.	115 163.20
TOTAL COSTS IN THE CATEGORY		6 178 197.04
TOTAL AGGREGATE COSTS		20 221 313.60

4.11. TAURON Group's Corporate Purchasing Policy

TAURON Group's Corporate Purchasing Policy, which has been in force since 2010, implements the priorities set out in the Group's Strategy regarding ensuring financial stability.

The main goal of implementing the Corporate Purchasing Policy was the need to create a transparent, competitive and efficient purchasing organization operating within the entire TAURON Capital Group.

TAURON Group's Corporate Purchasing Policy enables the implementation of strategic goals of the Purchasing Area, in particular with respect to:

- improving the efficiency of purchasing processes by implementing efficiency metrics,
- increasing the use of electronic tools in the purchasing, by developing and implementing the assumptions for the functioning and further development of the Purchasing Organization Support System,
- further centralization of the purchasing processes by defining, in the Corporate Purchasing Policy, the rules for determining the consolidated categories as well as the key competences and responsibilities of the purchasing category manager, the rules for developing and creating the Purchase Strategy and accounting for the achievement of the purchase objectives.

Due diligence procedures and internal regulations

Due diligence procedures with respect to the Corporate Purchasing Policy include all actions aimed at the continuous improvement of the purchasing processes, both with regard to acquiring goods as well as the operational purchase order processing. To be able to more fully achieve the above objective, the Purchase Order (Contract) Award Regulations and Purchase Strategies have been implemented.

Purchase Order (Contract) Award Regulations

A single common purchasing regulation was implemented for all of the Group's Subsidiaries in 2015., along with the tender documentation templates. Regulations define the principles of planning, preparation and the manner of proceeding and awarding Purchase Orders. As a result, the purchasing process in the entire Capital Group is transparent and uncomplicated from the point of view of potential contractors.

Purchasing Strategies

Thanks to the prepared Purchasing Strategies, it is possible to develop a Knowledge Base in the Purchasing Organization Support System (SWOZ) with respect to purchasing optimizations used for the given purchasing category.

The above actions are primarily aimed at reducing the risk in the supply chain area and gaining access to solutions and innovations used by the suppliers.

The management of categories is inseparably connected with the centralization of purchases, which allows, among others, for strengthening of the purchasing position of the ordering (contracting) party, the ability to directly communicate with the suppliers at the strategic level, standardization of the purchasing processes throughout the organization, unifying the conditions of cooperation with the suppliers across the individual subsidiaries and efficient planning of the needs.

Purchasing strategies also facilitate an exchange of knowledge in the event of a potential rotation of the purchase category managers and enable long-term collection of knowledge and experience among them.

Actions taken and results achieved

All of the above activities are aimed at simplifying and standardizing the purchasing process. Increasing competitiveness is a key task for the purchasing area. Competitiveness is a guarantee of the cost reduction, risk reduction in the area of supply chain and gaining access to the best solutions on the market. Higher competitiveness of offers (bids) is also projecting a positive image of the ordering (contracting) party on the market as a transparent and professional entity.

4.12. TAURON Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries

An important initiative implemented at TAURON Capital Group as part of a responsible supply chain is the inclusion of the sustainability criteria into the purchasing process management standard. TAURON Group promotes the idea of social responsibility among its suppliers. It expects cooperation with the contractors (counterparties) who respect human rights and act in accordance with the legal regulations, ensure safe and dignified working conditions and apply not only the highest ethical standards, but also take care of the environment and the climate.

The criteria regarding corporate social responsibility with respect to TAURON Group's contractors (counterparties) were defined and collected in a single document, i.e. the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries. It has been a mandatory criterion used in the process of qualifying contractors (counterparties) since December 2017. The Code is an applicable standard in the Capital Group, promoting responsibility among stakeholders and encouraging the implementation of responsible practices among the suppliers.

Due diligence procedures and internal regulations

The goal of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries is to define uniform standards and transparent rules of conduct as part of the business operations conducted by the subsidiaries, in particular with respect to the contractors (counterparties). The Code also includes the rules related to the employee (among others work health and safety, discrimination, personnel policy, forced labor, hiring children and minors), the natural environment (environment protection, responsible resource management, taking care of the climate), interactions with the stakeholders (among others, fair competition, combating fraud (abuse), security and protection of information, investor relations).

The Code is applied in relations with the contractors (counterparties) of TAURON Group's subsidiaries and is applicable to all employees, members of the management board and supervisory bodies of the subsidiaries, as well as proxies and powers of attorney.

The Code is associated with TAURON Capital Group's other policy documents:

- TAURON Group's Corporate Social Responsibility Code of Conduct,
- TAURON Group's Policy of Respect for Human Rights,
- TAURON Group's Anti-Corruption Policy,
- The procedure for assessing (vetting) the credibility of TAURON Polska Energia S.A.'s contractors,
- TAURON Group's rules for organizing ventures in cooperation with external entities,
- TAURON Group's Purchase Order (Contract) Award Regulations.

Actions taken and results achieved

A contractor (counterparty) who takes part in the proceedings organized by TAURON Capital Group's subsidiaries is obliged to submit a statement confirming that he has studied TAURON Group's Corporate Social Responsibility Code of Conduct and compliance with its provisions. The above statement was posted on the Company's website at:

https://swoz.tauron.pl/swoz2/platform/application?MP_action=publicFilesList&folder=000f0003&MP_module=main

4.13. Personal data protection policy for TAURON Group's entities

General Data Protection Regulation (GDPR) has been applicable in the European Union since May 25, 2018. The entry into force of this regulation changed the approach to the protection of personal data, imposing a number of new obligations on data controllers, such as the introduction of new data security procedures or informing the Polish supervisory authority (PUODO) and GDPR rights entities (e.g. TAURON Group's customers) of personal data breaches. As part of the GDPR (RODO) project, TAURON Group has undertaken a number of actions aimed at implementing the requirements of the Regulation due to the need to:

- ensure the protection of personal data regardless of the place of its processing,
- appoint a Personal Data Protection Officer at TAURON Group's subsidiaries (IOD),
- ensure mandatory notification of personal data breaches,
- ensure the default protection of personal data and the protection of privacy at the design stage (privacy by design),
- implement the rights of the customers and contractors (counterparties) that the data is applicable to (e.g. "the right to be forgotten"),
- update the content of the information clauses and consents regarding the processing of personal data,
- adapt the IT systems to the new security requirements for personal data processing.

The following principles are enforced at TAURON Capital Group:

- Legality (lawfulness) of personal data processing: we process personal data in accordance with the generally applicable law, based on an established legal basis;
- Reliability: personal data is processed in a fair, adequate, appropriate and required manner for the purposes of its processing;
- Purposefulness: personal data is processed for specific purposes;
- Accountability: TAURON Group effectively documents the handling of the given data in order to be fully accountable and prove the fulfillment of the legal obligations regarding its processing;

- **Minimization:** TAURON Group minimizes the processing of personal data, we disclose it only for the required purposes, of which we inform in advance;
- **Correctness:** we take care of the correctness of data with the utmost diligence, verifying it and enabling its owners (entities subject to GDPR), for example, to update the data;
- **Security:** we place particular emphasis on the security of personal data processing using IT systems, implementing tools and procedures aimed at increasing cyber security. We implement and update procedures, optimizing the security of personal data, and train staff in this regard.

TAURON Capital Group applies the Personal Data Protection Policy for TAURON Group's entities. Taking into account the processing of personal data, the document sets out the principles and obligations related to the security and confidentiality of such data, as well as regarding access to the information on its processing for the data subjects (persons that the given personal data is applicable to). In the event that, despite the security measures applied, a breach of personal data protection (e.g. data leakage or loss) has occurred, the Data Protection Controllers (Administrators) at TAURON Group, using the specially prepared forms, inform persons that the given personal data is applicable to (data subjects), of such an occurrence, doing it in manner in accordance with the legal regulations.

Due diligence procedures and internal regulations

Due diligence procedures provided in the described Policy include in particular:

1. General principles for the processing of personal data specified in art. 5 of GDPR. 2. Rules ensuring that data is processed in accordance with the law - art. 6-11 of GDPR. 3.
2. Obligations of the Data Controllers (Administrators) to comply with the rights of persons whose data is processed - art. 12-23 of GDPR.
3. Regulations on the fulfillment of the general obligations with respect to the data processing entrusted with the Data Controller (Administrator) and the Processing Entity (e.g. a template of the agreement for entrusting the processing of personal data) - art. 24-31 of GDPR.
4. The necessary security measures for data processing, taking into account the nature of the scope, context and purposes of data processing - Art. 32- 36 of GDPR.
5. Control mechanisms over data processing in the form of monitoring the compliance with the regulations and the accepted processing procedures by the Data Protection Officer - art. 27-43.
6. Requirements for the transfer of data to third countries and international institutions - Art. 44 - 49 of GDPR.

In the Policy, in accordance with art. 24 and art. 32 of the GDPR, while performing the above mentioned obligations with respect to ensuring the compliance, measures taking into account the state of technical knowledge, costs, nature, scope, context, purposes of processing, as well as the risks to which the processed data is exposed, have been implemented.

Actions taken and results achieved

TAURON Capital Group undertook further intensive activities in 2020 to demonstrate its care for the security of the personal data processed, by:

1. Ensuring the update of the internal regulations, including the Policy, to the extent related to the changing environment.
2. Keeping the inventory of equipment and software used for processing the information, including their type and configuration, up to date.
3. Performing periodic analyses of the risk of a loss of integrity, availability (accessibility) or confidentiality of the information and taking measures to minimize this risk, pursuant to the results of the analysis completed.
4. Undertaking actions to ensure that the persons involved in the information processing process hold the applicable authorizations and participate in this process to an extent adequate to the tasks and duties carried out by them to ensure the information security.
5. Promptly changing the authorizations in the event of a change in the tasks of the persons referred to in item 4.
6. Providing training for the people involved in the information processing process, with particular regard to such issues as:
 - threats to information security,
 - consequences of violating information security rules, including the legal liability,
 - using measures to ensure information security, including devices and software that minimizes the risk of human errors.
7. Ensuring the protection of the information processed against theft, unauthorized access, damage or interference, by:
 - monitoring access to the information,
 - activities aimed at detecting unauthorized information processing activities,

- providing measures to prevent unauthorized access at the level of operating systems, network services and applications.
8. Establishment of and compliance with the basic principles guaranteeing security of work in case of mobile processing and remote work.
 9. Securing the information in a manner that prevents its unauthorized disclosure, modification, deletion or destruction.
 10. Including, in the support services contracts signed with third parties, provisions guaranteeing an appropriate level of information security.
 11. Setting the rules for dealing with the information that minimize the risk of a theft of information and the information processing means, including mobile devices.
 12. Implementation of an appropriate level of security in the ICT systems, involving, in particular:
 - taking care of software updates,
 - minimizing the risk of information loss as a result of a failure,
 - protection against errors, loss, unauthorized modification,
 - using cryptographic mechanisms in a manner adequate to the threats or the requirements of a legal provision,
 - ensuring the security of system files,
 - reducing the risks arising from the use of the published technical vulnerabilities of the ICT systems,
 - taking prompt action after noticing the undisclosed vulnerabilities of IT systems to the possibility of security breaches,
 - checking the compliance of ICT systems with the relevant security standards and policies, including the data retention implementation.
 13. Implementation of a system for promptly reporting incidents of the information security breaches in a specific and pre-defined manner, enabling taking of corrective (remedial) actions quickly.
 14. Internal audit with respect to the information security, including in particular the audit of IT systems in which personal data is processed.

The increase in the total number of identified leaks, thefts or cases of loss of customer data (+ 39.2%) is due to the increase in the scale of processing personal data of customers in 2020 during the pandemic time. The number of substantiated (justified) complaints regarding breaches of customer privacy received from the regulatory authorities fell (by 250%).

Table No. 66 presents material complaints regarding breaches of customer privacy and loss of customer data at TAURON Group in 2020.

Table no. 66. GRI 418-1. Material complaints regarding breaches of customer privacy and loss of customer data at TAURON Group in 2020

Total number of data leakage, theft or loss of customer data cases found	341
Number of substantiated (justified) complaints regarding breaches of customer privacy received from third parties and recognized by the organization	63
Number of substantiated (justified) complaints regarding breaches of customer privacy received from the regulatory authorities	1
Total number of substantiated (justified) complaints regarding breaches of customer privacy	64

TAURON Sprzedaż, TAURON Sprzedaż GZE and TAURON Dystrybucja S.A., are the centers for the arising of material complaints regarding breaches of customer privacy and loss of customer data in 2020, they account for 100% of all the detected data leaks, complaints at TAURON Group.

A detailed analysis of the subject structure and growth factors of the said indicators (rates) will be completed in 2021, along with the recommendations on how to arrest the growth thereof.

4.14. TAURON Capital Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination

TAURON Capital Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination was implemented in May 2019, replacing TAURON Group's Policy of Counteracting Mobbing and

Discrimination in place since 2017. This Policy defines the rules for reporting the violations of the Ethics, Mobbing and Discrimination Rules as well as the tasks, empowerments and obligations of the Ethics Committee. Additionally, in 2020, due to the epidemic situation, the provisions governing the functioning of the Ethics Committee were changed by introducing the possibility of remote (on-line) processing of reports submitted thereto. The introduction of such a solution allowed for ensuring the proper functioning of the Ethics Committee at TAURON Group's individual subsidiaries and the provided the possibility of reviewing the reports on an ongoing basis.

There are two sub-committees within TAURON Group's Ethics Committee:

- Internal Sub-committee, whose members are appointed and dismissed by the Management Board of the given subsidiary, that at the same time appoints the Chair of the Subcommittee;
- Group's Sub-committee, composed of eight members, appointed from among the representatives of the trade unions operating at TAURON Group and eight representatives of the employers, appointed by the Management Board of TAURON Polska Energia S.A.

An employee is given a choice of which Subcommittee he/she would like to turn to in order to have his/her notification (report) reviewed.

Due diligence procedures and internal regulations

The main assumptions used as part of TAURON Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination include:

- ensuring compliance with the Principles of Ethics with respect to preventing employee rights violations and conflicts among employees,
- defining the principles of counteracting mobbing and discrimination cases at the workplace and in connection with the performance of work, ensuring the implementation of the labor law provisions,
- undertaking intervention measures and mitigating the effects of identified cases of violations of the Principles of Ethics, in particular the cases of mobbing and discrimination,
- taking disciplinary measures against persons committing violations of the Principles of Ethics, in particular regarding mobbing or discrimination,
- strengthening positive relations among employees.

TAURON Group's Corporate Social Responsibility Code of Conduct is a regulation supporting the Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination, and it includes the Group's corporate values and the principles of conduct in three areas: employee, natural environment and stakeholders. They provide a guidepost on conduct for all employees.

Actions taken and results achieved

TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination is implemented through the e-learning training courses aimed at developing and strengthening positive relations among the employees and preventing the cases of mobbing or discrimination, as well as educating the employees. The e-learning training dedicated to these topics is a mandatory training for all of the newly hired employees. The other employees are reminded of the Policy rules through information campaigns and content available on the Group's intranet website.

In 2020, training was conducted for all members of TAURON Group's Ethics Committee (both the internal Subcommittees of the individual subsidiaries as well as the Group's Subcommittee) and the personnel of the human resources management area and the compliance area. The purpose of that training, entitled "Mobbing - legal and psychological aspects", was to expand and update the knowledge of the employees involved in the activities aimed at counteracting mobbing and discrimination at TAURON Group.

4.15. TAURON Group's due diligence procedures

4.15.1. Internal control and audit procedure

TAURON Capital Group's internal audit and internal control process is organized in such a way as to ensure broadly understood security of the Group's operations, while supporting the implementation of the Strategy's objectives. As part of its control and audit activities, the Group strives to increase the predictability of achieving strategic goals - including stable achievement of the assumed financial result - by also focusing on the potential risks that may threaten the value levers (drivers) that are key for the implementation of the Strategy.

The main goals of the Audit and Control Area at TAURON Polska Energia S.A. include: planning and implementation of the audit tasks, including the advisory and opinion forming activities, as well as the control tasks, including the performance of the ad hoc controls commissioned. As part of the audit activities, the correctness of the audited processes and the effectiveness of the control mechanisms are also verified. If any irregularities are

identified, the auditors recommend taking appropriate corrective (remedy) actions. The implementation of the recommendations is the responsibility of the management of the audited entities, and the degree of the implementation of the audit recommendations is monitored on an ongoing basis. The above tasks are implemented by the Internal Audit Team, performing the audit tasks both in the strategic area, covering the Capital Group with its scope, as well as specialized operational tasks at the level of TAURON Capital Group's individual subsidiaries and its lines of business.

The control (inspection) activities are organized similarly at the Group level - carried out by the Internal Control Team, and at the level of the subsidiaries – carried out by the controllers employed by such subsidiaries. In addition, the Internal Control Team carries out the specialized controls (audits) of the area of IT, OT and security systems. The tasks carried out by these units include both the scheduled controls (audits) as well as the ad hoc controls (audits) commissioned on an ongoing basis.

The goal of the Area's organization is to enable covering the entire operations of the organization with the scope of the audits and controls, both from the point of view of the needs of TAURON Capital Group as well as those of the individual subsidiaries. The direct reporting to the President of the Management Board allows the Audit Area to maintain the required independence and objectivity.

The Audit and Control Area conducted 36 scheduled and ad hoc tasks in 2020. In addition, works were carried out aimed at building and developing a model for the periodic assessment of the Internal Control System in place at TAURON Polska Energia S.A. as well within entire TAURON Capital Group. The project works were completed in December 2020. 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.

4.15.2. Most important aspects of internal control and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Supervision over application of consistent (uniform) accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statement

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS), approved by the European Union, the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's standalone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Office and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on TAURON Polska Energia's financial statements and TAURON Capital Group's consolidated financial statements

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for the Company's Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. The detailed information on the composition, competences and description of the operations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. is presented in section 9. of the Management Board's Report on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the coherence (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification.

Due to the integration of the accounting functions and the transfer of TAURON Capital Group's material subsidiaries' financial and accounting services to CUW-R (Shared 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 TAURON Polska Energia's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to a review by a certified auditor. In 2018, the Company selected an entity authorized to audit and review the financial statements of the Company and of TAURON Capital Group's material subsidiaries, as well as the consolidated financial statements. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2019-2021, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2019, June 30, 2020 and June 30, 2021.

The rule related to changing the audit firm of the Company and TAURON Capital Group

In the year ended on December 31, 2020, the Audit Committee of the Company's Supervisory Board updated, on October 5, 2020, the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.*, which included the following rule:

1. maximum duration of continuous audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. after the 5-year duration of the mandate (engagement) neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

Until 5 October 2020, the maximum continuous duration of audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, could not have exceeded 5 years.

4.16. GRI indices described in this section

- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. The impact of these activities on society
- GRI 103-2 The management approach and its components in the areas: environmental, social, human rights, anti-corruption, HR, including indicating material topics within the given area
- GRI 102-17 Internal and external mechanisms enabling advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-32 Role of the top management authority in reporting
- GRI 205-1 Operations assessed for risks related to corruption
- GRI 205-2 Communication and training about anti-corruption policies and procedures
- GRI 205-3 Confirmed incidents of corruption
- GRI 403 Occupational health and safety management system
- GRI 403-9 Rates of injury, occupational diseases, lost days and absenteeism, and the number of work-related fatalities by region and gender
- GRI 416-1 Number of accidents
- GRI EU18 Percentage of employees, contractors and subcontractors who underwent health and safety training
- GRI 417 The management approach in marketing and labeling
- GRI 417-2 Cases of non-compliance of products and services regarding information and labeling
- GRI 417-3 Cases of non-compliance regarding marketing communications
- GRI EU 3 Number of individual and business customers
- GRI 418 The management approach to customer privacy
- GRI 418-1 Material complaints regarding breaches of customer privacy and loss of customer data
- GRI EU-DMA The management approach in research and development
- GRI EU DMA Research and investment to ensure reliability of energy supply and promote sustainable development
- GRI 405 The management approach to equality and diversity
- GRI 406-1 Incidents related to discrimination and corrective actions
- GRI 203-1 Investments in products and services

- GRI 206-1 Legal actions for anti-competitive (anti-trust) behavior
- GRI 401 The management approach to employment
- GRI 102-8 Information on employees and other workers
- GRI 405-1 Composition of staff broken down by age and gender and minority
- GRI 401-3 Parental leave
- GRI 102-41 Collective bargaining agreements
- GRI 404-1 Number of training hours per employee
- GRI 404-2 Competence enhancement programs
- GRI 403-1 Number of employees associated in trade unions
- GRI 305-1 Direct greenhouse gas emissions
- GRI 302-1 Total consumption or production of energy from renewable and non-renewable sources
- GRI EU2 Net volume of energy produced, broken down into main energy sources
- GRI 305-7 NOx, SOx and other significant air emissions
- GRI 303-1 Total water consumption by source
- GRI 306-1 Total sewage volume by quality and destination
- GRI 306-2 Total weight of waste by type of waste and methods of waste management
- GRI EU-DMA The management approach in waste management
- GRI 302-3 Energy consumption
- GRI EU18 Percentage of employees, contractors and subcontractors of TAURON Capital Group who underwent work health and safety training
- GRI 305-5 Greenhouse gas emissions reduction
- GRI EU1 Installed generation capacity broken down into main types of raw material and regulatory requirements
- GRI EU 28 Frequency of interruptions in the energy supply to customers
- GRI EU 29 Average duration of interruptions in the supply of distributed energy

4. TAURON CAPITAL GROUP'S MAIN RISKS AND THE MANAGEMENT THEREOF

5.1. What TAURON Group expects as a result of the regulatory and market changes

Due to the changes taking place in the European climate policy as well as social and economic transformations (including in terms of resource efficiency), the energy sector is experiencing a fast rise in the impact of the broadly understood environment on its results and operations. The most important factors affecting the functioning of TAURON Group include regulatory transformations taking place at both the European as well as the national law levels.

Intense legislative processes on the part of the European Union bodies have been observed in recent years. The energy and the natural environment sectors are among the competence areas that are shared between the European Union and the Member States. Therefore, the majority of the EU's activities in this area will have a significant impact on the operations of TAURON Group.

Recent years have demonstrated a very rapid pace of changes taking place not only in the regulatory environment, but also in the Group's economic, macroeconomic or market environment. In particular, the following factors are observed:

- introducing further and tightening the existing regulations and requirements with respect to the environment protection and counteracting climate change (among others, Winter Package, Grid Codes, ETS Directive, BAT conclusions, European Green Deal, European Commission guidelines on climate impact reporting),
- increase in the volatility of the prices of electricity and related products,
- steadfast change of the energy mix towards low or zero emission electricity generation sources,
- development of the distributed and prosumer energy sector model,
- advancing integration of the European electricity markets,
- increase of the awareness of TAURON Group's stakeholders regarding the environment protection and climate impact.

TAURON Group assumes that the above mentioned trends will continue, aiming at a further transition towards an innovative and low-emission economy, and achieving, in the long run, climate neutrality as well as implementing circular economy in the European Union.

Due to the above, TAURON Group is actively monitoring both the regulatory environment, as well as the market environment, in order to prepare an action plan corresponding to the changing conditions for conducting market operations. In particular, the risk management system functioning in this respect at TAURON Group is geared towards implementing adequate and effective responses to possible threats, as well as towards the possibility of taking advantage of emerging market opportunities.

5.2. Three line defense model

In order to ensure safe functioning of the organization, the so-called three line defense model is in place at TAURON Capital Group and it constitutes an internal control system. It includes:

as part of the first line of defense - functional control performed by:

- lower and middle level management,
- the Group's other personnel,

as part of the second line of defense - independent control performed by the following functions:

- risk management,
- compliance assurance
- safety assurance,

as part of the third line of defense: institutional control performed by the internal audit.

The results of the Internal Audit Team's activities are reported directly to the senior management and the Audit Committee/Board. The way the so-called Three Line Defense Model is organized is illustrated in Figure no. 41.

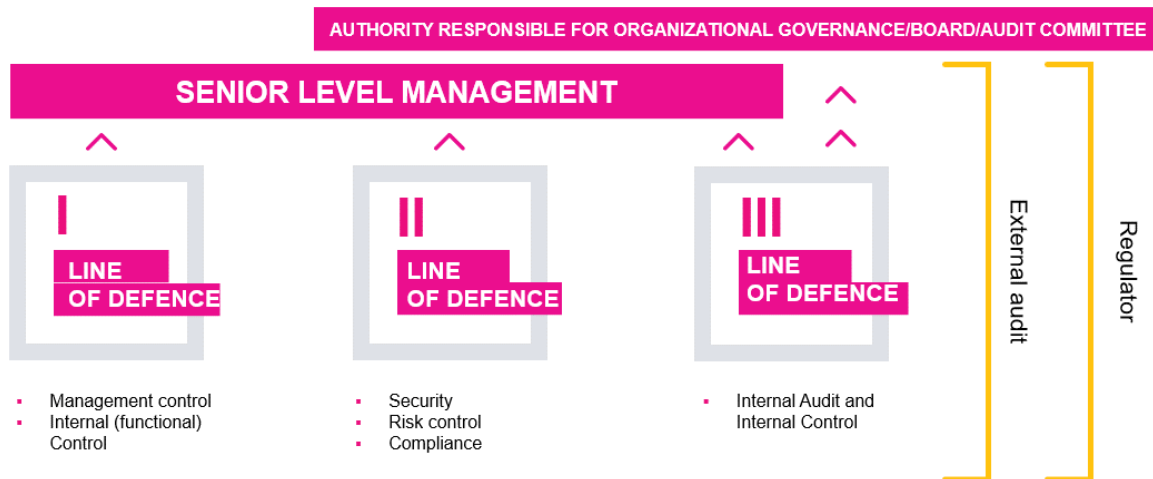


Figure no. 41. TAURON Capital Group's three line defense model

5.3. TAURON Capital Group's risk management objective and principles

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

In line with its Strategy TAURON Polska Energia is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, risk management is to ensure increased predictability of TAURON Capital Group achieving its strategic goals, including sustainable generation of its financial results and protection of the Group's current economic value (preventive function), as well as supporting decision-making processes.

TAURON Capital Group's risk management:

1. It is based on the risk management process that provides comprehensive and consistent rules for identifying, measuring and responding to risk.
2. Covers all elements of the value chain.
3. Provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and consistent risk management principles.
4. Ensures independence of the risk taking function from its control and monitoring.
5. Ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function.
6. Is an active process, focused on an appropriately early identification of threats, allowing for taking preventive measures.
7. Is a systematic and continuously improved process which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment.
8. Places a strong emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities.
9. Co-creates TAURON Capital Group's internal audit system, constituting, along with the compliance and security management functions, an element of the Three Line Defense Model.

5.4. TAURON Group's risk management strategy

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

- trading (commercial) risk,
- credit risk,
- financial risk,
- operational risk,
- regulatory risk,
- project risk.

The description of TAURON Capital Group's specific risks in the ERM system is presented in Figure no. 42.



Figure no. 42. Description of TAURON Capital Group's specific risks in the ERM system

The detailed rules for managing TAURON Capital Group's specific risks are described in the Report of the Management Board on the Operations of TAURON Capital Group for 2020.

5.4.1. Risk management system architecture

The center of the ERM System is a risk management process that includes ongoing activities such as risk identification, risk measurement, and developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including

- 1) Organization of the ERM System.
- 2) Risk control and monitoring rules.
- 3) Risk model.
- 4) Risk management tools.
- 5) Assessment of the adequacy and functioning of the ERM system.

Figure no. 43 presents TAURON Capital Group's ERM System Architecture. The detailed description of its individual elements is provided in the Report of the Management Board on the Operations of TAURON Capital Group for 2020.

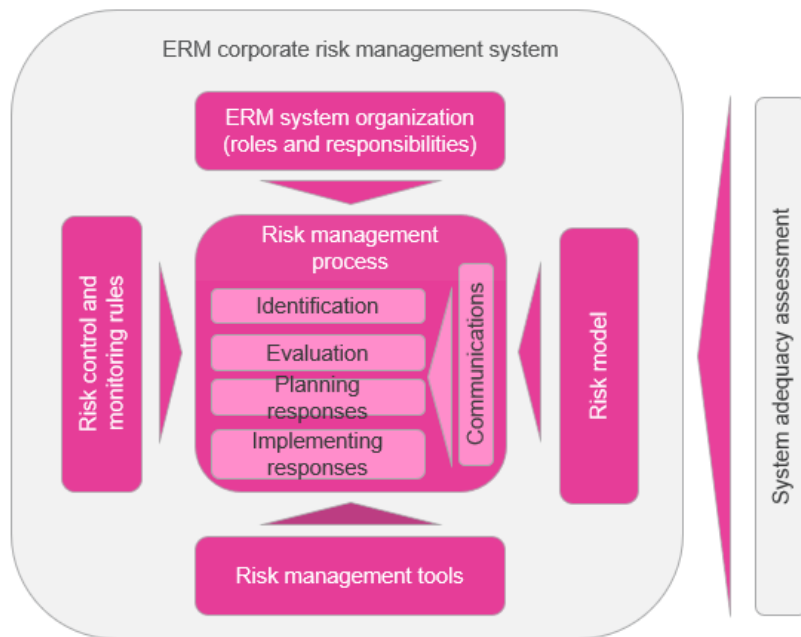


Figure no. 43. TAURON Capital Group's ERM System Architecture

The rest of the section provides brief descriptions of the elements of the risk management system architecture. The extended descriptions are provided in the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for 2020.

5.4.2. Risk management process

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

Figure no. 44 presents TAURON Capital Group's risk management process.

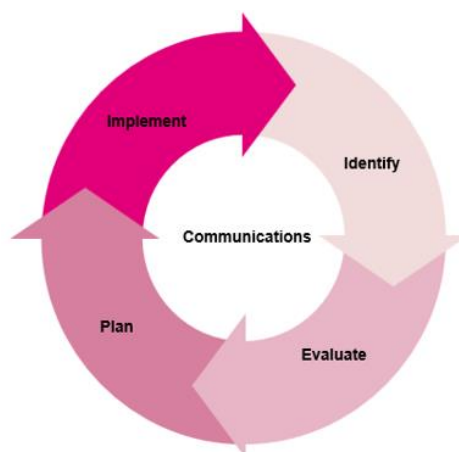


Figure no. 44. TAURON Capital Group's risk management process

Risk identification consists in determining the potential events that may affect the implementation of business goals of TAURON Capital Group. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated responses to the risk identified in order to achieve the desirable results. The planned actions constituting the prepared risk response are dependent and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in practical implementation of the response to the identified risk, prepared in the planning process. The defined set of actions as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, inform whether the activities carried out thus far are effective and if risk management is bringing the assumed effect of maintaining the value of the EWI indicators within the acceptance range.

Communication consists in a continuous flow of information among the participants of the process, which is to ensure full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodical risk reporting is also an element of this process.

5.4.3. Roles and responsibilities of the risk management system's participants

The key assumption of TAURON Group's 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 TAURON Polska Energia S.A. level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the Risk Owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system is placed at TAURON Polska Energia S.A., in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee, as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and oversight of the risk management process effectiveness. Within the Risk Committee two separate teams are set up, one for the trading (commercial) risk area and the other for the financial and credit risk area. Oversight of the enterprise (corporate) risk management system is performed directly by the Risk Committee.

Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail. The detailed description of the roles and responsibilities is provided in table no. 67.

Table no. 67. Description of TAURON Capital Group's ERM System participants' roles and responsibilities

PARTICIPANT	PARTICIPANT'S ROLES AND RESPONSIBILITIES
TAURON Supervisory Board	<ol style="list-style-type: none"> 1) Assessment of the ERM System, especially of its adequacy and effectiveness. 2) Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities.
TAURON Supervisory Board's Audit Committee	Monitoring the ERM System's effectiveness.

TAURON Management Board	<ol style="list-style-type: none"> 1) Assessment of the ERM System's adequacy, effectiveness and efficiency. 2) Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Management Board will be performing the Risk Owner's function. 3) Approving TAURON Capital Group's Risk Appetite and Risk Tolerance, including the global limits for the specific risks. 4) Managing the risks of special importance for TAURON Capital Group's operations. 5) Providing adequate resources for the needs of the ERM System.
Risk Committee	<ol style="list-style-type: none"> 1) Overseeing the correctness of TAURON Capital Group's risk management process flow. 2) Control of (auditing) TAURON Capital Group's risk exposure. 3) Providing opinions and recommending to the Management Board the shape of the individual elements of the risk management infrastructure. 4) Defining TAURON Capital Group's Risk Appetite and Risk Tolerance, including the global limits for the specific risks, and also applying to the Management Board for the approval or change thereof. 5) Overseeing the preparation of the information for the Management Board on all important issues related to TAURON Capital Group's risk.
Executive Director for Risk	<ol style="list-style-type: none"> 1) Coordinating the risk management process on all levels and in all areas (lines of business) of the organization's operations. 2) Responsibility for the development of the ERM System (risk identification methods, processes and procedures, evaluation, monitoring and control). 3) Support and oversight of the system's participants in the risk management implementation and evaluation of its efficiency. 4) Risk monitoring and control at TAURON Group level, including control of the consumption of the Operating Limits, Global Limits and Risk Tolerance. 5) Preparing and providing the risk reports to authorized risk management process participants. 6) Actions aimed at developing supportive organizational culture and raising awareness with respect to TAURON Capital Group's risk management.
Executive Director for Internal Audit	Periodic review of the correctness of designing and implementing as well as the effects of actions taken within the ERM System.
Management Board of a subsidiary	<ol style="list-style-type: none"> 1) Responsibility for risk management within a subsidiary. 2) Promoting risk management culture at a subsidiary. 3) Responsibility for the adequate reactions to risks and the effectiveness thereof. 4) Appointing Risk Owners at the given subsidiary. 5) Approving, in justified cases, plans of response to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded). 6) Taking ongoing decisions related to dealing with risk in case the established risk values are exceeded.
Risk Owner	<ol style="list-style-type: none"> 1) Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in the context of an impact on the ongoing operations, as well as on the implementation of the strategic, operational and financial goals of the unit. 2) Responsibility for preparing a plan and for implementing a reaction to risk, and also for the communication and reporting within the risk management implemented. 3) Responsibility for adherence to the imposed Operating Limits.

5.4.4. Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to factors that may have an adverse impact on its functioning. The basic risk control tool is the Risk Appetite, approved by the Company's Management Board, that defines the basic framework used by TAURON Capital Group for risk management. In accordance with the adopted approach, TAURON Capital Group's priority is to maintain the maximum security at the level allowing for the implementation of TAURON Capital Group's strategic goals.

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

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

5.4.5. Risk management tools

Risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group uses, in particular, the following tools:

- 1) Risk identification/review questionnaire, i.e. a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
- 2) Risk card, i.e. a document containing the detailed information on the identified risk.
- 3) Risk register, i.e. a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations.
- 4) Risk response plan, i.e. a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to a given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization
- 5) Risk assessment form, which is a tabular summary of detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of risk measurement parameters (KRI / EWI).

5.4.6. Risk model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories. The main risk categories and sub-categories, in accordance with TAURON Capital Group's Risk Model in place, include:

- 1) Operational risk, within which the following risks are identified:
 - Environment - risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Group's goals,
 - Technology, infrastructure and security - all events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure,
 - Employees and organizational culture - risks related to employee issues and organizational culture as well as the pandemic risk,
 - Compliance Risk - risks related to non-compliance, internal and external abuse (fraud), as well as unethical behavior,
 - Customers and contractors (counterparties) - risks related to the volatility of the supplies/services market, failure of the customer/contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin.
- 2) Financial and credit risk, within which the following risks are identified:
 - Finance and credit – risks related to changes in exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on contractual obligations.
- 3) Trading (commercial) risk, within which the following risks are identified:
 - Trading - risks determining the market volatility of electricity and related products market prices to which the enterprise is exposed.
- 4) Regulatory risk, within which the following risks are identified:
 - Regulations - risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Group

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

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

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

5.5. Risks related to TAURON Group's sustainable development

Risks related to TAURON Group's sustainable development are classified in accordance with the Risk Model described in section 5.4.6. The following categories of risks related to the development of TAURON Group have been identified:

- 1) Social risk
- 2) Risk related to climate change
- 3) Human capital management risk
- 4) Work Health and Safety (WHS) risk
- 5) Internal communication risk
- 6) Environmental risk
- 7) Purchasing process risk
- 8) Legal risk
- 9) Compliance risk

Each of the risks is also assigned a trend and a materiality level, as indicated below:





5.5.1. Social Risk

Table no. 68 presents Social Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Social Risk is classified in the category: Operational risk/Employees and organizational culture

Table no. 68. Social Risk identified at TAURON Capital Group

#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Social risk	The risk includes the risk of non-compliance with customer service standards, implementation of sales contracts, external communications and marketing activities, as well as the risk related to the protection of personal data. The risk materialization results in a loss of reputation and the customers' trust, disputes with customers, a failure to achieve goals, including sales goals, and possible penalties for non-compliance with the legal requirements regarding personal data protection.	→ 	<ul style="list-style-type: none"> • Adoption and implementation of the PRO Client Social Policy. • Conducting of the dialogue with customers, including customer satisfaction surveys, tailoring the product offering to their needs, ensuring high quality of customer service. • Developing relationships with customers and the market environment. • Responsibility for the product, including for the quality and security of supply, tailoring the product offering to customer expectations. • Protection of privacy and security of the customers' personal data. • Deploying tools supporting the implementation of the client social policy.

				<ul style="list-style-type: none"> Standardization of the draft contracts (contract templates) with customers and their adaptation to the changes in legal regulations as well as the optimization of the sales and service processes. Implementation of the promotional activities in accordance with the adopted TAURON Brand Strategy and TAURON Group's Sponsorship Strategy for 2018-2025, including respect for human rights and conducting responsible marketing activities.
2.	Corporate social responsibility area management risk	Risk related to the involvement of TAURON Capital Group in activities that do not respond to the needs of stakeholders resulting in a loss of confidence on the part of various stakeholder groups, loss of credibility and messages generated by the company in society.	→ 	<ul style="list-style-type: none"> Implementation and performance of the CSR project plan, which specifies all activities, including the justification thereof. Implementation and application of the document entitled TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects. Approval of the key activities by authorized areas.
3.	Risk of reputation management by shaping the brand image	The risk associated with the use of the TAURON brand in combination with adverse, controversial activities that have a negative impact on the Group's image, which in effect projects an inadequate image of the company.	→ 	<ul style="list-style-type: none"> Supervising the process of establishing the methodology for conducting promotional and sponsorship campaigns, approving of the key activities by authorized areas. Implementing the Visual Identification System, appointing a Team responsible for assessing and approving the image building projects.

5.5.2. Risk related to climate change

Effective fight against climate change and sustainable development are one of the main assumptions implemented as part of the Green Turn of TAURON concept. Taking the above into account and being aware of climate change underway, the risks associated with climate change have also been identified as part of the Risk Model. They include:

- physical risk - resulting from the physical effects of climate change adversely affecting the operations of TAURON Group's subsidiaries, in particular as a consequence of specific weather related events (storms, floods, heat waves), climate changes leading to temperature changes or hydrological drought,
- risk related to the transition - including risks resulting from the transition to the low emission economy, resilient against climate change; for example, regulatory, financial, social, technological.

5.5.2.1. Physical Risk

Table no. 69 presents the Physical Risk related to climate change identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Physical Risk related to climate change is classified in the category: Operational Risk/Environment; Operational Risk/Technology and infrastructure; Operational Risk/customers and contractors (counterparties); Trading (commercial) Risk/Trading.

Table no. 69. Physical Risk related to climate change identified at TAURON Capital


#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Short-term physical risk (acute risk)	<p>The risk is related to:</p> <ul style="list-style-type: none"> - frequent occurrence of extreme temperatures, greater rainfall intensity that can cause floods at any time of the year, uneven rainfall resulting in longer periods of no rainfall, intermittent abrupt rainfall (torrential rain), - increase in the frequency and intensity of hurricanes, strong winds, incidentally accompanied by tornadoes and lightnings causing machinery and equipment failures, distribution grid failures (electricity, heat), more frequent drought occurrences and water restrictions related thereto, as well as an increased risk of fires. <p>The risk materialization also results in:</p> <ul style="list-style-type: none"> - increased costs of maintaining transmission systems resulting from the costs of fixing failures, a decrease in the volume of electricity and heat supply, a decrease in the volume of production, a deterioration of the electricity distribution quality indicators affecting the regulated revenue, - sharp fluctuations of market prices due to the occurrence of extreme temperatures affecting the levels of demand and the ability to satisfy such demand by the supply side. - the need to shut down individual power generating units due to the too low water level in rivers, the water from which is used to cool the units, <p>The risk includes the risks identified and managed by TAURON Group: environmental risk (in the context of excessive impact on the climate), weather risk, company assets related risk and market risk.</p>	<p>→</p> <p>■</p>	<ul style="list-style-type: none"> • Adoption and implementation of TAURON Group's Climate Policy. • Conducting business operations that affect the climate in accordance with the sustainable development principles. • Maintaining the required level of the pollution reduction devices' efficiency (performance). • Frequent assessment of compliance of the activities with the legal requirements regarding climate impact. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's activities on climate change, gradual adaptation of the production assets to the consequences of extreme weather occurrences and the volatility of weather conditions, in particular in the lines of business sensitive to these factors. • Optimization of investment outlays allocated for asset replacement, active monitoring of the condition of the machinery, equipment and installations. • Increasing of the professional qualifications and work culture of employees by organizing courses and training sessions. • Responding to an emergency situation by the technical operational personnel and the automated protection systems. • Property insurance against fortuitous events (excluding the underground assets). • Introduction of IT tools with respect to improving the monitoring and management of failure rates. • Gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in the Distribution Line of Business.
2.	Long-term physical risk	<p>The risk is related to:</p> <ul style="list-style-type: none"> - decrease in the volume of sales of the products offered by TAURON Group's subsidiaries, in particular as a result of a temperature deviation from the planned values, resulting primarily in a loss of revenues in the individual segments of TAURON Group's operations as a consequence of reduced demand, - reduction, especially in summer, of the water levels in rivers and water reservoirs, and an increase in their temperature, which generates a decrease in the efficiency of the generating units and a decline in the dispatchability of the units during the peak electricity demand periods. The above may lead to a blackout in an extreme scenario, - change of the market conditions for the operations of TAURON Group's subsidiaries, in particular as a result of changes in the weather 	<p>→</p> <p>■</p>	<ul style="list-style-type: none"> • Ongoing offering updates, launching of the multi-packet products for sale. • Conducting marketing activities, acquiring new customers. • Activities focused on retaining current customers and recovering the lost ones. • Daily measuring and reporting of the portfolio positions. • Trading (commercial) risk management through a system for assigning and controlling the risk limits (e.g. VaR and stop loss). • Adoption of an optimal trading strategy and implementation of mechanisms used to hedge the trading

	<p>conditions resulting in a drop of the margin in the Generation Line of Business (CDS / volume) and, in general, an increase of the costs and a decrease of the revenues,</p> <ul style="list-style-type: none"> - increased failure rate of the machines and devices constituting the assets of TAURON Group's subsidiaries due to permanent climate changes - such as prolonged droughts, global warming, for example. <p>The risk includes risks identified and managed by TAURON Group: volume and margin risk, company assets related risk and market risk.</p>		<p>position.</p> <ul style="list-style-type: none"> • Optimization of investment outlays for asset replacements, active monitoring of the condition of the machinery, equipment and installations. • Gradual adaptation of the production assets to the climate change.
--	---	--	---

5.5.2.1. Climate Risk related to the transition

Table no. 70 presents the Climate Risk related to the transition identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Climate Risk related to the transition is classified in the category: Operational Risk/Environment; Regulatory Risk/Regulations; Operational Risk/Customers and Contractors (Counterparties); Trading (commercial) risk/Trading; Financial and Credit Risk/Finance and Credit.

Table no. 70. Risk related to the transition identified at TAURON Capital Group

#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Risk related to the transition	<p>Risk related to the tightening of the European Union's climate policy, the tightening of the environmental requirements resulting from the climate change, the growing awareness of the customers with respect to the climate change, the activities supporting energy efficiency (growth of prosumers, support for thermal insulation, construction of in-house electricity and heat sources, departure from the coal use as fuel), a change in the conditions of TAURON Group's operations (the need to adapt the company to the challenges of changes resulting from the climate change, including the technological adaptation to the global low-emission solutions).</p> <p>The consequences of the risk include the reputation, technology, policy and regulatory issues, as well as the market issues. In particular, the effects of the risk may include:</p> <ul style="list-style-type: none"> - decrease in the volume of sales of the products offered by TAURON Group's subsidiaries, in particular as a result of the development of energy efficiency, insulation of buildings, growth of prosumers, resulting primarily in a loss of revenue in the individual segments of TAURON Group's business operations resulting from the reduced demand, - change of the market conditions for the operations of TAURON Group's subsidiaries, in particular as a result of the tightening of the European Union's climate policy, the growing ecological awareness of the public, the activities supporting energy efficiency (departure from the use of coal as fuel, growth of prosumers, support for thermal insulation, construction of in-house electricity and heat sources) resulting in a drop of the margin in the Generation Line of Business (CDS/volume) and, in general, an increase of the costs and a decrease of the revenues, - difficulties or an increase in the cost of raising capital to finance operations based on fossil fuels, - loss of reputation due to involvement in fossil fuels, - the need to transform the assets and, as a consequence, the need to incur additional expenses as a result of the climate change, 		<ul style="list-style-type: none"> • Applying of TAURON Group's Climate Policy. • Defining and updating as well as implementing of TAURON Group's Strategy. • Update of TAURON Group's Strategic Research Agenda. • Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from the Climate Policy and the Investment Strategy. • Ongoing analysis of the draft ordinances (regulations) and acts. • Active participation in the work of teams providing opinions on projects and proposing optimal solutions. • Gradual adaptation of TAURON Group's production assets and energy mix to the production of renewable energy and zero and low-emission electricity generation technologies. • Gradual withdrawal of the anthropogenic sources of greenhouse gas emissions coming from fossil fuels through the development of renewable energy and zero and low-emission electricity generation technologies. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on the climate change.

	<p>- difficulty or an increase in the insurance costs for the assets based on fossil fuels,</p> <p>- an increase in the costs of the environmental fees and the need to incur additional investment outlays to adapt the assets to the environmental requirements,</p> <p>- an increase in the price of the CO₂ emission allowances and, as a consequence, a decrease in the margin in the conventional electricity segment,</p> <p>- a decrease in demand for electricity as a result of energy efficiency and growth of the prosumers segment,</p> <p>- a decrease of the demand for the products offered thus far by TAURON Group's subsidiaries,</p> <p>- limiting or discontinuing the operations based on fossil fuels and carbonates,</p> <p>- the need to restructure employment resulting from a change in the business operations profile,</p> <p>- impediments to administrative procedures involving the public by non-government organizations,</p> <p>- a decline in the company value,</p> <p>- inability to meet market expectations due to the lack of the expected products in the portfolio.</p> <p>The risk includes risks identified and managed by TAURON Group: climate change, reputation, regulatory, volume and margin, market, obtaining of the financing, company assets, human resources related risks.</p>		
--	---	--	--

5.5.3. Human Capital Management Risk

Table no. 71 presents the Human Capital Management Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Human capital management risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 71. Human Capital Management Risk identified at TAURON Capital Group





#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Human Capital Management Risk	Risk related to the employee issues, including diversity, participation, employment and working conditions, relations with the trade unions and respect for the right of freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to climate change, forcing a change of the business operations profile. The materialization of the risk may result in the interruptions or disruptions in the operational work, employee complaints, collective labor disputes, strikes, loss of specialized staff and difficulties in reproducing it.	→ ■	<ul style="list-style-type: none"> *Adoption and implementation of the Employee Recruitment, Selection and Adaptation Policy. • Adoption and implementation of the Policy of Compliance with Ethics Principles and Counteracting Mobbing and Discrimination. • Care for the development of the employees' competences, including through the participation in training courses. • Conducting consultations with social organizations operating at TAURON Capital Group. • Implementation of the HR policy based on the Competence Model and the applicable compensation and labor law regulations (Compensation Regulations, ZUZP, Labor Regulations). • Adoption and implementation of the Diversity Policy.

				<ul style="list-style-type: none"> • Adoption and implementation of the Human Rights Respect Policy.
--	--	--	--	---

5.5.4. WHS Risk

Table no. 72 presents the WHS risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the WHS Risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 72. WHS Risk identified at TAURON Capital Group


#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	WHS Risk	Risk related to ensuring health and safety at work. The materialization of the risk results in an employee injury, loss of health or excessive exposure of an employee to factors harmful to health, compensation paid out for damage to health.	 	<ul style="list-style-type: none"> • Prioritizing the safety of employees, customers, contractors and stakeholders in the business operations undertaken. • Adoption and implementation of TAURON Group's Work Health and Safety Policy. • Ensuring optimal working conditions. • Conducting active monitoring of the working conditions and the correctness of work organization. • Raising employees' qualifications with respect to improving work safety. • Conducting training courses, implementing and improving the WHS management system.
2.	Pandemic risk	Risk related to the persistence of the pandemic causing disruptions to Poland's economic and administration and bringing about material changes in the market environment, impacting the operating conditions of TAURON Group's subsidiaries. The increase in the number of infection cases leads to a reduction of the business activity, which affects the level of demand for the products offered by TAURON Group's subsidiaries, including, in particular, the electricity distribution and supply volumes.	 	<ul style="list-style-type: none"> • Monitoring of the epidemiological threat at TAURON Group. • Collecting information on threats and identifying potential threats to the safety of employees of TAURON Group's subsidiaries. • Developing and recommending solutions aimed at reducing the level of threat to TAURON Group's resources. • Ongoing monitoring of the risk of the availability of employees and services provided by TAURON Group's subsidiaries. • Recommending solutions aimed at reducing the effects of the materialization of the threat on TAURON Group's resources. • Preparing and providing feedback on the content of messages disseminated at the level of TAURON Group level and TAURON Polska Energia S.A. • Use of screening tests. • Preparing contingency plans in the event of a loss of the Group's key employees.

				<ul style="list-style-type: none"> • Development of backup business continuity plans. • Undertaking trading activities in order to balance, on an ongoing basis, the buy position versus the observed drops in the volume of electricity sales. • Taking advantage of market opportunities to secure the position in the Generation line of business (buy-backs). • Use of the anti-crisis shield mechanisms (facilities). • Increasing the frequency of monitoring overdue accounts receivable. • Introducing additional credit risk-taking guidelines and extending the scope of testing (vetting) customer financial condition. • Introduction of a mechanism to monitor and cap (limit) spending.
--	--	--	--	--

5.5.5. Internal Communication Risk

Table no. 73 presents the Internal Communication Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Internal Communication Risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 73. Internal Communication Risk identified at TAURON Capital Group

#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Internal Communication Risk	Risk related to providing incorrect or unverified information within the organization, formulating an unclear / incomplete message, a failure to provide employees with the information of significant importance, resulting in misleading the recipients of the information or a failure to comply with the disclosure obligations resulting in the wrong business decisions being made as a result of a lack of reliable (accurate) information, a loss of trust in the employer or administrative penalties (fines).		<ul style="list-style-type: none"> • Developing relationships with TAURON Capital Group's workforce and close cooperation with the Social Dialogue Ombudsman. • The use and development of the available communication tools to provide relevant information to the employees of TAURON Capital Group. • When providing relevant information - organizing face to face (direct) meetings of the management team with the workforce. • Ongoing monitoring of the situation and events taking place at TAURON Capital Group's subsidiaries that may cause social concerns. • Regular periodic meetings with the representatives of the subsidiaries, that deal with the internal communication, in order to exchange information • Development of a communication strategy for TAURON Group.

5.5.6. Environmental Risk

Table no. 74 presents the Environmental Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Environmental Risk is classified in the category: Operational Risk/Technology and infrastructure.

Table no. 74. Environmental Risk identified at TAURON Capital Group

#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	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 make it impossible to prevent excessive (above the applicable standards) pollution, damage, disruptions or failures of installations or equipment that would have a negative impact on the environment.</p> <p>The risk also involves the possibility of:</p> <ul style="list-style-type: none"> - a lack of valid environmental decisions, - depositing waste in places not intended for this purpose or not in accordance with the operating conditions of the facilities designated for such purpose, - occurrence of a crisis situation: e.g. fire, displacement of earth masses, extreme weather events, - use of waste not in accordance with the authorized intended purpose, - a lack of adequate safeguards reducing the negative impact of TAURON Group's operations on the environment, - release of hazardous substances to the environment, - social protests. <p>The consequence of the materialization of the risk is the degradation of the natural environment and penalties for a failure to comply with the environmental requirements, the need to fix the deficiencies, curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that prevents their use, destruction of a valuable natural habitat, site or area - environmental compensation, restrictions on further business development, damage to TAURON Group's image, limitation of the use of financial assistance programs. The risk also includes an increase in the environmental requirements stemming from the tightening of the European Union's climate policy.</p>	<p>→</p> <p>■</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 sustainable development principles. • Conducting and intensifying activities aimed at increasing the utilization of the UPS/UPW waste. • Striving to maximize the management (utilization) of the post-production waste generated at all of TAURON Group's coal mines. • Striving for the optimum management of water resources. • Ongoing supervision over compliance with the conditions of the environmental decisions. • Maintaining the required level of the pollution reduction devices' efficiency (performance). • Frequent assessment of compliance of the activities with the legal requirements with respect to the environment protection. • Implementation of the investment projects with respect to the environment protection in order to minimize the consequences of an adverse impact of mining and processing operations on the environment and climate. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on climate change.

5.5.7. Purchasing Process Risk

Table no. 75 presents the Purchasing Process Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Purchasing Process Risk is classified in the category: Operational Risk/Customer and contractors.

Table no. 75. Purchasing Process Risk identified at TAURON Capital Group

#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Purchasing Process Risk	Risk related to the procurement proceedings conducted, their erroneous implementation, unplanned increase in the purchase costs, taking into account methods employed to prevent violation of human rights by business partners, counteract corruption and abuse in the purchasing process as well as ensure compliance with the ethical and moral standards during the implementation thereof. The consequences of the materialization of the risk include unfavorable purchase agreements, the need to cancel the tender procedures, damage to the image of TAURON Capital Group and a loss of credibility with the stakeholders.	→ ■	<ul style="list-style-type: none"> • Adoption and implementation of the Code of Conduct for the Contractors (Counterparties) of TAURON Group. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of the Policy of Respect for Human Rights. • Standardization of the rules of conducting proceedings in the purchasing process and the transparency thereof. • Developing lasting relationships with the contractors (counterparties) based on trust and mutual respect. • Expecting the contractors (counterparties) to comply with the legal regulations, ethical standards and good commercial practices, including work health and safety rules, principles of discrimination and unequal treatment, respect for human rights and dignity of employees, transparent personnel policy, environment protection, fair competition, prevention and countering of fraud, as well as information security and protection. • Applying of the standard contract forms (drafts, templates) and standard clauses in the contracts regarding compliance with human rights by TAURON Capital Group's business partners.

5.5.8. Legal Risk

Table no. 76 presents the Legal Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Legal Risk is classified in the category: Operational Risk/Environment.

Table no. 76. Legal Risk identified at TAURON Capital Group





#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Legal Risk	Risk related to the non-compliance with the legal regulations, wrong interpretation of the new laws and regulations, requirements imposed by the regulator and the oversight authorities. The consequences of the materialization of risk may result in financial penalties, criminal and civil law liability, damage to the Group's image.	→ ■	<ul style="list-style-type: none"> • Continuous monitoring of the legal environment and changes to the legal regulations, including social issues, respect for human rights, anti-corruption, environment protection and employee issues. • Implementation of the required changes to the internal regulations. • Establishing working groups to prepare and implement the changes required due to the legal environment. • Continuous cooperation with the authorities performing oversight of the energy market and the capital market. • Consultations with the organizational units with respect to the planned key regulations for the area of compliance.

				<ul style="list-style-type: none"> • Employee training with respect to the knowledge of the legal regulations and the internal regulations.
--	--	--	--	--

5.5.9. Compliance Risk

Table no. 77 presents the Compliance Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Compliance risk is classified in the category: Operational Risk/Compliance risk.

Table no. 77. Compliance Risk identified at TAURON Capital Group

#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Internal abuse (fraud) risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, use of official position for personal gain resulting in financial losses, penal and administrative sanctions, criminal and civil law liability.	 	<ul style="list-style-type: none"> • Education and training activities among employees, including mandatory e-learning training with respect to TAURON Group's Compliance Management System. • Effective use of the whistleblowing system in the organization, enabling TAURON Group's employees to report potential cases of abuse to their immediate superior, the Ethics Committee, the Compliance Officer/Compliance Coordinator, or via the abuse (fraud) notification (reporting form at http://www.tauron.pl/). • Conducting fact finding investigations by the Compliance Officer or Compliance Coordinators. • Building an organizational culture based on TAURON Group's values and policies (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.
2.	External abuse (fraud) risk	Risk related to an occurrence of external abuse (fraud) that affects the operations of TAURON Group through: disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attempt and hacker attacks, tax fraud, theft, vandalism, counterfeiting, dirty money laundering, terrorist attack.	 	<ul style="list-style-type: none"> • Raising employee awareness through training and information campaigns on the existing threats of external abuse (fraud). • Adoption and implementation of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries. • Implementation of anti-corruption clauses in the contracts with the contractors (counterparties). • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Effective use of a whistleblowing system in the organization, enabling reporting of the potential cases of abuse, the system also allows for reporting of abuse (fraud) by the

				<p>external entities through the abuse (fraud) reporting form at http://www.tauron.pl/.</p> <ul style="list-style-type: none"> • Monitoring the cooperation with the contractors (counterparties) and testing (vetting) their credibility at TAURON Group. • Promoting best practices, improving procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct, Code of Ethics and functioning of the abuse (fraud) reporting system. • Building an organizational culture based on TAURON Group's values and policies (principles).
3.	Unethical behavior and mobbing risk	The risk includes an occurrence of unethical behavior resulting, in particular, in a lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of employees.	→ ■	<ul style="list-style-type: none"> • Raising employee awareness through training and information campaigns on the existing threats of external abuse (fraud). • Adoption and implementation of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries. • Implementation of anti-corruption clauses in the contracts with the contractors (counterparties). • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Effective use of a whistleblowing system in the organization, enabling reporting of potential cases of abuse (fraud), the system also allows for reporting of abuse (fraud) by the external entities through the abuse (fraud) reporting form at http://www.tauron.pl/. • Monitoring the cooperation with the contractors (counterparties) and testing (vetting) their credibility at TAURON Group. • Promoting best practices, improving procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct, Code of Ethics and functioning of the abuse (fraud) reporting system.

5.6. GRI profile indices described in this section

- GRI 102-15 Key impact, risks and opportunities
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area

6. GRI INDEX

- GRI 101 Reporting principles and basics
- GRI 102-14 Statement from senior decision maker
- GRI 102-40 List of stakeholder groups
- GRI 102-42 Identifying and selecting stakeholders
- GRI 102-43 Approach to stakeholder engagement including the frequency of engagement by type and stakeholder group
- GRI 102-44 Key topics and concerns raised by stakeholders and the response from the organization also by reporting them
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-46 Defining report content and topic boundaries
- GRI 102-47 List of material topics
- GRI 102-49 Changes in reporting (significant changes from previous periods covered by the report regarding material topics and topic boundaries)
- GRI 102-50 Reporting period
- GRI 102-51 Date of most recent report (if published)
- GRI 102-52 Reporting cycle
- GRI 102-54 Claims of reporting in accordance with the GRI Standards using Core or Comprehensive option
- GRI 102-56 External assurance (Confirmation of credibility)
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 102-55 GRI Index
- GRI 102-1 Organization name
- GRI 102-2 Activities, brands, products and services
- GRI 102-3 Location of headquarters
- GRI 102-4 Location of operations - including the number of countries in which the organization operates, along with the names of those countries, where the main operations of the organization are located, or which are particularly important in relation to topics related to sustainable development discussed in the report
- GRI 102-5 Ownership and legal form
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization
- GRI 102-10 Significant changes during the reporting period regarding size, structure, ownership form or value chain
- GRI 102-11 Precautionary principle
- GRI 102-16 Values, ethics code, principles, standards, and norms of behavior
- GRI 102-17 Internal and external mechanisms enabling obtaining advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-18 Governance structure
- GRI 102-22 Composition of the top management authority
- GRI 102-23 Top management authority
- GRI 102-24 Method of selecting the top management authorities
- GRI 102-26 Role of the top management body in the environment, purpose, values and strategy
- GRI 102-28 Evaluation of the results of the top management body
- GRI 102-32 Role of the top management body in reporting
- GRI 102-25 Conflict of interest
- GRI 201-2 Financial implications and other risks and opportunities associated with climate change
- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. Impact of these activities on society,
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area
- GRI 102-2 Activities, brands, products, and services
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes to the organization and its supply chain in the reported period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 201-1 Value added generated and distributed
- GRI 201-4 Government support - state ownership
- GRI 203-1 Investments in products and services

- GRI 205-1 Operations assessed for risks related to corruption
- GRI 205-2 Communication and training about anti-corruption policies and procedures
- GRI 205-3 Confirmed incidents of corruption
- GRI 403 Occupational health and safety management system
- GRI 403-9 Rates of injury, occupational diseases, lost days and absenteeism, and the number of work-related fatalities by region and gender
- GRI 416-1 Number of accidents
- GRI EU18 Percentage of employees, contractors and subcontractors who underwent work health and safety training
- GRI 417 The management approach in marketing and labeling
- GRI 417-2 Cases of non-compliance of products and services regarding information and labeling
- GRI 417-3 Cases of non-compliance regarding marketing communications
- GRI EU 3 Number of individual and business customers
- GRI 418 The management approach to customer privacy
- GRI 418-1 Material complaints regarding breaches of customer privacy and loss of customer data
- GRI EU-DMA The management approach in research and development
- GRI EU DMA Research and investments to ensure reliability of energy supply and promote sustainable development
- GRI 405 The management approach to equality and diversity
- GRI 406-1 Incidents related to discrimination and corrective actions
- GRI 206-1 Legal actions for anti-competitive behavior
- GRI 401 The management approach to employment
- GRI 102-8 Information on employees and other workers
- GRI 405-1 Composition of staff broken down by age and gender and minority
- GRI 401-3 Parental leave
- GRI 102-41 Collective bargaining agreements
- GRI 404-1 Number of training hours per employee
- GRI 404-2 Competence enhancement programs
- GRI 403-1 Number of employees associated in trade unions
- GRI 305-1 Direct greenhouse gas emissions
- GRI 302-1 Total energy consumption or production from renewable and non-renewable sources
- GRI EU2 Net volume of energy produced, broken down into main energy sources
- GRI 305-7 NOx, SOx and other significant air emissions
- GRI 303-3 Total water consumption by source
- GRI 306-1 Total sewage volume by quality and destination
- GRI 306-2 Total weight of waste by type of waste and methods of waste management
- GRI EU-DMA The management approach in waste management
- GRI 302-3 Energy intensity (consumption)
- GRI EU18 Percentage of TAURON Capital Group's employees, contractors and subcontractors who underwent work health and safety training
- GRI 305-5 Direct greenhouse gas emissions
- GRI EU1 Installed generation capacity broken down into main types of raw material and regulatory requirements

Katowice, March 29, 2021

Marek Wadowski - acting as the President of the Management Board
Vice President of the Management Board

Jerzy Topolski - Vice President of the Management Board