



REPORT OF THE MANAGEMENT BOARD

on the operations of TAURON Polska Energia
S.A. and TAURON Capital Group for the
financial year 2021

TABLE OF CONTENTS

1.	TAURON POLSKA ENERGIA S.A.	4
1.1.	Basic information	4
1.2.	Segments of operations (lines of business)	5
1.3.	Organization of TAURON Capital Group and the changes thereof, as well as the entities subject to consolidation.....	7
1.4.	Organizational or equity ties with other entities	9
1.5.	Major domestic and foreign investments, as well as equity investments	9
1.6.	TAURON Group's Strategy for the years 2016-2025 and the implementation thereof	11
1.7.	Description of the expansion policy and directions	20
	Implementation of the strategic investment (CAPEX) projects	20
	Evaluation of the capability to complete the intended investment projects	25
	Directions for advancing innovations as well as research and development activities	25
1.8.	Major achievements in the field of research and development	25
1.9.	TAURON Group's Business and Operational Model	28
1.10.	Principles of management of TAURON Polska Energia S.A. and TAURON Capital Group and the changes thereof.....	30
2.	OPERATIONS OF TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP	34
2.1.	Core products, goods and services	34
2.2.	Markets and sources of supply	36
2.3.	Assessment of the factors and non-typical (one-off) events that have a significant impact on the financial result achieved	42
2.4.	Material factors impacting growth	61
2.5.	Timeline.....	62
2.6.	Major events having a significant impact on the operations in 2021 and after the balance sheet date, i.e. December 31, 2021	64
2.7.	Prizes and accolades (honorable mentions).....	68
2.8.	Information on the employment and employee related issues.....	69
2.9.	Corporate Social Responsibility (CSR) Policy	75
	Expenditures on the support for culture, sports, charity institutions, media, social organizations, trade unions.....	81
2.10.	Key non-financial efficiency ratios (metrics, performance indicators)	82
2.11.	Sponsoring activities.....	84
3.	TAURON CAPITAL GROUP'S RISK MANAGEMENT	87
3.1.	Risk management objective and principles	87
3.2.	Risk management strategy.....	87
3.3.	Key risks management	93
3.4.	Description of the most material risk categories	98
3.5.	Risk classification in the individual operating Segments.....	105
4.	ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A.	110
4.1.	Overview of the economic and financial data disclosed in the annual financial statements	110
4.2.	Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier.....	114
4.3.	Key financial ratios and the Alternative Performance Measures.....	114
4.4.	Principles of preparing annual financial statements.....	115
5.	ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON CAPITAL GROUP	116
5.1.	TAURON Capital Group's financial results	116
5.2.	TAURON Capital Group's financial results per operating Segment (Line of Business)	117
5.3.	Characteristics of the structure of assets and liabilities in the consolidated statement of financial position	125
5.4.	Discussion of the economic and financial figures disclosed in the annual consolidated financial statement	130
5.5.	Material off-balance sheet items.....	135
5.6.	Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier.....	136
5.7.	Key financial ratios and the Alternative Performance Metrics.....	136
5.8.	Most significant financial and operating data for the last 5 years.....	138
5.9.	What we can expect in 2022.....	141

5.10.	Current and forecast financial and assets situation (financial and assets outlook)	141
5.11.	Principles of preparing annual consolidated financial statements.....	142
6.	INFORMATION ON THE AUDIT FIRM	143
7.	FINANCIAL RESOURCES AND INSTRUMENTS	145
7.1.	Proceeds from security issues.....	145
7.2.	Financial instruments.....	145
7.3.	Assessment of financial resources management	145
8.	SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.....	147
8.1.	Shareholding structure	147
8.2.	Dividend policy	147
8.3.	Number and nominal value of TAURON Polska Energia S.A.'s shares, as well as of the shares in the related units, held by the Members of the Management Board and the Supervisory Board	147
8.4.	Agreements related to potential changes to the shareholding structure	148
8.5.	Share buybacks.....	148
8.6.	Employee stock award programs	149
8.7.	Share price performance on the Warsaw Stock Exchange (WSE)	149
8.8.	Investor relations	152
9.	STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE.....	154
9.1.	Applied set of corporate governance rules	154
9.2.	Set of abandoned rules of corporate governance.....	157
9.3.	Main characteristics of the internal controls and risk management systems in relation to the process of drawing up the financial statements and consolidated financial statements.....	160
9.4.	Shareholders holding substantial blocks of shares.....	162
9.5.	Holders of securities providing special control rights	162
9.6.	Restrictions on exercising the voting right	162
9.7.	Restrictions on the transfer of the ownership right to securities.....	164
9.8.	Rules on appointing and dismissing the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., and the powers thereof	164
9.9.	Procedure of amending TAURON Polska Energia S.A.'s Articles of Association	168
9.10.	General Meeting of TAURON Polska Energia S.A. and the shareholders' rights	168
9.11.	Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof	170
9.12.	TAURON Group's Diversity Policy.....	187
10.	STATEMENT ON NON-FINANCIAL INFORMATION.....	190
11.	MANAGEMENT AND SUPERVISORY PERSONNEL COMPENSATION POLICY	191
11.1.	Compensation system for the Members of the Management Board and the key managers	191
	General information on the adopted compensation system for the Members of the Management Board of TAURON Polska Energia S.A.....	191
	General information on the adopted System of Compensation of the Key Managers	192
11.2.	Principles, conditions and amount of compensation of the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group	193
11.3.	Agreements concluded with Members of the Management Board that envisage compensation in case of their dismissal from the position held.....	194
11.4.	Non-financial components of the compensation due to the Members of the Management Board of TAURON Polska Energia S.A. and the key managers	194
11.5.	Information on the changes to the compensation policy during the last financial year	195
11.6.	System of the Compensation of the Members of the Supervisory Board	195
11.7.	Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.	195
12.	OTHER MATERIAL INFORMATION AND EVENTS	197
12.1.	Material proceedings pending before the court, competent arbitration authority or public administration authority.....	197
12.2.	Agreements that are material for TAURON Capital Group's operations.....	200
12.3.	Transactions with related entities on terms other than at arm's length	201
12.4.	Concluded and terminated credit and loan agreements	201
12.5.	Loans and sureties granted as well as sureties and guarantees received.....	202
12.6.	The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in 2021	203
12.7.	The impact of aggression by the Russian Federation against Ukraine on current and future operations of TAURON Capital Group	203

12.8. Other information that could be material for the evaluation of TAURON Capital Group's personnel, assets, financial position, financial result and the changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations..... 205

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS..... 206

Appendix B: INDEX OF TABLES AND FIGURES..... 212

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

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

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

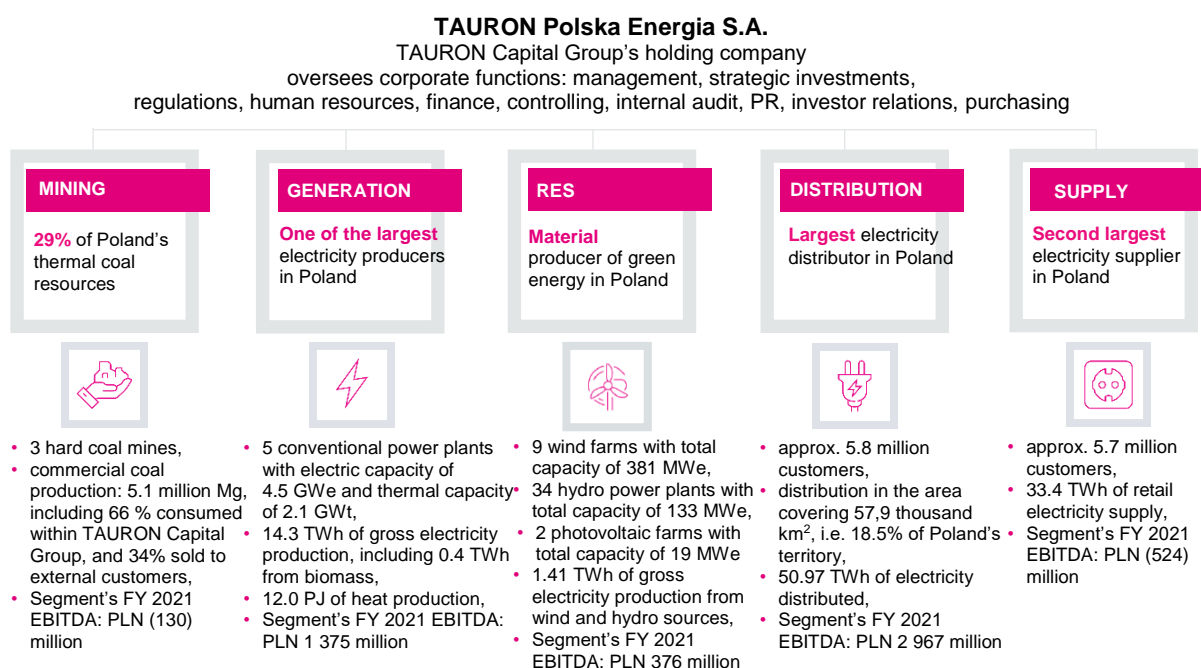
1.1. Basic information

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

The Company does not have any branches (plants).

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

Figure no. 1. TAURON Capital Group



OTHER OPERATIONS

- provision of services to consumers of electricity and distribution services for TAURON Capital Group's subsidiaries
- provision of support services for TAURON Capital Group's subsidiaries in the following areas: Accounting, IT and HR
- limestone mining for the needs of power generation, steel, construction and road building industries
- acquiring, transporting and processing of biomass for the needs of utility scale power generation
- utilization of the hard coal combustion and extraction processes by-products
- vehicles' technical support services
- real estate administration
- property security
- financial operations
- Segment's FY 2021 EBITDA: PLN 208 million

1.2. Segments of operations (lines of business)

In accordance with the updated TAURON Group's Business and Operational Model (Business Model), adopted on February 23, 2021, TAURON Capital Group's business operations are conducted by the units defined as: the Corporate Center, the Lines of Business (Segments) (Trading, Mining, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply) and the Shared Services Centers (Centra Usług Wspólnych - CUW).

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

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



Mining Segment, comprising mainly hard coal mining, cleaning (upgrading) and sales in Poland. This Segment's operations are conducted by TAURON Wydobycie S.A. (TAURON Wydobycie).



Generation Segment, comprising mainly electricity generation using conventional sources, including co-generation, as well as electricity generation from biomass burning. This Segment also includes heat generation, supply and distribution. This Segment's operations are conducted by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie) and Nowe Jaworzno Grupa TAURON sp. z o.o. (Nowe Jaworzno Grupa TAURON) as well as TAURON Ciepło sp. z o.o. (TAURON Ciepło). This Segment also includes TAURON Serwis sp. z o.o. (TAURON Serwis) subsidiary, dealing primarily with the generation equipment's overhauls.



RES Segment, comprising electricity generation from renewable energy sources: hydroelectric power plants, as well as wind and solar farms. This Segment's operations are conducted by TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA), Marselwind sp. z o.o., TEC1 sp. z o.o. (TEC1), TEC2 sp. z o.o.¹ (TEC2) and TAURON Zielona Energia sp. z o.o. (TAURON Zielona Energia, formerly: TEC3 sp. z o.o.) as well as 10 subsidiaries acquired in September 2019, i.e.: TEC1 sp. z o.o. Mogilno I spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno II spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno III spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno IV spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno V spółka komandytowa (limited partnership), TEC1 sp. z o.o. Mogilno VI spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Śniatowo spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Dobrzyń spółka komandytowa (limited partnership), TEC1 sp. z o.o. EW Gołdap spółka komandytowa (limited partnership), TEC1 sp. z o.o. Ino 1 spółka komandytowa (limited partnership). In addition, starting from the financial statements for the year ended December 31, 2020, the companies AVAL-1 Sp. z o.o. (AVAL-1) and Wind T1 Sp. z o.o. (Wind T1) have been assigned to the RES Segment. The RES segment also includes assets related to electricity generation from TAURON Wytwarzanie's photovoltaic sources. In connection with the acquisition on June 10, 2021, by TAURON EKOENERGIA of the shares in Polpower sp. z o.o. (Polpower), starting from the report for the period ended on June 30, 2021, the acquired assets are also assigned to the RES Segment.

¹ On July 1, 2021, the Katowice-Wschód District Court in Katowice, the 8th Commercial Department of the National Court Register, registered the merger of TEC3 (the Acquiring Company) with TEC2 (the Acquired Company)



Distribution Segment, comprising distribution of electricity using the distribution grids located on the territory of the following voivodeships (regions, provinces): Małopolska, Lower Silesia, Opole, Silesia, partly: Świętokrzyskie, Podkarpackie, Łódź, Wielkopolska and Lubuskie. The Segment's operations are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). TAURON Dystrybucja uses modern technological solutions and has the potential to guarantee security of electricity supply and a high quality standard of the services provided to the customers. In order to ensure the achievement of the strategic goals, TAURON Dystrybucja is actively looking for innovative solutions, participating in the research and development (R&D) works, as well as implementing the new technologies, with a particular emphasis placed on the smart grid technology. In addition, it is seeking to build a modern distribution segment by integrating the segment's structures and processes, maintaining the leading position on the Polish market with respect to the grid security (safety) and efficiency, as well as preparing the grid infrastructure and organization for the development of the distributed (dispersed) power generation sources. The Segment also includes TAURON Dystrybucja Pomiar sp. z o.o. (TAURON Dystrybucja

Pomiary) subsidiary, dealing mainly with the technical support services related to the electricity metering systems and metering data acquisition.

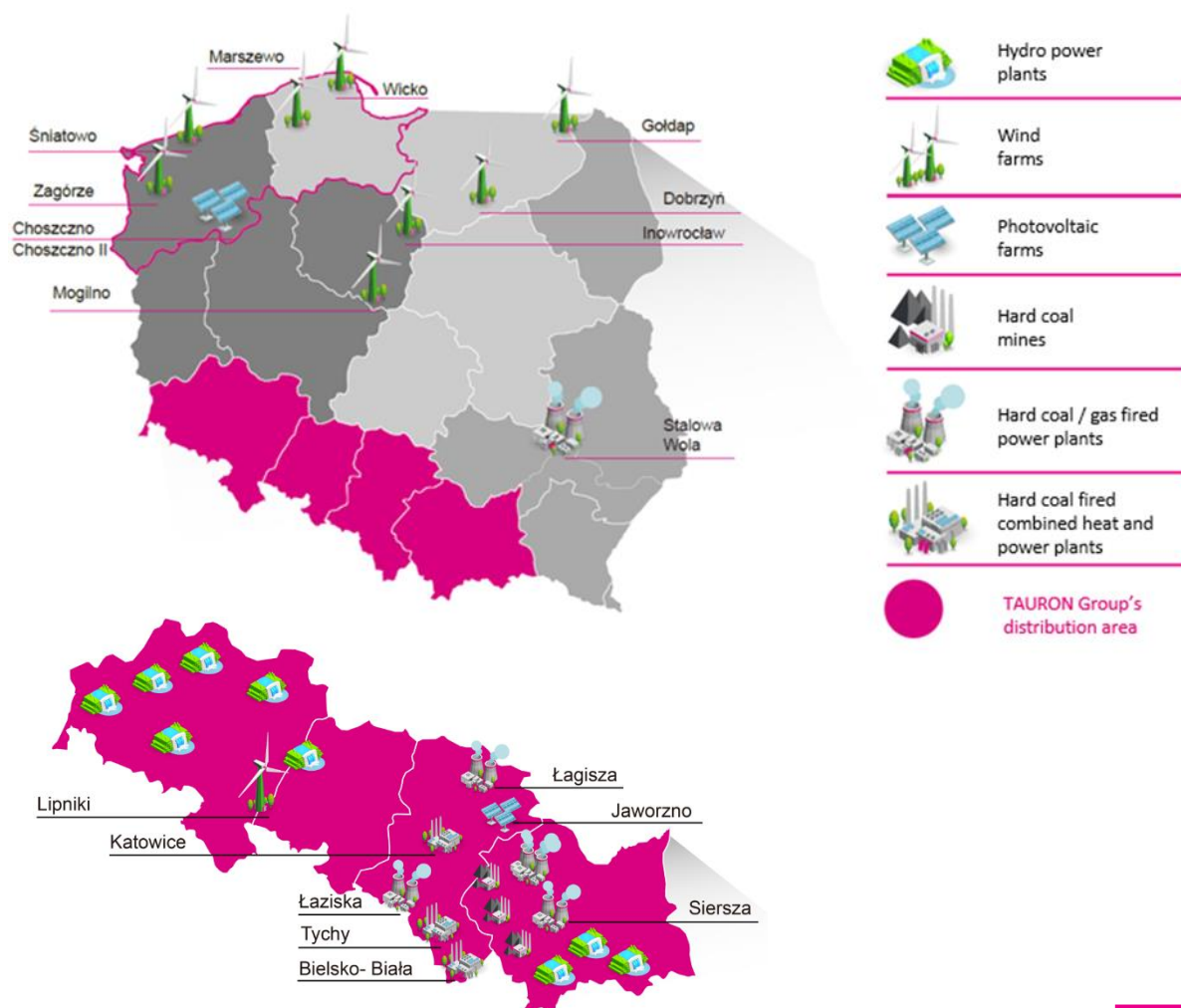


Supply Segment, comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of the CO₂ emission allowances, property rights arising from the certificates of origin that confirm electricity generation from the renewable sources, in cogeneration and the property rights arising from the energy efficiency certificates, as well as fuels, and the lighting services sales. The Segment's operations are conducted by TAURON, TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE), TAURON Czech Energy s.r.o. (TAURON Czech Energy) and TAURON Nowe Technologie S.A. providing services for the business and individual customers with respect to, among others, innovative products and services related to the modern Led lighting systems, smart city, e-mobility products, as well as energy efficiency, operating the MV/LV grids, the construction of electric vehicle charging stations.

Apart from the main Segments of operations, TAURON Capital Group is also conducting the operations presented as part of the **Other Operations** that comprise, among others, the customer service for TAURON Capital Group's customers, the provision of the support services for TAURON Capital Group's subsidiaries with respect to accounting, human resources (HR) management as well as information and communications technology (ICT), conducted by TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) subsidiary, as well as the operations related to the extraction of stone (rocks), including limestone, for the needs of the power generation, steel making, construction and road building industries, as well as the production of sorbing agents for wet flue gas desulphurization installations and for the use in fluidized bed boilers, carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice) subsidiary. The Other Operations also include the following subsidiaries: Finanse Grupa TAURON sp. z o.o. (Finanse Grupa TAURON) dealing with the financial operations, Bioeko Grupa TAURON sp. z o.o. (Bioeko Grupa TAURON) dealing mainly with the utilization (management) of the hard coal combustion and extraction processes' by-products, biomass acquisition, transportation and processing, Wsparcie Grupa TAURON sp. z o.o. (Wsparcie Grupa TAURON) dealing primarily with the real estate administration, property security, as well as the technical support of the vehicles and Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (PEPKH).

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

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



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

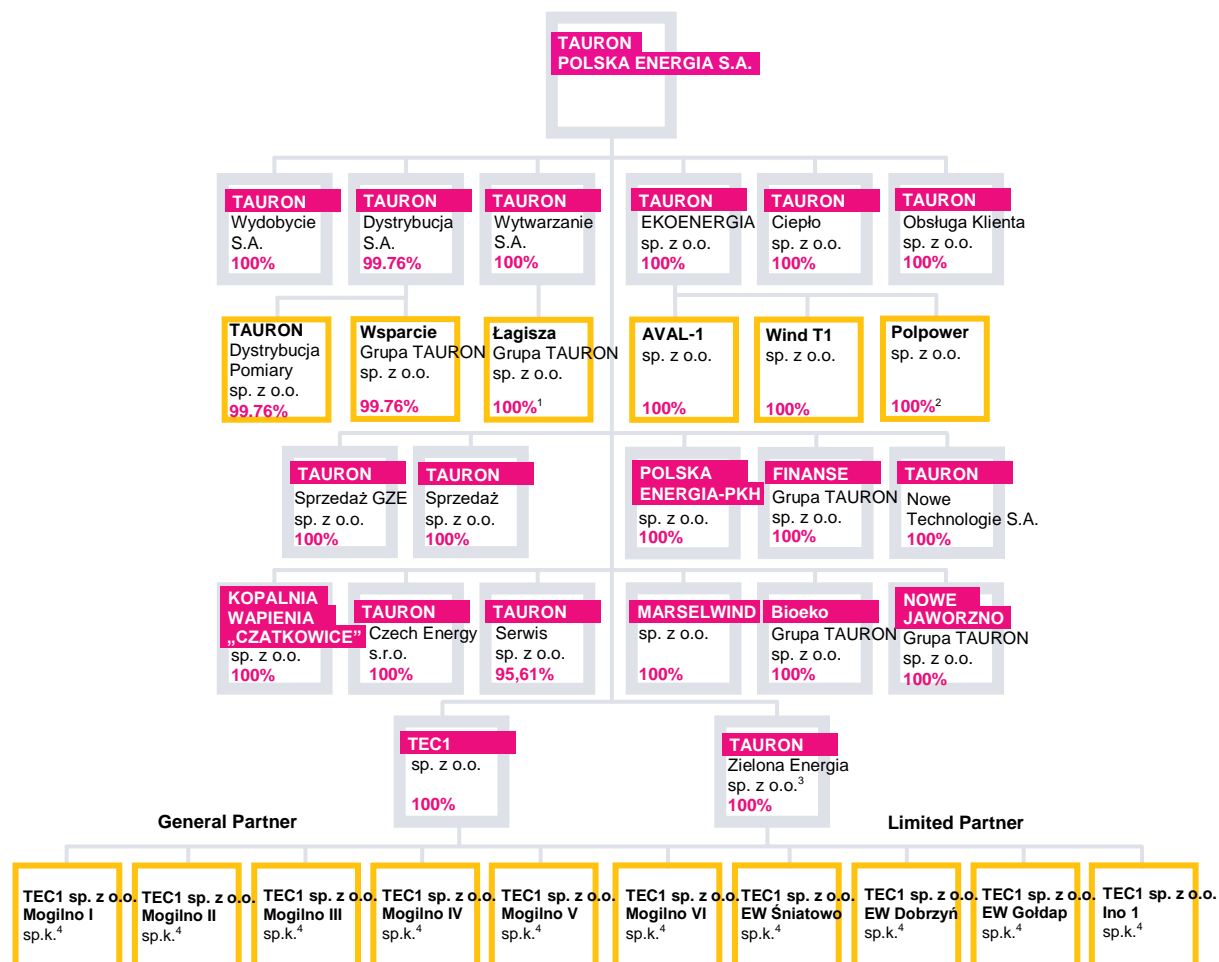
As of December 31, 2021, and as of the date of drawing up this report, TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 35 subsidiaries subject to consolidation, that are listed below.

In addition, as of December 31, 2021, and as of the date of drawing up this report, the Company held, directly or indirectly, shares in the other 36 companies.

Entities subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2021.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2021



¹Łagisza Grupa TAURON sp.z o.o. (LLC) was included in the consolidation as of January 1, 2021, due to the increased materiality of the financial data.

²Polpower sp. z o.o. was included in the consolidation as of June 10, 2021, i.e. as of the date of the acquisition of the shares by TAURON EKOENERGIA.

³Formerly: TEC3 sp. z o.o. (LLC)

⁴In the limited partnerships indicated: TEC1 is the General Partner, TAURON Zielona Energia is the Limited Partner

Changes to the organization

The following changes to the organization of TAURON Capital Group had taken place in 2021 and by the date of drawing up this report:

Sale by TAURON of its shares in PGE EJ1 sp. z o.o. (PGE EJ 1)

On March 26, 2021, TAURON signed with the State Treasury the agreement for the sale of the shares in PGE EJ 1, the company responsible for the preparation and implementation of the investment project involving the construction and operation of Poland's first nuclear power plant.

In accordance with the provisions of the above Agreement, TAURON sold to the State Treasury all 532 523 shares in PGE EJ 1, held by the Company, constituting 10% of the share capital and representing 10% of votes at the General Meeting of the shareholders (partners) of PGE EJ 1.

The sale price of the above shares amounted to PLN 53 136 200. The payment for the shares in PGE EJ 1 took place on March 31, 2021. After the closing of the transaction, TAURON does not hold any shares in PGE EJ 1.

The agreement to sell 100% of the shares in PGE EJ 1 to the State Treasury was signed by all of the entities holding the shares in PGE EJ 1, i.e. TAURON, PGE Polska Grupa Energetyczna S.A. (PGE), Enea S.A. (Enea) and KGHM Polska Miedź S.A. (KGHM Polska Miedź). The sale price for 100% of the shares amounted to PLN 531 362 000

The sale of the shares in PGE EJ 1 constitutes the implementation of one of the strategic directions announced by TAURON on May 27, 2019.

Acquisition by TAURON EKOENERGIA of 100% of the shares in Polpower

On June 10, 2021, TAURON EKOENERGIA acquired 100% of the shares in Polpower sp. z o. o. (LLC) with its registered office in Jelenia Góra, i.e. 1 520 shares with a nominal value of PLN 500 each and the total nominal value of PLN 760 000.

The purchase price of the shares did not constitute a material amount from the point of view of TAURON Capital Group's financial results.

Polpower is implementing the Majewo wind farm construction project located in the municipality of Milejewo in the Elbląg county in the Warmian-Mazurian Province.

The detailed information on the implementation of the Majewo wind farm construction project is provided in section 1.7 of this report.

Merger of TAURON Zielona Energia (formerly: TEC3) and TEC2

On July 1, 2021, the Katowice-Wschód District Court in Katowice, the 8th Commercial Division of the National Court Register registered the merger of TEC3 (the Acquiring Company) and TEC2 (the Acquired Company).

The above event was the result of adopting, on June 21, 2021, of the resolutions related to the merger of the above mentioned companies by the Extraordinary General Meeting (GM) of the above mentioned companies.

As a result of the merger the share capital of TEC3 was raised from the amount of PLN 6 025 000 to the amount of PLN 6 025 050, by way of establishing (issuing) 1 indivisible share with the nominal value of PLN 50.

The merger of TEC3 and TEC2 is an element of the implementation of the *TAURON Group Structure Optimization Program Concept* adopted by the Management Board on December 10, 2020.

On September 15, 2021, the Extraordinary General Meeting (GM) of the Shareholders of TEC3 sp. z o.o. (Ltd.) adopted the resolution regarding the change of the company's name to TAURON Zielona Energia sp. z o.o. (Ltd.) (TAURON Zielona Energia).

On October 8, 2021, the Katowice-Wschód District Court in Katowice, the 8th Commercial Division of the National Court Register registered the change of the name of the company TEC3 spółka z ograniczoną odpowiedzialnością (Limited Liability Company) to TAURON Zielona Energia spółka z ograniczoną odpowiedzialnością (Limited Liability Company).

Change in the classification of TAURON Ciepło net assets

The Management Board of TAURON, having carried out the market verification of the possibility of selling the TAURON Ciepło subsidiary and taking into account the current prospects for the development of the domestic district heating sector, on December 22, 2021, made the decision to keep the TAURON Ciepło subsidiary within the structures of TAURON Capital Group.

As of December 31, 2021, TAURON Capital Group assessed that with regard to the assets and liabilities of the TAURON Ciepło subsidiary, the conditions for the classification of the TAURON Ciepło subsidiary's net assets, stemming from the IFRS 5 *Fixed assets held for sale and the discontinued operations*, as a group held for sale and for the operations of the TAURON Ciepło subsidiary as the discontinued operations are no longer met.

In order to ensure the comparability of the data in the consolidated financial statements for the year ended on December 31, 2021, TAURON Capital Group made an applicable conversion (adjustment) of the comparable data with respect to the presentation and valuation of the assets and liabilities of the TAURON Ciepło subsidiary for the year ended on December 31, 2020, and as of December 31, 2020. Following the conversion (adjustment), the assets and liabilities of TAURON Ciepło are presented under the relevant items of the consolidated statement of the financial position. The value of the assets and liabilities is based on the recoverable value of the TAURON Ciepło subsidiary's individual centers that are generating cash flows, which represents the utility value of such centers as of December 31, 2020, estimated as part of the impairment tests carried out by TAURON Capital Group as of December 31, 2020. The comparable data was converted (adjusted) in such a way as if the assets and liabilities of the TAURON Ciepło subsidiary in the previous reporting periods were not classified as a group held for sale and were not valued at fair value (marked to market).

The detailed information on the decision to keep TAURON Ciepło within the structures of TAURON Capital Group is presented in section 2.6 of this report.

1.4. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.3. of this report, the organizational or equity ties are applicable to the material joint subsidiaries (co-subsidiaries) in which the Company held, directly or indirectly, shares, and which, as of December 31, 2021, include the companies listed in the below table.

The below tables presents the list of material joint subsidiaries (co-subsidiaries) as of December 31, 2021.

Table no. 1. List of material joint subsidiaries (co-subsidiaries) as of December 31, 2021

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

¹The stake in Elektrociepłownia (Combined Heat and Power Plant) Stalowa Wola S.A. (EC Stalowa Wola – Stalowa Wola CHP) is held by TAURON indirectly via the TAURON Wytwarzanie subsidiary

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

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

The major domestic and foreign investments, as well as equity investments made in 2021 and by the date of drawing up this report are listed below.

Taking up or acquiring share securities in TAURON Capital Group companies

The below table presents a summary of the equity increases in TAURON Capital Group companies in 2021 and by the date of drawing up this report.

Table no. 2. Summary of the equity increases in TAURON Capital Group companies in 2021 and by the date of drawing up this report

Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the General Meeting of the Partners (Shareholders)	Structure of the share capital following the increase
1. Polpower	PLN 16 250 000	TAURON EKOENERGIA	PLN 162 500	26.10.2021	TAURON EKOENERGIA 100%

Making additional contributions to the share capital of PEPKH

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

The purpose of the above mentioned contributions was to meet the requirements of the President of the Energy Regulatory Office (ERO) with respect to PEPKH having certain financial resources sufficient to properly carry out the licensed operations in the field of trading in electricity.

Acquisition of the shares in Nowe Jaworzno Grupa TAURON

On December 22, 2021, TAURON concluded an agreement with the Infrastructure Related Investments Fund - Closed-End Non-Public Assets Capital Fund (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych), under which TAURON acquired 176 000 shares in Nowe Jaworzno Grupa TAURON representing 13.71% of the number of the votes at the General Meeting of the Shareholders (Partners) of Nowe Jaworzno Grupa TAURON.

The purchase price for the shares amounted to PLN 1 061 385 146.18.

As a consequence, TAURON became the sole shareholder (partner) of Nowe Jaworzno Grupa TAURON, holding 1 284 020 shares in the share capital, representing 100% of the number of the votes at the General Meeting of the Shareholders (Partners) of Nowe Jaworzno Grupa TAURON.

The detailed information on the above topics is presented in section 12.2. of this report.

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

The below table presents a summary of the equity increases in the other companies in which TAURON holds an equity stake in 2021 and by the date of drawing up this report.

Table no. 3. Summary of the equity increases in the other companies in which TAURON holds an equity stake in 2021 and by the date of drawing up this report

Company	Share capital increase (total price for taking up shares)	Company taking up shares	Nominal value of shares taken up	Date of passing the resolution by the General Meeting of the Partners (Shareholders)	Structure of the share capital following the increase
1. EEC Magenta spółka z ograniczoną odpowiedzialnością a 2 ASI spółka komandytowo - akcyjna (EEC Magenta limited liability company 2 ASI limited joint stock partnership)	PLN 99 970	EEC Ventures spółka z ograniczoną odpowiedzialnością 2 spółka komandytowa (EEC Ventures limited liability company 2 limited partnership)	PLN 2 950	07.04.2021	EEC Ventures 2 2.94%
	PLN 4 900 000	PFR NCBR CVC FIZAN	PLN 49 000		PFR NCBR CVC FIZAN 49.03%
	PLN 4 800 100	TAURON	PLN 48 001		TAURON 48.03%
2. EEC Magenta spółka z ograniczoną odpowiedzialnością a ASI spółka komandytowo – akcyjna (EEC Magenta limited liability company ASI limited joint stock partnership)	PLN 60 200	EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company limited partnership)	PLN 1 380	17.06.2021	EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company limited partnership) 3%
	PLN 2 896 000	PFR Starter FIZ	PLN 33 166		PFR Starter FIZ 72.1%
	PLN 2 925 800	TAURON	PLN 11 454		TAURON 24.9%
	PLN 106 000	EEC Ventures	PLN 1 060		EEC Ventures 3%
3. EEC Magenta ASI	PLN 2 549 200	PFR Starter FIZ	PLN 25 492	13.10.2021	PFR Starter FIZ 72.1%
	PLN 880 400	TAURON	PLN 8 804		TAURON 24.9%
	PLN 271 320	EEC Ventures	PLN 7 980		EEC Ventures 2.94%
4. EEC Magenta 2 ASI	PLN 13 300 000	PFR NCBR CVC FIZAN	PLN 133 000	13.10.2021	PFR NCBR CVC FIZAN 49.03%
	PLN 13 028 700	TAURON	PLN 130 287		TAURON 48.03%
	PLN 141 974	EEC Ventures 2	PLN 4 166		EEC Ventures 2
5. EEC Magenta 2 ASI	PLN 6 962 200	PFR NCBR CVC FIZAN	PLN 69 622	17.02.2022	PFR NCBR CVC FIZAN 49.03%
	PLN 6 820 200	TAURON	PLN 68 202		TAURON 48.03%

Increase of the share capital of Huta Łaziska S.A. in an arrangement bankruptcy with the registered office in Łaziska Górne (Huta Łaziska)

By way of the decision of the Katowice-Wschód District Court in Katowice of April 12, 2021, an arrangement concluded by the debtor Huta Łaziska with the creditors was approved, under which, on September 14, 2021, the share capital of Huta Łaziska was increased by converting the liabilities covered by the arrangement. As a result of the above, in exchange for the receivables in the total amount of PLN 208 543 477.59, TAURON shall be entitled to 20 854 347 preferred (in terms of the dividend payout) silent (without the voting right) shares with a nominal value of PLN 10 each.

The other most significant equity investments in the financial assets as of December 31, 2021, include stakes in the following entities:

1. EEC Magenta limited liability company 2 ASI limited joint stock partnership with the balance sheet value of PLN 36 945 000,
2. Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (limited liability company) with the balance sheet value of PLN 29 476 000,
3. Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. (limited liability company) with the balance sheet value of PLN 24 051 000,
4. Energetyka Cieszyńska Sp. z o.o. (limited liability company) with the balance sheet value of PLN 11 266 000,
5. ElectroMobility Poland S.A. (joint stock company) with the balance sheet value of PLN 10 226 000.

Investments in the financial assets

TAURON and TAURON Capital Group's subsidiaries did not make any investments in the financial assets in 2021.

TAURON continued the financing of EC Stalowa Wola (Stalowa Wola CHP) in the form of loans, the total principal amount of which to be repaid, as of December 31, 2021, stood at the nominal value of PLN 413 million.

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

After the balance sheet date, TAURON granted a loan to EC Stalowa Wola (Stalowa Wola CHP) in the amount of PLN 120 million with a repayment date of June 30, 2033, and in the event of the removal of the subordinated nature of the loan, with a repayment date of December 31, 2022.

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

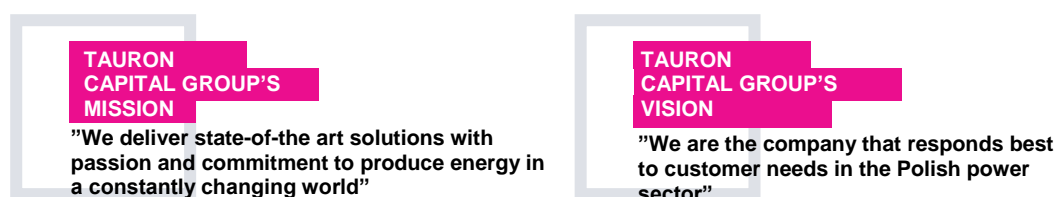
1.6. TAURON Group's Strategy for the years 2016-2025 and the implementation thereof

TAURON Group's Strategy for the years 2016-2025 (Strategy) is the document in force, which had been adopted by the Management Board of the Company and had received a positive opinion of the Company's Supervisory Board back in 2016.

Due to the impact of the market and regulatory changes on TAURON Capital Group, in 2019, the Company's Management Board adopted, and the Company's Supervisory Board issued a positive opinion on the *Update of the Strategic Directions in TAURON Group's Strategy for the years 2016-2025* (Update of the Strategic Directions), the so-called *Green Turn of TAURON*, which complemented the Strategy. Currently, work is underway on TAURON Capital Group's new Strategy, taking into account the recent regulatory changes and the prospects for the power sector in Poland.

Mission, Vision and values

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



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

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



TAURON Capital Group's Strategy

The Strategy adopted for the years 2016-2025, and updated in 2019, ensures the financial stability and prospects for growth, while at the same time providing the support for ensuring the stability of the power system. It is assumed that the long term growth will be driven by solutions based on the customer relationships. The Mission and the Vision reflect such management philosophy and are in line with the customer-oriented growth concept.

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

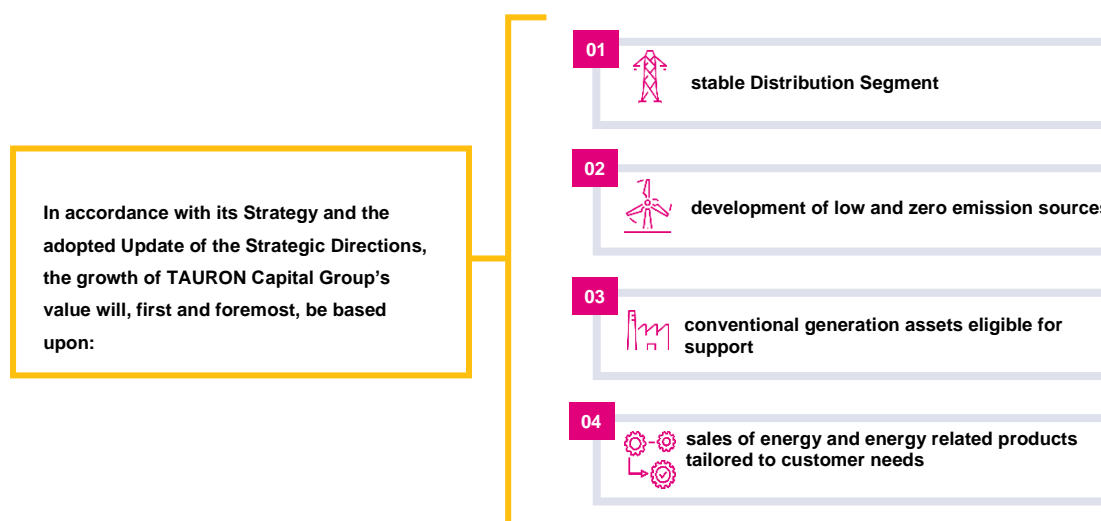
The Strategy sets out three priorities that assume the transition of TAURON Capital Group into a developing energy company adjusted to the needs of the market and the customer, ultimately providing its shareholders with a return on the invested capital:



At the European Union (EU) level, there has been an acceleration of the legislative works aimed at taking more specific actions aimed at converting the EU economy to the low and zero emission sources. These activities affect the domestic electricity market in a significant way, accelerating the transition of the energy sector, which has a direct impact on TAURON Capital Group and its strategic decisions. Therefore, TAURON Capital Group is implementing the update of the strategic directions announced in 2019, i.e. a sustainable transition towards becoming a leading low emission energy group in Poland. The implementation of the above in combination with a modern management philosophy as well as focusing on the customer (customer orientation) and his/her needs will allow for the development of an innovative capital group.

The below figure presents the foundations for the growth of TAURON Capital Group's value with their legitimacy having been confirmed in the adopted update of the strategic directions.

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



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

1. transition of the energy mix towards the low and zero emission sources
2. making the portfolio of TAURON Capital Group's assets more flexible by adjusting the mining assets to the planned demand for fuel, reorganizing the Generation Segment and the capital investment (capex) portfolio.

The overarching goal with respect to the capital expenditures is to adapt the investment project portfolio to the market needs. The update highlighted the need to focus the investments (capex) on the development (expansion) of the renewable energy sources. The investment (capex) activities will be geared (oriented) towards:

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

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

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

Strategic goals	Growth prospects
RES Segment	
<p>The main goal for the RES Segment is the profitable growth of this line of business based on the wind and PV technologies as well as improving the profitability of its hydro power generation assets.</p> <p>The activities undertaken are focused on improving the operational efficiency, while preparing and implementing the investment and expansion projects at the same time. The options for expanding the RES installations are being prepared by building the in-house sources as well as acquiring the existing installations and ready-made projects.</p> <p>The Update of the Strategic Directions has reinforced the importance of the clean energy development. The involvement in the low and zero emission energy is implemented through:</p> <ol style="list-style-type: none"> 1. investments in the on-shore wind farms – the ultimate (target) level of the wind based capacity in 2025: approx. 1.1 GW, which represents an increase by approx. 900 MW as compared to the level as of the end of 2018, 2. investments in the photovoltaic farms: the ultimate (target) level of PV based capacity in 2025: approx. 0.3 GW, 3. readiness to take part in off-shore wind farm projects. 	<p>A strong growth of the RES sources has been observed over the last few years, in particular with respect to the photovoltaics installations. Poland almost doubled its PV installed capacity in 2021.</p> <p>According to the generally available sources, as of the end of 2021, Poland's PV installed capacity stood at 7.7 GW, having grown by more than 93% year over year.</p> <p>The environmental, economic and commercial benefits will continue to further drive the development (expansion) of the renewable energy sources. In the coming years, the growth of the RES line of business will focus on the investments in the photovoltaic farms and wind farms onshore, and in the longer term – the offshore wind farms.</p> <p>The technological changes related to the wind farms and the favorable regulations (the potential amendment of the so-called distance act) will translate into the growth of the line of business as well as the repowering of the installations. On the other hand, the opportunities for the emergence of the large scale offshore renewable energy sources are provided for by the Act on promoting electricity generation in the offshore wind farms adopted in 2021.</p> <p>An additional factor supporting the growth is the possibility of obtaining funds for investments from the dedicated funds.</p>
Distribution Segment	
<p>The main goal for the Distribution Segment is to maintain its leadership position on the Polish market in terms of the security and efficiency of the grid operation.</p> <p>The capital expenditures are mainly allocated to the tasks related to connecting the new customers to the grid, as well as upgrading and expanding of the grid.</p> <p>The activities underway are aimed at ensuring the flexibility of the grid and simplifying the procedures related to connecting the new customers to the grid. The investment projects underway are adapting the distribution assets to the growing volume of electricity generated by the renewable sources, are aimed at ensuring the timely implementation of the process of connecting the micro-installations to the grid and are also preparing the grids to interoperate with the infrastructure for charging electric vehicles.</p> <p>The <i>Single Distribution Program</i>, that was made up of the projects aimed at optimizing the company's operational processes, including; the activities leading to raising customer satisfaction and improving the company's image, was completed.</p> <p>The Update of the Strategic Directions confirmed the legitimacy of TAURON Capital Group's growth based on, among others, the stable Distribution Segment.</p>	<p>The activities aimed at ensuring the reliability of electricity supply and simplifying the procedures related to connecting the new consumers and micro-installations to the grid will be continued. The investment projects carried out will allow for adapting TAURON Capital Group's distribution assets to the growing volume of electricity generated by the distributed renewable sources, and also for preparing the grid to interoperate with the infrastructure to be used for charging electricity vehicles.</p> <p>The development of TAURON Capital Group with respect to the smart grids and smart meters will allow for introducing additional functionalities, both on the part of the distributor, as well as the customer. The Distribution Segment's growth will be significantly affected by the ability to obtain aid funds, both with respect to improving the grid security, as well as the research and development (R&D) activities.</p> <p>The above mentioned challenges will be dealt with on the regulated market that makes the Distribution Segment's operations dependent on the new elements of the regulatory policy towards the Distribution System Operators (DSOs), introduced by the President of ERO, and the risks related thereto. The potential changes to the energy law may have a material impact on the level of the financial results of this line of business.</p>
Generation Segment	

Strategic goals	Growth prospects
<p>The main goals for the Generation Segment include:</p> <ol style="list-style-type: none"> 1. for TAURON Wytwarzanie: to develop an optimal, from the point of view of profitability and risk, generation assets portfolio and the efficient operation thereof, 2. for TAURON Ciepło: to achieve a return on invested capital. <p>The goals set in the Strategy are to be accomplished by:</p> <ol style="list-style-type: none"> 1. optimizing the costs and capital expenditures as well as streamlining employment level (headcount), 2. optimizing production assets, 3. selling redundant non-production assets, 4. investment projects that lead to the upgrading of the generation fleet <p>The Update of the Strategic Directions indicated that the priority was to decommission all of the obsolete coal fired 120 MW units by the end of 2020. The further obsolete coal fired units (first of all the 200 MW units) will be retired in the years 2025-2030 – in total approx. 2.5 GW of installed capacity. Ultimately, the modern conventional units will remain a part of the production portfolio: Łagisza 460 MW and Jaworzno 910 MW.</p> <p>As part of the Update of the Strategic Directions, a market verification of the TAURON Ciepło subsidiary sale (divestment) option and the sale of the shares in EC Stalowa Wola and PGE EJ1 were assumed.</p> <p>In December 2021, the decision was made to keep the district heating assets within the structures of TAURON Capital Group.</p> <p><i>The detailed information on the above topics is presented in sections 1.3. and 2.6. of this report.</i></p>	<p>The tightening decarbonization policy as well as the energy and climate policy of the European Union (EU), combined with the increase in the prices of the CO₂ emission allowances set the direction of the development of the energy sector. In accordance with the main target of the European Green Deal, the EU is to reach climate neutrality by 2050. The curtailment of the support systems for the conventional energy as well as the prospect of a lack of the option to take advantage of the ETS derogations for the modernization of the coal assets are the further factors that have a negative impact on the profitability of such units.</p> <p>The curbing of the financing for the coal installations and for the capital groups that own such coal assets, as well as the narrowing group of the coal asset insurers reduce the economic sense of maintaining the conventional assets.</p> <p>With respect to the heat generation, distribution and trading, the material measures include the liquidation of the low emission sources, searching for the co-generation solutions as well as improving the rate of utilization of the existing infrastructure.</p> <p>The trends in the energy sector also indicate the need to engage in the development of the hydrogen technologies and the investments in the large scale gas fired sources as well as the gas fired co-generation.</p> <p>The ultimate shape of the domestic conventional energy sector depends on the implementation of the agreement, concluded in 2021, related to the cooperation on the spinning off of the coal assets and the integration thereof as part of the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE).</p>
<p>Supply Segment</p>	
<p>The main goal for the Supply Segment is to achieve the leadership position in the relationships with the customers based on the high quality customer service as well as product leadership.</p> <p>A number of initiatives are implemented, aimed at increasing the sales potential (by transforming the customer service channels into the integrated customer contact channels), increasing the value of the products and services sales to mass customers (by developing the product offering and the sales techniques), developing products and building contact channels with respect to the specialty products as well the partnership offering addressed to the mass customer segment.</p> <p>The Update of the Strategic Directions confirmed the continuation of the development of the new energy related products and services, including:</p> <ol style="list-style-type: none"> 1. for the business customers: consulting and management of the energy assets and infrastructure, the energy audit and efficiency improvement services, 2. for the institutional customers: the products and services with respect to Smart City, electromobility, low emissions reduction, multiutility. 	<p>The actions taken by the competition and the rising customer expectations have an impact on developing the product offering and maintaining the highest customer service standards. The growing customer awareness has an impact on the rising requirements, both with respect to the products offered, as well as the speed and quality of the customer service. The importance of ecology, a change in the customer's approach to the way electricity is consumed and a large increase in the number of prosumers are ever more affecting the needs and expectations of the customers.</p> <p>TAURON is systematically expanding its product offering, tailoring it to the expectations of the individual and business customers, and developing the communications channels, both on the level of digital platforms, as well as that of the direct contacts. Building a competitive advantage is contingent on the fast response to the market changes and customer expectations. With similar price offerings the competition for a customer will take place on the level of innovative product and service proposals, in particular on the level of the customer communications platforms and customer service quality.</p> <p>The market of ecological products and services, stemming from the necessity to implement the green transition, will also be undergoing a continuous development. In the long term, it becomes necessary to have a wider range of services and products, including, among others, the energy efficiency improvement services and products with a documented neutral or reduced environmental impact.</p>
<p>Mining Segment</p>	
<p>The main goal for the Mining Segment is to align the coal extraction output level to TAURON Capital Group's planned demand for the fuel and to provide a stable supply of the cost competitive and adequate, in terms of quality, fuel.</p> <p>As part of the Update of the Strategic Directions, a strategic option was adopted that involved conducting a market verification of the sale of ZG Janina (Janina Coal Mine). Due to the lack of bids, the process of finding a buyer was ended in December 2019.</p> <p>In September 2021, a letter of intent was concluded with the State Treasury regarding the potential disposal of the TAURON Wydobycie subsidiary, with the decision to carry out the transaction being dependent, inter alia, on the results of the negotiations in this regard and the fulfillment of other conditions specified in the legal regulations.</p>	<p>The upcoming time in the hard coal mining industry will be difficult due to the unfavorable prospects for this fuel in the EU energy policy. The introduction of further restrictions with respect to the environment protection, quality of solid fuels, taxes and local government regulations (including the anti-smog ones), as well as the curtailment or a lack of the possibilities to obtain the financing pose a challenge for the sector.</p> <p>The energy and climate regulations lead to a successive decline of the competitiveness of the coal fired electricity generation. The directions of the mining industry's development will also be strongly correlated with the guidelines outlined in the government documents: <i>Poland's Energy Policy until 2040</i> and the <i>National Plan for Energy and Climate for the years 2021-2030</i>. The above mentioned documents demonstrate the growing importance of the renewable energy sources (RES) and a gradual change in the country's generation mix at the expense of the conventional energy.</p> <p>In 2021, a social agreement for the mining industry was signed, which set out the rules and pace of retiring (decommissioning) the Polish hard</p>

coal mines by 2049, and the implementation of the government program for the mining industry will ultimately determine the role of the Polish mining industry.

Key challenges

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



Regulations – at the EU level: the tightening of the policy of the financial institutions regarding the financing of the energy projects related to the fossil fuels (Taxonomy). The announcement of the *Fit for 55* legislative package aimed at: updating and adapting the existing regulations to the further reduction of the greenhouse gas emissions by at least 55% by 2030, accelerating the growth of the RES consumption target in the final energy consumption (up to 40% in 2030 - REDII), increasing the 2030 energy efficiency target to 36% (EED), introducing the electricity and energy product taxation (ETD) and implementing a carbon footprint tax (Carbon Border Adjustment Tax - CBAM). At the national level: the adoption of *Poland's Energy Policy until 2040*, the works on the structural solutions for the hard coal mining and power industry towards ensuring energy security (establishment of the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego – NABE) and signing of the social agreement for the mining sector), the entry into force of the *Act of 17 December 2020. on promoting electricity generation in the offshore wind farms*.



Market – the rising costs of electricity generation (high CO₂ emission allowances prices). The cost competitiveness of the renewable energy sources (RES) and the growing generation from the renewable energy sources (RES), along with the parallel curtailment of the possibilities of obtaining the financing for the conventional energy, the preferential funding for the renewable energy sources (RES). The solutions regarding the shape of the mining sector and the coal based energy sector in Poland related to the difficult situation of the sector. The impact of the COVID-19 pandemic on the national economy and the actions taken to minimize the negative impact on TAURON Capital Group.



Customer – growing awareness of the customers and their rising requirements with respect to satisfying their needs, as well as the comprehensiveness of the offering, the increasing expectations with respect to the customer service quality and availability. An increase in the ecological awareness of the society (public) and a change of the customer's approach to the way electricity is consumed, including a strong surge in the number of prosumers. Changing of the way customers are served using different contact channels and the development of the chatbot technology and data analytics to improve the customer satisfaction rates.



Technology – the growth of the prosumer energy, the rising competitiveness of the renewable energy sources versus the conventional sources, a change of the role of the distribution service due to the expansion of the dispersed (distributed) power generation and the need to adapt the grid to the two way (bi-directional) flow of electricity. The digitization of the power sector, implementation of the smart metering and the new billing technologies, development of the energy storage and hydrogen technologies.

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

A transition of the utility scale (system) power generation sector towards the decentralized generation, increased role of the cross border connections, energy storage and new energy services (*virtual power plants*, demand side management) is foreseen in the coming years. The above mentioned direction of the changes has an impact on both, the Distribution Segment that must deal with the smart technologies, electric vehicle charging infrastructure, distributed (dispersed) generation, including the prosumers and the two way (bi-directional) flows of electricity, while at the same time increasing the quality and security of the supply of electricity, as well as the Generation Segment, whose transition will be geared (oriented) towards performing the function of regulating (adjusting, balancing) and stabilizing the power system.

Opportunities and threats

The below table presents the opportunities for and threats to TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2021.

Table no. 5. Opportunities for and threats to TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2021

Opportunities	Threats
Regulations	
<ol style="list-style-type: none"> 1. Participation in the government programs for the mining and conventional energy sectors. 2. Functioning of the dual-product market – additional revenue for maintaining the generation capacity. 3. Introduction of the legal solutions supporting the curtailment of the low emissions (for example the system district heating). 4. Possible softening of EU coal policy driven by the need to achieve independence from energy sources from Russia. 5. Funds allocated to the energy transition. 	<ol style="list-style-type: none"> 1. Tightening energy and climate policy of the European Union (EU): among others, the <i>EU taxonomy</i> and its impact on the possibilities of financing the investments in the energy sector, the <i>European Green Deal</i>, the strategy aimed at reaching the climate neutrality by 2050. 2. Increase of the costs of generating electricity using the conventional sources due to, among others, the ever higher environmental costs and the decarbonization policy. 3. The need to incur additional expenses due to the changes to the energy law.
Market	
<ol style="list-style-type: none"> 1. Access to the largest, among Poland's energy companies, customer base. 2. Entry into the energy related services market segments based on the competences held. 3. Commercialization of the innovative solutions developed as part of the research and development (R&D) activities. 4. Preferential funding for the RES. 	<ol style="list-style-type: none"> 1. Rapid changes of prices on the gas market and increasing risk of its unavailability caused by political situation. 2. Loss of profitability of the Supply Segment caused by rapid changes of wholesale electricity prices. 3. Increasing prices and shortages of coal caused by low supply by local producers and difficulties with import. 4. Rapid changes of prices on raw materials market and related growing prices of investment goods that hinder planning and execution of investments. 5. Increase of proce competitive generation from RES and development of prosumers. 6. High inflation rate and the rising costs of the materials, services and labor.
Customer	
<ol style="list-style-type: none"> 1. Competitive advantage with respect to the customer service quality. 2. Customer segmentation and offering of the additional products in line with the customer expectations. 3. Growing customer awareness and expectations towards the comprehensive, personalized offering of the additional services and products. 4. Expanding an offering of services for the customers based on the competences held and trust in the TAURON brand. 5. Developing modern and integrated sales and customer service channels. 6. New competences and business models based on the research and development (R&D) activities. 7. Maintaining of an upward trend in electricity consumption by the final consumers. 8. Developing competences and competitive advantages in the new areas of operations. 	<ol style="list-style-type: none"> 1. Potential loss of customers due to an increase in the number of the competitors offering customers similar products and due to the low electricity supply market entry barriers. 2. Decrease of the customer loyalty – intense activities conducted by the competitors. 3. Growing customer awareness and requirements with respect to the customer service quality and product offering. 4. Increase of the ecological awareness of the society (public). 5. Power independence of the consumers (prosumers, energy (power) islands, energy storage facilities, clusters). 6. Energy intensive consumers building the in-house generation sources, as a result of the drive to reduce the electricity costs. 7. "Carbon leakage" – moving business operations to other countries due to the cost of energy.
Technologies	
<ol style="list-style-type: none"> 1. Continued decline of the prices of the renewable technologies. 2. Advancement of the energy storage technologies, smart technologies and the technologies related to the dispersed (distributed) generation. 3. Additional services for the customers related to the new technologies (internet of things, dynamic tariffs, virtual power plants). 4. Developing and implementing (commercializing) of proprietary innovative solutions that provide a competitive advantage. 5. Development of the technologies with respect to the circular economy. 	<ol style="list-style-type: none"> 1. Growth of the prosumer energy, partial energy independence of the final consumers. 2. The necessity to adapt the grid to the growth of the dispersed (distributed) power generation (bi-directional electricity flows). 3. Arrival of the new, cost competitive electricity generation technologies in the countries neighboring with Poland. 4. Growing number of cyberthreats.

As of the date of drawing up this report, in connection with the aggression of the Russian Federation against Ukraine, new risk factors had appeared and the materiality thereof in the context of the opportunities and threats for TAURON Capital Group had changed. The most important of such threats include:

1. a change of the EU's energy balance resulting from the curtailments in the availability or a lack of the Russian gas supplies and the high prices of this commodity on the world market. For TAURON Capital Group such a situation means the necessity to ensure gas availability for the assumed investment projects based on the use of this fuel. The high gas prices may bring about an increased consumption of coal for electricity generation purposes throughout the EU and, as a result, lead to a rise in its price. As a consequence of the elevated consumption of coal, the CO₂ emissions will go up and a further rise in the prices of the allowances will be possible,

2. curbing or abandoning of the steam coal imports to the EU countries from Russia – leading to a rise of the prices in Poland and the potential short term shortages, in particular for the district heating,
3. a disruption of the supply chains of the products and investment goods from Russia and Ukraine - resulting in a number of enterprises in Poland having to look for other suppliers, which may lead to the reduction of the GDP growth rate and translate into higher electricity consumption. The direct exposure of TAURON Capital Group's entities to this risk is minor,
4. a curtailment of the exports to Russia due to the introduced sanctions and impediments to the exports to Ukraine stemming from the military operations - resulting in a reduction of the GDP growth rate and an increase in the trade risk,
5. a general increase in the level of economic uncertainty leading to the difficulties in planning of the expansion and higher costs of financing,
6. cyber threats due to the hostile actions taken by Russia.

The material opportunities include:

1. easing or stretching in time of the decarbonization of the EU economies, and the Polish economy in particular. In order to keep a lid on an increase of the electricity prices in Europe and in Poland, a potential EU intervention on the CO₂ emission allowances market is possible.
2. climbing production of electricity from coal leading to a rise in the profitability and the value TAURON Capital Group's in-house generation assets.

The detailed information on the above topics is presented in section 12.7. of this report.

Long term financial goals and assumptions of TAURON Group's Strategy

In the Strategy approved in 2016, a number of activities aimed at achieving the goals set for TAURON Capital Group were assumed. The key strategic goals include, among others:

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

As part of the update of the strategic directions in 2019, the following strategic directions were adopted for implementation:

1. Development of the low and zero emission energy through the investments in the renewable energy sources. TAURON Capital Group has planned to implement this direction pursuing the following options:
 - investments in the on-shore wind farms with the ultimate (target) level of the installed capacity of 1.1 GW in 2025,
 - investments in the photovoltaic farms with the ultimate (target) level of the installed capacity of 0.3 GW in 2025,
 - commencement of the involvement process in the construction of the off-shore wind farm projects

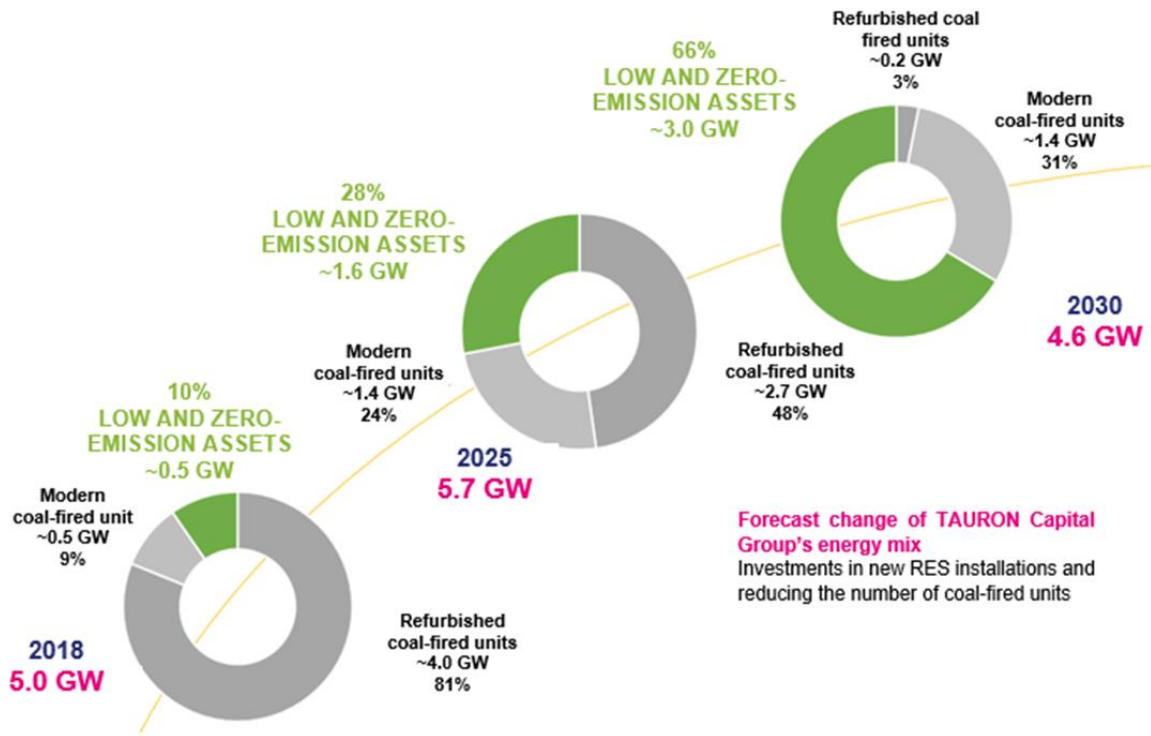
The document indicates the ultimate (target) structure of the generation assets of TAURON Capital Group. As a target, TAURON is planning to increase the share of the low and zero emission sources in the generation structure of TAURON Capital Group from 10% in 2018 to nearly 30 percent in 2025 and more than 60 percent in 2030

2. Making the portfolio of TAURON Capital Group's assets more flexible by adjusting the mining assets to the planned demand for fuel, reorganizing the Generation Segment and the capital investment (capex) project portfolio. It has been assumed that this direction will be implemented by pursuing the following options:
 - a market verification of the sale (divestment) of the Janina Cola Mine (ZG Janina) and the TAURON Ciepło subsidiary,
 - sale of the shares in EC Stalowa Wola and PGE EJ 1,
 - permanent shutdown of the 120 MW units by 2020, and past 2025 – of the 200 MW units.

The assumed ultimate energy mix of TAURON Capital Group will be a consequence of the investments in the low and zero emission assets and the reduction in the number of the coal fired units.

The below figure below presents the direction of the ultimate energy transition of TAURON Capital Group.

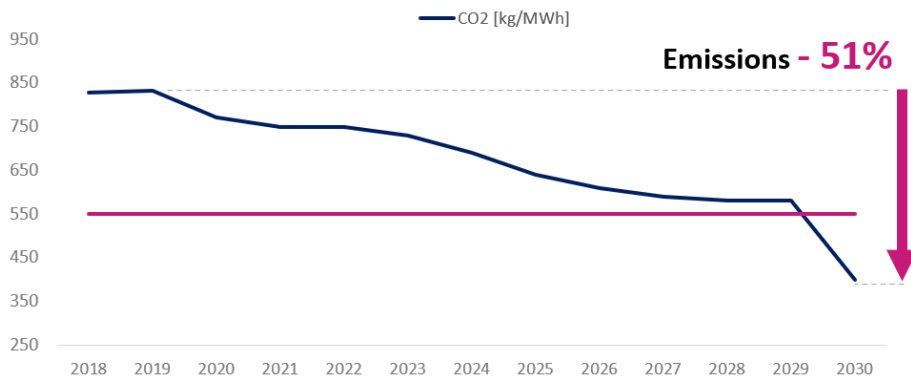
Figure no. 5. Direction of TAURON Capital Group's ultimate energy transition



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

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

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



The implementation of TAURON Group's Strategy and the strategic priorities in 2021

Three priorities set out in TAURON Group's Strategy, i.e.:

1. Ensuring TAURON Capital Group's financial stability,
2. Building a strong capital group,
3. Implementing the organizational changes supporting the implementation of the Strategy

were confirmed in the update of the strategic directions and constitute a reference point for the strategic activities implemented by TAURON Capital Group. TAURON Capital Group's efforts focus on the implementation of the designated strategic options as key for building TAURON's value.

The sustainable transition of TAURON Capital Group is implemented mainly through the investments in the renewable energy sources (RES) and the shutdowns of the coal fired units.

In recent years, TAURON Capital Group has increased its RES installed capacity – as compared to 2018, the total installed capacity in hydro, wind and photovoltaic technologies has been increased by more than 60% (from 0.3 GW to 0.5 GW in 2021).

The implementation of the strategic directions in 2021 from the perspective of the above mentioned priorities indicated in the Group's Strategy is presented below.

Ensuring TAURON Capital Group's financial stability

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

In line with the update of the strategic directions, the maintaining of the financial stability is supported through the implementation of the strategic options:

1. In 2019, the decision was taken to carry out a market verification of the sale (divestment) of the Janina Coal Mine (ZG Janina). This decision was aimed at making the portfolio of TAURON's assets more flexible by adjusting the mining assets to the planned demand for fuel. In December 2019, the process of searching for a potential investor was ended due to the lack of interest in the acquisition of the Janina Coal Mine (ZG Janina). At the same time, TAURON was working on making the Mining Segment more profitable, among others, through the implementation of the Turnaround) Program for TAURON Wydobycie.
2. In 2021, TAURON signed a letter of intent with the State Treasury regarding the acquisition by the State Treasury of 100% of the shares in TAURON Wydobycie.

The detailed information on the above topics is presented in section 2.6. of this report.

3. In 2019, a project aimed at a market verification of the possibility of the sale of the shares in TAURON Ciepło was launched. The most advanced talks were conducted with PGNiG. Having taken into account the current growth perspectives for the domestic district heating sector, TAURON made the decision to keep TAURON Ciepło within the structures of TAURON Capital Group and to develop the company by converting the generation sources from coal to the gas fuel.

The detailed information on the above topics is presented in section 2.6. of this report.

4. The key to ensuring the financial stability of TAURON Capital Group is the steadfastly implemented energy transition, especially with respect to the development of RES, which, combined with the investments in the Distribution Segment, constitute a pillar for the further expansion of TAURON Capital Group.

Building a strong capital group

Building a strong capital group is supported by the activities aimed at implementing the energy transition:

1. As compared to 2018, the total installed capacity in wind based technologies has almost doubled. This increase was mainly due to the acquisition in 2019 of 5 wind farms with a total installed capacity of 180 MW from the in.ventus group. At the end of 2021, the total installed capacity of the wind farms clocked in at 381 MW. Further wind projects are under construction: Piotrków (30 MW) and Majewo (6 MW).
2. Regarding the expansion with respect to the photovoltaic farms, in 2021, the solar farms with a total capacity of 11 MW were commissioned: PV Choszczno (6 MW) and PV Jaworzno (5 MW). In 2022, the start of the commercial electricity production of the PV Choszczno II farm (8 MW) is planned. The works are underway to prepare for the development of the photovoltaic installations on TAURON Capital Group's land that is not used for business related purposes.
3. In the field of the conventional energy, the schedule of the shutdowns of the obsolete 120 MW coal fired units was completed: in the years 2020-2021, approx. 1 GW of the coal fired generating capacity, i.e. all of the 120 MW units, were shut down. Further unit retirements are planned past 2025.
4. In 2021, TAURON was actively taking part in the works on the implementation of the government program leading to the spinning off of the coal based generation assets from the energy groups, under which TAURON, PGE, Enea and Energa and the State Treasury concluded an agreement on the cooperation in the spinning off of the coal assets and the integration thereof within the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE).

The detailed information on the above topics is presented in section 2.6. of this report.

5. TAURON is preparing for the participation in the offshore wind farm construction projects. In the fourth quarter of 2021, TAURON and PGE concluded a letter of intent on undertaking the bilateral cooperation in the development of the offshore wind energy in Poland, and then signed a contingent agreement on the purchase of the shares in a project company.

The detailed information on the above topics is presented in section 1.7. of this report as part of the description of the Other Investment Projects.

At the same time, TAURON Capital Group joined the *Sectoral Agreement for the Development of the Offshore Wind Energy in Poland*, the purpose of which is to support the development of the sector in Poland and to maximize the *local content* in the supply chain for the offshore wind farms erected in the Polish exclusive economic zone.

With respect to the Mining Segment and the Generation Segment, the activities aimed at improving the economic efficiency of the generation assets held were also continued.

The regulated assets that deal with the operations with respect to the electricity and heat distribution are an important link in TAURON Capital Group's value chain. A significant portion of the capital expenditures is spent on the construction and refurbishment of the distribution grid.

TAURON Capital Group also has a broad offering of products and services for the customers. The activities related to the expansion of the Supply Segment are also supported by the dedicated projects conducted as part of the research and development activities. The works are underway on the continuous improvement of the high standards of customer service and the development of the modern and integrated sales and customer service channels.

Introduction of the organizational changes that support the implementation of the Strategy

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

The implementation of the Strategy leads to the undertaking of the actions, including with respect to the Efficiency Improvement Program and the Strategic Initiatives, which allow for achieving the values of the strategic goals assumed in the Strategy.

1.7. Description of the expansion policy and directions

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

The Strategy sets the key directions for the innovations as well as the research and development activities that will be the basis for developing the new products and services in the longer term.

Presently, the works are underway to finalize the new Strategy of TAURON Group, which will be a response to the current challenges of the power sector, including the more stringent EU climate and environmental policy. The direction of the activities of TAURON Group will focus on the sustainable operations by continuing the *Green Turn* and striving for the climate neutrality, while participating, at the same time, in the above mentioned government solutions for the hard coal mining and coal based energy. With respect to the system district heating line of business, it is assumed that the generation sources will be converted to the low emission fuels and that the regulatory requirements for the efficient district heating systems will be met. With regard to electricity distribution, it is assumed that significant investment outlays will be allocated to the expansion and modernization of the grid, aimed at improving the quality and reliability of the delivery of electricity, including adapting the grid to the growing installed capacity of the renewable sources.

Implementation of the strategic investment (CAPEX) projects

Key strategic investment (CAPEX) projects underway

The below table presents the activities carried out by TAURON Capital Group in 2021 and by the date of drawing up this report in connection with the implementation of the key strategic investment (CAPEX) projects.

Table no. 6. Key strategic investment (CAPEX) projects' work progress in 2021 and by the date of drawing up this report

Investment project	Investment project's work progress
<p>1. Construction of a new 910 MWe supercritical parameters power generation unit in Jaworzno</p> <p>Contractor: Consortium of RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. (RAFAKO – MOSTOSTAL)</p> <p>Planned project completion / transition period date: Q4 2022</p> <p>Work progress: 99%</p> <p>Expenditures incurred: PLN 6 119.11 million <i>(the amount increased by, among others) training, fast wearing parts)</i></p>	<p>The unit was handed over (commissioned) for operation on November 13, 2020. On November 18, 2020, the President of the Energy Regulatory Office (ERO) granted a license for generating electricity for the period from November 20, 2020, until December 31, 2030.</p> <p>A program of trials and tests planned to be performed in the transition period was carried out in the first two quarters of 2021, including, among others, the additional optimizations and tests on the operating facility in order for the unit to meet the changed and new guaranteed technical parameters, as well as the tests stemming from the requirements of the Transmission Grid Code. After the fire incident on June 11, 2021, the unit is undergoing an emergency outage. The planned timing of the unit's synchronization is April 29, 2022. As a result of the inspections carried out during the shutdown of the unit, the need to carry out works on some elements of the unit was identified.</p> <p><i>The additional information on the General Contractor of the 910 MW unit implementation is provided in section 2.6 of this report.</i></p>

Investment project	Investment project's work progress
<p>2. Construction of the "Grzegorz" shaft (TAURON Wydobycie), including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings).</p> <p>Contractor: Consortium of KOPEX Przedsiębiorstwo Budowy Szybów S.A. (formerly: KOPEX Przedsiębiorstwo Budowy Szybów S.A.), FAMUR Pemug sp. z o.o. (main task – Stage I), LINTER S.A. – contract terminated, the works in this respect have been halted.</p> <p>Planned project completion date: 2023</p> <p>Work progress: 51 %</p> <p>Expenditures incurred: PLN 285.7 million</p>	<p>At the construction site of the "Grzegorz" Shaft, the construction of the infrastructure required to sink the shaft was completed and more than 80 m of the shaft was bored in the so-called ultimate mine shaft enclosure (casing). Mediation talks are held in order to determine the detailed conditions of the further conducting of the investment project. The freezing process is maintained at the construction site. As of the date of drawing up this report, no final and firm date for the resumption of the works has been established. The site continues to be ready for the continuation of the investment project works.</p>
<p>3. Construction of the 800 m level at the Janina Coal Mine (ZG Janina) (TAURON Wydobycie).</p> <p>Contractor: Consortium of Mostostal Zabrze GPBP S.A. and SIEMAG TECBERG POLSKA S.A. (Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft mine shaft elevator), KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (task completed – shaft drilling)</p> <p>Planned project completion date: September 23, 2021</p> <p>Work progress: 100 %</p> <p>Expenditures incurred: PLN 454.1 million</p>	<p>The boring of the Route Diversion II workings had been continued until the 3rd quarter of 2021 and the alteration of the shaft sump at the level of 800 m was completed in the third quarter of 2021</p> <p>The installation of equipment in the shaft adjacent basements at the level of 800 m was continued.</p> <p>In the first three quarters of 2021, a trial (test) operation of the mining shaft hoist was conducted to test the transportation of people and materials. The consent (approval, clearance) of the Director of the Specialist Mining Office (Specjalistyczny Urząd Górniczy) for the commissioning of the Shaft Mine Elevator at Janina VI shaft was obtained in August 2021 and the test (trial) run has been completed. In the third quarter of 2021, the Operations Manager of the Janina Coal Mine (Zakład Górniczy Janina) issued a permit to use the shaft hoist.</p> <p>The project was completed on September 30, 2021. The tasks that had not been completed as part of the project are the subject of the implementation of the investment tasks.</p>
<p>4. Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation</p> <p>Contractor: Contractors are being selected to carry out specific work (project) stages</p> <p>Planned project completion date: 2023</p> <p>Work progress: 27 %</p> <p>Expenditures incurred: PLN 31.4 million</p>	<p>The PLNE program is carried out on the territory of the following metropolitan areas: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice.</p> <p>In 2021, the works related to installing the network connections were continued under the network connection agreements concluded and the process of acquiring new customers was continued. Cumulatively, from the beginning of the Program's implementation, the agreements have been concluded for the total volume of 18.91 MWT and the network connection conditions have been issued for 3.163 MWT.</p>
<p>5. TAURON Internet (POPC) – implementation of the project in the selected areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice-Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec)</p> <p>Contractor: Atem Polska sp. z o.o. (Katowice-Tychy), MZUM sp. z o.o. (Sosnowiec), Atem Polska sp. z o.o. (Wałbrzych A), Mediamo Sp. z o.o. (Oświęcim), MX3 sp. z o.o. (Rybnik), MZUM sp. z o.o. (Wałbrzych B), ZICOM sp. z o.o. (Kraków-Tarnów)</p> <p>Planned project completion date: Q4 2022</p> <p>Work progress: 84%</p> <p>Expenditures incurred: PLN 202.4 million</p>	<p>The Digital Poland Operational Program (POPC - Program Operacyjny Polska Cyfrowa) involves implementing an infrastructure to enable high speed internet connections for households (min 30 MB/s). The final product of the project will be the provision of the wholesale services enabling connecting of the end users by the retail operators.</p> <p>All of the contractors had been conducting the works related to the deployment of the fiber optic network in 2021. The works related to switching over of the education facilities from the temporary subscriber lines to the optical fiber were carried out. The deployment of the fiber optic network in the areas covered by the project is currently underway.</p> <p>The contractors from all of the areas petitioned for a 3 month extension of the contract due to the ongoing epidemic, the corporate approvals for the concluding of the amendments have been obtained – a consent for the conclusion thereof was acquired from Centrum Projektów Polska Cyfrowa (Digital Poland Projects Center).</p> <p>In the next period, the works related to the further expansion of the optical fiber network will be carried out.</p>
<p>6. Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021</p> <p>Contractor: Contractors are being selected to carry out specific projects.</p> <p>Planned project completion date: Q2 2022 (the works as such were completed in Q3 2021)</p> <p>Work progress: 100%</p> <p>Expenditures incurred: PLN 306.9 million</p>	<p>As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned:</p> <ol style="list-style-type: none"> 1. Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installations. The implementation of the project was halted in the second quarter of 2020 due to the obtained derogations from the <i>BAT Conclusions</i>, which allowed for further operation of the units. The parties had prepared the documents that enabled the termination of the contract and the mutual settlements. 2. Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installations. The field works on all of the units have been completed. The guaranteed performance tests (measurements) were completed and they confirmed that the contractual requirements were met. The SCR installations are operating and they are in the warranty period. The final acceptance protocols of the selective catalytic reduction (SCR) installation for units no. 1, 3 and 5 have been signed. 3. Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment and the construction of the selective catalytic reduction (SCR) installations. The field works on all of the units have been completed. The guaranteed performance tests (measurements) were completed and they confirmed that the contractual

	<p>requirements were met. The SCR installations are operating and they are in the warranty period. The final acceptance protocols of the selective catalytic reduction (SCR). installation for units no. 9, 10, 11 and 12 have been signed.</p> <ol style="list-style-type: none"> 4. Łaziska Power Plant, units no. 9, 10, 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installations. The field works on the FGD installation no. 1 have been completed. The guaranteed performance tests (measurements) were completed and they confirmed that the contractual requirements were met. The documentation for the purpose of the final acceptance had been assembled and the final acceptance was then signed in September 2021. The works are underway on the dust issue – the works have been completed on units 9, 10 and 12. On unit 11, the works will be completed in March 2022. 5. Łaziska Power Plant – the refurbishment of the sewage treatment plant. The field works in accordance with the reduced scope of the refurbishment (upgrade) works carried out as part of the ongoing overhauls (maintenance) have been completed. 6. Siersza Power Plant - the adaptation of the existing flue gas desulfurization (FGD) installations. The implementation of the project was suspended due to the obtained derogations from the <i>BAT Conclusions</i>. 7. Łągisza Power Plant – the construction of the flue gas desulfurization (FGD) installation was substituted by the completion of the dry additives feeding installation. The project implementation has been halted due to the obtained derogations from the <i>BAT Conclusions</i>. 8. Monitoring Project – the installation of the equipment for the continuous monitoring of pollutants concentration in the flue gas at TAURON Wytwarzanie's generation units. The field works at all of the sites have been completed as part of the first stage (the works required to be performed at the power plants). The final acceptance protocols for the Łaziska Power Plant, the Jaworzno Power Plant, the Siersza Power Plant and the Łągisza Power Plant were signed.
<p>7. Construction of the 30 MW Piotrków wind farm.</p> <p>Contractor: Consortium of MEGA S.A. and P&Q sp. z o.o.</p> <p>Planned project completion date: Q3 2022</p> <p>Work progress: 64%</p> <p>Expenditures incurred: PLN 70.5 million</p>	<p>The Piotrków wind farm project was acquired by TAURON EKOENERGIA on December 15, 2020, through the acquisition of 100% of the shares in the Wind T1 SPV. The project was acquired at the ready for the construction stage.</p> <p>In 2021, the construction works with respect to: the GPO station, internal roads, assembly sites, were carried out following the handover of the construction site to the Contractor on March 31, 2021, and the foundations for the wind turbines were laid down. The contractor also carried out the works on the evacuation of the electricity from the wind farms to the substation (GPZ). The contracting for the supply of the key equipment has also been completed. The piling for all of the wind farms was completed, the primer concrete for the 12th wind farm was completed and the foundation for the 10th wind farm was poured.</p> <p>On September 13, 2021, the Mayor of Piotrków Trybunalski changed the terms of the building permit decision and approved a replacement (alternate) construction project for the GPO station. In addition, the arrangements with the external stakeholders of the project were continued in the field of the logistics related to the deliveries to the construction site.</p> <p>On June 25, 2021, the President of the Energy Regulatory Office announced the results of the auction for the sale of electricity from RES. The submitted offer for the supply of electricity from the Piotrków wind farm over the period of 15 years won the RES auction.</p> <p>In November 2021, the Distribution System Operator signed a contract with the contractor for connecting the Piotrków wind farm to the grid. The turbine supplier has confirmed the completion of the manufacturing and the shipment of the nacelle and blades.</p>
<p>8. Construction of the 6 MW Majewo wind farm.</p> <p>Contractor: HIUB Wróbel</p> <p>Planned project completion date: Q2 2022</p> <p>Work progress: 40%</p> <p>Expenditures incurred: PLN 12.3 million</p>	<p>The Majewo wind farm project was acquired by TAURON EKOENERGIA on June 10, 2021, through the acquisition of 100% of the shares in the Polpower SPV. The project was acquired at the ready for the construction stage.</p> <p>In the third quarter of 2021, a contract for the supply and erection of the wind turbines as well as the contract for the construction of the technical infrastructure were concluded as part of the project.</p> <p>The construction site was handed over to the Contractor on July 28, 2021. The piling for the road was completed and the foundations were poured for all of the wind power plants. The fixed works for 2 power plants were completed. In addition, the arrangements with the external stakeholders of the project are continued with respect to the logistics related to the deliveries to the construction site.</p>
<p>9. Construction of the 140 MWt gas fired boiler at ZW Katowice (Katowice Generation Plant) for the district heating market needs</p> <p>Contractor: Mostostal Warszawa</p> <p>Planned project completion date: Q2 2024</p> <p>Work progress: 37%</p> <p>Expenditures incurred: PLN 6.7 million</p>	<p>The construction of a gas boiler at ZW Katowice (Katowice Generation Plant) has been commenced. On July 26, 2021, an agreement was concluded with the General Contractor. The General Contractor provided a detailed implementation schedule. On September 27, 2021, the General Contractor formally took over the construction site. The preparatory works for the construction site facilities have been commenced and the Basic Engineering has been prepared.</p>

Investment project	Investment project's work progress
<p>10. Construction of the peaking and backup boiler house at ZW Bielsko Biala EC 2 (Bielsko Biala Generation Plant Combined Heat and Power Plant 2)</p> <p>Contractor: Erbud Industry</p> <p>Planned project completion date: 2023</p> <p>Work progress: 22%</p> <p>Expenditures incurred: PLN 1.9 million</p>	<p>The construction of the peaking and backup boiler house at ZW Bielsko-Biala EC 2 (Bielsko Biala Generation Plant Combined Heat and Power Plant 2) has been commenced.</p> <p>On July 8, 2021, an agreement was concluded with the General Contractor. The General Contractor provided and agreed with the Company the Works Organization Plan as well as the Control and Quality Assurance Plan. The basic engineering has been handed over by the General Contractor. The design and engineering works conducted by PSG aimed at completing the gas network connection are underway. The construction works were commenced in February 2022.</p>

Other investment projects

Investment projects in the RES line of business

Photovoltaic (PV) farms

As part of the investments in the renewable energy sources (RES) line of business, the program of building the photovoltaic (PV) farms on TAURON Capital Group's land that was not utilized for business purposes (*TAURON PV Program*) was continued in 2021. The Program envisages the construction of the photovoltaic (PV) farms at several locations (sites), with the total capacity of up to 150 MWp.

As of the date of drawing up this report the most advanced project is the construction of a photovoltaic farm in Myslowice with an estimated capacity of approx. 40 MW. In March of 2021, the farm power grid connection construction design contractor was selected. In the third quarter of 2021, the permit for the building of the farm was obtained and the design and engineering works related to the power grid connection and cable line in order to obtain the permit for the construction of the farm power grid connection were commenced. On December 31, 2021, TAURON Wytwarzanie and the National Fund for Environment Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej - NFOŚiGW) signed an agreement on the co-financing of the photovoltaic farm construction project in Myslowice. The financing amount stands at PLN 82.5 million in the form of a loan, with an option to redeem up to 20% of the eligible funds. The planned commissioning of the farm is Q2 2023.

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

The 2nd stage of the investment project aimed at increasing the farm's capacity by adding another 8 MW is carried out as part of an extension of the PV Choszczno project - a complex of 1 MW photovoltaic farms with the total capacity of 14 MW. In December 2021, the erection and assembly works were completed on the farm's site. The works related to connecting the installation to the distribution grid are underway. After completing the connection installation works the farm will achieve the ultimate capacity of 14 MWp. The project's 2nd stage budget is PLN 20.8 million.

In addition, apart from developing its in-house projects, TAURON Capital Group is actively looking for the opportunities to acquire advanced RES projects ready for the construction and the existing photovoltaic farm assets on the market. As part of such efforts, the internal analyses of further potential acquisition projects had been carried out on a continuous basis in 2021 and until the date of drawing up this report.

Onshore wind farms

TAURON Capital Group is looking for the opportunities to acquire advanced RES projects and the existing onshore wind farm assets on the market. As part of such efforts, the internal analyses and due diligence studies of further potential acquisition projects had been carried out in 2021 and until the date of drawing up this report. All of the investment decisions will be made after the detailed analyses of the technical, legal and business risks have been completed, after the positive financial results of the individual projects have been obtained and after the final terms of the deals have been agreed upon with the sellers.

At the end of 2020, the Piotrków wind farm project with a capacity of 30 MW was acquired and in June 2021, TAURON EKOENERGIA acquired 100% of the shares in the Polpower SPV, the entity that holds the rights to build a 6 MW Majewo wind farm.

The detailed information on the progress of the implementation of the above mentioned investment projects is presented in Table no. 6 of this report.

The analysis of the further projects is in progress.

Offshore wind farms (in the Polish Exclusive Economic Zone of the Baltic Sea)

On January 18, 2021, PGE, Enea and TAURON signed a Letter of Intent, in which they expressed their will to commence strategic cooperation related to the future offshore wind energy investment projects in the Polish Exclusive Economic Zone of the Baltic Sea. The goal of the parties to the above letter is to define, as part of the future cooperation, the options, nature and details of the potential joint involvement in the implementation of investment projects with the above mentioned scope. Due to the lack of consensus between PGE and TAURON regarding the future areas on which offshore wind farms could be located, for which joint applications for permits for the erection and use of artificial islands, structures and devices in the Polish sea zones (PSZW) were to be submitted, resulting from TAURON'S inability to submit, jointly with other entities (for example, PGE or ENEA), the applications with respect to some areas, the parties decided to abandon the trilogue talks on the joint implementation of the projects.

On October 15, 2021, TAURON and PGE concluded a letter of intent to undertake the bilateral cooperation in the development of the offshore wind energy in Poland, and then signed a contingent agreement for the sale of the shares in a project company whose task would be to obtain siting permits for the construction of the offshore farms in the Polish Exclusive Economic Zone of the Baltic Sea. The consent of the Office of Competition and Consumer Protection is a condition precedent for the preliminary agreement. The application to the President of UOKiK for PGE's concentration with TAURON was submitted on October 28, 2021, and on January 10, 2022 (an event after the balance sheet date), the consent (approval clearance) of the President of UOKiK was obtained.

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

In September 2016, in accordance with *TAURON Group's Strategy for the years 2016-2025* (Strategy), as part of the priority of ensuring TAURON Capital Group's financial stability, the 413 MWe CCGT unit construction project including a heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin (TAURON Wytwarzanie Oddział Elektrownia Łagisza w Będzinie) was halted due to the loss of its business justification (business case). TAURON Capital Group is currently conducting analyses that would enable a potential resumption of the project and other similar projects at TAURON Capital Group subsidiaries' locations. Smaller units or batteries of gas fired engines operating in high efficiency cogeneration are also considered. The fuel under consideration is natural gas with a much lower emission level than coal, as a transition fuel on the path to the low emission generation. Taking of the investment decision will, on one hand, be based on the assessment of the projects' profitability, and, on the other hand, on TAURON Capital Group's financial standing. The option of involving an equity partner in the implementation of the projects cannot be excluded.

Capital expenditures (CAPEX)

TAURON Capital Group's capital expenditures came in at PLN 2 932 million in 2021 and they were 38% lower than the expenditures incurred in the same period of 2020 that stood at PLN 4 039 million (excluding the equity investments). This is primarily due to the decrease of the outlays in the Generation Segment and the Mining Segment as well as the increase of the outlays in the Distribution Segment and the RES Segment.

The below table presents the selected, highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2021.

Table no. 7. The highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2021

Item	Capital expenditures (PLN m)}
Distribution	
1. Installation of the new grid connections	1011
2. Existing grid assets' upgrades (refurbishments) and replacements	877
3. Dispatcher Communications System	38
Generation	
4. CAPEX on replacements and upgrades (refurbishments), as well as components at TAURON Wytwarzanie	106
5. Construction of a 910 MWe super critical parameters generation unit in Jaworzno	26
6. Adaptation of TAURON Wytwarzanie generation units to the <i>BAT Conclusions</i>	22
7. Connecting of the new facilities to the grid	20
8. Investment projects related to the development (expansion) and maintenance of the district heating networks	22

Item	Capital expenditures (PLN m)}
RES	
9. Construction of the 30 MW Piotrków wind farm	52
10. Construction of the 6 MW Majewo wind farm	8
11. Construction of the Choszczno I and II PV farm	15
Mining	
12. Preparation of the future production	169
13. Construction of the "Grzegorz" shaft at the Sobieski Coal Mine (ZG Sobieski)	10
14. Construction of the 800 m level at the Janina Coal Mine (ZG Janina)	4
Supply and Other Operations	
15. Construction of the broadband Internet access network as part of the Digital Poland Operational Program III (POPC III) project	98
16. Maintenance and development of the street lighting	56
17. Gas fired engines at the Brzeszcze Coal Mine (ZG Brzeszcze)	20

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

Evaluation of the capability to complete the intended investment projects

TAURON Capital Group's strategic investment projects and the financing thereof are centrally managed at the Company level. Based on the completed analyses with respect to the planned investment outlays and the resources the Company's Management Board assesses that TAURON Capital Group is able to finance the current and future intended investment projects included in the Strategy using the funds generated from the operating activities and by obtaining debt financing, both the corporate as well as the project financing.

The Company pursues a policy of diversifying financing instruments and strives to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet both the current as well as the future obligations in the short and the long term, including the ones related to the capex plans. Steps are taken to acquire the new sources of financing, resulting in the concluding, in 2021, of: the subordinated bonds issue program with Bank Gospodarstwa Krajowego, the loan agreement with the European Investment Bank and the loan agreement with Erste Group Bank AG.

The detailed information on the conclusion of the above mentioned agreements is provided in section 7.1. and in section 12.2. of this report.

Directions for advancing innovations as well as research and development activities

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

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

Strategic Research Agenda is a document that describes in a precise manner the directions of innovations pursued and it is a detailed extension of the Strategy. For each direction a separate portfolio of projects is created and the key challenges, development goals and research areas are defined within such projects. Such a structure of the *Strategic Research Agenda* supports selecting specific projects and rejecting others, and it will also allow for an optimum allocation of the financial resources. *Strategic Research Agenda* includes the following portfolios:

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

This way TAURON Capital Group's R+D+I activities are carried out and developed based on the complete and detailed assumptions of the strategic nature – with the clearly defined goals and results tied to a timeline.

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

1.8. Major achievements in the field of research and development

PLN 40 million was allocated to the functioning of the R+D+I area in 2021. 3 projects (including 1 start-up) were launched in various lines of business. As part of four portfolios of the Research and Innovations Area, 33 projects with the total value of almost PLN 95 million were carried out. For the implementation of some of these projects TAURON Capital Group obtained funding from the external sources in the total amount of PLN 40 million.

The below table presents the selected R&D projects implemented in 2021 by TAURON Capital Group's subsidiaries, co-financed from the external sources.

Table no. 8. Selected R&D projects implemented in 2021 by TAURON Capital Group's subsidiaries, co-financed from the external sources

Projects / programs / tasks	Co-financing source
1. Development and testing of an adaptive electricity storage system based on the second life of batteries from electric vehicles.	
2. Developing a platform allowing for aggregating the generation and regulating (adjustment) potential of the dispersed (distributed) renewable energy sources and energy storage devices (accumulators) as well as the selected categories of the controllable consumers.	
3. Integrated Grid Diagnostics System.	
4. Development of the industrial design of the carbonate fuel cells and ceramic electrolyzers enabling integration with the power-to-gas installations.	
5. Flexibility of the existing power generation units with limited capital expenditures.	National Research and Development Center
6. Development and demonstration of a computer system to be used for the operation control as well as availability and reliability management of industrial infrastructure based on artificial intelligence algorithms.	(Narodowe Centrum Badań i Rozwoju - NCBR)
7. Dispersed (distributed) energy solutions model 2.0 – self-balancing power grid areas.	
8. Development of an innovative system for effective monitoring and supporting of the protection devices compliant with the DMS assumptions.	
9. Development and implementation of the technological process for processing the waste from fluidized bed boilers with the use of CO ₂ for the production of cement substitute.	
10. Development of the hybrid system for reducing the emission of acid components and fly ash from the flue gases.	
11. Development of advanced technology for monitoring and predictive analysis of the technical condition of the boiler in order to increase the reliability of the boiler unit.	
12. Project TEXMIN - impact of the extreme weather conditions on the mining operations.	European Union's Coal and Steel Research Fund
13. Project RECOVERY - assessment of the environmental management and the measures aimed at the protection and repair thereof using the tools to analyze the state of the ecosystem.	
14. Project UtilitEE - implementing a solution that will increase electricity consumption efficiency by actively engaging customers in their behaviors related to the electricity consumption with the use of the information and communications technologies and the DSM mechanisms.	Horizon 2020 (Horyzont 2020): Framework Program with respect to scientific research and innovations
15. Project GEMINI+ - developing a design of a high temperature gas cooled nuclear reactor (HTGR) for electricity and heat production.	

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

As part of the project, a pilot installation of a power microgrid is being prepared, with the ability to independently cover the local demand for electricity. The pilot installation will be equipped with the generation sources, energy storage facility and the management system, along with the advanced network automation solution. The gained knowledge and experience with respect to developing and operating microgrids will allow for offering a new type of services to the external customers of TAURON Capital Group. In 2021, the works related to the construction of a pilot installation were carried out. From February 2022, the tests of the pilot installation have been underway, and they will be completed in July 2022.

Project TENNESSEE

The scope of the project covers high efficiency electrolysis of water vapor supported by fuel cells, in order to increase the efficiency of the green hydrogen storage in the form of synthetic natural gas, with the use of CO₂ captured from the power generating units' flue gas. The technology is a promising solution for storing electricity from the non-controllable energy sources - wind farms (in particular, the planned off-shore wind farms) or photovoltaic cells. In 2021 the pilot installation was erected at the Łaziska Power Plant. In the second quarter of 2022 the testing (research) campaign based on the installation completed will be commenced.

Second Life ESS

The goal of the project is to reuse the lithium-ion cells previously used in the urban transportation vehicles. As part of the project, Solaris Bus & Coach Sp. z o.o. will provide batteries with a total capacity of 160 kWh for the construction of the energy storage facility. The contractor to perform the tests was selected and it was handed over the purchased battery packs that had been used by one of the PKM Jaworzno electric buses before. The initial analysis of the battery packs was completed and the condition of the battery packs was evaluated based on the operational data.

OPTI AI UNIT

The project is related to the development and demonstration of a computer system for controlling the operating parameters of the critical industrial infrastructure devices, as well as the construction of the models allowing for the dynamic management of their availability (dispatchability) and reliability. The solutions developed as part of the project, in line with the assumptions of the so-called Industry 4.0, will allow for, among others, predicting potential failures within the critical industrial infrastructure devices with an appropriate lead time (in advance). In 2021, the adequate measurement systems and sensors were installed, and the numerical models of the unit's devices were also developed. An empirical verification of the correctness of the models developed and the comprehensive predictive diagnostics system is in progress.

HEMS Program

The goal of the program is to prepare TAURON Capital Group to obtain a new revenue stream for TAURON Capital Group's subsidiaries, by developing a strategy, organization and model for the provision of services and selling products under HEMS based on the existing as well as the new products and services. As part of the program, the works related to the following projects were carried out in 2021:

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

Internet of Things

The tasks aimed at developing and implementing the services for the needs of a smart city were carried out in 2021. The implementation assumes a comprehensive optimization of the use of and developing the new services based on the city, municipal, power and telecommunications infrastructure, which will be possible due to the use of a network of sensors providing information facilitating the management of the individual functions of the metropolitan area. In 2021, the works were carried out to supplement the missing elements in the developed IT architecture, which was the basis for the provision of the comprehensive services in the smart city area. For this purpose, the formal cooperation was established with a technological partner – Microsoft sp. z o.o.

Flexible Distribution

The final product of the project, which was launched in 2021, will be a prototype of a tool supporting the decision making related to the purchase of flexibility services, based on the analytical and forecasting methods developed as part of the project. In 2021, a compendium of knowledge on the functioning flexibility services was developed, an audit of the selected IT systems with respect to providing the source data for the prototype of the tool being designed was conducted, and a case study was carried out for the two pre-qualified areas for testing the flexibility services.

Hydrogen Poland

The project combines the scientific (research) and industrial potential of a number of entities with their competences representing the entire cycle of the circular hydrogen economy – the tasks related to research and development, implementation, production, application, conversion to other fuels and storage based on the new generation technologies, applicable in the large energy installations, prosumer installations and in transportation.

The project was submitted to the IPCEI (Important Projects of Common European Interest) program. After successfully passing the national evaluation stage, the project was approved for the proceedings at the European Commission level. The works are underway on the preparation of the project documentation required at the pre-notification stage.

Cooperation with start-ups

TAURON Capital Group's involvement in the KPT ScaleUp program with respect to the cooperation with startups as part of the external acceleration programs came to an end in 2021.

2021 was also the time of the comprehensive analysis of TAURON Capital Group's experience in the cooperation with startups over the course of 4 years. Particular attention was paid to the proprietary TAURON Progres acceleration program, the rules of which were revised and modified. The new rules of the TAURON Progres program include the new assumptions regarding the entities that can apply to the program (private individuals and young companies operating on the market for up to 5 years), as well as the greater focus on searching for the innovative solutions, not widely available on the market that will enable increasing the competitiveness of TAURON Capital Group's offering. The scope of the support offered was also modified, which in addition to the cooperation with the subject matter and business experts from TAURON Capital Group and access to the infrastructure of the Group's subsidiaries also includes the financial resources to cover the costs of the pilot works in the maximum amount of PLN 200 000.

Continuing to build the strategic position of TAURON Capital Group with respect to the startups, TAURON carried out, in 2021, further investments as part of EEC Magenta - a CVC type fund created in 2018. EEC Magenta

increased its investment portfolio to the amount of PLN 71.1 million in 2021 and currently has 11 innovative startups therein.

The below table presents the projects with the startups carried out in 2021 as part of the acceleration programs, and which are the subject of EEC Magenta's investments.

Table no. 9. Projects with the startups carried out in 2021

Projects	Programs and activities related to cooperation with the startups
<p>1. TecBee Sp. z o.o.: solution under the name SAINT, consisting of a cloud platform and an IoT device installed on the TAURON infrastructure, whose basic executive element in the power circuit is a fuse (single or three-phase) enabling the remote switching off and on of the protected circuit and restoring power after the protection has been triggered.</p>	<p>KPT ScaleUp</p>
<p>2. Roboticon Sp. z o.o.: The solution's pilot project was conducted as part of the KPT ScaleUp program. Following a positive assessment of its results, the cooperation with the startup was continued in 2021. The chatbot enabling the 24/7 customer service on the tauron.pl portal. The chatbot acts as a virtual assistant that supports the customers in finding interesting content on the portal, and is also the first source of information, allowing for relieving the hotline.</p>	
<p>3. Assess24.io Sp. z o.o.: The solution's pilot project was conducted as part of the KPT ScaleUp program. Following a positive assessment of its results, the cooperation with the startup was continued in 2021. A recruitment platform specializing in the so-called skill challenge, i.e. the tasks that test the knowledge of the candidates in the given subject and at the same time it constitutes the initial stage of the recruitment process. The platform enables the creation of a pool of talents in the given field, which will constitute the base of candidates in the subsequent recruitments.</p>	<p>Tests and post-acceleration</p>
<p>4. IC Sec S.A.: the ScadvanceXP system test, whose task is to monitor the industrial automation (process control) network and detect the potential threats and anomalies in the traffic between the devices of this network using the Big Data mechanisms, machine learning and artificial intelligence for this purpose. The system test was undertaken in 2021 with the participation of 3 of TAURON Capital Group's subsidiaries.</p>	
<p>5. Reliability Solutions sp. z o.o. offering a solution responding to the problem of maintaining the process (operation) continuity in the manufacturing industry and the high costs of production downtime, i.e. the predictive maintenance system, which, through the use of artificial intelligence algorithms analyzing the data collected from the devices, predicts the possibility of an occurrence of a failure.</p>	
<p>6. Take Task S.A. offering a solution responding to the problem of managing the dispersed groups of employees, i.e. a platform for the mobile communications, creating and distributing tasks, as well as collecting feedback at the enterprises where the numerous groups of employees do not use computers every day.</p>	
<p>7. Sinterit S.A. manufacturing advanced, high-precision 3D printers operating based on the SLS technology, which are offered at the price of a consumer product. This way Sinterit S.A. fills a niche in the additive manufacturing market. Sinterit S.A. printers are a unique solution in the field of prototyping and production of short series of the spare parts.</p>	
<p>8. Challengerocket sp. z o.o. offering a solution that responds to a market problem with respect to recruiting top-class computer programmers, i.e. a platform. made available under the SaaS formula, used for the automatic evaluation of the programmers using the tests with a self-adapting level of difficulty. Based on the artificial intelligence technology the system enables a quick and reliable assessment of the candidates' skills.</p>	<p>EEC Magenta- Companies in the investment portfolio of the CVC-EEC Magenta fund</p>
<p>9. ICsec S.A. offering the Scadvance system, composed of the software and a hardware probe, enabling the monitoring of the process control networks and the detection of the potential threats and anomalies in the traffic among the devices of such network using the big data, machine learning and artificial intelligence mechanisms for this purpose. The system provides the comprehensive protection both in the case of the ultra-modern factories as well as the older types of the industrial installations and is dedicated primarily to the energy, manufacturing and chemical companies.</p>	
<p>10. Cash Director S.A. digitizing the accounting processes in the small and medium-sized companies. The product replaces traditional accounting services and makes it easier for the entrepreneurs (businessmen) to make the optimal financial decisions by acting as a digital CFO. The platform is integrated with a bank account and is available as a subpage on the website of a bank, energy or telecommunications company.</p>	
<p>11. Waste24 Sp. z o.o. offering a platform for effective management of the municipal waste, which is addressed to the enterprises and municipalities. In addition, Waste24 Sp. z o.o. runs the smieci.eu portal, which is a unique marketplace for all of the solutions related to waste. The platform is offering the customers easy access to a comprehensive and, at the same time, standardized product offering.</p>	
<p>12. DBR77 Sp. z o.o. offering a unique marketplace for the industrial robots. The B2B platform enables the previously non-robotic companies to configure their production lines on their own and to select the optimal integrator that will implement the project. The platform uses the advanced 3D tools to visualize the projects. The mission of DBR77 Sp. z o.o. is to accelerate the robotization of the manufacturing industry by improving the liquidity of the robot market, which will benefit all parties to the transaction.</p>	
<p>13. Lekta Sp. z o.o. offering a virtual consultant that automates the contact with the customer. Lekta Sp. z o.o. develops advanced speech and text intention recognition algorithms. Contrary to the competitors' solutions, Lekta Sp. z o.o. does not work based on the decision trees, but embeds the conversation in a business context, which allows a virtual consultant to have a conversation in a natural way, without imposing patterns (templates).</p>	
<p>14. GeoFusion Sp. z o.o. offering the comprehensive services with respect to the exploration and cleaning of the seabed of the unexploded ordnance and chemical weapons, which are a necessary stage of the investment process in the construction of the offshore wind farms in the Baltic Sea. The most prospective innovation offered by the company is the technology used for the extraction from the seabed and the utilization, on the ship at the site of the extraction, of the poisonous warfare agents. The technology is based on the destruction of the plasma.</p>	
<p>15. Glopack Sp. z o.o. being a producer of an innovative pro-ecological stretch film, which, due to its physical properties, is more effective than a standard product. The advanced production technique ensures higher film efficiency and allows for an up to 66% reduction in the plastic consumption in transportation and trade.</p>	

1.9. TAURON Group's Business and Operational Model

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

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

TAURON Group's Business and Operational Model in force in 2021 was adopted by the Management Board of the Company on January 23, 2018 and updated on February 24, 2021 as a result of the completed review whose goal was to take into account in the Business and Operational Model the changes taking place in the external and internal environment of TAURON Capital Group.

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

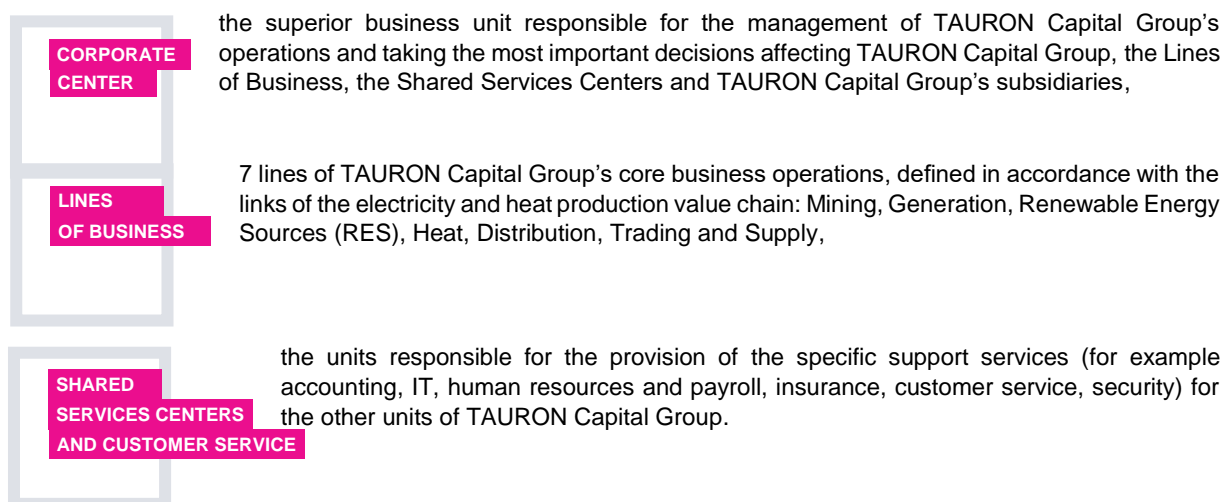
Assumptions of TAURON Group's Business and Operational Model

The key assumptions of the Business Model updated in 2021 include the support for building the value of TAURON Capital Group in accordance with the Strategy, acting in line with the PRO values, organizational and decision making consistency within TAURON Capital Group, ensuring the compliance with the principles of unbundling with respect to the DSO at TAURON Capital Group, clear division of duties and responsibilities, efficient exchange of information, the use of the employees' knowledge, Business Model variability, flexibility, resilience and adaptation to the changes in the external and internal environment.

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

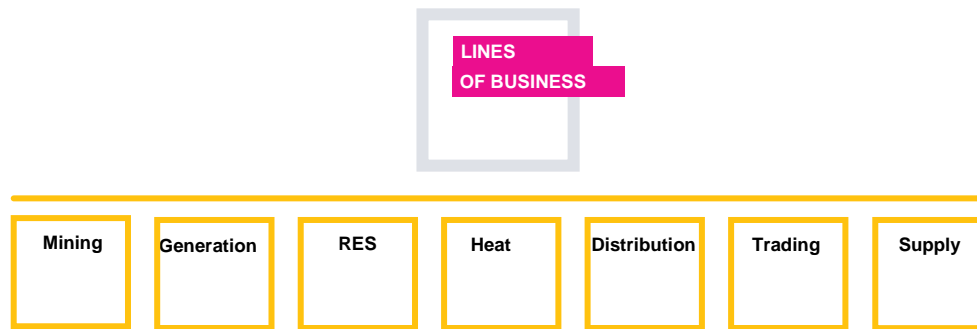
Lines of Business

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



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

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



TAURON Capital Group's Shared Services Centers (CUW)

Centralizing of the support services is aimed at relieving the Corporate Centre and the Lines of Business from performing the processes that are not directly associated with their core business operations (the so-called support processes) as well as at reducing the costs of the implementation of such processes due to the economies of scale and the increased operational efficiency. Within the structure of TAURON Capital Group the CUWs are placed in: TAURON Obsługa Klienta (CUW IT, CUW HR, CUW R), TAURON Ubezpieczenia sp. z o.o. (CUW Ubezpieczenia) and Wsparcie Grupa TAURON (CUW Ochrona) subsidiaries.

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

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

Principles of management of TAURON Polska Energia S.A.

In accordance with the provisions of the *Regulations of the Management Board of TAURON Polska Energia S.A.* (Regulations of the Management Board), the Management Board shall conduct the affairs of the Company and represent it in all judicial and extra-judicial proceedings. All of the issues connected with managing the Company, which are not restricted by the legal regulations and the provisions of the *Articles of Association of TAURON Polska Energia S.A.* (Company's Articles of Association) to the competence of the General Meeting (GM) or the Supervisory Board shall be within the competence of the Company's Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for making statements on behalf of the Company.

The detailed information on the matters lying within the competence of the Management Board, acting as a collective body, is provided in section 9.8. of this report.

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

The Company shall carry out its tasks through:

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

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

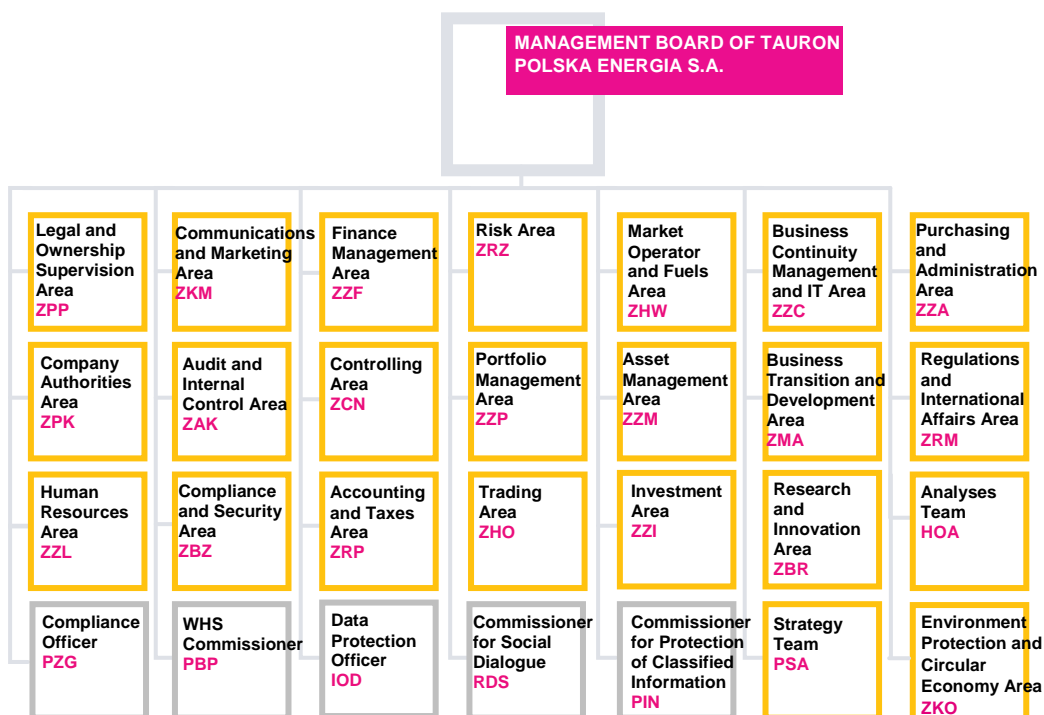
In 2021, the Company amended the Organizational Regulations twice.

Taking into account the progressing changes in the business environment, requiring an optimization and strengthening of the internal organization, on April 14, 2021, the Management Board of the Company adopted the new wording of the Organizational Regulations, which was approved by the Supervisory Board on April 26, 2021, taking effect as of May 4, 2021. The change to the Organizational Regulations involved, in particular, setting up competence centers grouping Business Areas into Divisions responsible, in terms of the subject matter, for the key areas of the Company's operations.

Subsequently, taking into account the challenges faced by the Company, related to the transition of the energy sector and the hard coal mining sector. The Organizational Regulations were verified by the Management Board of the Company, in particular in terms of improving the internal management system and enhancing the internal communication, as well as the need to adapt to emerging business opportunities and comply with assumed TAURON Group's Strategy and the Best Practice 2021. A consequence of the above activities was the introduction of another change to the Organizational Regulations, which involved in particular the liquidation of the Divisions, while the Business Areas managed by Executive Directors were assigned directly to the Members of the Management Board. On November 9, 2021, the Management Board of the Company adopted the current version of the *Organizational Regulations of TAURON Polska Energia S.A.*, which was approved by the Company's Supervisory Board on November 16, 2021, and took effect on December 1, 2021.

The below figure presents the organizational diagram of TAURON as of December 31, 2021, and as of the date of drawing up this report.

Figure no. 8. Organizational diagram of TAURON as of December 31, 2021, and as of the date of drawing up this report



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

As of January 25, 2022, the Management Board of the Company, by way of a resolution, assigned to the Members of the Management Board of the Company, directly, the individual lines of business and the independent (autonomous) work positions.

The diagram showing the division of responsibilities of the Members of the Management Board of the Company is presented in section 9.11. of this report.

Principles of management of TAURON Capital Group

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

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

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

The Members of the Management Board are responsible for the management of the mega-processes allocated thereto. The owners of the mega-processes are the indicated TAURON's Executive Directors.

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

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

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

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

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

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

Figure no. 9. Structure of TAURON Capital Group's processes (mega-processes)



Changes to the principles of management of TAURON Capital Group

In February 2021, the works, commenced in 2020, on updating the Business Model, which defines TAURON Capital Group's management model, in place thus far, were completed. Launched as of February 24, 2021, the updated Business Model emphasizes the role of ESG as an increasingly important tool of communications with the

environment (stakeholders) in order to provide flexibility, resilience and adaptation of TAURON Capital Group to the changes in the environment, in particular those stemming from climate change.

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

As part of the works on updating the Business and Operational Model, the functions and tasks performed within all of TAURON Capital Group's mega-processes were reviewed, which was done jointly with the owners thereof, and the provisions were updated or the required additional functions and tasks were formulated, adequately assigning the competences to the Corporate Center, Lines of Business and the Shared Services Centers.

The assessment of the process maturity of selected processes of TAURON Capital Group, using *TAURON Group's Process Maturity Model* in force at TAURON Capital Group, was continued in 2021. 565 selected processes were assessed, which represented 21% of TAURON Capital Group's processes in place. As a result of the assessment completed in 2021, 80% of TAURON Capital Group's processes assessed achieved level IV or level V of process maturity on an eight level scale. The maturity assessment is continued in 2022, based on the plans defined by TAURON Capital Group's subsidiaries.

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

2.1. Core products, goods and services

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

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

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

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

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

The Company is focusing on purchasing and selling electricity for the purpose of securing the buy and sell positions of TAURON Capital Group's entities as well as on the wholesale electricity trading. The Company bought and sold 49.6 TWh of electricity in 2021. Electricity sales performed by TAURON during that period were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, with 63.2% of the electricity purchased sold thereto. The above mentioned subsidiaries are carrying out the retail electricity supply to the final consumers, and therefore TAURON is not dependent on any single electricity consumer. In addition, the Company sold electricity to Nowe Jaworzno Grupa TAURON carrying out buybacks of electricity for this subsidiary, which accounted for 12.8% of the sales, to TAURON Wytwarzanie 1.9% of the sales, and to TAURON Capital Group's other subsidiaries, including TAURON Ciepło, TAURON EKOENERGIA, TAURON Czech Energy sro, and EC Stalowa Wola, in total 2.3% of the sales. Other consumers (the trading companies from outside TAURON Capital Group, the exchanges) accounted for 19.9% of the revenue, with 17.5% sold to the Exchange Clearing House (Izba Rozliczeniowa Giełd) and 1.9% to Polskie Sieci Elektroenergetyczne S.A. (PSE - TSO).

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

The Company's additional operations include the wholesale trading in natural gas on the territory of the Republic of Poland based on the license for trading in the gas fuels issued by the President of ERO on April 27, 2012, for the period from May 4, 2012, until May 4, 2022. In 2021 the Company purchased and sold 4.8 TWh of the gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż, with 59.7% of the purchased fuel gas sold thereto.

On September 29, 2020, the President of ERO granted TAURON a license to conduct business operations involving trading in the natural gas with the foreign entities (counterparties). The obtained license enables implementation of various strategies related to importing natural gas from neighboring markets and its potential exporting to markets that Poland is connected with via gas transportation system. The main objective is to increase attractiveness of the Group's offer to end clients. In 2021 TAURON concluded test transaction for gas import on EEX Exchange which at the same time meant fulfilment of the requirement to store gas that results from the import transaction. For that purpose TAURON signed relevant agreement for ticketing service with PGNiG.

The competences of the Company also include management, for the needs of TAURON Capital Group, of the property rights related to the certificates of origin of electricity, constituting the confirmation of electricity generation from the renewable sources (including the sources using the agricultural biogas), as well as the property rights related to the electricity efficiency certificates. The principles of the cooperation are defined in the agreements for the management of the property rights' balance (TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Wytwarzanie, TAURON Ciepło) and in the agreements for the provision of the trading services with respect to the management of the portfolio of the property rights and the guarantees of origin (TAURON Ekoenergia, EW Dobrzyń, EW Śniatowo, EW Inowrocław, EW Gołdap, EW Mogilno). The Company did not carry out trading in the property rights in 2021, such trading was carried out by TAURON Capital Group's subsidiaries that were acquiring the individual rights and the subsidiaries obligated to redeem (retire) the above mentioned property rights.

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

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

The Company currently holds the exclusive control over the generation capacity with respect to the trading and technical capabilities related thereto, it is responsible for optimizing the generation, i.e. the selection of the generation units to be used for the production, as well as the adequate distribution of the loads in order to execute the contracts concluded, taking into consideration the technical conditions of the generation units, as well as the grid constraints and other factors, over the various time frames. As part of the services provided for the Generation Segment the Company is taking part in preparing the overhaul plans, plans of the available (dispatchable) capacity, as well as the production plans for the generation units, over the various time frames, as well as in agreeing them with the relevant grid (network, system) operator. TAURON is also developing its competences with respect to the Market Operator function for the gas under the transmission agreement with GAZ-SYSTEM S.A. (GAZ-SYSTEM). Since July 2015, TAURON, as one of the first entities in Poland, has been providing services for a balancing group for the entities carrying out the trading transactions on the gas market and is currently conducting the balancing of the trading for two of TAURON Capital Group's entities and the external entities.

In 2021, TAURON conducted, on behalf of TAURON Capital Group's subsidiaries, the general certification of the physical units, the existing and the planned ones as part of the capacity market, the certification for the main auction for the delivery year 2026 and for the additional auctions for the delivery year 2023 that was completed in February 2022. As a result, the physical generating units and the controllable loads (demand reduction units) were able to take part in the main auction for the delivery year 2026 and in the additional auctions for individual quarters of the delivery year 2023.

On April 6, 2021, the President of the Energy Regulatory Office (ERO) published the information on the final results of the additional auctions for the quarters of 2022 in the Public Information Bulletin (Biuletyn Informacji Publicznej). In accordance with the information, the closing price of the auction for Q1 was 186.7 PLN/kW/year, for Q2 and Q3 320.00 PLN/kW/year and for Q4 240.02 PLN/kW/year. TAURON Group companies signed one-year capacity agreements for the total volume from 24.86 MW to 157.11 MW. The total revenue of TAURON Capital Group stemming from the performance of the capacity contracts concluded as a result of the additional auctions will reach PLN 25.2 million in 2022.

On December 16, 2021, PSE conducted the main auction for the delivery period falling or starting in 2026. On January 7, 2022, the President of the ERO published information on the final results of the main auction in the Public Information Bulletin (Biuletyn Informacji Publicznej). According to the information, the closing price of the auction was 400.39 PLN/kW/year. TAURON Capital Group's subsidiaries concluded one-year capacity agreements, with the total volume of 45.50 MW. The implementation of the contracts concluded will allow for obtaining revenues in the amount of PLN 18.22 million in the time frame until 2026.

In 2021, TAURON was actively taking part in the secondary capacity market, securing the capacity obligation within TAURON Capital Group as well as concluding the transactions with the external contractors (counterparties) on the OTC market.

In 2021 the President of the Energy Regulatory Office announced and held two rounds of auctions for the purchase of electricity produced by RES installations. The auctions took part in Q2 and Q4 2021. TAURON coordinated works in TAURON Capital Group related to preparation and submission of bids. In the auctions carried out in June 2021 companies from TAURON Capital Group submitted a total of 9 bids. Support was granted to 30 MW wind farm Piotrków which took part in the auction for new wind farms and photovoltaic installations with installed capacity above 1 MW. The remaining bids were for new photovoltaic installations with installed capacity below 1 MW.

In accordance with TAURON Group's adopted Business Model the Company is performing the management function with respect to managing the purchasing of the production fuels for the needs of TAURON Capital Group's generation entities and secures (hedges) the fuel position thereof. All of the hard coal for the production needs of TAURON Capital Group is contracted and secured (hedged) by TAURON. In this respect the Company provides the deliveries of the adequate quality and quantity, guaranteeing that the mandatory reserves of coal are stored at all of the generation units of TAURON Capital Group.

The core products, goods and services of TAURON Capital Group

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

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

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

The below table presents TAURON Capital Group's 2020 - 2021 production and sales volumes.

Table no. 10. 2020 - 2021 production and sales volumes

Production and sales volumes	unit	2020	2021	Change in % (2021 / 2020)
1. Commercial coal production	Mg m	4.54	5.15	113%
2. Coal sales by the Mining Segment	Mg m	4.08	5.47	134%
3. Electricity generation (gross production), including:	TWh	12.50	15.59	125%
4. Electricity generation from renewable energy sources, including:	TWh	1.94	1.71	88%
1) Production from biomass	TWh	0.57	0.43	75%
2) Production of hydro and wind power plants	TWh	1.37	1.28	93%
5. Heat production	PJ	11.63	12.00	103%
6. Heat supply	PJ	14.24	15.08	106%
7. Electricity distribution	TWh	50.26	53.97	107%
8. Electricity supply	TWh	45.62	47.11	103%
1) retail	TWh	32.43	33,41	103%
2) wholesale	TWh	13.19	13,70	104%
9. Number of customers – Distribution	'000	5 715	5 777	101%

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

2.2. Markets and sources of supply

Markets

Hard coal sales

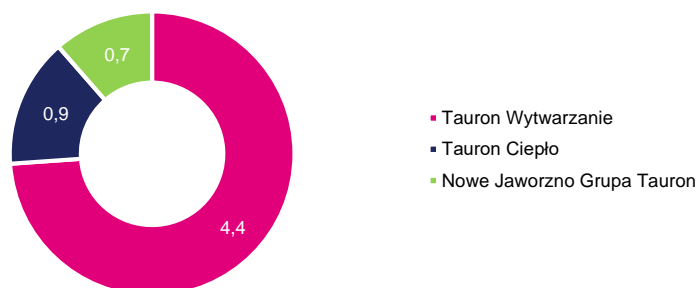
At TAURON Capital Group, the coal sales are carried out by TAURON, with respect to supplying the generation subsidiaries of TAURON Capital Group, and by TAURON Wydobycie, with respect to the sales on the domestic market and to TAURON.

With a view to implementing its tasks with respect to the fuel (hard coal) trading, TAURON continued, in 2021, to sell the fuels solely to TAURON Capital Group's subsidiaries, i.e. TAURON Wytwarzanie, TAURON Ciepło and

Nowe Jaworzno Grupa Tauron, based on the purchase of fuels on the market and from within TAURON Capital Group - from the TAURON Wydobycie subsidiary.

The below figure presents the summary of the Company's 2021 coal shipments.

Figure no. 10. Summary of the Company's 2021 coal shipments (Mg m)



The detailed information related to the fuel purchasing is provided in section 2.2. of this report.

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

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

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

TAURON Wydobycie is conducting the sales of hard coal in two directions:

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

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

The hard coal sales by TAURON Wydobycie to TAURON Capital Group's Generation Segment companies came in at approx. 5.47 million Mg in 2021, including 3.6 million Mg (approx. 66%) to TAURON for the needs of TAURON Capital Group's Generation Segment subsidiaries. It means a 34% increase as compared to 2020 and is due to the higher commercial coal production by the individual coal mines and the greater demand for the hard coal on the domestic market. An increase in the production was recorded at the Sobieski Coal Mine (ZG Sobieski) which was due to a more favorable arrangement (configuration) of the longwall (coal face) fronts than in 2020. The lower coal extraction output at the Janina Coal Mine (ZG Janina) was a consequence of mining the longwall faces offering access to less resources, while at the Brzeszcze Coal Mine (ZG Brzeszcze) the lower production was caused by the liquidation of one of the longwall faces and a delay in the commissioning of another one.

Sales of generated electricity and heat

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

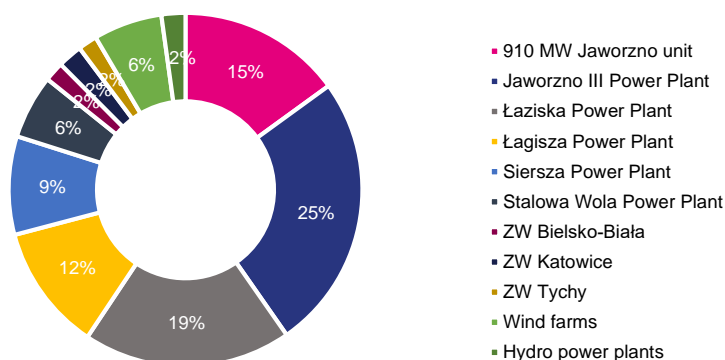
1. hard coal fired and biomass burning power plants and combined heat and power plants
2. hydroelectric power plants,
3. wind farms,
4. photovoltaic farms.

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

The total installed electric capacity of TAURON Group's generation units reached 6.1 GWe of electric capacity and 2.4 GWt of thermal capacity at the end of 2021.

The below figure presents the structure of installed electric capacity as of December 31, 2021.

Figure no. 11. Structure of the Generation Segment's installed capacity as of December 31, 2021



In 2021 TAURON Capital Group's subsidiaries generated 15.6 TWh of electricity (including 1.7 TWh from RES), i.e. 25% more as compared to 2020 when the production of electricity came in at 12.5 TWh (including 1.9 TWh from RES). It is a consequence of the lower sales of electricity from the in-house production year on year and the result of the adopted trading strategy. The lower production from RES is due to the lower production output by the biomass fire units and the wind farms, while at the same time the production of the hydro power plants was higher due to the more favorable hydrological conditions.

In 2021 the electricity produced by TAURON Capital Group's subsidiaries was sold on the domestic market, first of all to TAURON Capital Group's Supply Segment subsidiaries (81%), as well as on the balancing market (RB) (PSE Operator) (18%).

The heat sales volume by TAURON Capital Group's subsidiaries came in at 15.1 PJ in 2021 and it was higher by 6%, as compared to 2020. The share of the heat generated from the in-house sources in the total heat sales volume reached 67% in 2021. TAURON Wytwarzanie subsidiary's power plants are selling heat in the Upper Silesia and Zagłębie, and also in parts of the Podkarpackie region – the cities Stalowa Wola and Nisko supplied by the Stalowa Wola Power Plant and Małopolska region – a part of the city Trzebinia supplied by the Siersza Power Plant.

The heat is supplied mainly via the heat distributors: TAURON Ciepło, SCE Jaworzno III, Przedsiębiorstwo Energetyki Ciepłej (PEC) Tychy and others, and on the Podkarpackie market – Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. (Ltd.) and ENESTA sp. z o.o. (Ltd.). The small volumes of the heat are supplied directly to the consumers located in the vicinity of the generation companies.

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

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

Sales of the electricity distribution services

TAURON Dystrybucja is a company conducting the sales of the electricity distribution services at TAURON Capital Group.

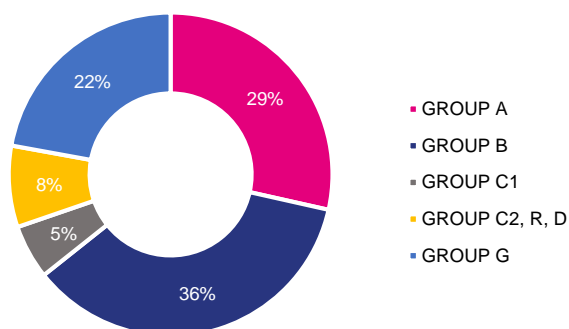
The regulated market on which TAURON Dystrybucja is operating includes the operations of 5 large electric utilities dealing with the electricity distribution and other 183 smaller enterprises of such type. Among the smaller electric utilities dealing with the electricity distribution, PKP Energetyka S.A. is a company that provides the distribution services for the largest number of the consumers. The operations in the field of the electricity distribution is carried out under the conditions of a natural monopoly, which means that it is licensed by the President of the Energy Regulatory Office (ERO), and the scope of the operations is limited to the distribution grids located in a strictly defined area (municipalities and/or cities in whole or in part). The rules for determining the justified revenue obtained by the electricity distribution companies (revenue allocated to the rates of charges for the provision of the electricity distribution services) are defined in the regulatory models developed and implemented by the President of the Energy Regulatory Office (ERO).

TAURON Dystrybucja is providing the electricity distribution services for approx. 5 777 000 final consumers. The company covers with its operations the area of about 57 thousand km², located mainly in the Lower Silesia, Małopolska, Opole and Silesia regions and, in addition, in the Łódź, Podkarpackie and Świętokrzyskie regions. The operational functions are performed by 11 branches located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

Sales to the tariff eligible consumers on the individual voltage levels: high voltage (A group), medium voltage (B group) and low voltage (C,G), represent 96.3% of the distribution services sales volume. The total electricity volume delivered to the tariff eligible consumers connected to TAURON Dystrybucja's grid in 2021, as part of the sales of the distribution services, came in at 53.97 TWh (upward adjusted) and it was higher, as compared to 2020, by 3.71 TWh, i.e. by 7.4%.

The below figure presents the structure of the electricity distribution by the tariff groups in 2021.

Figure no. 12. Structure of the electricity distribution by the tariff groups in 2021



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

Wholesale and retail supply of electricity and gas

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

The **wholesale trading operations** conducted by TAURON comprise mainly the trading of the electricity, trading and management of the CO₂ emission allowances, the property rights arising from the certificates of origin of electricity as well as the natural gas. Such activities are performed, first and foremost, for the needs of securing (hedging) the buy and sell positions of TAURON Capital Group's entities.

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

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

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

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

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

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

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

Table no. 11. Categories of TAURON Capital Group's final customers

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

The supply companies (subsidiaries) were operating in 2021 in a market environment where the level of the competitiveness in the individual market segments did not change significantly as compared to the previous years. The household market (individual customers) continued in 2021 to be covered by the obligation to have the electricity sales prices approved by the President of ERO.

According to the ERO data, from mid-2007 until October 2021, i.e. since the beginning of the electricity market liberalization process, approx. 717 000 households and more than 223 000 institutional entities switched their electricity supplier.

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

The household segment, where the number of the supplier switch cases represents a small percentage, is considered to offer a strong potential. In 2021 more than 33 400 consumers of electricity switched their suppliers (including approximately 6 900 institutional customers and approximately 26 500 households). In 2021 the pace of the supplier changes went up, as compared to 2020, in case of the households by 9.1%, and in case of the institutional entities, by 4.2%.

The sales offering of TAURON Sprzedaż for the business segment in 2021 included electricity and gas fuel. The company continued its activities geared towards building customer loyalty, with a particular emphasis placed on developing an offering based on *TAURON'S Green Turn*. The customers were offered a number of products to choose from, taking into account their needs and the specifics of their electricity consumption, including the ecological, exchange based and the technical products. The activities related to the promotion and sales of the "EKO" products - TAURON EKO PREMIUM (TEP), TAURON EKO BIZNES and the Guarantees of Origin - were continued. As part of these activities, the TEP product contracts for nearly 900 GWh were concluded in 2021. The EKO Biznes product was also very popular with the customers, the Company sold electricity, as part of this product, with a volume in the region of 1.7 TWh. The sales of the Guarantees of Origin was also at a record level of more than 2.3 TWh. In 2021, as many as 64% of the business customers, based on the sales volume, took advantage of the additional products from the TAURON Sprzedaż offering.

The process of the mass segment customers (individual customers as well as the small and medium sized enterprises) migrating from the tariff based pricing to the product based pricing, was also observed in 2021. As of the end of 2021, TAURON Capital Group was selling electricity under the agreements guaranteeing the commercial terms over the specified period to 48% of the segment's customers (loyalty building agreements), while 52% of the customers were buying electricity at the tariff based prices.

The key elements of the commercial offering for the mass customers in 2021 were the combined products: *Elektryk (Electrician)* and *Serwisant (Repair Man)*, based on the *assistance* functionality, that were used by more than 2 million customers. The *assistance* products will represent the core of the offering also in 2022.

In addition, in 2021 the sales of the specialized products were continued, *photovoltaics* in particular, with its sales in 2021 reaching more than 1 700 units. In 2021, the retail supply of electricity by the Supply Segment companies

to approximately 5.6 million customers stood at 33.1 TWh, i.e. 103% of the 2020 level when the supply came in at 32.1 TWh. The increase of the supply volume was reported, first and foremost, in the Business Customer Segment, which was primarily due to the customers returning to the consumption levels from before the restrictions related to the COVID-19 pandemic.

The below table presents the information on the volume of electricity supplied by TAURON Capital Group's subsidiaries conducting operations related to the retail electricity supply, as well as the number of customers, broken down into the individual customer segments, in 2021.

Table no. 12. Volume of retail electricity supplied and the number of customers in 2021

Customer type	Electricity volume supplied (TWh)	Number of customers ('000)
1. Strategic customers	3.9	1
2. Business customers	13.9	178
3. Mass customers, including:	12.2	5 414
<i>households</i>	10.1	5 062
4. Supply to TAURON Dystrybucja to cover the balancing differences	3.0	0.001
5. Other (exports, in-house needs)	0.1	-
Supply Segment	33.1	5 593

In the financial years ended on December 31, 2021, and December 31, 2020, TAURON Capital Group did not identify single customers from outside TAURON Capital Group that would generate revenues from the sales of coal, generated electricity and heat, electricity distribution services, as well as wholesale and retail electricity and gas, accordingly, exceeding the level of 10% of the total sales revenues of TAURON Capital Group.

Supply sources – fuels

Hard coal (domestic market)

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

The Company continued to purchase hard coal and coal sludge for the needs of electricity and heat generation by TAURON Wytwarzanie from the company TAURON Wydobywanie – a total of 3.6 million tons were supplied.

In addition, the company continued to purchase hard coal and coal sludge under agreements signed with the following suppliers from outside of TAURON Capital Group:

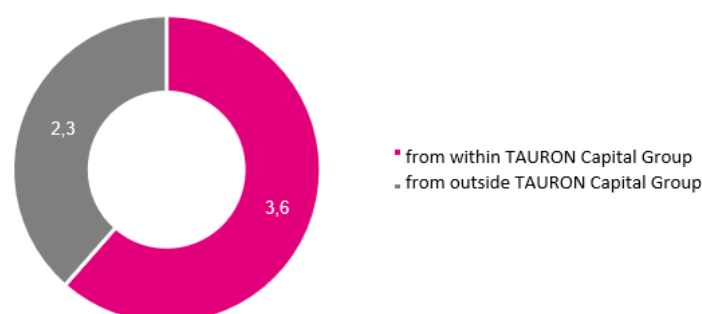
- | | |
|--|---|
| 1. Polska Grupa Górnicza Sp. z o.o. (74.4% ¹), | 4. EP Resources PL S.A. (3.2% ¹), |
| 2. Jastrzębska Spółka Węglowa S.A. (11.9% ¹), | 5. TRANSLIS Sp. z o.o. (2.5% ¹). |
| 3. Węglokoks S.A. (8.0% ¹), | |

¹suppliers' shares in the total hard coal supplies.

In total, the Company bought 2.3 million tons of hard coal from the suppliers outside TAURON Capital Group.

The below figure presents the quantity of the hard coal and coal sludge purchased by TAURON Capital Group in 2021.

Figure no. 13. Coal and coal sludge purchased in 2021 (in Mg m)



56% of the hard coal supplies for the electricity and heat production were satisfied by the hard coal coming from TAURON Wydobywanie's own coal mines in 2021. The remaining part of the demand was covered from the external sources, among which Polska Grupa Górnicza S.A. (PGG) and Jastrzębska Spółka Węglowa S.A. had the largest shares.

Gas (domestic and foreign market)

TAURON Capital Group is sourcing fuel gas from the domestic market, via the exchanges.

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

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

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

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

In the financial years ended on December 31, 2021, and December 31, 2020, TAURON Capital Group did not identify single customers from outside TAURON Capital Group that would generate revenues from the sales of the coal and gas exceeding the level of 10% of the total sales revenues of TAURON Capital Group.

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

Internal factors

The operations and earnings of the Company and TAURON Capital Group in 2021 were impacted, among others, by the following internal factors:

1. actions with respect to optimizing the processes taken by all of TAURON Capital Group's subsidiaries,
2. decisions with respect to the implementation of the key investment projects and the intensive activities aimed at searching for the new energy sources,
3. measures implemented at TAURON Capital Group's subsidiaries in connection with the COVID-19 pandemic, aimed at ensuring the safety of the employees and customers, as well as securing the business continuity, including curbing the operating expenses,
4. loyalty building measures aimed at retaining the existing customers and the marketing activities with respect to acquiring the new customers,
5. TAURON Capital Group's centralized financial management area, supported by the use of such tools as: the corporate model of financing, financial liquidity (cash flow) management policy using the *cash pool* mechanism, risk management policy in the financial area, insurance policy,
6. ability to obtain debt financing on the domestic and international markets,
7. Tax Capital Group's (Podatkowa Grupa Kapitałowa – PGK) operations, first and foremost aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
8. TAURON's purchasing processes management, in particular, the management of the fuel purchases for the needs of TAURON Capital Group's generation entities,
9. expectations with regard to the increase of the compensation (wages) at TAURON Capital Group
10. geological and mining conditions of the hard coal extraction,
11. failures of TAURON Capital Group's equipment, installations and grids,
12. implementation of *TAURON Wydobycie (Mining) Turnaround Program for the years 2020-2029*,
13. decision on the development of the district heating lien of business within TAURON Capital Group,
14. signing of the agreement for the sale of the shares in PGE EJ 1 to the State Treasury,
15. decommissioning of the 120 MW units in Stalowa Wola (February 2021),
16. signing of a letter of intent regarding the potential purchase by the State Treasury of 100% of the shares in TAURON Wydobycie,
17. signing of a letter of intent regarding the sale of the shares in EC Stalowa Wola to PGNiG Group,
18. conclusion of an agreement between TAURON, PGE, Enea, Energa and the State Treasury on the cooperation with respect to the spinning off of the coal assets and the integration thereof within the National Energy Security Agency (NABE),
19. emergency outage of the 910 MW unit in Jaworzno,
20. adoption of *TAURON Group's Business Continuity Policy*.
21. Signing of a settlement agreement between EC Stalowa Wola and Abener Energia S.A. (Abener Energia) in order to define the rules of the mutual settlements arising from the court and arbitration disputes between the parties regarding the construction of a CCGT unit with a district heating section at EC Stalowa Wola.

The detailed information related to the impact of the above mentioned factors on the financial result achieved in 2021 is presented in sections 4. and 5. of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

No material, one-off internal events that would have a significant impact on the financial result achieved occurred in 2021. It should be emphasized, however, that due to the current epidemiological situation, in March 2020, TAURON Capital Group's subsidiaries introduced extraordinary preventive measures aimed at ensuring the safety of the employees and the customers, as well as at ensuring the security of the continuity of the operations of the critical infrastructure.

The analyses completed as of June 30, 2021, and as of December 31, 2021, carried out as part of the impairment tests related to TAURON Capital Group's assets' carrying amount demonstrated changes with respect to the recoverable carrying value of the fixed assets in the Mining Segment and in the Generation Segment that were due, first and foremost, to the following factors:

1. the Company's market capitalization remaining at a level below the net balance sheet value of the assets in the long term,
2. changes in the global prices of the energy related commodities, electricity and the prices of the CO₂ emission allowances,
3. recovery of the domestic electricity consumption to the levels above the ones observed prior to the COVID-19 pandemic,
4. publication of the *Fit for 55* package aimed to guide the EU towards achieving the ambitious levels of the net emissions reductions by 2030 and to become the first climate neutral continent by 2050.
5. high volatility of the electricity prices on the forward market (along with the continued low liquidity) and the persisting high prices on the spot market,
6. effects of the results of the RES auctions conducted thus far and the very fast growth of the prosumer and micro-installations subsector in connection with the support programs launched,
7. effects of introducing the provisions of the *Winter Package*, including the emissions standard, adversely affecting the possibility of the participation in the capacity market by the coal fired units after July 1, 2025,
8. tightening of the emissions standards and the persisting adverse market conditions from the point of view of the profitability of the conventional energy,
9. increased risks with respect to the production of the commercial coal,
10. a decline of the risk free rate.

As a consequence, the booking of the impairment charges related to the loss of the carrying value of the tangible and intangible fixed assets in the amount of PLN 1 138 million was recognized in TAURON Capital Group's FY 2021 results in the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2021* (Consolidated Financial Statements of TAURON Capital Group).

The analyses completed as of June 30, 2021, and as of December 31, 2021, carried out as part of the impairment tests demonstrated that, in the *Financial statements of TAURON Polska Energia S.A. in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2021* (Financial Statements of TAURON):

1. reversal of the impairment charges related to the loss of the carrying value of the shares in TAURON EKOENERGIA in the amount of PLN 376 million had been justified (legitimate),
2. booking of the impairment charges related to the loss of the carrying value of the shares in Nowe Jaworzno Grupa TAURON in the amount of PLN 1 764 million had been justified (legitimate).

External factors

The operations and earnings of TAURON and TAURON Capital Group in 2021 were impacted by the following external factors:

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

Macroeconomic environment

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

The effects of the COVID-19 pandemic were still visible and felt by the individual countries' economies in 2021. However, a significant improvement of the economic situation was noticeable as compared to 2020. The forecasts of the international institutions show that the world economy grew by approx. 5.6% in 2021, and in 2022 the expected growth rate will clock in at 4.5%.

The Polish domestic economy in 2021, according to the forecasts of the National Bank of Poland, grew by 5.3%. The economic recovery was impacted by an increase in the consumption in the households sector. In 2020, this consumption fell by 3% year on year, and in 2021 it's growth rate will come in at approx. 6.1%. The average annual inflation rate in 2021 will stand at approx. 5.0%, and the registered unemployment rate at the end of the year will clock in at approx. 5.5%.

By 2023, the Polish economy will be growing at an average rate of approx. 5% year on year. The economic recovery is expected thanks to the rebound of the economic activity abroad or an increase in the households' consumption. On the other hand, the GDP growth rate will be curtailed by a negative supply shock - a sharp surge of the energy related commodities' prices on the world markets and an increase in the prices of the CO₂ emission allowances, which had taken place in 2021 yet.

In the energy sector, increase of electricity prices is anticipated, driven by the rising prices of the hard coal, gas and the CO₂ emission allowances. The rise of the prices of the energy related commodities' prices on the world markets and an increase in the prices of the CO₂ emission allowances will be the main reasons for the expected growth of the level of the inflation rate in Poland in 2022, whose average annual value is estimated to stand at 5.8%.

Market environment

Electricity

The below table presents the volumes of Poland's electricity consumption, production and imports and the average electricity prices on the SPOT market, both in Poland as well as in the neighboring countries in 2021 and in 2020.

Table no. 13. Volumes of Poland's electricity consumption, production and imports and the average electricity prices on the SPOT market, both in Poland as well as in the neighboring countries in 2021 and in 2020

Volume	Unit	2021	2020	Increase/Decrease
1. Electricity consumption	GWh	174 402	165 533	8 869 (+5.4%)
2. Electricity production by domestic power plants	GWh	173 583	152 306	21 275 (+14.0%)
3. Electricity production by power plants fired with:				
1) hard coal ¹	GWh	93 037	81 345	11 692 (+14.4%)
2) lignite	GWh	45 367	37 969	7 398 (+19.5%)
3) gas	GWh	13 366	13 924	-558 (-4.0%)
4. Electricity production by wind farms	GWh	14 234	14 175	59 (+0.4%)
5. Electricity imports	GWh	820	13 224	-12 404 (-93.8%)
6. Average electricity price on the SPOT market in:				
1) Poland	PLN/MWh	397.98	208.68	+189.30 (+90.7%)
	EUR/MWh	86.93	47.12	+39.81 (+84.5%)
2) Neighboring countries (on the example of German)	EUR/MWh	96.85	30.47	+66.38 (+217.8%)

¹Including the industrial power plants

The wholesale electricity price on the Day Ahead Market (RDN) of the Polish Power Exchange (Towarowa Giełda Energii S.A. - TGE) reached 397.98 PLN/MWh in 2021 and it was higher by 189.30 PLN/MWh ((+90.7%) as compared to 2020. The average settlement price on the Balancing Market (RB) came in at 374.56 PLN/MWh in 2021 and it was higher by 166.22 PLN/MWh ((+79.8%) as compared to 2020.

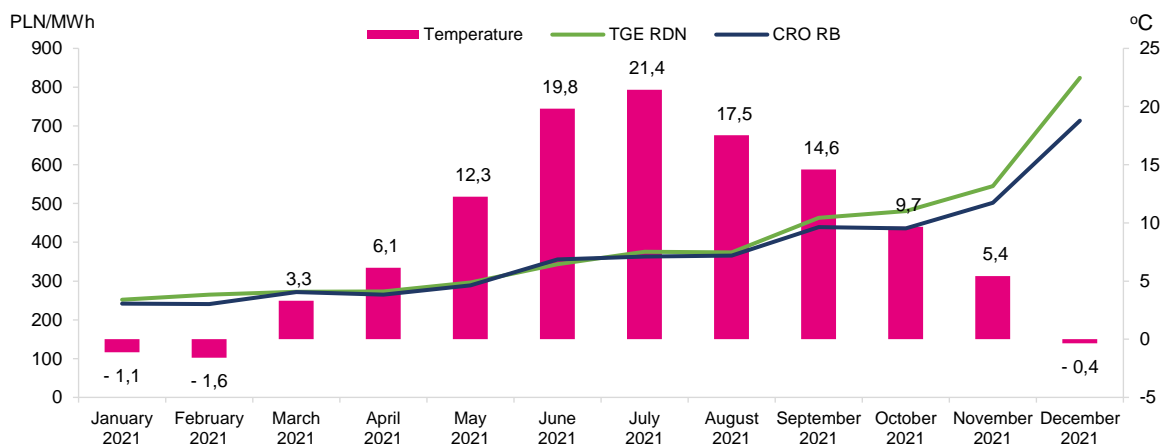
The factors behind the rising prices on the Day Ahead Market (RDN) and on the Balancing Market (RB) included: an increase of the demand, a surge of the prices of the CO₂ emission allowances, the much higher SPOT prices in the neighboring countries, as well as the lower balance of the inter-system electricity exchange, where an increase of the electricity exports to the neighboring countries was reported in the second half of 2021. The increase in the demand for electricity was materially impacted by the recovery of the economy following the restrictions caused by the COVID-19 pandemic, the weather conditions (cold winter and warm summer) and the greater consumption by the households.

The lowest SPOT prices were recorded in January 2021, while the highest prices were observed in December 2021, with the average price coming in at 251.85 PLN/MWh and 823.90 PLN/MWh, respectively. The high prices in December 2021 were driven by the low temperatures prevailing throughout Europe, the higher demand for electricity, the high electricity prices in the neighboring countries, and in particular the problems with maintaining a sufficient quantity of the steam (thermal) coal inventories in the country, which resulted in the strong curbing of the availability of capacity, including the capacity reserves available to the Transmission System Operator (TSO).

The rise in the demand for electricity and the significant reduction of the electricity imports on the cross border interconnections (the net electricity imports clocked in at 0.82 TWh in 2021) contributed to an increase of the electricity production by the conventional sources. In 2021, a rise in the electricity production by the hard coal fired power plants was recorded, up to 93.04 TWh, as well as the higher production by the lignite fired power plants was reported, coming in at 45.37 TWh. At the same time, due to the high gas prices, in particular in the fourth quarter, the electricity production by the gas fired power plants declined slightly to the level of 13.37 TWh.

The below figure presents the average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2021.

Figure no. 14. Average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2021



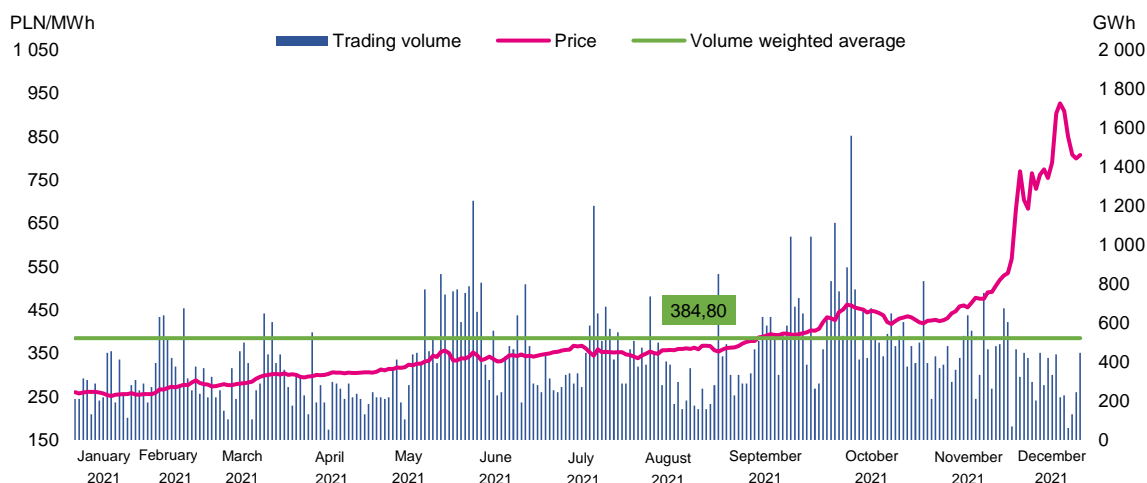
The reference (benchmark) base load contract with the delivery in 2022 (BASE_Y-22) was in an upward trend throughout the entire 2021. The price changes were in line with the changes in the commodity prices, in particular the prices of the CO₂ emission allowances. A particularly sharp surge of the prices took place at the end of the year, when the contract settlement (clearing) price reached the level of 926.40 PLN/MWh. In addition to the high prices of the raw materials (commodities) and the CO₂ emission allowances, such rapid increases were brought about by the problems with the balancing of Poland's power system due to the low supply of the thermal (steam) coal, as well as the very high prices in the neighboring countries.

The volume weighted average price of the BASE_Y-22 contract recorded in 2021 was at a level of 384.80 PLN/MWh, and it was higher by 153.12 PLN/MWh (+66.1%) as compared to the BASE_Y-21 contract prices a year ahead of the delivery. The total trading volume of the BASE_Y-22 contracts one year prior to the delivery clocked in at 104.4 TWh, i.e. approx. 12 TWh less than the BASE_Y-21 contract trading volume in the same period of 2020.

The PEAK5_Y-22 contract price displayed similar volatility patterns, with its trading volume weighted average price a year before the delivery reaching 428.45 PLN/MWh, i.e. it and was higher by 156.47 PLN/MWh (+57.5%) than the average PEAK5_Y-21 contract price recorded in 2020.

The below figure presents the trading volume and price performance of the BASE Y-22 contract a year prior to the physical delivery.

Figure no. 15. BASE Y-22 contract trading volume and price performance



Crude oil

The average price of the Brent crude oil on the ICE exchange stood at 70.94 USD/bbl in 2021 and it was approx. 28 USD/bbl higher as compared to 2020 (+64%). The lowest price of the crude oil was recorded in the first quarter of 2021, while the highest price was observed in the fourth quarter of 2021, with the average quarterly price coming in at 61.32 USD/bbl and 79.66 USD/bbl, respectively. The total Brent crude oil trading volume on the ICE exchange clocked in at approx. 67 billion barrels in 2021, while it stood at approx. 60 billion barrels (+11.6%) a year earlier.

The crude oil prices reached a six year high. The global events directly related to the effects of the COVID-19 pandemic were the main factors that had an impact on the demand and supply on the oil markets in 2020. The growing number of the vaccinations against COVID-19, the easing of the restrictions related to the pandemic and the recovering economy caused the global demand for the crude oil in 2021 to climb faster than its supply. The price of the Brent crude oil started in 2021 at around 50 USD/barrel and soared to a high of 86 USD/barrel at the end of October 2021, before falling in the final weeks of the year.

From February to December 2021, the growing demand and a smaller supply of the crude oil resulted in a consistent reduction of the inventory levels thereof and of other liquid fuels worldwide. The biggest drop of the inventory levels took place in February, when the United States experienced extremely low temperatures that resulted in the shaft freezes and a drop in the production by 1.3 million barrels of oil per day. The slower growth of the crude oil production was also due to the cuts in the production thereof in the OPEC+ countries, which began at the end of 2020. In December 2020 OPEC+ announced that it would curtail the increase of the crude oil production starting from January 2021 by 0.5 million barrels per day, so as to support the higher prices of this commodity in the markets.

Hard coal

The average price of the continued annual coal contract at the ARA ports stood at 99.47 USD/t in 2021 and it was higher by 42.16 USD/t (+73.6%) as compared to the average price of such a contract in 2020.

The beginning of 2021 muted the sentiment on the international coal market among a large number of the participants thereof. The prices of the raw material at the coal terminals in Europe dropped sharply as the tougher restrictions were imposed to contain the spread of the COVID-19 pandemic.

In the first half of 2021, after almost a year and a half of the stagnation caused by the COVID-19 pandemic, the market entered the phase of recovering the losses, which was accompanied by the strengthening of the world's largest economies. In June 2021, all of the key coal price indices (Australia, South Africa, Europe, Russia) increased to the levels that were more than twice as high as the lowest prices recorded in 2020. This situation was, on the one hand, a consequence of an increased demand for the electricity and raw materials in the Asia and Pacific region as a result of a warmer than average summer season, and on the other hand, in the Atlantic region, the main driving forces included the recovering economies of the individual countries after the COVID-19 pandemic and the curtailment of the supplies from Colombia and Russia, which in particular translated into an increase of the prices in the European ARA ports.

In the second half of 2021, the international coal market was undergoing the phase of the strongest price surges in more than a decade. The strengthening of the commodity market and the increase of the gas prices are the key factors behind the growth of the demand for the coal on the European market. The strong demand for gas in Asia during the summer months pulled the LNG volumes from the Atlantic market, which led to the interruption of the replenishment of the European power plant storage facilities that started the summer season with the lower inventory levels than usually. On the other hand, the situation in the Asia and Pacific region was largely determined by the insufficient supply of the Australian commodity and, in addition, by the supply disruptions caused by the weather anomalies in Indonesia, which is the key producer of the raw material in this area. In the third quarter of 2021, the situation on the international coal market became increasingly tight. The significantly curbed supply of all types of the raw material, both in Europe and Asia, was not meeting the growing demand, which was climbing not only due to the economic growth, but also due to the seasonal factors. The price drop came in October 2021, however November was another month of struggling with the turbulences brought about by the energy crisis in China, which affected the entire international coal market. The informal ban on the imports of the Australian coal to China, in effect from March 2020, had the biggest impact on this situation.

At the end of 2021, the next wave of the COVID-19 pandemic and the concerns about the rapid spread of the Omicron variant had a significant impact on the sentiment among the participants of the international coal market. However, the situation on the physical supply market in Europe in December 2021 was favorable for the prospects of the strong demand for the coal based energy in this area. The favorable margins of the coal based electricity generation placed coal at an advantage over gas.

Natural gas

In 2021, the European gas market saw unprecedented price levels for this commodity. The gas prices were a result of the recovery in the demand for the energy related resources and the tight supply landscape. In Europe, the rise of the natural gas prices was mainly due to low levels of the storage filling in 2021 as compared to previous years, the rapidly recovering demand after the COVID-19 pandemic, very high CO₂ prices, climbing prices of the coal

(ARA, Australia, South Africa, China/India, Pacific) and the Brent crude oil, as well as the increases of the natural gas prices in Asia (Japan Korea Marker) materially affecting the valuation of the forward contracts in the Western European gas hubs. The downward trend in the natural gas supplies to Europe since April 2021 (excluding the fourth quarter of 2021), as well as the meteorological factors, such as the long winter and cold spring, and also the high temperatures prevailing during the summer in Europe contributed to the increase of the natural gas prices in Europe. In addition, the price rise was impacted by: the lower generation from the wind sources during the summer in Europe, the lack of bids for the booking of the additional natural gas transmission capacity from Russia through Ukraine and further on to Slovakia, the lower flows on the Yamal gas pipeline starting from October 2021 as well as the hurricane Ida that hit the coast of the Gulf of Mexico in August 2021, stopping the operations of the oil and gas installations, which translated into the lower supply in the US and the lower natural gas exports from the US to Europe.

The key event on the gas market in 2021 was the completion of the second line of the Nord Stream II pipeline and the dispute between Russia and some European countries and the US over its commissioning.

The volume weighted average price of gas on the Day Ahead Market (RDN) on the Polish Power Exchange (TGE) stood at 223.72 PLN/MWh in 2021 and it was 165.91 PLN/MWh higher than in 2020. The lowest price of the contract with the delivery on the next day was recorded in February 2021, while the highest price was observed in December 2021, with the average volume weighted average monthly price coming in at 95.37 PLN/MWh and 538.48 PLN/MWh 27.90 PLN/MWh, respectively. The highest price, i.e. 828.64 PLN/MWh, was reported on December 23, 2021. The weighted average gas price on the Intraday Market (IDM - RDB), was higher by approx. 182.19 PLN/MWh than in 2020, and clocked in at 236.71 PLN/MWh. The lowest contract price on the Intraday Market (IDM) was recorded in February 2021, while the highest price was observed in December 2021, with the volume weighted average price coming in at 71.35 PLN/MWh and 844.58 PLN/MWh, respectively.

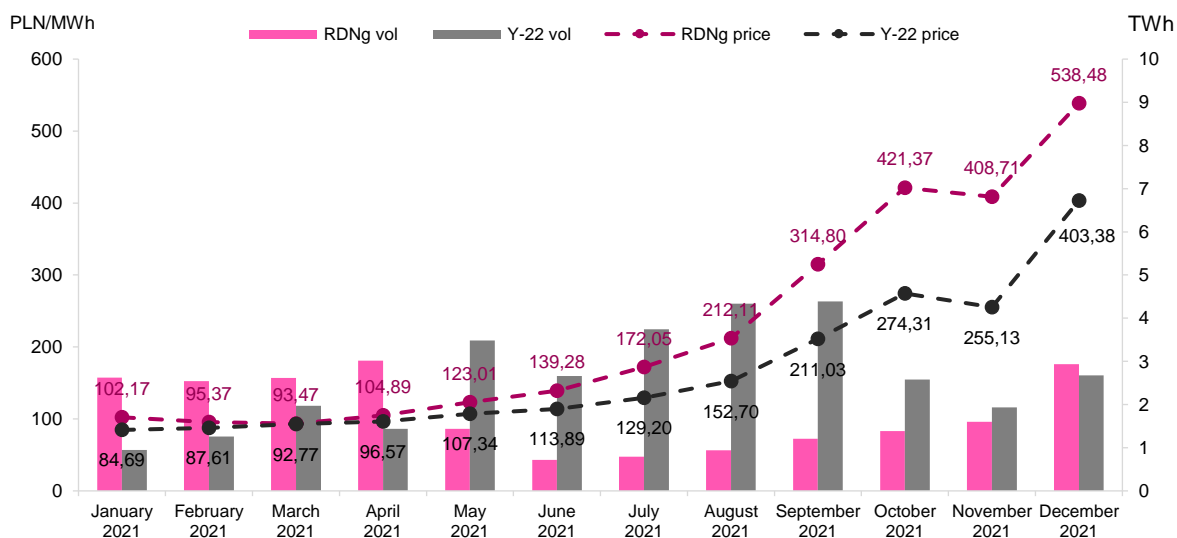
The lowest aggregate trading volume on the futures market was recorded in April 2021, clocking in at more than 5 TWh, while the highest trading volume was reported in September 2021, reaching approx. 23.2 TWh. The weighted average price of the reference (benchmark) one year GAS_BASE_Y-22 contract stood at 169.04 PLN/MWh in 2021. The lowest price of that contract was recorded at the beginning of January 2021, while the highest price was observed in December 2021, coming in at 82 PLN/MWh and 671.50 PLN/MWh, respectively.

The aggregate trading volume on the Polish Power Exchange (TGE) clocked in at more than 182.1 TWh in 2021, as compared to 151.1 TWh in 2020 (+20,5%). The futures market had the largest share in the gas trading in 2021, with a volume generated of more than 153.5 TWh. On the SPOT market, the total trade in the day ahead contracts came in at approx. 21.8 TWh (+9.5% year on year). The rise was also reported on the Intraday Market (IDM), where the turnover (trading volume) stood at more than 6.7 TWh, as compared to 5.8 TWh in 2020 (+15.2% year on year).

According to the Gas Infrastructure Europe association's data, as of December 31, 2021, the Polish storage facilities with the total capacity of approx. 3.2 billion m³ were 84.4% filled, while a year earlier they had been 74.3% filled (an increase by 10.1 pp). In Europe, this level, as of December 31, 2021, stood at 55.9%, while a year earlier it had clocked in at 74.1% (a decrease by 18.2 pp).

The below figure presents the average monthly SPOT market and BASE_Y-22 contract gas prices on TGE (PPX) a year prior to the physical delivery.

Figure no. 16. Average monthly SPOT market and BASE_Y-22 contract gas prices on TGE (PPX)



CO₂ emission allowances

The settlement (clearing) prices of the CO₂ emission allowances for the reference (benchmark) contract with the December delivery (EUA-DEC) were moving within the range between 31.84 EUR/Mg and 89.41 EUR/Mg in 2021. The average settlement (clearing) price came in at 53.67 EUR/Mg in 2020 and it was lower by 28.89 EUR/Mg as compared to 2020. The strong upward trend continued throughout the entire 2021, and therefore the lowest prices, in the range of approx. 33-35 EUR/Mg, were recorded in January 2021, while the highest prices, in the range of approx. 74-89 EUR/Mg, were reported in December 2021.

Such a strong surge of the CO₂ prices was brought about by the convergence of several important factors. In January 2021, the supply of the allowances on the primary market in the form of auctioning of the allowances was almost completely curtailed. An additional factor stimulating the increase of the prices was the change of the EU ETS system's phases from phase III to phase IV – the free allocation of the allowances as part of phase IV, in accordance with the EU ETS directive, could not be used to retire the obligation that had arisen in phase III, which substantially curbed the possibility of purchasing the units on the secondary market.

The weather conditions were also an important factor driving the rise of the demand for the allowances at the beginning of 2021. Cold January and February and the lower volume of the electricity produced by the renewable energy sources additionally stimulated a strong upward trend on the EU ETS market. The indications of the strong demand were also reflected in a big interest among the market participants in the auctioning of the allowances and an increase in the activities of the hedge funds.

The bullish sentiment on the financial markets, stimulated by the financial packages aimed at supporting the individual countries' economies in order to jumpstart their recovery following the COVID-19 pandemic, resulted in the above average rises of the financial market indices – the EUA futures contracts were reacting extremely strongly to the events taking place on the financial markets throughout the first quarter of 2021. The psychological price barrier at the level of 50 EUR/Mg was reached during the session on May 4, 2021.

In addition to the short term factors, the prices of the CO₂ emission allowances were going up due to the publication of the package of regulations adopted by the European Commission called *Fit for 55*, aimed at directing the EU to accomplish two goals: reducing the emissions by at least 55% by 2030 as compared to 1990 and the achievement of the full climate neutrality of the Member States by 2050. The EU ETS system is to be the leading tool supporting the achievement of this goal. In connection with the above, the gradual strengthening and extending of the EU ETS to other sectors, such as the maritime transport, road transportation and, at a later date, the individual heating is planned.

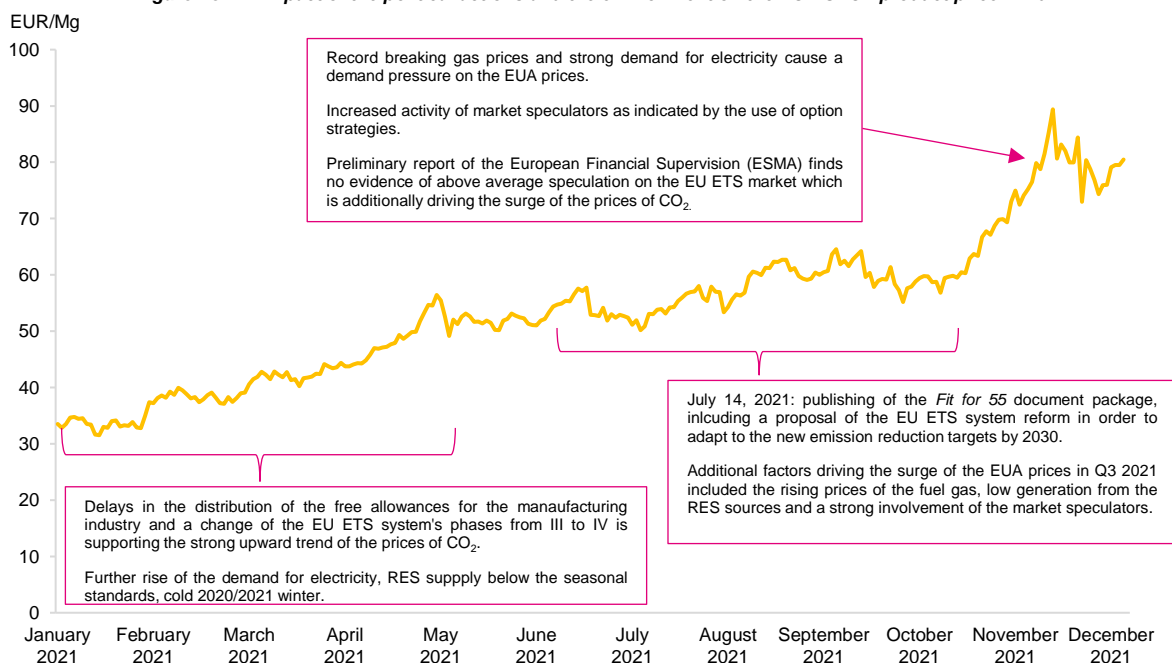
A proposal has been made to increase the Linear Reduction Factor (LRF) from the current 2.2% to 4.2% and to introduce the CO₂ border tax (CBAM – Carbon Border Adjustment Mechanism), thanks to which it will be possible to reduce the free allocation of the allowances in the sectors subjected to the CO₂ border tax. A faster reduction of the oversupply on the EU ETS market is to be ensured by the correction in the way the Market Stability Reserve (MSR) mechanism is operating and the possibility of withdrawing (transferring to the reserve) as much as 24% of the total number of the allowances in the circulation.

The market discounted the change in the fundamental elements of the EU ETS system with an increase in the prices. The investment funds that have access to the market were very quick to notice a change in the market fundamentals of the system. During the session on August 30, 2021, the price topped the level of 60 EUR/Mg. The galloping energy related commodities price crisis provided the support for the CO₂ prices also in September 2021. The price of the CO₂ emission allowances climbed to another all-time high on September 27, 2021, at the level of 65.77 EUR/Mg.

The increase in the prices of the raw materials, and mainly the gas fuel, accelerated even further in the fourth quarter of 2021. The combination of the low generation output from the renewable energy sources and the high gas fuel prices determined the level of contracting the electricity produced from the fuels emitting more carbon dioxide: hard coal and lignite. The analysts agree that, apart from the tightening of the climate policy and the proposed fundamental changes to the EU ETS system, the key factor behind the rise in the CO₂ prices to the levels close to 90 EUR/Mg at the end of 2021 were primarily the galloping gas prices. The factors described above supported a strong upward trend in the prices of the CO₂ emission allowances - its change may only be triggered by a collapse in the financial markets or a softening of some elements of the *Fit for 55* package.

The below figure presents the impact of the political actions and the environment on the EUA SPOT product price in 2021.

Figure no. 17. Impact of the political actions and the environment on the EUA SPOT product price in 2021



Property rights

2021 for the renewable energy market was characterized by a high volatility of the prices of the green certificates, in particular in the second half of 2021, when the legislative process related to the regulation of the Minister of Climate and Environment on changing the quantitative share of the electricity resulting from the redeemed certificates of origin confirming electricity generation from the renewable energy sources in 2022, was underway

The minimum price levels were reported in the first quarter of 2021, clocking in at 141.87 PLN/MWh, while the biggest price surges were recorded at the beginning of the third quarter, when the maximum price clocked in at 300.42 PLN/MWh (an increase by 112%).

The fourth quarter of 2021 was characterized by a very high volatility. The prices of the green certificates fluctuated within the range between 206.75 PLN/MWh and the above mentioned maximum level of 300.42 PLN/MWh. The weighted average price of the green certificates stood at 191.89 PLN/MWh in 2021 (an increase by more than 38.8% as compared to 2020) and it was higher than the applicable substitution fee by approx. 11.1%. The amount of the substitution fee stood at 172.76 PLN/MWh in 2021, with the obligation to submit the PMOZE_A certificates for redemption at the level of 19.5%. The trading volume in this period clocked in at 8 277 GWh and it was lower by more than 14.3% as compared to 2020. The balance of the PMOZE_A register reached a surplus of 24.5 TWh at the end of December 2021. Taking into account the certificates blocked for the redemption (retirement), this balance was lower by more than 9.3 TWh, coming in at the level of 15.2 TWh (a decrease by 39.5% year on year).

The prices of the certificates confirming the production of the electricity from the agricultural biogas, PMOZE-BIO-2019 (blue certificates), for which the obligation was 0.5% in 2021, were invariably fluctuating in the region of the substitution fee level, which stood at 300.03 PLN/MWh. The prices of the TGEozebio index fluctuated within the range from 300.03 PLN/MWh to 306.50 PLN/MWh. Ultimately, the weighted average value of the index clocked in at 301.49 PLN/MWh at the end of 2021 and it was slightly higher (by almost 0.5%) than the applicable substitution fee and the weighted average price for 2020 (by more than 0.4%). The total trading volume came in at 377.5 GWh (a drop by almost 23.1% year on year), and the PMOZE_BIO register balance reached the level of 346.1 GWh as of the end of 2021. Taking into account the certificates blocked for the redemption (retirement), this level declined to 292.0 GWh.

The prices of the TGEef index (white certificates, the so-called "tender related" energy efficiency certificates, the PMEF instrument) were observed on the market only in the first half of 2021 and they fluctuated between the minimum level of 1 825.01 PLN/toe reached during the last session in June, and the maximum price obtained at the end of May at the level of 2 100.00 PLN/toe. The weighted average price for the contract in question for the first half of 2021 came in at 1 914.28 PLN/toe and it was higher by almost 4.0% as compared to 2020. The average price was almost 5.0% above the substitution fee, which stood at 1 823.26 PLN/toe for the white certificates in 2021. Moving in the opposite direction to the increase in the prices, the trading volume went down by 72.5% as compared to 2020. In 2021 the trading volume came in at 16 225 toe (in 2020: 59 001 toe).

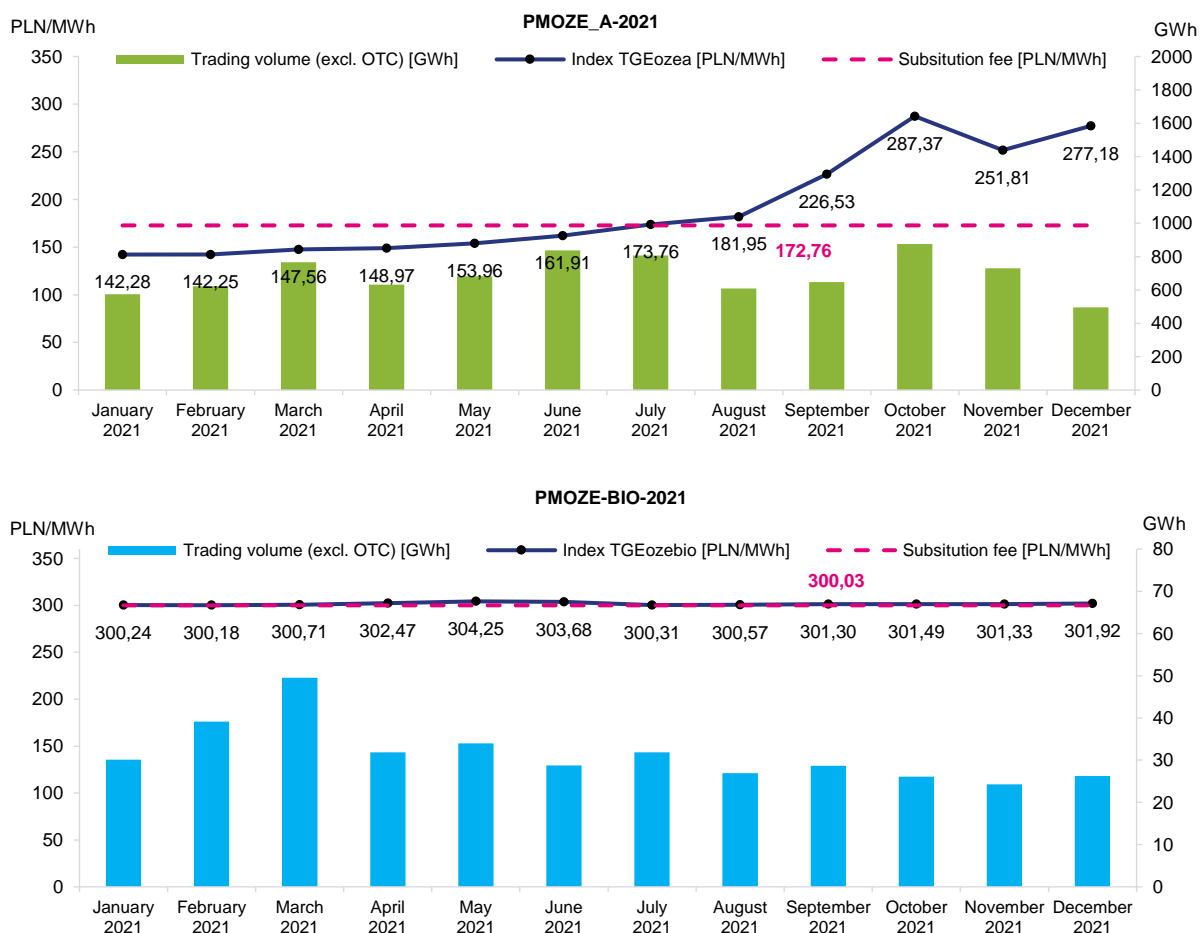
A similar performance and price ranges could have been observed for the PMEF-2020 contract, which was also trading in the first half of 2021 and continued to trend sideways. The price range was from 1 890.00 PLN/toe to 1 950 PLN/toe, and the weighted average price came in at 1 919.25 PLN/toe.

The market performance of the PMEF_F register contracts as well as that of the PMEF-2020 register contracts, that were traded throughout the entire 2021, was slightly different. Overall, the white certificates' prices were trending upward, in particular in the second half of 2021.

The weighted average price of the PMEF_F contract was higher by almost 30.2% in 2021 as compared to the prices in the same period of 2020 and it came in at 2 375.08 PLN/toe. The weighted average price of the PMEF-2021 contract clocked in at the level of 2 247.86 PLN/toe (the contract was traded only in 2021).

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

Figure no. 18. Property rights indices



Regulatory environment

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

The material changes that took place in the regulatory environment of TAURON Capital Group in 2021 and by the date of drawing up this report with respect to the adopted and published legislative acts as well as the legal acts undergoing legislative work are listed below.

Fit for 55 package

On October 19, 2020, the European Commission adopted a work program for 2021, including the *Fit for 55* regulatory package, which is aimed at ensuring that the European Union accelerates the pace of both the transition towards a climate neutral economy. The main goal of the *Fit for 55* package is to reduce emissions by at least 55% by 2030 (as compared to the 1990 level). All of the relevant European Union regulations must be adapted to the above mentioned greenhouse gas emissions reduction target. This is why the European Commission reviewed the selected regulations relating to the energy sector, including, among others:

1. Energy Tax Directive (ETD),
2. Directive on the promotion of the use of energy from renewable sources (Revision to the Renewable Energy Directive – RED II),
3. Energy Efficiency Directive (EED),
4. Directive establishing the EU ETS scheme (EU ETS Directive).

The drafts of thirteen legislative proposals of the European Commission with respect to the revisions of the legal acts already in force, including the above mentioned regulations and the presentation of the new legislative proposals, among others the ones related to the Carbon Border Adjustment Mechanism (CBAM), were published on July 14, 2021. The proposed changes include, among others, increasing the goal of improving the energy efficiency, increasing the share of the electricity generated from the renewable energy sources (RES), tightening the EU ETS system, introducing a mechanism for adjusting prices at the borders taking into account CO₂ (Carbon Border Adjustment Mechanism).

In December 2021, the European Commission presented the next elements of the Fit for 55 package, i.e. the draft revision of the Energy Performance of Buildings Directive (EPBD) and the proposal for the "gas package".

The period of agreeing on the above mentioned legislative projects may last several months.

European Climate Law

In December 2020, the European Council approved a binding target assuming the reduction of the net greenhouse gas emissions in the European Union by at least 55%, as compared to the 1990 level, by 2030. In June 2021, the European Parliament and the Council of the European Union formally adopted the document.

The European Climate Law introduces, in particular, a new target for the greenhouse gas emissions reduction by at least 55% by 2030, the greenhouse gas emissions reduction trajectory for the years 2030 – 2050 and the climate neutrality target by 2050 at the European Union level.

Just Transition Fund

On May 19, 2021, the European Parliament adopted an agreement establishing the Just Transition Fund, which is to help the coal mining regions transition to the so-called green economy. Out of the amount of more than EUR 17.5 billion Poland may receive EUR 3.5 billion in subsidies for the years 2021 – 2027. The initially selected regions in Poland that will receive support from the Just Transition Fund include: Katowice, Bielsko-Biała, Tychy, Rybnik, Gliwice and Sosnowiec in the Silesia province, Konin in Wielkopolska (Greater Poland) province and Wałbrzych in the Lower Silesia province. The talks are underway with the European Commission on the inclusion of the coal mining regions in the Małopolska (Smaller Poland), Lublin and Łódź provinces. According to the content of the regulation, the fund may support, inter alia, the activities related to the retraining of the employees, the implementation of the innovative technologies, the manufacturing related investments in the SMEs, the affordable clean energy.

Taxonomy

The *Regulation of the European Parliament and of the Council 2020/852 of June 18, 2020, on the establishment of a framework to facilitate sustainable investment* aims to introduce a classification system, the so-called European Union Taxonomy. On April 21, 2021, the European Commission initially adopted a delegated act to the above mentioned regulation which specified the detailed technical criteria related to counteracting the climate change or adapting to the climate change. The act does not include the criteria for generating electricity from the natural gas and from the nuclear energy. The works are underway on the supplementary delegated act specifying the technical criteria for the assessment of an economic activity consisting in generating electricity from the natural gas and the nuclear energy. The supplementary act will have an impact on the availability and cost of the financial instruments required for the investments in the units generating electricity with the use of the above mentioned sources.

Recovery and Resilience Facility

On February 21, 2021, the Council of the European Union and the European Parliament adopted a regulation establishing the Recovery and Resilience Facility (RRF), which controls the funds in the amount of EUR 672.5 billion. The Member States have developed the National Recovery Plans that include reforms and investment projects aligned with the EU policy objectives until 2026, i.e. a minimum of 37% of the expenditures to be spent on the energy transition and a minimum of 20% to be spent on the digital transformation. Approximately EUR 5.7 billion of grants and approx. EUR 8.6 billion in loans will be available as part of the *Green Energy and energy intensity reduction* component.

As of the date of drawing up this report, the National Recovery Plan is awaiting the approval of the European Commission.

Proceedings in the Tempus case

In 2019, the TEMPUS group companies: Tempus Energy Germany GmbH and T Energy Sweden AB, filed an appeal against the decision of the European Commission on not raising objections to the Polish Capacity Market. The purpose of the appeal filed was to seek to nullify (void) the said decision of the European Commission.

On October 6, 2021, the Court of first instance, being a judicial body of the Court of Justice of the European Union, issued a judgment in which it dismissed the complaint of the companies from the TEMPUS group. Such judgment allowed for an undisturbed implementation of the capacity obligation and receiving of the revenue from the capacity market.

The guidelines on state aid for climate and environment protection as well as the energy related objectives (CEEAG - Climate, Energy and Environmental Aid Guidelines)

On December 21, 2021, the College of Commissioners of the European Commission approved the new guidelines on state aid for climate and environment protection as well as energy related objectives (CEEAG). CEEAG is to replace guidelines on state aid for environmental protection and energy related objectives (EEAG – Energy and Environmental Aid Guidelines) in force in the years 2014-2021. The new guidelines define the amended rules for the assessment by the European Commission of the state aid programs or individual measures for counteracting the climate change and the environment protection. The above mentioned rules are also related to the power sector in the context of the EU's ambitious climate goals and the need to maintain the competitiveness of the business entities operating in the European Union. The revised guidelines include the adjustments aimed at aligning the evaluation principles with the strategic priorities of the European Commission, in particular those set out in the European Green Deal and the *Fit for 55* package.

Poland's Energy Policy until 2040

By way of the resolution of the Council of Ministers of February 2, 2021, *Poland's Energy Policy until 2040* was adopted, constituting a strategic document setting the framework and outlining the directions of Poland's energy transition. The above mentioned Policy replaced *Poland's Energy Policy until 2030* adopted in 2009.

The objectives of *Poland's Energy Policy until 2040* are based on three pillars:

1. just transition,
2. zero emission energy system,
3. good air quality.

In order to achieve the objectives set, 8 specific goals have been defined in the form of:

1. optimal use of the in-house energy resources,
2. expansion of the electricity generation and the grid infrastructure,
3. diversification of the supplies and the expansion of the network infrastructure related to the natural gas, crude oil and liquid fuels,
4. development of the energy market,
5. implementation of the nuclear energy,
6. development of the renewable energy sources,
7. development of the district heating and cogeneration,
8. improving the energy efficiency.

The significance of the adopted document is based on the setting of the long term goals for the public administration authorities and the tools provided for their proper achievement.

The Act of December 17, 2020, on promoting electricity generation in the offshore wind farms

The *Act of December 17, 2020, on promoting electricity generation in the offshore wind farms* entered into force on February 18, 2021.

The goal of the act is to create a dedicated support system for the generation of electricity in the offshore wind farms and to facilitate applying for the documents required in the course of the investment related works conducted for the offshore wind farms.

Act of March 30, 2021, on amending the act on the provision of information on the environment and the protection thereof, the public participation in the environment protection and on the environmental impact assessments and certain other acts

The *Act of March 30, 2021, on amending the act on the provision of information on the environment and the protection thereof, the public participation in the environment protection and on the environmental impact assessments and certain other acts* entered into force on May 13, 2021.

The amendment shall extend the powers of the environmental (ecological) organizations to interfere with the investment process, and the solutions introduced by the act are, in particular, related to:

1. an option to file a petition (motion) to the appeal authority (body) for the suspension of the immediate enforcement of the environmental decision and an option to submit a complaint against the decision of the appeal authority (body),
2. introducing the premise on the basis of which the administrative court may halt (suspend) the execution (enforcement) of the final environmental decision,
3. introducing the mandatory suspension of the investment project permit procedure in the event the execution (enforcement) of the environmental decision is halted (suspended),
4. an option for the parties to the proceedings on the environmental decision and the environmental (ecological) organizations to file an appeal against the investment project permit with respect to the compliance thereof with the environmental decision and an option to submit a complaint to the administrative court in this regard,

5. an option to petition in a complaint for the halting (suspension) of the investment project permit,
6. introducing the obligation to publish the content of the investment project permit and the decision on the environmental conditions in the Public Information Bulletin (Biuletyn Informacji Publicznej).

Act of April 20, 2021, on amending the act on energy efficiency and certain other acts

The *Act of April 20, 2021, on amending the act on energy efficiency and certain other acts* entered into force on May 22, 2021.

The amendment adjusts the provisions related to the energy efficiency to the solutions in force in the European Union (the implementation of the *Directive of the European Parliament and of the Council (EU) 2018/2002 of December 11, 2018, amending Directive 2012/27/EU on energy*) and introduces an option to comply with the energy efficiency obligation in the form of the programs for co-financing the replacement of the heating devices at the final consumers' as an additional measure - apart from the energy efficiency certificates - aimed at achieving the final energy savings target set by the European Union regulations for the end of 2030.

Act of April 15, 2021, on amending the act on the greenhouse gas emission allowance trading system and certain other acts

The *Act of April 15, 2021, on amending the act on the greenhouse gas emission allowance trading system and certain other acts* entered into force on June 25, 2021.

The amendment enables the domestic entities to take advantage of the Modernization Fund, i.e. a pool of money from the sales of the CO₂ emission allowances to be used for the modernization of the energy system and the energy efficiency improvement in the European Union. The amendment provides for the procedure of applying for the support from the Modernization Fund, based on the competitions.

The National Fund for Environment Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej - NFOŚGW) is the operator of the Modernization Fund in Poland, while the supervision over the performance of the tasks of the Fund's Operator is carried out by the Minister competent for the climate affairs.

Act of May 20, 2021, on amending the act – the Energy law and certain other acts

The *Act of May 20, 2021, on amending the act – the Energy law and certain other acts* entered into force on July 3, 2021.

The amendment assumes, among others, the setting up of a central energy market information system and introduces a schedule for installing the remote readout meters (the so-called smart meters) that the energy entrepreneurs (electric utilities) have to equip their consumers with. In accordance with the amendment, by the end of 2028, at least 80% of the customers are to be equipped with the smart meters. The data retrieved from the meters will allow for the setting up of a central energy market information system, whose operator will be PSE (transmission system operator - TSO).

As a result of the amendment, the provisions on the potential establishment of security (collateral, bond) on the property (assets) in order to obtain the relevant licenses have also been expanded and clarified in detail. Also, the new provisions related to the energy storage facilities have been introduced, according to which the energy storage has been exempted from the tariff obligations and the energy storage facilities with the capacity of up to 10 MW do not require obtaining a license. The double collection of the distribution and transmission fees for the electricity drawn from the grid to the energy storage facility and fed back from the energy storage facility into the grid - has also been eliminated.

In addition, the amendment introduces amendments to the act on promoting electricity generation in the offshore wind farms, making the obligation to provide the security (collateral, bond) more flexible by enabling the so-called rollover of the guarantee (bond) and a change of the form of the security (collateral, bond) during the period required by the act.

Act of July 23, 2021, on amending the act on the capacity market and certain other acts

The *Act of July 23, 2021, on amending the act on the capacity market and certain other acts* entered into force on September 1, 2021.

The amendment adapts the provisions of the Act on the Capacity Market to *Regulation (EU) 2019/943 of the European Parliament and of the Council of June 5, 2019, on the internal electricity market* and is aimed at, among others:

1. limiting the participation in the capacity mechanisms for the units that do not comply with the emissions limit, including largely the exclusion of the participation thereof in the secondary trading (however, admitting them to the reallocation transactions and the transactions related to the capacity obligation arising no later than on December 31, 2021),
2. changing the provisions related to the penalties resulting from the termination of the capacity contract and a delay in the performance of the obligation,

3. introducing an option to transfer the capacity obligation and make a minor capacity adjustment,
4. excluding the application of the provisions of the *Act of September 11, 2019 - Public Procurement Law* in relation to the transactions on the secondary market,
5. reparameterization of the capacity payment, taking into account the consumption profile criterion, ensuring lower payments for the consumers with the lower daily fluctuations in the electricity consumption.

Act of August 11, 2021, on amending the act on the fuel quality monitoring and inspection system and certain other acts

The *Act of August 11, 2021, on amending the act on the fuel quality monitoring and inspection system and certain other acts* entered into force on September 22, 2021.

The amendment is due to the need to introduce changes to the provisions with respect to:

1. National Reduction Target, i.e. the minimum value of the greenhouse gas emissions limit (cap) in the life cycle of the liquid fuels, liquid biofuels, liquefied gas (LPG), compressed natural gas (CNG), liquefied natural gas (LNG) or inland waterway engine oil used for the transportation and the electricity used in the motor vehicles, per unit of energy
2. covering the monitoring and inspections of the quality of the hydrogen fuels used to propel motor vehicles with the system,
3. definition of the light heating oil and heavy heating fuel oil,
4. extending the current definition of the fuel to include hydrogen and defining a hydrogen sample,
5. rules for submitting the reports to the President of the Energy Regulatory Office related to the imported fuels and the fuels brought in as part of an intra-Community purchase.

Act of September 17, 2021, on amending the act on renewable energy sources and certain other acts

The *Act of September 17, 2021, on amending the act on renewable energy sources and certain other acts* entered into force on October 29, 2021.

The amendment introduced, among others:

1. reduction of the license obligations for the entrepreneurs (businesses) dealing with small installations,
2. statutory confirmation of the practice related to the method of determining the total installed electric capacity of the RES installations,
3. changes to the register of the small installations,
4. extension of the existing RES support systems until June 30, 2047.

Act of October 29, 2021, on amending the act on the renewable energy sources and certain other acts

On December 21, 2021, the text of the *Act of October 29, 2021, on amending the act on the renewable energy sources and certain other acts* was published in the Journal of Laws of the Republic of Poland (Dziennik Ustaw RP). The amendment introduces the possibility of the use of the support by the groups of the consumers who are "a collective prosumer of the renewable energy" and "a virtual prosumer of the renewable energy" and modifies the current support system for the prosumer energy, assuming:

1. introduction of the so-called net billing (the prosumers will be using the self-consumption, while the surplus electricity will be sold without the taxation),
2. introduction of the fees for the prosumers for the electricity consumed, similar to the other final consumers,
3. introduction of the billing based on a 12-month cycle (the prosumer will have a "deposit" at his disposal, which shall not exceed 20% of the value of the electricity fed into the grid),
4. covering with the new billing system of the prosumers submitting an application for the grid connection past March 31, 2022,
5. extension of the introduction of the discount model until June 30, 2022 (those connected to the grid between April 1 and June 30, after this period has elapsed, they will automatically switch over to the net billing system).

The act will enter into force on April 1, 2022 (an event taking place after the balance sheet date).

Act of December 2, 2021, on amending the act on electromobility and alternative fuels as well as certain other acts

The *Act of December 2, 2021, on amending the act on electromobility and alternative fuels as well as certain other acts* entered into force on December 24, 2021. One of the main elements to be changed is the lifting of the DSO's obligation to build the generally accessible charging stations and the obligation of a trading company to act as an operator of a public charging station and a charging service provider. The amendment also introduces an amendment to the *Act of September 11, 2019 - Public Procurement Law*, excluding the purchase of the certificates of origin, agricultural biogas certificates of origin, energy efficiency certificates and guarantees of origin from the public procurement law regime.

The Act of December 17, 2021, on the compensation to offset energy price increases (shielding allowance)

The *Act of December 17, 2021, on the compensation to offset energy price increases (shielding allowance)* entered into force on January 4, 2021, (an event taking place after the balance sheet date). The main elements of the act are:

1. introduction of a shielding allowance related to the increase in energy prices for the household consumers,
2. new obligations of the electricity supplier related to the introduction of the shielding allowances (compensation to offset energy price increases),
3. program of support for the vulnerable (sensitive) consumers of the electricity and gas fuels program,
4. definition of energy poverty.

Act of December 2, 2021, on amending the Act - Energy Law

The *Act of December 2, 2021, on amending the Energy Law*, introducing compensation for the gas price increases entered into force on December 10, 2021. The amendment introduces the possibility of adding the costs stemming from the rapid price increase to the prices for the household consumers over the long time frame (36 months starting from January 1, 2023), preventing the risk of a large, cumulative and one-off increase for 2022.

Regulation of the Minister of Climate and Environment of March 30, 2021, on the maximum price for electricity generated in an offshore wind farm and fed into the grid in PLN per 1 MWh, which is the basis for the settlement of the right to cover the negative balance

The *Regulation of the Minister of Climate and Environment of March 30, 2021, on the maximum price for electricity generated in an offshore wind farm and fed into the grid in PLN per 1 MWh, which is the basis for the settlement of the right to cover the negative balance* entered into force on March 31, 2021.

The regulation is the implementation of the statutory delegation under art. 25, clause 2 of the *Act of December 17, 2020, on promoting electricity generation in offshore wind farms*. The maximum price for the electricity generated in an offshore wind farm and fed into the grid, which is the basis for the settlement of the right to cover the negative balance, was set at 319.6 PLN/MWh.

Regulation of the Minister of Climate and Environment of April 16, 2021, on the benchmark price of electricity from renewable energy sources in 2021 and the periods applicable to the producers who won auctions in 2021

The *Regulation of the Minister of Climate and Environment of April 16, 2021, on the benchmark price of electricity from renewable energy sources in 2021 and the periods applicable to the producers who won auctions in 2021* entered into force on April 20, 2021.

The regulation is to implement the statutory delegation under art. 77, clause 3 of the *Act of February 20, 2015, on renewable energy sources*, specifying:

1. maximum price in PLN per 1 MWh for which the electricity from the renewable energy sources can be sold by the electricity generators by way of an auction in 2021, depending on the type of a generation source (five technological baskets) and installed capacity,
2. support period applicable to the electricity generators winning the auctions for the support of the generation of electricity from RES in 2021 to last 15 years.

With respect to the benchmark prices set for the previous year, the regulation provides for a reduction of the prices for the installations with the total installed electric capacity of more than 1 MW, using only onshore wind energy to generate electricity, as well as for the installations with the total installed electric capacity of not more than 1 MW and the total installed electric capacity of more than 1 MW using only solar radiation energy to generate electricity. The benchmark prices for the refurbished installations have not been changed.

Regulation of the Minister of Climate and Environment of April 24, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) for the heat supply

The *Regulation of the Minister of Climate and Environment of April 24, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) for the heat supply* entered into force on April 29, 2021.

The regulation introduces a provision providing for the possibility of changing the tariff for the heat due to a change in the costs of the CO₂ emission allowances. The amendment to the regulation was dictated by a material increase in the prices of the CO₂ emission allowances. The costs planned by the enterprises did not take into account the full cost related to the purchasing of the CO₂ emission allowances for objective reasons that were beyond the control of such enterprises, and thus the justified costs of the business operations of the heat producers were not covered.

Regulation of the Council of Ministers of April 14, 2021, on the adoption of the spatial development plan for internal sea waters, the territorial sea and the exclusive economic zone on a scale of 1:200 000

The *Regulation of the Council of Ministers of April 14, 2021, on the adoption of the spatial development plan for internal sea waters, the territorial sea and the exclusive economic zone on a scale of 1:200 000* entered into force on May 22, 2021.

The regulation is aimed at the effective use of their features, resources and properties for various social and economic purposes, including also the development of the offshore wind energy. The adoption of the regulation will enable the investors to apply for areas for which no permits have been issued for the construction and use of the artificial islands.

Regulation of the Minister of Climate and Environment of August 4, 2021, on the change in the quantitative share of the total electricity stemming from the redeemed certificates of origin confirming the production of electricity from renewable energy sources in 2022.

The *Regulation of the Minister of Climate and Environment of August 4, 2021, on the change in the quantitative share of the total electricity stemming from the redeemed certificates of origin confirming the production of electricity from renewable energy sources in 2022* entered into force on August 27, 2021.

The regulation specifies the share of the electricity from the renewable energy sources in electricity supply at 18.5%, while for the electricity coming from the agricultural biogas produced starting from January 1, 2016, this level is to be 0.5%.

Regulation of the Council of Ministers of October 12, 2021 on the license fee

The Regulation of the Council of Ministers of October 12, 2021, on the license fee entered into force on November 2, 2021. The regulation, replacing the regulation of November 9, 2018, introduces the new license fee factors for the electricity storage and electricity generation by the offshore wind farms. The electricity storage is a new type of activity subject to the obligation to pay a license fee, while in the case of the electricity generation by the offshore wind farms, it was necessary to determine the value (amount) of the factor constituting an additional (new) component of the fee for this type of activity, which was introduced to the Energy Law by the regulations on promoting the electricity generation by the offshore wind farms.

Regulation of the Minister of Infrastructure of November 27, 2021, on the assessment of applications in the adjudication proceedings

The *Regulation of the Minister of Infrastructure of November 27, 2021, on the assessment of applications in the adjudication proceedings* entered into force on December 15, 2021, which is of key importance for the implementation of the investment projects related to the offshore wind energy. The provisions adopted in the regulation contain the criteria that define the scoring to be granted to the individual investors filing the applications for a permit to build and use the artificial islands in relation to the same area. These criteria are divided into the various categories relating to, inter alia, the method of financing the investment projects, the experience in implementing the energy related investment projects and the degree of alignment of the planned dates of the commencement and completion of the construction of the project and the operation thereof with the interests of the national economy, including with the implementation of Poland's energy policy.

Regulation of the Minister of Climate and Environment on the parameters of the main auction for the 2026 delivery year and the parameters of the additional auctions for the 2023 delivery year

The *Regulation of the Minister of Climate and Environment on the parameters of the main auction for the 2026 delivery year and the parameters of the additional auctions for the 2023 delivery year* entered into force on August 14, 2021. The above indicated regulation is a legal act which, in accordance with Art. 34, section 2 of the Act of December 8, 2017, on the capacity market is issued periodically, not later than 18 weeks prior to the start of the main auction. It specifies the parameters of the main auction for the 2026 delivery year, which will be carried out in 2021, and the parameters of the additional auctions for the 2023 delivery year, which will be carried out in 2022.

Regulation of the Minister of Climate and Environment of November 22, 2021, on the benchmark values of the final energy savings for the projects aimed at improving energy efficiency and the method of calculating such values

The *Regulation of the Minister of Climate and Environment on the benchmark values of the final energy savings for the projects aimed at improving energy efficiency and the method of calculating such values* entered into force on August 14, 2021. The amendment of the regulation will enable the obliged entities (within the meaning of the provisions of the *Act of May 20, 2016 on energy efficiency*) to fulfill a part of the obligation with respect to saving energy (energy efficiency) in the form of the implementation of the co-funding programs for the replacement of the heating devices at the final consumers (the indicated additional method of the fulfillment of the so-called efficiency obligation was introduced in the above mentioned *Act of April 20, 2021, on amending the act on energy efficiency and certain other acts*).

Regulation of the Minister of Climate and Environment of January 5, 2022, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) in the electricity trading

The Regulation of the Minister of Climate and Environment of January 5, 2022, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) in the electricity trading entered into force on January 8, 2022 (an event taking place after the balance sheet date). The regulation imposes on the trading companies and the ex officio suppliers the obligation to present, in the settlement document attached to the invoice, the information on the percentage structure of the justified costs of purchasing the electricity, with the following costs constituting the final price of the electricity itemized:

1. costs of purchasing the electricity, including the average costs of purchasing the emission allowances,
2. costs of the substitution fee incurred, of the purchase of the electricity from RES, as well as of obtaining and redeeming the certificates of origin for RES and the energy efficiency .

Regulation of the Minister of Finance of December 17, 2021, amending the regulation on the goods and services for which the VAT rate shall be reduced, and the conditions for applying the reduced rates

The Regulation of the Minister of Finance of December 17, 2021, amending the regulation on the goods and services for which the VAT rate shall be reduced, and the conditions for applying the reduced rates, entered into force on December 31, 2021. The objectives of the regulation include:

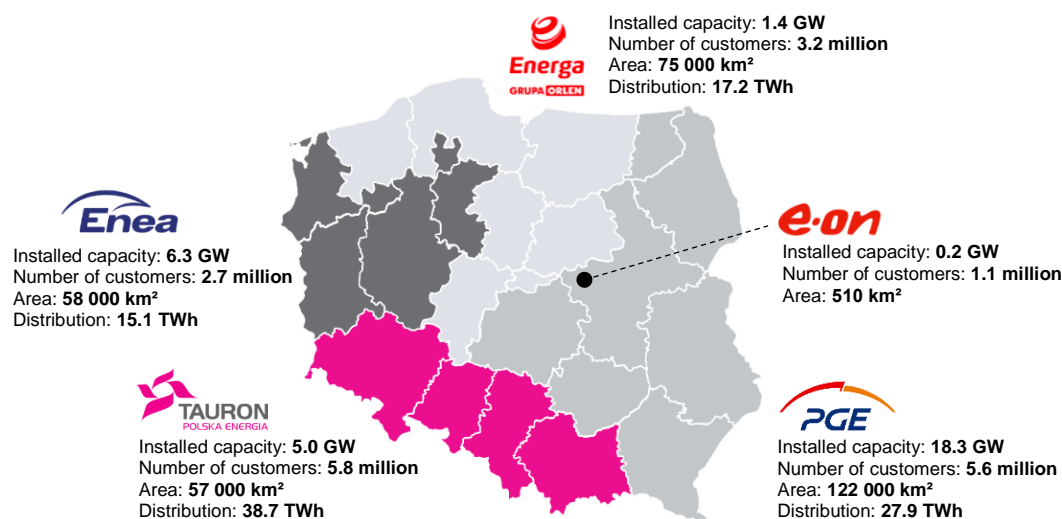
1. extension of the possibility to temporarily apply - until the date the state of the epidemic announced in connection with the SARS-CoV-2 virus infections is revoked on the territory of the Republic of Poland – the 0% rate for the donations/free provision (supply) of certain goods/services with respect to health care,
2. temporary (from January 1 to March 31, 2022) reduction of the VAT rate down to 8% for the supplies, intra-Community purchases and imports of the natural gas (CN 2711 11 00 or 2711 21 00) and thermal (heat) energy,
3. temporary (from January 1 to March 31, 2022) reduction of the VAT rate down to 5% for the supplies, intra-Community purchases and imports of the electricity (CN 2716 00 00).

Competitive environment (landscape)

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

The below figure presents TAURON Capital Group's competitive environment (landscape) based on the available data for the first three quarters of 2021.

Figure no. 19. TAURON Capital Group's competitive environment (landscape) based on the available data for the first three quarters of 2021

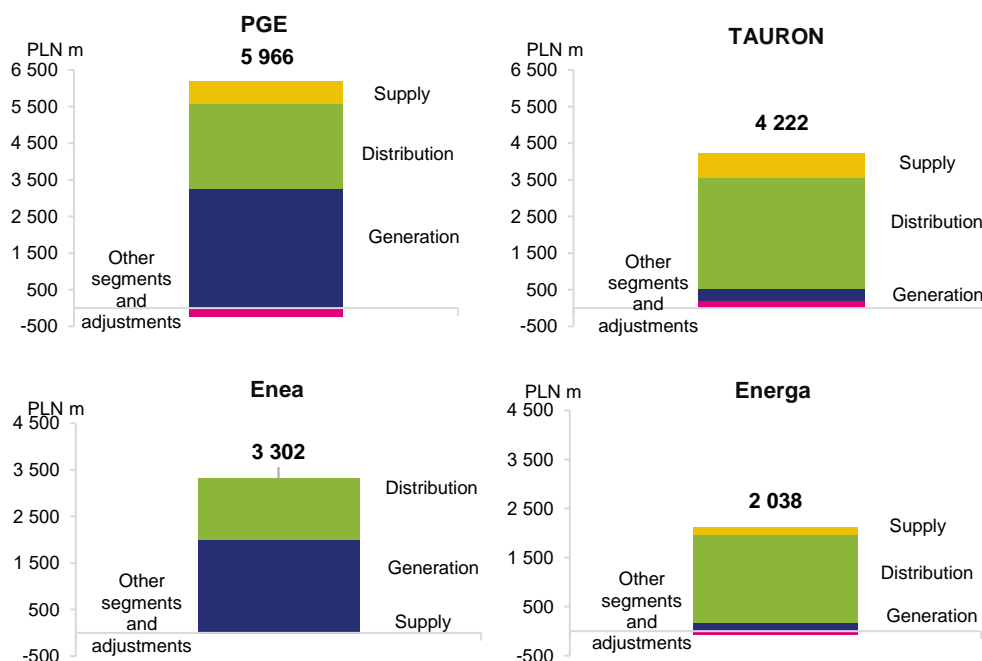


According to the data for the first three quarters of 2021, the consolidated energy groups (PGE, TAURON, Enea, Energa) held a 70% market share in the electricity generation sub-sector.

TAURON Capital Group is a fully vertically integrated energy enterprise (electric utility) that takes advantage of the synergies stemming from the size and scope (scale) of the operations conducted. TAURON Capital Group controls the value chain, from the hard coal mining up to the delivery of electricity to the final consumers. TAURON Capital Group is conducting its operations in all of the key segments of the energy market (excluding the electricity transmission), i.e. in the hard coal mining, as well as the electricity and heat generation, distribution, supply and trading.

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

Figure no. 20. EBITDA - estimated structure based on the main operating segments in 2021¹



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

Generation

TAURON Capital Group is Poland's key electricity producer

TAURON Capital Group's share in the domestic electricity generation market, based on the gross electricity production output, stood at approx. 9% in the first three quarters of 2021. TAURON Capital Group is the third largest electricity producer on the Polish market. TAURON Capital Group's generation assets are concentrated in the south of Poland. The deposits of the hard coal used to fire TAURON Capital Group's power plants and combined heat and power plants are also located in that region. The location of the generating assets in the vicinity of the hard coal deposits allows for the optimization of the costs related to the transportation of that raw material

88% of TAURON Capital Group's generation assets are, as of the end of 2021, the hard coal fired units, 21% of which are modern high efficiency generating units. TAURON Capital Group's total installed capacity reached almost 5.0 GW as of December 31, 2021, with the renewable energy sources accounting for 0.6 GW of that figure. TAURON Group's wind farms' installed capacity represents 8% of the total electric capacity, while the hydroelectric power plants' installed capacity accounts for 3% and the biomass fired generating units' installed capacity constitutes 2% of TAURON Capital Group's total installed capacity.

TAURON Capital Group produced 15.6 TWh of electricity in 2021, with 1.7 TWh coming from RES.

Nationwide, in the first three quarters of 2021, TAURON Capital Group's hard coal fired units' installed capacity accounted for approx. 13% of the total installed capacity of all of the hard coal and lignite fired generating units in Poland. With respect to the installed capacity of the wind farms, biomass and biogas fired power plants, as well as the hydro power plants, the share of TAURON Capital Group came in at approx. 6%, 8% and 14%, respectively.

According to data for the first three quarters of 2021, PGE is the largest electricity generator in Poland, with its share in the domestic electricity production market standing at approx. 43% in the first three quarters of 2021, and the installed capacity of 18.3 GW. Enea is the second largest electricity producer in Poland, with a market share coming in at approx. 16% and the installed capacity of 6.3 GW. Energa, on the other hand, has the largest share of electricity produced from the renewable energy sources (RES) on the Polish market and Energa's total installed capacity stands at approx. 1.4 GW. Energa produced approx. 3.0 TWh of electricity in the first three quarters of 2021, with approx. 1.1 TWh (i.e. 37%) coming from RES.

The below figures present information on the installed capacity and the electricity generated in the first three quarters of 2021.

Figure no. 21. Gross electricity production - estimated market shares in the first three quarters of 2021

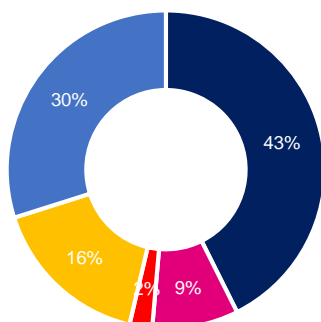
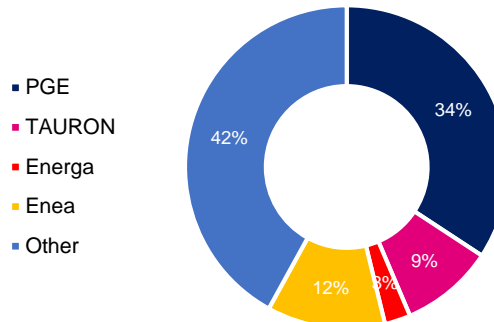


Figure no. 22. Installed capacity - estimated market shares in the first three quarters of 2021



Source: Agencja Rynku Energi S.A. (ARE), companies' information posted on the web sites

Distribution

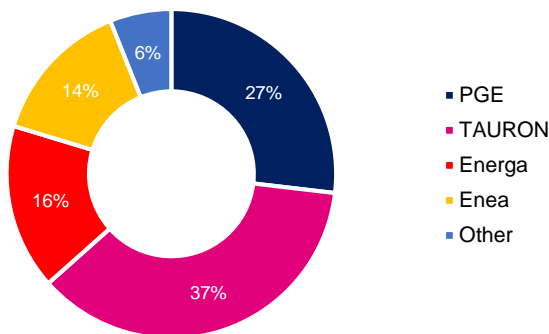
TAURON Capital Group is the Polish market leader in terms of the number of the distribution customers and the volume of electricity distributed.

TAURON Capital Group is Poland's largest electricity distributor. TAURON Dystrybucja's share in the electricity distribution to the final consumers reached approx. 37% in the first three quarters of 2021. TAURON Capital Group's distribution grids cover more than 18% of Poland's territory. The volume of the electricity delivered to the final consumers came in at approx. 53.97 TWh in 2021. TAURON Capital Group is Poland's largest electricity distributor, also in terms of the revenue from the distribution operations.

TAURON Capital Group's distribution operations, due to the natural monopoly in the designated area, are a source of a stable and predictable revenue, accounting for a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution's geographical area on which the Distribution Segment's and the Supply Segment's subsidiaries are historically operating is a heavily industrialized and densely populated area and therefore the distribution grid is very well utilized. The number of the Distribution Segment's customers reached approx. 5.77 million in 2021.

The below figure presents estimated market shares of the individual energy groups in terms of electricity distribution based on the data for the first three quarters of 2021.

Figure no. 23. Electricity distribution - estimated market shares in the first three quarters of 2021



Source: Agencja Rynku Energi S.A. (ARE), companies' information posted on the web sites

Supply

TAURON Capital Group is Poland's second largest electricity supplier

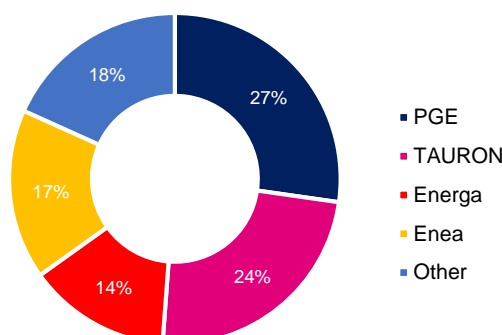
TAURON Capital Group holds a 24% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 33.4 TWh in 2021. The number of the customers served by TAURON Capital Group's Supply Segment is 5.6 million.

PGE is the largest retail electricity supplier with a 27% market share. The other two groups, Enea and Energa, hold a 17% and a 14% market share, respectively.

In the segment of the electricity supply to the households the individual energy groups are geographically linked, first of all, with the areas in which they are acting as an ex officio electricity supplier. The need to submit household tariffs for approval to the President of the Energy Regulatory Office (ERO) leads to the limited options for positioning prices in the product offerings, and what follows, it impacts the attractiveness thereof for the customers. Such restrictions do not apply to the business and institutional customers. A broader and more open competition exists in those sectors.

The below figure presents estimated market shares of the individual energy groups in terms of electricity supply to the final consumers based on the data for the first three quarters of 2021.

Figure no. 24. Electricity supply to the final consumers - estimated market shares in the first three quarters of 2021



Source: Agencja Rynku Energi S.A. (ARE), companies' information posted on the web sites

The below table presents information on the installed capacity and the volume of electricity generation, distribution and supply in the first three quarters of 2021, as well as the domestic market shares.

Table no. 14. Installed capacity, generation, distribution and supply of electricity by energy groups in the first three quarters of 2021

Group	Installed capacity		Generation ¹		Distribution		Supply	
	Quantity (GW)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)	Volume (TWh)	Share (%)
1. PGE	18.3	34	55.5	43	27.9	27	27.9	27
2. TAURON	5.0	9	11.4	9	38.7	37	24.5	24
3. Energa	1.4	3	3.0	2	17.2	16	13.7	14
4. Enea	6.3	12	21.4	16	15.1	14	17.0	17
5. Other	22.4	42	38.9	30	6.4	6	18.7	18
Total	53.4	100	130.2	100	105.3	100	101.8	100

¹Volume of the gross electricity generated in the first three quarters of 2021.

Source: ARE, information from the companies posted on their web sites, in-house estimates in case of the companies publishing the net production output.

After the declines recorded in 2020 in connection with the COVID-19 pandemic, the year 2021 was characterized by an increase in the demand for electricity, and thus a rise in the volume of the electricity production, distribution and supply. One of the most important events that took place in the power sector in 2021 was the commissioning by PGE of a new 480 MW coal fired unit at the Turów Power Plant. At the end of the year, PGNiG Group commissioned a new CCGT unit at the Żerań CHP plant with a capacity of 497 MW. In mid-2021, Energa Group published a new strategy for the time frame until 2030, in which it assumed an expansion of its RES capacity up to 2.4 GW (mainly the onshore and offshore wind farm projects) and the gas based energy as well as the emissions reduction by 33% by 2030, as compared to 2019. Enea also updated its strategic plans. The key direction of Enea Group's Expansion Strategy is energy storage, as a key technology to ensure the stability of the renewable energy sources (RES) and build energy security.

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

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

Table no. 15. Sources of competitiveness of TAURON Capital Group in the selected Lines of Business (Segments of Operations)

Line of Business	Area of initiatives	Sources of competitiveness
Mining Generation	<ol style="list-style-type: none"> 1. Reducing the fuel price and supply risk. 2. Investments in the generating units. 3. Operating expenses. 	<ol style="list-style-type: none"> 1. Concluded capacity market contracts. 2. High efficiency generating units with a competitive unit production cost. 3. Improvement of the operational efficiency.
RES Heat	<ol style="list-style-type: none"> 1. Investments in the renewable energy sources and the low emission thermal energy (heat) sources. 2. Operating expenses. 3. Investments in the district heating networks. 	<ol style="list-style-type: none"> 1. Improvement of the operational efficiency. 2. Development of the low and zero emission generation sources. 3. Expanding the regulated operations.
Distribution	<ol style="list-style-type: none"> 1. Operating expenses 2. Investment project efficiency 	<ol style="list-style-type: none"> 1. Implementing the ultimate business model.

Line of Business	Area of initiatives	Sources of competitiveness
	1. Improvement of grid reliability indicators	2. Implemented IT systems, separate processes, clear (transparent) split of responsibilities.
Supply	1. Operating expenses. 2. Maintaining high customer satisfaction indices.	Development of the product and services offering for the customers. 2. Integrated service channels

2.4. Material factors impacting growth

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

1. macroeconomic situation in Poland at the EU and global economy level, including the changes of the interest rates, FX rates, etc., impacting the valuation of the assets and liabilities listed by the Company in the statement of financial position.
2. market situation in Poland and in the EU, as well as the global economy, including the changes of the electricity prices, prices of the CO₂ emission allowances, prices of the raw materials (commodities), etc., affecting the revenues and the level of the costs generated,
3. potential increase of the overdue accounts receivable caused by the deterioration of the financial condition of the counterparties (contractors),
4. demand for the electricity in the National Power System and the level of the production by the generating units, taking into account the changes due to the seasonality and weather conditions.
5. level of electricity imports/exports,
6. changes to the energy mix and, as a consequence, the adaptation of the demand for hard coal,
7. commissioning of the 910 MW unit in Jaworzno,
8. success of the transaction of the sale of the equity interest in EC Stalowa Wola,
9. extraordinary preventive measures implemented at TAURON Capital Group's subsidiaries due to the state of the epidemic, aimed at ensuring the safety of the employees and customers as well as ensuring the security of the continuity of the operations of the critical infrastructure,
10. political environment in Poland and at the European Union level, including the positions and decisions of the state administration institutions and offices, for example: Office of Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission (EC),
11. results of the court proceedings (litigations),
12. evolving situation in the Ukraine and its impact on the Polish economy and the European Union policy, as well as the impact of the sanctions against Russia and by Russia,
13. changes to the regulations related to the power sector, and also changes in the legal environment, including: tax law, commercial law, environment protection law,
14. changes to the regulations governing the operations of the Polish Power Exchange (PPX - TGE), in particular the possibility of lifting the power exchange obligation,
15. further tightening of the policies of the financial institutions,
16. possibility of using the external assistance funds, including the European funds, to support the transition of the energy sector and mitigate the effects of the social changes, taking into account, in particular, the following limitations:
 - 1) entity related (associated with the support for the large enterprises),
 - 2) with respect to the forms of support (much more emphasis on the returnable support than before),
 - 3) permissible scope of state (public) aid granted (for example tightening of the rules of support with regard to the gas fired capacity, indicated in the draft guidelines on the state (public) aid to be used for climate and environment protection and the objectives related to energy (CEEAG),
 - 4) amount of the state (public) aid granted (changes with respect to the maximum aid intensity),
17. geological and mining factors, as well as the natural hazards that may affect the volume of the fossil fuel extraction output,
18. further functioning of the generation capabilities compensation mechanism (capacity market), under which the deliveries of the electric capacity will be carried out by TAURON Capital Group subsidiaries' generating units and demand side reduction units. The deliveries will be carried out under the capacity contracts concluded during the main and additional auctions for the years 2021-2025. The launch of the capacity market results in a simultaneous expiration of the operational capacity reserve and the cold intervention reserve mechanisms,
19. support system for the electricity generation from the dedicated sources (*color certificates*), resulting, on one hand, in the costs of redeeming (retiring) the certificates for the suppliers of the electricity to the final consumers, and on the other

- hand, in the revenue from the sales of the certificates for the generators of electricity,
20. RES support system, the so-called RES auctions,
 21. competitive environment (landscape), including the activities and steps taken by the competition on the energy market,
 22. further tightening of the EU climate policy, in particular, resulting in the energy transition focused on the RES, as well as in an increase of the prices of the CO₂ emission allowances,
 23. ongoing works on the government's solution with respect to the shape of the mining and coal based energy sector in Poland, also the pace of implementing the process of spinning off of the coal assets to NABE (Narodowa Agencja Bezpieczeństwa Energetycznego – National Energy Security Agency),
 24. amount and form of the payments (subsidies) received as part of the support system for the reduction of the production capacity of the coal mines,
 25. growth of the prosumer market and its impact on the Supply, Distribution, as well as the Generation and Mining Lines,
 26. level of the tariff for the electricity and heat supply to the households (tariff group G) approved by the President of the Energy Regulatory Office (ERO),
 27. levels of tariff for the electricity distribution as well as the heat distribution and production approved by the President of the Energy Regulatory Office (ERO),
 28. environment protection requirements as a consequence of the changes to the *Act of April 27, 2001, Environment Protection Law*, the so-called anti-smog resolutions,
 29. consequences of the adopted *Act of March 30, 2021, on amending the act on disclosing information on the environment and the protection thereof, the participation of the public in the protection of the environment and the environmental impact assessment, and certain other acts* (the potential impact on the current and future investment projects)
 30. consequences of the adopted *Regulation of April 24, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) for the heat supply*, introducing a provision enabling changing of the tariff for the heat due to the change of the costs of purchasing the CO₂ emission allowances,
 31. planned changes to the regulations related to the *Act of August 25, 2006, on the system for monitoring and inspecting fuel quality*, among others, with respect to the quality requirements for the solid fuels,
 32. science (research) and technical progress,
 33. shaping of the personnel policy, including the results of the negotiations with the Social Council (Board) of TAURON Group,
 34. changes to the schedules, budgets and scopes of the investment projects carried out by TAURON Capital Group,
 35. availability of the assets of TAURON Capital Group,
 36. impact of the weather conditions (factors), including those of extreme nature, resulting in the impact on the failure rate of the assets of TAURON Capital Group and the seasonality of the revenue generated and the costs incurred,

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

A considerable variability in the conditions for conducting the business operations in Poland can be observed. In addition, the continuously tightening climate regulations at the European and national level constitute an important premise for the analysis of the current and future situation of TAURON Capital Group. Therefore, the Company continues intensive analytical works with respect to assessing the impact of the ongoing and planned changes in the economic and regulatory environment on the financial, assets and personnel situation of TAURON Capital Group. Works are underway to finalize the new Strategy that will take into account changes in the market and regulatory environment.

2.5. Timeline

The timeline of the selected highlights associated with the operations of TAURON and TAURON Capital Group that took place in 2021 is presented below.

**JANUARY
FEBRUARY**

1. Signing by TAURON Dystrybucja and Apator Rector sp. z o.o. (Ltd.) of the agreement for the provision in the years 2021-2024 of the maintenance, support and development services with respect to the Computerized (IT) Grid Assets Management system.
2. Adoption of *TAURON Group's Physical Security Policy*.
3. Commencement by TAURON of the works on the prototype energy storage facilities as part of the Second Life ESS Project set up with the support of the consortium of the companies Solaris Bus & Coach sp. z o.o. (Ltd.) and Impact Clean Power Technology S.A.
4. Signing by TAURON, PGE and Enea of the Letter of Intent with respect to the cooperation in the implementation of the investment projects in the field of the offshore wind energy in the area of the Polish Exclusive Economic Zone of the Baltic Sea.
5. Launching of the Program for the development and implementation of the RES projects by TAURON Group, aimed at implementing the assumptions of the Green Turn of TAURON.
6. Completion by TAURON with Santander Bank Polska of the first green IRS transaction in Poland, hedging the risk of the interest rate volatility, based on the principles of the sustainable development.
7. Commissioning, at the Sobieski Coal Mine, of a new longwall coal face at the Brzezinka deposits, from which the hard coal will be shipped, among others, to the new 910 MW unit in Jaworzno.
8. Commencement by TAURON, in the cooperation with the Consortium of the companies MEGA S.A. companies and P&Q sp. z o. o. (Ltd) of the construction of a wind farm with a capacity of 30 MW in the Łódź province (Piotrków Project).

**MARCH
APRIL**

1. Commencement by TAURON Obsługa Klienta of the provision of the telecommunications services.
2. Signing by TAURON with Bank Gospodarstwa Krajowego of the documentation related to the program of the issue of the subordinated bonds worth up to the amount of PLN 450 million.
3. Publishing by TAURON of a free e-book on the energy audit for the companies.
4. Signing by TAURON with the State Treasury of an agreement for the sale of the shares in PGE EJ 1.
5. Commissioning of a photovoltaic power plant with a capacity of 6 MW in Choszczno.
6. Publishing of the financial results of TAURON and TAURON Capital Group for the full year 2020.
7. Signing by TAURON Sprzedaż of a contract with PSE (TSO) for the provision of the DSR (Demand Side Reduction) Intervention Reduction of the Electricity Consumption in the period from April 1, 2021 to March 31, 2022.
8. Launching by TAURON of a loyalty program at its electric car charging stations.

**MAY
JUNE**

1. Publishing by TAURON of a free e-book *100 questions with respect to the photovoltaics*.
2. Publishing of the financial results of TAURON and TAURON Capital Group for the first quarter of 2020.
3. Ordinary General Meeting of the Shareholders of TAURON.
4. Amendment to the Articles of Association of *TAURON Polska Energia S.A.*
5. Launching by TAURON of a new blog site service *Lepiej (Better)*, constituting a knowledge base with respect to the smart home and modern energy.
6. Acquisition by TAURON of the shares in the company Polpower sp. z o.o., managing a project to build a wind farm with a capacity of 6 MW in the municipality of Milejewo in the Warmian-Masurian province (Project Majewo).

**JULY
AUGUST**

1. Merger of the companies TEC3 and TEC2.
2. Publishing of the Integrated Annual Report for 2020.
3. Signing by TAURON Ciepło of the agreement with the Consortium of Erbud Industry sp. z o. o. and Erbud S.A. for the construction of a modern gas and oil fired boiler house at the Czechowice-Dziedzice Combined Heat and Power Plant.
4. Signing of the General Agreement by TAURON with 26 of TAURON Capital Group's subsidiaries aimed at ensuring the implementation of the TAURON Group strategy, and in particular the optimization of strategic decision making as well as the efficient and secure information flow within TAURON Group.
5. Signing of an agreement by TAURON Dystrybucja with PGE Systemy on the pilot project of the special communications network services based on the LTE technology in the 450 MHz band in the area covered by TAURON's license.
6. Signing by TAURON, PGE, Enea and Energa as well as the State Treasury of the agreement related to the cooperation with respect to the spinning off of the coal assets and the integration thereof within the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE).
7. Signing by TAURON Ciepło and Mostostal Warszawa of the agreement for the construction of a gas fired boiler with a capacity of 140 MWt at the Combined Heat and Power (CHP) Plant in Katowice.
8. Publishing by TAURON of the *Information on the state of the application by TAURON Polska Energia S.A. of the rules contained in the Code of Best Practice for WSE Listed Companies 2021*.
9. Signing by TAURON and PGNiG of the letter of intent with respect to the potential sale by TAURON Capital Group to PGNiG Group of its equity stake in EC (Combined Heat and Power Plant) Stalowa Wola.

**SEPTEMBER
OCTOBER**

1. Publishing of the financial results of TAURON and TAURON Capital Group for the first half of 2021.
2. Launch of 100 electric vehicle charging stations.
3. Signing by TAURON and the Ministry of the State Assets of a letter of intent with respect to the potential acquisition by the State Treasury of 100 percent of the shares in TAURON Wydobycie.
4. Change of the name of the company TEC3 sp. z o.o. to TAURON Zielona Energia sp. z o.o.
5. Commencement of the cooperation between TAURON and Microsoft sp. z o.o. with respect to the energy and digital transition as part of the research and development project Internet of Things in the smart city of Wrocław.
6. Commissioning of the further longwall coal faces at the Janina Coal Mine (ZG Janina) and the Brzeszcze Coal Mine (ZG Brzeszcze).
7. Completion of the construction of the 800 m level at the Janina Coal Mine (ZG Janina).
8. TAURON awarded the special prices *The Best of The Best* for the annual report and the honorable mention for the continuous, high quality of the integrated report in the competition *The Best Annual Report 2020*.
9. Signing by TAURON and PGE of a letter of intent on undertaking the bilateral cooperation with respect to the wind energy development in Poland.
10. Commissioning of the new longwall coal face at the Sobieski Coal Mine (ZG Sobieski).
11. Commissioning of the cogeneration installation in Jawiszowice powered by the gas obtained from the Brzeszcze Coal Mine (ZG Brzeszcze).
12. Signing by TAURON and the European Investment Bank of a loan agreement for the amount of PLN 2 800 000 000 in order to cover the Capital Group's capital expenditure related to the modernization and expansion of the electricity distribution grids planned for the years 2022-2026.

**NOVEMBER
DECEMBER**

1. Publishing of the financial results of TAURON and TAURON Capital Group for the third quarter of 2021.

2. Signing by PGE with TAURON and Enea of the contingent agreements for the sale of the shares in four project companies (special purpose vehicles), whose task will be to obtain the siting permits for the construction of the offshore wind farms in the Polish Exclusive Economic Zone on the Baltic Sea.
3. Commencement of the commercialization phase of the TAURON Virtual Power Plant project.
4. Amendment of the *Organizational Regulations of TAURON Polska Energia S.A.*
5. Signing by Nowe Jaworzno Grupa TAURON, RAFAKO and E003B7 of a settlement agreement with respect to the construction of a new 910 MW power unit at the Jaworzno III Power Plant.
6. Signing by TAURON with Erste Group Bank AG of a loan agreement for the amount of PLN 500 million in order to finance the investment projects related to the Green Turn of TAURON.
7. Taking of the decision on keeping TAURON Ciepło within the structures of TAURON Capital Group.
8. Signing by TAURON Wytwarzanie of an agreement with the National Fund for the Environmental Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) for co-financing of the project of a photovoltaic farm construction in Mysłowice.

2.6. Major events having a significant impact on the operations in 2021 and after the balance sheet date, i.e. December 31, 2021

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that occurred in 2021, as well as by the date of drawing up this report are listed below.

In addition, the above mentioned events should include the agreements significant for TAURON Capital Group's operations, presented in detail in section 12.2. of this report.

Major business events in 2021

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

The detailed information related to this topic is provided in section 1.7 of this report.

Completion of the negotiations in the process of selling the shares in TAURON Ciepło and the analyses related to the participation in the acquisition of the selected assets of ČEZ Group as well as the decision to keep TAURON Ciepło within the structures of TAURON Capital Group

In 2019 the Company launched a project aimed at performing the market verification of an option of selling the shares in the TAURON Ciepło subsidiary. Therefore, in 2020 the Company's Management Board was conducting the negotiations with Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG) with respect to the sale of the shares in the TAURON Ciepło subsidiary on the terms of exclusivity. The negotiations came to an end when, on January 29, 2021, PGNiG expressed, in writing, the wish not to continue the negotiations referred to above.

As a consequence the Company's Management Board began a verification of the activities related to the Heat Line of Business, including carrying out the analyses related to the options of a further expansion of that Line of Business as part of TAURON Capital Group. These analyses included an evaluation of a potential acquisition of the selected assets of ČEZ Group in Poland, in particular taking into account ČEZ Chorzów. However, on July 1, 2021, the Management Board of the Company made the decision that TAURON Capital Group would not be continuing its participation in the process of acquiring the selected assets of CEZ Group in Poland. Subsequently, on December 22, 2021, the decision was taken to keep TAURON Ciepło within the structures of TAURON Capital Group.

The detailed information is provided in note 8.2 to the *Interim abbreviated consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union (EU) for the 6 month period ended on June 30, 2021.*

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 2/2021 of January 29, 2021, no. 7/2021 of March 10, 2021, no. 25/2021 of July 1, 2021, and no. 50/2021 of December 22, 2021.

Signing by TAURON Ciepło of the agreement with the General Contractor for the construction of a modern gas and oil fired boiler house in Czechowice-Dziedzice

On July 8, 2021, an agreement was concluded with the consortium of ERBUD INDUSTRY sp. z o.o. (Ltd.) and ERBUD S.A. (Joint Stock Company) for the construction of a modern gas and oil fired boiler house in Czechowice-Dziedzice. The construction works were commenced in February 2022 (an event taking place after the balance sheet date), while the heat supply to the residents from the new boiler house is scheduled to be launched in 2023. The goal of the planned investment project at the combined heat and power plant in Czechowice-Dziedzice is to restore the heat generation capacity of the peaking and back up boilers in order to ensure the security of the heat supply for the residents. The modern peaking and back up boiler house equipped with the high efficiency gas and oil fired water boilers will replace the existing peaking and back up boiler house at TAURON Ciepło's combined heat and power (CHP) plant in Czechowice. The commissioning of the new boiler house will have a significant impact on the reduction of the pollution into the atmosphere. As the gas fuel will be used for the operation of the boiler house, the following pollution will be reduced: sulfur dioxide up to 91%, nitrogen oxides up to 78% and carbon dioxide up to 28%. The modern boiler house composed of two water boilers with the total capacity of 76 MW will provide heat to the residents of Czechowice-Dziedzice and Bielsko-Biała.

Signing of the general agreement within TAURON Capital Group

On July 15, 2021, the general agreement was concluded between TAURON and 26 of TAURON Group's subsidiaries, aimed at ensuring the implementation of TAURON Capital Group's strategy by all entities of the forming a part thereof.

The above agreement is related to the optimization of the strategic decision making and ensuring the efficient and safe flow of the information within TAURON Capital Group as well as the curtailment of the internal competition.

Signing of the agreement related to the cooperation with respect to the spinning off of the coal assets

On July 23, 2021, TAURON, PGE, Enea and Energa as well as the State Treasury concluded the agreement related to the cooperation with respect to the spinning off of the coal assets and the integration thereof within the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE).

As part of the above mentioned agreement, the parties declared the mutual exchange of the required information, including the organizational structures, the processes implemented and the assumptions for the direction of the transition.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 28/2021 of July 23, 2021.

Signing of the letter of intent with respect to EC (Combined Heat and Power Plant) Stalowa Wola

On August 2, 2021, the letter of intent was signed by TAURON, TAURON Wytwarzanie, PGNiG and PGNiG TERMIKA S.A. with respect to the potential sale by TAURON Capital Group to PGNiG Group of its equity stake in EC (Combined Heat and Power Plant) Stalowa Wola and the accounts receivable due to the loans extended to EC (Combined Heat and Power Plant) Stalowa Wola by TAURON.

As of the day of disclosing this Report no decisions with respect to the above matter have been taken.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 30/2021 of August 2, 2021.

Information on the 910 MW power generating unit in Jaworzno and the general contractor

In August 2021 TAURON was notified by E003B7 sp. z o.o. (a subsidiary of RAFAKO) of the new schedule of the works to be carried out on the 910 MW unit's construction site in Jaworzno which assumed that the date of the unit's resynchronization with the grid would fall on February 25, 2022. However that date was changed in November 2021, and currently the unit's synchronization with the grid is planned to take place on April 29, 2022.

On December 2, 2021, Nowe Jaworzno Grupa TAURON, RAFAKO and E003B7 signed a settlement agreement in front of the Court of Arbitration at the Legal Counsel of the Republic of Poland, in which, among others, the date of the unit's synchronization with the grid was confirmed (April 29, 2022) and the consortium undertook to perform the additional services and works for the benefit of Nowe Jaworzno Grupa TAURON, the effect of which would be the reduction of the cost of the unit's future operation. In addition, the parties agreed that Nowe Jaworzno Grupa TAURON would acquire a license for the boiler's workshop documentation, as well as the method of sharing the costs of repairing the unit had been agreed upon. A total remuneration for the performance of the additional services and works, the purchase of a license for the boiler's workshop documentation and the unit's repair in the amount of PLN 91 million was agreed upon. Furthermore, Nowe Jaworzno Grupa TAURON undertook to conditionally entrust the Consortium with the performance of other works aimed at increasing the unit's performance efficiency, if the Consortium completed the unit's synchronization on time and presented a statement of the financial institutions providing the security (guarantee) for the performance of the agreement, including a consent to provide the additional financing for RAFAKO. The value of the works referred to above was agreed to be PLN 23 million. In connection with the conclusion of the settlement agreement, on December 2, 2021 Nowe Jaworzno Grupa TAURON and the Consortium concluded the annexes to the agreement, which regulated in detail the mediation arrangements of the parties.

Nowe Jaworzno Grupa TAURON has received the information, from the Consortium, on the issuing of the decision by the Court on the approval of the settlement agreement. As of the date of drawing up this report the required conditions precedent for the settlement agreement to come into force had been met by the parties.

In order to mitigate the potential risks related to the restarting of the unit after the shutdown, Nowe Jaworzno Grupa TAURON has concluded an agreement with the Consortium, with the participation of the special purpose vehicle E003B7, the subject of which is to hand over the operational works to the Consortium for the time of the commissioning of the unit.

In 2021, RAFAKO was conducting an investor seeking process aimed at acquiring an investor. Therefore, on October 6, 2021, Nowe Jaworzno Grupa TAURON, as a passive participant, signed a letter of intent in which the will to support the works related to a potential transaction was expressed. Nowe Jaworzno Grupa TAURON is not interested in purchasing the RAFAKO shares.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 31/2021 of August 2, 2021, no. 37/2021 of September 8, 2021, no. 40/2021 of October 6, 2021, no. 43/2021 of November 4, 2021, and no. 47/2021 of December 2, 2021

Signing of a letter of intent regarding the sale of the shares in TAURON Wydobyocie

On September 15, 2021, TAURON signed a letter of intent with the State Treasury with respect to the potential acquisition by the State Treasury of 100 percent of the shares in TAURON Wydobyocie. TAURON and the State Treasury are taking all of the actions necessary to prepare and complete the above mentioned transaction.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 39/2021 of September 15, 2021.

Major corporate events in 2021

Changes to the composition (membership) of the Management Board of TAURON

There had been changes to the composition (membership) of the Company's Management Board in 2021 and by the date of drawing up this report, which are presented in section 9.11. of this report.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 4/2021 of February 19, 2021, no. 6/2021 of February 24, 2021, no. 12/2021 of April 1, 2021, no. 17/2021 of May 13, 2021, no. 26/2021 of July 2, 2021, no. 27/2021 of July 19, 2021, no. 29/2021 of July 27, 2021, no. 32/2021 of August 4, 2021, and no. 1/2022 of January 20, 2022.

Changes to the composition (membership) of the Supervisory Board of TAURON

There had been changes to the composition (membership) of the Company's Supervisory Board in 2021 and by the date of drawing up this report, which are presented in section 9.11. of this report.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 3/2021 of February 12, 2021, no. 13/2021 of April 6, 2021, no. 20/2021 of May 24, 2021, no. 45/2021 of November 17, 2021, no. 46/2021 of November 18, 2021, and no. 2/2022 of January 27, 2022.

Recommendation of the Management Board of TAURON on covering the net loss for 2020 from the supplementary capital and not paying out a dividend from the supplementary capital

On March 29, 2021, the Company's Management Board made the decision to recommend to the Ordinary General Meeting (GM) of the Company to cover the Company's net loss of PLN 3 589 655 351.89 for the financial year 2020 from the Company's supplementary capital.

The Company's Management Board had also taken the decision that it would not recommend to the Ordinary General Meeting (GM) of the Company the payout of the dividend in 2021 from the Company's supplementary capital.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 11/2021 of March 29, 2021.

Ordinary General Meeting of the Company

The Ordinary General Meeting of the Company was held on May 24, 2021, and it adopted the resolutions related to, inter alia: the approval of the *Financial Statements of TAURON Polska Energia S.A. for the year ended on December 31, 2020, in accordance with the International Financial Reporting Standards approved by the European Union*, the approval of the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2020, in accordance with the International Financial Reporting Standards approved by the European Union*, the approval of the *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020*, the covering of the net loss for the financial year 2020, the acknowledgement of the fulfillment of duties by the Members of the Company's Management Board and the Company's Supervisory Board, the amending of the Company's Articles of Association, the amending of the *Regulations of the General Meeting of TAURON Polska Energia S.A.*, the providing of the opinion on the *Report on the compensation of the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for the years 2019 - 2020*, the establishing of the number of the Members of the Company's Supervisory Board and the appointing of a Member of the Company's Supervisory Board of the 6th common term of office

TAURON disclosed the information on the convening of the Ordinary General Meeting (GM) of the Company and on the content of the draft resolutions in the regulatory filings (current reports) no. 14/2021 and no. 15/2021 of April 27, 2021, as well as no. 18/2021 of May 21, 2020.

TAURON disclosed the information on the content of the resolutions subjected to the vote at the Ordinary General Meeting (GM) of the Company in the regulatory filing (current report): no. 19/2021 of May 24, 2021.

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

On June 7, 2021, the Katowice-Wschód District Court in Katowice, the 8th Commercial Department of the National Court Register, entered the amendments to the Company's Articles of Association adopted by the Ordinary General Meeting (GM) of the Company on May 24, 2021, into the Register of Entrepreneurs (Businesses) of the National Court Register, while on June 14, 2021, the Supervisory Board of the Company adopted the consolidated text of the Company's Articles of Association, taking into account the amendments adopted by the Ordinary General Meeting (GM) of the Company on May 24, 2021.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 22/2021 of June 7, 2021, and no. 23/2021 of June 14, 2021.

Other major events in 2021

Affirmation of the ratings granted by Fitch Ratings agency

On October 18, 2021, Fitch Ratings agency affirmed the Company's long term foreign and local currency ratings at "BBB-" with a stable outlook.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 41/2021 of October 18, 2021.

Ruling of the Court of Appeal related to PEPKH

On December 20, 2021, the Court of Appeal in Gdańsk, as a result of the joint examination of the appeals brought by PEPKH against the preliminary and partial ruling, issued on March 6, 2020, in the proceedings brought in 2015 against PEPKH by Talia sp.z o.o. (current report no. 6/2020 of March 6, 2020) and of the supplement in the form of a ruling of the above mentioned partial and preliminary ruling (current report No. 40/2020 of September 8, 2020), dismissed the appeal of PEPKH.

The ruling of the Court of Appeal, and as a consequence the above mentioned preliminary and partial ruling as well as the supplementary ruling are final (legally binding), however it is possible to file a cassation appeal.

The rulings do not order that PKH should pay any damages to the plaintiff, i.e. Talia sp. z o.o.

PKH disagrees in full with the ruling of the Court of Appeals as well as with the rulings of the Court of first instance.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 49/2021 of December 20, 2021.

Concluding of the settlement agreement between EC Stalowa Wola and Abener Energia

On December 31, 2021, EC Stalowa Wola and Abener Energia S.A. with its registered office in Campus Palmas Altas, Sevilla, concluded the settlement agreement in order to agree upon the conditions under which EC Stalowa Wola and Abener Energia will make mutual settlements resulting from all of the court and arbitration disputes between the parties and arising from the contract concluded on June 26, 2012 between Abener Energia (general contractor) and EC Stalowa Wola (ordering party) for the construction of a CCGT unit at EC Stalowa Wola. Subsequently, on February 28, 2022 (an event taking place after the balance sheet date), the parties signed an annex to the settlement agreement. On the basis of the settlement agreement:

1. EC Stalowa Wola has agreed to pay the gross amount of EUR 92 768 963.70 to Abener Energia, pursuant to the ruling of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw of April 25, 2019, and other financial settlements,
2. Upon entry into force of the terms and conditions contained in the settlement agreement the parties agree to discontinue all of the court and arbitration proceedings that have been pending between them and confirm there are no further or future claims arising from the Contract.

As of the date of drawing up this Report the conditions of the settlement agreement had been met and the parties proceeded to implement the settlement agreement.

TAURON disclosed the information on the above event in the regulatory filings (current reports): no. 52/2021 of December 31, 2021, no. 4/2022 of February 28, 2022, and no. 6/2022 of March 8, 2022.

TAURON disclosed the information on the disputes between EC Stalowa Wola and Abener Energia in the regulatory filings (current reports): no. 16/2019 of May 2, 2019, no. 29/2019 of August 8, 2019, no. 59/2019 of December 20, 2019, no. 43/2020 of September 22, 2020, and no. 48/2020 of October 19, 2020.

Major events after December 31, 2021

Update of information concerning the CCGT unit construction project at the Łagisza power plant

On March 22, 2022 TAURON informed that it approved conducting of a tendering procedure by TAURON Wytwarzanie S.A., the planned effect of which will be obtaining the final bids from potential contractors of CCGT unit with high-efficiency cogeneration with an expected capacity in the range from 400 MWe to 500 MWe and 250 MWt at the Łagisza power plant.

Obtaining bids is the first stage which - after taking into account the remaining conditions of the investment process - will enable comprehensive analyses of the project in terms of its long-term cost-effectiveness. The project will be carried out only if the results of the capacity market auction scheduled for December 2022 are favorable for the project, taking into account market conditions (including the terms of a long-term gas fuel supply contract and its availability), which should ensure the expected return of investment and the objective possibility of the project execution.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 8/2022 of March 22, 2022 in reference to current report No. 34/2016 of September 2, 2016.

2.7. Prizes and accolades (honorable mentions)

TAURON and TAURON Capital Group's subsidiaries received the following awards and accolades (honorable mentions) in 2021:



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

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



TAURON awarded, by the *Wprost* weekly, the main prize *Wprost. Zielone Serce 2021 (Wprost the Green Heart 2021)* in the "Project" category for the project assuming increasing by 2030 to more than 65% the share of RES in the generation mix, while at the same time reducing the CO₂ emissions by half.



TAURON ranked no. 1 in *Best investor relations in 2020 among the WIG30 companies according to the retail investors* organized by the Stock Market and Investors newspaper *Parkiet* and the Brokerage Houses Chamber.

TAURON is the only representative of the energy industry awarded the prize.



TAURON awarded the Special Prize 2021 for the implementation of the *Green Turn of TAURON* in the competition the Polish Radio Economic Awards.



TAURON awarded the *Company Responsible for the Environment 2021* trophy – the honorable mention of Zielone Forum (Green Forum) wGospodarce.pl



TAURON awarded an honorable mention in the *TOP 10 CIT Taxpayers in 2020* – the group of the largest CIT taxpayers at the Congress 590 by the Ministry of Finance



TAURON awarded the *Amber of the Polish Energy 2021* trophy for the implementation of the *Green Turn of TAURON* during the National Energy Summit.



TAURON Ciepło awarded the *Employee Friendly Employer* title in the 13th edition of the competition organized by the National Commission of the NSZZ Solidarity Trade Unions.



TAURON awarded the prize in the technological competition *Leader 2020* in the "Industry 4.0" category organized by *Gazeta Bankowa*.

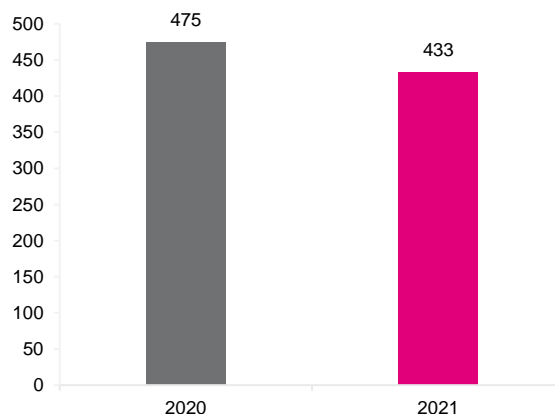
2.8. Information on the employment and employee related issues

Key headcount data

TAURON's average headcount reached 433 FTEs in 2021 which meant a decrease by 8.9%, i.e. 42 FTEs versus the headcount in 2020, when the average employment was 475 FTEs.

The below figure presents TAURON's average headcount in FTEs (rounded up to the full FTE) in 2020 - 2021.

Figure no. 25. TAURON's average headcount in FTEs in 2020 - 2021

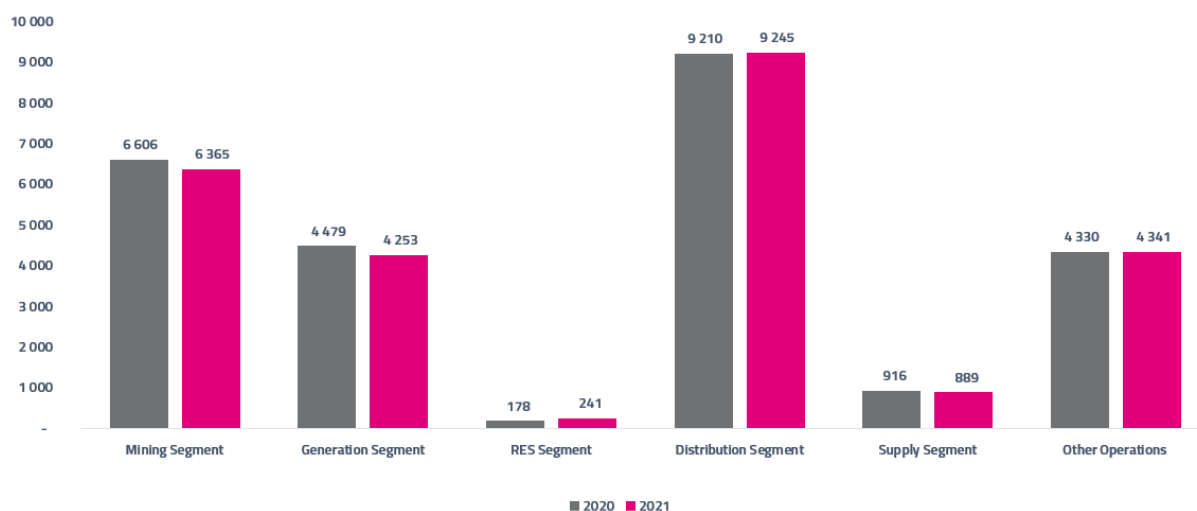


TAURON Capital Group's average headcount reached 25 333 FTEs in 2021, which meant a decrease by 386 FTEs versus the headcount in 2020, when the average employment level was 25 719 FTEs. The reduction of the average employment level is mainly related to the Generation and Mining Segments. In the Generation Segment, it is a consequence of the preparations for the permanent shutdown of the power generation units. On the other hand, in the Mining Segment it is the result of, inter alia, the implementation of the TAURON Wydobycie Turnaround Program and the changes taking place in the mining area.

In the second half of 2021, TAURON Zielona Energia started the process of hiring the employees, which resulted in the staff movements between the selected subsidiaries, in particular TAURON EKOENERGIA.

The below figure presents TAURON Capital Group's average headcount in FTEs (rounded up to the full FTE) per operating Segment in 2020 - 2021.

Figure no. 26. TAURON Capital Group's average headcount in FTEs per operating Segment in 2020 - 2021¹



¹From 2021, TAURON Wytwarzanie's headcount is partially included in the Generation Segment and the RES Segment, and TAURON Zielona Energia's headcount is included in the RES Segment.

The below table below presents the key data on the headcount at TAURON and TAURON Capital Group as of December 31, 2020 and December 31, 2021.

Table no. 16. Key data on the headcount at TAURON and TAURON Capital Group as of December 31, 2020 and December 31, 2021

Key employment data	unit	TAURON		TAURON Capital Group	
		December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021
Headcount by Segment of Operations, including:	persons (FTEs)	450	413	25 572	25 324 ¹
1. Mining Segment	persons (FTEs)	-	-	6 458	6 285
2. Generation Segment	persons (FTEs)	-	-	4 426	4 218
3. RES Segment	persons (FTEs)	-	-	179	212
4. Distribution Segment	persons (FTEs)	-	-	9 269	9 373
5. Supply Segment	persons (FTEs)	450	413	896 ²	873 ²
6. Other Operation	persons (FTEs)	-	-	4 344	4 363
Headcount by education, including:					
1. College graduates	%	98	98	35	36
2. High school graduates	%	2	1	43	43
3. Vocational school graduates	%	0	0	20	19
4. Elementary school graduates	%	0	0	2	2
Headcount by age, including:					
1. Up to 30 years	%	10	7	9	9
2. 30 - 40 years	%	37	34	22	22
3. 40 - 50 years	%	38	43	29	29
4. 50 - 60 years	%	12	14	33	32
5. Above 60 years	%	3	2	7	8
Headcount by gender, including:					
1. Women	%	44	46	22	22
2. Men	%	56	54	78	78

¹including 80 persons hired under a fixed term labor contract to replace an absent employee.

²figure includes TAURON's headcount.

TAURON Group's Human Capital Management Policy

TAURON Group's Human Capital Management Policy is a document that focuses on acquiring, developing and maintaining competencies that are key to organizational efficiency and achieving the TAURON Capital Group's strategic goals in a specific reality.

The goal of the regulations contained in this policy is the broadly understood support for the 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 TAURON Group's Human Capital Management Policy, there are also such issues as creating an organizational culture based on the cooperation and partnership, supporting bottom-up initiatives, independence and the development of the personnel.

TAURON Group's Human Capital Management Policy defines the human capital management mission and vision that are presented in the below figure:



The above mentioned Policy also sets out TAURON Capital Group's strategic areas of the activities related to the employee issues that include: organization development, efficiency management, competences and development management. In each area, the specific goals are set and the activities aimed at achieving them are identified

The table below presents the strategic areas of activities defined by *TAURON Capital Group's Human Capital Management Policy*.

Table no. 17. Strategic areas of activities defined by TAURON Capital Group's Human Capital Management Policy

Area: Organization development		Process		
Goal: Implementing and promoting organizational culture that supports TAURON Group's development.				
Strengthening employee engagement and creating a safe and inspiring work environment: 1. openness to communication with employees, 2. obtaining and providing feedback, 3. engaging employees in improving the work environment.		Employee communication Employer Branding Management by objectives	Opinion	Survey
Building the image of TAURON Group as an attractive employer - both inside and outside the organization: 1. surveying the opinion of employees, 2. creating tools that allow to ensure easy and efficient communication with employees, 3. cooperating with universities and schools.		Employee communication Employer Branding Management by objectives	Opinion	Survey
Ensuring an efficient flow of information and creating conditions for a partner dialogue with the workforce: 1. strengthening cooperation among areas and among generations: 2. creating an environment that is friendly to the exchange of knowledge and experience, 3. promoting knowledge sharing		Social dialogue Development initiatives Knowledge and age management		
Building relationships with customers and strengthening awareness with respect to environment protection, climate change and commitment to promoting the Green Turn of TAURON		Employer Branding		
Supporting TAURON Group in the process of changes through access to knowledge and market solutions: 1. designing development programs and providing knowledge, 2. monitoring market trends and solutions		Development initiatives		
Area: Organization efficiency management		Process		
Goal: Focus on efficiency management.				
Clear and consistent defining of roles, tasks and required authorizations at work positions.		Position evaluation system Job description book		
Defining clear compensation rules, based on market conditions, that motivate people to work efficiently: 1. supporting the implementation of tasks and goals that stem from the Strategy, 2. creating performance related employee compensation systems, 3. building tools that support management by objectives.		Employment, wages and benefits management Management by objectives Social dialogue		
Minimizing the risk associated with human capital management.		TAURON Group's risk management system		
Ensuring compliance with the principles of ethics and diversity: 1. conducting educational activities, 2. taking care of an environment free from mobbing and discrimination.		Regulations related to diversity, ethics and counteracting mobbing and discrimination		
Optimizing, standardizing and digitizing the Human Capital Management Area processes, increasing the flexibility and efficiency of the organization.		Human Capital Management Mega-process		
Area: Competences and development management		Process		
Goal: Supporting the development of competences				
Ensuring continuous development of employee competences so as to keep them aligned with the needs of the changing energy sector: 1. developing new competences that prepare for change management, 2. focusing on acquiring new qualifications and improving employees' competences.		Development initiatives Recruitment		
Creating a culture based on self-development: 1. Supporting employees through various individual development tools.		Employee Opinion Survey Employee communication Employer Branding Management by objectives		
Ensuring the continuity of competences for the energy sector by educating pupils and students.		Development initiatives Recruitment		
Taking care of employee retention: 1. creating opportunities for development for employees and ensuring a motivating atmosphere at work, 2. implementing pro-employee solutions.		Development initiatives Employee induction		
Ensuring knowledge transfer between generations: 1. implementing development programs, 2. implementing internal training programs, 3. ensuring the exchange of experiences between generations		Knowledge and age management Development initiatives		
Ensuring the development of leadership competences of the Management Personnel.		Competence model Development conversation		
Creating and improving tools for the development, motivation and evaluation of the employees' potential.		Development conversation		

TAURON Group's Human Capital Management Policy is implemented based on the key processes.

The below figure presents the human capital management structure.

Figure no. 27. Human capital management structure



The most important initiatives implemented in 2021 in the area of human capital management

Top Quality HR Certificate for TAURON Polska Energia

In 2021, TAURON Polska Energia and TAURON Obsługa Klienta again participated 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 awarded the top marks to the individual areas of human capital management, among others: motivation and compensation systems, employee development, recruitment and competence management, employee communications and building the employer's brand. The Group's new initiative, the Training Catalog, was in particular highly appreciated, as part of which, last year, employees were offered 24 training courses as part of four training modules: expert knowledge, tools, management competences and personal development. The positive result of the study led to obtaining the 2022 Top Quality HR Certificate.

Remote work

Due to the COVID-19 pandemic, the employees of TAURON Capital Group used the remote work option in 2021, wherever it was possible. The equipment required and access to the information was provided. The employees of the production plants of TAURON Capital Group have been provided with the required personal protective equipment. Throughout the year, all of the procedures were strictly adhered to in accordance with the guidelines related to the epidemic situation.

Just transition

The comprehensive preparation of TAURON Capital Group's workforce to the changes related to the energy transition is a series of activities undertaken in order to obtain the funds and the participation in the projects related to a just energy transition. We took actions in parallel with respect to all of the sources of the potential financing:

1. National Just Transition Plan,
2. National Recovery Program,
3. Modernization Fund,

4. Just Transition Fund.

The following project initiatives were submitted for implementation as part of the just transition process:

1. Retraining, financing of the training courses for the employees,
2. Support in the setting up of one's own business operations,
3. Matching the skills and qualifications to the job offers available on the market,
4. Preparation for the recruitment processes (CV, cover letter, job interview),
5. Analysis of the labor market and the professions/scarcie competences,
6. Analysis of the impact of the outplacement program dedicated to the power plant's workforce (supporting the layoffs process) on the level of commitment and satisfaction as well as the employability of the employees in order to achieve the highest possible effectiveness in finding a new job,
7. Relocation of the employees to other branches or other subsidiaries of TAURON Capital Group – a relocation package – the reimbursement of the accommodation and travel costs in the form of a monthly lump sum based on a periodic calculation taking into account the applicable prices,
8. Programs dedicated to the persons acquiring an entitlement to the pre-retirement benefits or acquiring up to 5 years of the retirement rights – an additional severance pay, paid employee absenteeism ("Fixed term leaves").

TAURON Capital Group also participated in the START project – the technical assistance of the European Commission for the projects submitted under the Just Transition Fund, to which it was qualified by the Marshal's Office of the Małopolska Region. As part of the START assistance. The Group received the support with respect to the project aimed at diagnosing the competency needs of an organization facing the transition.

Development and training

The current trends and technological development, the changes taking place both globally as well as locally, a competitive market and increasing requirements force a much faster pace and flexibility in terms of the personal development activities. The employee development and improvement is permanently inscribed into the Strategy, and the implementation of the development activities takes place on the basis of the regulations for improving the qualifications of the employees, in place at TAURON Capital Group's individual subsidiaries. All of the development activities at TAURON Capital Group are implemented according to the 70-20-10 principle (effective learning principle), according to which:



70% of the development activities should be related to gaining experience in the position, among others by delegating the 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 a participation in various forms of the educational and training activities (internal and external).

TAURON Capital Group's employees can choose from a wide range of the internal training courses and the external development opportunities, among others, in the form of a participation in the industry conferences, seminars, workshops, specialist training, e-learning training or language courses.

The below table presents the key data on the employee training courses at TAURON Capital Group as of December 31 in 2019-2021.

Table no. 18. Key data on employee training at TAURON Polska Energia and TAURON Capital Group as of December 31, 2019, December 31, 2020, December 31, 2021

Key data on employee training	TAURON			TAURON Capital Group		
	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2019	December 31, 2020	December 31, 2021
1. Average number of training hours per employee by job (position) group, including:	176	42	63	109	62	91
1) Management Board and Directors	88	10	23	45	26	40
2) Management positions	51	15	15	32	14	24
3) Administrative staff (white collar positions)	28	16	19	14	9	10
4) Blue collar positions	9	1	6	18	13	17
2. Number of training hours per employee by gender, including:	16 766	6 801	7 552	477 618	294 945	383 796
1) Women	6 624	2 996	3 572	79 871	49 704	65 794

Key data on employee training	TAURON			TAURON Capital Group		
	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2019	December 31, 2020	December 31, 2021
2) Men	10 142	3 806	3 980	397 747	245 240	318 002

Initiatives, development activities and development supporting activities

Development Conversation

One of the more important projects carried out as part of TAURON Capital Group's human capital management is the Development Conversation process. Based on *TAURON 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. The Development Conversations conducted last year at the Group's selected subsidiaries demonstrated a number of benefits that the open communications and individual approach to the employees' needs, in combination with the directions of the organization's development, bring.

TAURON Group Open University

TAURON Capital Group's employees have continuously had the opportunity to participate in the lectures conducted as part of the TAURON Group Open University since 2014. The initiative constitutes a platform that enables an exchange of views and experiences, it also provides an opportunity to gain knowledge and the additional competences

The initiative was continued in 2021 but, due to the epidemic situation, the lectures were moved online to a virtual auditorium. 7 online lectures were delivered, attended by nearly 2 000 employees. Some of the lectures were posted on the Intranet and can be used by the employees without the time limits.

Development Squared

Development Squared - a series of 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 the training in a traditional form. Thanks to Skype and the Office 365 technology, fully interactive meetings are possible, that make participants more active. The project's participants include all of TAURON Capital Group's employees with access to the intranet (approximately 17 000 persons). 49 webinars were held in 2021, on 21 different topics, conducted by 12 trainers. More than 2 406 of TAURON Capital Group's employees took part in the initiative.

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

Manager's Zone is a space in the intranet dedicated to the managers. The management team have permanent access to the specialist articles on the subject of the broadly understood management, team management support tools, interesting on-line events (Mediateka) as well as the recommended books. The Manager Zone newsletter is distributed regularly and it includes information on the new offerings in the Zone and covers the most current topics.

The "#wzMOCnij się" (power up yourself) initiative is also carried out within the zone. In 2021, the leading topic was the negative feedback. The Manager Zone also directly supports the process of the Development Conversations based on the interesting tools and materials dedicated to the managers to enable an efficient implementation of this initiative.

In 2021, more than a dozen articles were published on the current trends in the management area, among others with respect to:

1. Competences of the future,
2. Stress management,
3. How to build a culture of responsibility,
4. The Pareto principles and the decision making,
5. Courage of a manager,
6. Empathy of a manager
7. The art of resting,
8. Assessing and appreciating,
9. Employee experience,
10. Employee training and development.

Cooperation with the education sector

The cooperation of TAURON Capital Group with the education sector is primarily focused on the process of the practical (hands-on) training of the future professionals. The projects undertaken with the schools, universities (TAURON Capital Group is cooperating with 12 partner universities) or local government units are also aimed at promoting TAURON Capital Group and the energy industry among the pupils, students and graduates. In 2021, as part of the cooperation with the educational community, the internship and apprenticeship programs were

organized, the cooperation with the student organizations, career offices and research clubs was launched and the numerous lectures and lessons aimed at becoming familiar with professions were held.

In addition, TAURON Capital Group is trying to have a real impact on the trajectory (shape) of the activities and projects with respect to education in Poland, through the active participation in such projects as the "Sector-based Agreement for the Development of the Hydrogen Economy in Poland" or the Sector-based Qualification Framework for Energy.

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

1. scholarships for the top students of the patronage classes,
2. modeling of the didactic processes, organization of the training courses, educational meetings both for the pupils of the school as well as its teaching staff,
3. participation of TAURON's employees in conducting the qualification exams, for example for the profession of a miner; exploitation of the deposits and the underground mining techniques,
4. possibility for the students (pupils) to take part in the subject matter lectures/workshops conducted by TAURON's employees,
5. possibility for the students (pupils) to take part in the lectures/workshops aimed at developing the interpersonal skills,
6. organizing the practical (hands-on) classes as well as the apprenticeships and internships in the real working conditions,
7. equipping the laboratories with the equipment required to conduct the experiments related to electricity,
8. setting up, as part of the cooperation with the secondary schools, of the project under the name of *TAURON Laboratories*. As part of the project the classrooms for teaching the science and vocational subjects at the schools covered by the patronage of TAURON Capital Group are equipped in a comprehensive manner.

Social dialogue

The Management Board of TAURON is conducting a constructive and open dialogue with the social partners (workforce), with the main goal to maintain the high quality and effectiveness of the mutual cooperation. The Management Board is also taking all of the steps aimed at reducing the impact of any social anxiety (concerns, unrest) on the business operations.

As part of the social dialogue conducted, the meetings of TAURON's Management Board with the Social Council (Board) and the Management Boards of TAURON Capital Group's subsidiaries are held periodically in order to present and discuss the current situation of the Group and the entire energy sector in Poland, as well as the proposals submitted by the social partners (workforce). The representatives of the social partners (workforce) are informed, during the regular meetings and consultations, about the topics related to:

1. TAURON Capital Group's economic and financial situation,
2. implementation of the strategic initiatives,
3. issues related to the employee matters at TAURON Capital Group,
4. issues related to the energy industry transition.

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

As part of the social dialogue conducted, the Management Board of TAURON has repeatedly provided answers to the correspondence coming from the trade union organizations and the Ministry of the State Assets. The ongoing communication is carried out in parallel at TAURON Capital Group's subsidiaries between the management boards and the trade union organizations operating at the given employer. TAURON is taking an active part in the meetings, held at the national level, with the representatives of the government, employees and employers (for example, as part of the works of the Three-party Team (Trilogue) for the Energy Industry). TAURON Capital Group is also a member of the Polish Power Industry Employers' Union established on March 26, 2020, whose primary objective and task is to represent the interests of the associated members, in particular towards the representatives of the state (government) administration, local government authorities, trade unions and other organizations, including the non-government and business self-government, both on the territory of the Republic of Poland as well as on the international arena.

2.9. Corporate Social Responsibility (CSR) Policy

In December 2021, the Management Board of the Company appointed the ESG Committee (E - Environment, S - Social Responsibility and G - Corporate Governance), involving TAURON Capital Group's top management therein, with its goal to create, disseminate and supervise TAURON Capital Group's approach to the ESG issues. The task of the Committee is to ensure the consistency of TAURON Group's Strategy operationalization process with these issues.

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

The main assumption of TAURON Capital Group's CSR (Corporate Social Responsibility) policy is to base the enterprise's success on its long term sustainable development. An indication of this approach is the integration, already at the strategic level, of the financial and non-financial factors, including the aspects of the environment protection, social impact and corporate governance. This stems from the conviction that for a business to exist and develop (grow, expand), it needs to be run in a manner taking into account both the economic aspects as well as the social and climate interest, while balance must be struck among all of those factors.

In view of the above, TAURON Capital Group's development (growth, expansion) goals are based on the 3P model, referring both to the economic gains (Profit), the individuals associated with the company (People), as well as the care for the environmental (ecological) aspect of the operations (Planet).

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

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

Based on the above and in line with the *Best Practice of WSE Listed Companies 2021* (Best Practice 2021), TAURON Capital Group is steadfastly conducting the CSR policy. As part thereof, the numerous projects are implemented that are aimed at improving the organization management efficiency, taking into account the social interest, respect for the stakeholders and the ethical principles, while placing particular weight on the transparency of the actions taken and the open communications in the spirit of the dialogue and trust.

The detailed information related to the implementation of the projects with respect to TAURON Capital Group's corporate social responsibility, including also the issues related to providing the support for the social transition, is presented in TAURON Capital Group's Non-financial Report for 2021 in section S 2.1.3. TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects – support for the social transition.

Impact on natural environment and climate

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

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

The confirmation of the above actions are: *TAURON Group's Environmental Policy* and *TAURON Group's Climate Policy*.

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

Environmental Policy

TAURON Group's Environmental Policy (Environmental Policy), adopted by the Company's Management Board in July 2017 and updated in 2021, 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 adheres to in the environment related matters. The Environmental Policy is the

benchmark for assessing all of the activities of TAURON Capital Group's subsidiaries with respect to the environment protection and environmental management.

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

The key principle of the Environmental Policy is to limit both the direct, as well as the indirect impact on the environment and to conduct the 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 the administrative practices in force on the territory of its operations, takes into account the needs related to the environment protection and acts in a way that contributes to accomplishing a broader objective, which is the sustainable development, and in particular the implementation of the circular (closed circuit) economy.

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

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

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

The below table presents the annual emissions of SO₂, NO_x, dust and CO₂ from the thermal combustion of the fuel for 2021.

Table no. 19. Annual emissions of SO₂, NO_x, dust and CO₂ from the thermal combustion of the fuel for 2021

Subsidiary name	Emission of SO ₂ (Mg)	Emission of NO _x (Mg)	Emission of dust (Mg)	Emission of CO ₂ (Mg)
1. TAURON Wytwarzanie including:	4 683.5	5 741.7	233.2	9 761 248
1) Oddział (Branch) Jaworzno III	1 857.9	2 490.3	98.6	4 529 480
2) Oddział (Branch) Łaziska	1 236.8	1 588.2	80.2	2 673 905
3) Oddział (Branch) Łagisza	869.6	929.2	35.9	1 563 550
4) Oddział (Branch) Siersza	713.3	696.9	15.7	992 819
5) Oddział (Branch) Stalowa Wola	5.9	37.1	2.8	1 494
2. TAURON Ciepło including:	2 029.3	1 426.4	82.3	1 739 166
1) Zakład Wytwarzania (Generation Plant) Bielsko-Biała	913.0	308.5	16.3	494 479
2) Zakład Wytwarzania (Generation Plant) Kamienna Góra	21.3	14.9	3.3	12 983
3) Zakład Wytwarzania (Generation Plant) Katowice	466.5	519.5	28.6	782 278
4) Zakład Wytwarzania (Generation Plant) Tychy	466.7	488.8	22.3	380 025
5) Centralna Ciepłownia (Central Heating Plant) Olkusz	91.0	48.3	6.4	31 934
6) Centralna Ciepłownia (Central Heating Plant) Zawiercie	63.2	37.2	5.0	29 365
7) Other (local heating plants)	7.6	9.2	0.4	8 102
3. KW Czatkowice	0.1	0.3	9.0	7 394
4. Nowe Jaworzno Grupa TAURON¹	479.7	807.9	41.6	1 478 110
5. TAURON Nowe Technologie¹	2.7	46.1	-	20 901
Total	7 195.3	8 022.4	366.1	13 006 819
Change versus 2020² (TAURON Capital Group's subsidiaries carrying out operations in the full periods of 2020 and 2021: Table items 1-3 with the exception of items 4-5) ²	+4%	+9%	-1%	+32%

¹Generation units 910 MW unit Nowe Jaworzno TAURON Group and TAURON Nowe Technologie gas engines were not the sources of air emissions in 2020
²Change compared to 2020 (+ increase / - decrease) taking into account the increase in the emissions from the combustion of the fuels for the generation units commissioned in 2021 - Nowe Jaworzno Grupa TAURON and TAURON Nowe Technologie (the cogeneration systems based on the gas engines using the

gas from the methane drainage at the Brzeszcze Coal Mine). The units commissioned in 2021 were operating in an incomplete annual cycle due to the necessity to have them temporarily shutdown during the warranty period (Nowe Jaworzno Grupa TAURON, from June 11, 2021) or the date of their commissioning (February 2021 - 2 gas engines and November 2021 - further 2 gas engines).

Taking into account the conditions prevailing in the market environment, including the record breaking demand for the electricity in Poland in 2021, the emissions of SO₂, NO_x, dust and CO₂ from TAURON Capital Group's fuel combustion for the electricity generation purpose came in at the higher levels than in 2020 and in the previous years. In addition, the absolute significant increase in the volume of the carbon dioxide emissions from TAURON Capital Group's fuel combustion for the electricity generation purpose was mainly conditioned by the operation of the centrally controlled (dispatchable) generation units of TAURON Wytwarzanie forced by the National Power System (KSE) and the commissioning of the 910 MW unit (Nowe Jaworzno Grupa TAURON) and the availability thereof in the first half of 2021.

At the same time, the air emissions of the SO₂, NO_x compounds and dusts as well as of other substances subject to the limits clocked in at the levels significantly below the levels defined as the maximum allowed annual concentration levels and loads of the substances released into the air according to the permits. This is due to the fact that all of the operating generating units of TAURON Wytwarzanie and TAURON Ciepło achieved the concentration levels of SO₂, NO_x and dust below the limit values allowed according to the permits, including starting from August 2021 below the limit emission values (GWE - graniczne wielkości emisji) at the level of the limit values specified in the *BAT Conclusions*, which came into force as of August 18, 2021, (also taking into account the GWE derogation mechanism, mainly for the HCl emissions from the fluidized bed boilers burning the solid fuels).

In the first half of 2021, in spite of the COVID 19 pandemic underway, the last investment tasks related to the modernization of the air protection installations (at Łaziska and Jaworzno III Power Plants) were completed, and thanks to that all of the solid fuel combustion units planned for further operation as part of TAURON Capital Group were ready to comply with the new environmental requirements stemming from the *BAT Conclusions*. During the period in 2021 when the *BAT Conclusions* were in force, all of the requirements of the amended and updated integrated permits, along with the obtained time derogations from the *BAT Conclusions*, were complied with and monitored on an ongoing basis. At all of TAURON Wytwarzanie and TAURON Ciepło units subject to the requirements of the *BAT Conclusions*, the new updated guidelines for the operation of the fuel combustion installations and the flue gas desulphurization installations were applied, and the fuels of the adequate quality were burned. The 910 MW unit did not operate during the time in 2021 when the requirements stemming from the *BAT Conclusions* were in force, however it is ready to comply with these requirements.

The below table presents the estimated charges for the business use of the environment and the water services at TAURON Capital Group's selected subsidiaries due for 2021.

Table no. 20. Estimated charges for the business use and the water services of the environment due for 2021

Subsidiary name	Charges ¹ for the business use of the environment and the water services (PLN '000)
1. TAURON Wytwarzanie	11 913.5
2. TAURON Wydobywanie	14 994.5
3. TAURON Ciepło	4 119.6
4. TAURON Dystrybucja	232.1
5. KW Czatkowice	67.1
6. TAURON Nowe Technologie	33.8
7. TAURON Obsługa Klienta	17.3
8. TAURON EKOENERGIA	563.9 ²
9. TAURON Sprzedaż	< 0.8 ³
10. Bioeko Grupa TAURON	4.5
11. Nowe Jaworzno Grupa TAURON	770.8 ⁴
12. Wsparcie Grupa TAURON	1.2
Total	32 668.3

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

²Components: the charge for the water consumption for the purpose of operating the hydro power plants, assessed at the rate of PLN 1.24 per 1 MWh of the electricity produced by the hydro power facilities in 2021 is PLN 558 400 and a fee of PLN 5 500 for discharging rainwater or snowmelt into the waters

³Extent of the use of the environment does not generate fees, as their amount is below the threshold starting from which fees are due

⁴In total for 2021: Incomplete operation period of the 910 MW unit - on June 11, 2021, there was an emergency shutdown for repair during the warranty period.

Circular economy

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

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

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

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

3.8 million Mg of the process by-products, coming from the thermal combustion and mining of the coal, was generated in 2021, with as much as 61% of that quantity brought to the market as the full value products to be used, among others, in the construction, road building, mining or agricultural sector. 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 the land reclamation, macro-leveling and filling of the post-mining voids in mining.

The below figures present the structure (composition) of the ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2021 and in 2020.

Figure no. 28. Structure (composition) of the ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2021

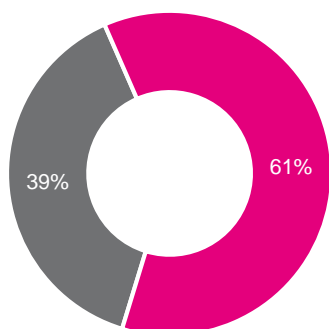
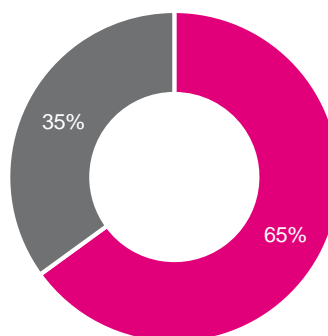


Figure no. 29. Structure (composition) of the ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020



It is planned that the maximum of the generated process waste is used within TAURON Capital Group, consequently reducing the consumption of the natural resources and the product's carbon footprint.

TAURON Wytwarzanie brought as much as 100% of the fly ashes and boiler slag as by-products coming from 6 system (utility scale) power plants to the market in 2021, to be used in the construction, road engineering (building), mining and agriculture. The fly ash and slag from the new 910 MW Jaworzno unit are of such good quality that they have been introduced to the market as the by-products since the unit's commissioning in November 2020, thus obtaining the status of the full value, certified building materials.

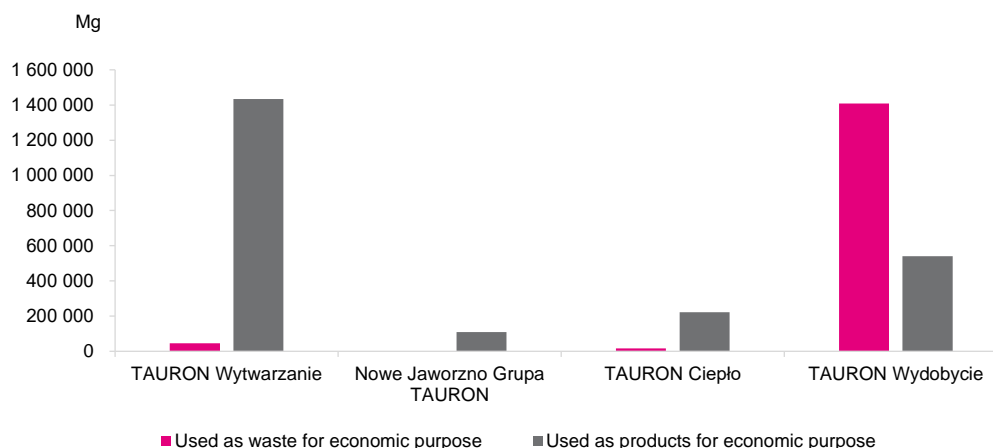
TAURON Capital Group's power plants produced 149 thousand Mg of ashes in 2021 that was used as a valuable raw material in the fire prevention by the coal mines. The ashes from TAURON Capital Group's power plants and combined heat and power plants cover 100% of the demand for the ashes to be used for the fire prevention at TAURON Wydobycie's coal mines

100% of TAURON Ciepło's waste, i.e. 239 thousand Mg, was reused in the various industries. In 2021, the contract under which almost 1 million tons of the ash-slag from TAURON Wytwarzanie was used to build the S-19 express way was completed.

TAURON Wydobycie processes the post-mining waste, as a result of which the full value construction and road aggregates are obtained. 197 thousand Mg of the aggregates and materials produced from the post-mining waste were placed on the market in 2021.

The below figure presents the structure (composition) and the quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2021.

Figure no. 30. Structure (composition) and the quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2021



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

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

Climate policy

The goal of *TAURON Group's Climate Policy* (Climate Policy) adopted by the Company's Management Board in 2017 and updated in 2019 is to counteract the climate change and promote the sustainable development of TAURON Capital Group's Lines of Business, through a just transition towards achieving the climate neutrality in the future.

Effectively counteracting the climate change and promoting the sustainable development are the two main stipulations of the Climate Policy that is in line with the assumptions of the *Green Turn of TAURON* concept.

The Climate Policy constitutes the basis for TAURON Capital Group to manage its operations in such a way so as to mitigate the risks associated with the climate, reduce TAURON Capital Group's negative impact on the climate and maximize the positive effects of the climate change (taking advantage of the opportunities) throughout the entire value chain.

One of the most important commitments in this respect is the declaration of support for the measures aimed at reducing the global warming by maintaining the rate of the temperature rise below 2° C relative to the pre-industrial levels.

The Climate Policy refers to all kinds of activities and operations carried out as part of TAURON Capital Group's value chain, the effects of which have an impact on the climate change or constitute the implication thereof, including in particular the measures aimed at reducing the global warming and the measures with respect to TAURON Capital Group's adaptation to the climate changes underway.

In 2020, TAURON Wytwarzanie completed the first photovoltaic farm implementation project with the capacity of 5 MW in Jaworzno, which was built on the site where the Jaworzno I Power Plant (Elektrownia Jaworzno I) had formerly been located. The project was in line with the expected transition of the energy sector. The continuation of this direction was the commissioning of another 6 MW solar farm, Choszczno (I), in 2021.

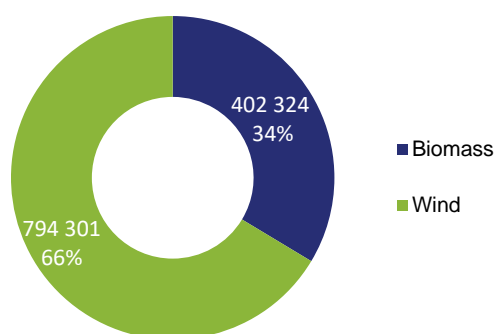
TAURON Capital Group sees the business opportunities related to the rapid expansion of the energy sector based on the renewable energy sources (RES), and therefore in 2021 the program related to the preparatory phase for the implementation of the large scale projects involving the construction of the photovoltaic farms on the post-industrial land where the industrial activities had been ended and that was a part of the resources of TAURON Capital Group, in order to use such land to provide the new functionality, was continued.

At the end of 2020, a new 910 MW unit was commissioned in Jaworzno, that was to ultimately replace 8 of the 120 MW units with the much higher unit emissions, especially in terms of the greenhouse gas emissions, that were shut down in 2021. The 910 MW unit was operated only in the first half of 2021, because at the beginning of June 2021 it was put into an emergency shutdown to be repaired during the warranty period.

The examples of the measures implemented and continued, as part of the Climate Policy, at TAURON Capital Group's subsidiaries to curtail or not increase the fuel and energy consumption were the initiatives related to the improvement of the energy efficiency of the processes. As part of these activities, the PMEF property rights in a total amount corresponding to 84.69 toe were acquired in 2021 (TAURON Wydobycie). The balance of the PMEF property rights, obtained as a result of the implementation of the in-house projects aimed at improving the efficiency, on the accounts of TAURON Capital Group's subsidiaries as of December 31, 2021, stood at 135.95 toe.

The below figure presents the structure of the certificates of origin for the renewable energy (PMOZE) at TAURON Capital Group in 2021.

Figure no. 31. Structure of the certificates of origin for the renewable energy (PMOZE) at TAURON Capital Group in 2021 (MWh)



TAURON Capital Group's dependence on the natural capital varies for the individual Lines of Business of TAURON Capital Group. The Mining, Generation and Heat Lines of Business are dependent on the fossil fuel resources, which are not very sensitive to the climate change, and their physical availability is not dependent on the pace of the global warming. The RES Line of Business, with respect to generating the electricity by the hydro power plants, is highly exposed to the risk of the outages or curtailments of the production as a result of the prolonged droughts, which translate into shrinking and the availability of the surface water resources in the river basins, where the hydro power plants are located. TAURON Ekoenergia is monitoring such developments on an ongoing basis and has an inventory list of the assets most exposed to such restrictions. On the other hand, with respect to the electricity generation by the wind farms, there is a strong dependence of the resources on the variability of the weather phenomena related to the atmospheric fronts that shape the wind conditions

Expenditures on the support for culture, sports, charity institutions, media, social organizations, trade unions

The activities aimed at building the brand image, including the implementation of the brand strategy assumptions through the sponsoring and promotional activities and the implementation of the projects based on the corporate social responsibility (CSR), are very important aspects of TAURON Capital Group's operations. The perception of the organization through the prism of its image has a key impact on the customer's willingness to buy and customer loyalty, which is an essential element in generating profits for any enterprise. TAURON Capital Group is associated with almost 6 million customers, and the main area of its operations covers the following provinces (voivodeships): Lower Silesia, Opole, Silesia, Małopolskie.

As part of the corporate regulations, the above mentioned activities are described in the core documents adopted by way of a resolution by the Management Board of the Company and implemented by the specific subject matter areas. These corporate acts are:

1. *TAURON Group's Sponsoring Principles,*
2. *TAURON Group's Principles of Conducting Promotional Activities,*
3. *TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) Projects.*

These documents regulate in detail the manner and the objectives of spending the funds as part of the implementation of the sponsorship, promotional and CSR activities. They also regulate the method to be applied to assessing the effectiveness of such projects. This makes the activities with respect to creating and managing the image of TAURON Capital Group transparent and measurable.

TAURON Capital Group attaches particular importance to the proper performance of the role of a responsible member of the community within which it is operating, It addresses the pro-social projects broadly, proportionally to the range (scale) of its business operations.

TAURON Foundation is operating within TAURON Capital Group and it is supported financially by the Group so that it can conduct its statutory activities.

The list of the projects supported by TAURON Foundation is available on the foundation's website: <https://fundacja.tauron.pl/wspieramy/projekty-realizowane>.

The below table below presents TAURON Capital Group's expenditures on the support for culture, sports, charity institutions, media and social organizations in 2021.

Table no. 21. TAURON Capital Group's expenditures on the support for culture, sports, charity institutions, media and social organizations in 2021

Category	TAURON Capital Group's expenditures in 2021 (PLN m) ¹
1. Culture and art	3 658
2. Sports	6 418
3. Education	262
4. TAURON Foundation	1 069
5. Social organizations/charitable institutions	1 405

¹The expenditures include the costs of the sponsoring, promotional and CSR related activities as well as the donations provided by TAURON Capital Group's subsidiaries to the foundations, social organizations, etc.

In the culture and art category, the greatest support is provided to TAURON Arena Kraków, which is a nationwide project. Both sports as well as the cultural events take place at the facility. Many years of the cooperation have allowed to strengthen the association of the facility with its title sponsor. The recognition of the project is confirmed by the research conducted by Sponsoring Insight in 2021 - TAURON Arena Kraków is the most spontaneously recognizable project, achieving a result of 31.1% among the individual customers. Also, in terms of the criterium of supporting the product sales, Arena Kraków's sponsorship received the most responses among the individual customers - 40.7%.

An important project, from the point of view of TAURON Capital Group's expenditures on the support for sports, is the cooperation with the Polish Volleyball League (the contract concluded in 2020).

As part of the educational projects, TAURON has been supporting the Wawel Royal Castle continuously since 2010. In 2021, the cooperation with Wawel included two main events, i.e. the patronage of the Wawel summer outdoor music festival *Wawel o zmierzchu* (Wawel at Dusk), as well as the co-organization of the unique multi-disciplinary project *Tydzień Patriotyczny* (The Patriotic Week). Over the years, the cooperation with Wawel also included the exhibition projects, as well as the educational campaigns for the children and youth. The relations with the Wawel Royal Castle ensure the spreading and strengthening of the positive image of the TAURON brand, as well as an opportunity to reach significant companies and communities with the TAURON brand message (and the sales message).

The SIEMACHA Association is one of the social organizations and charity institutions that receive the largest support. In 2021, TAURON cooperated with the ISKIERKA Foundation helping the children with cancer. As part of joint activities, the hospital wards in Katowice and Gliwice were renovated, carnival balls for the children staying at the hospital and an integration family picnic were organized. As part of the cooperation, inter alia, *TAURON Junior Cup* tournament is organized and the smaller, proprietary projects - *MegaMoc Możliwości* (MegaPower of Opportunities), *Juliada, Łączymy siły dla klimatu* (We join forces for the climate), *Piłkarski Dzień Dziecka z TAURONEM* (Football Children's Day with TAURON), *Energia z wody* (Energy from water) are conducted.

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

In order to make the best use of the value levers (drivers) defined as part of the Strategy and the Update of the Strategic Directions, the key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations in the following areas are defined:

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

The below table presents the key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2020 - 2021.

Table no. 22. Key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2020-2021

Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
				2020	2021
Reliability and quality of supply of the products and services for the customer					
1. Number of the individual and business customers of TAURON Capital Group's Distribution Line of Business	Financial capital / Distribution Segment's Regulatory Asset Base (RAB),	Stimulant	number	216 551	222 615

Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
				2020	2021
	capital expenditures, cash flow from operating activities				
2. Number of cases of non-compliance and complaints related to the products and services of TAURON Capital Group with respect to information disclosures	Financial capital / Cash flow from operating activities, net profit, long term rating	Destimulant	number	0	0
3. Frequency of the planned power outages - number of outages / consumer / year (SAIFI)	Financial capital / Cash flow from operating activities	Destimulant	minutes	0.19	0.19
Orientation towards the customer and his / her needs					
4. Number of the individual and business customers of TAURON Capital Group's Supply Line of Business	Financial capital / sales revenue, EBITDA, EBITDA margin, net profit, long term rating	Stimulant	number	5 590 108	5 622 759
Customer Satisfaction Index (CSI) for TAURON Capital Group's customers	Social capital / Implemented and applied <i>TAURON Group's PROClient Social Policy</i>	Stimulant	number	0	0
5.					
Environment protection					
6. Percentage share of TAURON Capital Group's RES installed capacity in TAURON Capital Group's total installed capacity	Production capital / Installed capacity in the hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	10.5	9
7. Percentage share of TAURON Capital Group's electricity production based on RES in TAURON Capital Group's total electricity production	Production capital / Electricity production by the hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	17	12
	Production capital / Heat production by the biomass fired combined heat and power plants and power plants	Stimulant	%	9	5
8. Direct greenhouse gas emissions by TAURON Capital Group - tCO ₂ e	Natural capital / Direct greenhouse gas emissions	Destimulant	Mg	10 093 648	13 702 825
9. Total weight of the non-hazardous waste (including combustion and mining by-products) generated by TAURON Capital Group	Natural capital / Total amount of the non-hazardous waste	Destimulant	Mg	1 729 672	1 655 250
Work safety, ethical culture and employee engagement					
10. Number of the meetings with the trade union organizations at TAURON Capital Group's subsidiaries	Intellectual capital, Social capital, Human capital / developing the relationships based on the dialogue, organizational culture based on the PRO values	Stimulant	number	334	315
11. Number of TAURON Capital Group's employees	Human capital / number of the employees, number of the training courses conducted by the Internal Coaches (Trainers)	Nominant	number	25 572	25 324
	Intellectual capital / knowledge and competences of the Group's employees Social capital / personnel education and development				
12. Accident rate at TAURON Capital Group	Social capital / organizational culture based on the PRO values	Destimulant	-	8,3	7,9
13. Share of women among TAURON Capital Group's workforce	Human capital / share of women among the workforce Social capital / <i>TAURON Group's Diversity Policy</i> and <i>TAURON Group's Respect for Human Rights Policy</i> implemented and applied	Nominant	%	21,5	21,8
14. Number of training session hours at TAURON Capital Group	Human capital / number of the training session hours	Stimulant	'000	295	385
Social and business partnership					
15. Number of the local and social initiatives that TAURON Foundation has joined	Social capital / support for the local initiatives through TAURON Foundation	Stimulant	number	144	93
16. Number of the projects with respect to the corporate social responsibility implemented by TAURON Capital Group	Social capital / implemented and applied <i>TAURON Group's PROClient Social Policy</i> , developing the lasting relationships and active dialogue with the stakeholders,	Stimulant	number	18	22
17. Number of TAURON Capital Group's meetings with the local communities		Stimulant	number	Regular, in accordance with	Regular, in accordance

Efficiency ratio (metric, performance indicator)	Name of capital / Element related to capital	Ratio (metric, indicator) nature	unit	Value of the ratio (metric, performance indicator)	
				2020	2021
held in order to provide the information on the operations conducted and its impact on the residents	support for the local initiatives, including through TAURON Foundation			the ongoing operations	with the ongoing operations
18. Number of the initiatives implemented by TAURON Capital Group for the employees and communities, related to counteracting COVID-19		Stimulant	number	11	8

2.11. Sponsoring activities

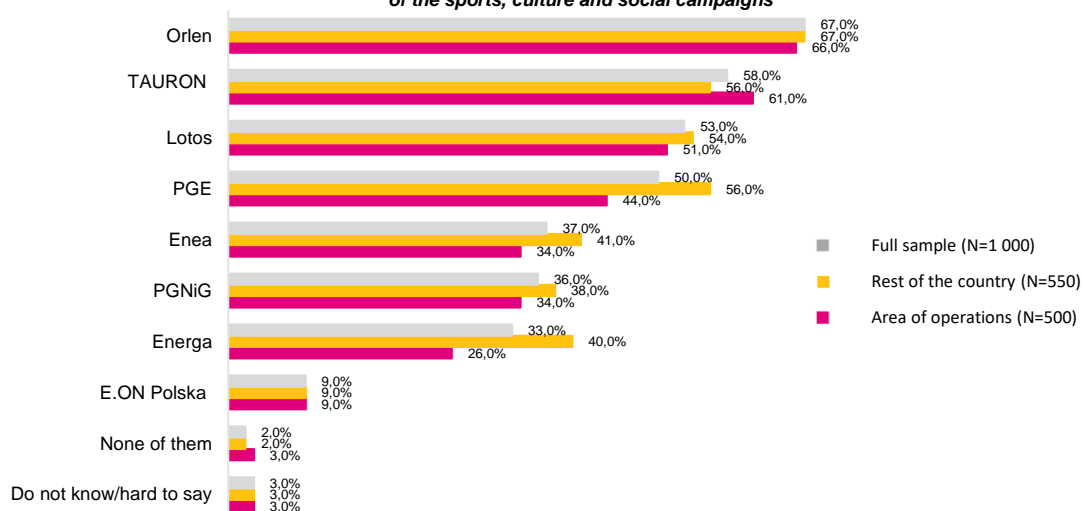
TAURON Capital Group, due to its size and the position of the leading electricity supplier in Poland, is carrying out nationwide projects. Based on the area in which its business operations are conducted and the current customers, the Company also takes care of the relations and reputation within the immediate geographical environment of the brand distribution area.

The main objectives of TAURON Capital Group's sponsoring activities include building the TAURON brand's value, supporting the product sales as well as supporting the business and communications goals defined in the Strategy. TAURON Capital Group's sponsoring activities are conducted based on the recommendations of the Sponsoring Committee and *TAURON Group's Plan of Conducting Sponsoring Activities in 2021* adopted by the Management Board of the Company and granted a positive opinion by the Supervisory Board of the Company.

The sponsoring activities were conducted only by TAURON in 2021, in accordance with the corporate regulations in force at TAURON Capital Group. All of the sponsorship agreements contain provisions that oblige the contractors (counterparties) to pay special attention to the business effect (the so-called *success fee* principle). In 2021, the Company carried out 9 sponsorship projects, among others: TAURON Arena Kraków, Polska Liga Siatkówki (Polish Volleyball League), TAURON Nowa Muzyka (TAURON New Music). The implemented projects generated more than PLN 168 million in the advertising equivalent in 2021 (each PLN spent on the sponsoring activities brought an almost PLN 17 equivalent). Taking into account the criterium of providing support for the product sales, the TAURON Arena project received the most responses among the individual customers, while the Polska Liga Siatkówki (Polish Volleyball League) project was indicated most often by the business customers.

The below figure presents the level of recognition (spontaneous awareness) enjoyed by the energy sector companies (electric utilities) as the sponsors of the sports, culture and social campaigns.

Figure no. 32. Level of recognition (spontaneous awareness) enjoyed by the energy sector companies (electric utilities) as the sponsors of the sports, culture and social campaigns



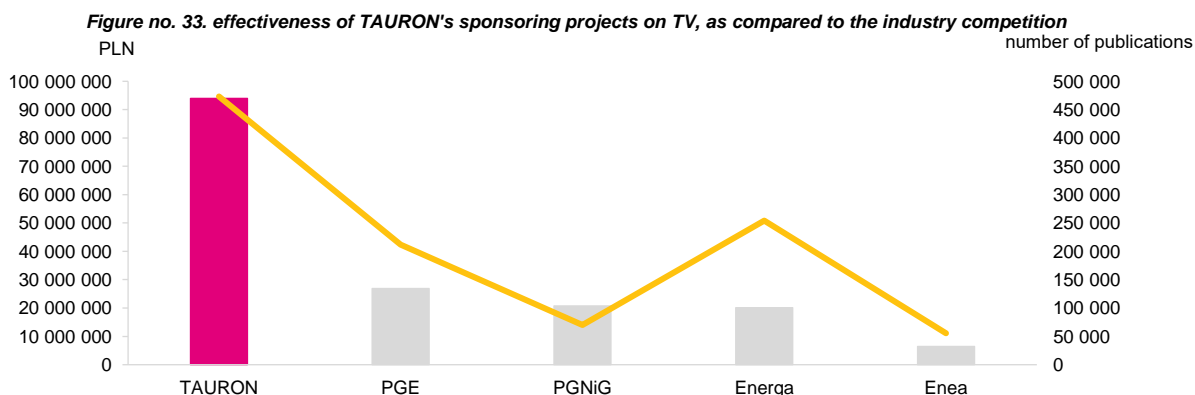
Source: Analysis by Sponsoring Insight

In spite of the ongoing COVID-19 pandemic, the majority of the events took place based on the traditional formula. Only SnowFest Festival Online Powered by Tauron was organized online. The event attracted an audience of approximately 300 000 people.

The sponsoring activities carried out by the Company are monitored, analyzed and reported on an ongoing basis. The surveys and analyses are conducted in the quarterly and annual cycles by the specialized external entities and the internal oversight. In accordance with the procedures implemented, the effectiveness of the activities conducted is assessed on a regular basis based on the opinion polls, by measuring the size and value of the brand's exposure in the media in the context of the activities conducted, as well as by measuring the impact on the pro-sales attitudes, including the reporting of the results achieved.

TAURON Capital Group continued to be the leader among the Polish energy groups (electric utilities) in terms of the sponsoring activities in 2021. The implemented projects demonstrated a very high equivalence level. In terms of the television effectiveness, the research conducted by Sponsoring Insight shows that these projects generated almost PLN 94 million in the advertising equivalent. This means that TAURON ranks third among the TOP Sponsors, behind Lotos and PKO BP, but ahead of Lotto, Grupa Azoty or Plus.

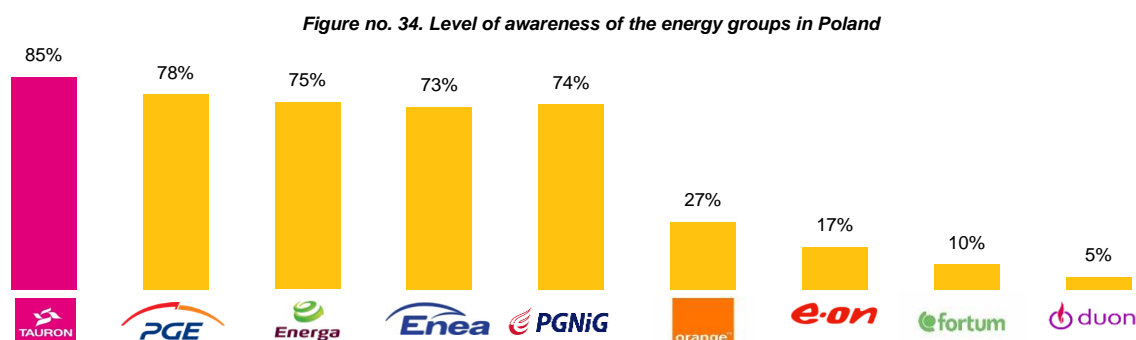
The below figure presents the effectiveness of TAURON's sponsoring projects on TV, as compared to the industry competition.



Source: Analysis by Sponsoring Insight

According to the latest research conducted by ARC Rynek i Opinia, TAURON was among the highest ranked companies in the ranking of the entities conducting sponsoring activities in 2021. At the same time, TAURON was ranked third among the brands from the energy industry that were most involved in the energy activities - ahead of such companies as Energa and Enea. The sponsoring activities have a significant impact on the awareness of (familiarity with) the TAURON brand. The research carried out by the OTAWA Advisory Group shows that TAURON had a significant advantage in terms of the spontaneous awareness in 2021. TAURON is also the most recognizable brand in the case of the assisted awareness.

The figure below shows the level of awareness of the energy groups in Poland.

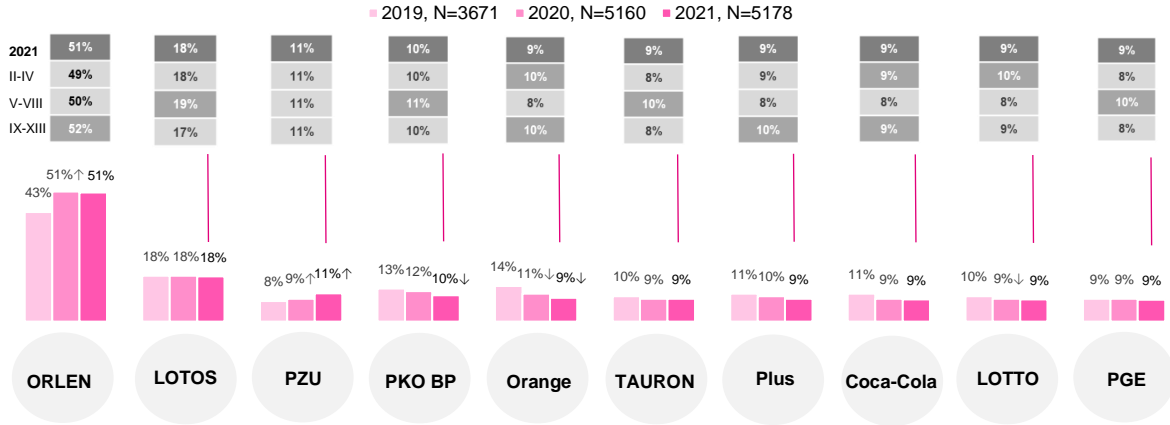


Source: Otawa Grupa Doradcza

An additional confirmation of the effectiveness of the activities carried out is the high positioning of the TAURON brand in an independent research report Sponsoring Monitor 2021, according to which TAURON ranks 5th in the overall TOP 10 list of sponsors. The company holds this ranking ex aequo with the companies that have significantly higher marketing budgets: Coca-Cola, PZU, Lotto and PGE.

The below figure shows the results of an independent research report Sponsoring Monitor 2021 in terms of the most active sponsors in 2019-2021.

Figure no. 35. Results of an independent research report Sponsoring Monitor 2021 in terms of the most active sponsors in 2019-2021



Source: ARC Rynek i Opinia

3. TAURON CAPITAL GROUP'S RISK MANAGEMENT

3.1. Risk management objective and principles

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

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, TAURON Capital Group's risk management is to ensure increased predictability of achieving its strategic goals, sustainable (stable) generation of its financial results, the protection of TAURON Capital Group's current economic value (preventive function), as well as support for the decision-making processes.

TAURON Capital Group's risk management:

Zarządzanie ryzykiem w Grupie Kapitałowej TAURON:

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

3.2. Risk management strategy

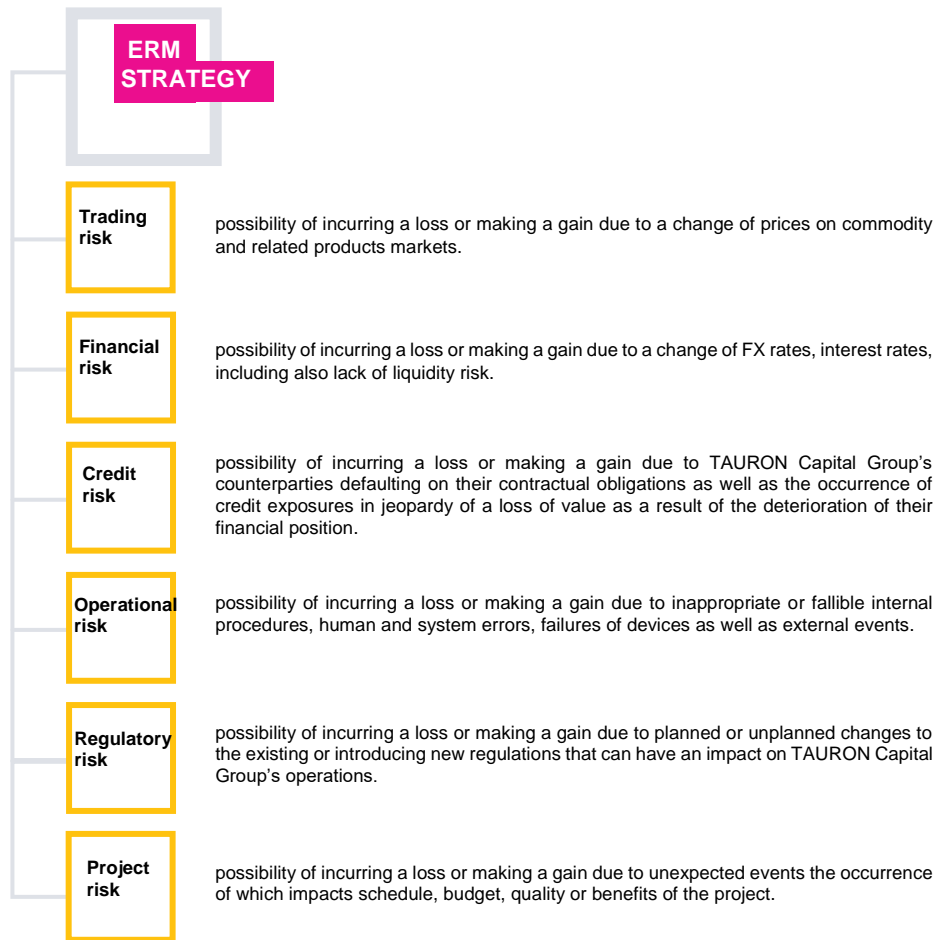
The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring security and safety of TAURON Capital Group's operations.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

As part of the ERM System, the following specific risks are identified within TAURON Group, for which separate policies tailored to the nature and specifics of the given group of threats are defined:

1. Trading (commercial) risk,
2. Credit risk,
3. Financial risk,
4. Operational risk,
5. Regulatory risk,
6. Project risk.

The below figure presents the basic classification of the enterprise risk.

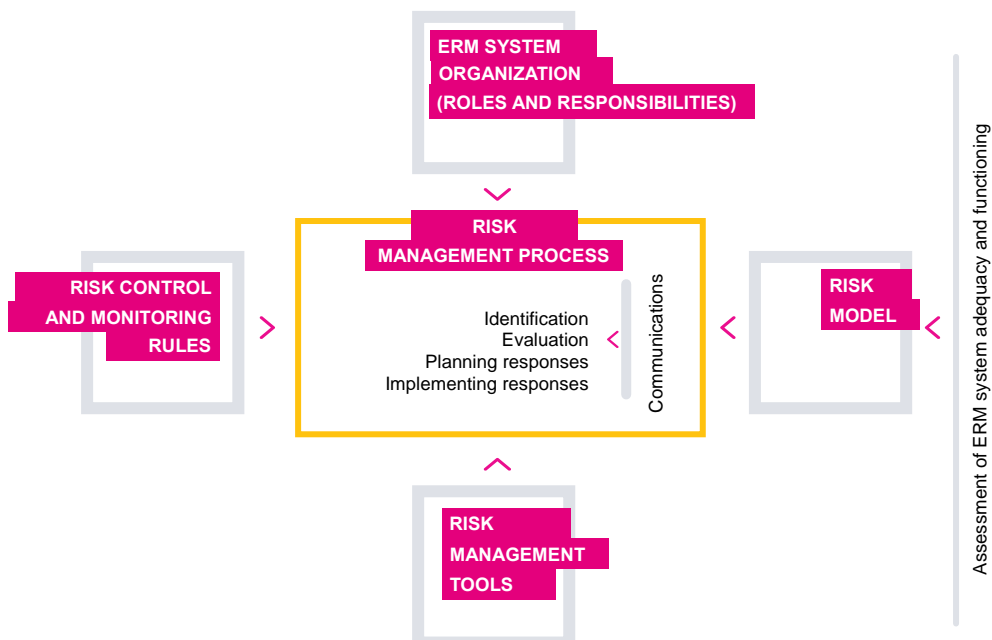
Figure no. 36. Basic classification of the enterprise risk



The core (central) element of the ERM System is a risk management process that includes continuous activities, i.e. risk identification, risk measurement as well as developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including: organization of the ERM System, risk control and monitoring rules, risk model, risk management tools and the assessment of the adequacy and functioning of the ERM system.

The below figure presents the architecture of the ERM system in place at TAURON Capital Group.

Figure no. 37. Architecture of the ERM system in place at TAURON Capital Group

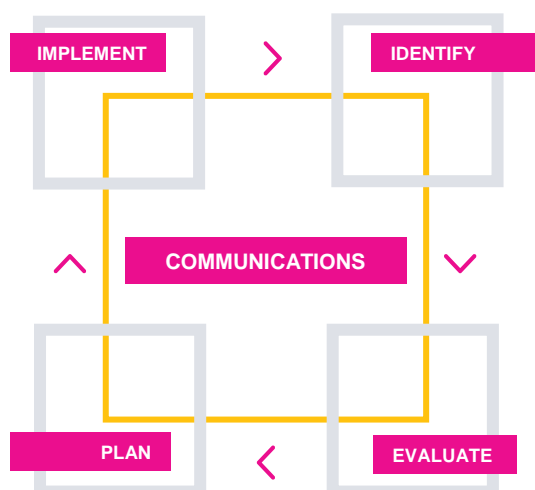


Risk management process

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

The below figure presents the risk management process.

Figure no. 38. Risk management process



Risk identification consists in determining the potential events that may affect the implementation of TAURON Capital Group's business goals. 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 upon 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 the practical implementation of the response to the identified risk, prepared as part of the planning process. The set of actions defined 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 the 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 the information among the participants of the process, which is to ensure the full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodic (regular) risk reporting is also an element of this process.

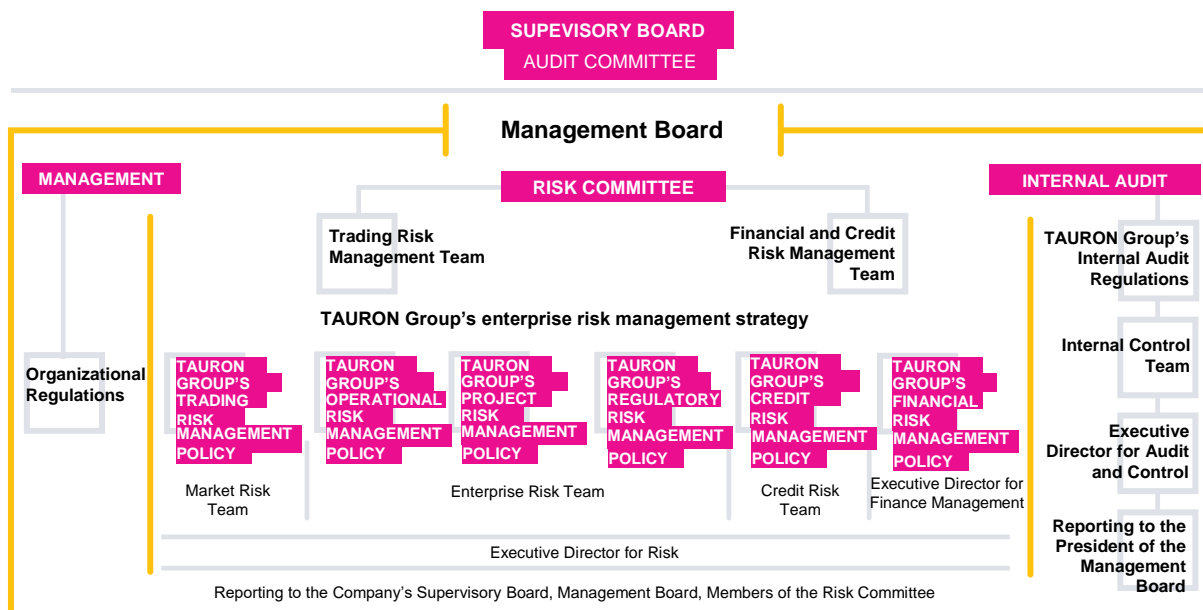
The organization of the risk management system (roles and responsibilities)

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest arises. In particular, the system guarantees the independence of the risk taking function from the risk control and monitoring. This is achieved through the centralization of the control function at the parent Company level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the risk owner, i.e. the person responsible for managing the given risk, including in particular developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system was placed at the parent Company, in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and the oversight of the risk management process effectiveness. Within the Risk Committee three separate teams are set up for the trading (commercial) risk area, the financial and credit risk area and for managing the operational and regulatory risk. The oversight of the enterprise risk management system is performed directly by the Risk Committee.

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

Figure no. 39. ERM Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM System



Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail and they are presented in the below table

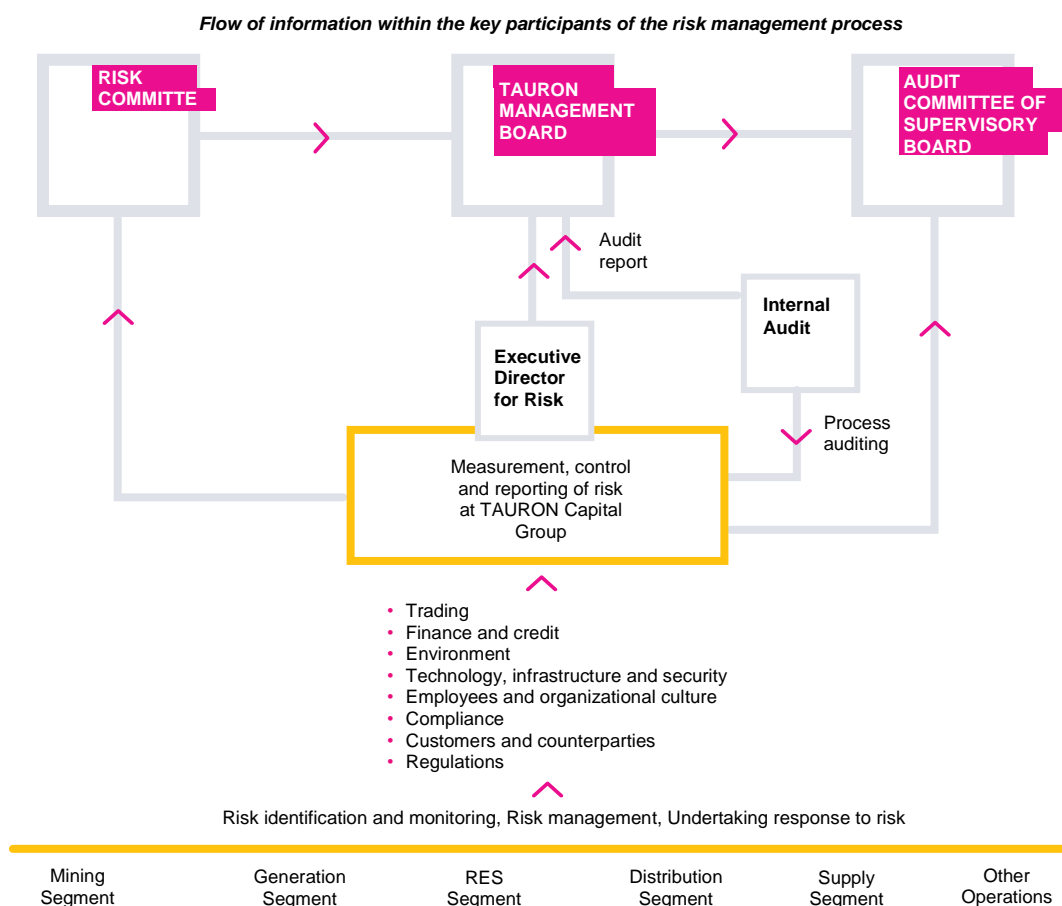
Table no. 23. Description of the ERM System participants' roles and responsibilities

Participant	Participant's roles and responsibilities
1. TAURON Supervisory Board	<ol style="list-style-type: none"> 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, the supervisory and the regulatory authorities.
2. Audit Committee of TAURON Supervisory Board	Monitoring the ERM System's effectiveness.
3. 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 Company's 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 the adequate resources for the needs of the ERM System.
4. Risk Committee	<ol style="list-style-type: none"> 1. Overseeing the correct flow of TAURON Capital Group's risk management process. 2. Auditing (controlling) TAURON Capital Group's risk exposure. 3. Providing opinions (feedback) and recommending to the Company's 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 Company's Management Board for the approval or change thereof. 5. Approving the operational limits constituting the allocation of the adopted risk tolerance. 6. Overseeing the preparation of the information for the Company's Management Board on all material issues related to TAURON Capital Group's risk.
5. Executive Director for Risk	<ol style="list-style-type: none"> 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, evaluation, monitoring and control methods, processes and procedures). 3. Support for and oversight over the system's participants in the risk management implementation and evaluation of its efficiency. 4. Risk monitoring and control at the level of TAURON Capital Group, including control of the use (consumption) of the operating limits, the global limits and the risk tolerance 5. Preparing and providing the risk reports to the authorized risk management process participants. 6. Activities aimed at developing organizational culture and raising awareness with respect to TAURON Capital Group's risk management.
6. Executive Director for Audit and Control	Periodic review of the correctness of designing and implementing as well as the effects of actions taken within the ERM System.
7. Management Board of a subsidiary	<ol style="list-style-type: none"> 1. Responsibility for risk management efficiency within a subsidiary. 2. Promoting risk management culture in a subsidiary. 3. Responsibility for the adequate responses to risk and the effectiveness thereof. 4. Appointing Risk Owners at the given subsidiary. 5. Approving plans of response to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded.
8. Risk Owner	<ol style="list-style-type: none"> 1. Responsibility for the 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.

Participant	Participant's roles and responsibilities
	<ol style="list-style-type: none"> 2. Responsibility for preparing a plan and for implementing a response to risk, and also for the communications and reporting within the risk management performed. 3. Responsibility for meeting (compliance with) the imposed operational limits.

The below figure presents the flow of information within the key participants of the risk management process.

Figure no. 40. Flow of information within the key participants of the risk management process



Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to the factors that may have an adverse impact on its functioning. The basic risk control tool is the Risk Appetite, approved by the Company's Management Board, that defines the basic framework used by TAURON Capital Group for risk management. In accordance with the adopted approach, TAURON Capital Group's priority is to maintain the maximum security at the level allowing for the implementation of TAURON Capital Group's strategic goals.

Based on the Risk Appetite, the Risk Tolerance is approved, that specifies TAURON Capital Group's maximum permitted risk exposure value, in particular taking into account the specifics and scope of the operations thereof. The Risk Tolerance level is expressed in the form of a set of metrics and boundary conditions limiting the risk exposure. The Risk Tolerance is a practical translation of the Risk Appetite, in particular taking into account the division into the key categories of the Specific Risks and the Global Limits related thereto. Based on the adopted Risk Tolerance value as well as the approved Global Limits, the Risk Committee approves sets of the Operational Limits dedicated to the individual risks or the groups thereof. The individual risk owners are responsible for meeting the Operational Limits, and the Executive Director for Risk is responsible for controlling the consumption (use) thereof. The basic assumption is to guarantee the independence of risk taking from the risk control, which guarantees the safety and security of the functioning of the organization. Such independence is ensured in particular by the appropriate positioning of the Executive Director for Risk within the organizational structure of the Company in a way that eliminates the emergence of a conflict of interest, as well as by ensuring direct reporting lines to the Company's Management Board and the Company's Supervisory Board.

A supplementary tool used for the risk monitoring and control comprises the Early Warning System based on the catalogue of the Key Risk Indicators (KRI) and the Early Warning Indicators (EWI).

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

Risk management tools

The risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group is using, in particular, the following tools:

1. **Risk identification / review questionnaire** - a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
2. **Risk card - a document containing the detailed information on the identified risk,**
3. **Risk register** - a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations,
4. **Risk response plans** - a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to the given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization,
5. **Risk assessment form** - a tabular summary of the 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 the risk measurement parameters (KRI / EWI).

Risk Model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of the risk across TAURON Capital Group. Each risk identified is assigned to the specific categories and sub-categories.

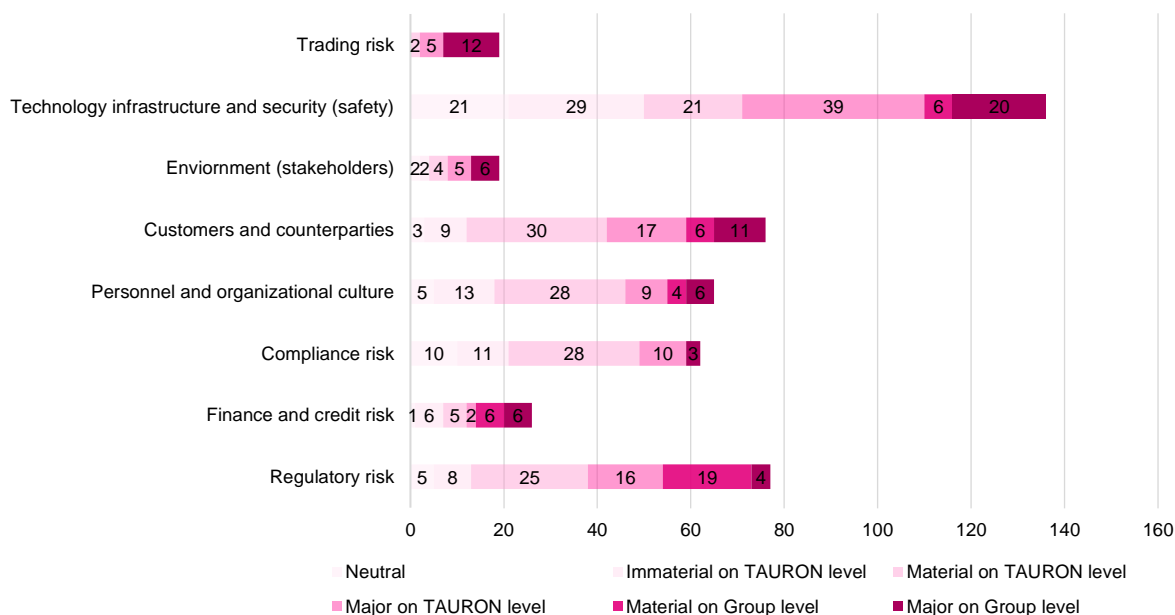
The below table presents the main risk categories and sub-categories, in accordance with the Risk Model in place.

Table no. 24. Main risk categories and sub-categories, in accordance with the Risk Model in place

Main risk categories	Main risk sub-categories	Description of the main risk sub-categories
1. Trading risk		Risks related to the volatility of electricity and related products market prices.
2. Financial and credit risk		Risks related to the fluctuations in the exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on the contractual obligations.
3. Operational risk	Environment (stakeholders)	Risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Capital Group's goals, including in particular the macroeconomic and reputational risks.
	Technology, infrastructure and security	All events having an adverse effect on the security of the employees, information as well as the generation, transmission, mining or IT infrastructure.
	Employees and organizational culture	Risks related to the employee issues and organizational culture, including also the pandemic risk.
	Compliance	Risks related to the cases of non-compliance with the legal regulations, internal and intra-corporate regulations, internal and external abuse (fraud) as well as the unethical behaviors and violations of the social norms (standards).
	Customers and contractors (counterparties)	Risks related to the volatility of the supplies / services market, a failure of the customer / contractor (counterparty) to meet the contractual obligations and the adverse changes or terminations of commercial contracts by the customers, affecting both the volume as well as the margin.
4. Regulatory risk		Risks determining the adverse impact of the changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Capital Group.

The below figure presents the main risk categories defined by TAURON Capital Group, including the number of key threats.

Figure no. 41. Number of risks monitored, broken down into sub-categories and their impact on TAURON Capital Group



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

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

1. ongoing assessment conducted by the Executive Director for Risk and the Risk Committee with respect to its adequacy and alignment with the changes to the structure and specifics of TAURON Capital Group's operations, as well as with the changing environment,
2. periodic (regular) evaluation conducted by the Executive Director for Risk who, not less seldom than once a year, prepares a report on the assessment of the adequacy of the ERM System's architecture for the members of the Risk Committee,
3. periodic (regular) evaluation conducted by the Executive Director for Audit and Control, who 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 principles by the process participants, as well as its adequacy and effectiveness.

3.3. Key risks management

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

Trading risk management

In accordance with *TAURON Group's Trading Risk Management Policy* in place the trading risk is understood as the possibility of incurring a loss or making a gain due to the price fluctuations on the commodity and the related products markets. The trading risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of the subsidiaries operating both in the Mining as well as in the Generation Lines of Business, including also the RES Line of Business, as well as in the Supply Line of Business. Due to the opposing positions in the above mentioned Lines of Business the risk is, to a certain degree, naturally diversified. However, since the above mentioned Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and the related products.

In order to efficiently manage that group of risks the trading risk management system was established, tied with respect to the organizational structure and information flow, to the trading position hedging strategy in place at TAURON Capital Group's level. In particular, *TAURON Group's Trading Risk Management Policy* in place introduces an early warning system and a system used to limit the risk exposure in the individual trading areas based on the Risk Tolerance approved by the Management Board.

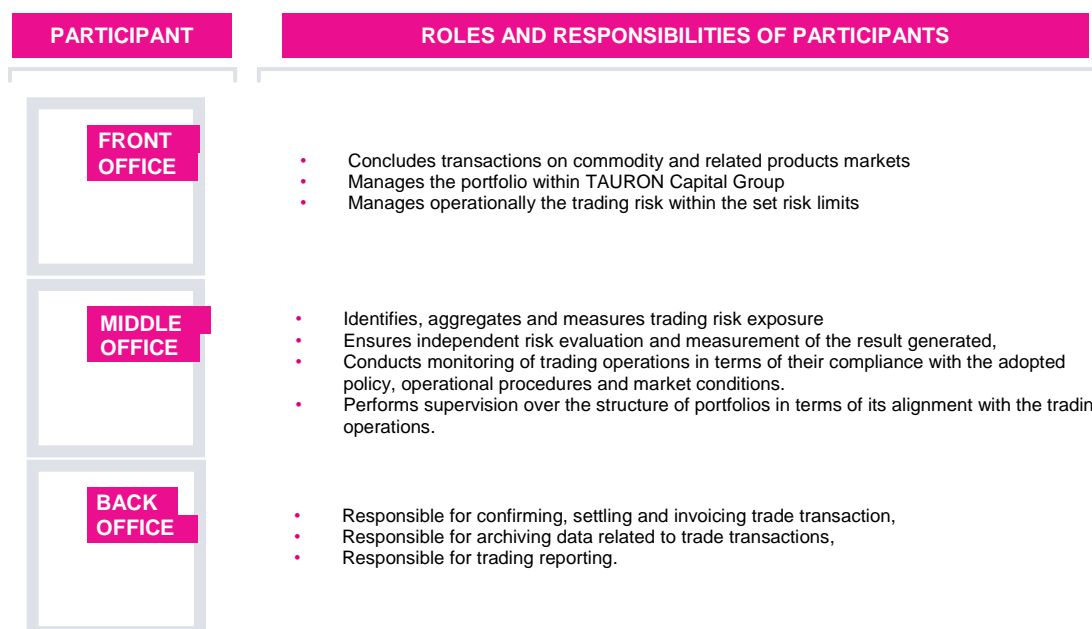
The basic operational measure of TAURON Capital Group's market risk is Value at Risk (VaR), defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk (VaR) represents a dynamic risk measure which, in contrast to the static measures, allows for determining the potential negative effects before their factual occurrence. However, being aware of certain limitations of the statistical measures of this type, the Risk Area also uses a number of supplementary risk measures aimed at enabling a safe operation of the trading areas.

The strategic measurement of the market risk is conducted based on the mechanism of Hedge Curves, which are to ensure the maximum level of security by optimizing open trading positions exposed to the volatility of the price factors in the individual areas (lines of business) of TAURON Capital Group's operations.

The organizational structure of the trading risk management system envisages a strict division of competences, where the risk supervision (steering) and control are performed centrally at TAURON level. In particular, an element of the organizational structure of the trading risk management system is the split of TAURON Capital Group's trading operations into: Front Office, Middle Office and Back Office. The goal of such a split of tasks is to guarantee the independence of the operating functions carried out by the Front Office from the risk control function carried out by the Risk Area, and it ensures an appropriate level of operational flexibility. For the needs of the risk management process such a placement of responsibility is assumed so as an optimal approach to the given type of threat can be assured, in particular by taking advantage of the economy of scale and the synergy effect. Such an approach ensures efficiency of the trading processes conducted and the adequate supervision over one of the main business processes conducted by TAURON Capital Group.

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

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



Financial risk management

As part of the financial risk management, TAURON Capital Group is managing the FX risk and the interest rate risk, based on the developed and adopted for use *TAURON Group's Financial Risk Management Policy* as well as the Risk Tolerance approved by the Management Board, the Global Financial Risk Limit including the decomposition thereof into the individual financial risk types. The main goal of managing such risks is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of the transactions with the use of the derivative instruments. In cases when it is possible and economically justified, TAURON uses the derivative instruments the characteristics of which allow for applying the hedging accounting.

With respect to the financial risks TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay the current expenses, due to an inadequate value or structure of liquid assets in relation to the short term obligations or an insufficient level of the actual net inflows from the operating activities.

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. As part of the efforts aimed at minimizing the financing risk, TAURON is conducting a policy of acquiring the funding for TAURON Capital Group with an adequate advance notice in relation to the planned date

of the use thereof, i.e. up to 24 months in advance of the planned funding requirement. This means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging for such financing by accumulating the funds on TAURON Capital Group's accounts. Such a policy is first and foremost aimed at ensuring a flexible choice of the financing sources and taking advantage of the favorable market conditions as well as reducing the risk of the need to take on the new liabilities under unfavorable market conditions. TAURON's policy also covers the standardizing of the covenants and the provisions of the financing agreements in the most important (key) elements of the documentation.

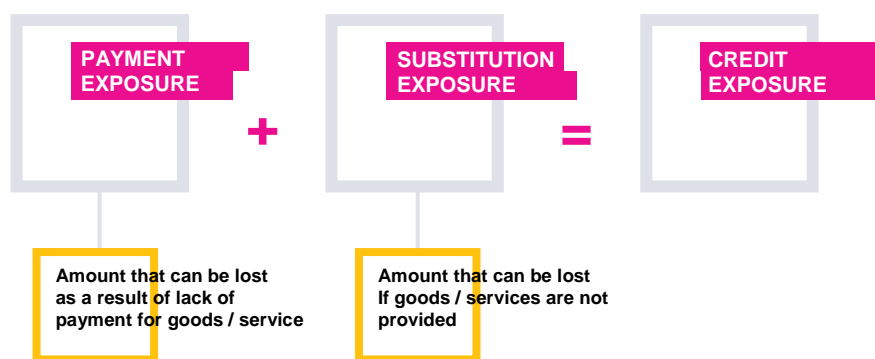
Credit risk management

In accordance with *TAURON Group's Credit Risk Management Policy* in place the credit risk is understood as the possibility of incurring a loss or making a gain due to the trading partners (counterparties) failing to fulfill their contractual obligations (default) as well as the occurrence of the credit exposures at the risk of impairment due to the deterioration of their financial position. TAURON Capital Group has a decentralized credit risk management system in place, however the control, limiting and reporting of this risk category is carried out centrally, on the parent Company level. *TAURON Group's Credit Risk Management Policy* put in place defines the credit risk management principles on TAURON Capital Group's level, aimed at effectively minimizing the impact of that risk on the achievement of TAURON Capital Group's goals.

The credit risk management is carried out by controlling the credit exposure generated upon the conclusion of the contracts by TAURON Capital Group's subsidiaries. The general rule is that prior to concluding a material contract every entity is subjected to an examination of its financial standing and is granted a credit limit which caps the maximum exposure due to the given trade. The credit exposure is, in this context, understood as an amount that can be lost if a counterparty (business partner, contractor) fails to fulfill its obligations (defaults) within a certain time (taking into account the value of the collaterals submitted thereby). The credit exposure is calculated as of the current day and is split into the exposure due to the payment (payment exposure) and the substitution exposure.

The below figure presents the credit exposure components.

Figure no. 43. Credit exposure components



Based on the exposure value and the synthetic measure used to evaluate the financial standing of specific customers, the global credit value at risk that TAURON Capital Group is exposed to is calculated using the statistical methods according to which the exposure value is calculated based on the CVaR total loss probability distribution. This measure is the basic operational limit of the credit risk, which represents the allocation of the Risk Tolerance approved by Management Board.

Operational risk management

The operational risk, in accordance with *TAURON Group's Operational Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the inadequate or fallible internal procedures, human and system errors or as a consequence of external events. It also includes the reputational risk and the non-compliance risk. The operational risk, due to the specific nature of the threats and the ability to manage such a risk, constitutes a separate group of the risks affecting TAURON Capital Group's operations. The said risk is a complex issue, occurs in every process and type of operations, it is multi-dimensional and applies to various types of activities and operations. In particular, the exposure to the operational risk factors is related to the size and the complexity of the organizational structure, the number and the complexity of the IT systems and to the number of the business processes conducted. The operational risk is characterized by the lack of the ability to totally eliminate the sources thereof, and the analysis of its factors and parameters (among others, the frequency and severity), as well as the evaluation thereof requires the use of complex measurement and analysis methods.

In order to effectively manage the operational risk, TAURON Capital Group is using the adequate tools that, in particular, include: the global operational risk limit, the operational risk profile, the early warning system functioning on a broad scale, the operational events database, and the related operational limits system. In particular, based on the approved Risk Tolerance, the operational limits are determined for the individual operational risks (or the

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

The below figure presents the risk management system tools.

Figure no. 44. Risk management system tools



Global operational risk limit is the basic tool for the operational risk control and represents the allocation of the Risk Tolerance adopted by TAURON Capital Group. The global operational risk limit can be subsequently allocated to TAURON Capital Group's individual lines of business, the operational risk sub-categories as well as to the specific operational risks.

Operational risk profile is aimed at identifying the areas, processes or activities with an excessive exposure to the threats stemming from the specific operational risk factors. It is expressed, in particular, in the structural dimension that includes the types of the operational events, TAURON Capital Group's organizational structure and processes, and in the scale dimension that includes the estimated potential losses, taking into account in particular the historical values of the actual losses, as well as the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the Operational Risk Profile the individual types of the operational risk are broken down (due to the nature of the occurrence thereof) into the continuous and the one-off risks.

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

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

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

Regulatory risk management

The regulatory risk, in accordance with *TAURON Group's Regulatory Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of TAURON Capital Group. The regulatory risk, due to the specific nature of the threats and the limited options to manage such a risk, is a separate category of the enterprise risk to which TAURON Capital Group is exposed as part of its operations. The regulatory risk management is based on the Regulatory Risk Management Process and is a refinement of the Risk Management Process specified in the ERM Strategy.

The main causes of the regulatory risk include:

1. instability of the legal environment,
2. change in the regulatory policy at the national and European Union levels,
3. progressing integration of the European energy market,
4. uncertain political situation,
5. a significant increase in the requirements with respect to a specific regulation.

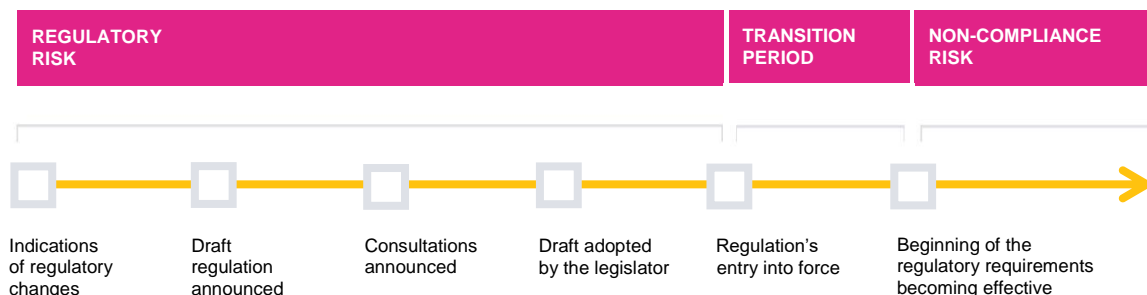
The main goal of the regulatory risk management at TAURON Capital Group is to minimize the losses and maximize the gains from the planned or unplanned changes to the existing regulations or the introduction of the new regulations that may affect the operations of the organization. As a result, it allows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

risk management is also aimed at building the culture and awareness among the employees of TAURON Capital Group regarding the risk taken, as well as at the continuous improvement of the process of managing such risk.

The regulatory risk occurs when there are indications of the regulatory changes, for example an entry into force of the EU directive, which will be implemented into the Polish legal regime or the positions of the legislators declaring the regulatory changes. The regulatory risk management does not cease when a specific regulation which is frequently expected to provide executive regulations that specify its implementation method comes into force but from the moment the regulatory requirements take effect (the period from the entry of a legal act into force until the beginning of the regulatory requirements becoming effective is a transition period). At that time the regulatory risk management turns into the risk of non-compliance monitored as part of the non-compliance risk.

The below figure presents the regulatory risk life cycle.

Figure no. 45. Regulatory risk life cycle



In accordance with the classification of the regulatory risk, as part of *TAURON Group's Regulatory Risk Management Policy*, 13 areas of regulatory risk have been identified at TAURON Capital Group. The classification is based on the identification of the homogeneous groups of regulations, based on their impact on the operations of TAURON Capital Group, taking into account the possibility of undertaking an effective response to the given risk. The regulatory risk areas are divided into 2 basic categories:

1. **Sector regulatory risks** – the regulatory risks that may affect the operations of TAURON Capital Group related to the generation and supply of electricity and heat. As part of this category, independently, there are also risks related to the distribution of electricity and the extraction of raw materials.
2. **Non-sector regulatory risks** – the regulatory risks that may affect the operations of TAURON Capital Group related to, among others, the public procurement law, information security or compliance area, personal data protection, trading on energy markets, labor law, accounting and tax law, capital market regulations, work (occupational) health and safety or environment protection and climate change.

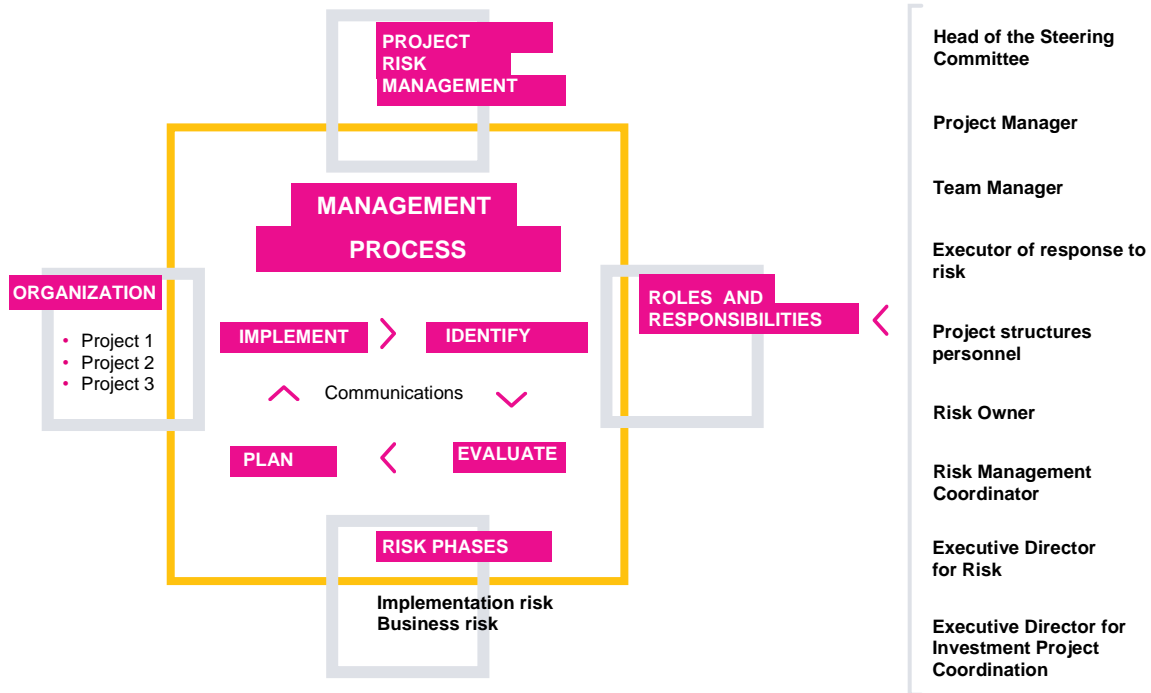
Project risk management

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

The project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes the identification, valuation of such risks, defining and monitoring the early warning indicators as well as planning and implementing actions related to managing such risks. In case of the risks that have an impact on the organization, the risk valuation is made based on the absolute value of the impact, including indicating the impact period broken down into the individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks that have an impact on the organization, the Risk Response Plans and the Back-up (Contingency) Plans are developed. The evaluation of the project risks and the risks stemming from the projects for the organization is taken into account when making the key decisions related to launching and implementing such projects.

The below figure presents the project risk management model.

Figure no. 46. Project risk management model



3.4. Description of the most material risk categories

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

Table no. 25. Most material risk categories identified for TAURON Capital Group

Risk name	Risk description	Risk trend and materiality	Reaction to risk
Trading			
1. Market risk	The risk related to unfavorable changes in prices on the wholesale electricity market and the energy related product markets, which adversely affect the financial results.	↗ ■	<ol style="list-style-type: none"> 1. Independent monitoring of the trading positions and of the use (consumption) of the risk limits. 2. Daily control (checking) of the compliance with the limits - Value at Risk. 3. Daily control (checking) of the volume of the open positions, broken down into all assets and the aggregate. 4. Applying the Stop Loss limits allowing for protecting (locking in) the generated result. 5. The use of the futures (forward) products allowing for the hedging of the future exposure to the trading risk. 6. Applying tolerances allowing for the flexible reaction to the changing market conditions with a limited level of the risk incurred. 7. Taking advantage of the effects of the diversification between the products and the trading portfolios as well as the use of the internal netting. 8. Centralization of the trading activities at TAURON Capital Group allowing for taking advantage of the synergy effects.
Finance and credit			
2. Interest rate risk	Risk related to an unfavorable impact of interest rates on TAURON Capital Group's financial results.	↗ ■	<ol style="list-style-type: none"> 1. Ongoing monitoring of the risk exposure in order to minimize the negative impacts of the changes to the interest rates. 2. Transfer of the risk through the use of the derivative instruments.
3. FX rate risk	Risk related to an unfavorable impact of the FX rates on TAURON Capital Group's financial results.	↗ ■	<ol style="list-style-type: none"> 1. Ongoing monitoring of the risk exposure vulnerable to the FX rate risk. 2. Use of the risk limits for TAURON Capital Group's operational FX position (Value at Risk). 3. Transfer of the FX rate risk through the use of the hedging transactions in accordance with the adopted TAURON Group's Financial Risk Management Policy.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
4. Liquidity risk	Risk related to the lack of TAURON Capital Group's ability to pay its liabilities on an ongoing basis and the difficulties in accessing capital, a change in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	→ ■	<ol style="list-style-type: none"> 1. Diversification of the sources of financing including arranging guaranteed financing programs as well as securing alternative sources of financing. 2. Analyzing the market and the availability of the sources of financing. 3. Ongoing communications with the financial institutions. 4. Arranging financing agreements in advance of the time the funding is needed. 5. Monitoring the financial liquidity and planning the use of the available sources of financing. 6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company.
5. Financing risk	Risk related to the difficulties in accessing capital, a change in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	→ ■	<ol style="list-style-type: none"> 1. Diversification of the use of the available sources of financing by using the financing instruments that reduce the risk of breaching the covenant in the form of the net debt / EBITDA ratio (for example hybrid bonds, factoring). 2. The use of the instruments without financial covenants and limiting the number of the conditions that breach such covenants. 3. Ongoing communications with the financial institutions. 4. Pre-emptive activities with respect to obtaining approvals from the financial institutions to carry out the transactions or activities specified in the financing agreements. 5. Identification of the events that may potentially affect the breach of the financial contracts and taking pre-emptive actions to mitigate the negative impact of the emergence of such an event. 6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company. 7. Taking actions aimed at reducing the net debt and/or increasing the EBITDA based on the decisions of the Risk Committee or the Management Board of the Company.
6. Tax risk	Risk related to the incorrect or untimely payment of the tax obligations.	→ ■	<ol style="list-style-type: none"> 1. Activities in accordance with the legal regulations (Corporate Income Tax Act). 2. Issuing opinions (providing feedback) on the economic events by TAURON Capital Group's tax advisors. 3. Jointly agreed upon positions at TAURON level. 4. Applying uniform accounting principles for the companies (subsidiaries) within the PGK (Tax Capital Group). 5. Preparation of the tax documentation for the transactions between the PGK companies and the related entities outside PGK, requiring such documentation in accordance with the CIT Act, and auditing other transactions in order to confirm that they are concluded at arm's length.
7. Credit risk	Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty (business partner, contractor) that may turn out to be insolvent.	→ ■	<ol style="list-style-type: none"> 1. Regular monitoring of the financial standing of the counterparties (business partners, contractors). 2. Periodic (regular) customer scoring, credit rating of each customer prior to submitting an offer / concluding a contract. 3. Use of the protection mechanisms (hedging) in the commercial agreements
Environment (stakeholders)			
8. Reputational risk	Risk related to the current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash, including the risk related to not following the market trends related to the climate protection.	→ ■	<ol style="list-style-type: none"> 1. Continuous monitoring of the Company's external and internal threats. 2. Media monitoring, developing the contacts and relationships with the media within TAURON Capital Group. 3. Preparing the procedures for the Company's communications with the external and internal environment (stakeholders). 4. Striving to change the business profile to zero and low emission (carbon). 5. Adoption and implementation of: <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>, <i>TAURON Group's Anti-corruption Policy</i>, <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i>, <i>TAURON Group's Diversity Policy</i>, <i>TAURON Group's Respect for Human Rights Policy</i>

Risk name	Risk description	Risk trend and materiality	Reaction to risk
9. License risk	Risk related to the lack of the possibility to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held, as well as the unfavorable legal changes with respect to the licensed operations.	→ ■	<ol style="list-style-type: none"> Ongoing control (checking) of the correct fulfillment of (compliance with) the licensing obligations. Monitoring the changes to the legal acts with respect to the licensing obligations. Legal support for the license extension and process.
10. Macroeconomic risk	Risk related to a change in the economic situation of the country, the instability of the financial markets resulting in a decrease of the demand for electricity.	↗ ■	<ol style="list-style-type: none"> Diversification of the revenue sources. Market analysis and the application of the pre-emptive actions for the anticipated crisis (downturn) or a slowdown of the GDP growth rate.
11. Climate change risk	Risk related to the tightening of the EU climate policy, as well as the environmental requirements resulting from the climate change, activities supporting energy efficiency (expansion of the prosumer development, support for the thermal insulation, construction of in-house energy and heat sources, departure from coal as fuel), change in the conditions of TAURON Capital Group's operations (the need to adapt the company to the challenges of change resulting from the climate change). The implications of the risk include: difficulties or increase in the cost of raising capital to finance operations based on the fossil fuels, the need to incur additional capital expenditures for adapting the assets to the environmental requirements, an increase of the price of the CO ₂ emission allowances, declining demand for the products offered by TAURON Capital Group's subsidiaries.	↗ ■	<ol style="list-style-type: none"> Application of <i>TAURON Group's Climate Policy</i>. Defining, updating and implementing the Strategy. Update of <i>TAURON Group's Strategic Research Agenda</i>. Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from <i>TAURON Group's Climate Policy</i> and the Investment Strategy. Active participation in the works of the teams issuing opinions (providing feedback) on the projects and proposing optimal solutions. Active searching for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on climate change. Promoting eco-mobility or climate-neutral mobility. Gradual adaptation of the production assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as the zero and low emission electricity generation technologies. Cooperation with the business and social partners with respect to the adaptation to climate change.
Technology, infrastructure and security (safety)			
12. Environmental risk	Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would enable the prevention of excessive pollution, damage, disruption or failures of the installations or equipment that would have a negative impact on the environment. The risk also related to the possibility of: lack of the validity of environmental decisions, depositing waste in places not intended for such purpose or not in accordance with the conditions of the use of the facilities intended for such a purpose, the occurrence of a crisis situation (for example fire, displacement of earth masses, extreme conditions), the use of the waste not in accordance with the authorized destination (intended use), the lack of the appropriate safeguards limiting the negative impact of TAURON Capital Group's operations on the environment, release of the hazardous substances into the environment, social protests. The implications of the risk include: degradation of the natural environment and penalties for a failure to comply with environmental requirements, the need to remove such substances, the curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that would prevent their use, destruction of a habitat, object or valuable natural area - environmental compensation, restrictions on a further expansion of the business operations, a loss of the image of TAURON Capital Group, limitation of the ability to use the financial assistance programs. The risk also includes an increase in the environmental requirements due to the tightening of the EU's climate policy.	→ ■	<ol style="list-style-type: none"> Adoption and implementation of <i>TAURON Group's Environmental Policy</i>. Conducting business operations that affect the environment in accordance with the principles of the sustainable development. Ongoing supervision over compliance with the conditions of the environmental decisions. Maintaining the required efficiency of the devices reducing the emissions of pollutants. Frequent evaluation of the compliance of the activities with the legal requirements with respect to environment protection. Implementing investment projects in the environment protection area in order to minimize the adverse impact of the mining and processing operations conducted on the environment and climate. Active searching for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on climate change.
13. Weather risk	Risk related to the more frequent occurrence of the weather anomalies, including relatively high temperatures in winter, higher rainfall intensity that can cause floods at any time of the year, uneven precipitation, resulting in longer periods of no rainfall, intermittent abrupt rainfall, and the intensification of the evaporation processes, increased frequency	→ ■	<ol style="list-style-type: none"> Upgrading (refurbishing) the hydroelectric structures aimed at optimizing the utilization of the hydro resources. Preparing the plans of the overhauls, inspections and maintenance activities with the flexible provisions on the deadlines for completing the works.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
	and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings, more frequent occurrence of droughts and restrictions in access to water related thereto, as well as an increased risk of fires, a very high risk of weakening of the stands, making trees more susceptible to the damage caused by the wind. The implications of the risk include, in particular: a decrease of the volume of electricity and heat supply, a decline of the production volume, the deterioration of the quality indicators and an impact on the regulated revenue.		<ol style="list-style-type: none"> 3. Continuous monitoring of the wind conditions and icing on the wind farms' blades. 4. Continuous technical oversight over the operation of the individual wind farms, conducted by the companies operating the farms. 5. Monitoring and analyzing the new technological solutions that reduce the impact of the adverse weather conditions on the volume of the electricity generated. 6. Gradual adaptation of the production assets to the consequences of the extreme weather conditions and the variability of the weather conditions, in particular in the Lines of Business sensitive to these factors.
14. Company asset failure risk	Risk related to the machinery and equipment failures, distribution grid failures (electricity, heat) caused, among others, by the operation thereof, but also by random (fortuitous) events including those related to the extreme weather conditions (storms, floods, hurricane winds, heat waves, fires) as a consequence of, among others, the climate change. The materialization of the risk affects the availability of the assets and results in downtime related to the asset failures, increased costs of the rectification thereof. In addition, it may also be a failure to meet the capacity obligation, resulting in the need to conclude transactions on the secondary market or the payment of the financial penalties to the TSO (PSE).	↗ ■	<ol style="list-style-type: none"> 1. Optimizing the capital expenditures on asset replacements, ongoing monitoring of the condition of the machines, devices and installations. 2. Raising the professional qualifications and the work culture of the personnel by organizing courses and training. 3. Responding to an emergency situation by the technical personnel and the automatic process safety interlocks (safeguards). 4. Insuring the assets against fortuitous events (excluding underground assets). 5. Introducing the IT tools with respect to improving the monitoring and managing the failure indicators (rates, ratios). 6. Continuous monitoring of the availability (dispatchability) of the generation units and the demand reduction, as well as shifting the capacity obligations that require reserving to the dedicated intra-group reserve units or the external entities. 7. Updating the activities related to the handling of the group reserve, with the particular emphasis on the analyses of the functioning of the secondary market starting from January 2021. 8. Updating TAURON Capital Group's maintenance (overhaul) shutdowns (outages). 9. Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Distribution Line of Business.
15. IT risk	Risks related to the IT infrastructure security, failures of the IT infrastructure.	→ ■	<ol style="list-style-type: none"> 1. Developing and maintaining the plans aimed at ensuring the continuity of the IT infrastructure's operation. 2. Periodic identifying and categorizing of the IT resources based on the service restoration targets. 3. Use of the IT solutions with the appropriate technical parameters, providing an acceptable level of reliability and performance of the operation (including also the UPS devices, GSM modem, mobile phones). 4. Planning and conducting the training courses on the IT infrastructure's continuity of the operation and security. 5. Storing and protecting the back-up data.
16. Asset (property) security and protection risk	Risk related to compromising the integrity of the machines / devices and to the security of the information, including its improper processing and unauthorized disclosure.	→ ■	<ol style="list-style-type: none"> 1. Monitoring the implementation of the developed plans to protect the facilities that are subject to the mandatory protection. 2. Maintaining and updating the contingency procedures / plans. 3. Oversight over the compliance with the information security rules in force. 4. Regular personnel training with respect to the security procedures in force.
17. Geological risk	Risk related to the impact of the geological factors on the mining operations	→ ■	<ol style="list-style-type: none"> 1. Making test drillings for the better intelligence on the positioning of the coal deposits. 2. Continuing to take preventive measures in the areas under threat in order to improve the geological and mining conditions and to provide the protection against the natural threats (including, among others, the long-drilled blasting hole shooting in order to break the rock mass)
Workforce and organizational culture			
18. Social dispute risk	Risk related to the collective disputes, strikes, social conflicts being the consequence of a lack of the personnel's satisfaction with the economic and social situation.	→ ■	<ol style="list-style-type: none"> 1. Conducting the public consultations regarding the planned changes. 2. Conducting a policy of dialogue with the social partners (workforce). 3. Preparing and implementing the motivational solutions for the personnel.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			<ol style="list-style-type: none"> 4. Standardizing the tasks and the requirements towards the personnel. 5. Developing the organizational culture based on the values. 6. Conducting the active internal communications on the personnel matters
19. Human resources risk	Risk related to the employee issues, including also the diversity, participation, employment and the labor conditions, relations with the trade unions and respect for the right to freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to the climate change, forcing a change in the profile of the business operations. The materialization of the risk may result in interruptions or disruptions to the operations, employee complaints, collective disputes, strikes, loss of specialized staff and the difficulties in the recreating thereof.	→ ■	<ol style="list-style-type: none"> 1. Adoption and implementation of <i>TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy</i>. Adoption and implementation of <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>. 2. Taking care of developing the personnel competences, including through the participation in the training courses 3. Conducting the consultations with the social organizations at TAURON Capital Group 4. Implementation of the human resources policy based on <i>TAURON Group's Competence Model</i> and the applicable remuneration and labor law regulations (Compensation Regulations, Company Collective Bargaining Agreement, Labor Regulations).\ 5. Adoption and implementation of <i>TAURON Group's Diversity Policy</i> and <i>TAURON Group's Respect for Human Rights Policy</i>.
20. Risk of the lack of the employees' due diligence	Risk related to the non-compliance with the procedures and the lack of the employees' due diligence in the performance of the official duties.	→ ■	<ol style="list-style-type: none"> 1. Implementation of <i>TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy</i>, 2. Systematic periodic employee training, 3. Analysis of the recurring cases of the errors and mistakes of the employees, taking systemic remedial actions. 4. Implementation of the Internal Control (Audit) System and the control (audit) mechanisms for the processes conducted at TAURON Capital Group.
21. Pandemic risk	Risks related to the persistence of the pandemic disrupting Poland's economic system and administration and causing significant changes in the market environment, impacting the operating conditions of TAURON Capital Group's subsidiaries. The increase in the number of infection cases leads to the curtailment of the economic activity, affecting the level of demand for the products offered by TAURON Capital Group's subsidiaries, including, in particular, the electricity distribution and supply volumes. An additional risk factor is inflow of migrants from Ukraine (military conflict).	→ ■	<ol style="list-style-type: none"> 1. Monitoring the state (condition) of the epidemiological threat (risk) at TAURON Capital Group. 2. Collecting the information on the threats and identification of the potential threats to the security and safety of the workforce of TAURON Capital Group's subsidiaries. 3. Developing and recommending the solutions aimed at reducing the level of threat (hazard) to the resources of TAURON Capital Group. 4. Ongoing monitoring of the risk related to the availability of the employees and services provided by TAURON Capital Group's subsidiaries. 5. Recommending the solutions aimed at curbing the effects of the materialization of the threat (hazard) to the resources of TAURON Capital Group. 6. Preparing and providing opinions (feedback) on the content of the messages to be disseminated at the level of TAURON Capital Group and the Company. 7. Use of the screening tests 8. Preparing of the contingency plans in the event of the loss of the key employees of TAURON Capital Group. 9. Developing the backup business continuity plans. 10. Undertaking the trading activities in order to balance the buy position on an ongoing basis in relation to the observed drops in the volume of electricity sales. 11. Taking advantage of the market opportunities to hedge the position in the Generation Line of Business (buy-backs). 12. Taking advantage of the anti-crisis shield mechanisms. 13. Increasing the frequency of monitoring the overdue accounts receivable. 14. Introducing additional guidelines with respect to taking credit risk and extending the scope of the customer financial condition examination (vetting). 15. Introduction of a mechanism for monitoring and curbing spending.
22. Work Health and Safety (WHS) Risk	Risk related to ensuring the health and safety at work. The materialization of the risk results in an employee injury, a loss of health or excessive exposure of an employee to the factors harmful to health, the compensation paid out for a personal injury.	→ ■	<ol style="list-style-type: none"> 1. Prioritizing the safety and security of the employees, customers, contractors and stakeholders in the business activities undertaken 2. Adoption and implementation of <i>TAURON Group's WHS Policy</i>, 3. Ensuring the optimal labor conditions,

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			<ol style="list-style-type: none"> 4. Conducting active monitoring of the working conditions and the correctness of the organization thereof, 5. Raising the employees' qualifications with respect to improving the work (labor) safety, 6. Conducting the training courses, implementing and improving the WHS management system
23. Communications risk	Risk related to providing the inaccurate, untrue information or a lack of the information disclosure at a specific time.	→ ■	<ol style="list-style-type: none"> 1. Building the relationships with the social partners (workforce) of TAURON Capital Group and the close cooperation with the Social Dialogue Ombudsman. 2. Use and development of the available communications tools to provide the relevant information to the employees of TAURON Capital Group. 3. When providing the relevant information – organizing the direct meetings between the management team and the employees. 4. Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social discontent. 5. Regular periodic meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange the information. 6. Developing the Communications Strategy for TAURON Capital Group
Compliance			
24. Internal fraud risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, the use of the official position for personal gain resulting in the financial losses, criminal and administrative sanctions, criminal and civil law liability.	→ ■	<ol style="list-style-type: none"> 1. Educational and training activities for the employees, including the mandatory e-learning training with respect to TAURON Group's Compliance Management System. 2. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 3. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators. 4. Building the organizational culture based on TAURON Capital Group's values and principles. 5. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>, <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and <i>TAURON Group's Rules for accepting and giving gifts</i>.
25. External fraud (abuse) risk	Risk related to the occurrence of an external fraud (abuse) that affects the operations of TAURON Capital Group through: the disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attack and hacker attacks, tax fraud, theft, vandalism, counterfeiting, money laundering, terrorist attack.	→ ■	<ol style="list-style-type: none"> 1. Raising the employees' awareness through the training and information campaigns related to the existing threats of external fraud (abuse). 2. Adoption and implementation of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries</i>. 3. Introduction of the anti-corruption clauses to the contracts with the contractors (counterparties). 4. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>. 5. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 6. Monitoring of the cooperation with the contractors (counterparties) and testing their credibility at TAURON Capital Group. 7. Promoting of the best practices, improving the procedures, conducting training courses and applying <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and the functioning of the abuse (fraud) reporting (whistleblowing) system. 8. Building the organizational culture based on TAURON Capital Group's values and principles.
26. Risk of unethical behavior and mobbing	Risk related to the occurrence of unethical behavior resulting, in particular, in the lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of the employees.	→ ■	<ol style="list-style-type: none"> 1. Adoption and implementation of <i>TAURON Group's Respect for Human Rights Policy</i>, <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>, <i>TAURON Group's Anti-Corruption Policy</i> and <i>TAURON Group's Rules for accepting and giving gifts</i>. 2. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 3. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators with respect to the anonymous reports of the mobbing and discrimination. 4. Reviewing of the reports of mobbing or discrimination by the Ethics Committee.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			<ol style="list-style-type: none"> Promoting of the best practices, improving the procedures, conducting training courses and applying <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and the functioning of the abuse (fraud) reporting (whistleblowing) system. Building the organizational culture based on TAURON Capital Group's values and principles.
27. Legal risk	Risk related to the non-compliance with the legal provisions, misinterpretation of the new laws and regulations, the requirements imposed by the regulator and the supervisory authorities. The materialization of the risk may result in the financial penalties, criminal and civil law liability, a loss of the image of TAURON Capital Group.	→ ■	<ol style="list-style-type: none"> Adoption and implementation of <i>TAURON Group's Compliance Policy</i>. Continuous monitoring of the legal environment and changes to the legal regulations with respect to the non-sector regulations related to the information security or the area of compliance in order to minimize the risk of non-compliance. Monitoring of the implementation process or implementing of the changes to the internal regulations required by the law. Setting up or participating in the working groups tasked with adapting the organizations to the changes stemming from the legal environment. Consultations with the relevant organizational units with respect to the planned key regulations for the area of compliance. Training of the personnel with respect to the changes to the legal regulations and the internal regulations.
28. Risk of a breach of the contractual provisions (default)	Risk related to a breach of the contractual provisions with respect to the contract parameters or a failure to perform the contract (default).	→ ■	<ol style="list-style-type: none"> Updating and adapting the contract templates to the legal changes. Monitoring of the complaints and proceedings of the Energy Regulatory Office (URE) / Office of Competition and Consumer Protection (UOKiK). Process optimization.
29. Personal data protection risk	Risk related to the inadequate storing and processing of personal data resulting in an undesirable leak or violation of the rights of the data subjects related to personal data protection	→ ■	<ol style="list-style-type: none"> Identifying and implementing the appropriate technical or organizational measures to ensure the adequate level of security of the personal data. Monitoring the compliance with the legal regulations related to the personal data protection. Raising the level of awareness of the workforce with respect to the personal data protection, in accordance with the applicable regulations. Defining and implementing the process of handling the data subjects' requests in accordance with the regulations in force at TAURON Capital Group and the process documentation. Providing the information and advice on the personal data protection to the employees of the organization.
Customers and counterparties (business partners, contractors)			
30. Customer service risk	Risk related to the non-compliance with the customer service standards leading to customer dissatisfaction with the service, customer complaints, loss of customers.	→ ■	<ol style="list-style-type: none"> Monitoring and analyzing the external customer satisfaction indicators and the indicators related to the complaints. Undertaking the additional measures, for example with respect to the internal regulations, defining the standards of conduct as a result of the analysis of the indicators. Undertaking the additional measures, for example introducing the new internal regulations, in order to improve the customer service standards. Developing the key account managers' competences and skills. Continuous raising of the customer service standards.
31. Risk related to performance of agreements by contractors and subcontractors	Risk related to the improper performance by the contractors and subcontractors of the works commissioned, the termination of the agreement and delays, changes to the budget and scope related thereto.	→ ■	<ol style="list-style-type: none"> Concluding of the agreements with the contractors and subcontractors in accordance with TAURON Capital Group's standards. Analyzing the performance of the subject of the agreement, examining the quality of services provided by the contractors and subcontractors. Evaluating the financial standing and credibility of the contractors and the subcontractors.
32. Volume and margin risk	Risk related to the decline in the volume of the sales of the products offered by TAURON Capital Group's subsidiaries, in particular as a result of the development of the energy efficiency solutions, building insulation, prosumer development (growth), the impact of the climate factors causing a significant temperature deviation from the planned values. The implications of the risk include, first of all, the loss of revenue in the individual	→ ■	<ol style="list-style-type: none"> Ongoing updating of the offering, launching of the sales of the multi-package type products. Conducting the marketing campaigns, acquiring the new customers. Taking actions focused on retaining the existing customers and recovering the lost ones.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
	operating segments of TAURON Capital Group due to the reduced demand.		
33. Purchasing process risk	Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, including the methods used to prevent the violations of the human rights by the business partners, counteracting corruption and abuse (fraud) in the purchasing process and compliance with the ethical and moral standards during the implementation thereof. The materialization of the risk results in unfavorable purchase agreements, the need to cancel the tender procedures, a loss of the image of TAURON Capital Group and its credibility with the stakeholders.	→ ■	<ol style="list-style-type: none"> 1. Adoption and implementation of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's subsidiaries</i>. 2. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i> and <i>TAURON Group's Respect for Human Rights Policy</i>. 3. Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof. 4. Building lasting relationships with the contractors (counterparties) based on trust and mutual respect. 5. Expecting the contractors (counterparties) to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of countering discrimination and unequal treatment, respect for human rights and dignity of the employees, transparent personnel policy, environment protection, fair competition, preventing and combating fraud, as well as information security and protection. 6. Application of the contract forms (templates) and standard clauses in the contracts regarding the compliance with the human rights by the business partners of TAURON Capital Group.
Regulations			
34. Regulatory risk	Risk related to the change of the existing regulations or the introduction of the new regulations that affect the operations of TAURON Capital Group and the need to adapt to the regulatory changes, in particular those resulting from a significant increase in the requirements of a specific regulation, including the environmental requirements stemming from the climate change, the support for the pro-climate activities (prosumer development, thermal insulation, development of in-house production sources). The implications of the risk are primarily: the loss of revenues in the individual operating segments of TAURON Capital Group, the increase in the operating expenses as a result of the need to adapt to the legislative changes.	↗ ■	<ol style="list-style-type: none"> 1. Ongoing analysis of the draft regulations and acts. 2. Active participation in the works of the teams providing opinions on the drafts and proposing the optimal solutions. 3. Gradual adaptation of the generation assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as to the zero and low emission electricity generation technologies.
■ Low materiality ■ Moderate materiality ■ Medium materiality ■ High materiality			

3.5. Risk classification in the individual operating Segments

Mining Segment

The Mining segment, in particular with respect to the hard coal mining, is exposed to a number of risk factors, the materialization of which significantly hinders or completely reduces the mining capacity at the individual coal mines. The most material operational risks include:

1. risk of adverse geological and mining conditions characterized by, for example unfavorable positioning of the coal deposits in the coal seam, faults, or excessive presence of the rocks (stone),
2. risk of the lack of the timely commissioning of the coal faces involving the lack of the preparation of the mining fronts (headings) adequately in advance,
3. risk of asset failures leading to the coal mining downtime, due to the occurrence of the machinery and equipment failures,
4. risk of the occurrence of natural geological and mining threats leading to the coal mining downtime, caused by the rock bursts, endogenous fires, presence of methane in the deposit, too much water inflow.

The material risks in the Mining Segment also include threats stemming from the regulatory environment, including the gradual introduction of the new environmental requirements tightening the emission standards for the coal fired power plants, which will result in a decline of the demand for coal with the low quality parameters.

In the subsequent years the Mining Segment will also be materially affected by the climate policy that assumes a departure from the coal based generation technology in order to reduce pollution and achieve climate neutrality in the EU in the long term, which will, in effect, lead to the need to gradually phase out coal production. The withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investment projects in the Mining Segment. In connection with the above and the need to gradually phase out the production, the material risks in the

subsequent years will include the effects of both the technological as well as the social restructuring (planned spinning off of the mining assets from TAURON Capital Group).

In the short-term, in 2021, a significant increase in electricity demand and changes in the market environment were observed, which translated into an increase in the demand for the hard coal, favorably affecting the results of the Mining Line of Business.

Generation Segment

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

As part of the market risk, the material risk factors include: the high volatility of the CDS margin (in the short term) and in the long term the curtailing of the CDS margin as well as the plans to integrate the European electricity market. In addition, the development of the renewable energy technologies and the ever growing share of RES in meeting the demand for electricity have a material impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market. Also, the progressing integration of the European electricity markets and the introduction of the new capacity into the system, with the efficiency much higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be declining.

A strong surge in the electricity demand was observed in 2021, and as a consequence, a rise in the demand for electricity generation based on the hard coal. The situation observed caused the disturbances in the supply of this fuel on both the Polish as well as the European market. As a consequence, the risk of maintaining the required strategic hard coal inventory levels in stock has increased.

With respect to the operational factors, the most material threat is the risk of not achieving the planned availability rate (dispatchability) of the units, which is closely related to the individual units' failure rate, high variability of the units' loads and the higher frequency of start-ups or the use of the inadequate quality fuel.

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

The Generation Segment's operations are also materially impacted by the climate factors, including the EU's climate policy, that assumes the ultimate departure from the coal fired generation technology in order to reduce pollution, which, as a consequence, will cause a drop in the profitability of this operating segment. In addition, the climate factors may lead to an increase of the average temperature during the year, leading, in turn, to the reduction of the revenue from the heat supply. Furthermore, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investment projects in the Generation Segment.

In the longer term, the regulatory risks, including the further tightening of the environmental requirements, will lead to the need to carry out the transition of the Generation Segment, both in terms of the technical, as well as the social aspects (the government program of spinning off of the generation assets based on the hard coal into a separate entity is under way). The introduced and announced changes in the functioning of the balancing market, which may affect the costs of balancing the changes in the volume of the sales to the Supply Line of Business customers, also represent the material regulatory risks.

RES Segment

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

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

The results of the RES Segment are also impacted by the efficiency rates of the assets and the risk of their failure related thereto, and thus the temporary outages of some of the assets from use.

The existing RES Segment's expansion opportunities and expectations, including those stemming from the climate policy, are grappling with the regulatory restrictions related, in particular, to the construction of the new wind farms, as well as the uncertainty with respect to the taxation of the RES assets.

Distribution Segment

One of the most important threats to the Distribution Segment is the distribution services sales volume risk related to the electricity supply volume, and, as a consequence, the fluctuations of the revenue from the provision of the distribution services to the individual groups of consumers. The material reasons behind this risk include both the macroeconomic factors, i.e. a decline of the demand for the electricity due to the economic slowdown, the epidemiological situation, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing energy consumption intensity and the rapid growth of the prosumer energy.

An equally material risk is associated with the occurrence of an unfavorable deviation of the operating expenses related to the costs of the operations, and in particular the operating expenses and the costs of purchasing electricity to cover the balancing difference, not being covered by the tariff during the tariff period.

With respect to the operational factors, a material risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs related to the fixing of the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the extreme weather occurrences, such as hurricanes, hoar frost, strong winds incidentally accompanied by the tornadoes and lightnings causing failures of the distribution grids.

In the medium and long term, the material risks for the Distribution Segment include the regulatory risks, including the ones related to an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the amount of the capital expenditures, the balancing difference indicators and the amount of the transmission fees), the issues related to the compliance with the distribution's quality indicators that have an impact on the regulated revenue and the planned change to the distribution tariff model.

A threat to the Distribution Segment is also the credit risk, understood as a failure of the contractors (counterparties) to meet their obligations arising from the sale of the electricity and gas. The uncertainty and the fluctuations on the market may lead to an increase of the insolvency of TAURON Capital Group's contractors (counterparties). In order to reduce the potential financial losses, the stricter criteria of the credit risk management are applied, the monitoring of the account receivables and the debt collection activities have been intensified.

Supply Segment

In the Supply Segment, TAURON Capital Group identifies and manages the risks related to the supply of electricity to the final consumers, including also the key customers (the volume risk per individual customer segment, margin risk, profile risk and the risk of non-balancing).

A material threat to the accomplishment of the Supply Segment's assumed goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the macroeconomic factors, i.e. a drop of the demand for the electricity caused by the economic slowdown, the restrictions due to COVID-19 as well as the volatility of the electricity prices. In addition, this risk is fueled by the increased customer awareness, the trend to strengthen consumer rights protection and the regulatory pressure to curb the increases of the electricity and prices for the final consumers.

At the same time, the market risk due to the high volatility of the electricity, gas and the related products prices is a threat for the Supply Segment. Such risk, as a consequence of the price fluctuations, as well as the observed liquidity of the electricity market, has an impact on the margin obtained due to the steps required to hedge the cost of the electricity supply.

A material threat (risk) to the Supply Line of Business is also posed by the credit risk understood as a failure of the counterparties (contractors) to meet their obligations arising from the electricity and gas sales. The uncertainty and the fluctuations on the market may cause a significant increase in the insolvency of the counterparties (contractors) of TAURON Capital Group. In order to cap (limit) the potential financial losses, the stricter criteria of the credit risk management are applied and the activities related to the monitoring of the accounts receivable and the debt collection have been intensified.

One of the most important regulatory risks in the Supply Segment is the tariff risk, in particular related to the curbing of the Company's costs by the President of the Energy Regulatory Office (ERO) to the level of the justified costs and the costs actually incurred not being fully covered by the tariff for the given year. The consequence of the materialization of such a risk is the curtailment of the planned revenue, profitability and funds for the development of the Company's potential. Particular attention is paid to the increased significance of this risk in 2021 and in the subsequent years due to the observed sharp increase in the electricity and gas prices on the European market.

A material regulatory risk is also posed by the introduced and announced changes in the functioning of the balancing market, which may affect the costs of balancing the changes in the supply volume to the customers of the Supply Segment.

In the long run, the climate factors, and in particular the rapid expansion of the prosumer energy, pose a threat to the stability (predictability) of achieving the Supply Segment's goals. The risk of the prosumer market growth is

associated with an increase in the electricity production from the micro installations, resulting in an increase of the costs of serving the prosumers, as well as a loss of the supply volume and the planned margin on the electricity supply.

Other operations

The other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other Operations segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, personal data protection, as well as the security and protection of property.

At TAURON Capital Group's level, some of the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing resulting from the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, the risks associated with the human resources management and the workforce expectations with respect to the growth of wages, as well as the pending court litigations against TAURON.

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

Risk category map

The below table presents the classification of risks based on TAURON Capital Group's operating segments. The risk categories indicated below are consistent with the Risk Model adopted by TAURON Capital Group described in section 3.2. of this report.

Table no. 26. Classification of risks based on TAURON Capital Group's operating segments

Risk	Term			Operating Segment1					
	Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
1. Market risk	x	x	x	3	5	5	3	5	0
2. Interest rate risk	x	x	x	2	2	3	4	2	3
3. FX rate risk	x	x	x	1	3	3	2	0	3
4. Liquidity risk	x	x	x	3	3	2	2	2	2
5. Financial risk	x	x	x	5	5	3	3	3	3
6. Tax risk	x			3	3	3	3	3	3
7. Credit risk	x	x		1	1	1	3	4	1
8. Reputational risk	x	x	x	1	1	1	2	2	1
9. License risk	x	x	x	3	3	3	3	3	0
10. Macroeconomic risk	x	x	x	4	4	3	4	4	2
11. Climate change risk	x	x	x	5	5	4	4	4	3
12. Environmental risk	x			2	2	2	1	0	0
13. Weather risk	x			1	2	3	3	2	0
14. Company asset failure risk	x			4	5	3	4	0	1
15. IT risk	x			3	3	2	3	3	4
16. Asset (property) security and protection risk	x			2	3	2	3	1	2
17. Geological risk	x			5	0	0	0	0	0
18. Social dispute risk	x			4	4	2	4	2	2
19. Human resources risk	x	x		3	3	2	3	2	2
20. Risk of the lack of the employees' due diligence	x			2	2	2	2	2	2

Risk	Term			Operating Segment1					
	Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
21. Pandemic risk	x	x	x	4	5	3	5	2	3
22. Work Health and Safety (WHS) Risk	x			3	3	2	3	1	1
23. Communications risk	x			2	2	1	2	2	2
24. Internal fraud risk	x			2	2	2	2	2	2
25. External fraud risk	x			3	3	3	3	3	3
26. Risk of unethical behavior and mobbing	x			2	2	2	2	2	2
27. Legal risk	x			3	3	2	3	3	2
28. Risk of a breach of the contractual provisions (default)	x			2	2	2	2	2	2
29. Personal data protection risk	x			2	2	2	3	3	3
30. Customer service risk	x			1	1	0	3	3	1
31. Risk related to performance of agreements by contractors and subcontractors	x			2	4	2	2	1	2
32. Volume and margin risk	x	x		5	5	4	5	5	2
33. Purchasing process risk	x			2	2	2	3	1	2
34. Regulatory risk	x	x	x	5	5	3	4	4	2

¹values signifying the impact of the individual risks on TAURON Capital Group's Operating Segments: 0 - neutral, 1 – immaterial on the Company (subsidiary) level, 2 - material on the Company (subsidiary) level, 3 - serious (severe) on the Company (subsidiary) level, 4 – material on TAURON Capital Group level, 5 – serious (severe) on TAURON Capital Group level

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

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

Statement of comprehensive income

The below table presents the annual standalone statement of comprehensive income in 2020-2021, drawn up in accordance with the IFRS. Poniższa tabela przedstawia roczne jednostkowe sprawozdanie z całkowitych dochodów w latach 2019-2020 sporządzone według MSSF.

Table no. 27. Annual standalone statement of comprehensive income in 2020-2021 drawn up in accordance with the IFRS

Statement of comprehensive income drawn up in accordance with the IFRS (PLN '000)	2020	2021	Change in % (2021 / 2020)
Sales revenue	11 340	18 216	161%
Own cost of goods, materials and services sold	(12 101)	(18 042)	149%
Gross profit (loss) from sales	(761)	174	-23%
Cost of sales	(21)	(25)	119%
Overheads	(118)	(101)	86%
Other operating revenues and costs	(10)	(3)	30%
Operating profit (loss)	(910)	45	-5%
Operating profit margin (%)	-8.0%	0.2%	-3%
Financial revenue	1 407	2 099	149%
Costs of interest on debt	(410)	(330)	80%
Revaluation of stocks and shares	(1 644)	(1 399)	85%
Revaluation of bonds and loans	(1 453)	(298)	21%
Other financial revenues and costs	(180)	119	-66%
Pre-tax profit (loss)	(3 190)	236	-7%
Pre-tax profit margin (%)	-28,1%	1,3%	-5%
Income tax	(62)	24	-39%
Net profit (loss)	(3 252)	260	-8%
Net profit margin (%)	-28.7%	1.4%	-5%
Other net comprehensive income	(95)	380	-400%
Total comprehensive income	(3 347)	640	-19%
EBITDA	(895)	57	-6%
EBITDA margin (%)	-7.9%	0.3%	-4%

The Company reported an operating profit of PLN 45 million in 2021, the result posted was higher than the result achieved in 2020, primarily as a consequence of the need to set up, in 2020, the provision for the onerous contract, i.e. the multi-year agreement for the purchase of the electricity generated by the 910 MW unit in Jaworzno in the amount of PLN 1 110 million.

In 2021, similar as in 2020, the impairment charges related to the carrying value of the stocks and shares in the subsidiaries were recognized in the financial results, due to the completed impairment tests related to the loss of the carrying amount of the stocks and shares in the subsidiaries as well as the bonds and loans as of June 30, 2021 and as of December 31, 2021.

The Company disclosed the information on the above event in the regulatory filings (current reports): no. 5/2022 of March 3, 2022 and no. 35/2021 of August 26, 2021.

Revenue

The below table presents the Company's sales revenue in 2020-2021.

Table no. 28. Company's sales revenue in 2020-2021

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)
Total revenue	12 917	20 472	158%
Sales revenue	11 340	18 216	161%
Revenue from sales of goods and materials:	11 199	17 841	159%
Electricity (without excluding excise tax)	10 514	14 816	141%
Gas	333	600	180%
Greenhouse gas emission allowances	340	2 411	709%
Other	12	14	117%
Revenue from sales of services:	141	375	266%
Trading services sales	108	138	128%
Other	33	237	718%
Revenue from other operations	6	2	33%
Revenue from financial operations	1 571	2 252	143%
Revenue from dividend	1 082	1 852	171%
Revenue from bonds and loans interest	325	247	76%
Other financial revenue	164	153	93%

Revenue from the sales of goods and materials represents 87% of the total revenue, while financial revenue represents 11%, which is a consequence of the implemented Business Model and centralizing of the functions by TAURON.

The goal of the adopted solution is to hedge the buy and sell positions of TAURON Capital Group's entities, to perform the function of the Market Operator and the entity responsible for the trading balancing of TAURON Capital Group's subsidiaries and to optimally manage, among others, the property rights and the CO₂ emission allowances.

A relatively large share of revenue from the bonds and loans interest is a consequence of the implemented central financing model and *TAURON Group's Liquidity Management Policy*, along with the *cash pool* mechanism put in place at TAURON Capital Group, which allows for efficient management of the finances of all of TAURON Capital Group's subsidiaries.

In the reporting period ended on December 31, 2021, the Company generated sales revenues that was 61% higher than the revenue posted in 2020, which is the result of the following factors:

1. an increase of the revenue from the sales of electricity by 41% as a result of the higher electricity sales prices (16%), as compared to 2020 and the higher sales volume (22%),
2. an increase of the revenue from the sales of the CO₂ emission allowances which is the result of the sale in 2021 of a larger volume of the allowances for the redemption needs of TAURON Capital Group's subsidiaries due to the emissions both for 2020 as well as for 2021. In addition, the higher revenue from the sales of the CO₂ emission allowances was impacted by the restructuring of the emission allowances in the portfolio of the Nowe Jaworzno Grupa TAURON subsidiary due to the delay in the commissioning of the generating unit and, as a consequence, the lower production output,
3. an increase by 80% of the revenue from the sales of the higher gas volume (17%), along with the simultaneous increase of the prices (54%). The sales conducted are mainly aimed at securing (hedging) the agreements and contracts for the gas sales concluded by TAURON Sprzedaż and achieving a positive margin on the trading activities.

Due to its holding operations the Company is reporting material financial revenue. It stood at 2 252 million in 2021 and it was 43% higher than in 2020. The financial revenue includes dividends (82%), interest revenue on the bonds and loans (11%), other financial revenue (7%), including the valuation of the derivative instruments and the profit from the disposal (divestment) of the units.

Costs

The below table presents the level and structure of the costs incurred by the Company in 2020-2021.

Table no. 29. Level and structure of the costs incurred by the Company in 2020-2021

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)
Total costs	(16 209)	(20 330)	125%
Cost of goods, materials and services sold	(12 101)	(18 042)	149%
Costs of sales and overheads	(139)	(126)	91%
Costs of other operations	(118)	(101)	86%
Costs of financial operations	(3 851)	(2 061)	54%

The total costs of the Company's operations in 2021 represented 125% of the amount of its costs in 2020. The increase in the Company's costs was affected by the higher, by 49%, costs of the goods, materials and services sold.

The cost of goods, materials and services sold came in at PLN 18 042 million and it was higher by PLN 5 941 million as compared to 2020, with the biggest impact thereupon coming from an increase of the electricity purchase costs as a result of an increase by 22% of the electricity volume purchased at the prices higher by 16% than in 2020 and the inclusion of the costs for the performance of the capacity obligation by the generation units belonging to the subsidiaries in connection with the operation of the Capacity Market from January 1, 2021.

The costs of the financing activities came in at PLN 2 061 million and they were lower by 46% as compared to 2020, which was to, the largest extent, due to the following events:

1. recognition of the lower cost of the revaluation of the shares and stocks, which in 2021 was mainly due to the booking of an impairment charge (write down) related to the loss of the carrying amount of the shares in Nowe Jaworzno Grupa TAURON in the total amount of PLN 1 764 million and a reversal of an impairment charge (write down) related to the loss of the carrying amount of the shares in TAURON EKOENERGIA in the amount of PLN 376 million as a result of the completed impairment tests,
2. recognition of the lower net cost of the revaluation of the loans, which in 2021 was mainly due to the impairment charges (write downs) in the amount of PLN 329 million on the loans granted to a subsidiary from the Mining Segment, which were initially recognized as a component of the financial assets impaired due to risk,
3. recognition of the surplus of the positive FX exchange differences over the negative ones in the amount of PLN 14 million. These differences are related largely to the FX exchange differences in connection with the Company's liabilities due to the debt denominated in EUR. In the comparable period, i.e. in 2020, the Company recognized the surplus of the negative FX exchange differences over the positive ones in the amount of PLN 303 million.

Company's assets and financial position

The below table presents the Company's annual standalone statement of financial position, drawn up in accordance with the IFRS.

Table no. 30. Company's annual standalone statement of financial position, drawn up in accordance with the IFRS (material items)

Statement of financial position drawn up in accordance with the IFRS (PLN '000)	As of December 31, 2020	As of December 31, 2021	Change in % (2021 / 2020)
ASSETS			
Fixed assets	25 202	27 087	107%
Stocks and shares	20 857	20 560	99%
Bonds and loans granted	4 234	5 936	140%
Current assets	3 844	4 393	114%
Inventory	394	51	13%
Accounts receivable due to deliveries and services	1 383	2 868	207%
Bonds and loans granted	1 147	445	39%
Cash and equivalents	643	440	68%

Statement of financial position drawn up in accordance with the IFRS (PLN '000)	As of December 31, 2020	As of December 31, 2021	Change in % (2021 / 2020)
TOTAL ASSETS	29 046	31 480	108%
EQUITY AND LIABILITIES			
Equity	11 461	12 101	106%
Long term liabilities	13 075	10 245	78%
Liabilities due to debt	12 118	9 801	81%
Short term liabilities	4 510	9 134	203%
Liabilities due to debt	2 771	4 669	168%
Liabilities towards suppliers and other liabilities	764	2 806	367%
TOTAL EQUITY AND LIABILITIES	29 046	31 480	108%

As of December 31, 2021, the fixed assets accounted for the biggest share of the total assets (86%), where the dominating item is the value of the stocks and shares (65% of the total assets) as well the bonds as loans granted (19% of the total assets).

The biggest impact on a decrease of the value of the stocks and shares down to PLN 20 559 million came from the revaluation of the shares and stocks as a result of the completed impairment tests related to the related to the loss of the carrying amount of the stock and shares in the subsidiaries. The tests conducted as of June 30 and December 31, 2021, demonstrated that the booking of an impairment charge (write down) related to the shares in Nowe Jaworzno Grupa TAURON in the amount PLN of (1 764) million and a reversal of an impairment charge (write down) related to the shares in TAURON EKOENERGIA in the amount of PLN 376 million had been justified (legitimate).

As of December 31, 2021 and as of December 31, 2020, the equity represented, respectively, 38% and 39% of the total equity and liabilities.

The liabilities of the Company due to debt, as of December 31, 2021, were related to:

1. bonds issued under the bond issue program worth PLN 6 551 million, including the subordinated hybrid bonds in the amount of PLN 1 973 million,
2. loans obtained from the consortium of the banks in the amount of PLN 1 861 million,
3. loans obtained from BGK in the amount of PLN 999 million,
4. loans from the related entities drawn under the *Agreement on the provision of the cash pool service* in the amount of PLN 2 632 million,
5. loans obtained from the European Investment Bank (EIB) in the amount of PLN 382 million (along with the interest),
6. loans obtained from Intensa Sanpaolo S.p.A. in the amount of PLN 752 million (along with the interest),
7. loans obtained from SMBC Bank EU AG in the amount of PLN 499 million (along with the interest),
8. loan from a subsidiary in the amount of PLN 768 million,

In addition, pursuant to *IFRS 16 Leases*, the Company's liabilities due to debt also include a lease liability in the amount of PLN 25 million, related to the right of perpetual usufruct of land, leases of office premises and storage space, parking spaces and cars.

Statement of cash flows

The table below presents the statement of cash flows drawn up in accordance with the IFRS.

Table no. 31. Statement of cash flows drawn up in accordance with the IFRS (material items)

Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2020	2021	Change in % (2021 / 2020)
CASH FLOW FROM OPERATING ACTIVITIES			
Pretax profit / (loss)	(3 190)	236	-7%
Adjustments	4 096	(486)	-12%
Net cash from operating activities	906	(250)	-28%
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of stocks and shares	(691)	(31)	4%

Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2020	2021	Change in % (2021 / 2020)
Purchase of bonds	-	-	-
Loans granted	(1 934)	(1 567)	81%
Redemption of bonds	-	-	-
Repayment of loans granted	217	324	149%
Dividends received	1 082	1 852	171%
Interest received	227	208	92%
Net cash from investing activities	(1 088)	839	-77%
CASH FLOW FROM FINANCING ACTIVITIES			
Redemption of debt securities	(60)	(170)	283%
Repayment of loans / credits	(4 402)	(3 462)	79%
Interest paid	(380)	(348)	92%
Issue of debt securities	1 000	-	0%
Loans taken	3 360	2 000	60%
Net cash from financing activities	(512)	(2 009)	392%
Increase / (decrease) in net cash and equivalents	(694)	(1 420)	205%
Net FX differences	3	(3)	-100%
Cash opening balance	(49)	(743)	1516%
Cash closing balance	(743)	(2 163)	291%

The balance of cash received from the operating, investing and financing activities of the Company for 2021, taking into account the opening cash balance, stood at PLN (2 163) million. In addition, the closing cash balance presented in the Company's balance sheet as of the end of the period is the result of the adjustment of the cash that is represented by the balances of the loans granted and drawn under the *cash pool* transactions, due to the fact that they do not constitute cash flows from the investing or financing activities, as they are used mainly for the current liquidity management.

4.2. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON for 2021. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

4.3. Key financial ratios and the Alternative Performance Measures

The below table presents the key financial ratios of TAURON, which may constitute an important source of the information for the investors on the financial and operational standing of the Company. The Alternative Performance Measures below as defined by the ESMA Guidelines on the Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding the Company's financial results. They constitute the standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial standing, financial efficiency and cash flows of the Company. In 2021, there were no changes to the methodology for determining the individual indicators in relation to 2020, therefore the values of the indicators are comparable.

Table no. 32. Key financial ratios of TAURON

Item	Definition	2020	2021	Change in % (2021 / 2020)
1. Gross Profitability	Gross profit / sales revenue	(28.1)%	1.3%	-
2. Net Profitability	Net profit / sales revenue	(28.7)%	1.4%	-
3. Return on equity	Net profit / equity as of the end of the period	(28.4)%	2.1%	-

Item	Definition	2020	2021	Change in % (2021 / 2020)
4. Return on assets	Net profit / total assets	(11.2)%	0.8%	-
5. EBIT (PLN '000)	Operating profit	(910)	45	-
6. EBIT margin	EBIT / sales revenue	(8.0)%	0.2%	-
7. EBITDA (PLN '000)	Operating profit before depreciation	(895)	57	-
8. EBITDA margin	EBITDA / sales revenue	(7.9)%	0.3%	-
9. Current liquidity ratio	Current assets / short term liabilities	0.85	0.48	117%

The higher EBIT achieved by the Company in 2021, as compared to 2020, is mainly due to the need to set up the provision for the onerous contract, i.e. the multi-year agreement for the purchase of the electricity generated by the 910 MW unit in Jaworzno, in the amount of PLN 1 110 million.

The 2021 pre-tax and net financial results were impacted by the booked and reversed impairment charges related to the stocks and shares in the subsidiaries, the revaluation of the loans granted.

The amount of the operating profit is typical for a company conducting operations involving managing a holding entity (the costs related to managing TAURON Capital Group are included in the operating activities, while the revenues gained from the dividends are recognized as the items under the financial activities).

The Company's ability to pay its accounts payable was not in jeopardy in 2021.

4.4. Principles of preparing annual financial statements

The Financial Statements of TAURON have been drawn up in accordance with the IFRS approved by the EU.

The IFRS comprise the standards and interpretations approved by the International Accounting Standards (IAS) Board as well as the International Financial Reporting Standards Interpretations Committee.

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

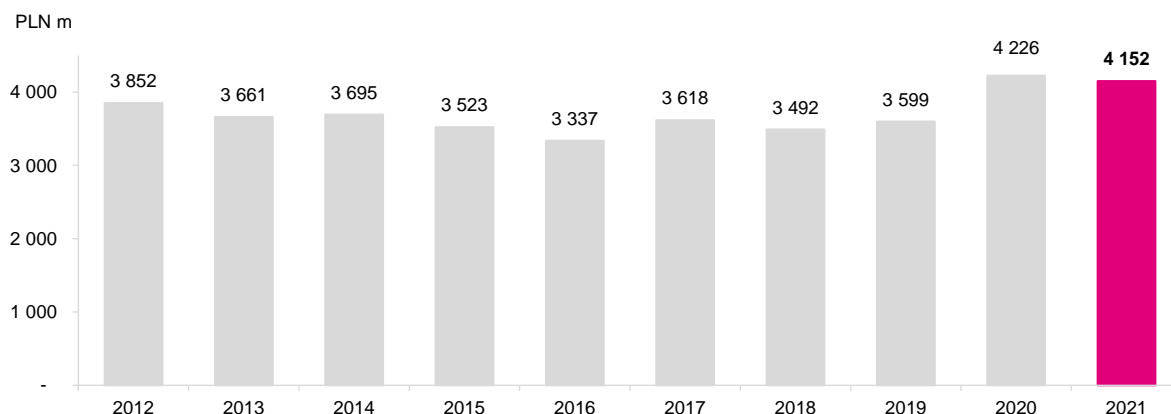
The accounting principles (policy) adopted for drawing up of the Financial Statements of TAURON are presented in the individual notes to the Financial Statements of TAURON.

5. ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON CAPITAL GROUP

5.1. TAURON Capital Group's financial results

The below table presents TAURON Capital Group's EBITDA in 2012-2021.

Figure no. 47. TAURON Capital Group's EBITDA in 2012-2021



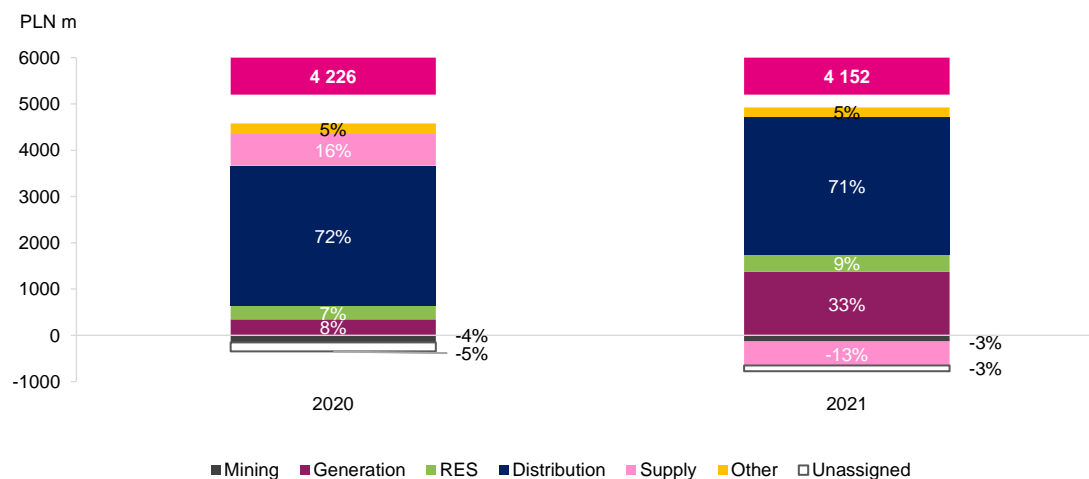
The below table presents TAURON Capital Group's 2020-2021 EBITDA broken down into individual lines of business (segments). The data for the individual segments does not include the consolidation exclusions.

Table no. 33. TAURON Capital Group's 2020-2021 EBITDA broken down into individual lines of business (segments)

EBITDA (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Mining	(157)	(130)	83%	27
Generation	344	1 375	400%	1 031
RES	297	376	127%	79
Distribution	3 023	2 967	98%	(56)
Supply	683	(524)	-	(1 207)
Other operations	229	208	91%	(21)
Unassigned items	(193)	(120)	62%	73
Total EBITDA	4 226	4 152	98%	(74)

The below figure presents TAURON Capital Group's 2020-2021 EBITDA structure (composition).

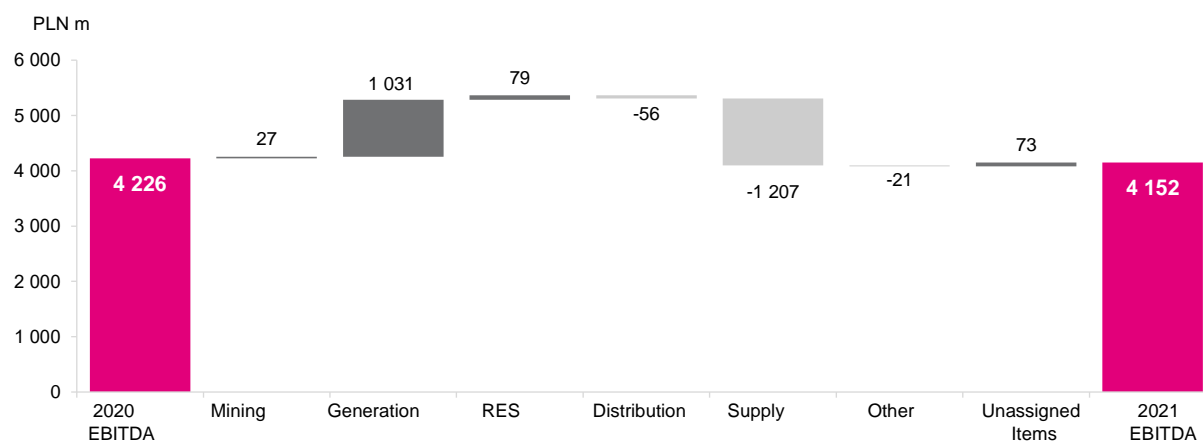
Figure no. 48. TAURON Capital Group's 2020-2021 EBITDA structure (composition)



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

The below figure presents the change in TAURON Capital Group's EBITDA in 2020-2021.

Figure no. 499. Change in TAURON Capital Group's EBITDA in 2020-2021



5.2. TAURON Capital Group's financial results per operating Segment (Line of Business)

Mining Segment

The below table presents the Mining Segment's 2020-2021 results.

Table no. 34. Mining Segment's 2020-2021 results

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	1 052	1 467	139%	415
coal - coarse and medium assortments	236	393	167%	157
thermal coal	769	995	129%	226
other revenue	47	78	166%	31
EBIT	(887)	(458)	-	429
Depreciation and write-downs	730	328	45%	-402
EBITDA	(157)	(130)	-	27

The Mining Segment's revenue was 39% higher in 2021, as compared to 2020, as a consequence of the higher coal volume sold, which was due to the higher production of the commercial coal by TAURON Wydobycie mining subsidiary's coal mines and the higher demand for the hard coal on the domestic market. An increase of the production output was reported by the Sobieski Coal Mine (ZG Sobieski), which was due to the more favorable configuration of the longwall fronts than in 2020. The lower extraction output of the Janina Coal Mine (ZG Janina) was a consequence of the exploitation of the longwall coal faces that provided access to the smaller coal reserves, while the Brzeszcze Coal Mine's (ZG Brzeszcze) production decline was due to the liquidation of one of the longwall coal faces and a delay in the commissioning of another one.

The Mining Segment's EBITDA and EBIT were higher in 2021 as compared to 2019. The achieved results were impacted by the following factors:

1. an increase of the sales volume of the thermal coal by 34%,
2. an increase of the average coal sales price by 3%, i.e. from 250.37 PLN/Mg to 258.84 PLN/Mg, which was mainly due to an increase of the price of the large size grain products by 9%, while at the same time the prices of the other coal product assortments fell,
3. receiving of the funding under the government's anti-crisis shield program in 2020,
4. other - mainly due to the fact that some of the coal produced had been recognized as assets in the balance sheet in 2020 and then sold and recognized in the results in 2021.

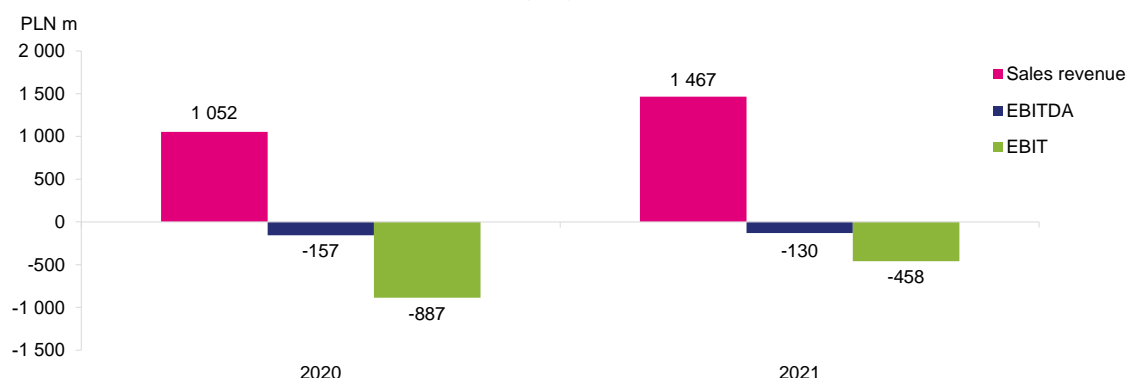
In addition, the Segment's higher EBIT was impacted by the lower impairment charge (write-down) than in 2020.

TAURON Capital Group recognized, in the 2020 results, the booking of the impairment charges (write-downs) related to the loss of the carrying amount on the balance sheet of the Mining Segment's cash generating units

(CGU), whose total impact on the charge to the Segment's operating profit reached PLN 185 million in 2021, which was a lower figure than the amount recorded in 2020, i.e. PLN 560 million.

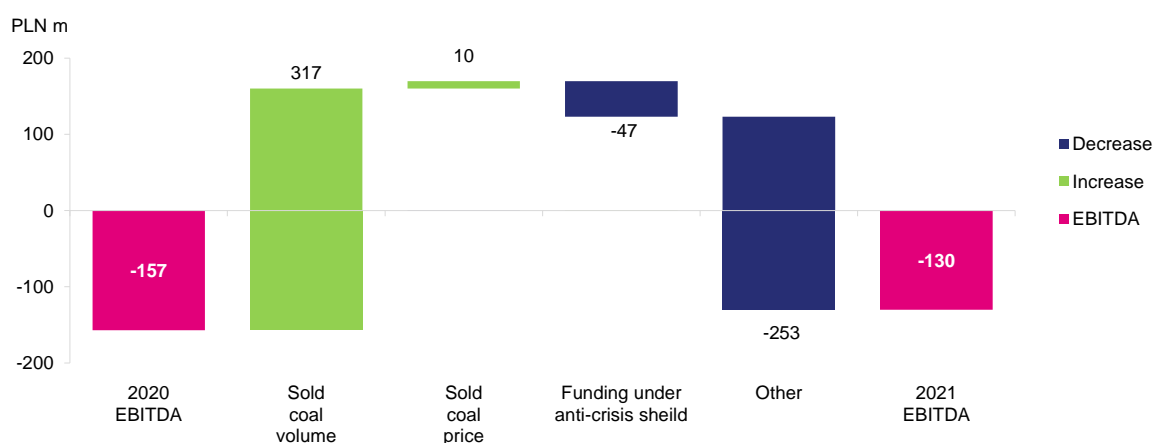
The below figure presents the Mining Segment's 2020-2021 financial data.

Figure no. 50. Mining Segment's 2020-2021 financial data



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

Figure no. 51. Mining Segment's EBITDA



Major investments (CAPEX)

The Mining Segment's total capital expenditures came in at PLN 276 million in 2021, including the outlays on the following investment projects:

1. PLN 89 million of the outlays on the replacement and upgrade works,
2. PLN 10 million on the construction of the "Grzegorz" shaft,
3. PLN 169 million of the outlays on the preparation of the future production.

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

Generation Segment

The below table presents the Generation Segment's 2020–2021 results.

Table no. 35. Generation Segment's 2020–2021 results

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	4 522	9 819	217%	5 297
electricity	3 471	7 298	210%	3 827
heat	884	1 006	114%	122
property rights related to certificates of electricity origin	117	177	151%	60
services – Capacity Market	-	642	-	642
greenhouse gas emission allowances	-	654	-	654

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
other revenue	50	42	84%	-8
EBIT	-3 238	-25	1%	3 213
Depreciation and write-downs	3 582	1 400	39%	-2 182
EBITDA	344	1 375	400%	1 031

The Generation Segment's sales revenue was higher by 117% in 2021, as compared to 2020, primarily due to the higher revenue from the sales of the electricity (higher sales volume and higher sales price), heat as well as obtaining of the revenue from the Capacity Market and from the sales of the CO₂ emission allowances.

Generation Segment's EBITDA and EBIT were lower in 2021 than in 2020. The following factors had an impact on the results achieved:

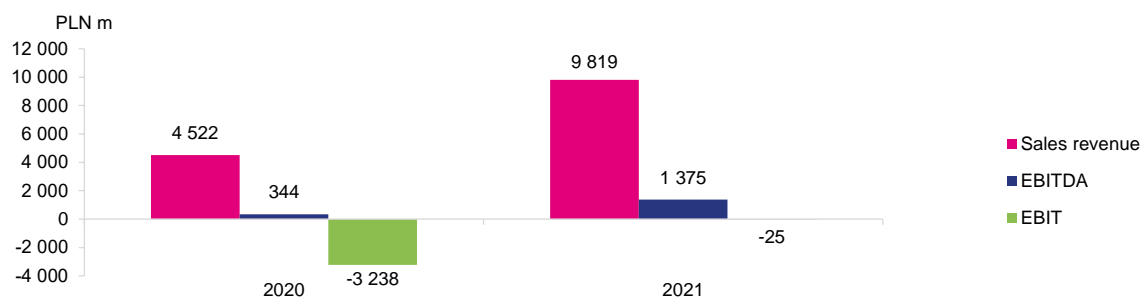
1. commencement of the functioning of the Capacity Market starting from January 1, 2021,
2. no inclusion in the catalog of the system services, starting from 2021, of the Operational Capacity Reserve and the Intervention Cold Reserve services, from which TAURON Wytwarzanie obtained revenues in 2020,
3. realization of the higher margin on the electricity, including the impact of the commissioning of the 910 MW unit in Jaworzno in November 2020,
4. completion of the transactions related to the CO₂ emission allowances:
 - 1) due to the delay of the commissioning of the 910 MW unit in Jaworzno and, as a consequence thereof, the lower production output, a significant surplus of the allowances contracted for the purpose of fulfilling the redemption obligation for 2020 above the actual requirement arose in Nowe Jaworzno Group TAURON's portfolio. As a consequence, in March 2021, TAURON Capital Group carried out the following transactions:
 - a) restructuring of the above mentioned portfolio of the CO₂ emission allowances with respect to the volume of 3 258 000 of the EUAs with the collection date in March 2021. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO₂ emission allowances and decided to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023 and 2024. At the same time, those transactions were completed at the prices that were higher than the originally contracted purchase, and as a consequence they will lead to an increase of the costs of setting up a provision by TAURON Capital Group for the liabilities related to the CO₂ emissions for 2021 and the subsequent financial years. As a result of the above TAURON Capital Group estimates that the total impact of the restructuring on the operating results thereof in the years 2021-2023 will not be significant,
 - b) resale of the CO₂ emission allowances held in the quantity of 691 000 EUAs that also constituted a surplus above the redemption needs of the subsidiary for 2020 due to the delay of the commissioning of the 910 MW unit in Jaworzno,
 - 2) in the first quarter of 2020 TAURON Capital Group made a decision to change the hedging strategy related to securing the Generation Segment's redemption needs, involving a one-time swap of the exchange traded contracts with the delivery date in December 2020 to the OTC contracts with the delivery date in March 2021. The decision to change the strategy was made taking into account the then current market circumstances, difficult to predict at the time of concluding the transaction. Implementing the above mentioned strategy change, the Company resold the futures position with the delivery date in December 2020 held on the exchange (it entered into an opposite transaction on the exchange), while at the same time purchasing the same volume in the contracts with the delivery date in March 2021 from the counterparties on the OTC market.
5. Due to the shutdown of the 910 MW unit in Jaworzno, planned to last until April 29, 2022, taking into account the current situation on the electricity market in Poland and the latest forecast of the electricity prices on the wholesale market, TAURON Capital Group recognized, as of the balance sheet date of December 31, 2021, a short term provision for an onerous contract in the amount of PLN 289 million. The set up provision was calculated assuming the purchase by TAURON Capital Group in the contracted volume of 1.7 TWh of the electricity, which due to the shutdown of the 910 MW unit in Jaworzno would not be produced as part of its in-house production.

In addition, the Segment's EBIT was impacted by the recognition of the impairment charges (write-downs).

TAURON Capital Group recognized, in the 2021 results, the booking of the impairment charges (write-downs) related to the loss of the carrying amount on the balance sheet of the Generation Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 953 million.

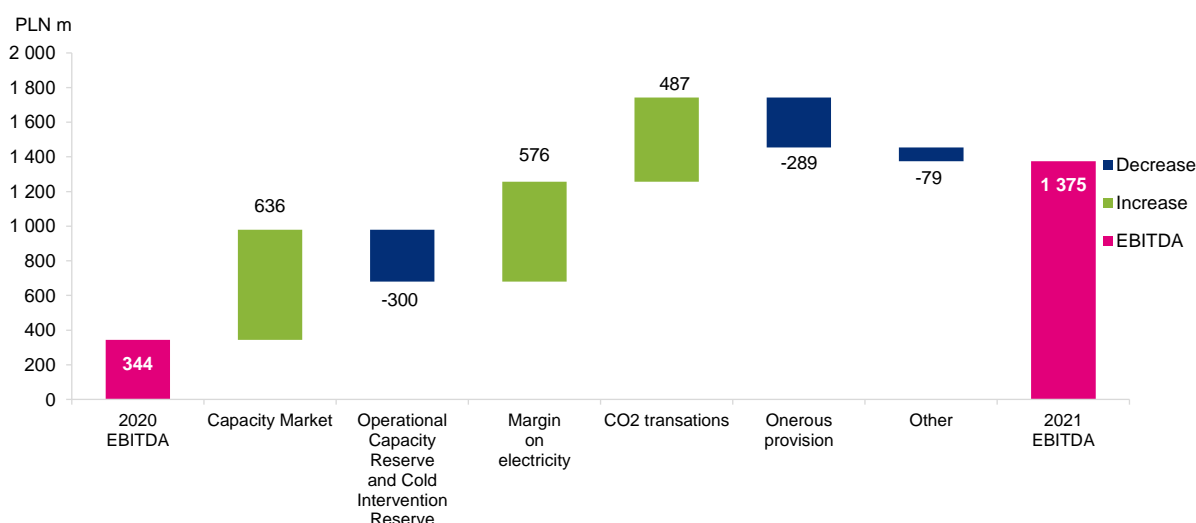
The below figure presents the Generation Segment's 2020–2021 financial data.

Figure no. 52. Generation Segment's 2020–2021 financial data



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

Figure no. 53. Generation Segment's EBITDA



Major investments (CAPEX)

The Generation Segment's total capital expenditures came in at PLN 240 million in 2021, including the outlays on the following strategic investment projects:

1. PLN 26 million on the construction of the 910 MWe power generation unit in Jaworzno,
2. PLN 22 million on the adaptation of TAURON Wytwarzanie's generating units to the BAT conclusions,
3. PLN 106 million on the replacement expenditures and overhaul components at TAURON Wytwarzanie,
4. PLN 20 million on connecting the new facilities,
5. PLN 22 million on maintaining the district heating network.

Apart from the above capex the investment project at EC (Combined Heat and Power Plant) Stalowa Wola, with the participation of the strategic partner, PGNiG, was completed. The capital expenditures incurred on the project (excluding the financial costs) stand at PLN 1.4 billion.

Renewable Energy Sources Segment

The below table presents the RES Segment's 2020-2021 results.

Table no. 36. RES Segment's 2020–2021 results

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	616	661	107%	45
electricity	306	372	122%	66
certificates of origin of electricity	310	275	89%	(35)

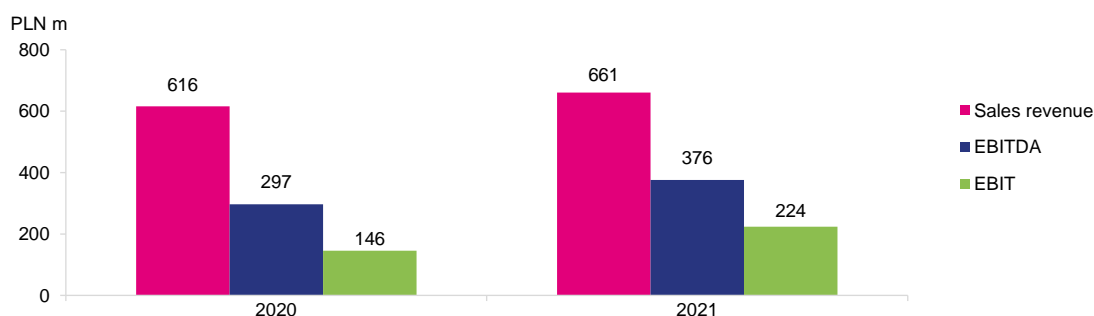
Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
other	0,1	14	140	14
EBIT	146	224	153%	78
Depreciation and write-downs	151	152	101%	1
EBITDA	297	376	127%	80

RES segment's EBITDA and EBIT were lower in 2021 than in the same period of 2020. The results posted were affected by the following factors:

1. a higher margin on the electricity sales, mainly due to the higher sales price, higher electricity production output by the hydro power plants, which was partly offset by the lower production output by the wind farms,
2. higher revenue from the certificates of origin of electricity, which was a consequence of an increase of the market prices of the property rights offset by the lower volume of the sales thereof as a result of the lack of the support in 2021 for the hydroelectric power plants and the Zagórze wind farm in accordance with the provisions of the energy law as well as the lower production volume by the other wind farms as compared to the production outputs achieved in 2020,
3. commencement of the functioning of the Capacity Market starting from January 1, 2021, and obtaining of the revenue from the Capacity Market,
4. lower fixed costs as a result of including as part of the costs in June 2020, of the provision for the real estate tax as a result of the judgement of the Constitutional Tribunal of July 2020 with respect to the constitutionality of the definition of a building structure.

The below figure presents the RES Segment's 2020-2021 financial data.

Figure no. 544. RES Segment's 2020-2021 financial data



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

Figure no. 55. RES Segment's EBITDA



Major investments (CAPEX)

The RES Segment's total capital expenditures came in at PLN 90 million in 2021, including the outlays on the following investment projects:

1. PLN 52 million on the construction of the Piotrków wind farm,
2. PLN 15 million on the construction of the Choszczno PV farm
3. PLN 8 million on the construction of the Majewo wind farm.

Distribution Segment

The below table presents the Distribution Segment's 2020-2021 results.

Table no. 37. Distribution Segment's 2020-2021 results

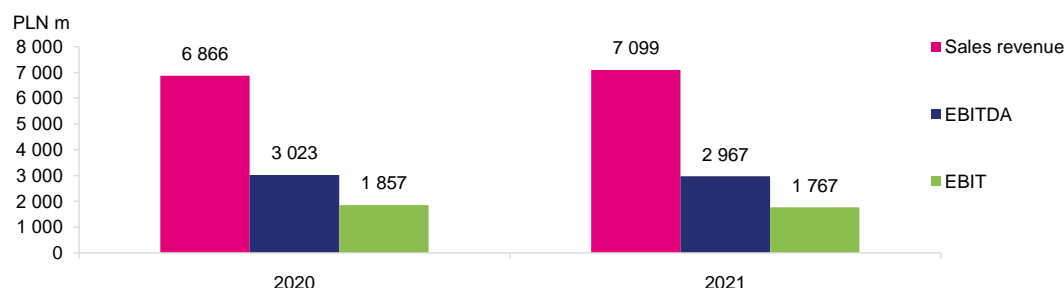
Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	6 866	7 099	103%	233
distribution and trading services	6 577	6 772	103%	195
grid connection fees	83	83	100%	-
revenue due for fixing power line collisions	37	68	184%	30
lighting services	50	53	106%	3
other revenue (illegal consumption, construction and assembly services, maintenance and support services, goods and materials)	118	124	105%	5
EBIT	1 857	1 767	95%	-90
Depreciation and write-downs	1 166	1 200	103%	34
EBITDA	3 023	2 967	98%	-56

The Distribution Segment reported a 3% sales revenue increase, while EBIT and EBITDA went down by, respectively, 5% and 2% in 2021, as compared to 2020. The changes to the results posted were affected by the following factors:

1. a decrease of the average rate for the distribution service sales to the final consumers,
2. an increase of the total electricity delivery by 3 706 GWh, including to the final consumers by 3 389 GWh in all of the tariff groups, first of all in the A and B tariff groups, as a result of the economic rebound following the COVID-19 pandemic,
3. lower costs of purchasing the transmission and distribution services,
4. an increase of the other revenue related to the distribution operations, i.e. due to the passive energy off-take exceeding the contractual connection capacity (power), power line collisions and the exceeding of the grid connection capacity (power),
5. a decrease of the costs of purchasing electricity to cover the balancing difference as a result of the lower volume, the lower purchase price, along with the increase of the upward adjustment in parallel,
6. dissolution, in 2020, of the provision for the payment of the equivalent for electricity,
7. a rise of the other fixed costs, including the labor costs as a result of the wages agreements signed, the costs of the taxes on the grid assets due to the increase of the value of the assets as a result of the investment projects conducted, higher costs of the subcontractor services purchased on the market.

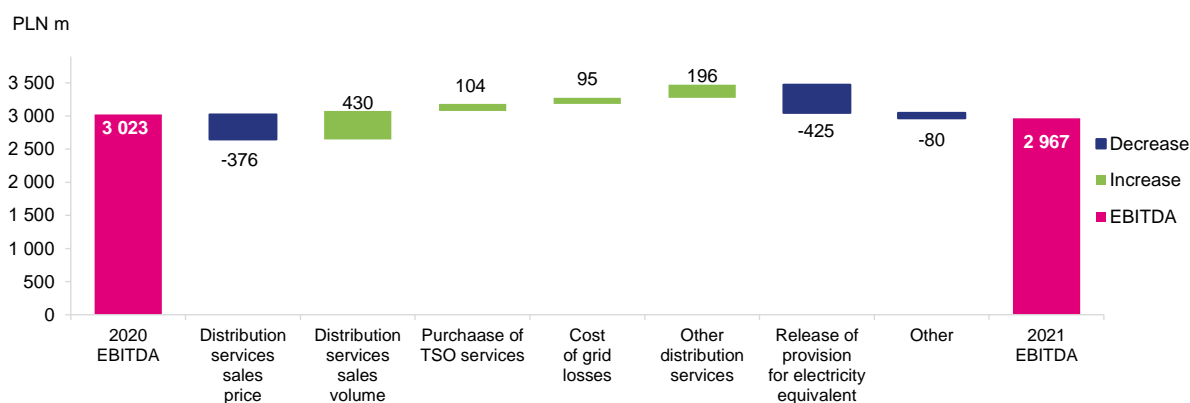
The below figure presents the Distribution Segment's 2020-2021 financial data.

Figure no. 56. Distribution Segment's 2020-2021 financial data



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

Figure no. 57. Distribution Segment's EBITDA



Major investments (CAPEX)

The Distribution Segment's total capital expenditures came in at PLN 2 044 million in 2021. The main capex directions included:

1. PLN 1 011 million on the investment projects related to connecting the new consumers to the grid,
2. PLN 877 million on the investment projects related to the grid upgrades (refurbishments) and replacements,
3. PLN 52 million for the construction of a dispatcher communications system.

In addition, the expenditures in the total amount of approx. PLN 114 million were also incurred on: communications and IT, buildings and structures, means of transportation, in 2021.

Supply Segment

The below table presents the Supply Segment's 2020-2021 results.

Table no. 38. Supply Segment's 2020-2021 results

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	17 250	24 134	140%	6 884
electricity, including	11 686	16 348	140%	4 662
revenue from retail electricity supply	9 575	10 315	108%	740
greenhouse gas emission allowances	340	2 107	620%	1 768
fuel	1 754	1 896	108%	142
distribution service (transferred)	3 243	3 302	102%	59
street lighting service	120	123	103%	3
other revenue, including trading services	107	358	335%	251
Compensations	66	(9)	-	(75)
EBIT	642	(564)	-	(1 206)
Depreciation and write-downs	42	41	98%	(1)
EBITDA	683	(524)	-	(1 207)

The Supply Segment's sales revenue was 40% higher in 2021, as compared to 2020, mainly due to the higher electricity sales revenue (higher electricity sales price and higher electricity sales volume) and the sale of the CO₂ emission allowances that took place in 2021, primarily for the redemption needs of the generation subsidiaries.

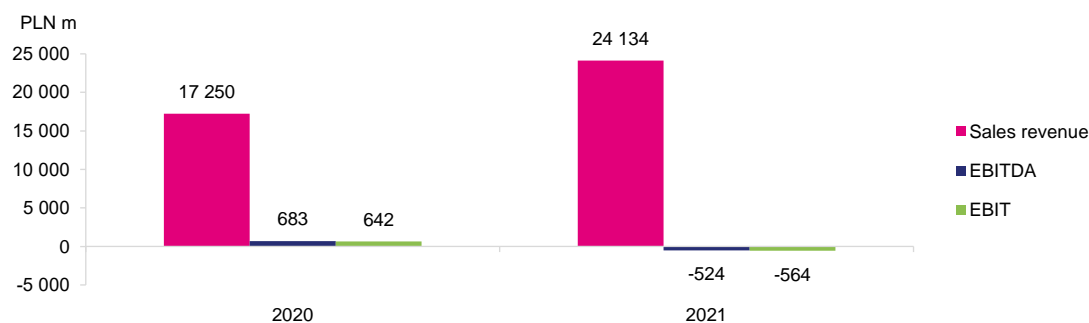
The Supply Segment's EBITDA and EBIT were higher in 2021 than in 2020. The results posted were affected by the following factors:

1. lower margin earned on the electricity sales earned, which is the result of:
 - 1) higher costs of purchasing the electricity, including as part of the performance of the contract for the purchase of the electricity from the 910 MW unit in Jaworzno,
 - 2) obtaining of the higher electricity sales price,

- 3) higher costs of the property rights, mainly as a result of the higher *green certificates (PMOZE)* purchase price,
- 4) higher volume due to the increase in the electricity sales (supply), including to the final consumers,
- 5) higher volume and the higher revenue from the fixed trading fees,
2. lower margin on the gas sales as a result of an increase of the gas purchase price, along with the higher volume of the sales thereof,
3. higher margin on the sale of the CO₂ emission allowances,
4. lower value (amount) of the recognized (booked) impairment charges (write-downs) related to the accounts receivable mainly as a consequence of the setting up (booking) of the elevated impairment charge (write-down) in the first half of 2020 as a result of the introduced restrictions and the uncertainty with respect to the financial standing of the Supply segment subsidiaries' counterparties,
5. other.

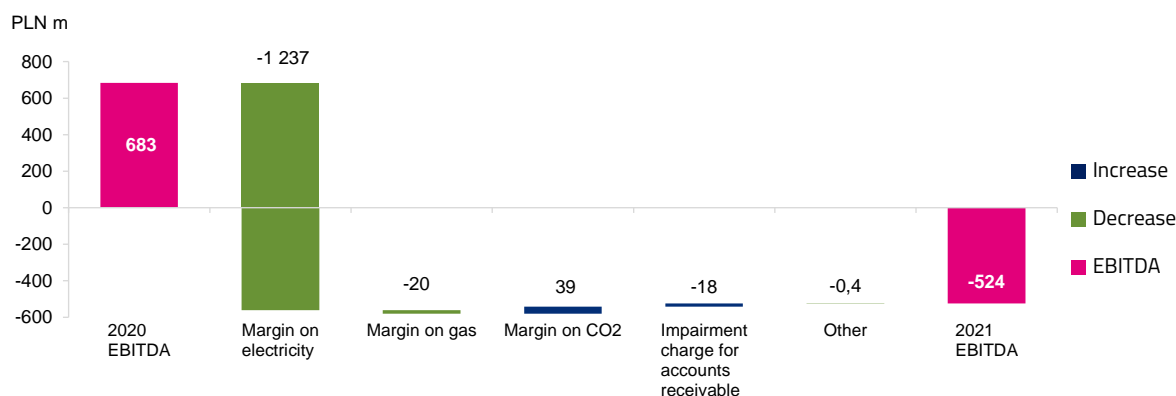
The below figure presents the Supply Segment's 2020-2021 financial data.

Figure no. 58. Supply Segment's 2020-2021 financial data



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

Figure no. 59. Supply Segment's EBITDA



Major investments (CAPEX)

The Supply Segment's total capital expenditures came in at PLN 82 million in 2021, the amount spent mainly by the TAURON Nowe Technologie subsidiary, for the activities related to the maintenance and expansion of the street lighting in the amount of PLN 56 million and PLN 10 million for the construction of the gas engines.

Other operations

The below table presents the Other Operations Segment's 2020-2021 results.

Table no. 39. Other Operations Segment's 2020-2021 results

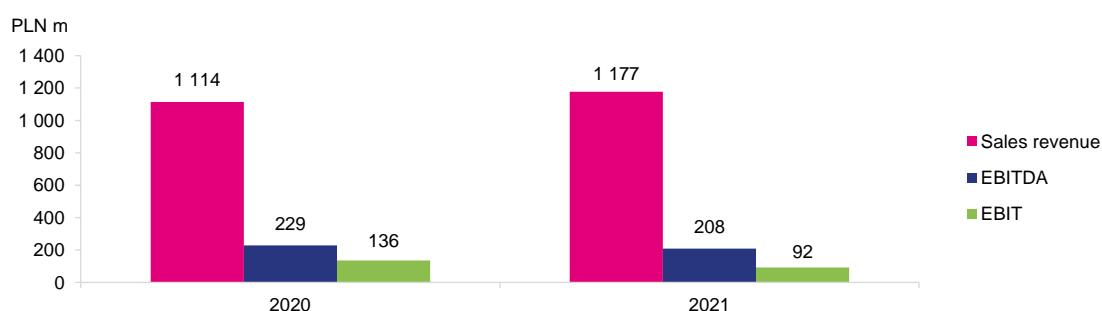
Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 / 2020)
Sales revenue	1 114	1 177	106%	63
customer service services	237	250	106%	13
support services	512	545	106%	33
biomass	104	119	114%	15

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 / 2020)
aggregates	156	113	72%	-43
other revenue	104	149	143%	45
EBIT	136	92	68%	-44
Depreciation and write-downs	93	116	125%	23
EBITDA	229	208	91%	-21

The Other Operations Segment's subsidiaries revenue was 6% higher in 2021, as compared to 2020, which was primarily due to a larger number of the support services provided for the needs of TAURON Capital Group's subsidiaries, higher sales of the rocks (stone) and the derivatives thereof as a consequence of the higher demand from the power sector for this product and the sales of the other services, including, among others, the sales of the by-products of the combustion and extraction process as well as energy.

The below figure presents the Other Operations Segment subsidiaries' 2020-2021 financial data.

Figure no. 60. Other Operations Segment subsidiaries' 2020-2021 financial data



Major investments (CAPEX)

The Other Operations Segment subsidiaries' capital expenditures came in at PLN 200 million in total in 2021 and they included mainly the outlays related to the investments in the IT systems, including PLN 98 million for the broadband internet construction project as part of the POPC III program.

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

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

Table no. 40. Structure of the annual consolidated statement of financial position

Consolidated statement of financial position	As of December 31, 2020	As of December 31, 2021
ASSETS		
Fixed assets	84.6%	84.5%
Current assets	15.4%	15.5%
TOTAL ASSETS	100.0%	100.0%
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the parent entity	39.9%	41.2%
Non-controlling stakes	2.2%	0.1%
Total equity	42.1%	41.2%
Long term liabilities	40.0%	34.0%
Short term liabilities	17.9%	24.8%
Total liabilities	57.9%	58.8%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%

Consolidated statement of financial position	As of December 31, 2020	As of December 31, 2021
Financial liabilities	11 516	10 944
Net financial liabilities	10 595	10 129
Net debt / EBITDA ratio	2.5x	2.4x
Current liquidity ratio	0.86	0.63

The below figures present the structure of assets as well as equity and liabilities.

Figure no. 61. Structure of assets

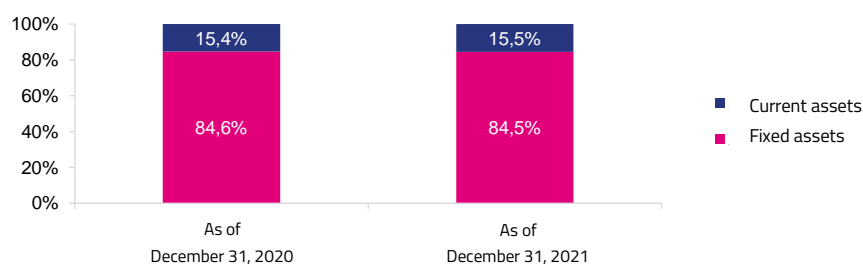
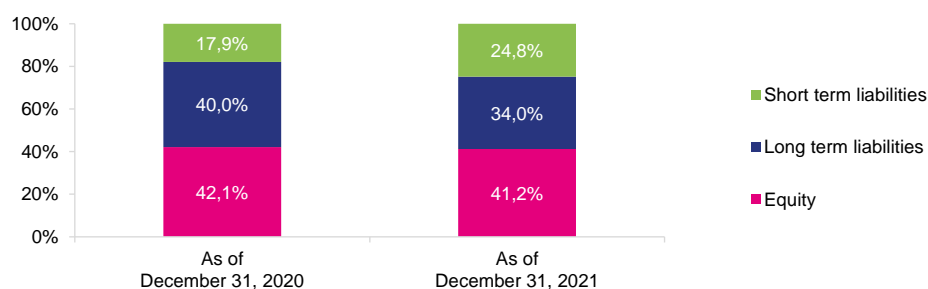


Figure no. 62. Structure of equity and liabilities



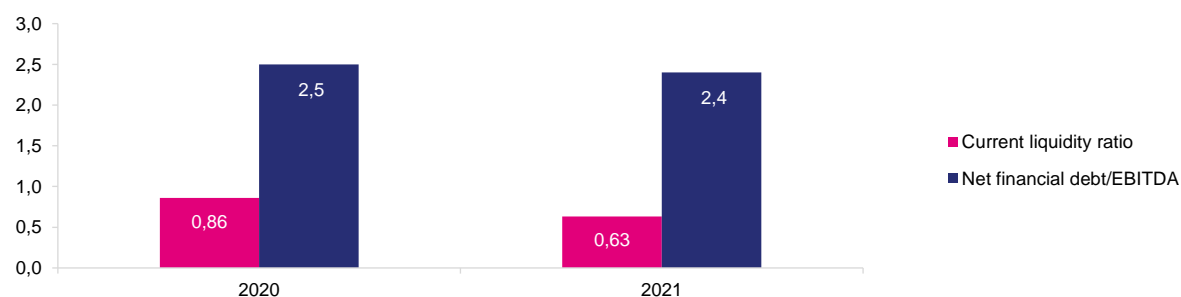
As of December 31, 2021, similar as in 2020, the value of the fixed assets constitutes the largest share in the structure of assets: 84.5%, which is lower by 0.1 pp than last year.

As of December 31, 2021, the liabilities represent the largest share in the structure of equity and liabilities: 58.8%, with their share rising by 0.9 pp.

The level of debt of TAURON Capital Group remains at a safe level, which is indicated by the value of the leverage ratio which is below the value agreed upon with the institutions financing TAURON Group's operations. The current liquidity ratio and the net debt to EBITDA ratio remain at a safe level.

The below figure presents the current liquidity ratio and the net financial debt to EBITDA ratio in 2020-2021.

Figure no. 63. Current liquidity ratio and the net financial debt to EBITDA ratio in 2020-2021



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

Table no. 41. Annual consolidated statement of financial position - assets (material items)*

Statement of financial position (PLN '000)	As of December 31, 2020	As of December 31, 2021	Change in % (2021 / 2020)
ASSETS			
Fixed assets	33 585	33 855	101%
Tangible fixed assets	29 505	29 174	99%
Current assets	6 111	6 220	102%
Cash and equivalents	921	815	88%
Fixed assets classified as held for sale	74	10	14%
TOTAL ASSETS	39 696	40 064	101%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

As of December 31, 2021, the statement of the financial position of TAURON Capital Group indicates the balance sheet total higher by 3%.

The below figures present the change in the level of assets and current assets.

Figure no. 64. Change in assets

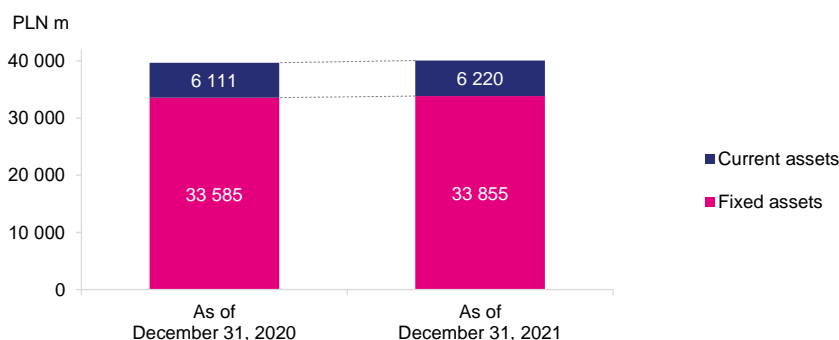
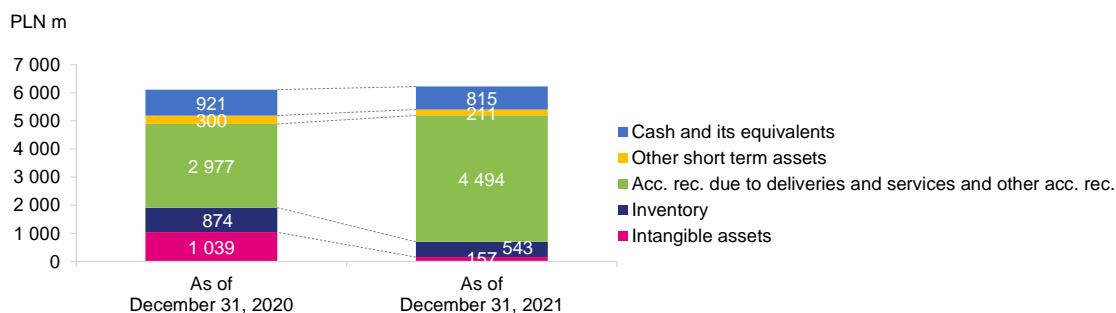


Figure no. 65. Change in current assets



The fixed assets represent the biggest item of the assets as of the end of December 2021, accounting for 84.5% of the balance sheet total. As compared to the end of 2020, the value of the fixed assets is higher by PLN 270 million, i.e. by 3%, which was due to the following factors:

1. tangible fixed assets – a decrease by 1% is a result of the recognized (booked) impairment charge (write-down) related to the non-financial fixed assets as a result of the impairment tests carried out as of June 30, 2021, and December 31, 2021, as well as an increase in the value of the tangible fixed assets as a result of the investment projects implemented by TAURON Capital Group's subsidiaries,
2. certificates of origin of electricity and the greenhouse gas emission allowances to be redeemed – a decline by 11% which is the result of the reclassifying of the certificates of origin of electricity and the CO₂ emission allowances as the current assets held in order to fulfill the obligation related to the redemption of the above mentioned assets and the purchase of the certificates of origin of electricity for the obligation for the following years,

3. derivative instruments (derivatives) - an increase by more than 1 000%, which is a consequence of the changes in the prices of the underlying instruments, i.e. the interest rates, currencies and commodities, including mainly the CO₂ emission allowances,
4. other financial assets – an increase by 152%, as a result of the advance payment for the fixed assets under construction, including those related to the construction of the wind farms,
5. deferred income tax assets – a decrease by 8%.

The following factors had an impact on the rise in the value of the current assets by PLN 98 million. i.e. by 2%:

1. balance of cash on hand and equivalents – a decrease by 12%. *The information on the reasons for the change is provided further on in this report, in the section under the heading Cash flows,*
2. certificates of origin of electricity and the CO₂ emission allowances to be redeemed – a decline by 85%, which is the result of:
 - 1) purchase of the CO₂ emission allowances in the first half of 2021 for the redemption obligation for the year 2020,
 - 2) purchase of the CO₂ emission allowances within 2021 for the redemption obligation for the year 2021
 - 3) purchase or the recognition (booking) of the certificates of origin of electricity produced in-house in 2021 for the fulfillment of the obligation to redeem the property rights for the year 2020 or 2021,
 - 4) reclassifying as the short term assets of a part of the property rights and the CO₂ emission allowances held, originally classified as the long term assets, that were reclassified due to their allocation for the purpose of the ongoing fulfilling of the obligation to redeem the above mentioned assets,
 - 5) redemption of the property rights and the CO₂ emission allowances in connection with the obligation stemming from the provisions of the energy law,
3. inventory levels – a decrease by 38% mainly due to the lower hard coal inventory level as a consequence of the higher demand because of the higher electricity production in the fourth quarter of 2021,
4. accounts receivable from the consumers – an increase by 34%,
5. accounts receivable due to the income tax – an increase by 381%,
6. accounts receivable due to the other taxes and fees – a drop by 1%,
7. other financial assets – a drop by 38%, mainly as a result of the decline of the accounts receivable due to the compensations for the trading companies,
8. other non-financial assets – an increase by 35%, mainly as a result of the higher costs depreciated (accounted for) over time due to the property and tort insurance.

The below table presents the annual consolidated statement of financial position – equity and liabilities.

Table no. 42. Annual consolidated statement of financial position – equity and liabilities (material items)*

Statement of financial position (PLN '000)	As of December 31, 2020	As of December 31, 2021	Change in % (2021 / 2020)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	15 834	16 491	104%
Non-controlling stakes	893	33	4%
Total equity	16 727	16 524	99%
Long term liabilities	15 867	13 634	86%
Liabilities due to debt	13 171	10 947	83%
Short term liabilities	7 102	9 917	140%
Liabilities due to debt	1 481	2 143	145%
Total liabilities	22 969	23 551	103%
TOTAL EQUITY AND LIABILITIES	39 696	40 075	101%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figures present the change in the amount of liabilities and equity attributable to the majority shareholders.

Figure no. 66. Change in equity and liabilities

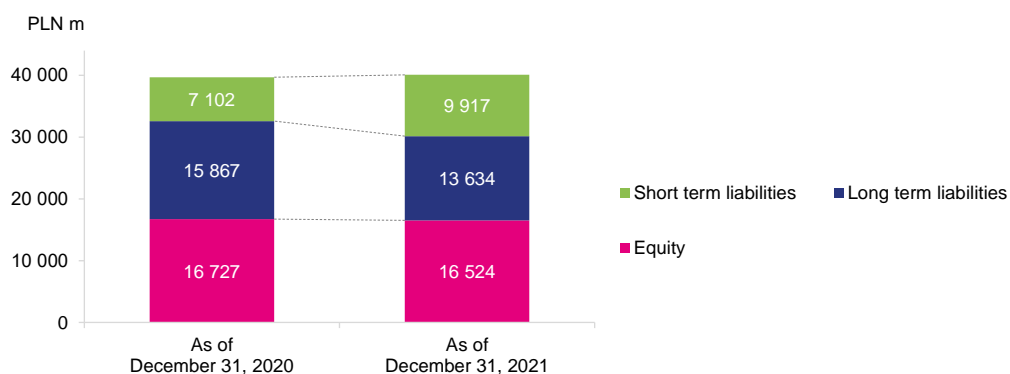
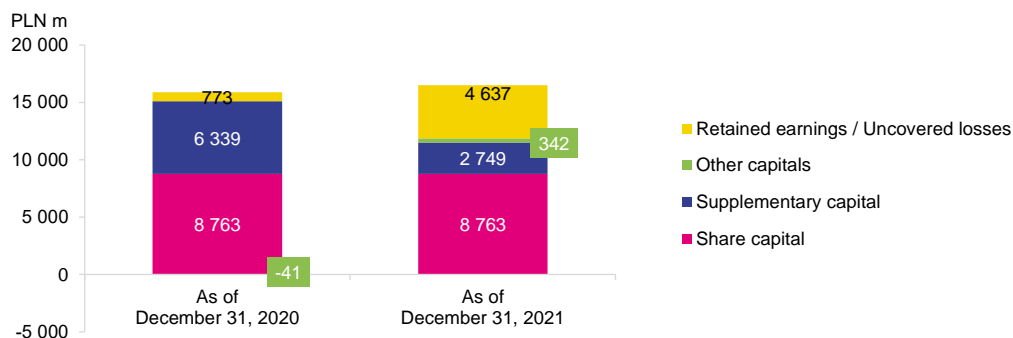


Figure no. 67. Change in equity attributable to majority shareholders



Equity was a material source of financing the assets in 2021 and its share in the total equity and liabilities stood at 41.2%.

The below figures present the change in the amount of short term and long term liabilities.

Figure no. 68. Change in long term liabilities

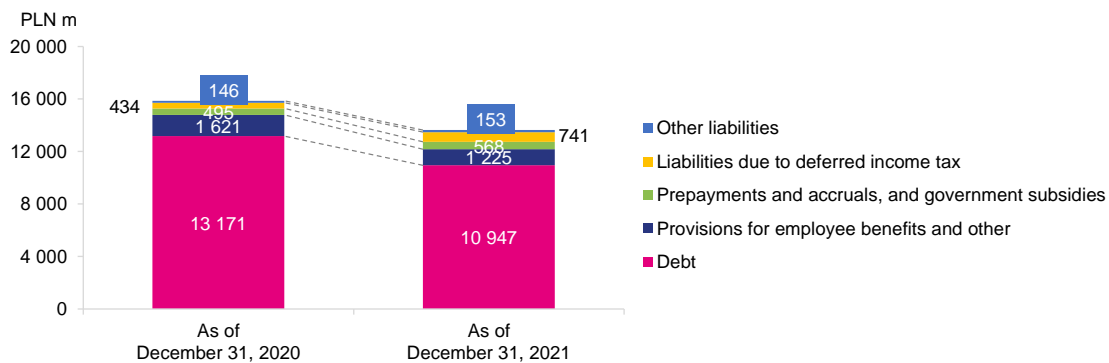
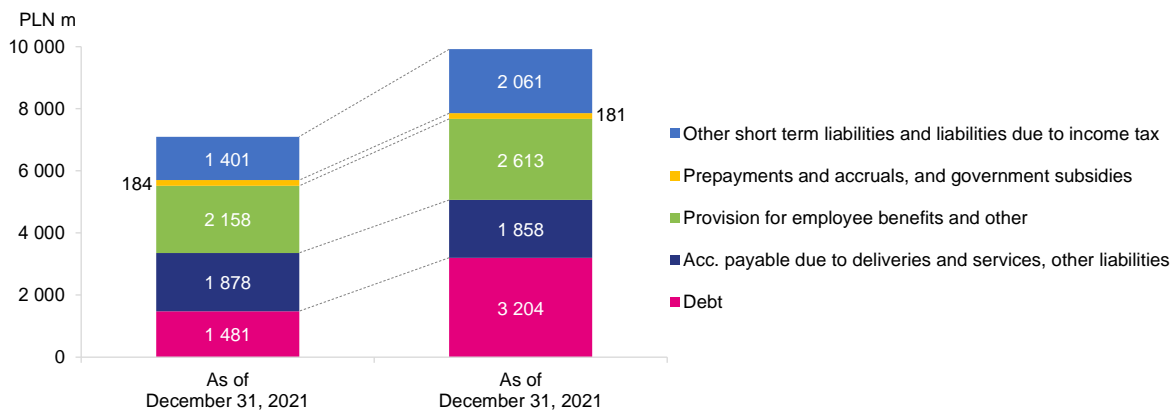


Figure no. 69. Change in short term liabilities



The amount of TAURON Capital Group's long term liabilities was lower by PLN 2 224 million, i.e. by 14%, in 2021, which was mainly a consequence of the following factors:

1. liabilities due to debt – a decrease by 17%, as a result of taking out the loans worth PLN 2 003 million in 2021, the updating of the value (revaluation) of the debt in a foreign currency as a result of a change of the FX rate as of December 31, 2021, in relation to the FX rate of December 31, 2020, and the reclassification of some liabilities as the short term ones,
2. provisions for the employee benefits – a drop by 17% mainly as a consequence of a change of the discount rate by 2.1 pp,
3. provisions related to the costs of dismantling the fixed assets and land reclamation - a decrease by 35%, primarily as a result of a change of the discount rate,
4. prepayments and accruals, as well as the government subsidies – an increase by 15%.
5. liabilities due to the deferred income tax – an increase by 68%,
6. derivative instruments (derivatives) - an increase by 57%, which is a consequence of the changes in the prices of the underlying instruments, i.e. the interest rates, currencies and commodities, including mainly the CO₂ emission allowances,
7. other financial and non-financial liabilities – a decline by 48% and 50%, respectively.

The amount of TAURON Capital Group's short term liabilities went up by PLN 2 806 million, i.e. by 40%, which was primarily a consequence of the following factors:

1. liabilities due to debt – an increase by 45%, which is a result of the reclassifying of a part of the long term liabilities, the updating of the value (revaluation) of the debt in a foreign currency as a result of a change of the FX rate as of December 31, 2021, in relation to the FX rate of December 31, 2020, and the repayment of the loans received in the amount of PLN 4 407 million,
2. accounts payable towards the suppliers – an increase by 22% and the investment related commitments – a drop by 28%,
3. provisions for the liabilities due to the certificates of origin of electricity and the CO₂ gas emissions – an increase by 8%, which is mainly due to a rise in the prices of the green certificates (PMOZE) and the CO₂ emission allowances in 2021 in relation to the prices thereof in 2020,
4. other provisions – an increase by 104%, which is mainly due to the setting up of a provision for onerous contracts in connection with the shutdown of the 910 MW unit in Jaworzno, planned to last until April 29, 2022.
5. accounts payable due to the income tax – an increase by 33%,
6. liabilities due to the taxes and fees - an increase by 53%, mainly as a consequence of the higher accounts payable due to VAT,
7. derivative instruments (derivatives) – an increase by 272%, which is a consequence of the changes in the prices of the underlying instruments, i.e. the interest rates, currencies and commodities, including mainly the CO₂ emission allowances,
8. other non-financial liabilities – an increase by 35%, which is a consequence of the higher overpayments received from the customers and the advance payments on account of the grid connection fees (charges).

In addition, as of December 31, 2021, under the item Liabilities due to the acquisition of non-controlling interests (stake), TAURON Capital Group recognized a liability stemming from the concluded agreement with the Infrastructure Related Investments Fund – Closed End Non-Public Assets Capital Fund (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych) FIZAN, under which the Company acquired 176 000 shares in the Nowe Jaworzno Grupa TAURON subsidiary, representing 13.71% of the total number of the votes at the General Meeting of the Shareholders (Partners) of Nowe Jaworzno Grupa TAURON for the amount of PLN 1 061 million. The transfer of the title to the shares took place upon the conclusion of the agreement.

5.4. Discussion of the economic and financial figures disclosed in the annual consolidated financial statement

Consolidated statement of comprehensive income

The below table presents the annual consolidated statement of comprehensive income. Due to the changes in the segments and in order to maintain the comparability, the results are presented for 2 years

Table no. 43. Annual consolidated statement of comprehensive income for 2020-2021*

Statement of comprehensive income (PLN '000)	2020	2021	Change in % (2021 / 2020)
Sales revenue	20 850	25 614	123%
Compensations	66	(9)	-
Own cost of sales	(22 842)	(24 820)	109%

Statement of comprehensive income (PLN '000)	2020	2021	Change in % (2021 / 2020)
Other operating revenues and costs	373	99	27%
Share in the profits of the joint ventures	16	32	200%
Operating profit	(1 537)	916	-
Cost of interest on debt	(286)	(368)	129%
Other financial revenue and costs	(356)	127	-
Pre-tax profit (loss)	(2 179)	675	-
Income tax	6	(290)	-
Net profit (loss) for the period	(2 173)	385	-
Total income for the period	(2 362)	865	-
Net (profit) attributable to:			
Shareholders of the parent entity	(2 170)	338	-
Non-controlling stakes (interests)	(3)	47	-
EBIT and EBITDA			
EBIT	(1 537)	916	-
EBITDA	4 226	4 152	98%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The below figure presents TAURON Capital Group's 2020-2021 financial results.

Figure no. 70. TAURON Capital Group's 2020-2021 financial results



TAURON Capital Group generated PLN 25 614 million of revenue from the conducted operations in 2021, i.e. it is higher by 23% as compared to the amount generated in 2020, which is the result of the following factors:

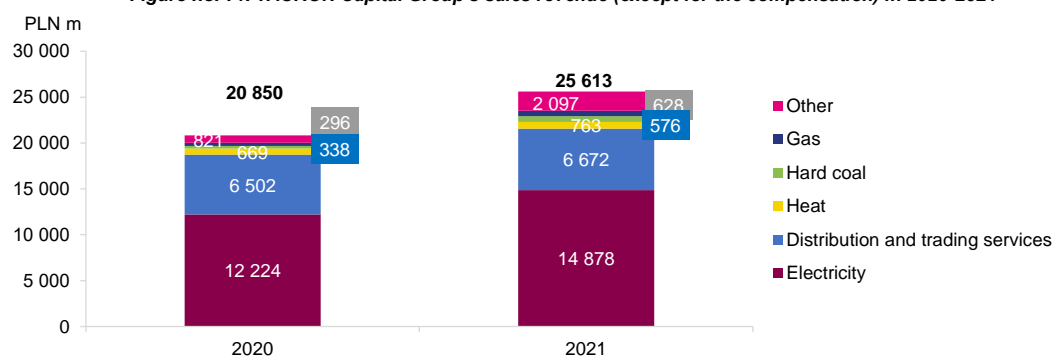
1. higher revenue from the electricity sales by 22%, which is the result of the higher volume of the retail electricity supply (both in the business as well as in the mass customer segments), the higher electricity sales prices obtained, mainly on the balancing market and the exchange market as a consequence of an increase of the tariff and the higher electricity sales prices on the market as well as the higher revenue obtained from the trading (commercial) fees,
2. revenue obtained from the capacity market service - in connection with the performance of the capacity obligation by TAURON Capital Group's subsidiaries that are the capacity suppliers for PSE (TSO), performed by the Capacity Market units that are a part of TAURON Capital Group
3. higher revenue from the distribution and trading services sales by 3% which as a consequence of the higher distribution service volume and a decrease of the tariff in 2021,
4. higher revenue from the thermal energy sales (heat supply) by 14% due to the higher sales volume as a result of the lower temperatures year on year and the higher thermal energy sales prices obtained,
5. higher revenue from the gas sales by 70% mainly as a consequence of the higher gas prices and the sales of the higher volume as a result of the lower temperatures year on year and the higher thermal energy sales prices obtained,
6. higher revenue from the hard coal sales by 112% which is a result of the sales of the higher volume and obtaining of the higher prices.

In addition, in the first quarter of 2021, TAURON Capital Group obtained revenues from the sales of the CO₂ emission allowances, which is a consequence of:

1. completed restructuring of the CO₂ emission allowances in the quantity of 3 258 000 EUAs in Nowe Jaworzno Grupa TAURON's portfolio. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO₂ emission allowances and decided to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023 and 2024. In connection with the fact that the original contracts were not settled (cleared) based on the physical delivery and therefore the Company recognized (booked) the contracts in accordance with *IFRS 9 Financial Instruments* at fair value at the date of the change of judgment, i.e. in March 2021, and then recognized (booked) the result of the settlement (clearing) of the instruments, which led to an increase of the sales revenue and the operating result in the amount of PLN 303 945 000 (i.e. EUR 65 893 000). The new contracted transactions with an execution date in the years 2022-2024 are excluded from the scope of *IFRS 9 Financial Instruments* and are not marked at fair value. At the same time, these transactions were made at prices higher than the originally contracted purchase, which will lead to an increase of the costs,
2. market sale of the CO₂ emission allowances in the quantity of 691 000 EUAs that constituted a surplus above the redemption needs of the company for 2020 due to the delay of the commissioning of the 910 MW unit.

The below figure presents the structure of TAURON Capital Group's sales revenue (except for the compensation) in 2020-2021.

Figure no. 71. TAURON Capital Group's sales revenue (except for the compensation) in 2020-2021*



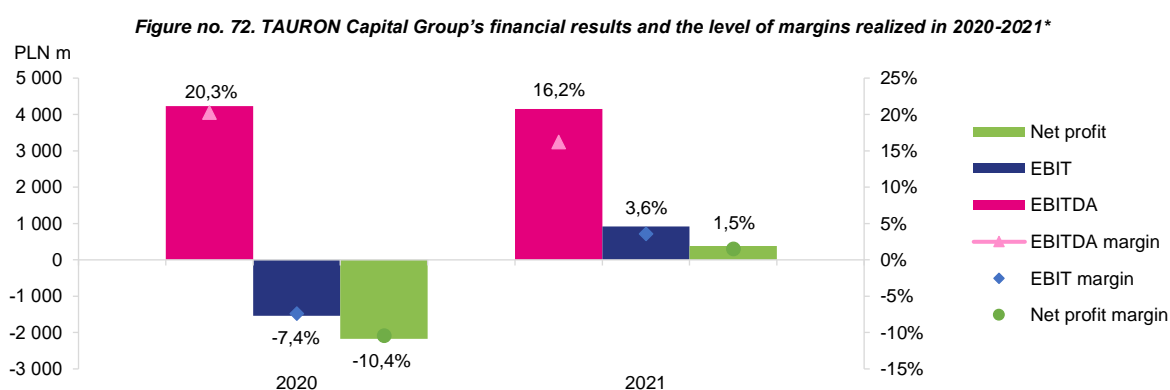
* Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The costs of TAURON Capital Group's operations (operating expenses) came in at PLN 24 820 million in 2021, i.e. they were 9% higher than the costs incurred in 2020, which is the result of the following factors:

1. higher depreciation costs, mainly as a result of an increase in the value of the assets of TAURON Capital Group as a consequence of commissioning the 910 MW unit in Jaworzno at the end of 2020 and the other investment projects related to the assets of TAURON Capital Group underway, mainly in the distribution line of business,
2. lower value of the impairment charges (write-downs) related to the non-financial fixed assets, which is the result of the asset impairment tests carried out as of June 30, 2021, and as of December 31, 2021, which demonstrated the legitimacy of recognizing (booking) the write-downs in an amount lower than in the same period of 2020,
3. higher costs of the materials and energy consumption, mainly as a result of the higher costs of the heating oil consumption and the other variable production costs due to the higher electricity and heat production and the higher price of the raw material (commodity),
4. higher costs of the repair (overhauls) and maintenance services due to the broader scope of the works to be performed with respect to the mining, heating and renewable energy (RES) assets and the higher rates for the services provided,
5. lower costs of the distribution services in connection with a decrease of the tariff for the distribution services for PSE (TSO), which is primarily related to the drop of the quality based fee,
6. higher costs of the other external services, mainly as a result of an increase of the costs of waste management and the transportation services as well as an increase in the number of the longwall coal face mining, headings (workings) maintenance, longwall headings (coal faces) liquidation services and a larger quantity of the subcontracting services due to the increased demand for the services related to the meter replacements, their re-legalization, the illegal electricity consumption control (inspection) services, as well as the services related to electricity supply interruption and restart. In addition, the increase in the cost item is due to the increased scope of the external services provided in connection with the commissioning of the 910 MW unit in Jaworzno at the end of 2020,
7. higher costs of the greenhouse gas emission allowances, which is the result of an increase in the price of the allowances and the higher CO₂ emissions by the generating units due to the higher production of electricity from the conventional sources,
8. higher costs of the employee benefits, which is the result of:

- 1) recognition in the costs of the first half of 2020 of the effects of the dissolution of the actuarial provisions by TAURON Capital Group's subsidiaries in connection with the amendment to the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout of a cash equivalent for the discounted use of electricity by the current employees of TAURON Capital Group who acquired the rights to the tariff upon retirement or upon receiving a disability pension and other entitled persons,
 - 2) reduction of the working time in the second quarter of 2020 in accordance with the signed agreement with the workforce, as a consequence of the COVID-19 pandemic,
 - 3) change in the discount rate from 1.5% to 3.6% in 2021, which led to the change of the costs of the actuarial provisions with respect to the years of the service anniversary related bonuses for the employees,
 - 4) increase of the minimum wage in 2021,
 - 5) 1% lower headcount at TAURON Capital Group's subsidiaries,
9. lower costs of the impairment charges (write-downs) related to the accounts receivable, which is a consequence of the recognition (booking) of the elevated impairment charges (write-downs) in 2020 due to the uncertainty with respect to the financial standing of TAURON Capital Group's counterparties in connection with the restrictions introduced as a consequence of the COVID-19 pandemic,
 10. higher costs by type related to the insurance of the 910 MW unit in Jaworzno whose costs were recognized (booked) as a capital expenditure related to the investment project underway in the three quarters of 2020,
 11. lower value of the costs of the services for the in-house purposes, which is mainly due to the recognition (booking) in the first three quarters of 2020 of a part of the operating costs (opex) of the 910 MW unit in Jaworzno as a capital expenditure (capex) in connection with its start-up,
 12. higher costs of the electricity sold, mainly due to the increase in the electricity purchase price year on year. In addition, in 2020, this reporting item included the effect of a one off transaction involving a swap of the power exchange contracts with the delivery date in December 2020 for the OTC contracts with the delivery date in March 2021. The decision on the change of the strategy was made taking into account the current market circumstances, difficult to predict at the time of the conclusion of the transaction. Such circumstances include, in particular, the growing costs of maintaining a position (exposure) on the power exchange, which was related to, inter alia, the need to make ongoing contributions to the power exchange deposits (margin payment calls), a change in the legal and market circumstances with respect to the trading in the CO₂ emission allowances related to Brexit and the COVID-19 pandemic. Implementing the above change in the strategy, the Company resold the futures position (exposure) with the delivery date in December 2020 held on the power exchange (it entered into an opposite transaction on the power exchange), while at the same time purchasing the same volume in the contracts with the delivery date in March 2021 from the counterparties on the OTC market. In addition, the costs of the electricity sold in 2021 include the cost of the provision for the onerous contract, recognized as of the balance sheet date, in the amount of PLN 289 million, which is related to the shutdown of the 910 MW unit in Jaworzno

The below figure presents TAURON Capital Group's financial results and the level of the margins realized from the continued operations.



*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The EBITDA margin generated in 2021 came in at 16.2% and it was lower by 4.1 pp than the margin posted in 2020. As a result of the impairment charges (write-downs) taken, which in 2021 were lower than the impairment charges booked in 2020, the EBIT margin and the net profit margin were higher in the reporting period than the figures posted in the previous year and came in at 3.6% and 1.5%, respectively.

Statement of cash flows

The below table presents the statement of cash flows.

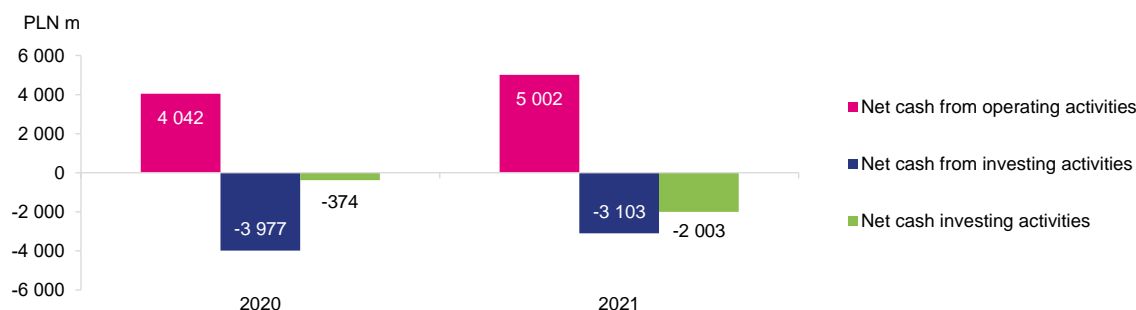
Table no. 44. Statement of cash flows (material items) in 2020-2021*

Statement of cash flows (PLN '000)	Year ended on December 31, 2020	Year ended on December 31, 2021	Change in % (2021 / 2020)
CASH FLOW FROM OPERATING ACTIVITIES			
Pre-tax profit / (loss)	(2 179)	675	-31%
Adjustments	6 221	4 327	70%
Net cash from operating activities	4 042	5 002	124%
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets and intangible assets	(3 908)	(3 255)	83%
Net cash from investing activities	(3 977)	(3 103)	78%
CASH FLOW FROM FINANCING ACTIVITIES			
Redemption of debt securities	(60)	(170)	283%
Issue of debt securities and proceeds from taking out credits / loans	1 000	-	-
Proceeds from taking out credits / loans	3 369	2 003	59%
Repayment of loans / credits	(4 407)	(3 466)	79%
Interest paid	(216)	(343)	159%
Net cash from financing activities	(374)	(2 003)	535%
Increase / (decrease) in net cash and equivalents	(309)	(104)	34%
Cash opening balance	1 204	895	74%
Cash closing balance	895	791	88%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figure presents the 2020-2021 cash flows.

Figure no. 73. 2020-2021 cash flows



The amount of cash flows from operating activities in 2021 came in at PLN 5 002 million, which was the result of the following factors:

1. generated EBITDA in the amount of PLN 4 152 million,
2. a positive change of the working capital in the amount of PLN 1 256 million, which is the result of:
 - 1) a negative change of the balance of the accounts receivable, mainly from the consumers, in the amount of PLN 786 million,
 - 2) a positive change of the inventory level, in the amount of PLN 313 million, mainly due to the lowering of the hard coal inventory levels,
 - 3) a positive change of the balance of the accounts payable in the amount of PLN 543 million, mainly as a result of an increase of the accounts payable towards the suppliers, the overpayments received and the advance payments on account of the services provided,
 - 4) a positive change of the other long and short term assets as well as the provisions in the total amount of PLN 1 273 million,
 - 5) a negative change of the prepayments and accruals as well as the government subsidies in the amount of PLN 87 million,

3. income tax paid in the amount of PLN 392 million, which is, to the large extent, due to the Tax Capital Group (PGK) settlements that include:
 - 1) income tax paid by the Tax Capital Group (PGK) in the amount of PLN 433 million as the advance payment on account of the income tax for December 2020 and for the first three quarters of 2021,
 - 2) refund of the income tax overpayment for 2020 in the amount of PLN 104 million,
 - 3) income tax paid by the companies that are not part of the Tax Capital Group (PGK) for the years 2021 - 2023, mainly TAURON Ciepło.
4. other factors: PLN -14 million.

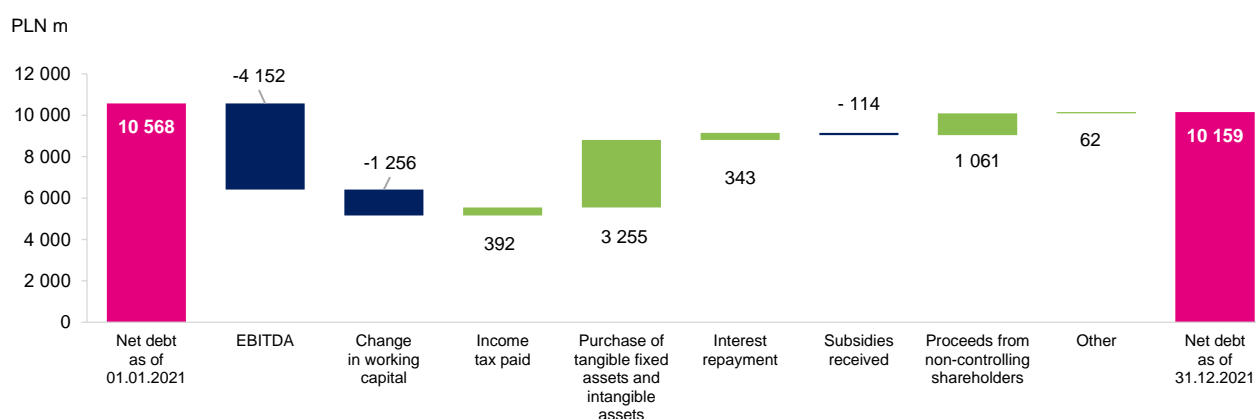
The expenditures for the purchase of the tangible fixed assets have the biggest impact on the cash flow from the investing activities, coming in at PLN 3 255 million in the reporting period and they were lower by PLN 653 million than the outlays incurred in 2020. The largest expenditures were incurred by the Distribution and Generation Segments.

The negative value of the cash flow from the financing activities is primarily due to the amount of the expenditures made in connection with the repayment of the financial obligations being higher than the inflows generated as a result of the financing obtained. The amount of the credits and loans repaid came in at PLN 3 446 million, while the amount of the proceeds received due to the loans taken out clocked in at PLN 2 003 million. In addition, in 2021 TAURON Capital Group paid the amount of PLN 343 million due to interest, mainly on the financial obligations, repaid the accounts payable due to the leases in the amount of PLN 117 million, while the amount of the subsidies received stood at PLN 114 million.

TAURON Capital Group is maintaining its market position. The current liquidity ratio and the net debt to EBITDA ratio continue to stand at a safe level.

The below figure presents TAURON Capital Group's 2021 cash flows.

Figure no. 74. TAURON Capital Group's 2021 cash flows



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pool* mechanism in order to minimize the potential cash flow disruptions and the risk of the liquidity loss. TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from the environmental funds, bond issues.

5.5. Material off-balance sheet items

The material off-balance sheet items of TAURON Capital Group, as of December 31, 2021, include:

1. lawsuits brought by the companies from the Polenergia and Wind Invest groups against TAURON and PEPKH, related to the termination of the long term contracts for the purchase of the electricity and property rights by PEPKH,
2. claim of the WorleyParsons consortium against PGE EJ 1 (currently Polskie Elektrownie Jądrowe – Polish Nuclear Power Plants),
3. claim of Huta Łaziska (Łaziska Steel Works) for the alleged damage caused by a failure to implement by GZE S.A. (company taken over by TAURON) the decision of the President of the Energy Regulatory Office (ERO) related to the resumption of the electricity supply by GZE to Huta Łaziska (Łaziska Steel Works),

4. lawsuit brought by Enea against TAURON as well as against TAURON Sprzedaż and TAURON Sprzedaż GZE as the co-defendants, where the basis of Enea claim are the allegations related to the Company's unjust enrichment (benefit) in connection with the possible errors with respect to the determination of the metering and billing data by Enea Operator sp. z o.o., constituting the basis for the settlements of Enea and TAURON with PSE, due to an imbalance on the Balancing Market,
5. administrative and investigative proceedings as well as the proceedings with respect to the imposition of the fines initiated by the President of the Office of Competition and Consumer Protection (UOKiK) and the President of the Energy Regulatory Office (ERO) against the Supply Segment's subsidiaries,
6. contingent liabilities related to the possibility of the future costs to be incurred by TAURON Capital Group's subsidiaries due to the non-contractual use of the real estate, i.e. the land on which distribution grids, district heating installations and the devices related thereto are located,
7. claim against TAURON Wydobycie related to the reimbursement of the expenses for providing the protection for the facility against the effects of the mining operations,
8. claim of the general contractor related to the amendment to the agreement for the construction of the "Grzegorz" shaft at TAURON Wydobycie.

The detailed information related to the off-balance sheet items both in the subjective and objective terms, as well in terms related to the value thereof is presented in notes 54 and 55 to the Consolidated financial statements of TAURON Capital Group.

5.6. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON Capital Group for 2021. This decision was due to the considerable volatility of the market and a substantial number of factors affecting the predictability thereof.

5.7. Key financial ratios and the Alternative Performance Metrics

The below table presents the key financial ratios of TAURON Capital Group, which may constitute an important source of information for the investors about the financial and operational standing of TAURON Capital Group. The Alternative Performance Measures presented below as defined by the ESMA Guidelines on the Alternative Performance Metrics, in the opinion of the Management Board, present the additional information with respect to the financial results of TAURON Capital Group's business operations. They constitute the standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial efficiency, cash flows and debt of TAURON Capital Group. In 2021, there were no changes in the methodology for determining the individual metrics in relation to 2020, therefore the values of the metrics are comparable

Table no. 45. Key financial ratios of TAURON Capital Group for the continued and discontinued operations¹

Ratios	Definition	2020	2021
PROFITABILITY			
EBIT Margin	Operating profit / Sales revenue	-7.4%	3.6%
EBITDA Margin	EBITDA / Sales revenue	20.3%	16.2%
Net Profitability	Net profit/ Sales revenue	-10.4%	1.5%
Return on Equity (ROE)	Net profit/ Equity at the end of the period	-13.0%	2.3%
LIQUIDITY			
Current liquidity ratio	Current assets / Short-term liabilities	0.86	0.63
DEBT			
Total debt ratio	Total obligations/ total liabilities	0.58	0.59
Net financial debt/ EBITDA	(Financial liabilities - Cash)/ EBITDA	2.50	2.19
OTHER RATIOS			
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	(1.24)	(0.20)

¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

In 2021, the EBITDA margin ratio came in at 16.2%, i.e. it was 4.1 pp. lower than in 2020, which was the effect of the rising electricity and gas sales prices, which contributed to a significant increase, i.e. by 23%, of TAURON Capital Group's revenues, while achieving the EBITDA level at a comparable level.

In 2021, the EBIT margin and net profitability ratios of TAURON Capital Group stand at the level of 3.6% and 1.5%, respectively, and they are higher than the metrics reported for 2020, which was a consequence of recognizing of the balance of the impairment charges related to the carrying amount of the assets, in the 2020 results, in the amount higher than in 2021 and the higher costs of interest on debt.

As of December 31, 2021, the current liquidity ratio was lower than as of December 31, 2020, which is the result of an increase in the liabilities, mainly due to the indebtedness, as a result of the reclassification of a part of the long term debt with the maturity of up to 1 year from the balance sheet date and the recognition of the liability due to the acquisition of the non-controlling interests (stake), as described in more detail in section 5.3. of this report.

The total debt ratio and the net debt to EBITDA ratio illustrate the share of the liabilities in financing TAURON Capital Group. The current level of these ratios enables TAURON Capital Group to obtain the external financing required to carry out the planned investment (capex) projects. The levels of both ratios confirm the stable financial position of TAURON Capital Group.

The EPS ratio (calculated in relation to the net result attributable to the shareholders of the parent entity) stands at PLN 0.2 / share and it is higher than reported in the previous year, which is due to the recognition in 2020 of the balance of the impairment charges related to the carrying amount of the assets in the amount higher than in 2021.

The below table presents the reconciliation of the net financial debt, the amount of which, along with the EBITDA amount, is the basis for calculating the net debt to EBITDA ratio.

Table no. 46. Net financial debt reconciliation

Item (PLN m)	2020	2021
Cash and equivalents	948	1 280
Cash and equivalents – balance acc. to balance sheet	921	815
Short term investments with the maturity of up to 1 year	27	465
Long term financial debt	10 165	7 881
Long term credits and loans, and other	4 843	2 736
Long term liabilities due to bonds issued	5 323	5 145
Short term financial debt	1 351	2 002
Short term credits and loans, and other	1 476	2 138
Short term liabilities due to bonds issued	201	203
Liabilities due to the valuation of the derivative instruments	-	495
Liabilities due to the acquisition of the non-controlling interests (stake)	-	1 061
Total financial debt	11 516	11 439
Net financial debt	10 568	10 159

The below table presents the reconciliation of the result at the EBITDA level.

Table no. 47. Reconciliation of the result on the EBITDA level

Item (PLN m)	2020	2021
Net profit (loss)	(2 173)	385
Net profit (loss) on discontinued operations	(6)	290
Income tax charged to the financial result	(196)	(193)
Financial costs	838	434
Financial revenue	(1 537)	916
EBIT	2 017	2 101
EBIT on discontinued operations	3 746	1 135

Item (PLN m)	2020	2021
Depreciation charged to the financial result	4 226	4 152

5.8. Most significant financial and operating data for the last 5 years

The below table presents the most significant financial data and operating data of TAURON Capital Group for the last 5 years, i.e. for the 2017 – 2021 period.

Table no. 48. Financial and operating data for 2017-2021*

Key information	unit	2017	2018	2019	2020	2021	Change in % (2021 / 2020)
STATEMENT OF COMPREHENSIVE INCOME							
Sales revenue	PLN m	17 425	18 122	19 558	20 850	25 614	123%
Operating profit	PLN m	1 879	791	295	(1 537)	916	-
Financial revenue (total)	PLN m	191	83	95	196	193	98%
Financial expenses (total)	PLN m	(313)	(11)	(407)	(838)	(434)	52%
Pre-tax profit (loss)	PLN m	1 758	505	(113)	(2 179)	675	-
Income tax	PLN m	(375)	(298)	19	6	(290)	-
Net profit (loss) on continued operations	PLN m			(94)	(2 173)	385	-
Net profit	PLN m	1 383	207	(12)	(2 173)	385	-
attributable to shareholders of the parent entity	PLN m	1 381	205	(11)	(2 170)	338	-
attributable to non-controlling shares	PLN m	2	2	(1)	(3)	47	-
EBITDA	PLN m	3 618	3 492	3 599	4 226	4 152	98%
STATEMENT OF FINANCIAL POSITION							
Fixed assets	PLN m	31 049	32 542	35 052	33 585	33 855	101%
Current assets	PLN m	4 786	4 556	6 865	6 111	6 220	102%
Total equity	PLN m	18 068	18 428	19 093	16 727	16 524	99%
Total liabilities	PLN m	17 767	18 669	22 825	22 969	23 551	103%
Long-term liabilities	PLN m	12 740	11 382	14 963	15 687	13 634	87%
Short-term liabilities	PLN m	5 027	7 287	7 862	7 102	9 917	140%
Net financial debt ²	PLN m	8 047	8 572	10 130	10 595	10 129	96%
Capital expenditures	PLN m	3 474	3 838	4 128	4 039	2 932	73%
CASH FLOW ACCOUNT							
Net cash from operating activities	PLN m	3 559	2 223	2 036	4 042	5 002	124%
Net cash from investing activities	PLN m	(3 872)	(3 387)	(4 535)	(3 977)	(3 103)	78%
Net cash from financing activities	PLN m	760	1 171	2 895	(374)	(2 003)	-
Cash closing balance	PLN m	801	808	1 204	895	791	88%
RATIOS (METRICS)							
EBIT Margin	%	11%	4%	2%	(7)%	4%	-
EBITDA Margin	%	21%	19%	18%	20%	16%	80%
Net financial debt/ EBITDA	multiple	2.2x	2.5x	2.8x	2.5x	2.4x	89%
Net earnings per share	PLN / share	0.79	0.12	-0.01	-1.24	0.19	-
OPERATING DATA							

Key information	unit	2017	2018	2019	2020	2021	Change in % (2021 / 2020)
Commercial coal production	Mg m	6.45	5.01	3.78	4.54	5.15	113%
Gross electricity production	TWh	18.41	16.21	13.88	12.5	15.59	125%
Electricity production from RES	TWh	1.3	0.97	1.38	1.94	1.71	88%
Heat production	PJ	12.2	11.29	10.85	11.63	12	103%
Retail electricity supply	TWh	34.94	34.52	33.73	32.43	33.41	103%
Distribution of electricity	TWh	51.37	51.97	51.73	50.26	53.97	107%
Number of customers (Distribution)	M	5.53	5.60	5.65	5.71	5.78	101%

* The values presented for the years 2017-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments that took place in 2020, i.e. the spinning off of the RES Segment from the Generation Segment and the presentation of the TAURON Ciepło data as part of the discontinued operations

The below table presents TAURON Capital Group's EBITDA for the last 5 years, i.e. for the 2017 – 2021 period.

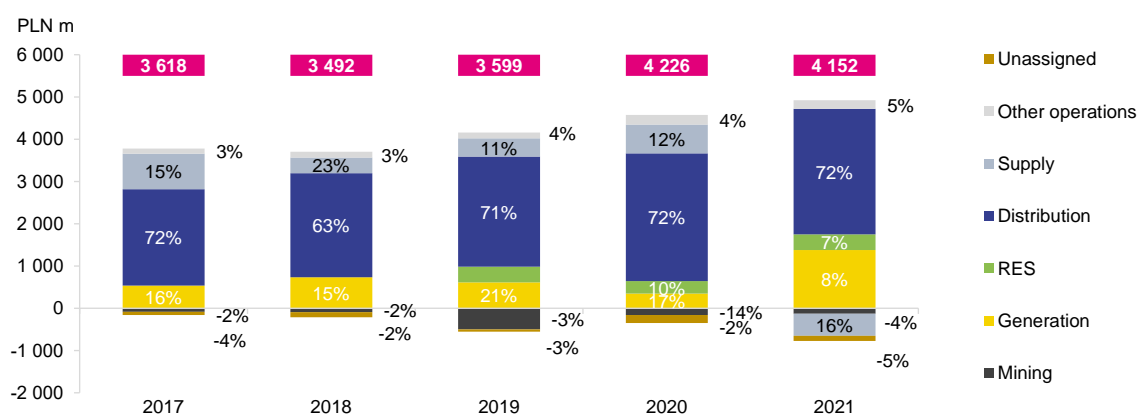
Table no. 49. TAURON Capital Group's EBITDA, broken down into Segments of Operations (Lines of Business) *

EBITDA (PLN m)	2017	2018	2019	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Mining	(83)	(90)	(500)	(157)	(130)	83%	27
Generation	537	731	438	344	1 375	400%	1 031
RES			368	297	376	127%	79
Distribution	2 283	2 466	2 606	3 023	2 967	98%	(56)
Supply	841	372	429	683	(524)	-	(1 207)
Other operations	118	135	136	229	208	91%	(21)
Unallocated items	(78)	(122)	(56)	(193)	(120)	62%	73
Discontinued operations	3 618	3 492	3 599	4 226	4 152	98%	-74
Total EBITDA	3 337	3 618	3 492	3 599	4 223	117%	624

* The values presented for the years 2017-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments that took place in 2020, i.e. the spinning off of the RES Segment from the Generation Segment and the presentation of the TAURON Ciepło data as part of the discontinued operations.

The below figure presents the structure of TAURON Capital Group's EBITDA in 2017-2021.

Figure no. 75. Structure of TAURON Capital Group's EBITDA in 2017-2021



Key information for 2017-2021 by Segments

The below figures present the 2017 - 2021 financial data by Segments of Operations (Lines of Business).

Figure no. 766. Mining Segment's 2017 - 2021 data

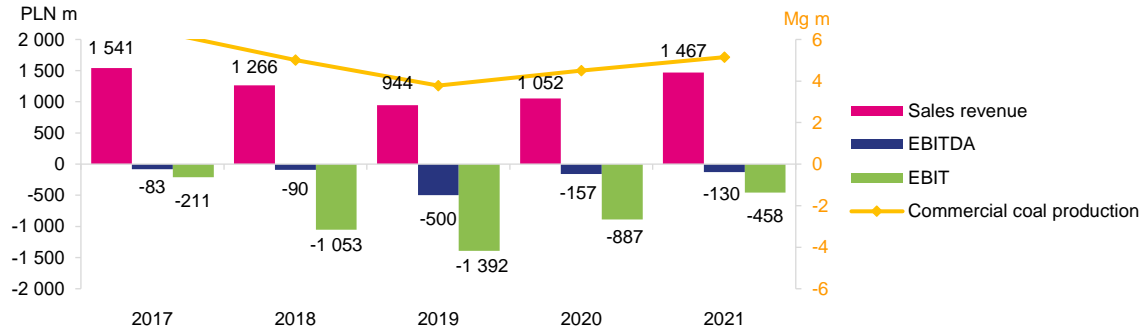


Figure no. 77. Generation Segment's and RES Segment's 2017 - 2021 data

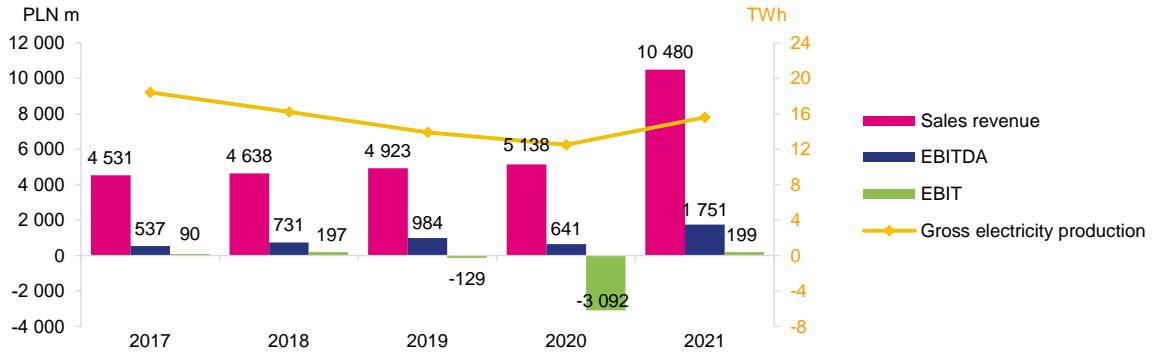


Figure no. 788. Distribution Segment's 2017 - 2021 data

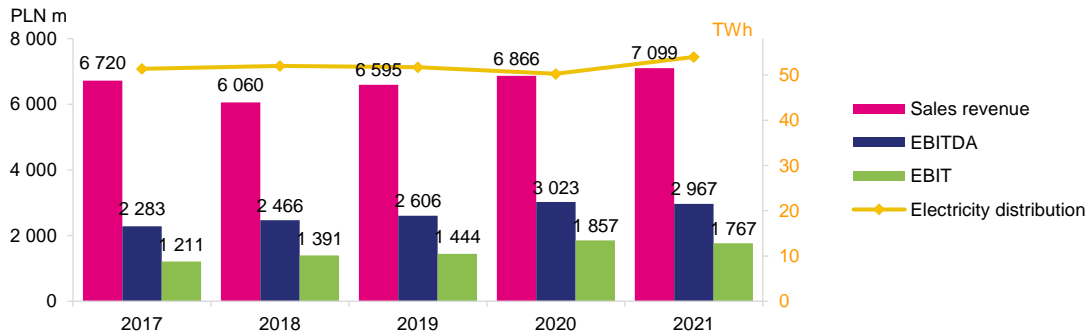


Figure no. 79. Supply Segment's 2017 - 2021 data

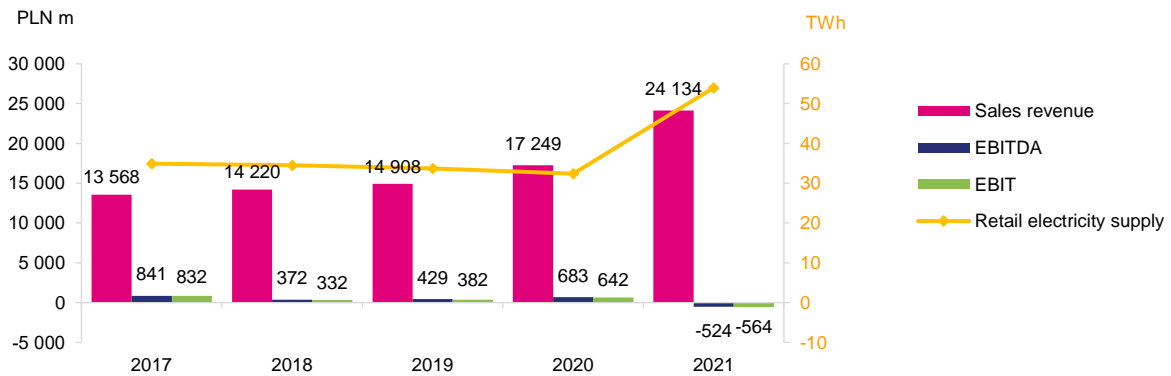
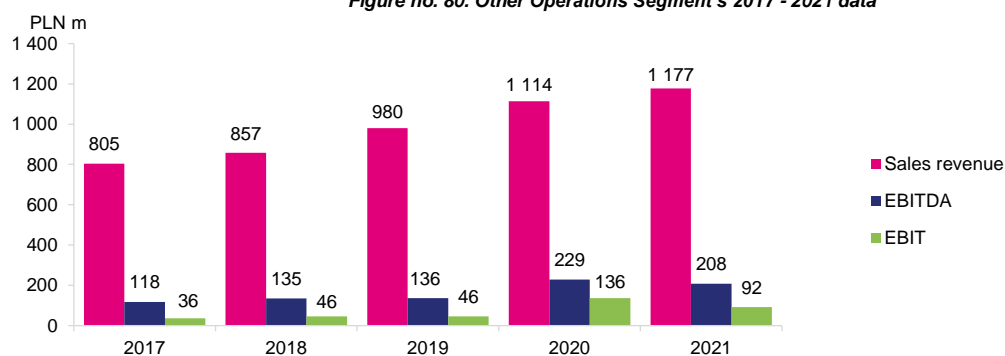


Figure no. 80. Other Operations Segment's 2017 - 2021 data



5.9. What we can expect in 2022

According to the forecasts for the global economy (Global Economic Prospects) published by the World Bank on January 11, 2022, the global GDP growth in the years 2021-2023 will come in at 5.5%, 4.1% and 3.2%, respectively. According to the World Bank, the growth of the world economy will slow down amid the continued COVID-19 pandemic, less fiscal stimulus for the economies and the persistent supply chain bottlenecks. Contrary to the developed economies, the economic growth in the developing countries will remain well below the pre-pandemic trend. The economic projections are characterized by the prevalence of the negative risks related to the new virus mutations, the possibility that the inflation expectations will not be anchored, as well as the fiscal tensions stemming from the rising debt levels. This may result in the need to restructure the debt of some countries, which will be more difficult to achieve at present than in the pre-pandemic conditions.

According to the bank's analysts, in the developed economies, the growth rate in the years 2021-2023 will clock in at 5.0%, 3.8%, and 2.3%, respectively. In the case of the forecast for 2021, this represents a downward adjustment of 0.4 pp as compared to the previous forecast from June 2021. However, for the group of the emerging and developing economies, the World Bank experts are forecasting the GDP growth rate of 6.3% in 2021, 4.6% in 2022 and 4.4% in 2023.

In the presented projections, the World Bank also updated the forecast for Poland's GDP. In its opinion, Poland's GDP growth rate forecast for 2021-2023 stands at 5.1%, 4.7%, and 3.4%, respectively. In the case of the forecast for 2021, this represents an upward revision of 1.3 pp as compared to the WB's earlier forecast from June last year.

The projection presented above does not take into account the current geopolitical turmoil and the armed conflict in Ukraine.

According to the forecasts of the National Bank of Poland (NBP) published as of March 11, 2022, the country's GDP growth rate will come in at 4.4% in 2022, and then it will slow down to 3% in 2023 and 2.7% in 2024. The presented forecasts are lower than those published in November 2021, when the NBP expected the economic growth rate in 2022 and 2023 to stand at the level of 4.9%. The Central Bank is pointing out that "the impact of the Russian armed aggression against Ukraine and the sanctions imposed on Russia will affect the trajectory of the economic growth in various directions. In the short term, the positive impact of the rising expenditures related to the increased inflow of the immigrants from Ukraine on the domestic GDP growth rate may prevail. In the longer outlook of the projection, the disruptions in the foreign trade and the increased volatility of the commodity prices on the world markets will have a more significant impact, leading to a downward revision of the forecast for the economic activity".

The NBP points to a material risk of a further exacerbation of the potential geopolitical tensions or the sanctions related to Russia's military aggression against Ukraine, which, in its opinion, may lead to a further increase in the commodity prices and a curtailment of the inflow of the direct foreign investments to the entire region, including to Poland. An additional factor that could weaken the expected GDP growth may be a reduction in the current account balance through a decline in the exports and an increase in the import prices due to the changes of the conditions for the foreign trade. According to the NBP analysts, another factor that may undermine the GDP growth is the further postponement of the payments from the funds of the National Recovery Plan for Poland.

The additional information related to the forecasts for 2021 is presented in section 2.3. of this report.

5.10. Current and forecast financial and assets situation (financial and assets outlook)

Taking into account the current market situation, it is expected that the results of TAURON Capital Group in the coming years will be affected by both the external factors as well as by the actions taken inside the Group.

The results of the **Mining Segment** in the coming years will, to a large degree, be dependent on the progress in the implementation of the government solutions related to the transition of the hard coal mining sector in Poland. Such solutions provide for the implementation of a system of subsidies to reduce the production capacity of the coal

mines, which, in combination with the growing demand and the rising prices of the raw materials (commodities) on the global markets, point to an improvement in the Segment's results in the short and medium term.

In the **Generation Segment**, due to the growing demand for electricity (a rebound following the pandemic), the production has gone up and is likely to remain at the elevated 2021 level in spite of a significant rise in the electricity prices on the market. Thanks to the high electricity prices, TAURON Ciepło's cogeneration units are in a good shape and the forecasts for them look sound too. The ultimate integration solutions within the National Energy Security Agency (NABE) will have the greatest impact on the outlook for the assets and the earnings with respect to the coal based electricity generation. The efforts in this regard are highly advanced at TAURON Capital Group.

It is expected that the financial results of the **RES Segment** will be stable in the coming years, with a growth outlook thanks to the rising wholesale electricity prices. In the short term, a further expansion of the RES Segment will be focused on the investments in the photovoltaic farms and the onshore wind farms. TAURON is prepared to accelerate the growth of the wind energy, provided that the regulations restricting the locations (sites) of the farms (10H) are liberalized. For both technologies, obtaining of the DSO grid connection conditions is a headwind. In the long term, the development of the offshore wind farms is also planned.

The **Distribution Segment** is and will be a stable source of the revenue for TAURON Capital Group. However, the rapid growth of the distributed sources and electromobility requires the substantial capital expenditures. The investments in this segment are an important element of the utilization of the electricity from the renewable energy sources (RES) and therefore should be supported by the Regulator and the aid funds.

The loss of the **Supply Segment**, reported in 2021, resulted from the sharp surge of the prices on the wholesale electricity and gas market as well as from the tariffs for the households approved by the President of the ERO. The turmoil on the gas market will be particularly severe this year. In the medium term, however, we are forecasting a stabilization and the Segment's return to the positive results. We are assuming a continuation of the value growth model based on the customer relationships and the resale of the additional products and services in connection with the supply of the utilities (electricity / gas).

Other operations: the main consumers of the shared services provided include, first and foremost, the Distribution Segment and the Supply Segment, for which the projects with respect to customer service are implemented and finalized, while at the same ensuring the highest quality of service. In addition, the services for TAURON Capital Group's subsidiaries are provided, with respect to, among others, financial and accounting services, human resources (HR) and payroll services, IT services, property security services, fleet management services and the real estate management services. Such activities enable achieving synergy effects across TAURON Capital Group and bring the cost efficiency improvements.

5.11. Principles of preparing annual consolidated financial statements

The Consolidated financial statements of TAURON Capital Group have been drawn up in accordance with the IFRS approved by the EU.

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

TAURON Capital Group's subsidiaries and the parent entity keep their accounting books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy that is preparing the financial statements in accordance with the accounting principles applicable in the Czech Republic and the companies TEC1, TEC2, TEC 3, AVAL-1, WIND T1 and the limited partnerships listed in section 1.3.1 of this report, that are keeping their books and preparing their financial statements in accordance with the *Act of September 24, 1994, on accounting*.

The consolidated financial statements contain adjustments which are not included in the ledgers of TAURON Capital Group's entities, introduced in order to bring the consolidated statements into compliance with IFRS.

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

The accounting principles (policy) adopted for drawing up of the Consolidated financial statements of TAURON Capital Group are presented in note 6 to the Consolidated financial statements of TAURON Capital Group.

6. INFORMATION ON THE AUDIT FIRM

On November 23, 2018, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyt Polska) to conduct an audit of the financial statements and the consolidated financial statements of TAURON for the years 2019-2021. On January 11, 2019, TAURON concluded an agreement with Ernst & Young Audyt Polska and the subject of the agreement covered:

1. audit of the financial statements of the Company for the years 2019-2021, drawn up in accordance with the requirements of the IFRS,
2. audit of the financial statements of selected subsidiaries of TAURON Capital Group for the years 2019-2021, drawn up in accordance with the IFRS,
3. audit of the consolidated financial statements for the years 2019-2021, drawn up in accordance with the IFRS,
4. review of the interim, half year financial statements of the Company, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS,
5. review of the interim, half year consolidated financial statements, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS.

In addition, in accordance with the agreement, TAURON may exercise the option to commission other permitted services including: verification of the interim, half-year and annual consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021, required to prepare the consolidated financial statements and to carry out in 2020 and 2021 the agreed procedures regarding the verification of the subsidiary's report on the update of the Regulatory Asset Base (RAB) and the Regulatory Asset Base for the AMI System (AMI RAB) for the purpose of determining a justified return on capital employed by the President of the Energy Regulatory Office (ERO) for the years 2021 and 2022.

In connection with the changes in the organization of TAURON Capital Group that took place last year and were described in the report for the year 2019, resulting in the need to include additional subsidiaries in the consolidated financial statements, on December 5, 2019, TAURON concluded, with Ernst & Young Audyt Polska, Amendment No. 1 to the agreement of January 11, 2019, under which the option to commission other permitted services in the form of the verification of the annual and interim, half-year consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021 was extended to include additional companies covered by the consolidated financial statements of TAURON Capital Group.

Prior to 2019 the services provided for the Company by Ernst & Young Audyt Polska had included the audit of the standalone financial statements and consolidated financial statements of the Company for the years from 2008 until 2012 and the years from 2017 to 2018 as well as the reviews of the interim, half year standalone financial statements and the consolidated financial statements of the Company for the periods ended on June 30 in the individual years from 2010 until 2012 and from 2017 to 2018. The Company had also used, prior to 2018, the advisory and training services provided by Ernst & Young Audyt Polska, to the extent in line with the legal regulations in force and not leading to the curtailment of the level of impartiality and independence of the auditor.

On November 9, 2021 the Supervisory Board of the Company, taking into account the recommendation of the Audit Committee, selected audit firm Ernst & Young Audyt Polska to carry out examination and review of the financial statements and consolidated financial statements of TAURON for the years 2022-2024. In connection with the above, in February 2022 (event after balance sheet date) TAURON signed agreement with Ernst & Young Audyt Polska for examination and review of financial statements and consolidated financial statements of TAURON for the years 2022-2024.

The compensation of the audit firm for the services provided for TAURON Capital Group's companies is presented in the below table.

Table no. 50. Compensation of the audit firm for the services provided for TAURON Capital Group's companies

Services provided for TAURON Capital Group's companies	Year ended on December 31, 2021 (PLN '000)	Year ended on December 31, 2020 (PLN '000)
1. Mandatory audit, including:	1 378	1 323
1) consolidated financial statements	179	147
2) standalone financial statements of the parent entity	175	175
3) standalone financial statements of the subsidiaries	1 024	996

Services provided for TAURON Capital Group's companies	Year ended on December 31, 2021 (PLN '000)	Year ended on December 31, 2020 (PLN '000)
2. Other certifying services provided to TAURON Capital Group, including reviews of financial statements and assessment of annual report of the Supervisory Board on remunerations	1 077	937
3. Tax advisory services	0	0
4. Other services (including training) provided for TAURON Capital Group	0	0
Total	2 455	2 260

7. FINANCIAL RESOURCES AND INSTRUMENTS

7.1. Proceeds from security issues

The Company did not issue any securities in 2021.

7.2. Financial instruments

Application of the financial instruments in order to eliminate price changes, credit risk, material disruptions of cash flows and loss of financial liquidity

The financial risk at TAURON Capital Group is managed by TAURON. The centralizing of the financial risk management function is aimed at optimizing the process, including minimizing TAURON's and TAURON Capital Group's costs in the above mentioned respect. As part of the financial risk management in 2021 TAURON Capital Group continued to hedge the risk of volatility of the cash flows resulting from its debt based on the WIBOR reference rate by entering into the interest rate swap (IRS) hedging transactions.

Moreover, in 2021 TAURON hedged its FX exposure arising from the trading operations (mainly due to the purchase of the CO₂ emission allowances) by concluding the forward contracts. In 2021 TAURON was also continuing the strategy of hedging its foreign currency exposure generated by the interest payments on the financing obtained in EUR by concluding the forward contracts. The goal of such transactions was to hedge against the risk of cash flow volatility resulting from the FX rate fluctuations.

With respect to hedging the credit risk, TAURON Capital Group did not use any financial instruments.

As part of the efforts aimed at eliminating the price risk (loss of margin), the contracting of the electricity sales is followed by the contracting of the CO₂ emission allowances. Such a method of hedging the positions allows for minimizing the risk of the CO₂ costs not being covered by the contracted electricity price. The basis for determining the CO₂ sales price for the emission allowances volume defined this way is the CO₂ price on the exchange from the time when the CO₂ volume is contracted.

On the other hand, as part of the liquidity loss risk management, the instruments referred to in section 7.3 of this report are used.

Objectives and methods of financial risk management

The detailed information on the objectives and methods of the financial risk management at TAURON and TAURON Capital Group is presented in section 3.3 of this report.

7.3. Assessment of financial resources management

TAURON is conducting centralized financial management policy and as a result of that effective management of the finances of entire TAURON Capital Group is possible. The main tools enabling effective management include adequate internal corporate regulations as well as the *cash pool* service and the intra-Group loans. In addition, the adopted financial management model is supported by the central policy with respect to TAURON Capital Group's financial risk management and the central Insurance policy of TAURON Capital Group. In these areas the Company is performing the function of the management body (manager) and the decision maker with respect to the directions of the measures undertaken, enabling the setting of the relevant limits of the risk exposure.

In accordance with the adopted financing policy the Company is responsible for acquiring the financing for TAURON Capital Group's subsidiaries. The funds acquired both internally (from TAURON Capital Group's subsidiaries generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to TAURON Capital Group's subsidiaries that are reporting the need for the financing.

The conducted policy of acquiring the funding sources enables, first of all, to increase the possibility of obtaining the financing for the general corporate purposes and capital expenditures (CAPEX), decrease the cost of the external capital, curtail the establishing of the number and form of the collaterals (pledges) on the assets of TAURON Capital Group as well as the covenants required by the financial institutions, and also leads to the reduction of the administrative (overhead) costs. The central corporate financing model also enables acquiring the funding sources that are not available for the individual subsidiaries. The Company is also considering implementing the method of acquiring funding using the project finance formula with respect to the RES projects. The Company has an option to exclude the financing obtained by TAURON's selected special purpose vehicles (SPV) for the implementation of the RES investment projects from the net debt / EBITDA ratio. In case of the project finance solutions, the funds will be obtained directly by the companies implementing the investment projects in the field of renewable energy sources (RES) in cooperation with TAURON - TAURON will be performing the arrangement (organizational) functions. The above mentioned action should enable greater use of debt financing as part of the green turn strategy implemented by TAURON.

Another key element impacting the financial management efficiency is the financial liquidity management policy, implemented, among others, through the determination of the liquidity position and implementation of the liquidity controlling processes. TAURON Capital Group manages cash flows efficiently, maintains adequate liquidity of TAURON Capital Group by optimizing the level of expenses and cash balances at the subsidiaries. The above mentioned activities lead to improving the selection of the moment of fund raising and determining the maturity date, as well as maintaining an adequate level of the liquidity reserve, and also cause the reduction of the financial costs.

In order to optimize TAURON Capital Group's financial liquidity management and the decision making processes, in particular with regard to the total working capital and approving the liquidity position of TAURON Capital Group's subsidiaries for the given year, as well as for the purpose of the ongoing monitoring and developing the management guidelines for the subsidiaries, the Liquidity Committee is in place at TAURON Capital Group.

The liquidity management is supported by the implemented *cash pool* mechanism. Its overarching goal is to ensure TAURON Capital Group's ongoing financial liquidity, while at the same time curbing the costs of the short term external financing and minimizing the financial costs related to maintaining cash surpluses on the bank accounts. Owing to the functioning of the *cash pool* structure TAURON Capital Group's subsidiaries, facing short term funding deficits, may use the funds of the subsidiaries generating the financial surpluses, without the need to acquire the external financing.

Both, the financing policy, as well as TAURON Capital Group's liquidity management policy conducted by TAURON are aimed, apart from increasing the efficiency of managing TAURON Capital Group's finances, first of all, at eliminating threats of curtailment or loss of TAURON Capital Group's financial liquidity. The guaranteed sources of the financing, obtained with an adequate lead time, effectively eliminate the risk of TAURON Capital Group losing its liquidity. The Company is pursuing a policy of diversifying the financing instruments, but, first and foremost, it is seeking to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet the current and future liabilities in the short and long term.

In addition, TAURON Capital Group has dedicated agreements in place to provide the collateral for the liabilities towards IRGiT (Warsaw Commodity Exchange Clearing House) and the bank guarantee programs, under which it is possible to issue guarantees to provide the collateral (pledges) for the liabilities of TAURON Capital Group's subsidiaries within the centralized bank limits. The above mentioned measure curtailed the costs of the guarantees acquired and curbed the formal actions required to obtain a guarantee.

In 2021 the Company and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.

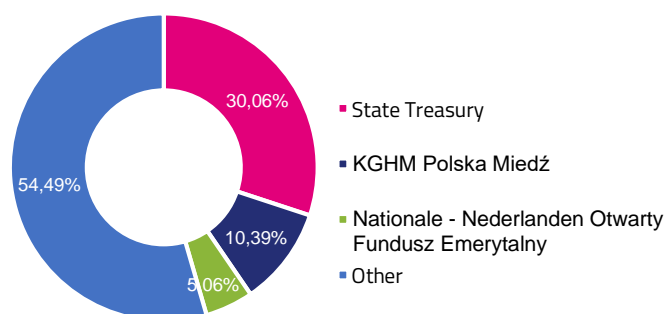
8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

8.1. Shareholding structure

As of December 31, 2021, and as of the date of drawing up this report the Company's share capital, in accordance with an entry in the National Court Register, stood at PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered ordinary BB series shares, which, as of March 1, 2021, were dematerialized under the *Act of August 30, 2019, on amending the Act - Code of Commercial Companies and certain other acts* (Journal of Laws of 2019, item 1798, as amended acc. to Journal of Laws of 2020, item 875).

The below figure presents the shareholding structure as of December 31, 2021 and as of the date of drawing up this report.

Figure no. 81. Shareholding structure as of December 31, 2021 and as of the date of drawing up this report



The detailed information regarding the shareholding structure (composition) is presented in section 9.4. of this report.

8.2. Dividend policy

As part of its Strategy adopted on September 2, 2016 the Company adopted its dividend policy. In the long term TAURON is planning to pay out a dividend of minimum 40 percent of the consolidated net profit. The Company's intention is to provide a dividend yield that would be competitive versus the yield offered by long term debt instruments issued on the Polish market by investment grade rated companies. The final recommendation on the dividend will be impacted by the additional factors, including in particular:

1. TAURON Capital Group's liquidity position,
2. market situation,
3. implementation of the investment policy,
4. cost and ability to obtain financing,
5. legal requirements and provisions of the financing agreements, in particular related to not breaching the defined level of the leverage ratio,
6. ensuring investment grade rating.

The dividend was last time paid out by the Company in 2015, in the amount of PLN 262 882 409.10 for the financial year 2014. Starting from 2015, the Company has not paid out any dividend.

On May 24, 2021, the Ordinary General Meeting (GM) of the Company passed a resolution to cover the loss for the financial year 2020 from the supplementary capital of the Company.

8.3. Number and nominal value of TAURON Polska Energia S.A.'s shares, as well as of the shares in the related units, held by the Members of the Management Board and the Supervisory Board

The below table presents the Company's shares held by the Members of the Company's Management Board as of December 31, 2021.

Table no. 51. Company's shares held by the Members of the Company's Management Board as of December 31, 2021

First name and last name	Date of appointment to the Management Board of the Company	Number of the Company's shares held	Nominal value of the Company's shares held
1. Artur Michałowski	05.08.2021	0	0
2. Patryk Demski	05.08.2021	0	0
3. Krzysztof Surma	05.08.2021	10 000	PLN 50 000
4. Jerzy Topolski	15.07.2020	0	0

The below table presents the Company's shares held by the Members of the Company's Management Board as of the date of drawing up this report.

Table no. 52. Company's shares held by the Members of the Company's Management Board as of the date of drawing up this report

First name and last name	Date of appointment to the Management Board of the Company	Number of the Company's shares held	Nominal value of the Company's shares held
1. Artur Michałowski	05.08.2021	0	0
2. Patryk Demski	05.08.2021	0	0
3. Krzysztof Surma	05.08.2021	10 000	PLN 50 000
4. Jerzy Topolski	15.07.2020	0	0
5. Artur Warzocha	21.01.2022	0	0

As of December 31, 2020, and as of the date of drawing up this report, the Members of the Management Board of the Company did not hold any shares in the units related to the Company.

As of December 31, 2020, and as of the date of drawing up this report, the Members of the Supervisory Board of the Company did not hold any TAURON shares or any shares in the units related to the Company

8.4. Agreements related to potential changes to the shareholding structure

The Company has no information on the existence of agreements (including also the agreements concluded past the balance sheet date), as a result of which changes in the proportions of shares held by the existing shareholders and bondholders may occur in the future.

8.5. Share buybacks

Acquiring the shares in TAURON Dystrybucja

In 2021 and by the date of drawing up this report, TAURON Dystrybucja subsidiary purchased for redemption 1 150 964 own shares in total, with an aggregate nominal value of PLN 23 019.28 which rounds up to 0.004% of the Company's share capital. These shares were purchased at a gross price of PLN 0.45 per share.

Taking into account art. 418¹, § 4 of the Code of Commercial Companies, the Management Board of TAURON Dystrybucja took steps to redeem its own shares purchased from the minority shareholders, i.e.:

1. On March 30, 2021, the Management Board of TAURON Dystrybucja adopted the resolutions on the redemption of the company's shares purchased by the company from the shareholders representing no more than 5% of the share capital and the lowering of the company's share capital as well as the amendments to the company's articles of association. The company's management board decided to lower the company's share capital from PLN 560 575 920.52 by PLN 86 186.00, i.e. to PLN 560 489 734.52. On May 21, 2021, the District Court for Kraków-Śródmieście in Kraków, the 11th Commercial Department of the National Court Register, registered the lowering of the share capital of TAURON Dystrybucja.
2. On January 11, 2021, the Management Board of TAURON Dystrybucja adopted the resolutions on the redemption of the company's shares purchased by the company from the shareholders representing no more than 5% of the share capital and the lowering of the company's share capital as well as the amendments to the company's articles of association. The company's management board decided to lower the company's share capital from PLN 560 489 734.52 by PLN 9 613.90, i.e. to PLN 560 480 120.62. As of the date of drawing up this report the lowering of the Company's share capital has not been registered thus as of December 31, 2021 and as of the date of drawing up this report the Company held 480 695 own shares.

Acquiring the shares in TAURON Wytwarzanie

In 2021, TAURON Wytwarzanie subsidiary purchased for redemption 139 602 308 own shares in total, with an aggregate nominal value of PLN 1 396 023 080.00. These shares were purchased at a gross price of PLN 10.00 per share.

The share capital of TAURON Wytwarzanie was lowered by the amount of PLN 1 396 023 080.00, i.e. from the amount of PLN 1 502 259 310.00 to the amount of PLN 106 236 230.00, by amending the Company's Articles of Association by way of redeeming some of the shares owned by TAURON, in order to cover the net loss for the financial year 2020 and the net loss from the previous years in the total amount of PLN 1 396 023 076.75, the remaining amount of PLN 3.25 was transferred to the reserve capital. On December 20, 2021, the District Court Katowice-Wschód in Katowice, the 8th Commercial Department of the National Court Register registered the lowering of the share capital of TAURON Wytwarzanie.

TAURON is the sole shareholder of TAURON Wytwarzanie.

In 2021 and as of the date of drawing up this report, TAURON and other subsidiaries did not hold own shares.

8.6. Employee stock award programs

No employee stock award programs were implemented by the Company in 2021

8.7. Share price performance on the Warsaw Stock Exchange (WSE)

TAURON shares have been listed on the Main Market of the Warsaw Stock Exchange since June 30, 2010. TAURON share price fluctuated between PLN 2.447 and PLN 3.82 (at the closing prices) in 2021. During the last stock market session of 2021 the share price stood at PLN 2.654.

Despite the ongoing COVID-19 pandemic, the Polish economy returned to the growth path in the second quarter of 2021, after recording four quarters of the GDP declines. In the second quarter of 2021, Poland's GDP went up by 1.9%, in the third quarter by 2.1%, and in the fourth quarter by 1.7%, which translated into a 5.7% economic rebound in the entire 2021.

The sentiment on the majority of the world's stock exchanges was very bullish in 2021, which was mainly a consequence of the monetary stimulation by the central banks, the government support programs and the rebound of the economy. On the other hand, the markets were grappling with the rising inflation and interest rate hikes.

The sentiment on the Polish capital market was also very bullish, which meant a reversal of the trends prevailing in 2020 - the WIG index went up by 21.52% in 2021, while the WIG20 climbed 14.26%. The WIG-Energia index, grouping the companies operating in the energy sector, posted an 18.35 percent growth.

The price performance of TAURON shares and the shares of the entire energy sector were impacted in 2021, in addition to the above mentioned macroeconomic trends, by the information on the transition of the electricity sector that envisages the spinning off of the hard coal and lignite based generation assets from the energy groups and the transfer thereof to NABE (The National Energy Security Agency), as well as the information on the scope of the hard coal mining sector transition program, including the planned sale of the coal mines operating as part of TAURON Capital Group to the State Treasury

As of December 31, 2021 TAURON shares were included in the following stock exchange indices:

1. **WIG** – an index that includes all companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in WIG: 0.8345%,
2. **WIG-Poland** – a national index that groups solely shares of domestic companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in WIG-Poland index: 0.8703%,
3. **WIG20** – an index calculated on the basis of the value of the portfolio of the shares of 20 largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG20 index: 1.2939%,
4. **WIG30** – an index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG30 index: 1.1985%,
5. **WIG-Energia** – a sector based index that comprises companies included in the WIG index and are also qualified to the energy sector. TAURON's share in WIG-Energia: 19.7668%,
6. **WIG-ESG** – an index that includes the shares of companies considered as socially responsible, i.e. those that comply with the principles of corporate social responsibility, in particular with respect to the environmental, social, economic and corporate governance issues. TAURON's share in WIG-ESG: 0.7115%.

The below table presents the key data on the Company's shares price performance in 2011-2021.

Table no. 53. Key data on the Company's shares in 2011-2021

Year	Share price high (PLN)	Share price low (PLN)	Last share price (PLN)	Market capitalization at the end of the period (PLN m)	Market capitalization at the end of the period (%)	Book value (PLN m)	Price / Earnings
2011	6.81	4.65	5.35	9 376	2.1	15 922	8.1
2012	5.61	4.08	4.75	8 325	1.59	16 839	5.5
2013	5.39	3.85	4.37	7 659	1.29	17 675	5.5
2014	5.69	4.04	5.05	8 850	1.5	18 107	7.8
2015	5.29	2.37	2.88	5 047	0.98	18 837	4.2
2016	3.19	2.31	2.85	4 995	0.9	16 349	-
2017	4.12	2.75	3.05	5 345	0.8	17 880	3.02
2018	3.28	1.67	2.19	3 838	0.66	18 967	3.7
2019	2.44	1.43	1.64	2 874	0.52	19 168	13.9
2020	3.26	0.82	2.72	4 770	0.89	18 071	-
2021	3.82	2.495	2.654	4 651	0.66	16 497	-

Year	Price / Book Value	Rate of return ytd* (%)	Dividend yield (%)	Trading volume (PLN m)	Trading volume share (%)	Average volume per session (pcs)	Average number of transactions per session (pcs)
2011	0.59	-16.73	2.8	5 575	2.21	3 721 539	1 373
2012	0.49	-5.03	6.5	3 199	1.7	2 667 725	960
2013	0.43	-3.64	4.6	3 104	1.41	2 793 020	1 022
2014	0.49	20.07	3.8	3 135	1.53	2 489 329	1 106
2015	0.27	-40.78	5.2	3 063	1.5	3 190 195	1 431
2016	0.31	-1.04	-	3 199	1.69	4 662 087	1 465
2017	0.31	7.02	-	2 737	1.16	3 261 765	1 323
2018	0.2	-28.2	-	3 104	1.52	5 622 737	1 769
2019	0.15	-25.11	-	2 001	1.04	4 508 965	1 699
2020	0.26	65.98	-	3 233	1.09	6 807 622	2 523
2021	0.28	-2.50	-	3 015	0.96	3 883 666	2 167

*Rate of return calculated taking into account the investor's income from the dividend and assuming that the additional income realized is re-invested. Methodology in accordance with Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

Source: Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

The below graphs present the historical TAURON share price performance and trading volumes, including against the backdrop of the WIG20 and WIG-Energia indices.

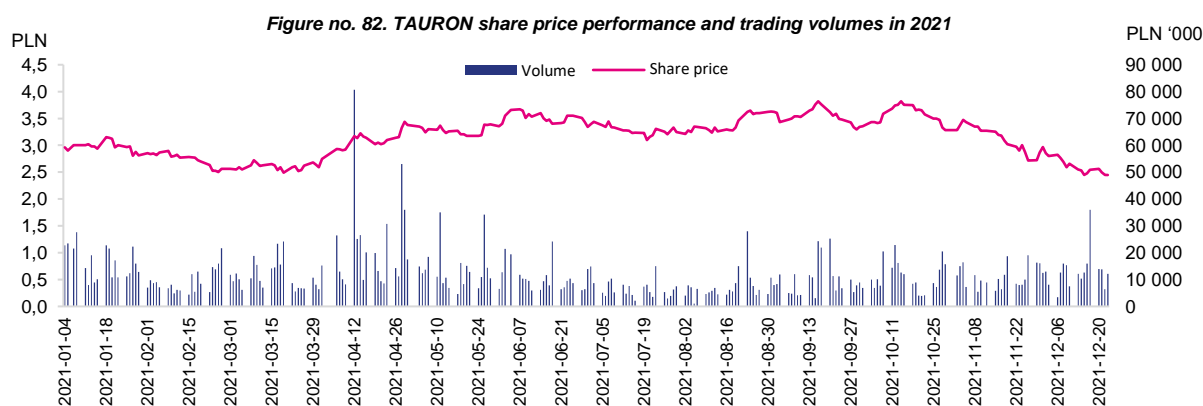


Figure no. 83. TAURON share price and trading volumes since the market debut until December 31, 2021

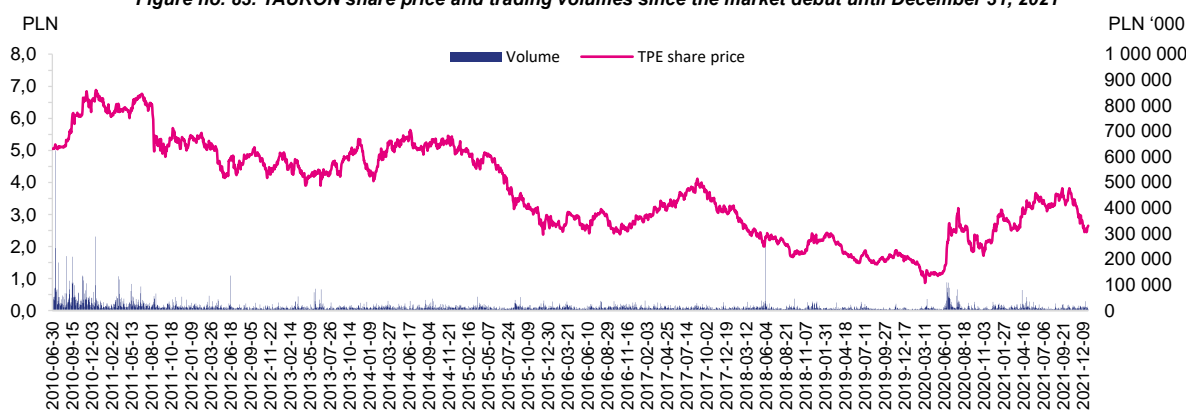
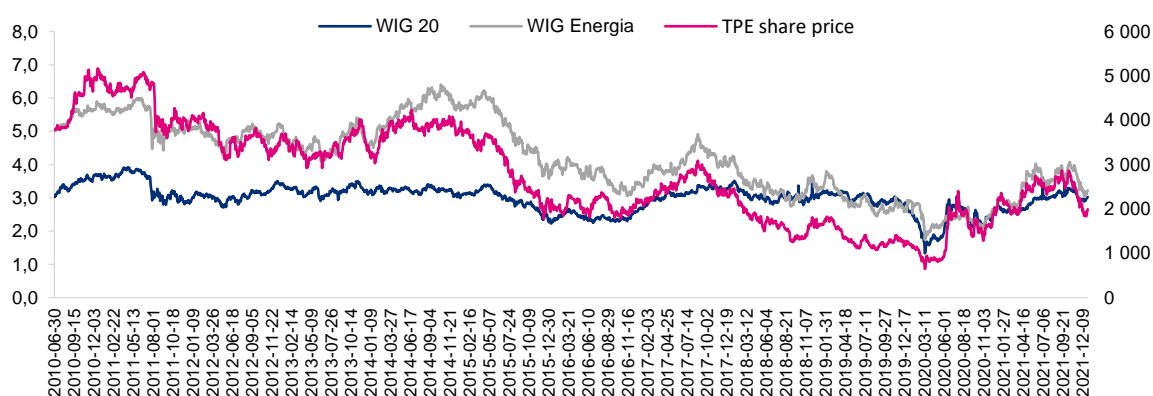


Figure no. 84. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2021



Analysts from brokerage houses and investment banks issued, in total, 18 recommendations for TAURON shares in 2021, including:



8

"buy" recommendations



3

"hold" recommendations



2

"sell" recommendations

The below table presents a list of recommendations issued in 2021.

Table no. 54. Recommendations issued in 2021

Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
28.01.2021	Santander BM	Buy / PLN 5.50
26.02.2021	Citi	Buy / PLN 3.10
23.04.2021	DM PKO BP	Buy / PLN 4.10
26.04.2021	TRIGON DM	Buy / PLN 3.60
27.04.2021	Societe Generale	Buy / PLN 4.10
18.05.2021	Erste Securities	Buy / PLN 4.20
20.07.2021	TRIGON DM	Buy / PLN 3.90
21.10.2021	TRIGON DM	Hold / PLN 3.80
26.10.2021	Societe Generale	Hold / PLN 4.10
17.11.2021	Santander BM	Buy / PLN 6.00
5.12.2021	DM BOŚ	Hold / PLN 3.13

Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
7.12.2021	Ipopema	Sell / PLN 2.22
9.12.2021	TRIGON DM	Sell / PLN 2.30

8.8. Investor relations

Transparent, accurate and regular communications is the foundation of TAURON's investor relations (IR) program. It is taking place not only in the form of the mandatory activities required by law, i.e. by disclosing the information in the current and periodic regulatory filings (current reports) for example, but it is also supplemented via a number of additional activities and tools addressed directly to all of the stakeholders. As a consequence, the high quality communications leads to the higher level of trust among the investors, financing institutions and business partners. Building the relationships with the investors is based on both implementing the best practices used around the world as well as setting the highest standards on the Polish capital market.

Analysts, journalists and shareholders had access to a wide spectrum of the information on TAURON Capital Group in 2021, using various communications tools. Due to the epidemic related restrictions, the meetings with the journalists, investors and analysts were held online.

In connection with the publication of the periodic reports, the Company was organizing the earnings conferences for investors and analysts, each time attended by several dozen representatives of the capital markets and media. Such events were simultaneously interpreted into English. It was also possible to follow (replay) them at a later date. As a result, all of the interested parties were guaranteed equal access to the information. In addition, the Company organized three chats with the representatives of the Management Board, dedicated to the individual (retail) investors.

Apart from the meetings accompanying the publication of the periodic reports, the Members of the Management Board and the representatives of the Investor Relations Team took part in several conferences in 2021, during which several dozen meetings with the investment fund managers and the capital market analysts were held. During the meetings with the investors, the Members of TAURON's Management Board and the key managers were presenting TAURON Capital Group's strategy, discussing the key capex projects, the financial situation as well as the current standing and the outlook for the energy sector.

In 2021, similar as in the previous years, TAURON also participated in the events addressed to the individual (retail) investors. The Company was, inter alia, a strategic partner of the "WallStreet" conference organized by the Individual Investors Association (Stowarzyszenie Inwestorów Indywidualnych).

In connection with the growing importance of the online channels and the social media, the Company is placing a lot of weight on the development thereof with respect to the communications with the investors. The broadcasts of events that are important for the investors are provided via the YouTube service, for example, the earnings conferences or the General Meetings. TAURON also has a corporate profile on Twitter where entries related to, among others, the investor relations are posted. Being aware of the fact that the website is a significant source of information for the investors, in particular, the Investor Relations tab; the Company takes care of its content and the validity of the content provided therein. The Investor Relations section contains a lot of useful information on both the current events as well as the planned ones, the financial results or TAURON Capital Group's strategy. It also provides presentations and the video broadcasts of the conferences summarizing the financial results.

The activities with respect to the investor relations are regularly appreciated by the capital market participants and investors.

The detailed information on the awards and accolades (honorable mentions) received by TAURON and TAURON Capital Group's subsidiaries is presented in section 2.7. of this report.

The below table presents a timeline of the investor relations highlights (events) and activities that took place in 2021.

Table no. 55. Timeline of the investor relations events and activities that took place in 2021

Date	Event
26.01.2021	Participation in the Top Ideas conference, BM PKO BP
17.03.2021	Participation in the CEE Capital Markets conference, BM PKO BP
31.03.2021	Full year 2020 standalone and consolidated earnings reports published
01.04.2021	Video conference for the analysts, fund managers and the media to present the FY 2020 financial results
01.04.2020	Chat for the individual investors as part of cooperation with the Individual Investors Association.

Date	Event
19.05.2021	Q1 2021 consolidated earnings report published
20.05.2021	Video conference for the analysts, fund managers and the media to present the Q1 2021 financial results
24.05.2021	Company's Ordinary General Meeting.
06.09.2021	Pekao Investment Banking Participation in the 18th Annual Emerging Europe Investment Conference, Pekao Investment Banking
15.09.2021	H1 2021 consolidated earnings report published
16.09.2021	Video conference for the analysts, fund managers and the media to present the H1 2021 financial results
16.09.2021	Chat for the individual investors as part of cooperation with the Individual Investors Association
23.09.2021	Participation in the CEE Metals & Energy conference, BM PKO BP
06.10.2021	Participation in The Finest CEElection 2021 conference, Erste Group
17.11.2021	Q3 2021 consolidated earnings report published
18.11.2021	Video conference for the analysts, fund managers and the media to present the Q3 2021 financial results
18.11.2021	Chat for the individual investors as part of cooperation with the Individual Investors Association
9.12.2021	Participation in the WOOD's Winter Wonderland - Emerging Europe Conference, WOOD & Company

9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 70, clause 6, sub-clause 5) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic (interim) information disclosed by the issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a non-member state (i.e. Journal of Laws of 2018, item 757), the Company's Management Board presents the statement on the application of corporate governance in 2021.

9.1. Applied set of corporate governance rules

The intention of the Company is to follow the best national, European and global practices with respect to corporate governance. The Company consistently strives to develop corporate governance, paying particular attention to strengthening the transparency of the Company's operations, improving the quality of the Company's communication with the investors and strengthening the protection of the shareholders' rights. The Supervisory Board and the Management Board of the Company are taking steps to ensure the broadest possible application by the Company of the principles provided in the Best Practices of the WSE Listed Companies.

In 2021 the Company was subject to the corporate governance rules, described in:

1. Best Practice of the WSE (GPW) Listed Companies 2016 (Best Practice 2016), adopted by the Supervisory Board of the WSE (GPW) in resolution no. 26/1413/2015 of October 13, 2015, which had come into force on January 1, 2016 and had been in effect until June 30, 2021,
2. Best Practice 2021, adopted by the Supervisory Board of the WSE (GPW) in resolution no. 13/1834/2021 of March 29, 2021, which came into force on January 1, 2021.

The text of the Best Practice 2016 document that the Company had been subject to until June 30, 2021, is available on the WSE (GPW) website at the address:

https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/DPSN2016GPW.pdf.

The text of the Best Practice 2021 document that the Company is subject to is published on the WSE (GPW) website at the address: <https://www.gpw.pl/dobre-praktyki> as well as on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

In accordance with the requirements of the WSE (GPW), on July 29, 2021, the Company published the *Information on the application by the Company of the principles contained in the Code of Best Practice for the WSE Listed Companies 2021* on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

Description of the Company's activities before July 1, 2021, aimed at preparing the Company for the application of the Best Practice 2021

In order to adapt the Company's operations as widely as possible to the principles contained in the Best Practice 2021, in the period before July 1, 2021, the Company had taken the following steps, which resulted in the amendments to the Company's internal corporate documents, in particular:

On April 30, 2021, the Supervisory Board of the Company approved the amendments to the Regulations of the Management Board introducing, among others:	<ol style="list-style-type: none">1. The obligation for the Management Board to vote in an open ballot (unless otherwise provided for in the law),2. A ban on taking up an additional professional activity by a Member of the Management Board, if the time devoted to such activity prevents him / her from reliably performing his / her duties in the Company,3. A possibility (option) for a Member of the Management Board to demand an inclusion of his / her dissenting opinion in the minutes of the meeting of the Management Board.
On May 24, 2021, the General Meeting adopted an amendment to the Company's Articles of Association, which introduced, among others:	<ol style="list-style-type: none">1. The obligation to meet the independence criterium by at least two members of the Supervisory Board,2. The obligation to adopt resolutions by the Supervisory Board in an open ballot, subject to the provisions of the generally applicable law,3. A possibility (option) to report a dissenting opinion to the minutes of the meeting by a member of the Supervisory Board voting against the resolution,4. The obligation to adopt a resolution of the General Meeting authorizing the Management Board to take steps aimed at acquiring the shares to be redeemed, including specifying the terms of the purchase of the shares by the Company as well as ensuring that the rights of all of the shareholders are respected.
On May 24, 2021, the General Meeting adopted the amendments to the Regulations of the General Meeting of the Company aimed at:	<ol style="list-style-type: none">1. Striving to ensure the diversity with respect to women and men in the composition (membership) of the Supervisory Board,2. Changing the rules of convening and conducting the General Meetings, including ensuring the publicly available broadcasts of the General Meetings,3. Introducing the obligation to specify in detail the issue price of the shares with the pre-emptive rights (rights issue) in the form of a resolution of the General Meeting,4. Setting the deadline by which the draft resolutions of the General Meeting should be submitted by the Shareholders (3 days before prior to the General Meeting at the latest),5. Establishing the rules for submitting the candidates for the members of the Supervisory Board,6. Introducing the obligation to attach justifications (statements of reason) to the draft resolutions of the General Meeting related to the matters and decisions other than those of a procedural nature.

On July 27, 2021, the Supervisory Board adopted the amendments to the Regulations of the Supervisory Board, among others with respect to:

1. The provision that the members of the Supervisory Board should be able to devote the required amount of time to perform their duties,
2. The provision that the administrative and financial measures necessary to ensure the efficient functioning of the Supervisory Board should be adequately delegated,
3. The provision that the Chairperson of the Supervisory Board should not combine his / her function with managing the works of the Audit Committee operating as part of the Supervisory Board's activities.

Description of the manner in which the Company is applying the principles provided in the Best Practice 2021 with respect to the issues of the greatest importance to the shareholders

Compliance with the corporate governance rules constitutes an integral part of the Company's operations. The high standards in this respect are also important from the perspective of the shareholders. The Company presents the below information on the rules applied by the Company that, in the Company's opinion, are significant for the shareholders.

The rules related to the information policy and communications with the investors

Section 1 of the Best Practice 2021 sets out the rules for ensuring the proper communications with the stakeholders and conducting a transparent and reliable information policy.

The Company uses various channels of communications with the capital market participants. All of the information required by the law is posted and updated on an ongoing basis on the Company's website. The Company maintains ongoing contacts with the investors (institutional and individual) as well as the analysts from the brokerage houses and investment banks. The Company communicates with them at the conferences organized following the publication of every interim report, individual meetings organized at the request of the investors and analysts, and the regularly organized chats for the individual (retail) investors. The contact details for the investors along with the available telephone numbers and e-mail addresses, as well as a contact form (rule 1.1.), are provided on the website <https://www.tauron.pl/tauron/relacje-inwestorskie>.

The Company prepares and publishes, on the website <https://www.tauron.pl/tauron/relacje-inwestorskie>, the periodic (interim) reports containing the financial results as soon as possible following the end of the reporting period. In order to reduce the investors' uncertainty with respect to the Company's financial situation, the Company publishes the estimated financial results prior to the publication of the periodic (interim) reports (rule 1.2.).

The Company holds conferences for the investors, analysts and media representatives every time after the publication of the financial results. These conferences are made available online in real time to all of the interested parties. During the earnings conferences, the representatives of the Management Board of the Company present and comment on the financial results posted, the adopted strategy and the implementation thereof, as well as the most important events that have an impact on the operations of the Company and TAURON Capital Group, as well as the prospects for the future. During the meetings, the Management Board of the Company publicly provides explanations and answers to the questions asked (rule 1.6.).

Investors may submit their questions in writing, by phone, via e-mail or using the contact form available on the website <https://www.tauron.pl/tauron/relacje-inwestorskie/kontakt-dla-inwestorow/formularz>. The Company has adopted a Procedure for providing information on the Company and its subsidiaries for the purposes of the Investor Relations, along with an indication of the deadlines for completing the individual activities. The answers are provided immediately, and in the case of the issues that would require in-depth analyses / calculations, within 10 days (rule 1.7.).

The rules related to the General Meeting and the relations with the shareholders

Section 4 of the Best Practice 2021 sets out the rules for holding the General Meetings and other rules to encourage the shareholders to get involved in the Company's affairs.

Pursuant to the Regulations of the General Meeting, the Company shall determine the place and date, as well as the form of the General Meeting in a manner that would enable the participation of as many shareholders as possible (rule 4.2.).

The Company shall provide a publicly available broadcast, in real time, of the General Meeting, and the representatives of the media shall be allowed to attend the General Meetings (rule 4.3. and rule 4.4.).

In case the General Meeting is convened by an entity or authority other than the Management Board pursuant to the provisions of the Code of Commercial Companies, the Management Board shall take all of the required steps to convene, organize and conduct the General Meeting (rule 4.5.).

The draft resolutions of the General Meeting related to the issues and decisions other than those of a procedural nature shall include a justification (statement of reason), unless it results from the documentation presented to the General Meeting (rule 4.6.).

The Supervisory Board shall provide its opinion (feedback) on the draft resolutions to be put on the agenda of the General Meeting by the Management Board (rule 4.7.).

Shareholders may submit draft resolutions of the General Meeting on the issues put on the agenda of the General Meeting no later than 3 days prior to the General Meeting (rule 4.8.).

Pursuant to the Regulations of the General Meeting, the shareholders who intend to propose candidates for the members of the Supervisory Board should provide the Company with the justification of the candidates along with the professional CVs of the candidates and a complete set of materials related thereto, by the deadline that would enable the other shareholders to study them before the General Meeting is held and to make a decision on the appointment of a member of the Supervisory Board based on the adequate knowledge, but not later than 3 days prior to the General Meeting. The information received from the shareholders shall promptly be made available by the Company to the other shareholders in the manner specified in the announcement (notice) on the General Meeting for the provision of the documentation and the draft resolutions to be presented to the General Meeting. A shareholder proposing the candidates for the members of the Supervisory Board shall submit to the Company, along with the justification for the candidate, a statement of the candidate on the candidate's compliance or non-compliance with the independence criteria specified in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, as well as on the existence or non-existence of the actual and significant connections of this candidate with a shareholder holding at least 5% of the total number of votes in the Company (rule 4.9.).

The Members of the Management Board and of the Supervisory Board shall participate in the sessions of the General Meeting in a group of its representatives that would enable them to provide substantive answers to the questions asked during the General Meeting. The Members of the Management Board and of the Supervisory Board as well as the certified auditor of the Company shall, within the limits of their competences and to the extent required to evaluate the matter included in the agenda of the General Meeting, provide the participants of the Meeting with the explanations and information regarding the Company. The Management Board shall present to the participants of the Ordinary General Meeting the financial results of the Company and other material information contained in the financial statements subject to the approval by the General Meeting (rule 4.11.).

The resolution of the General Meeting on the issue of the shares with the subscription rights (rights issue) shall specify in detail the issue price or the mechanism for the determination thereof, or oblige the authorized body to determine it prior to the subscription right date, within the time that would enable making of the investment decision (rule 4.12.).

A resolution on a new issue of the shares with the exclusion of the pre-emptive rights, which at the same time grants the pre-emptive right to acquire the newly issued shares to the selected shareholders or other entities, may be adopted if at least the following conditions are met:

1. The Company has a rational, economically justified need to urgently raise capital or the issue of the shares is related to the rational, economically justified transactions, among others such deals as a merger with or an acquisition of another company, or the shares are to be taken up under the incentive program adopted by the Company,
2. people who will be entitled to the pre-emptive rights will be identified according to the objective general criteria,
3. the price of the shares to be taken up will be in a rational relation to the current price of the Company's shares or will be determined as a result of the market based book building process (rule 4.13.).

The rules on the conflict of interest and the related party transactions

Section 5 of the Best Practice 2021 sets out the procedures for managing a conflict of interest and concluding transactions with the related entities under such conditions when there is a possibility of a conflict of interest arising.

In accordance with the procedures implemented in the Company, no shareholder shall be privileged over the other shareholders in relation to the transactions with the related entities. This shall also be applicable to the transactions between the Company's shareholders and the entities that are a part of the Company's group (rule 5.3.).

The resolution of the General Meeting authorizing the Management Board of the Company to take steps aimed at acquiring the shares to be redeemed shall specify the conditions for the purchase of the shares by the Company (buy-back), while ensuring that the rights of all of the shareholders are respected (rule 5.4.).

In case the transaction of the Company with a related entity requires the approval (consent, clearance) of the Supervisory Board, prior to adopting a resolution on granting the approval, the Supervisory Board shall assess whether it is necessary to first consult an external entity that will carry out the valuation of the transaction and analyze its economic effects (rule 5.5.). On the other hand, if the conclusion of a transaction with a related entity requires the consent of the General Meeting, the Supervisory Board shall prepare an opinion on the legitimacy of concluding such a transaction and, in such a case, shall assess the need to consult an external entity referred to in the previous sentence (rule 5.6.).

In case the decision on the conclusion by the Company of a material transaction with a related entity is made by the General Meeting, prior to making such a decision, the Company shall provide all of the shareholders with access to the information required to assess the impact of this transaction on the Company's interest, including providing the opinion of the Supervisory Board referred to in rule 5.6. (rule 5.7.).

The Company publishes on its website a list of the material transactions with the related entities drawn up in accordance with Art. 90i of the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*:

<https://www.tauron.pl/tauron/relacje-inwestorskie/wykaz-istotnych-transakcji>.

9.2. Set of abandoned rules of corporate governance

Best Practice 2016

Until June 30, 2021, the Company had not applied the following detailed rules provided in the Best Practice 2016:

1. **IV.Z.2.** - the rule related to the provision of the publicly available broadcasts of the GM in real time.

The Company is monitoring, on an ongoing basis, the shareholding structure (composition) and in case changes take place that would justify the need to provide the publicly available broadcasts of the general meeting in real time, the Company will take relevant actions in order to provide the broadcast,

2. **VI.Z.1.** - the rule related to the construction of the incentive schemes in a way necessary, among others, to tie the level of compensation of the members of the Company's Management Board and the key managers to the actual long term financial standing of the Company and the long term shareholder value creation as well as the Company's stability.

This rule was not applied due to the compensation and bonus system applicable at TAURON in relation to the members of the Management Board of the Company and its key managers that envisages that the level of compensation will be tied to the financial situation of the Company within a one year perspective, in conjunction with the implementation of the strategic objectives

3. **VI.Z.2.** – the rule related to tying the compensation of the members of the Management Board and the key managers to the Company's long term business and financial goals. The period between the allocation of the options or other instruments linked to the Company's shares under the incentive scheme and the ability to exercise them should be not less than 2 years.

This rule was not applied due to the compensation and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers that does not envisage that the compensation should be tied to the instruments linked with the Company shares.

In 2021 the following detailed rules provided in the Best Practice 2016 did not apply to the Company:

1. **I.Z.1.10.** the rule related to posting the financial projections on the Company website - if the company took the decision to publish them - published at least in the last 5 years, including the information on the degree of the achievement thereof.

This rule did not apply to the Company due to the fact that the Company did not publish the financial forecasts,

2. **III.Z.6.** the rule stating that in case the Company has no separate internal audit function in its organization, the audit committee (or the supervisory board if it performs the functions of the audit committee) shall make an assessment on an annual basis whether such function needs to be separated.

That rule did not apply to the Company due to the fact that the Company had a separate internal audit unit within its organizational structure.

In 2021, the Company did not apply only the recommendation provided in the Best Practice 2016, designated as **IV.R.2.**, related to providing a possibility to the shareholders to participate in the GM using electronic communication means. The Company is monitoring, on an ongoing basis, changes in the shareholding structure (composition) that could affect the way the communication is conducted during the general meeting. In addition, if the Company receives requests from the shareholders to conduct a general meeting using the electronic means of communication, the Company will verify the technical possibilities that would ensure a safe conduct of the general meeting for the shareholders and the Company, and in the absence of any contraindications, the Company will take actions in accordance with this recommendation.

The other recommendations provided in the Best Practice 2016 were applied by the Company in 2021.

Information on the non-application of the rules provided in the Best Practice 2021

From the date of entry into force of the Best Practice 2021, i.e. from July 1, 2021, the Company did not apply the following rules provided in the Best Practice 2021:

1. **1.4.2.** – the rule related to the presentation of the value of the ratio expressing the equal compensation paid out to its employees, calculated as a percentage difference between the average monthly compensation of women and men for the last year and the information on the actions taken in order to eliminate any potential inequalities in this respect, including the presentation of the risks related thereto and the time horizon over which achieving of equality is planned.

This rule was not applied by the Company due to the fact that this ratio did not reflect the actual conditions for the possibility of employing women and men in the Company's selected lines of business.

2. 2.1. – the rule related to having a diversity policy in place with respect to the Management Board and the Supervisory Board, adopted by the Management Board or the Supervisory Board, respectively, defining the diversity goals and criteria, among others in terms of gender, education background, specialist knowledge, age and professional experience, as well as indicating the date and method of monitoring the achievement of such goals. In terms of the diversity with respect to gender the prerequisite for ensuring the diversity of the Company's authorities is the participation rate (share) of the minority in the given authority at a level of not less than 30%.

The Company has implemented TAURON Group's Diversity Policy, on the basis of which TAURON Capital Group applies the policy of equal treatment and strives to ensure diversity in terms of gender, education, age and professional experience for all employees. However, the Company does not have a diversity policy with respect to the Management Board and the Supervisory Board in terms of the minority share in the given authority at a level of not less than 30%, due to the adoption by the Company of the solutions in accordance with the *Act of December 16, 2016, on the principles of state assets management* regarding the appointment of the members of the Management Board following the conducting of the recruitment procedure aimed at checking and assessing the qualifications of the candidates and selecting the best candidate to be a member of the Management Board. In the case of appointing the members of the Supervisory Board, the minister competent to exercise the rights related to the rights attached to the shares of the State Treasury has the statutory power to appoint the majority of the members of the Supervisory Board.

3. 2.2. - the rule stating that the persons making the decisions on the appointment of the members of the Management Board or the Supervisory Board should ensure the versatility of these authorities by selecting as the members thereof the persons that would ensure the diversity, enabling, inter alia, achieving of the target minimum minority participation rate (share), set at a level of not less than 30%, in line with the goals set out in the adopted diversity policy referred to in rule 2.1.

The Company currently does not ensure a 30% diversity level with respect to women in the composition (membership) of the Management Board and the Supervisory Board. The General Meeting, having in mind the goal of ensuring the diversity with respect to women and men in the composition (membership) of the Supervisory Board, on May 24, 2021, adopted the amendments to the Regulations of the General Meeting of the Company, inter alia, by adding in § 24, sec. 5 with the following wording: "Persons making the decisions on the appointment of the members of the Supervisory Board should ensure the versatility of the authority by selecting as the members thereof the persons that would ensure the diversity, enabling, inter alia, achieving of the target minimum minority participation rate (share), set at a level of not less than 30%, in line with the goals set out in the diversity policy adopted by the Company". With regard to the appointment of the members of the Management Board, the Company does not meet the criteria of this rule, because the Company's organizational solutions in this respect must comply with the provisions of the *Act of December 16, 2016, on the principles of state assets management* regarding the appointment of the members of the Management Board following the conducting of the recruitment procedure aimed at checking and assessing the qualifications of the candidates and selecting the best candidate to be a Member of the Management Board.

4. 3.4. - the rule stating that the compensation of the persons responsible for the risk management and compliance as well as that of the head of the internal audit should depend on the performance of the tasks assigned, and not on the short term results of the company.

The variable part of the compensation of the persons responsible for the risk management and compliance as well as that of the head of the internal audit is partly dependent on the achievement of the individual / specific area related goals (related directly to the implementation of the tasks assigned, in the area of the risk management, compliance and internal audit, respectively) and partly on the implementation of the solidarity goals related to the results of the Company and the Group.

5. 3.5. - the rule stating that the persons responsible for the risk management and compliance are report directly to the president or another member of the management board.

The person responsible for the Company's compliance management is reporting directly to the President of the Management Board of the Company. However, the person responsible for the Company's risk management is not reporting directly to the President or any other member of the Company's Management Board. In spite of the fact that the Company has not ensured the direct reporting to the Members of Management Board for the person responsible for the Company's risk management, the organizational solutions adopted by the Company and the adequate position in the Company's hierarchy in relation to the persons responsible for the operating activities have provided the person responsible for the risk management with the possibility of the direct reporting to the Members of the Management Board and the participation in the meetings of the Management Board as well those of the Supervisory Board of the Company, if the subject of these meetings are the issues related to risk.

6. 3.6. - the rule stating that the Head of the Internal Audit reports organizationally to the President of the Management Board, and functionally to the chairperson of the audit committee or the chairperson of the supervisory board, if the board performs the function of the audit committee.

The internal audit unit, headed by the Executive Director for Audit and Internal Control, is placed in the organizational structure of the Company under the direct authority of the President of the Management Board. Functionally, the Head of the Internal Audit does not report to the Chairperson of the Audit Committee, however, in order to maintain the independence, objectivity and proper performance of the audit and control functions, the Executive Director for Audit and Internal Control is provided with the option of the periodic reporting to the Audit Committee and the Supervisory Board of the Company.

7. 3.7. - the rule stating that that rules 3.4. - 3.6. shall also apply to those entities from the company's group that are of material importance to the operations thereof, in case they have designated (appointed) persons to perform these tasks.

The Risk Management Coordinators and the Compliance Coordinators, who do not always report directly to the president or another member of the subsidiary's management board, have been appointed at TAURON Capital Group's subsidiaries that are of material importance to the operations thereof. The solutions adopted at these subsidiaries in terms of the organizational structure, in spite of the fact that they do not always ensure the direct reporting to a member of the company's management board, do not restrict the possibility of the direct reporting to the members of the company's management board. With regard to the Audit and Internal Control Area, the audit function is centralized, and no persons have been designated (appointed) to perform the audit tasks at the subsidiaries.

8. 4.1. - the rule related to allowing the shareholders to take part in a general meeting by means of electronic communication, if it is justified due to the shareholders' expectations reported to the company, provided that it is able to provide the technical infrastructure required to conduct such a general meeting.

The Company monitors, on an ongoing basis, the changes in the shareholding structure that could affect the way the communication is conducted during the general meeting. In addition, in the event that the Company receives requests from the shareholders to conduct a general meeting using the electronic means of communication, the Company will verify the technical possibilities that would ensure the safe conduct of the general meeting for the shareholders and the Company, and in the absence of any contraindications, the Company will take actions in accordance with this recommendation.

9. 4.14. - the rule stating that the company should strive to distribute the profit by paying out a dividend, while retaining of the entire profit in the company is possible if any of the following reasons occur:

- 1) the amount of this profit is minimal, and as a consequence the dividend would be insignificant in relation to the value of the shares,
- 2) the company shows uncovered losses from the previous years, and the profit is to be used to reduce such losses,
- 3) the company justifies that the allocation of the profit to the investments will bring tangible benefits to the shareholders,
- 4) the company fails to generate cash that would enable the payout of the dividend,
- 5) the payout of the dividend would significantly increase the risk of a breach of the covenants included in the credit agreements that are binding for the company or the terms of the bond issue,
- 6) leaving the profit in the company is in line with the recommendation of the institution exercising the supervision over the company due to its specific type of operations.

The Company has a dividend policy in place, according to which the final decision with respect to the payout of the dividend is made by the General Meeting of the Company having obtained the recommendation of the Management Board of the Company, which takes into account, in particular, the following factors: the Group's liquidity position, market situation, implementation of the investment policy, cost and options for obtaining the financing, legal requirements and the provisions of the financial agreements, in particular with respect to not exceeding a certain level of the leverage ratio, ensuring an investment grade rating.

The company has disclosed the information to the public that, in accordance with the adopted Dividend Policy, the Company plans, in the long term, to pay out a dividend in the amount of at least 40% of the consolidated net profit. The intention of the Company is to ensure a dividend yield at a competitive level in relation to the long term debt instruments issued on the Polish market by companies with investment grade ratings. The Company's Dividend Policy is largely in line with rule 4.14. of the Best Practice 2021, although it also provides for a broader range of the events or circumstances justifying the lack of the dividend payout, and thus the Company's decision may be made on the basis of the premises that are not referred to in the catalog specified under rule 4.14. of the Best Practice 2021.

10. 6.2. - the rule regarding such a structuring (design) of the incentive programs that, inter alia, the level of the compensation of the members of the management board of the company and that of the key managers thereof would be made dependent on the actual, long term situation of the company in terms of the financial and non-

financial results as well as the long term increase in the shareholder value and the sustainable development, as well as the stability of the company's operations.

The level of the variable compensation of the Members of the Management Board and the key managers of the Company is dependent on the annual consolidated financial results of the Company and the long term situation of the Capital Group in terms of the non-financial results. The principles of compensating the Members of the Management Board, that would assume, inter alia, that the variable compensation should be dependent on the annual results, were adopted by the General Meeting of the Company at the request of a shareholder State Treasury. Changing of the above mentioned principles shall require a decision of the shareholders.

11.6.3. - the rule stating that if one of the company's incentive programs is a management options program, then the implementation of the options program should be conditional on the eligible persons achieving, for at least 3 years, the predetermined, realistic and adequate financial and non-financial, as well as the sustainable development goals, and the established price at which the eligible persons would purchase the shares or settle the options may not differ from the value of the shares from the period when the program was adopted.

The compensation and bonus system for the Members of the Management Board of the Company and the key managers thereof in force does not provide for linking the compensation with the instruments tied to the Company's shares.

12.6.4. - the rule stating that the supervisory board shall perform its tasks on a continuous basis, therefore the compensation of the members of the supervisory board may not depend on the number of the meetings held. The compensation of the members of the committees, in particular the audit committee, should take into account the additional workload related to the work in such committees.

Members of the Supervisory Board receive a fixed monthly compensation, regardless of the number of the convened meetings and regardless of the participation of the Members of the Supervisory Board in the works of the committees, including the Audit Committee.

The other rules included in the Best Practice 2021 were applied by the Company from July 1, 2021.

Update of the Information on the application by the Company of the rules included in the Code of Best Practice for WSE Listed Companies 2021 after the balance sheet date

In order to implement rule 3.4. of the Best Practice 2021 the Company has amended the *Regulations of Compensation of Employees of TAURON Polska Energia S.A.*, taking into account the recommendations stemming from rule 3.4.

As a result of the actions taken, as of the date of drawing up this report, the rule is applied by the Company.

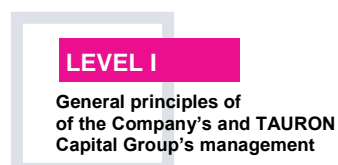
With a view to implement rule 3.5. of the Best Practice, the Company has introduced a change with respect to assigning the business areas to the individual Members of TAURON's Management Board, involving, among others, the fact that the Executive Director responsible for Risk is reporting directly to the Vice President of the Management Board responsible for the Company's Finances. The person responsible for the Company's compliance management is reporting directly to a Member of the Management Board of the Company.

As a result of the actions taken, as of the date of drawing up this report, the rule is applied by the Company.

On February 8, 2022, the Company published an update of the Information on the application by the Company of the rules included in the *Code of Best Practice for WSE Listed Companies 2021* on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

9.3. Main characteristics of the internal controls and risk management systems in relation to the process of drawing up the financial statements and consolidated financial statements

The internal audit and risk management system with respect to the process of drawing up the financial statements and consolidated financial statements is implemented on 3 levels:



Pursuant to the adopted internal regulations TAURON Capital Group's subsidiaries operate based on the organizational regulations and have defined organizational structures in place, where the applicable business units are assigned the responsibility for drawing up the financial statements and the consolidated financial statements. Such units are obliged to perform the ongoing control that is built into the tasks performed and the functional control of their activities. Based on TAURON Capital Group's Business

Model put in place the Process Documentation of Mega-process 3.4 Accounting was implemented, containing, among others, processes associated with the financial reporting of the Company and TAURON Capital Group. The process documentation defines the responsibilities of the business units within the reporting processes.

TAURON Capital Group has put the Risk Area in place, whose role is to oversee and establish TAURON Capital

LEVEL II

Risk management

Group's risk management system. These functions are implemented within the Company by the Corporate, Market and Credit Risk Management Teams as well as the Autonomous (Independent) Transaction Control (Audit) Positions. The purpose of the risk management is to ensure the improvement of the predictability of attaining strategic objectives by TAURON Capital Group, including the stable creation of the financial result

through early identification of threats allowing the preventive activities to be undertaken. Risk management standards applicable at TAURON Capital Group have been defined in *TAURON Group's Corporate Risk Management Strategy* and in the policies for managing the specific risks. The ERM system encompasses all of TAURON Capital Group's lines of business and the business processes carried out within TAURON Capital Group, including the process of drawing up the financial statements. The risks associated with this process are managed, monitored and reported within the ERM System. The goal of the standardization is to ensure consistency in managing the individual risk categories, by defining the general principles, standards and tools of the system's architecture. The oversight of the ERM system at TAURON Capital Group is performed by the Risk Committee, which as an expert team, on a permanent basis and continuously, initiates, analyzes, monitors, controls (audits) and supports the functioning of TAURON Capital Group's risk management system.

The detailed information on the risk management system is provided in section 3.2. of this report.

LEVEL III

Internal audit

The Audit and Control Area is functioning within TAURON Capital Group, with the goal to plan and implement the audit tasks, including the verification and advisory activities as well as the performance of the tasks as part of the internal (institutional) controls, fulfilling the detection (detection control) and preventive functions. The main objective of the internal control is the mitigation of the risk of TAURON Capital Group's losses. The audit and advisory activities are conducted by the Internal Audit Team carrying out the

scheduled and ad hoc audit tasks both at TAURON as well as at TAURON Capital Group's subsidiaries. The Internal Audit Team, based on the Annual Audit Plan for the given calendar year, performs the process based audit tasks to assess the current level of the individual risks and the effectiveness of the management thereof. In 2021, the implementation of a new model of a cyclical (periodic) assessment of the Internal Control System was launched, the purpose of which is to provide the Management Board and the Audit Committee of the Supervisory Board of the Company with the independent and objective information on the functioning of the control mechanisms in the business processes of the Company and TAURON Capital Group's subsidiaries. The institutional control understood as a set of the inspection activities as part of the functioning internal control system, is carried out at the level of TAURON Capital Group by the Internal Control Team and by the organizational units competent for the internal control, operating at some of the subsidiaries. The control tasks are performed in the form of the ad hoc and scheduled controls. In addition, the Internal Control Team carries out the specialist audits (controls) of TAURON Capital Group's IT, OT and security systems.

Most important aspects related to the internal audit (controls) and risk management with respect to the process of drawing up financial statements and consolidated financial statements

TAURON Supervision over application of consistent (uniform) accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statements

In order to ensure consistent accounting principles based on the 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 drawing up TAURON Capital Group's consolidated financial statements.

Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Office and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for the Company's Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The detailed information on the composition, competences and description of the operations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. is presented in section 9.11. of this report.

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the consistency (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification.

The accounting functions of TAURON Capital Group's subsidiaries are to a significant degree integrated - TAURON Capital Group's material subsidiaries' financial and accounting services are carried out by CUW-R (Shared Services Center – Accounting) as a result of which TAURON Capital Group's financial and accounting processes are to large extent 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 in place 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 the processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of drawing up the financial statements.

Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to an audit by a certified auditor. In 2018, the Company selected an entity authorized to audit and review the financial statements of the Company and of TAURON Capital Group's material subsidiaries, as well as the consolidated financial statements. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2019-2021, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2019, June 30, 2020 and June 30, 2021. In November 2021, the Company selected an entity authorized to audit and review the financial statements, as well as the consolidated financial statements for the years 2022-2024.

The rule related to changing the audit firm of the Company and TAURON Capital Group

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.*, adopted by the Audit Committee of the Company's Supervisory Board is in force at the Company, which includes the following rule:

1. maximum duration of continuous audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. after the 10-year duration of the mandate (engagement) neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

9.4. Shareholders holding substantial blocks of shares

The below table presents shareholders holding, as of December 31, 2021 and as of the date of drawing up this report, directly or indirectly via subsidiaries, substantial blocks of the Company's shares.

Table no. 56. Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2020 and as of the date of drawing up this report

Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total number of votes
1. State Treasury	526 848 384	30.06%	526 848 384	30.06%
2. KGHM Polska Miedź (Polish Copper)	182 110 566	10.39%	182 110 566	10.39%
3. Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88 742 929	5.06%	88 742 929	5.06%

Since the date of publishing the previous periodic (interim) report, i.e. since November 17, 2021, until the date of drawing up this report the Company had not received any notifications from its shareholders of any changes in the ownership structure of the substantial blocks of TAURON shares.

9.5. Holders of securities providing special control rights

The Company did not issue securities that would grant special control rights with respect to the Company.

9.6. Restrictions on exercising the voting right

Restrictions on exercising the right to vote are included in § 10 of the Company's Articles of Association which are available on the Company's website: <https://www.tauron.pl>.

The above mentioned restrictions on exercising the voting right are formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the company shall be limited so that none of them can exercise more than 10% of the total votes in the company at the General Meeting of Shareholders.
2. The restriction on exercising the voting right mentioned in clause 1 above shall not apply to the State Treasury and entities controlled thereby in the period during which the State Treasury, together with entities controlled thereby, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company.
3. Votes of shareholders who have a parent / subsidiary relationship within the meaning of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Associations, shall be any party (entity, person), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity, person) that does not hold the company's shares, and in particular to a user, lien holder, party (entity, person) entitled on the basis of a depositary receipt under regulations of the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*, as well as a party (entity, person) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
5. A parent company and subsidiary company, for the purposes of § 10 of the Company's Articles of Association, shall be understood, accordingly, as a party (entity, person):
 - 1) with a status of a controlling undertaking, controlled undertaking or, at the same time, both the status of a controlling undertaking and controlled undertaking in the understanding of the *Act of February 16, 2007 on the protection of competition and consumers*, or
 - 2) with a status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company, co-controlled company or one that has both the status of a parent company (including a higher level parent company) and the status of a subsidiary (including a lower level subsidiary company and a co-controlled company) in the understanding of the *Act of September 29, 1994 on accounting*, or
 - 3) which has (parent company) or one which is under (subsidiary company) controlling influence in the understanding of the *Act of September 22, 2006 on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or
 - 4) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity, person) or other parties (entities, persons) on conditions defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring substantial blocks of the Company's shares.
6. Aggregation of votes is based on totaling the number of votes held by individual shareholders that are members of the Shareholders' Cluster.
7. Reduction of the votes involves decreasing the total number of votes in the Company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the Company. Reduction of the votes shall take place in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the largest number of votes in the company among all shareholders that are members of the Shareholders' Cluster shall be reduced by a number of votes equal to a surplus above 10% of total votes in the company held by all shareholders that are members of the Shareholders' Cluster,
 - 2) if, despite the reduction mentioned in 1) above, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,
 - 3) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
 - 4) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.
8. Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board

or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.

9. Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity, person) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Company's Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
10. A party (entity, person) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity, person) shall be null and void.

9.7. Restrictions on the transfer of the ownership right to securities

As of December 31, 2021, and as of the date of drawing up this report the Company's Articles of Association do not envisage restrictions on the transfer of the ownership right to the Company's securities.

However, in accordance with the *Act of July 24, 2015 on the control of certain investments* (Journal of Laws of 2020, item 117), an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is, in accordance with the *Regulation of the Council of Ministers of December 23, 2019, on the list of entities subject to protection and their competent control bodies* (Journal of Laws of 2019, item 2501, as subsequently amended), an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – the competent Minister of the State Assets of its intention to do so, unless such obligation rests on other entities.

9.8. Rules on appointing and dismissing the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., and the powers thereof

Management Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing the Members of the Company's Management Board

The Management Board of the Company shall be composed of 1 to 6 persons, including the President and Vice Presidents. The Members of the Management Board shall be appointed and dismissed by the Company's Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. In accordance with the Company's Articles of Association, each of the Members of the Management Board can be dismissed or suspended from office by the Company's Supervisory Board or the General Meeting of the Company.

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

Competence of the Company's Management Board

The Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Company's Articles of Association, to the scope of competence of the General Meeting (GM) or the Supervisory Board, shall be within the scope of competence of the Company's Management Board.

In accordance with the Company's Articles of Association, all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Company's Management Board, in particular, the following issues listed in the below table, as of December 31, 2021, and as of the date of drawing up this report.

Table no. 57. Competence of the Company's Management Board as of December 31, 2021, and as of the date of drawing up this report

Matters that require a resolution of the Company's Management Board

1. Regulations of the Company's Management Board,
2. Company's enterprise organizational regulations,
3. establishment and liquidation of branches,
4. appointment of a proxy,
5. taking on credits and loans,
6. approving annual material and financial plans of the Company and of the Capital Group as well as the Capital Group's Corporate Strategy,
7. assuming contingent liabilities within the meaning of the *Act of September 29, 1994 on accounting*, including granting guaranties and sureties by the Company as well as issuing bills of exchange, subject to § 20 clause 2 items 3 and 4 of the Company's Articles of Association,
8. making donations, cancelling interest or releasing from debt, subject to § 20 clause 2 items 11 and 12 of the Company's Articles of Association,
9. purchase of real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, subject to § 20 clause 2 item 1 of the Company's Articles of Association,
10. purchase of fixed assets excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 1 of the Company's Articles of Association,
11. disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association,
12. defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 4 items 9 and 10 of the Company's Articles of Association,
13. rules of conducting sponsoring activities,
14. adoption of the annual plan of sponsoring activities,
15. matters which the Company's Management Board refers to the Company's Supervisory Board or the General Meeting of the Company for review

Supervisory Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing the Members of the Company's Supervisory Board

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

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

In accordance with the Company's Articles of Association at least two members of the Company's Supervisory Board shall meet the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, and shall not to have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

Independent Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on the compliance with the independence criteria.

The detailed information on the independence of the Members of the Company's Supervisory Board is presented in section 9.11. of this report.

Competence of the Company's Supervisory Board

Supervisory Board of the Company shall continuously oversee the Company's activities in all areas of its operations.

In accordance with the Company's Articles of Association, the Company's Supervisory Board's tasks and competences shall include in particular the matters listed in the below table, as of December 31, 2021, and as of the date of drawing up this report.

Table no. 58. Competence of the Company's Supervisory Board as of December 31, 2021, and as of the date of drawing up this report

Matters that require a resolution of the Company's Supervisory Board
Competences related to providing opinions
<ol style="list-style-type: none">1. evaluate the Company's Management Board's report on the Company's operations (Directors' Report) as well as the financial statements for the last financial year with respect to their compliance with the books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements,2. evaluate the Company's Management Board's recommendations on the distribution of the profit or the covering of the loss,3. submit a written report to the General Meeting of Shareholders on the outcome of the activities referred to in clauses 1 and 2 above,4. draw up once a year and submit to the General Meeting a report on the activities of the Supervisory Board containing at least:<ol style="list-style-type: none">1) information on: the composition of the Company's Supervisory Board and its Committees, including an indication which Members of the Supervisory Board comply with the criteria of independence listed in the <i>Act of May 11, 2017 on certified auditors, audit firms and public oversight</i>, as well as those that not to have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company, and also the information on the composition (membership) of the Supervisory Board in the context of the diversity thereof,2) summary of the activities of the Supervisory Board and its Committees3) evaluation of the Company's situation on the consolidated basis, including the assessment of the internal controls, risk management, compliance systems and the internal audit functions, including the information on the steps that the Company's Supervisory Board took in order to perform such an evaluation, including all of the significant control mechanisms, in particular the ones related to the reporting and operations4) assessment of the application of the corporate governance principles and the method of fulfilment of the information (disclosure) obligations in relation to the application thereof, defined in the Regulations of the Exchange and the provisions related to the current and periodic information (disclosures, regulatory filings) filed by the issuers of securities. including the information on the steps that the Company's Supervisory Board took in order to perform such an assessment,5) assessment of the rationality (legitimacy) of the expenditures incurred by the Company and its group to support culture, sports, charity institutions, media, social organizations, trade unions, etc.,6) information on the degree of implementation of the diversity policy in relation to the Company's Management Board and the Supervisory Board of the Company, including the implementation of the objectives and criteria of diversity, including in such areas as gender, education background, specialist knowledge, age and professional experience5. prepare, along with the report on the results of the Company's annual financial statements' evaluation, the Company's Supervisory Board's opinion on the financial viability of the Company's capital (equity) investments in other commercial law entities made in the given financial year,6. draw up, once a year, a report on the compensation of the Members of the Company's Management Board and the Supervisory Board of the Company in accordance with the requirements defined in the <i>Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies</i>,7. provide opinions on the Capital Group's Corporate Strategy,8. provide opinions on the rules of conducting the sponsoring activities,9. provide opinions on the annual plan of conducting the sponsoring activities as well as on the annual report on the implementation thereof,10. provide opinions on the reports drawn up, by the Company's Management Board, on the entertainment expenses, the expenditures on the legal services, marketing services, public relations and social communications services as well as the advisory services related to management,11. provide opinions on the Company's Management Board's motions regarding the matters referred to in § 35 of the Company's Articles of Association, excluding the motions regarding the Members of the Company's Supervisory Board,12. provide opinions on the draft resolutions introduced by the Management Board of the Company to the agenda of the General Meeting,13. provide opinions on the changes of the rules of divesting fixed assets, defined in § 38¹ of the Company's Articles of Association.
Competences that include
<ol style="list-style-type: none">1. selecting a certified auditor to carry out an audit of the Company's financial statements and the Capital Group's consolidated financial statements,2. defining the scope and deadlines for submitting the Company's and the Capital Group's annual material and financial plan by the Company's Management Board,3. approving the Company's and the Capital Group's material and financial plan by the Company's Management Board4. adopting the consolidated text of the Company's Articles of Association, drawn up by the Company's Management Board,5. approving the Regulations of the Company's Management Board,6. approving the organizational regulations of the Company's enterprise,7. approving the capital group's compensation policy,8. purchasing real estate asset components within the meaning of the <i>Act of September 29, 1994, on accounting</i>, with the value exceeding:<ol style="list-style-type: none">1) PLN 20 000 000 or2) 5% of the total assets within the meaning of the <i>Act of September 29, 1994, on accounting</i>, determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 5 of the Company's Articles of Association,9. disposing of fixed asset components, within the meaning of the <i>Act of September 29, 1994, on accounting</i>, classified as intangible and legal assets, tangible fixed assets or long term investments, including making a contribution to a company or cooperative if the market value of such components exceeds PLN 20 000 000 or 5% of the total assets within the meaning of the <i>Act of September 29, 1994, on accounting</i>, determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 5 of the Company's Articles of Association, as

Matters that require a resolution of the Company's Supervisory Board

well as handing over these components for use to another entity for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject of the legal transaction exceeds PLN 500 000 or 5% of the total assets, where the handing over of such components for use in case of:

- 1) lease, tenancy and other contracts for the transfer of an asset for use by other entities for a fee - market value of the subject of legal action shall be understood as the value of services for: one year - if the asset was transferred on the basis of an agreement concluded for an indefinite period, the entire duration of the agreement - in case of contracts concluded for a fixed period,
 - 2) loan contracts and other free contracts for the handing over of an asset for use by other entities - the market value of the subject of legal transaction shall be understood as the equivalent of benefits that would be due if the lease or tenancy agreement were concluded, for: one year - if the asset is handed over under the contract concluded for an indefinite period, the entire duration of the contract - in case of contracts concluded for a definite period,
10. assuming contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of PLN 20 000 000,
 11. issuing bills of exchange with the value exceeding the equivalent of PLN 20 000 000,
 12. making an advance payment on account of the expected dividend,
 13. taking up or purchasing shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 5% of the total assets within the meaning of the *Act of 29 September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
 14. selling shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994*, determined on the basis of the last approved financial statements,
 15. concluding an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of the total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
 16. amending an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, increasing the compensation above the amount mentioned in section 15 above,
 17. concluding an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount (cap) is not envisaged,
 18. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
 19. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
 20. concluding a material agreement with a related entity within the meaning of the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*,
 21. granting a permission to establish the Company's branches abroad,
 22. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders (Partners) of companies in which the Company holds more than 50% of shares, with respect to the following matters:
 - 1) selling and leasing out the company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon them if their value exceeds the PLN equivalent of EUR 5 000 000,
 - 2) dissolving and liquidating the company
 23. defining the manner of exercising the voting right by a representative of TAURON during the GMs of companies (subsidiaries) with respect to which the Company is a dominating entrepreneur within the meaning of art. 4 section 3 of the *Act of February 16, 2007, on competition and consumer protection*, with respect to the following issues:
 - 1) a company setting up another company,
 - 2) a change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
 - 3) merging, transforming, splitting, dissolving and liquidating the company,
 - 4) increasing or decreasing the company's share capital,
 - 5) selling and leasing out the company's enterprise or its organized part and establishing a limited pledge (property right) thereupon,
 - 6) redeeming (retiring) of shares,
 - 7) setting the compensation of members of the Management Boards and Supervisory Boards,
 - 8) provision related to the claims for remedying damage inflicted when setting up the company or performing the management or supervision,
 - 9) matters mentioned in art. 17 of the *Act of December 16, 2016, on the principles of state assets management*, subject to § 15, clause 5 of the Company's Articles of Association, with the exception of the matters relating to the legal transactions referred to in § 20. clause 5 of the Company's Articles of Association, and with the exception of matters regarding the acquisition or disposal of fixed assets constituting or intended to constitute assets necessary to conduct business operations with respect to the distribution of electricity by a company that is an operator of the power distribution system.

Competences related to the Management Board

1. appoint and dismiss members of the Company's Management Board,
2. establish the rules of compensation and the amounts of compensation for the Members of the Company's Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Company's Management Board from office for important reasons,
4. delegate members of the Company's Supervisory Board to temporarily perform duties of the Members of the Company's Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Company's Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Company's Management Board shall not exceed the compensation established for the Member of the Company's Management Board to replace whom the Member of the Company's Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Company's Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions (services) in the Company shall be concluded and conclude such agreement to perform the management board functions (services) in the Company,
7. grant a permission to the Members of the Company's Management Board to take positions in governing bodies (authorities) of other companies

Other competences of the Company's Supervisory Board

1. approve the Company's Management Board's annual report on the supervision over the implementation of the investment projects
2. draw up reports on overseeing the implementation of investment projects by the Company's Management Board, including the fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of the expenditures related thereto

Matters that require a resolution of the Company's Supervisory Board

3. approve the reports drawn up by the Company's Management Board on :
 - 1) entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,
 - 2) applying good practices defined by the Chairman of the Council of Ministers (Prime Minister) on the basis of art. 7, clause 3 of the *Act on the principles of state assets management* with respect to corporate governance, corporate social responsibility and sponsorship,
4. pass regulations describing in detail the Company's Supervisory Board's procedures.

9.9. Procedure of amending TAURON Polska Energia S.A.'s Articles of Association

Amendments to the Company's Articles of Association shall be made in accordance with the provisions of the Code of Commercial Companies, in particular: an amendment to the Company's Articles of Association shall take place by way of a resolution of the GM, passed by the majority of three fourths of the votes, and shall, subsequently, require issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including the amendments passed by the General Meeting, shall be adopted by the Supervisory Board by way of a resolution.

In accordance with the Company's Articles of Association, a material amendment to the subject of the Company's operations requires the majority of two thirds of the votes in the presence of persons representing at least half of the share capital.

9.10. General Meeting of TAURON Polska Energia S.A. and the shareholders' rights

General Meeting of TAURON Polska Energia S.A.

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

Procedures of the General Meeting of the Company

General Meeting (GM) shall be convened by a notice published on the Company's website and in a manner defined for providing the current information (regulatory filings) by the public companies. In case the General Meeting (GM) is convened by an entity or a body (authority) other than the Management Board on the basis of the regulations of the Code of Commercial Companies, as convening a General Meeting requires the Management Board's cooperation, the Management Board shall be obliged to perform any activities required by law in order to convene, organize and conduct the General Meetings that take place either at the Company's registered office or in Warsaw.

General Meeting shall be opened by the Chairperson of the Company's Supervisory Board, and in case he/she is absent, the following persons shall be entitled to open the General Meeting in the given order: Vice Chairperson of the Company's Supervisory Board, President of the Company's Management Board, a person designated by the Company's Management Board or the shareholder who registered at the General Meeting such a number of shares that grant the right to exercise the highest number of votes. Subsequently, the chairperson of the General Meeting shall be elected from among the persons entitled to participate in the General Meeting.

General Meeting shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Company's Articles of Association state otherwise.

A General Meeting may order a break in the meeting by the majority of two thirds of the votes. The breaks shall not exceed 30 days in total. A break in the GM session may take place only in exceptional situations, every time indicated on a case-by-case basis in the justification to the resolution, prepared based on the reasons presented by a shareholder requesting the break to be ordered. A GM resolution related to a break shall clearly indicate the date (time) of the resumption of the session, however, such a date (time) must not create a barrier for participation of the majority of the shareholders in the resumed meeting, including the minority shareholders.

Competence of the General Meeting of the Company

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting (GM) of the Company as of December 31, 2021, and as of the date of drawing up this report.

Table no. 59. Competence of the General Meeting of the Company as of December 31, 2021, and as of the date of drawing up this report

Matters that require a resolution of the General Meeting of the Company	
1.	reviewing and approving the financial statements of the Company and the consolidated financial statements of the Capital Group for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of the Capital Group
2.	granting the acknowledgement of the fulfillment of the duties to the members of the Company's corporate bodies (authorities),
3.	distribution of the profit and covering of the loss,
4.	appointing and dismissing the Members of the Company's Supervisory Board,
5.	suspending the Members of the Company's Management Board in the performance of their duties,
6.	establishing the amount of compensation for the Members of the Company's Supervisory Board, subject to § 29, clause 4 of the Company's Articles of Association,
7.	establishing the principles of determining compensation and the amount of compensation of the Members of the Company's Management Board taking into account the provisions of the <i>Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies</i> ,
8.	adopting, not less often than every four years, the compensation policy for the Members of the Management Board and the Supervisory Board of the Company, taking into account the requirements of the <i>Act of July 29, 2005 on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies</i> ,
9.	selling and leasing out the Company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon,
10.	concluding a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy, liquidator (receiver) or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator (receiver) or for the benefit of any such person,
11.	increasing and decreasing the Company's share capital,
12.	issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling the holder thereof to subscribe or take up the shares,
13.	purchasing (buyback) of own shares in the cases required by the regulations of the Code of Commercial Companies,
14.	mandatory buyback of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies,
15.	setting up, using and liquidating reserve capitals,
16.	using supplementary capital,
17.	provisions related to the claims to repair damage caused while establishing the Company or performing the management or supervision functions,
18.	merger, transformation and division of the Company,
19.	redemptions (retirements) of the shares,
20.	amendment to the Company's Articles of Association and change of the subject of the Company's operations,
21.	dissolving and liquidating the Company.
22.	providing an opinion on the report on the compensation of the Members of the Management Board and the Supervisory Board, referred to in § 20, clause 1, item 19 of the Company's Articles of Association,
23.	approving of the report on the activities of the Supervisory Board, referred to in § 20, clause 1, item 4 of the Company's Articles of Association.

In accordance with the provisions of the Code of Commercial Companies the decision on the issue and repurchase of the shares shall be included within the competence of the General Meeting.

Shareholders' rights and the manner of exercising thereof

The below table presents the description of the Company's shareholders' rights related to the General Meeting in accordance with the Company's Articles of Association, Code of Commercial Companies and the Regulations of the General Meeting.

Table no. 60. Description of the Company's shareholders' rights related to the General Meeting of the Company

Shareholders' rights	Description of shareholders' rights
1. Convene a General Meeting (GM)	Shareholders representing at least 1/20 of the share capital, may request convening of an Extraordinary General Meeting. Such a request should include a concise justification. It may be submitted to the Company's Management Board in writing or in an electronic form, to the Company's e-mail address, provided by the Company on its website under the <i>Investor Relations</i> tab. Shareholders representing at least a half of the share capital or at least half of all of the votes in the Company may convene an Extraordinary General Meeting (GM) and appoint a chairperson of such General Meeting.
2. Include matters (items) in the agenda of the General Meeting	Shareholders representing at least 1/20 of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting. Such a request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Company's Management Board not later than 21 days prior to the set date of the General Meeting in electronic form to the Company's e-mail address or in writing to the Company's address.
3. Become acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list at the Company's Management Board's seat for 3 weekdays preceding directly the General Meeting's date. Shareholders may also request that the list of shareholders be sent to them free of charge to the address for electronic deliveries or by electronic mail, providing the address to which the list should be sent.
4. Participate in the General Meeting	Only persons who are the Shareholders 16 days before the date of the General Meeting (date of registering to participate in the General Meeting) shall have the right to take part in the General Meeting. In order to participate in the General Meeting the shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting to an

Shareholders' rights	Description of shareholders' rights
	investment (brokerage) company maintaining their securities account. Such a request should be submitted not earlier than following the announcement (notice) on the convening of the General Meeting and not later than on the first weekday following the day of registering to participate in the General Meeting.
5. Represent a shareholder by a proxy (power of attorney)	Shareholders may take part in the General Meeting as well as exercise the voting right in person or through a proxy (power of attorney). Shares' co-owners may take part in the General Meeting and exercise the voting right only through a joint representative (proxy). A proxy (power of attorney) may represent more than one shareholder and vote differently based on the shares of each shareholder.
6. Elect the Chairperson of the General Meeting	Shareholders shall elect the Chairperson of the General Meeting from among the persons entitled to take part in the General Meeting. Each of the participants of the General Meeting shall have the right to propose one candidate. The Chairperson shall be elected by a secret ballot, by an absolute majority of the votes. In case there is just one candidate for the Chairperson, the election can take place by acclamation.
7. Elect the Returning Committee	Each shareholder may propose no more than 3 candidates for the members of the Returning Committee to be elected by the General Meeting, and vote for maximum 3 candidates.
8. Submit a draft resolution	During the General Meeting shareholders shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting, as part of the given item of the agenda.
9. Raise an objection	Shareholders who have voted against a resolution and, after the General Meeting has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such an objection is raised later, which however shall not take place later than by the time the General Meeting is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. The shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting.

9.11. Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof

Management Board of TAURON Polska Energia S.A.

The current 6th term of office of the Company's Management Board began its run on July 15, 2020.

In accordance with the Company's Articles of Association the common term of office shall last 3 years.

The composition (membership) of the Company's Management Board as of December 31, 2021

1. Artur Michałowski - Vice President of the Management Board for Trading and acting as the President of the Management Board,
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Krzysztof Surma - Vice President of the Management Board for Finance (CFO),
4. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The composition (membership) of the Company's Management Board as of the date of drawing up this report

1. Artur Michałowski - Vice President of the Management Board for Trading and acting as the President of the Management Board,
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Krzysztof Surma - Vice President of the Management Board for Finance (CFO),
4. Jerzy Topolski - Vice President of the Management Board for Asset Management,
5. Artur Warzocha - Vice President of the Management Board for Corporate Affairs.

The changes to the composition of the Company's Management Board in 2021 and by the date of drawing up this report

As of January 1, 2021, the Company's Management Board was composed of the following persons: Wojciech Ignacok (President of the Management Board), Jerzy Topolski (Vice President of the Management Board for Asset Management) and Marek Wadowski (Vice President of the Management Board for Finance).

On February 19, 2021, Wojciech Ignacok submitted a statement of resignation, effective as of February 28, 2021, from the position of the President of the Company's Management Board of the 6th common term of office.

On February 24, 2021, the Company's Supervisory Board entrusted Marek Wadowski with the duties of the President of the Company's Management Board from March 1, 2021, until the appointment of the President of the Company's Management Board.

On April 1, 2021, the Company's Supervisory Board appointed Paweł Strączyński to be a member of the Company's Management Board, entrusting him with the function of the President of the Company's Management Board.

On May 13, 2021, Marek Wadowski submitted a statement of resignation, effective as of the end of the day on May 17, 2021, from the membership of the Company's Management Board and thus from the position of the Vice President of the Company's Management Board for Finance.

On July 2, 2021, Paweł Strączyński submitted a statement of resignation from the position of the President of the Company's Management Board, effective as of the end of the day on July 21, 2021. On July 19, 2021, and on July 27, 2021, the Company received the statements of Paweł Strączyński on amending the statement of resignation from the position of the President of the Company's Management Board, as a result of which the resignation from the position of the President of the Management Board ultimately took place as of the end of the day on August 4, 2021.

On August 4, 2021, the Supervisory Board of the Company appointed Artur Michałowski, Patryk Demski and Krzysztof Surma to the Management Board of the Company, effective as of August 5, 2021. On the same day, the Supervisory Board of the Company appointed Artur Michałowski to be acting as the President of the Management Board of the Company from August 5, 2021, until the date the President of the Management Board of the Company is appointed.

On January 20, 2022, the Company's Supervisory Board appointed Artur Warzocha to be a member of the Company's Management Board, effective as of January 21, 2022,

There had been no other changes to the composition (membership) of the Company's Management Board by the date of drawing up this report.

Experience and competences of the Members of the Company's Management Board who continue to hold their positions in the Company's Management Board as of the date of drawing up this report

Artur Michałowski - Vice President of the Management Board and acting as the President of the Management Board



A graduate of the University of Occupational Safety Management in Katowice (Wyższa Szkoła Zarządzania Ochroną Pracy w Katowicach - WSZOP) with the major in management and production engineering, as well as the postgraduate studies at the University of Economics in Katowice (Uniwersytet Ekonomiczny w Katowicach) - Master of Corporate Governance and Executive Master of Business Administration studies at Collegium Humanum at the Warsaw Management University (Szkoła Główna Menedżerska w Warszawie).

From 2016 to August 4, 2021, he had been the Vice President of the Management Board for Technical Affairs at PGNiG Termika Energetyka Przemysłowa S.A.

Artur Michałowski began his professional career in 1979 at EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant), which was a part of KWK "Zofiówka" (Zofiówka Hard Coal Mine). During his professional career, he was holding, among others, the following positions: Operations Engineer on Duty, Deputy Operations Manager for Optimization of Production and Key Management Staff, Operations Manager at EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant), Deputy Director of EC "Pniówek" (Pniówek CHP - Combined Heat and Power Plant), Director of EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant) and Director of the Production Office.

Patryk Demski - Vice President of the Management Board



A graduate of the Faculty of Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń, Executive Master of Business Administration studies at the University of Commerce and Services (Wyższa Szkoła Handlu i Usług) in Poznań and postgraduate studies in Tax Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń.

In the years 2020-2021 Patryk Demski was a Member of the Management Board of Centralny Port Komunikacyjny Sp. z o.o., and from February 2020 to April 2020 he had been the Chair of the Supervisory Board of Centralny Port Komunikacyjny Sp. z o.o. In 2018-2019, he had held the position of the Vice President of the Management Board for Investments and Innovation of Grupa Lotos S.A. He had also been the Mayor of the City and Municipality of Pelplin (2014-2018), Deputy Director of the Branch / acting Branch Director / Chief Specialist at the Agricultural Real Estate

Agency (Agencja Nieruchomości Rolnych) in Gdańsk (2006-2014). In 2006, he had been the Deputy Director of the Cabinet of the Pomeranian Province Governor.

Krzysztof Surma - Vice President of the Management Board



A graduate of the Cracow University of Economics (Akademia Ekonomiczna w Krakowie), with the major in finance and banking, specialization: corporate finance. He also completed the Master of Business Administration studies for Financiers at Kozminski University (Akademia Leona Koźmińskiego), postgraduate studies in the Practical Application of International Financial Reporting Standards at the Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie) and the Manager Development Program organized by the ICAN Institute. He is also a member of the Association of Chartered Certified Accountants (ACCA).

Krzysztof Surma has been associated with the Issuer since 2009, holding the position of the Executive Director for Finance Management, and from May 2021 to August 4, 2021, he had been the Director of the Finance Division. While performing the above functions within the Issuer's Group, he was holding, among others, the following positions: Vice President of the Management Board of TEC1, TEC2, TEC3 (2019), President of the Management Board of Finanse Grupa TAURON (2019), President of the Management Board of PKE Broker Sp. z o.o. (2008-2009), General Director of TAURON Sweden Energy AB (2014-2019).

In the years 2001-2009 he had worked at Południowy Koncern Energetyczny S.A., including, among others, as the Head of the Risk and Insurance Department (2005-2009).

Jerzy Topolski - Vice President of the Management Board



A graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Cracow. He also completed the postgraduate studies in the field of energy enterprise management and new techniques in power engineering management.

Jerzy Topolski has professional experience with respect to the operations of the power sector, including management of the development of the distribution grid and the provision of electricity distribution services. He was involved in setting up the organization of the electricity market in Poland.

From the beginning of his professional career, he had been associated with the energy industry and TAURON Group or its legal predecessors, i.e. ENION S.A. and Zakład Energetyczny Kraków S.A.

Since 2016, he was the Vice President of the Management Board for Operator at TAURON Dystrybucja S.A. (TAURON's subsidiary), where he was responsible, among others, for the development of the distribution grid, provision of electricity distribution services, metering and grid operation management.

In addition to the above mentioned position, in 2016 he was the Director of TAURON Dystrybucja S.A. Cracow and Tarnów branches. In the years 2015 - 2016 he had worked as a coordinator and had been responsible, among others, for customer service quality. From 2013 to 2014 he had been the chief specialist, and in 2011-2012 he had been the head of the Office of Tariffs and the Energy Regulatory Office (URE) Relations.

In the years 2010 - 2011 he had been holding the position of the Director of the Tariff Department at ENION S.A. and had been responsible in particular for regulated revenue management. In 2007 - 2010 he had been the Director of the Distribution Services Department and had been responsible for ensuring profitability of the distribution services sales. From 2005 to 2007, he had been the President of the Management Board, in 2004 - 2005 - a Member of the Management Board for Trading, and until 2004 - a Member of the Management Board and the Director of Energy Trading.

In the years 1989 - 2000 he had been holding the following positions at Zakład Energetyczny Kraków S.A.: the director of the high voltage region; deputy head of the high voltage region for technical affairs as well as the grid foreman (team leader) and engineer.

Artur Warzocha – Vice President of the Management Board



A graduate of the College of Education (currently Jan Długosz University) in Częstochowa and the postgraduate studies in the European financial, economic and legal relations at the SGH Warsaw School of Economics.

From September 2020 to January 2022 Artur Warzocha had been the President of the Management Board of TAURON Nowe Technologie S.A. (TAURON's wholly owned subsidiary), where he supervised strategic projects related to the cogeneration, renewable energy sources and electromobility. From November 2019 to September 2020 he had been the Vice President of the Agricultural Social Insurance Fund. In the years 2015-2019 he had been a senator of the Republic of Poland of the 9th term of office. In the years 2008-2015 he had worked at the Supreme Audit Office where he had been the chief state audit expert. From 2010 to 2014 he had held a councilor's seat in the Silesian Regional Assembly of the 4th term of office. From 2008 to 2016 he had been a research assistant at the Institute of Political Sciences and National Security at the Jan Długosz University in Czestochowa. From 2006 to 2007 he had been the 1st Vice Governor of the Silesia province.

In addition, he had been, inter alia, the deputy director at the Agricultural Advisory Center in Częstochowa, a political assistant to the Head of the Chancellery of the Prime Minister, a town councilor in Częstochowa, the press spokesman for the Governor of the Częstochowa province and a journalist.

Description of the procedures of the Company's Management Board

The Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice* which are available on the Company's website at the address: <https://www.tauron.pl>. When performing their duties the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2021.

Two Members of the Management Board or one Member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one Member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

The meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. The meetings of the Management Board shall also be convened on the motion of the majority of the Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's registered office on the date set by the person that has convened the meeting. In justified cases the meetings of the Management Board may be held outside the Company's registered office. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board

The Management Board shall vote in an open ballot, unless otherwise provided for in the legal regulations. The result of the ballot shall be recorded in the minutes of the meeting.

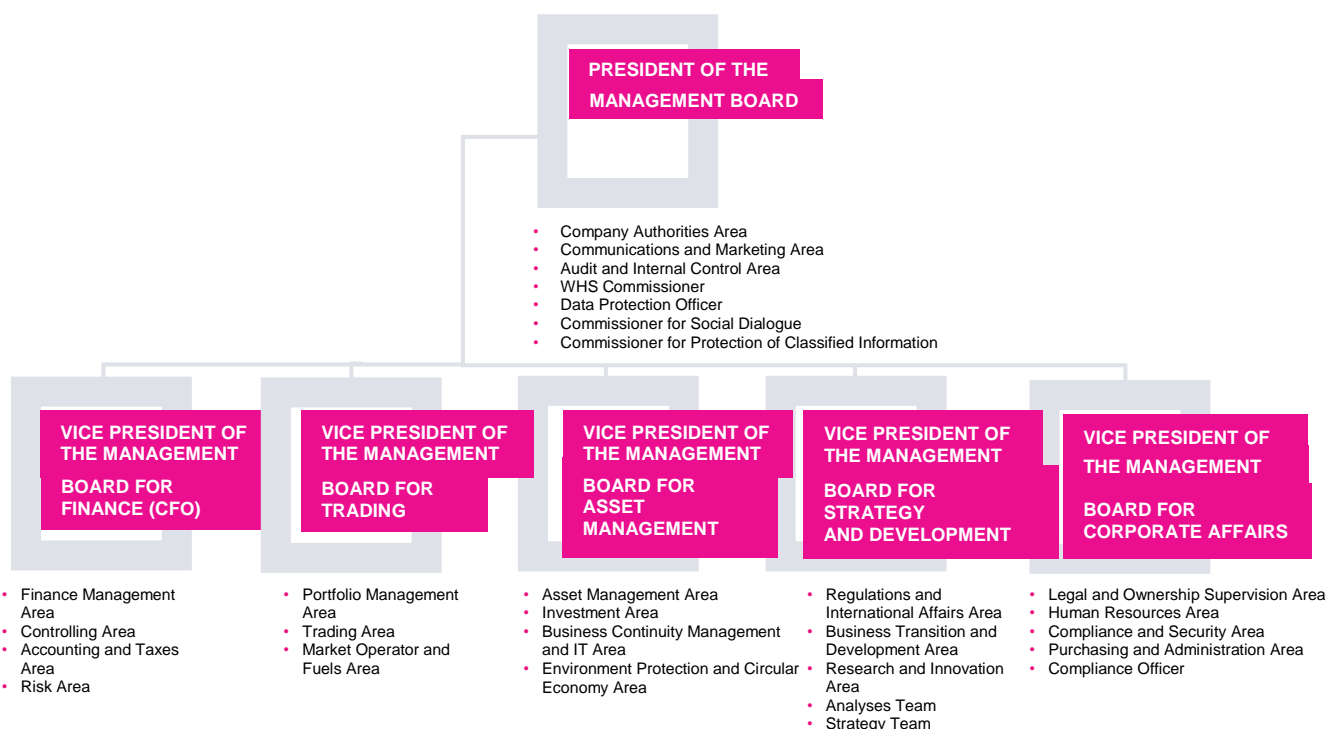
The resolutions of the Management Board shall be passed by an absolute majority of the votes in the presence of at least the majority of the Members of the Management Board. In case of an equal number of the votes the President of the Management Board shall have a casting vote. A Member of the Management Board shall inform the Management Board of any conflict of interest that has arisen or the possibility of the arising thereof and shall not participate in the reviewing of the matter or the voting on a resolution in a matter in which a conflict of interest may arise in relation thereto. The Management Board may pass resolutions by voting in writing or using the means of direct remote communications. The resolution shall be valid when all of the Members of the Management Board have been notified of the content of the draft resolution and at least the majority of the Members of the Management Board participated in adopting the resolution. The voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Member of the Management Board designated thereby, including setting the final deadline for casting of the votes by the Members of the Management Board. The Members of the Management Board voting against the resolution may submit a dissenting opinion to the minutes, which shall be recorded in the minutes along with the justification thereof. The decisions of the Management Board which are the decisions on the ongoing matters (daily business) that do not require a resolution shall be recorded only in the minutes.

The internal division, among the Members of the Management Board, of the tasks and responsibilities for the individual business areas of the Company's operations, as defined in the Organizational Regulations and including the independent (autonomous) work positions, as well as the organizational units reporting directly to the Executive Directors, whose work is managed (supervised) by the Members of the Company's Management Board, is defined by the Company's Management Board Resolution No. 18/VI/2022 of January 25, 2022 *regarding the assignment of individual organizational units of the Company and independent work positions directly reporting to the Members*

of the Management Board of TAURON Polska Energia S.A. The structure of the Company's business areas reporting to the individual Members of the Company's Management Board is posted on the Company's web site at the address: <https://www.tauron.pl/tauron/o-tauronie/wladze-spolki>.

The below figure presents the diagram (flowchart) showing the split of responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report.

Figure no. 85. Diagram (flowchart) showing the split of responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report



Supervisory Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Company's Supervisory Board, began its run on July 15, 2020.

In accordance with the Company's Articles of Association it is a common term of office and it shall last 3 years.

The composition (membership) of the Company's Supervisory Board as of December 31, 2021

- | | |
|--------------------------|--|
| 1. Piotr Tutak | - Chair of the Supervisory Board, |
| 2. Teresa Famulska | - Vice Chair of the Supervisory Board, |
| 3. Katarzyna Taczanowska | - Secretary of the Supervisory Board, |
| 4. Stanisław Borkowski | - Member of the Supervisory Board, |
| 5. Leszek Koziorowski | - Member of the Supervisory Board, |
| 6. Ryszard Madziar | - Member of the Supervisory Board, |
| 7. Grzegorz Peczkis | - Member of the Supervisory Board, |
| 8. Marcin Wawrzyniak | - Member of the Supervisory Board. |

The composition (membership) of the Company's Supervisory Board as of the day of drawing up this Report

- | | |
|--------------------------|--|
| 1. Piotr Tutak | - Chair of the Supervisory Board, |
| 2. Teresa Famulska | - Vice Chair of the Supervisory Board, |
| 3. Katarzyna Taczanowska | - Secretary of the Supervisory Board, |
| 4. Stanisław Borkowski | - Member of the Supervisory Board, |
| 5. Dariusz Hryniów | - Member of the Supervisory Board, |
| 6. Leszek Koziorowski | - Member of the Supervisory Board, |
| 7. Ryszard Madziar | - Member of the Supervisory Board, |
| 8. Grzegorz Peczkis | - Member of the Supervisory Board, |
| 9. Marcin Wawrzyniak | - Member of the Supervisory Board. |

The Supervisory Board of the Company held a total of 20 meetings in the period covered by this report.

The changes to the composition (membership) of the Company's Supervisory Board in 2021 and by the date of drawing up this report

As of January 1, 2021, the Company's Supervisory Board was composed of the following members: Andrzej Kania (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Katarzyna Taczanowska (Secretary of the Supervisory Board), Ryszard Madziar (Member of the Supervisory Board), Grzegorz Peczkis (Member of the Supervisory Board) and Barbara Piontek (Member of the Supervisory Board).

On February 12, 2021, Barbara Piontek submitted a statement of her resignation, effective as of February 28, 2021, from the membership of the Company's Supervisory Board, in connection with assuming the position of the President of the Management Board of Jastrzębska Spółka Węglowa S.A. from 1 March 2021.

On April 6, 2021, the Minister of State Assets, acting pursuant to § 23, section 1, clause 3) of the Company's Articles of Association, appointed Marcin Wawrzyniak to be a Member of the Company's Supervisory Board effective as of the same day.

On May 24, 2021, the Ordinary General Meeting of the Company adopted resolutions to appoint Stanisław Borkowski and Leszek Koziarowski to be the Members of the Supervisory Board of the Company.

On November 16, 2021, the Minister of State Assets, acting pursuant to § 23, section 1, clause 3) of the Company's Articles of Association, appointed Piotr Tutak to be a Member of the Company's Supervisory Board.

On November 18, 2021, Andrzej Kania submitted a statement of his resignation, effective as of the same day, from the membership of the Company's Supervisory Board and thus from performing the function of the Chair of the Supervisory Board without providing the reasons for his resignation.

On November 29, 2021, the Company's Supervisory Board elected Piotr Tutak to be the Chair of the Company's Supervisory Board.

On January 26, 2022, the Minister of State Assets, acting pursuant to § 23, section 1, clause 3) of the Company's Articles of Association, appointed Dariusz Hryniów to be a Member of the Company's Supervisory Board.

No other changes to the composition of the Company's Supervisory Board had taken place by the date of drawing up this information.

Information on the independence of the Members of the Company's Supervisory Board

In accordance with the Company's Articles of Association at least two Members of the Company's Supervisory Board should meet the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, and also should not have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

The Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on compliance with the independence criteria listed in the above mentioned act as well as on the existence or non-existence of the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company. In case a situation occurs where the independence criteria are not complied with, a Member of the Supervisory Board shall be obliged to inform the Company promptly thereof.

Information on the compliance of the Members of the Supervisory Board with the independence criteria is posted on the Company's website at the address: <https://www.tauron.pl>.

The below table presents the information on the compliance or non-compliance of the Members of the Company's Supervisory Board with the independence criteria as well as on the existence or non-existence of the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company as of December 31, 2021.

Table no. 61. Compliance of the Members of the Company's Supervisory Board with the independence requirements and the actual ties to a shareholder holding at least 5% of the total number of votes in the Company, as of December 31, 2021 and as of the date of drawing up this report

First and last name	Compliance with the independence requirements		Actual ties to a shareholder	
	as of December 31, 2021	as of the date of drawing up this report	as of December 31, 2021	as of the date of drawing up this report
1. Piotr Tutak	Independent	Independent	Did not exist	Do not exist
2. Teresa Famulska	Independent	Independent	Did not exist	Do not exist
3. Katarzyna Taczanowska	Independent	Independent	Existed	Exist
4. Stanisław Borkowski	Independent	Independent	Did not exist	Do not exist
5. Dariusz Hryniów	-	Independent	-	Do not exist

6. Leszek Koziarowski	Independent	Independent	Did not exist	Do not exist
7. Ryszard Madziar	Independent	Independent	Did not exist	Do not exist
8. Grzegorz Peczkis	Independent	Independent	Did not exist	Do not exist
9. Marcin Wawrzyniak	Independent	Independent	Did not exist	Do not exist

Experience and competences of the Members of the Supervisory Board who continue to hold their seats on the Company's Supervisory Board as of the date of drawing up this report

Piotr Tutak - Chair of the Supervisory Board

A graduate of the political science faculty at the Institute of Social Sciences of the Pedagogical University in Cracow. He completed post-graduate studies in management at the SGH Warsaw School of Economics, public administration at the Jagiellonian University and the regional development at the University of Warsaw.

Piotr Tutak has extensive experience in public administration, including in the Chancellery Office of the Prime Minister, among others as an advisor to the Prime Minister, the Secretary of State and the Deputy Head of the Chancellery Office of the Prime Minister and the President of the Government Center for Strategic Studies. He also gained professional experience working in management and control (supervision, oversight) authorities of the commercial law companies, among others in the finance, energy and real estate sectors. He participated in professional internships in the US and Japan. A Member of the Consultative Council of the Faculty of Building Services, Hydro and Environmental Engineering of the Warsaw University of Technology. He completed a course for the candidates for members of the supervisory boards of the State Treasury companies. He has been the President of the Management Board of EuRoPol Gaz S.A. since 2016.

He has been a Member of the Company's Supervisory Board since November 16, 2021.

In the Company's Supervisory Board of the 6th common term of office he is the Chair of the Company's Supervisory Board and the Head of the Nominations and Compensation Committee of the Company's Supervisory Board and is a Member of the Strategy Committee of the Company's Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice (currently the University of Economics in Katowice). She holds a title of a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice. She is a professional tax advisor.

Since graduation she has been associated with the University of Economics in Katowice. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998 - 2013 she had been working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of more than 150 domestic and foreign publications in the field of finance, mainly public finance and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducted numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff. In 2007 - 2018 she had worked for three consecutive terms at the State Examination Commission on Tax Advisory Services, where, since 2010, for two consecutive terms based on the Minister of Finance's appointment, she was the Head of the Commission. In 2007 - 2019 a member of the Financial Education Committee of the Polish Academy of Science, where, in 2011 - 2015, she was a member of the Board of the Committee. Furthermore, she is a member of the Polish Finance and Banking Association (since 2004, a member of the Board), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries and Polish Economic Society.

In the period from May 29, 2017, until July 14, 2020, she had been a member of the Supervisory Board of TAURON Polska Energia S.A., holding the position of the Vice Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

She was awarded the following orders and accolades: Silver Cross of Merit, Silver Medal for Long Term Service, Medal of the Commission of National Education, awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. of the 6th common term of office since August 3, 2020, holding the position of the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

Katarzyna Taczanowska - Secretary of the Supervisory Board

A graduate of the Faculty of Law of the University of Warsaw, registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

Katarzyna Taczanowska has many years of professional experience in providing legal services for business entities that she has been offering since 2003. She was a partner at the GWW Woźny and Partners (GWW Woźny i Wspólnicy) law firm, since 2009 until now she has been a partner at the Kudlak, Taczanowska-Wileńska sp.k. law firm. In 2009 - 2012 she had been the Director of the Legal Office at Towarzystwo Funduszy Inwestycyjnych PZU S.A. (PZU S.A. Investment Funds Company). She was a member of the Supervisory Boards of PZU Życie S.A., LOT Aircraft Maintenance Services sp. z o.o. and IDA Management sp. z o.o.

Until December 2021 she held the position of the General Director for Corporate and Legal Affairs at KGHM Polska Miedź S.A., currently she holds the position of the General Director of Head Office at the abovementioned company.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since May 8, 2019.

In the Company's Supervisory Board of the 6th common term of office she is the Secretary of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board.

Stanisław Borkowski - Member of the Supervisory Board

A graduate of the Executive MBA studies at the University of Quebec in Montreal and a graduate of the Master of Business Administration studies at the SGH Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie). In addition, a graduate of the Faculty of Medicine at the University of Oslo.

He gained professional experience in the insurance sector, holding the position of the director of the health insurance department at PZU Group, Vice-President of the Management Board at insurance companies from Allianz Polska Group, acting President of the Management Board at Allianz Bank Polska S.A. and President of the Management Board at Credit Agricole Ubezpieczenia in the years 2001-2015. He had been a partner at Mangogross Sp. z o.o., responsible for consulting and investments, in the years 2015-2017. He had also been the President of the Management Board of Uzdrowisko Konstancin Zdrój S.A. and the Medical Institution (Zakład Lecznicy) Uzdrowisko Nałęczów S.A. in the years 2016-2017.

Currently, since 2017, he has been the President of the Management Board of Colbird Sp. z o.o. (Ltd).

He was a member of the supervisory boards of joint stock companies, where he was the chair of the supervisory board, as well as the head of the audit committees. Currently, he is a Member of the Supervisory Board and at the same time the Head of the Audit Committee of UNUM Polska S.A., as well as the Head of the Audit Committee at the Polish-Canadian Chamber of Commerce.

Decorated with the Golden Cross of Merit.

He has been a Member of the Supervisory Board of the Company since May 24, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Audit Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Dariusz Hryniów - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Opole (master's degree in law) and the Executive Master of Business Administration (MBA) studies at Koźmiński University, ESCP Europe. He is a legal counsel. He also completed technical education in the field of energy.

From 2015 to 2020, he had been holding the position of the Director of the Corporate and Legal Services Department at Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"). There he had been responsible, inter alia, for supervising the legal services provided for PGNiG Capital Group's subsidiaries, as well as the legal services related to the key projects, including the arbitration and acquisition processes, infrastructure investment projects, capital transactions as well as import contracts.

From 2016 to 2020, Dariusz Hryniów had been the Vice Chair and then the Chair of the Supervisory Board of PGNiG Termika S.A.

In the years 2017-2019 he had been the Chair of the Supervisory Board of PGNiG Supply & Trading GmbH, and in the period from 2016 to 2018 he had been a member of the Supervisory Board of Zakłady Wytwórcze Urządzeń Gazniczych "Intergaz" sp.z o.o.

From 2015 to 2016, he had been the Chair of the Supervisory Board of Opole TBS in Opole. In addition, he is the Managing Partner at Hryniów, Łebek i Partnerzy law firm.

He has been a Member of the Supervisory Board of the Company since January 26, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Strategy Committee of the Company's Supervisory Board.

Leszek Koziowski - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Warsaw (Uniwersytet Warszawski), Registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

From the beginning of his professional career, he has been associated with the capital market. In the years 1994-1999 at the Securities Commission (Komisja Papierów Wartościowych - KPW), initially at the Office of Brokerage Houses and Trust Funds (Biuro Domów Maklerskich i Funduszy Powierniczych), subsequently as an advisor to the Chair of the Securities Commission (KPW).

During his work at the Securities Commission (KPW), he had also been holding the position of the Deputy Chairman of the Examination Committee for Investment Advisors.

Currently at GESSEL, KOZIOROWSKI Kancelaria Radców Prawnych i Adwokatów sp. p., where he has created and manages the capital market law department - employed since 1999, a partner since 2002.

He had been an arbitrator at the Stock Exchange Court at the Warsaw Stock Exchange (Sąd Giełdowy przy Giełdzie Papierów Wartościowych w Warszawie).

Since 2015, he has been a member of the Corporate Governance Committee at the Warsaw Stock Exchange (Komitet Ładu Korporacyjnego przy Giełdzie Papierów Wartościowych w Warszawie), where he was a co-author of the Best Practice of WSE Listed Companies 2016 and of the latest: the Best Practice of WSE Listed Companies 2021.

He had been holding the position of the chair and a member of the Supervisory Boards at a number of private and public joint stock companies, for example, IGLOTEX S.A. (the chair of the Supervisory Board), ESALIENS TFI S.A. (the chair of the Supervisory Board), Zakłady Odzieżowe BYTOM S.A., TETA S.A. (the chair of the Supervisory Board), TAURON Polska Energia S.A. (in the years 2010-2017).

An author of numerous publications in the field of the capital market law.

He has been a Member of the Supervisory Board of the Company since May 24, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Audit Committee of the Company's Supervisory Board. and a Member of the Nominations and Compensation Committee of the Company's Supervisory Board.

Ryszard Madziar - Member of the Supervisory Board

A graduate of the faculty of political science of the University of Warsaw. He holds an MBA degree obtained at the Warsaw Management University (Wyższa Szkoła Menedżerska w Warszawie).

He has an extensive experience in public administration. He has held the following positions: the Mayor of Wołomin, the Head of the Political Cabinet of the Vice Chairman of the Council of Ministers, and prior to that, the Deputy Director of the Mazovian Regional Office of the Agency for Restructuring and Modernization of Agriculture (Agencja Restrukturyzacji i Modernizacji Rolnictwa).

He is a member of the Supervisory Board of, among others, Totalizator Sportowy.

He had been the Head of the Political Cabinet of the Vice Chair of the Council of Ministers (Deputy Prime Minister) in the Chancellery of the Prime Minister until June 2021 and currently he is holding the position of an advisor to the Management Board of the Pekao S.A. bank.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since July 15, 2020.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

Grzegorz Peczkis gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is holding the position of the Vice Chair of the Supervisory Board of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Patent Office of the Republic of Poland.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019.

In the Company's Supervisory Board of the 6th common term of office he is the Head of the Strategy Committee of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board.

Marcin Wawrzyniak - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw (Uniwersytet Kardynała Stefana Wyszyńskiego w Warszawie). Entered on the list of legal counsels (attorneys-at-law) at the District Chamber of the Legal Counsels (Attorneys-at-law) in Warsaw (Warsaw Bar Association). An attorney-at-law (barrister), a member of the Warsaw Bar Association. A Member of the Tribunal of State.

He has had many years of professional experience with respect to providing legal services and consultancy for business entities, including the energy sector companies. A legal advisor to the central and local government administration bodies (authorities) with respect to investment processes. A partner at the law firm Wawrzyniak i Partnerzy Radcowie Prawni sp. p. (Wawrzyniak and Partners Legal Counsels Limited Liability Partnership - LLP). He was a member of the supervisory boards and the management boards of public and private sector companies. An author of several dozen publications in the field of business law, including books and comments to an act of law.

He has been a Member of the Company's Supervisory Board since April 21, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Description of the procedures of the Company's Supervisory Board

The Supervisory Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its registered office in Katowice* which are available on the Company's website at the address: <http://www.tauron.pl/>. When performing their duties the Members of the Company's Supervisory Board shall be acting in accordance with the principles provided in the Best Practice 2021.

The Members of the Supervisory Board of the Company, when performing the functions and duties assigned, shall be guided in their conduct, including in making decisions, by the independence of their own opinions and judgments, acting in the interest of the Company.

The Supervisory Board of the Company shall work by way of a debate, analyzing the situation of the Company and the Group against the background of the industry and the market on the basis of the materials provided thereto by the Management Board of the Company and the internal systems and functions of the Company, as well as obtained from outside the Company, using the results of the works of its Committees.

The main form of the Supervisory Board performing the oversight of the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. The meetings of the Company's Supervisory Board shall be convened by the Chair of the Supervisory Board or the Vice Chair of the Supervisory Board by presenting a detailed agenda of the meeting:

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

The meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all of the 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 Chair of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. The notifications of the Supervisory Board's meeting shall be sent by electronic mail. In the notification of the Supervisory Board's meeting the Chair shall define the date of the meeting, the venue of the meeting and the detailed draft agenda. The Supervisory Board of the Company shall meet on as needed basis, however not less frequently than once every 2 months. The Supervisory Board may hold meetings without convening a formal meeting if all of the Members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda of the meeting.

A change of the proposed agenda of the meeting may occur when all of the Members of the Company's Supervisory Board are present at the meeting and no one raises an objection against the changed agenda of the meeting. An issue not included in the agenda of the meeting should be included in the agenda of the next meeting.

The participation in a meeting of the Supervisory Board shall be a Supervisory Board Member's duty. A Member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a Member of the Supervisory Board shall require a resolution of the Company's Supervisory Board. The Members of the Company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. The participation of the Company's Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the person convening the meeting of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

The Supervisory Board may seek opinions of experts using the knowledge of the Company's employees, including in particular, the legal counsels who provide regular legal assistance for the Company.

The Supervisory Board may also appoint independent experts to obtain an opinion and make the appropriate decision, as well as invite them to the meetings of the Supervisory Board. In case a transaction of the Company with a related entity requires an approval of the Supervisory Board of the Company, before adopting a resolution on granting such a consent, the Supervisory Board shall assess whether it is necessary to first seek an opinion of an external entity that will carry out the valuation of the transaction and the analysis of its economic effects. If the conclusion of the transaction with a related entity requires the approval of the General Meeting, the Supervisory Board of the Company shall draw up an opinion on the legitimacy of concluding such a transaction and in such a case it shall assess the need for a prior seeking of an opinion of an external entity. In the cases referred to above, the Supervisory Board of the Company shall adopt a resolution to commission the selected expert to carry out the work, obliging the Management Board of the Company to conclude the applicable agreement.

The meetings of the Supervisory Board shall be chaired by the Chair of the Supervisory Board, and in case of his/her absence, by the Vice Chair of the Supervisory Board. For important reasons, with the consent of the majority of the Members of the Supervisory Board present at the meeting, the person chairing the meeting shall be obliged to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Company's Supervisory Board. The Supervisory Board shall make its decisions in the form of resolutions. The Supervisory Board's resolutions shall be passed mainly during the meetings thereof. The Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all of its members have been invited in the appropriate manner defined in the Regulations of the Supervisory Board. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the Company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all of the Members of the Supervisory Board are present and nobody raises an objection. This shall not apply to the resolutions on excusing a Supervisory Board's Member's absence at the meeting. The resolutions shall be voted on in an open ballot. A secret ballot shall be ordered only in the cases stemming from the provisions of the law.

In accordance with the Company's Articles of Association, the Supervisory Board may pass resolutions in writing or using the means of direct remote communications. Passing a resolution in such a way shall require a prior notification of all of the 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 Company's Supervisory Board may pass resolutions this way as long as no Member of the Company's Supervisory Board raises an objection. When voting on a resolution in the above mentioned 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 the means of direct remote communications shall be signed by the Chair of the Supervisory Board. The resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

The participation in a meeting of the Company's Supervisory Board using the means of direct remote communications, i.e. a conference call or a video conference, shall be allowed. In case the Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using the means of direct remote communications, the resolutions shall be passed if at least half of the Members of the Company's Supervisory Board participate in the vote.

The Members of the Supervisory Board shall take part in the meetings and exercise their rights and responsibilities (duties) in person, and while performing their duties they shall be obliged to act with due diligence. The Members of the Supervisory Board shall be obliged to keep confidential the information related to the Company's activities that they have acquired in connection with holding their seat or on another occasion.

The Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision (oversight) activities on their own for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform the duties of the Members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the Member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Company's Supervisory Board, submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

The Company's Supervisory Board may appoint from among its members permanent or temporary (ad hoc) working groups (teams), committees to perform specific actions. The standing committees of the Company's Supervisory Board shall be:

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

The composition (membership), tasks and rules (procedures) of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Audit Committee were appointed for the current term on August 3, 2020 by the Company's Supervisory Board of the 6th common term of office from among its members.

In 2021 the Audit Committee was composed of 3 to 5 members.

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2021, the Company's Supervisory Board also made changes to the membership of the Audit Committee.

The composition (membership) of the Audit Committee as of December 31, 2021, and as of the date of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Stanisław Borkowski - Member of the Audit Committee,
3. Leszek Koziarowski - Member of the Audit Committee,
4. Grzegorz Peczkis - Member of the Audit Committee,
5. Katarzyna Taczanowska - Member of the Audit Committee.

The changes to the composition (membership) of the Audit Committee in 2021 and by the date of drawing up this report

As of January 1, 2021, the Audit Committee was composed of the following Members of the Supervisory Board of the Company: Teresa Famulska (Head of the Audit Committee), Grzegorz Peczkis and Katarzyna Taczanowska.

On June 14, 2021, the Company's Supervisory Board supplemented the composition (membership) of the Audit Committee by appointing Stanisław Borkowski and Leszek Koziarowski to be the members thereof.

No other changes to the composition (membership) of the Audit Committee had taken place by the date of drawing up this report.

Information on the independence of the Members of the Audit Committee

Pursuant to the *Act of May 11, 2017, on certified auditors, audit companies and public oversight*, the majority the members of the audit committee, including the head thereof, should be independent and at least one member of the audit committee should have the knowledge and skills with respect to accounting or auditing financial statements and at least one member of the audit committee should have the knowledge and skills with respect to the industry that the company is operating in.

In 2021 the membership (composition) of the Audit Committee was in compliance with the requirements defined in the above mentioned act. The evaluation of the independence and the statutory requirements with respect to the knowledge and skills of the individual Members of the Audit Committee was carried out by the Company's Supervisory Board based on the relevant statements submitted by the Members of the Audit Committee.

The below table presents the information on the compliance, in 2021, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held.

Table no. 62. Compliance, in 2021, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held

First and last name	Period of performing the function (tenure) in the Audit Committee in 2021	Compliance with the independence requirements and the requirements with respect to the knowledge and skills held
1. Teresa Famulska	01.01.2021 – 31.12.2021	Independent Has the knowledge and skills in the field of accounting and auditing of financial statements
2. Stanisław Borkowski	14.06.2021 – 31.12.2021	Independent Has the knowledge and skills in the field of accounting and auditing of financial statements

First and last name	Period of performing the function (tenure) in the Audit Committee in 2021	Compliance with the independence requirements and the requirements with respect to the knowledge and skills held
3. Leszek Koziorowski	14.06.2021 – 31.12.2021	Independent
4. Grzegorz Peczkis	01.01.2021 – 31.12.2021	Independent Has knowledge with respect to the industry that the Company is operating in
5. Katarzyna Taczanowska	01.01.2021 – 31.12.2021	Independent

The detailed information on the way the Members of the Audit Committee, that continue to hold their seats in the Audit Committee, as of the date of drawing up this report, have gained the knowledge and skills to the extent defined in the *Act of May 11, 2017, on certified auditors, audit firms and public oversight* is presented above as part of the description of the experience and competences of the Members of the Supervisory Board of the Company.

Tasks and competences of the Audit Committee

In 2021 the Audit Committee was performing the tasks and competences defined in the currently applicable legal regulations and in the *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.* adopted by the Supervisory Board.

The Audit Committee held 8 meetings in total during the period covered by this report.

The tasks and competences of the Audit Committee as of December 31, 2021, and as of the date of drawing up this report, are presented in the below table.

Table no. 63. Competences of the Audit Committee as of December 31, 2021, and as of the date of drawing up this report

Competences of the Audit Committee
<ol style="list-style-type: none"> 1. monitoring: <ol style="list-style-type: none"> 1) Company's financial reporting process, 2) effectiveness of the internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting, 3) performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and findings of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company, 2. controlling and monitoring of the independence and impartiality of the chartered accountant (certified auditor) and the audit company, in particular in case other services than an audit are provided for the benefit of the Company by the audit company, 3. performing the evaluation of the independence of the certified auditor and expressing consent for the performance thereby of the permitted services that do not constitute an audit within the Company, 4. developing the policy for selecting the audit company to perform the audit, 5. developing the policy for performing by the audit company conducting the audit, entities related to such audit company and the members of the audit company's corporate network, of the permitted services that do not constitute an audit, 6. defining the procedure for selecting the audit company by the Company, 7. presenting to the Supervisory Board, for the purpose of selecting the audit company responsible for performing the statutory audit or review of financial statements, of the recommendation, referred to in Art. 130, clauses 2 and 3 of the <i>Act of May 11, 2017 on certified auditors, auditing companies and public oversight</i> and in Art. 16, clause 2 of the <i>Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC</i>, in line with the policies referred to above in items 4 and 5, 8. informing the Supervisory Board of the audit results and explaining how the audit contributed to the accuracy (fairness) of the Company's financial reporting, and also what the role of the Audit Committee in the audit process was, 9. presenting the recommendations aimed at ensuring accuracy (fairness, reliability) of the Company's financial reporting process, 10. performing other activities vested with the audit committees pursuant to the <i>Act of May 11, 2017, on certified auditors, auditing companies and public oversight, Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities, repealing the Commission Decision 2005/909/EC and the Act of September 29, 1994, on accounting.</i>

The detailed description of the activities of the Audit Committee is provided in the Report on the Activities of the Company's Supervisory Board, submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Permitted non-audit services provided by an audit company

The following permitted non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries in 2021 by the audit firm auditing the financial statements:

1. confirmed in writing verification of the annual and interim (semi-annual) standalone consolidation packages of selected TAURON Capital Group's subsidiaries required to prepare the annual and interim consolidated financial statements,
2. completing the agreed procedures for the verification of the report of TAURON Dystrybucja subsidiary in connection with the requirement to estimate the Regulatory Asset Base (RAB) and the Regulatory Asset Base (RAB) for the AMI System for the needs of determining the justified return on capital employed by the President of ERO.
3. an assessment of the annual report of the Supervisory Board on the compensation of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., drawn up in accordance with art. 90g of the *Act*

on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies.

In connection with the provision of the above mentioned services, the Audit Committee performed an evaluation of the threats to and the safeguards of the independence of the audit company Ernst & Young Audyty Polska and expressed its consent for the provision of the above mentioned services.

Main assumptions of the policy for appointing (selecting) an audit company to conduct the audit and the policy of providing the permitted non-audit services by the audit company conducting the audit, by the entities related to such an audit company and by a member of the audit company's network

The Audit Committee adopted the following regulations on October 16, 2017, prepared in connection with the coming into force of the *Act of May 11, 2017, on certified auditors, auditing companies and public oversight*:

- 1. Policy for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,*
- 2. Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*
- 3. Policy for the provision of the permitted non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network.*

On October 5, 2020, the Audit Committee adopted the new version of the *Policy for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*, as well as the *Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*

Policy for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the selection of the audit firm to conduct the audit and review of the Company's financial statements with the legal regulations. The policy defines, in a clear manner, the principles and rules of the process for the appointment of the audit firm to audit the reports of TAURON as a public interest unit (entity), principles of the procedure for the appointment of the audit firm, principles of preparing the recommendations of the Audit Committee related to the appointment of the audit firm, as well as the principles of the rotation of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of TAURON. The most important assumptions adopted in the policy include the fact that the process for the appointment of the auditor shall be based on the applicable legal regulations, ensuring the transparency and objectivity of the process for the appointment of the auditor and including in the process of the requirements necessary for the timely and correct performance of the audit services for the Company.

Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the process for the appointment of the audit firm with the legal regulations, as well as ensuring that the audit and review of the financial statements are conducted at a high quality level, within a specified time frame, while ensuring independence, objectivity, transparency and credibility of the audit firm and the certified auditors. The procedure defines in detail and accurately the individual stages of the process to select the audit firm, including indicating the corporate authorities (bodies) and organizational units responsible for such stages. Furthermore, the procedure defines the general conditions for the participation in the proceedings and the criteria for the selection of the audit firm as well as the time frame of the auditor selection process. The most important assumptions made in the procedure include adopting a clear and transparent, based on the legal regulations, split of the responsibilities in the process for the appointment of the auditor, as well as defining transparent and non-discriminatory conditions for the participation in the tender procedure and criteria for the appointment of the audit firm that the company may apply.

Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network is aimed at defining clear rules aimed at meeting the requirement of the independence of the audit firm conducting the audit of the Company, in case such firm or entities that are members of its network are providing non-audit services. This policy defines the principles related to the provision for the benefit of TAURON Capital Group's entities, by the audit firm conducting the audit at TAURON, entities related to the audit firm and a member of the audit firm's network, of additional non-audit services or non-review services, in particular the conditions for the admissibility of the provision of the permitted services, the principles of the Audit Committee conducting an assessment of the threats to and safeguards of the independence of the audit firm, as well as the control mechanisms with respect to observing the principles of the independence of the certified auditor at TAURON Capital Group. The most important assumptions adopted in the policy include defining clear rules for the Audit Committee to conduct an assessment of the threats

to and safeguards of the independence of the audit firm and expressing consent for the provision of the non-audit services, based on the compliance with the legal regulations and the purposefulness of the provision of such services.

Recommendations of the Audit Committee related to the appointment (selection) of the audit firm

In 2021, the audit firm was selected to audit and review the financial statements and consolidated financial statements of TAURON for the years 2022-2024. The Supervisory Board selected the audit company based on the recommendation of the Audit Committee which met the applicable conditions and was drawn up as a result of the Company's public procurement proceedings, in accordance with the applicable criteria, including an indication of a second alternative entity to perform such activities and providing the justification for the preferences behind the selection of the recommended audit firm.

Controlling and monitoring the independence of the auditor

Controlling and monitoring the independence of the audit firm by the Audit Committee shall take place on the basis of the legal provisions and regulations adopted by the Audit Committee, in particular the *Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network* (Policy). In addition, the Company implemented the *Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.* (Procedure), which is aimed at ensuring the correct and timely performance by the Company of the activities required for the process of controlling and monitoring the independence of the audit firm and the entities that are members of its network by the Audit Committee.

The auditor's independence shall be assessed by the Audit Committee each time as part of reviewing the interim (semi-annual) and annual financial statements and the consolidated financial statements of the Company. For the purpose of the said assessment, in accordance with the Procedure, the Company shall obtain a declaration of compliance with the independence criteria referred to in the *Act of 11 May 2017 on certified auditors, audit firms and public oversight* from the audit firm in the case of semi-annual and annual financial statements. This statement shall be assessed by the Audit Committee.

The auditor's independence shall be assessed by the Audit Committee each time the Company or a subsidiary intends to commission services permitted to be performed by the audit firm or a member of the network that such an audit firm is a part of. In such a situation, the Audit Committee shall each time assess the threats and safeguards protecting the independence of the certified auditor and the audit firm. The assessment of threats and safeguards protecting the independence of the certified auditor and the audit firm carried out by the Audit Committee in accordance with the Policy shall include:

- 1) verification whether the given service is included in the list of the permitted services,
- 2) verification whether the requirements regarding the maximum limit of the compensation allowed by law for the provision of services other than an audit are met,
- 3) checking whether the subject of the permitted service to be commissioned to the certified auditor or audit firm, an entity related to that audit firm or a member of the network that the certified auditor or the audit firm is a part of, is not related to the Company's tax policy,
- 4) assessment of the statement on the compliance with the independence criteria obtained by the Company, in accordance with the Procedure, from the certified auditor or the audit firm that is to perform the permitted services, valid as of the date of the assessment,
- 5) an analysis of the substantive justification for the performance of the service by the certified auditor or the audit firm conducting the audit, an entity related to that audit firm or an entity that is a part of its network, indicating the key factors impacting the legitimacy of such a selection.

In accordance with the Procedure, for the purpose of the Audit Committee's control of the compliance with the requirements of the independence of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of the Company, the Company shall collect and regularly verify the information on the contracts concluded by TAURON Capital Group's subsidiaries with the audit firm conducting the audit and review of the financial statements and consolidated financial statements of the Company, as well as the members of the network that such an audit firm is a part of and the information on the transactions recorded by TAURON Capital Group's subsidiaries with the audit firm conducting the audit and review of the financial statements and consolidated financial statements of the Company, as well as the members of the network that the audit firm is a part of. At least once a year, the Company shall prepare information on the performance of the activities stemming from this procedure and submit it to the Audit Committee for evaluation.

Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Nominations and Compensation Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2021 the Nominations and Compensation Committee was composed of 3 to 4 members.

Due to the changes to the membership (composition) of the Supervisory Board of the Company introduced in 2021, the Company's Supervisory Board also made changes to the membership (composition) of the Nominations and Compensation Committee.

The composition (membership) of the Nominations and Compensation Committee as of December 31, 2021, and as of the date of drawing up this report

1. Piotr Tutak - Head of the Nominations and Compensation Committee,
2. Leszek Koziarowski - Member of the Nominations and Compensation Committee,
3. Ryszard Madziar - Member of the Nominations and Compensation Committee,
4. Marcin Wawrzyniak - Member of the Nominations and Compensation Committee.

The changes to the composition (membership) of the Nominations and Compensation Committee in 2021 and by the date of drawing up this report

As of January 1, 2021, the Nominations and Compensation Committee was composed of the following Members of the Supervisory Board of the Company: Andrzej Kania (Head of the Nominations and Compensation Committee), Ryszard Madziar and Barbara Piontek.

On February 12, 2021, Barbara Piontek submitted a statement of her resignation, effective as of February 28, 2021, from the membership of the Company's Supervisory Board of the 6th common term of office. This way, she ceased to be the member of the Nominations and Compensation Committee.

On February 19, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition (membership) of the Nominations and Compensation Committee by appointing Grzegorz Peczkis to be a member thereof.

On April 26, 2021, Grzegorz Peczkis submitted a statement of his resignation from the membership of the Nominations and Compensation Committee. On the same day the Company's Supervisory Board of the 6th common term of office supplemented the composition (membership) of the Nominations and Compensation Committee by appointing Marcin Wawrzyniak to be a member thereof.

On June 14, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition (membership) of the Nominations and Compensation Committee by appointing Leszek Koziarowski to be a member thereof.

On November 18, 2021, Andrzej Kania submitted a statement of his resignation, effective as of the same day, from the membership of the Company's Supervisory Board of the 6th common term of office. This way, he ceased to be the member of the Nominations and Compensation Committee.

On November 29, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Piotr Tutak to be a member thereof.

On November 29, 2021, the Nominations and Compensation Committee elected Piotr Tutak to hold the position of the Head of the Nominations and Compensation Committee.

No other changes to the composition of the Nominations and Compensation Committee had taken place by the date of drawing up this report.

Tasks and competences of the Nominations and Compensation Committee

The tasks and competences of the Nominations and Compensation Committee did not change in 2021.

The Nominations and Compensation Committee held 7 meetings in total during the period covered by this report.

The tasks and competences of the Nominations and Compensation Committee, as of December 31, 2021, and as of the date of drawing up this report, are presented in the below table.

Table no. 64. Competences of the Nominations and Compensation Committee, as of December 31, 2021, and as of the date of drawing up this report

Competences of the Nominations and Compensation Committee
<ol style="list-style-type: none">1. recommending to the Supervisory Board a recruitment procedure for the positions of the Members of the Company's Management Board,2. evaluating candidates for the Members of the Management Board and providing the Supervisory Board with opinions in this respect,

3. recommending to the Supervisory Board a form and content of the agreements to be concluded with the members of the Management Board,
4. recommending to the Supervisory Board a compensation and bonus system for the members of the Management Board,
5. recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons,
6. recommending to the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of the Members of the Management Board who cannot perform their duties, along with a compensation proposal

The detailed description of the activities of the Nominations and Compensation Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Strategy Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2021 the Strategy Committee was composed of 3 to 5 members.

Due to the changes to the membership (composition) of the Supervisory Board of the Company, introduced in 2021, the Company's Supervisory Board also made changes to the membership (composition) of the Strategy Committee.

The composition (membership) of the Strategy Committee as of December 31, 2021

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Stanisław Borkowski - Member of the Strategy Committee,
3. Ryszard Madziar - Member of the Strategy Committee,
4. Piotr Tutak - Member of the Strategy Committee,
5. Marcin Wawrzyniak - Member of the Strategy Committee.

The composition (membership) of the Strategy Committee as of the date of drawing up this report

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Stanisław Borkowski - Member of the Strategy Committee,
3. Dariusz Hryniów - Member of the Strategy Committee,
4. Ryszard Madziar - Member of the Strategy Committee,
5. Piotr Tutak - Member of the Strategy Committee,
6. Marcin Wawrzyniak - Member of the Strategy Committee.

The changes to the composition (membership) of the Strategy Committee in 2021 and by the date of drawing up this report

As of January 1, 2021, the Strategy Committee was composed of the following Members of the Company's Supervisory Board: Grzegorz Peczkis (Head of the Strategy Committee), Ryszard Madziar and Barbara Piontek.

On February 12, 2021, Barbara Piontek submitted a statement of her resignation, effective as of February 28, 2021, from the membership of the Company's Supervisory Board of the 6th common term of office. This way, she ceased to be the member of the Strategy Committee.

On March 1, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Andrzej Kania to be a member thereof.

On April 26, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Marcin Wawrzyniak to be a member thereof.

On June 14, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Stanisław Borkowski to be a member thereof.

On November 18, 2021, Andrzej Kania submitted a statement of his resignation, effective as of the same day, from the membership of the Company's Supervisory Board of the 6th common term of office. This way, he ceased to be the member of the Strategy Committee.

On November 29, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Piotr Tutak to be a member thereof.

On February 23, 2022, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Dariusz Hryniów to be a member thereof.

No other changes to the composition of the Strategy Committee had taken place by the date of drawing up this report.

Tasks and competences of the Strategy Committee

The tasks and competences of the Strategy Committee did not change in 2021.

The Strategy Committee held 7 meetings in total during the period covered by this report.

The tasks and competences of the Strategy Committee as of December 31, 2021, and as of the date of drawing up this report are presented in the below table.

Table no. 65. Competences of the Strategy Committee as of December 31, 2021, and as of the date of drawing up this report

Competences of the Strategy Committee	
1.	evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board,
2.	recommending to the Supervisory Board the scope and deadlines for submitting the long term (multi-year) strategic plans by the Management Board,
3.	evaluating the impact of the planned and currently undertaken strategic investment projects on the Company's assets' position,
4.	monitoring the implementation of the strategic investment tasks,
5.	evaluating activities related to the use of the Company's material assets,
6.	providing opinions on the strategic documents submitted to the Supervisory Board by the Management Board

The detailed description of the activities of the Strategy Committee in the last financial year is provided in the report on the activities of the Supervisory Board submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Description of the activities of the Committees of the Supervisory Board of TAURON Polska Energia S.A.

The detailed description of the activities of the Committees of the Supervisory Board is provided in the Regulations of the individual Committees of the Supervisory Board.

The Committees of the Supervisory Board are advisory and opinion making bodies acting collectively as a part of the Company's Supervisory Board structure and perform the support and advisory functions for the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements related to the scope of their tasks to the Supervisory Board, by way of the resolutions passed. The Committees of the Supervisory Board are independent of the Management Board of the Company.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of 3 to 5 members, while the Strategy Committee is composed of 3 to 7 members. The activities of the individual Committees are managed by their Chairpersons (Heads).

The meetings of the Committees of the Supervisory Board are convened by the Chairperson (Head) of the specific Committee on his / her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held on as needed basis. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Head of the given Committee may invite the Members of the Company's Supervisory Board, who are not members of the specific Committee, the members of the Management Board and the employees of the Company as well as other persons working or cooperating with the Company to take part in the meetings of the Committees. The Head of the specific Committee or a person appointed by him / her submits motions, recommendations and reports to the Supervisory Board .

The Committees of the Supervisory Board pass resolutions if at least half of their members are present at the meeting and all of the members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using the means of direct remote communication.

The Members of the Committees of the Supervisory Board may also participate in the meetings of the Committees and vote on the resolutions being passed by using the means of direct remote communication, i.e. tele- or video conferences.

The Company's Management Board shall be informed of the recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board shall provide public record information, via the Company, on their memberships, the number of meetings held and the participation in the meetings during the year, as well as on their main activities.

The Company's Management Board shall provide the individual Committees with the possibility of using the services of the external advisers to the extent required to perform the obligations of the Committees.

9.12. TAURON Group's Diversity Policy

The Company does not have a diversity policy with respect to the Members of the Management Board and the Supervisory Board in place. With respect to the Members of the Management Board and the Supervisory Board the

appointment of the persons performing the functions of the Members of the Management Board of the Company shall be made by the Supervisory Board of the Company, while the members of the Supervisory Board of the Company shall be elected by the General Meeting of Shareholders and the minister competent to exercise the rights related to the shares of the State Treasury under the statutory powers of the State Treasury.

The Members of the Management Board of the Company shall be appointed by the Supervisory Board of the Company on the basis of a recruitment procedure conducted in accordance with the rules and requirements set out in the Articles of Association and the *Act of December 16, 2016, on the principles of state assets management* whose goal is to check and assess the qualifications of the candidates and selecting the best candidate.

The announcement (notice) of the qualification (recruitment) 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 shares of the State Treasury. Anyone who meets the requirements set out in § 16, clauses 3 and 4 of the Company's Articles of Association may enter the recruitment process. Due to the lack of specific requirements regarding, inter alia, gender, education background, age and professional experience, the Supervisory Board of the Company, when assessing and selecting candidates for the Members of the Management Board of the Company, has an option to ensure versatility and diversity in the selection of the Members of the Management Board of the Company.

The information on the qualifications and professional experience of the persons appointed to be the Members of TAURON's Management Board and Supervisory Board are published in the relevant current reports (regulatory filings) and on the Company's website at the address: <https://www.tauron.pl>.

The Company has implemented *TAURON Group's Diversity Policy* (Diversity Policy) on the basis of which TAURON Capital Group applies the policy of equal treatment and strives to ensure diversity in terms of gender, education, age and professional experience for all of the employees. The Diversity Policy is also applied in the cooperation (relationships) with the external partners of TAURON Capital 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 the activities aimed at:

1. developing the work environment based on respect, openness, reliability and fairness (justice),
2. ensuring versatility and diversity, in particular with respect to gender, education, age and professional experience,
3. building organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),
4. preventing discrimination by fostering appropriate atmosphere at work 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 compensation or professional development, there are regulations ensuring fairness and objectivity with respect to the work organization and compensation, for example:

1. *TAURON Group's Compensation Principles*,
2. applied regulations with respect to benefits (entitlements),
3. implemented flexible forms of work time and the ability to work remotely,
4. solutions dedicated for women, ensuring equal opportunities for them and support in combining professional life with private life, for example reduced working time for pregnant women.

By implementing the Diversity Policy TAURON Capital Group is seeking to ensure the work environment based on respect and fairness (justice). 2021 was spent on developing the assumptions and concept of the Knowledge and Age Management project and on raising the HR area's business awareness in this respect during the training courses held as part of the project.

In accordance with the Diversity Policy - diversity and openness are an integral part of TAURON Capital Group's business operations. TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all of the employees, and in particular to the management bodies (authorities) and its key managers. Also, actions have been undertaken to prevent discrimination by fostering appropriate atmosphere at work as well as building and strengthening positive relationships among the personnel and developing organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),

The Diversity Policy is also applied in the cooperation (relationships) with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, the following regulations are put in place at TAURON Capital Group.

1. *Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination at TAURON Group,*
2. *Policy of Respect for Human Rights* defining the principles of respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect,
3. training and competence development programs conducive to and supporting the creation of an atmosphere for the development of each employee,
4. regulations ensuring fairness and objectivity with respect to work organization and compensation, including among others:
 - 1) *TAURON Group's Compensation Principles,*
 - 2) *Human Resources Management Policy at TAURON Group,*
 - 3) regulations with respect to benefits (entitlements),
 - 4) flexible forms of work time and ability to work remotely
5. *TAURON Group's Employee Recruitment Principles,*
6. *TAURON Group's Competence Model*

TAURON Capital Group's diversity management is based on building a culture of openness. TAURON Capital Group, by fighting age related stereotypes, is building an intergenerational dialogue so as to facilitate the flow of knowledge. The workforce represents various age groups, including those over 50. Among the employees there are also people with various degrees of disability, which ensures the stimulation of the activities of this professional group.

TAURON Capital Group is taking steps aimed at preventing the discrimination, in particular due to age, gender, race, nationality, sexual orientation, appearance, fitness, difference in the views or political or religious beliefs by fostering the adequate atmosphere at work, which makes the employees feel respected and appreciated and gives a feeling that they can develop and fully realize their professional potential.

10. STATEMENT ON NON-FINANCIAL INFORMATION

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the Act of September 29, 1994, on accounting (Journal of Laws of 2021, item 217), instead of the statement on non-financial information, the Company drew up a Non-financial Report of TAURON Capital Group for 2020, in the form of a separate document posted on the Company's website at the address: : <https://www.tauron.pl>.

The above Report was drawn up in accordance with:

1. Article 49b, clauses 1-8 and art. 55, clauses 2b-e of the *Act of September 29, 1994, on accounting* (Journal of Laws of 2021, item 217), which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of June 20, 2019, with the guidelines on non-financial reporting: Supplement on reporting climate related information,
2. Global Reporting Index guidelines - GRI Standards (core level).

11. MANAGEMENT AND SUPERVISORY PERSONNEL COMPENSATION POLICY

11.1. Compensation system for the Members of the Management Board and the key managers

General information on the adopted compensation system for the Members of the Management Board of TAURON Polska Energia S.A.

The principles of the compensation of the Members of the Company's Management Board in 2021 were in line with the "Policy of Compensation of the Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A." (Compensation Policy) adopted by the General Meeting of the Company by way of the resolution no. 26 of July 15, 2020 and in line with the resolution no. 5 of the Extraordinary GM of the Company of December 15, 2016, amended by the resolution no. 5 of the Extraordinary GM of the Company of November 21, 2019, on the principles of determining the compensation of the Members of the Management Board and the *Act of June 9, 2016, on the principles of determining the compensation of persons managing certain companies*, as well as the Best Practice of the WSE (GPW) Listed Companies in force in 2021.

The principles of determining the compensation were specified in detail in the resolution of the Company's Supervisory Board of December 19, 2016, *on determining the compensation of the Members of the Management Board of TAURON Polska Energia S.A.*, as subsequently amended

The Company shall draw up a report on the compensation of the Members of the Management Board and the Supervisory Board of the Company for the individual financial years in accordance with art. 90g of the *Act of July 29, 2005, on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies (Journal of Laws of 2021, item 1983)* and shall publish such reports on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>.

The subject of the Report on the Compensation are the principles of determining and the structure of the compensation of the Members of the Management Board and the Supervisory Board of the Company in the individual financial years, with a particular emphasis on the total compensation of the individual Members of the Management Board, broken down into the fixed and the variable compensation dependent on the accomplishment of the specific management objectives, along with the amount of the additional cash benefits and non-cash benefits granted to the Members of the Management Board and the amount of the benefits received by the Members of the Management Board in connection with the termination of the contract for the provision of the management services and the compliance with the non-compete clause.

The Compensation Policy, along with the resolution of the General Meeting of the Company on the adoption thereof is published on the Company's website at the address: <https://www.tauron.pl>.

The overarching objectives of the Compensation Policy include:

1. ensuring a consistent and motivational compensation system for the Members of the Company's Management Board,
2. linking the compensation principles with the monitoring of the implementation of the adopted strategic plans, the long term interests of the Company and the implementation of the financial plans,
3. setting the level of the compensation of the Members of the Company's Management Board in a way that links it with the implementation (accomplishment) of the management objectives set,
4. increasing the Company's value through the development of the most senior management staff,
5. improving the compensation system translating into the implementation of the Company's business strategy and the directions of its expansion,
6. ensuring the stable growth of the Company.

The model of compensation covered by the Compensation Policy assumes a two-component system for determining the compensation of the Members of the Company's Management Board, where the total compensation of a Member of the Company's Management Board is composed of a fixed part constituting the monthly base compensation and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management objectives (KPI).

The system of compensating the Members of the Company's Management Board assumes linking the variable part of the compensation with the outstanding management objectives stemming from the provisions of the *Act of June 9, 2016 on the principles for determining the compensation of the management personnel of certain companies*, as subsequently amended, and set, based upon these provisions, by the GM and the Supervisory Board of the Company. The adoption, in the compensation system, of the dependence of the compensation's variable part on achieving the management objectives set to be accomplished is aimed, in particular, at implementing the adopted

Strategy, the directions of the Company's expansion and the financial plans, taking into account the Company's long term interests. In addition, it shapes a new organizational culture of the Company.

Taking into account the applicable regulations, the level of compensation of the Members of the Company's Management Board is determined by the Company's Supervisory Board within the range determined by the Company's GM.

The variable compensation of the Members of the Company's Management Board constitutes up to 60% of the fixed compensation for the financial year, assuming the management objectives, set by the GM and detailed by the Supervisory Board for the given financial year, have been achieved.

The variable compensation for achieving the financial management objectives is granted based on the data coming from the audited consolidated financial statements of the Company for the given financial year. The variable compensation for achieving the non-financial management objectives is due in connection with achieving the specific goals in the given financial year based on the assessment of the achievement thereof made by the Company's Supervisory Board.

The Members of the Management Board of the Company are neither covered by the bonus program based on the capital (equity) of the Company (stock awards), nor do they receive any compensation or bonuses due to the performance of their functions in the governing bodies (authorities) of TAURON Capital Group's subsidiaries.

General information on the adopted System of Compensation of the Members of the Management Board of TAURON Capital Group's Subsidiaries

At all of TAURON Capital Group's subsidiaries for which TAURON is a parent company within the meaning of art. 4, clause 3 of the *Act of February 16, 2017, on the protection of competition and consumers*, (Journal of Laws of 2020, item 1076, as subsequently amended), the principles of compensation of the members of the management authorities (bodies) are applied in accordance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907). The above was defined in the *Policy for determining the compensation of the members of the authorities of the Subsidiaries* adopted by the Management Board of TAURON, and in the *Principles of the compensation of the members of the corporate authorities of the Subsidiaries*.

The principles of compensation of the members of the management bodies (authorities) of the subsidiaries are, similar as at TAURON, based on a two-component system for determining the compensation, where the total compensation is composed of a fixed part and a variable part dependent on fulfilling specific, results based criteria, i.e. achieving the management objectives. Linking of the compensation's variable part to achieving the management objectives set to be accomplished is of material importance in TAURON Capital Group's management process and is aimed at prioritizing the directions of the expansion of the individual subsidiaries.

General information on the adopted System of Compensation of the Key Managers

The principles related to the compensation and bonus system for the key managers and other employees are defined in the *Regulations of the Compensation of the Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

TAURON Group's Principles of Compensation were in force at TAURON Capital Group in 2021, constituting the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for the key managers based on the management by objectives system, consistent throughout TAURON Capital Group, representing a combination of the planning process, efficiency (performance) measurement process and assessment process.

The compensation and bonus system for the key managers in force envisages that the level of compensation should be tied to the financial condition of TAURON Capital Group and the Company over one year's time frame, in connection with the achievement (implementation) of the strategic goals.

The overarching assumption of the compensation system in force is to ensure the optimal and motivating compensation level, based on the value and type of work in the given position as well as the quality of work and effects achieved by the employees.

The structure of the compensation is composed of the following elements:

1. fixed part - constituting the base compensation (salary) determined in accordance with the table of level (tier) categories applicable at the Company and the monthly rates of the personal level (tier). The allocated level of the basic compensation (salary) reflects the value and type of work as well as the quality of the employee's work, defined based on the assessment of the employee's competence level,
2. variable part - which is dependent on the work performance results, defined based on the level of accomplishing the targets and tasks within the Management By Objectives (MBO) bonus system,
3. benefits (entitlements) - which are defined in the internal regulations of the Company.

The MBO bonus system based on the market principles of awarding bonuses ensures focusing (integrating) of the activities of the key managers on attaining the objectives aimed at implementing the Strategy, as well as the strategic objectives and expansion directions of TAURON Capital Group's individual subsidiaries. Such a system allows for cascading of the objectives defined by the Company's Management Board at TAURON Capital Group level and at the Company level, down to the concrete, parameterized tasks vested with the employees positioned at the lower levels of the organization. In addition, the MBO bonus system has been linked with the process based management system implemented at TAURON Capital Group, inter alia by linking the objectives with the Mega-processes defined within TAURON Capital Group. Therefore, the Management by Objectives culture introduced reflects the specific features of the individual functions implemented by the Company and allows for the use of the mechanisms enabling dialogue between the superior and the subordinate during the process of setting and assessing the objectives, that translate into attaining the overall efficiency throughout the entire organization.

At the same time, this tool enables precise correlating of the KPIs defined for the Members of the Company's Management Board with the objectives set for the given year for the key managers of the Company. An initial assessment of the accomplishment of the objectives takes place after the elapse of the first 6 months, while the Members of the Company's Management Board make the final assessment of the accomplishment of the objectives by the key managers after the year has ended.

In addition, there is a bonus system for the trading area (and the units directly cooperating therewith), the purpose of which is to motivate the personnel to achieving the higher revenues for TAURON Capital Group. The trading bonus covers the key managers from the trading area, where the bonus mechanism awards them an additional bonus only after exceeding their designated annual trading plans.

11.2. Principles, conditions and amount of compensation of the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group

Compensation of the Members of the Management Board of TAURON Polska Energia S.A.

The compensation of the Members of the Company's Management Board is determined by the Company's Supervisory Board. The total amount of the compensation understood as the value of the salaries, bonuses and benefits received in cash, in kind or in any other form, due or paid by the Company to the Members of the Company's Management Board in 2021 reached the gross amount of PLN 3 108 000.

The compensation of the Members of the Company's Management Board in 2021, broken down into the individual components, is presented in the below table.

Table no. 66. Compensation of the Members of the Company's Management Board in 2021, broken down into the individual components

First and last name	Period of holding the position in 2021	Compensation ¹ (PLN '000)	Variable compensation ¹ (PLN '000)	Other benefits ¹ (PLN '000)	Total (PLN '000)
1. Artur Michałowski	05.08.2021 – 31.12.2021	302	-	-	302
2. Patryk Demski	05.08.2021 – 31.12.2021	302	-	12	314
3. Krzysztof Surma	05.08.2021 – 31.12.2021	302	-	15	317
4. Jerzy Topolski	01.01.2021 – 31.12.2021	740	206	47	993
5. Wojciech Ignacok	01.01.2021 – 28.02.2021	132	-	5	137
6. Paweł Strączyński	01.04.2021 – 04.08.2021	273	-	9	282
7. Marek Wadowski	01.01.2021 – 17.05.2021	282	445	36	763
Total		2 333	651	124	3 108

¹excluding markups (surcharges)

At the same time, it is indicated that, because of the Company's obligations towards the former Members of TAURON's Management Board, the total amount of PLN 657 000 was paid out in 2021 due to the payment of the compensation for refraining from performing competing activities (the non-compete clauses), the variable compensation and the other benefits.

The Members of TAURON's Management Board did not receive any compensation or bonuses for performing the functions in the corporate bodies (authorities) of TAURON Capital Group's subsidiaries in 2021.

All of the Members of the Company's Management Board received in 2021 their compensation in accordance with the applicable contract for the provision of the management services in accordance with the *Act of June 9, 2016*,

on the principles of determining compensation of the management personnel of certain companies (Journal of Laws of 2020, item 1907) and the Compensation Policy.

The detailed information on the compensation model for the Members of the Company's Management Board and the Compensation Policy is presented in section 11.1. of this report.

Information on the obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature.

Compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries

The compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries is determined taking into account the scale (size) of the given subsidiary's operations, in particular:

1. average annual headcount,
2. annual net revenue (turnover) from the sales of goods, products and services as well as the financial operations,
3. total assets on the balance sheet as of the end of the year.

Based on the above criteria, the categories of the subsidiaries are defined, which determine the amount of the fixed compensation of the members of the subsidiaries' management authorities (bodies).

The principles of compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries are published on the website at the address: <https://www.tauron.pl>.

11.3. Agreements concluded with Members of the Management Board that envisage compensation in case of their dismissal from the position held

The agreements (contracts) for the provision of the management services concluded both with the Members of TAURON's Management Board as well as with the Members of the Management Boards of TAURON Capital Group's individual subsidiaries, envisage, in case of the termination or renouncement of the agreement by the Company for reasons other than defined therein, a payout of the severance payment in the amount of three times the fixed part of the compensation, on the condition they have performed their function over a period of at least 12 months prior to the termination of the agreement.

In addition, due to the Members of TAURON's Management Board, as well as the Members of the Management Boards of TAURON Capital Group's individual subsidiaries having access to the confidential information the disclosure of which could expose the Company and TAURON Capital Group's subsidiaries to losses, the agreements for the provision of the management services include the non-compete clauses applicable after the expiry of the term of office. Under the above mentioned agreements the Members of the Management Board are obligated to refrain from conducting competitive activities for a specified period in return for the compensation due thereto.

11.4. Non-financial components of the compensation due to the Members of the Management Board of TAURON Polska Energia S.A. and the key managers

Non-financial components of the compensation of the Members of the Company's Management Board

The Members of the Company's Management Board, in accordance with the agreements for the provision of the management services, shall be entitled to the reimbursement by the Company of the cost of training up to the net amount of PLN 15 000 in a calendar year.

The Members of the Company's Management Board are covered by the Employee Pension Program in accordance with the rules applicable to all of the employees of TAURON.

In addition, in the event of the permanent residence at a considerable distance from the registered office of the Company, a Member of the Management Board of the Company shall be entitled to a housing allowance in the gross amount of PLN 2 500.00 per month, that constitutes an additional benefit.

Non-financial components of the compensation of the key managers

The personnel employed at the key positions by the Company shall be entitled to take advantage of the following benefits and non-financial components of the compensation offered by the Company:

1. Employee Pension Program operated by the employer (under the condition of being employed by the Company or by one of TAURON Capital Group's subsidiaries over a period of at least 1 year),

2. medical package financed with the Company's funds,
3. company car allocated for their exclusive use,
4. housing allowance in the gross amount of PLN 2 500.00 per month in case the availability of the employee is required due to the nature of his / her work and scope of responsibilities.

11.5. Information on the changes to the compensation policy during the last financial year

The Compensation Policy did not change in 2021.

11.6. System of the Compensation of the Members of the Supervisory Board

The principles of the compensation of the Members of the Company's Supervisory Board in 2021 were in line with the Compensation Policy and the resolution the Extraordinary GM of the Company of December 15, 2016, amended by the resolution no. 5 of the Extraordinary GM of the Company of November 21, 2019, on the principles of determining the compensation of the Members of the Supervisory Board.

In accordance with the resolution of the Extraordinary GM of the Company of December 15, 2016, *on the principles of determining the compensation of the Members of the Supervisory Board*, as subsequently amended, which continues to be valid also in the light of the Compensation Policy in force, the monthly compensation of the Members of the Supervisory Board of the Company is determined as a product of multiplying the assessment base mentioned in art. 1, clause 3, item 11 of the *Act of 9 June 2016 on the principles for determining the compensation of the management personnel of certain companies*, and the multiplier:

1. for the chairperson of the Supervisory Board – 1.7
2. for the other members of the Supervisory Board – 1.5

The Members of the Supervisory Board shall be entitled to receive the compensation irrespective of the frequency of the meetings convened.

The compensation shall not be due for a month in which a Member of the Supervisory Board was not present at any of the formally correctly convened meetings, and the absence was not excused. The decision on excusing or a failure to excuse the absence of a Member of the Company's Supervisory Board at the meeting thereof shall be taken by the Company's Supervisory Board by way of a resolution.

Pursuant to the Company's Articles of Association, TAURON shall cover the costs incurred in connection with the performance the Members of the Supervisory Board of the functions entrusted therewith, in particular: the costs of the round trip between the place of residence and the venue of the Supervisory Board's meeting or a meeting of the Supervisory Board's Committee, the costs of the individual supervision and the costs of the accommodation and board.

11.7. Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.

The total amount of the compensation understood as the value of the compensations due or paid by the Company to the Members of the Company's Supervisory Board in 2021 reached the gross amount of PLN 573 000.

The compensation of the Members of the Company's Supervisory Board in 2021 is presented in the below table.

Table no. 67. Compensation of the members of the Company's Supervisory Board in 2021

First and last name	Period of holding the position in 2021	Compensation (PLN '000)
1. Piotr Tutak	16.11.2021 – 31.12.2021	11
2. Teresa Famulska	01.01.2021 – 31.12.2021	79
3. Katarzyna Taczanowska	01.01.2021 – 31.12.2021	79
4. Stanisław Borkowski	24.05.2021 – 31.12.2021	48
5. Leszek Koziorowski	24.05.2021 – 31.12.2021	48
6. Ryszard Madziar	01.01.2021 – 31.12.2021	79
7. Grzegorz Peczkis	01.01.2021 – 31.12.2021	79
8. Marcin Wawrzyniak	06.04.2021 – 31.12.2021	58
9. Barbara Piontek	01.01.2021 – 28.02.2021	13
10. Andrzej Kania	01.01.2021 – 18.11.2021	79

First and last name	Period of holding the position in 2021	Compensation (PLN '000)
Total		573

The Members of the Company's Supervisory Board do not perform functions (hold positions) in the authorities of the subordinated units.

Information on the obligations towards the former Members of the Company's Supervisory Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Supervisory Board due to pensions or benefits of similar nature.

12. OTHER MATERIAL INFORMATION AND EVENTS

12.1. Material proceedings pending before the court, competent arbitration authority or public administration authority

The below table presents the material proceedings pending before the court, competent arbitration authority or the public administration authority in 2021.

Table no. 68. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2021

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
Proceedings involving TAURON	
<p>1. Plaintiff (Claimant): Huta Łaziska (Łaziska Steel Works)</p> <p>Defendants (Respondents): TAURON (as a legal successor to GZE) and State Treasury represented by the President of the Energy Regulatory Office (ERO)</p> <p>Party: TAURON</p>	<p>Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of the Energy Regulatory Office (ERO) of October 12, 2001, related to the resumption of electricity supply to the plaintiff.</p> <p>Value of the object of litigation: PLN 182 060 000.00</p> <p>Initiation of the proceeding: the lawsuit of March 12, 2007</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On May 28, 2019, the Regional Court in Warsaw issued a ruling on the dismissal of Huta Łaziska's lawsuit in whole and ruled that Huta Łaziska shall refund each Defendant (Respondent) the costs of the proceedings. The ruling is not legally binding.</p> <p>Huta Łaziska filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole.</p>
<p>2. Authority conducting the audit: Head of the Mazovian Customs and Tax Office, and after an appeal has been filed – the Director of the Tax Administration Chamber in Katowice and the Director of the Tax Administration Chamber in Warsaw</p> <p>Party: TAURON</p>	<p>Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the two investigations (audits) are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from Castor Energy sp. z o.o.</p> <p>Value of the object of litigation (deducted VAT amount): with respect to the transaction with Castor Energy sp. z o.o. – PLN 52 494 672.</p> <p>Date of initiating the proceeding: October 2014, August 2016</p> <p>Company's position: in the Company's opinion during the verification of the counterparty (business partner, contractor), the due diligence was actually adhered to, and the Company acted in good faith, so there are no grounds for refusing the Company the right to deduct the tax assessed on the invoices documenting the electricity purchase from Castor Energy sp. z o.o.</p> <p>On October 7, 2020, the Company received the decision of the Head of the Mazovian Customs and Tax Office, ending one of the audit proceedings, specifying the amount of its VAT tax liability for the following months: October, November, December 2013 and the first quarter of 2014, which resulted in the obligation for the Company to pay additional VAT due to the transaction with Castor Energy sp. z o.o., in the total amount of PLN 51 818 857, along with the interest on the tax arrears. The Company filed an appeal against the decision on October 20, 2020.</p> <p>On January 15, 2021, as part of the second audit proceedings, a decision was issued the Head of the Mazovian Customs and Tax Office in which the Authority stated that the Company had not been eligible to deduct the VAT assessed from the invoice issued by Castor Energia Sp. z o.o. in April 2014, and thus the Company overstated the amount of VAT assessed recognized in the tax statement filing for the second quarter of 2014 by the amount of PLN 677 815.39. On February 12, 2021, the Company filed an appeal against the decision.</p>
<p>3. Plaintiff (Claimant): Enea</p> <p>Defendant (Respondent): TAURON</p>	<p>Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment (benefit) in connection with the settlements related to the imbalance of the Balancing Market with PSE between January and December 2012</p> <p>Value of the object of litigation: PLN 17 085 846.49</p> <p>Initiation of the proceeding: the lawsuit of December 10, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 22, 2021, the Regional Court in Katowice dismissed Enea's lawsuit in full and ruled on Enea's obligation to reimburse the Company for the costs of the proceedings. The ruling is not final (legally binding). Enea filed an appeal against the said decision.</p>
Lawsuits pertaining to the termination, by the PEPKH subsidiary, of the agreements related to the sales of electricity and property rights arising from the certificates of origin	
<p>4. Plaintiff (Claimant): Dobiesław Wind Invest sp. z o.o.</p> <p>Defendant (Respondent): TAURON</p>	<p>Object of litigation: lawsuit for payment of damages and determination of liability for the future.</p> <p>Value of the object of litigation: PLN 72 217 997.00</p> <p>Initiation of the proceeding: the lawsuit of June 30, 2017</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff (Claimant), apart from the existing claims, brought new claims: for the payment of PLN 37 471 305.05 or (a potential claim) PLN 35 969 662.07.</p>

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
	<p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p>
<p>5. Plaintiff (Claimant): Gorzyca Wind Invest sp. z o.o.</p> <p>Defendant (Respondent): TAURON</p>	<p>Value of the object of litigation: PLN 97 651 840.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 57 933 516.55 or (a potential claim) PLN 62 666 188.65.</p>
<p>6. Plaintiff (Claimant): Pękanino Wind Invest sp. z o.o.</p> <p>Defendant (Respondent): TAURON</p>	<p>Value of the object of litigation: PLN 44 817 060.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 16 347 985.20 or (a potential claim) PLN 11 894 096.96.</p>
<p>7. Plaintiff (Claimant): Nowy Jaroslaw Wind Invest sp. z o.o.</p> <p>Defendant (Respondent): TAURON</p>	<p>Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p>Value of the object of litigation: PLN 57 763 340.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 30 755 239.47 or (a potential claim) PLN 32 175 239.15.</p>
<p>8. Co-participation on the plaintiff's (claimant' side): Amon sp. z o.o. (Amon) and Talia sp. z o.o. (Talia)</p> <p>Defendant (Respondent): TAURON</p>	<p>Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p>Value of the object of litigation: Amon – PLN 78 205 000; Talia – PLN 53 128 000</p> <p>Initiation of the proceeding: the lawsuit of April 30, 2018</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
<p>Proceedings involving TAURON Capital Group's subsidiaries related to the termination, by a subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin</p>	
<p>9. Plaintiff (Claimant): Gorzyca Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o., Dobieslaw Wind Invest sp. z o.o.</p> <p>Defendant (Respondent): PEPKH</p>	<p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: Gorzyca Wind Invest sp. z o.o.– PLN 112 353 945.05; Pękanino Wind Invest sp. z o.o. PLN 64 116 908.85</p> <p>Initiation of the proceeding: Gorzyca Wind Invest sp. z o.o. – May 18, 2015, Pękanino Wind Invest sp. z o.o. – May 20, 2018, Dobieslaw Wind Invest sp. z o.o. – May 18, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
<p>10. Plaintiff (Claimant): Dobieslaw Wind Invest sp. z o.o.</p> <p>Defendant (Respondent): PEPKH</p>	<p>Object of litigation: plea to award damages and liquidated damages.</p> <p>Value of the object of litigation: PLN 119 958 191.00 (the plaintiff increased the value of the claim)</p> <p>Initiation of the proceeding: the lawsuit of June 14, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
<p>11. Plaintiff (Claimant): Nowy Jaroslaw Wind Invest sp. z o.o.</p> <p>Defendant (Respondent): PEPKH</p>	<p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 105 128 834.11 (the plaintiff increased the value of the claim)</p> <p>Initiation of the proceeding: the lawsuit of June 3, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p>
<p>12. Plaintiff (Claimant): Amon</p> <p>Defendant (Respondent): PEPKH</p>	<p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 40 478 983.22</p> <p>Initiation of the proceeding: the lawsuit of May 22, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On July 25, 2019, the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court:</p> <ol style="list-style-type: none"> determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
<p>13. Plaintiff (Claimant): Amon</p> <p>Defendant (Respondent): PEPKH</p>	<p>result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties,</p> <p>2. determined that Amon's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages.</p> <p>The ruling is not legally binding. PEPKH disagrees with the ruling and filed an appeal complaint on October 25, 2019. Proceedings regarding the procedural issues are ongoing. The case is pending.</p> <p>Object of litigation: plea to determine awarding of damages due to a failure to perform, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin</p> <p>Value of the object of litigation: PLN 29 009 189.38</p> <p>Initiation of the proceeding: August 20, 2019</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>The case was suspended by a court decision until the Regional Court in Gdańsk has reviewed an appeal against the judgment in the lawsuit brought by Amon against PEPKH, referred to in item 12 above. The court's decision is not legally binding (final).</p>
<p>14. Plaintiff (Claimant): Talia</p> <p>Defendant (Respondent): PEPKH</p>	<p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 46 078 047.43</p> <p>Initiation of the proceeding: the lawsuit of May 21, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 6, 2020. the Regional Court in Gdańsk issued a partial and preliminary ruling, supplemented by the court on September 8, 2020, in the case in which the Court:</p> <p>1. determined that PKH's statements on the termination of long term agreements, concluded between PEPKH and Talia, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties,</p> <p>2. determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages.</p> <p>On August 3, 2020, and on March 8, 2021, PEPKH filed an appeal against the ruling (the preliminary one and the supplemented one) with the court.</p> <p>On December 20, 2021, the Court of Appeal in Gdańsk, announced the ruling to dismiss the appeal of PEPKH. The ruling of the Court of Appeal, and as a consequence the above mentioned preliminary and partial ruling as well as the supplementary ruling are final (legally binding), however it is possible to file a cassation appeal. The rulings do not order that PKH should pay any damages to the plaintiff, i.e. Talia sp. z o.o. PKH disagrees in full with the ruling of the Court of Appeal as well as with the rulings of the Court of first instance. PEPKH filed a petition to the Court of Appeal for service of the judgment of the Court of Second Instance along with a written justification (statement of reason) and will proceed to analyze it in order to challenge it as soon as possible and take any other legal remedies it is entitled to.</p>

Other proceedings

Petitions of TAURON Sprzedaż for a change of the approved tariff

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

Due to the fact that the said decision prevented TAURON Sprzedaż from passing on the justified costs of the activities related to the electricity trading, on January 8, 2020, TAURON Sprzedaż submitted to the President of the Energy Regulatory Office (ERO) a petition for a change of the tariff approved for 2020, thus initiating the administrative proceedings.

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

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

In the opinion of TAURON Sprzedaż, the decision to approve the tariff was justified by the legitimate interest of the party and the provisions of the applicable law, stipulating that the tariff should cover the justified costs of the activities conducted by the Company, while the decision approving the tariff, in the opinion of the Company, did not ensure this.

On July 30, 2020, TAURON Sprzedaż filed an appeal to the Court of Competition and Consumer Protection in Warsaw, against the decision of the President of the Energy Regulatory Office (ERO) of July 8, 2020, motioning for the amendment of the challenged decision in its entirety by approving the electricity tariff in accordance with the

application of TAURON Sprzedaż or revoking the decision in its entirety and ruling that the decision was issued in the violation of the law.

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

As of the date of drawing up this information, TAURON Sprzedaż is waiting for the date of the hearing to be set.

The disputes between EC Stalowa Wola and Abener Energia

In connection with the settlement agreement concluded on December 31, 2021, as of the date of drawing up this report, all of the court and arbitration proceedings between EC Stalowa Wola and Abener Energia, the information of which was disclosed by the Company in 2021, had been suspended at the joint request of the parties. Subsequently, on March 9 and 10, 2022 (events taking place after the balance sheet date), the parties filed the motions to resume the suspended proceedings, to withdraw the lawsuits and the cassation appeal, and to discontinue all of the proceedings. The parties are awaiting the rulings of the Supreme Court and the Court of Arbitration at the Polish Chamber of Commerce in the above cases.

12.2. Agreements that are material for TAURON Capital Group's operations

Agreements that had been material for the operations of TAURON Capital Group in 2021 and by the date of drawing up this report are listed below.

Expiration of the cooperation agreement with respect to the implementation of the offshore wind farm projects

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

On June 29, 2021, TAURON provided OW OFFSHORE with a statement on the expiration of the obligations arising from the above mentioned agreement and thus the expiration thereof.

In the opinion of TAURON, for the objective reasons, beyond the control of any of the parties, in particular as a result of the changes in the regulatory environment and the entry into force of the Act on promoting electricity generation by the offshore wind farms, the situation reached such a stage that it became completely, permanently and objectively impossible to fulfill the obligations assumed in the agreement.

TAURON disclosed the information on the above events in the regulatory filing (current report): no. 24/2021 of June 29, 2021.

Sale by TAURON of its shares in PGE EJ1

On March 26, 2021, the Company signed with the State Treasury the agreement for the sale of all of its shares in PGE EJ 1.

The detailed information on the above mentioned topic is provided in section 1.3 of this report.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 10/2021 of March 26, 2021.

Buyback of the shares in Nowe Jaworzno Grupa TAURON from the funds managed by the Polish Development Fund (Polski Fundusz Rozwoju S.A. - PFR)

On August 25, 2021, the Management Board of the Company made the decision to start the activities, including the initiation of the negotiations, aimed at repurchasing from the Infrastructure Related Investments Fund - Closed-End Non-Public Assets Capital Fund (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych) and the PFR Closed-End Investment Fund (PFR Inwestycje Fundusz Inwestycyjny Zamknięty), whose part of the investment portfolio is managed by the Polish Development Fund (Fund), all of the 176 000 shares held by the funds in the company Nowe Jaworzno Grupa TAURON.

On December 22, 2021, TAURON concluded an agreement with the Infrastructure Related Investments Fund - Closed-End Non-Public Assets Capital Fund (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych), whose part of the investment portfolio is managed by the Fund, under which TAURON acquired 176 000 shares in Nowe Jaworzno Grupa TAURON representing 13.71% of the total number of the votes at the General Meeting of the Shareholders (Partners) of Nowe Jaworzno Grupa TAURON. The purchase price for the shares stood at PLN 1 061 385 000.

On March 22, 2022, (an event taking place after the balance sheet date), TAURON made the payments pursuant to the sale agreement, and thus the shareholders' (partners') agreement and the investment agreement with the Fund were terminated.

As a result of the transaction, TAURON became the owner of 100 percent of the shares and owns 100 percent of the votes at the shareholders' (partners') meeting of Nowe Jaworzno TAURON Group, which is operating a 910 MW unit in Jaworzno.

The sale agreement was concluded, inter alia, in connection with the government program of spinning off, from the capital groups of the energy companies with the State Treasury shareholding, of the assets related to the electricity generation by the conventional coal fired units and the ultimate integration thereof within the National Energy Security Agency (NABE).

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 34/2021 of August 25, 2021, and no. 51/2021 of December 22, 2021. TAURON disclosed the information on the shareholders' (partners') agreement and TAURON's investment agreement in the regulatory filing (current report): no. 11/2018 of March 28, 2018.

Signing of the loan agreement with the European Investment Bank

On October 29, 2021, the Company and the European Investment Bank signed a PLN 2 800 million loan agreement. The proceeds from the loan will be used to cover the capital expenditures of the Capital Group related to the modernization and expansion of the electricity distribution grid planned for the years 2022-2026.

In accordance with the agreement concluded, the funds may be used within three years from the date of signing the Agreement, while the loan will be repaid within up to eighteen years from the date of the disbursement of the funds. Depending on the decision of the Company, the interest rate will be fixed or floating, and will be determined as of the funds drawdown date.

By the date of drawing up this report, the Company had drawn the funds under this loan in the amount of PLN 800 million.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 42/2021 of October 29, 2021.

Signing of the loan agreement with Erste Group Bank AG

On December 15, 2021, TAURON signed a PLN 500 million loan agreement with Erste Group Bank AG, with the funds to be used to cover the expenditures of TAURON Capital Group related to the financing or refinancing of the growth with respect to the renewable energy sources, energy efficiency improvement and the expansion of the e-mobility infrastructure. The objectives of the funding will be in line with the criteria set out in the taxonomy of the European Union (EU) for determining whether and to what extent the given economic activity qualifies as environmentally sustainable. In accordance with the agreement, TAURON will be able to use the funds within 18 months from the date of signing the Agreement. The loan will be repaid within 5 years from the date of signing the agreement. The interest will be based on the floating interest rate increased by the bank's margin.

By the date of drawing up this report, the Company had drawn the funds under the loan in the amount of PLN 96 million.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 48/2021 of December 15, 2021.

12.3. Transactions with related entities on terms other than at arm's length

All of the transactions with the related entities are concluded at arm's length.

The detailed information on the transactions with the related entities is provided in note 56 to the Consolidated financial statements of TAURON Capital Group.

12.4. Concluded and terminated credit and loan agreements

TAURON concluded two long term loan agreements for the total amount of up to PLN 3 300 million in 2021.

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

In 2021, as part of financing its ongoing operations, the Company concluded an overdraft agreement for the amount of up to PLN 250 million, with its effective term until August 30, 2022. The loan is intended to be used to finance the Company's ongoing operations. The loan's interest is based on a variable WIBOR 3M base rate increased by a fixed margin.

On December 31, 2021, a loan agreement was concluded between TAURON Wytwarzanie and the National Fund for Environmental Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) for the amount of PLN 83 million, for the purpose of co-financing the construction of a photovoltaic farm in Mysłowice. The loan is interest free and the loan repayment deadline is December 20, 2029. The loan will be disbursed in accordance with the eligible project expenses incurred.

The intra-group loan agreements were concluded within TAURON Capital Group in 2021. *The information is presented in section 12.5. of this report.*

TAURON Capital Group's other subsidiaries did not conclude any other credit or loan agreements in 2021.

The detailed information on the credit and loan agreements is provided in note 39.1 of the Consolidated Financial Statement of TAURON Capital Group.

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2021.

12.5. Loans and sureties granted as well as sureties and guarantees received

Loans granted

TAURON provided the financing to the related companies in the form of the intra-group bonds in the total amount of PLN 1 589 million in 2021. In addition, as part of the intra-group financing, TAURON extended the maturity deadlines of the existing loans in the total amount of PLN 2 150 million. As of December 31, 2021, the total nominal amount of the intra-group loans granted stood at PLN 9 384 million.

In 2021, TAURON continued the financing, in the form of loans, of the co-subsidiary EC Stalowa Wola, with the total nominal value of such loans clocking in at PLN 413 736 million as of December 31, 2020.

Apart from the loans mentioned above, the Company did not extend any other loans in 2021.

In 2021, TAURON EKOENERGIA granted the loans in the total amount of PLN 11 million to the special purpose vehicles conducting the investment projects in the field of the renewable energy sources. As of December 31, 2021, the amount of the loans came in at PLN 0.7 million.

After the balance sheet date, TAURON signed loan agreement with TAURON Nowe Technologie for the amount of up to PLN 50 million, annexes to loan agreements with TAURON Wydobycie extending the period of financing, annex to loan agreement with Wind T1 increasing the loan amount to PLN 197 million, and a loan of PLN 120 million for EC Stalowa Wola.

The detailed information on the loans is provided in note 39.1 of the Consolidated Financial Statement of TAURON Capital Group.

Sureties and guarantees granted

In 2021, a guarantee agreement was concluded by the Company, PGNiG and EC Stalowa Wola, under which the Company granted a corporate guarantee of up to PLN 7 million for the liabilities of EC Stalowa Wola under the agreements for the sale of electricity, the agreements for the provision of the electricity transmission or distribution services. The guarantee had been effective until February 15, 2022.

In 2021, TAURON EKOENERGIA increased, to the level of EUR 30 million, the corporate guarantee (bond) granted in 2020 for the liabilities of the Wind T1 company. The guarantee (bond) is effective until September 2022.

In addition, in 2021 TAURON raised the surety granted to TAURON Sprzedaż for the trade liabilities to the amount of PLN 30 million and extended its effective term until April 30, 2022.

As of December 31, 2021, the total amount of the sureties (co-signings) and the corporate guaranties (bonds) granted stood at PLN 862 635 000.

The amount of the guaranties (bonds) and sureties granted by TAURON EKOENERGIA for the liabilities of Wind T1 and Polpower, as of December 31, 2021, stood at PLN 92 million.

In 2021, as part of the framework (master) agreements in force, the bank guarantees (bonds) were issued at the instruction of the Company for the liabilities of TAURON Capital Group's subsidiaries and the related companies. As of December 31, 2021, the amount of the bank guarantees (bonds) in force, issued at the instruction of the Company, stood at PLN 645 million.

After the balance sheet date, TAURON granted to TAURON Czech Energy s.r.o. corporate guarantee in the amount of EUR 3 million as a collateral for trade agreements signed by the company and in the form of sponsor's declaration for the amount of up to CZK 180 million as a collateral for framework agreement for bank guarantees covering the entire term of the agreement.

The detailed information on the sureties and guarantees (bonds) granted is provided in note 55 to the Consolidated financial statements of TAURON Capital Group and in note 43 to the Financial statements of TAURON.

Sureties and guarantees received

As of December 31, 2021, the Company and its subsidiaries held the transaction collaterals (securities) received from the counterparties (contractors) in the form of the guarantees (bonds) granted to TAURON Capital Group's subsidiaries, bills of exchange issued by the counterparties (contractors), pledges on mortgage. The most important

guarantees (bonds) granted to TAURON Capital Group's subsidiaries were related to Nowe Jaworzno Grupa TAURON and were issued with respect to the construction of the 910 MW unit in Jaworzno.

12.6. The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in 2021

2021 was a period of the continued COVID-19 pandemic, during which an increase in the number of infection cases had initially been observed, leading to the record breaking levels of the SARS-CoV-2 infection cases, and subsequently, a gradual decline took place in the second and the third quarter of 2021, and then the next wave of infections came in the fourth quarter of 2021. In connection with the above, depending upon the then current status of the epidemiological situation, the numerous restrictions were in force in Poland in order to contain the spread of the pandemic. Initially, as the number of the infection cases was going up, the restrictions were additionally tightened and then, in the subsequent quarters of 2021, they were gradually lifted. Such a situation led to the disruptions in the economic and administrative system in Poland and worldwide. As a result, the epidemic continued to curb the economic activity (primarily in the first and in the second quarter of 2021), affecting, in particular, the operations of the companies operating in such industries as, among others, tourism, retail stores or transportation. As a consequence, in the medium and long term it should be expected – taking into account the continued high rate of infections and the arrivals of the successive waves of infections - that the COVID-19 epidemic will persist to affect the condition of the national, the European, as well as the global economy, making a negative impact on the macroeconomic factors, i.e. on the economic growth in Poland in the current year, as well as in the subsequent years, and also on the inflation rate. Important issues related to the impact of the pandemic on TAURON Group are presented below:

1. in spite of the restrictions in force, increased demand for electricity by clients of TAURON Capital Group was observed in 2021,
2. in the reported period no material changes and permanent trends in the balance of the overdue accounts receivable or fluctuations of electricity and related products proces was observed that would result from COVID-19 pandemic,
3. the persistent COVID-19 pandemic in 2021 brought about certain difficulties in the implementation of some of the strategic investment projects carried out by TAURON Capital Group caused by, inter alia, disruptions in supplies of materials and equipment. There were problems with functioning of the public administration, which resulted in the extension of the duration of the administrative proceedings.
4. the situation related to the COVID-19 pandemic continued to have an impact upon the operational activities of individual Lines of Business of TAURON Capital Group due to a higher absence rate and an increase in the operating costs resulting from the need to ensure epidemiological safety.

TAURON Capital Group, being aware of the threats related to the epidemiological situation, has continued to undertake the active measures aimed at minimizing the impact of the current and the expected economic situation, as well as providing the protection against the events of extreme nature. The situation related to the COVID-19 pandemic is highly volatile and the future effects as well as the scale of the pandemic are, as of the present moment, difficult to precisely estimate. The duration of the pandemic, its severity and range, the level of the vaccination, as well as its impact on the economic growth in Poland in the short, medium and long term will be important.

The Management Board of the Company, being aware of the threats stemming from the COVID-19 pandemic, is monitoring the impact thereof on an ongoing basis and will be taking all possible steps in order to mitigate any negative effects of the pandemic's impact on TAURON Capital Group.

12.7. The impact of aggression by the Russian Federation against Ukraine on current and future operations of TAURON Capital Group

An armed conflict broke out in the territory of Ukraine in February this year. The aggression of the Russian Federation against Ukraine is causing geopolitical tensions both in Europe as well as worldwide. In response to the situation that has arisen, the EU is introducing the successive packages of sanctions against the Russian Federation, which take a wide and varied form, including, inter alia, the diplomatic and financial measures, sanctions against the individual persons as well as the restrictions imposed on the economic relations.

TAURON Capital Group is identifying an abrupt increase in the volatility and the levels of the prices of the raw materials listed on the commodity markets (including crude oil, gas and hard coal), as well as the prices of the electricity and the CO₂ emission allowances. The material changes were also noted in the foreign exchange rates, including a significant weakening of the EUR / PLN exchange rate, as well as an increase in the market interest rates and an intervention raising of the NBP's reference (prime) rate by 75 bps. In addition, the third CHARLIE-CRP alert level has been introduced in Poland, indicating an elevated risk related to the possibility of terrorist incidents occurring. There are difficulties in accessing biomass of agricultural origin, which is mainly imported from Ukraine.

In other areas, as of the present moment, TAURON Capital Group has not identified any direct effects of the aggression on its own operating and business activities, and the continuity of the functioning of the business processes is not at risk. TAURON Capital Group does not have any assets located in the territory of Ukraine, Russia

and Belarus, and there were no material transactions related to the sales or deliveries in these directions. The situation related to the aggression of the military forces of the Russian Federation against Ukraine is highly volatile and its future implications are difficult to precisely estimate. They will, in particular, depend on the scale and duration of the aggression, as well as on the impact on the condition of the economy in Poland and worldwide. The impact on TAURON Capital Group will also depend on the scope of sanctions directed against the Russian Federation and their impact on the local as well as the global political and economic relations.

The potential risks that may constitute a future negative impact of the situation in question, characterized by an elevated risk of materializing, which may affect TAURON Capital Group, include:

1. heightened cybersecurity risk (potential attacks on the IT systems and the OT systems, and, as a consequence, the disruptions in the operation of the critical infrastructure),
2. possible disruptions on the fuel market in the EU and, as a consequence, the high volatility of the prices of gas, hard coal and biomass, which may translate into the level and volatility of the electricity prices, as well as the risk of ensuring a sufficient supply of fuel required to produce electricity by TAURON Capital Group,
3. elevated volatility of the prices of electricity as well as the prices of the CO₂ emission allowances and other related products, which may affect the market risk related to the trading (commercial) operations of TAURON Capital Group, as well as the amount of the margin deposits under the transactions concluded on the TGE (PPX) commodity exchange market,
4. changes in the EU energy (electricity) balance and, as a consequence, the possibility of the extended operations of the units located on the territory of Poland, which may lead to the disturbances in the operations of the power grid, as well as the elevated load of TAURON Capital Group's generating units and an escalation of the risk for the energy fuel supplies and the risk of maintaining the strategic reserves,
5. volatility of the prices of the raw materials and the prices of electricity and the related products, which may translate into the profitability of the ongoing and planned investment processes,
6. potential impact on the interruption / disruption of the supply chains related to the goods and services, which may affect, inter alia, the possible delays in the ongoing investment and restructuring processes,
7. potential disruptions in the access to the liquid fuels may lead to the difficulties in the road transportation, which may translate into the lack of the ability by UPS and UPW to carry out the collections (pickups), and, as a consequence, cause the curtailments of the operations of TAURON Capital Group's generation units,
8. increase in the prices of the raw materials as well as the goods and services, which may have a negative impact on the condition of the economy, leading to a further increase of the inflation rate in Poland and in the other EU countries,
9. as a result of the possible deterioration of the economic situation, a further increase in the level of the interest rates (an impact on the costs of financing based on a floating interest rate and an impact on the future level of the return on capital employed in the Distribution Line of Business) and the fluctuations in the domestic currency exchange rate against the key foreign currencies can be expected,
10. in the event of a deterioration of the economic situation in Poland, an impact on the level of the domestic electricity demand can be expected, which may turn out to be a headwind for the profitability of the Distribution Line of Business and the Supply Line of Business,
11. increased immigration of the Ukrainian citizens may affect the level of the domestic demand for electricity in households segment, which may affect the profitability of the Distribution Line of Business and the Supply Line of Business,
12. potential disruptions in the operations of the manufacturing plants and the relocation of their production capacity may affect the level of the domestic demand for electricity in business segment, which may affect the profitability of the Distribution Line of Business and the Supply Line of Business,
13. due to a potential curbing of the trade exchange between Poland and the Russian Federation, as well as due to the possible economic slowdown, the financial difficulties can be expected for some customers and contractors (counterparties) of TAURON Capital Group, which may translate into an increase of the credit risk at TAURON Capital Group,
14. unfavorable perception of TAURON Capital Group by the financial institutions in the context of Poland's location as a country bordering with Ukraine,
15. potential limitations in the access to the IT infrastructure, Internet and GSM networks, which may disrupt the functioning of the operational processes and the business continuity.

The above mentioned risks constitute the effects of the developing situation underway, identified as of the date of drawing up this report, which may have an impact on the operations of TAURON Capital Group in the future, and since the situation is evolving it is not an exhaustive list.

TAURON Capital Group, taking note of the scale of the threats related to the developing situation underway, is identifying the impact of the Ukrainian conflict on an ongoing basis and is taking steps aimed at minimizing the potential effects of the risk for TAURON Capital Group materializing, as well as at maintaining the continuity of the operations of the critical infrastructure. The coordination of works related to the identification of the impact and the reaction to the risk is managed by the dedicated Crisis Teams, set up both at the level of the Company as well as at the level of the individual subsidiaries of TAURON Capital Group.

12.8. Other information that could be material for the evaluation of TAURON Capital Group's personnel, assets, financial position, financial result and the changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations

Apart from the events indicated in this information, no other events had occurred 2021 that were material for the evaluation of the personnel, assets, financial position and the financial result of TAURON Capital Group and the changes thereof, as well as for the evaluation of the ability of TAURON Capital Group to meet its obligations.

Katowice, March 29, 2022

Artur Michałowski - acting as the President of the Management Board / Vice President of the Management Board

Patryk Demski - Vice President of the Management Board

Krzysztof Surma - Vice President of the Management Board

Jerzy Topolski - Vice President of the Management Board

Artur Warzocha - Vice President of the Management Board

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this information is presented below.

Table no. 69. Explanation of abbreviations and acronyms as well as trade terms

Abbreviation and trade term	Full name / explanation
1. Abener Energia	Abener Energia S.A. (Joint Stock Company) with its registered office in Campus Palmas Altas (Sevilla).
2. Update of the Strategic Directions	Document entitled the <i>Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on May 27, 2019, constituting a supplement to the document entitled <i>TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on September 2, 2016.
3. Amon	Amon sp. z o.o. (Ltd.) with its registered office in Łebcz.
4. ARA	Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports
5. ARE	Agencja Rynku Energii S.A. (Energy Market Agency) with its registered office in Warsaw.
6. AVAL-1	AVAL-1 sp. z o. o. (Ltd.) with its registered office in Szczecin.
7. BASE (BASE Contract)	A baseload contract for the supply of electricity at all hours of the period, for example the BASE contract for March 2021 is related to the supply of the same amount of electricity during all hours of the month of March 2021.
8. BGK	Bank Gospodarstwa Krajowego with its registered office in Warsaw.
9. Bioeko Grupa TAURON	Bioeko Grupa TAURON Sp. z o.o. (Ltd.) with its registered office in Stalowa Wola.
10. B+R (R&D)	Research and Development (R&D&I).
11. B+R+I (R&D&I).	Research, Development and Innovations (R&D&I).
12. CAPEX	Capital Expenditures.
13. Cash pool	True real time (online) <i>cash pool</i> structure, implemented under the cash management agreement, is based on the daily limits. As a result of the implementation of the <i>cash pool</i> mechanism, cash transfers are made between the accounts of the service participants and the Pool Leader's account.
14. CDS	Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO ₂ emission allowances.
15. CER	Certified Emission Reduction - certified emission reduction unit.
16. Color certificates	Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: green - certificates of origin of electricity from RES, blue - certificates of origin of electricity generated from agricultural biogas. white - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors) yellow - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, red - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), violet - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing,
17. COVID-19	Coronavirus Disease 2019 - acute respiratory system contagious disease caused by the SARS-CoV-2 virus infection. The disease was first diagnosed and described in November 2019 in central China in the city of Wuhan, Hubei Province.
18. CRO	Deviation Settlement Price (Cena Rozliczeniowa Odchylenia) - the price at which PSE (transmission system operator) accounts for deviations in the production or consumption of electricity by the electricity balancing market (RB) participants.
19. CSI	Customer Satisfaction Index - an index used in marketing to determine the level of customer satisfaction with products or services offered by the company.
20. CSR	Corporate Social Responsibility.
21. CUW	Shared Services Center (Centrum Usług Wspólnych - CUW) - separate organizational units responsible for providing a specific range of support services (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services, CUW Insurance, CUW Protection).
22. CVaR	Credit Value at Risk – a measure of risk determining the maximum potential loss due to credit risk with the given probability and within a specified time horizon.
23. CVC	Corporate Venture Capital - Venture Capital (VC) investments carried out by VC funds with the intention of achieving not only financial goals, but also strategic (industry) goals set by a large company (corporation) which is the capital donor for this fund. VC are capital investments made on the OTC market

Abbreviation and trade term	Full name / explanation
	in business ventures that are in the early stages of development. CVC is a development of VC as a way of investing capital and is to have a positive impact on the industry objectives of TAURON Capital Group.
24. DMS	Distribution Management System – distribution grid management system.
25. Best Practices 2016	Document entitled <i>Best Practices of WSE Listed Companies 2016</i> , adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on October 13, 2015, effective as of January 1, 2016, replaced by the <i>Best Practices of WSE Listed Companies 2021</i> , adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on March 29, 2021, effective as of July 1, 2021.
26. Best Practices 2021	Document entitled <i>Best Practices of WSE Listed Companies 2021</i> , adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on March 29, 2021, effective as of July 1, 2021. The document replaced the <i>Best Practices of WSE Listed Companies 2016</i> in force before, adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on October 13, 2015.
27. DSM	Demand Side Management.
28. DSR	Demand Side Response – reaction of the demand side. A mechanism that involves a temporary reduction of electricity consumption by the consumers or a postponement of its consumption at the request of the transmission system operator.
29. EBI	European Investment Bank with its registered office in Luxembourg.
30. EBIT	Earnings Before Interest and Taxes.
31. EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
32. EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. (Joint Stock Company) with its registered office in Stalowa Wola (Stalowa Wola Combined Heat and Power Plant (CHP)).
33. EEC Magenta ASI	EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw.
34. EEC Magenta 2 ASI	EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw
35. EEC Ventures	EEC Ventures limited liability company limited joint stock partnership with its registered office in Warsaw
36. EEC Ventures 2	EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw
37. EEX (EEX exchange)	European Energy Exchange – the European energy exchange in Leipzig, where the contracts and derivatives for electricity for various European countries are traded, as well as the primary auctions of the CO ₂ emission allowances are conducted.
38. EMAS	EcoManagement and Audit Scheme – the community ecomanagement and audit system.
39. Enea	Enea S.A. (Joint Stock Company) with its registered office in Poznań.
40. Energa	Energa S.A. (Joint Stock Company) with its registered office in Gdańsk.
41. EPCM	Engineering Procurement Construction Management - construction, engineering and procurement management service (Contract Manager).
42. ERM	Enterprise Risk Management.
43. ESG	Environmental, Social and Governance - environmental, social and corporate governance factors used in the investment decision making process.
44. ESS	Energy Store System.
45. EU ETS	European Union Emission Trading System.
46. EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO ₂) equivalent to the air, within the meaning of Article 2 section 4 of the <i>act of July 17, 2009, on the management system of emissions of greenhouse gases and other substances</i> , which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>Act of April 28, 2011, on the system of greenhouse gases emission allowances trading</i>
47. EUR	Euro - a common European currency introduced in some EU member states
48. EWI	Early Warning Indicator.
49. Finanse Grupa TAURON	Finanse Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Katowice.
50. FIZ	Fundusz Inwestycyjny Zamknięty (Closed-end Investment Fund)
51. FIZAN	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end Private Equity Investment Fund)
52. GAZ-SYSTEM	Transmission Pipelines Operator (Operator Gazociągów Przesyłowych) GAZ-SYSTEM S.A. with its registered office in Warsaw.
53. WSE (GPW)	Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A. (Joint Stock Company)) with its registered office in Warsaw.

Abbreviation and trade term	Full name / explanation
54. TAURON Capital Group	TAURON Capital Group Polska Energia S.A. (Joint Stock Company)
55. GZE	Górnośląski Zakład Elektroenergetyczny S.A. (Joint Stock Company) with its registered office in Gliwice.
56. HEMS	Home Energy Management System.
57. ICE (ICE exchange)	InterContinental Exchange – the commodity and financial exchange, where, among others, the contracts for oil, coal, natural gas and the CO ₂ emission allowances are traded.
58. FGD (IOS)	Flue gas desulphurization installation (Instalacja Odsiarczania Spalin)
59. IRGiT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with its registered office in Warsaw.
60. IRS	Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market
61. KGHM Polska Miedź	KGHM Polska Miedź S.A. (Polish Copper Mining Joint Stock Company) with its registered office in Lubin.
62. Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A..
63. Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
64. Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
65. BAT Conclusions	Best Available Techniques with respect to large combustion plants (LCP), introduced by way of the Executive Decision of the European Commission (EU) no. 2017/1442 of July 31, 2017
66. KPI	Key Performance Indicators – key financial and non-financial indicators used as ways to measure progress of achieving goals of an organization.
67. KRI	Key Risk Indicators.
68. KSE	National Power System (Krajowy System Elektroenergetyczny)
69. Ksh	<i>Act of September 15, 2000, Code of Commercial Companies</i>
70. KW Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. (Ltd.) with its registered office in Krzeszowice.
71. Marselwind	Marselwind sp. z o.o. (Ltd.) with its registered office in Katowice.
72. Ministry of State Assets	Ministry of State Assets with its registered office in Warsaw.
73. Mg	Megagram - million gram (1 000 000 g), i.e. ton.
74. Business Model	Document entitled <i>TAURON Group's Business and Operational Model</i> (which is an update of <i>TAURON Group's Business Model</i> adopted by the Management Board on May 4, 2016).
75. IFRS (MSSF)	International Financial Reporting Standards.
76. NBP	National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw.
77. NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.
78. Nowe Jaworzno Grupa TAURON	Nowe Jaworzno Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Jaworzno.
79. NO _x	Nitrogen oxides.
80. Line of Business (Segment)	Seven areas (segments) of TAURON Capital Group's core operations set up by the Company: Trading, Mining, Generation, RES, Heat, Distribution and Supply
81. OPEC	Organization of the Petroleum Exporting Countries with its registered office in Vienna.
82. DSO (OSD)	Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD)
83. TSO (OSP)	Transmission System Operator (Operator Systemu Przesyłowego - OSP)
84. OTC (OTC market)	Over The Counter Market – European OTC market.
85. OTF (OTF market)	Organized Trading Facility.
86. OW OFFSHORE	OW OFFSHORE S.L. with its registered office in Madrid, Spain - a joint venture in which EDP Renovaveis SA with its registered office in Lisbon, Portugal, and ENGIE SA based in Paris, France, each hold 50% of the shares.
87. RES (OZE)	Renewable Energy Sources (Odnawialne Źródła Energii - OZE)
88. PEAK (PEAK contract)	Peak contract for the supply of electricity during business hours (8-22) on business days, for example the PEAK contract for March 2020 is related to the supply of the same amount of electricity on all business days in March 2020 between 8 and 22.

Abbreviation and trade term	Full name / explanation
89. PEC Tychy	Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. (Ltd.) with its registered office in Tychy.
90. PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (Ltd.) with its registered office in Warsaw.
91. PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund Joint Stock Company) with its registered office in Warsaw.
92. PFR IFIZ	PFR Inwestycje Fundusz Inwestycyjny Zamknięty (PFR Investments Closed-end Investment Fund)
93. PGG	Polska Grupa Górnicza S.A. (Polish Mining Group) with its registered office in Katowice
94. PGE	PGE Polska Grupa Energetyczna S.A. (Joint Stock Company) with its registered office in Warsaw.
95. PGE EJ 1	PGE EJ 1 sp. z o.o. (Ltd.) with its registered office in Warsaw.
96. PGK	Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK).
97. PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil and Gas Joint Stock Company) with its registered office in Warsaw.
98. PKB (GDP)	Gross Domestic Product (Produkt Krajowy Brutto).
99. PLN	Polish zloty currency symbol – zł (PLN)
100. PMEF	Property rights related to the energy efficiency certificates
101. PMOZE	Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009.
102. PMOZE_A	Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009.
103. PMOZE-BIO	Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
104. POPC	Digital Poland Operational Program. (Program Operacyjny Polska Cyfrowa – POPC).
105. PRO	Partnership, Development, Boldness (Partnerstwo Rozwój Odwaga – PRO) - key corporate values reflecting the way TAURON Capital Group wants to achieve its business goals.
106. PSE	Polskie Sieci Elektroenergetyczne S.A. (Joint Stock Company) with its registered office in Konstancin-Jeziorna.
107. Balancing Market (Rynek Bilansujący – RB)	Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced.
108. RDB (Intraday Market)	Intraday Market - a market operating on the POLPX TGE), where trading is carried out in a continuous trading formula, 24 hours a day. Instruments with delivery on the next day are traded, with their trading starting at 14:00 the day before the delivery and gradually exiting the market one hour before the start of the delivery.
109. RDN (Day Ahead Market)	Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery.
110. RDNg	Day Ahead Gas Market - a market operating on the POLPX (TGE), where trading is carried out every day and is conducted in the continuous trading system.
111. REACH	Registration, Evaluation and Authorization of Chemicals - register of chemical substances placed on the market. Regulation of the European Parliament and of the Council governing the use of chemicals through the registration and evaluation thereof and, in some cases, the granting of authorizations and imposing trading restrictions.
112. ROI	Return on Investment - profitability ratio used to measure efficiency.
113. RTT	Futures Commodity Market (Rynek Terminowy Towarowy – RTT) - market operating on the POLPX (TGE), where trading in contracts is carried out in the continuous trading system and in the auction system.
114. SAIFI	System Average Interruption Frequency Index - an indicator of the average system frequency of long interruptions in the supply of electricity.
115. SARS-CoV-2	Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease.
116. SCE Jaworzno III	Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (Ltd.) with its registered office in Jaworzno.
117. SCR	Selective Catalytic Reduction - flue gas denitrification system.
118. Segment, Segments of Operations (Operating Segments)	TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following 5 main Segments: Mining, Generation, RES, Distribution and Supply, as well as, additionally, Other Operations.
119. SLA	Service Level Agreement.
120. SOx	Sulfur oxides.

Abbreviation and trade term	Full name / explanation
121. Consolidated Financial Statements of TAURON Capital Group	Document under the title <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020.</i>
122. Financial Statements of TAURON	Document under the title <i>Financial statements of TAURON Polska Energia S.A. in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020.</i>
123. SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded with delivery not later than 3 days after the date of the transaction's conclusion (most often it is one day before the date of delivery). The operation of the SPOT market for electricity is strongly tied to the operation of the Balancing Market run by the TSO.
124. Company	TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice.
125. Company's Articles of Association	Document entitled <i>Articles of Association of TAURON Polska Energia S.A. (Joint Stock Company)</i>
126. Strategy	Document entitled TAURON Group's Strategy for 2016-2025 adopted by the Management Board on September 2, 2016, which is supplemented by the Update of Strategic Directions in the TAURON Group's Strategy for 2016-2025, adopted by the TAURON Management Board on May 27, 2019.
127. Sustainable Development Strategy	Document entitled <i>TAURON Group's Sustainable development strategy for 2017-2025</i> , adopted by the Management Board on August 1, 2017, which is an update of the document entitled <i>TAURON Group's Sustainable development strategy for 2016-2018 with an outlook until 2020.</i>
128. TAMEH HOLDING	TAMEH HOLDING sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
129. TAMEH POLSKA	TAMEH POLSKA sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
130. TAMEH Czech	TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic).
131. TAURON	TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice.
132. TAURON Ciepło	TAURON Ciepło sp. z o.o. (Ltd.) with its registered office in Katowice.
133. TAURON Czech Energy	TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic).
134. TAURON Dystrybucja	TAURON Dystrybucja S.A. with its registered office in Cracow.
135. TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. (Ltd.) with its registered office in Tamów.
136. TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. (Ltd.) with its registered office in Jelenia Góra.
137. TAURON Nowe Technologie	TAURON Nowe Technologie S.A. (Joint Stock Company) (formerly: TAURON Dystrybucja Serwis S.A. (Joint Stock Company)) with its registered office in Wrocław.
138. TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. (Ltd.) with its registered office in Wrocław.
139. TAURON Serwis	TAURON Serwis sp. z o.o. (Ltd.) with its registered office in Katowice.
140. TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. (Ltd.) with its registered office in Cracow.
141. TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. (Ltd.) with its registered office in Gliwice.
142. TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. (Ltd.) with its registered office in Katowice.
143. TAURON Wydobycie	TAURON Wydobycie S.A. (Joint Stock Company) with its registered office in Jaworzno.
144. TAURON Wytwarzanie	TAURON Wytwarzanie S.A. (Joint Stock Company) with its registered office in Jaworzno.
145. TCFD (TCFD Guidelines)	Task Force on Climate-related Financial Disclosures - A Task Force on Climate-Related Disclosures established by the G20 Financial Stability Board, which issued recommendations in June 2017 to encourage financial institutions and non-financial companies to disclose information on the climate related risks and opportunities. These recommendations are considered to be the authoritative (credible) guidance on the financial reporting of the climate related information.
146. TEC1	TEC1 sp. z o.o. (Ltd.) with its registered office in Katowice.
147. TEC2	TEC2 sp. z o.o. (Ltd.) with its registered office in Katowice.
148. TEC3	TEC3 sp. z o.o. (Ltd.) with its registered office in Katowice.
149. TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw.
150. TGEozebio	Property rights that confirm the production of electricity from renewable energy sources using agricultural biogas.
151. TU	Towarzystwo Ubezpieczeń (Insurance Company)
152. EU (UE)	European Union (Unia Europejska - UE)

Abbreviation and trade term	Full name / explanation
153. UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK))
154. Unbundling	Separation of the operations with respect to transmission or distribution of electricity from the operations that involve the production and delivery (supply) of this electricity to the final consumers.
155. ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki - URE)
156. USA	United States of America.
157. USD	United States Dollar - US dollar's international acronym
158. VaR	Value at Risk - a measure of risk that determines the maximum possible change in the value of the Portfolio with the given probability and within a specified time frame.
159. WACC	Weighted Average Cost of Capital - the weighted average cost of capital of the company, weighted respectively by the share of debt and equity in the company's capital structure.
160. WFOŚiGW	Regional Environment Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) in Katowice or in Cracow .
161. Wind T1	Wind T1 sp. z o. o. . z o.o. with its registered office in Jelenia Góra.
162. Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów.
163. GM (WZ/ZW)	General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW)
164. ZG	Coal Mine (Zakład Górniczy - ZG) (Janina Coal Mine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze).

Appendix B: INDEX OF TABLES AND FIGURES

The list of tables and figures presented in this information is provided below.

Index of tables

Table no. 1.	List of material joint subsidiaries (co-subsidiaries) as of December 31, 2021	9
Table no. 2.	Summary of the equity increases in TAURON Capital Group companies in 2021 and by the date of drawing up this report.....	9
Table no. 3.	Summary of the equity increases in the other companies in which TAURON holds an equity stake in 2021 and by the date of drawing up this report	10
Table no. 4.	Strategic goals and growth prospects in the individual operating Segments.....	13
Table no. 5.	Opportunities for and threats to TAURON Capital Group's operations, taking into account the sector's situation as of the end of 2021	16
Table no. 6.	Key strategic investment (CAPEX) projects' work progress in 2021 and by the date of drawing up this report.....	20
Table no. 7.	The highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2021	24
Table no. 8.	Selected R&D projects implemented in 2021 by TAURON Capital Group's subsidiaries, co-financed from the external sources.....	26
Table no. 9.	Projects with the startups carried out in 2021	28
Table no. 10.	2020 - 2021 production and sales volumes.....	36
Table no. 11.	Categories of TAURON Capital Group's final customers	40
Table no. 12.	Volume of retail electricity supplied and the number of customers in 2021	41
Table no. 13.	Volumes of Poland's electricity consumption, production and imports and the average electricity prices on the SPOT market, both in Poland as well as in the neighboring countries in 2021 and in 2020	44
Table no. 14.	Installed capacity, generation, distribution and supply of electricity by energy groups in the first three quarters of 2021	60
Table no. 15.	Sources of competitiveness of TAURON Capital Group in the selected Lines of Business (Segments of Operations)	60
Table no. 16.	Key data on the headcount at TAURON and TAURON Capital Group as of December 31, 2020 and December 31, 2021.....	70
Table no. 17.	Strategic areas of activities defined by TAURON Capital Group's Human Capital Management Policy	71
Table no. 18.	Key data on employee training at TAURON Polska Energia and TAURON Capital Group as of December 31, 2019, December 31, 2020, December 31, 2021	73
Table no. 19.	Annual emissions of SO ₂ , NO _x , dust and CO ₂ from the thermal combustion of the fuel for 2021	77
Table no. 20.	Estimated charges for the business use and the water services of the environment due for 2021 ..	78
Table no. 21.	TAURON Capital Group's expenditures on the support for culture, sports, charity institutions, media and social organizations in 2021	82
Table no. 22.	Key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2020-2021	82
Table no. 23.	Description of the ERM System participants' roles and responsibilities	90
Table no. 24.	Main risk categories and sub-categories, in accordance with the Risk Model in place	92
Table no. 25.	Most material risk categories identified for TAURON Capital Group	98
Table no. 26.	Classification of risks based on TAURON Capital Group's operating segments	108
Table no. 27.	Annual standalone statement of comprehensive income in 2020-2021 drawn up in accordance with the IFRS.....	110
Table no. 28.	Company's sales revenue in 2020-2021	111
Table no. 29.	Level and structure of the costs incurred by the Company in 2020-2021.....	112
Table no. 30.	Company's annual standalone statement of financial position, drawn up in accordance with the IFRS (material items)	112
Table no. 31.	Statement of cash flows drawn up in accordance with the IFRS (material items)	113
Table no. 32.	Key financial ratios of TAURON	114
Table no. 33.	TAURON Capital Group's 2020-2021 EBITDA broken down into individual lines of business (segments)	116
Table no. 34.	Mining Segment's 2020-2021 results	117
Table no. 35.	Generation Segment's 2020-2021 results	118
Table no. 36.	RES Segment's 2020-2021 results	120
Table no. 37.	Distribution Segment's 2020-2021 results.....	122
Table no. 38.	Supply Segment's 2020-2021 results.....	123
Table no. 39.	Other Operations Segment's 2020-2021 results	124
Table no. 40.	Structure of the annual consolidated statement of financial position	125
Table no. 41.	Annual consolidated statement of financial position - assets (material items)*	127
Table no. 42.	Annual consolidated statement of financial position – equity and liabilities (material items)*	128
Table no. 43.	Annual consolidated statement of comprehensive income for 2020-2021*	130
Table no. 44.	Statement of cash flows (material items) in 2020-2021*	134
Table no. 45.	Key financial ratios of TAURON Capital Group for the continued and discontinued operations ¹	136

Table no. 46.	Net financial debt reconciliation.....	137
Table no. 47.	Reconciliation of the result on the EBITDA level.....	137
Table no. 48.	Financial and operating data for 2017-2021*.....	138
Table no. 49.	TAURON Capital Group's EBITDA, broken down into Segments of Operations (Lines of Business) *.....	139
Table no. 50.	Compensation of the audit firm for the services provided for TAURON Capital Group's companies.....	143
Table no. 51.	Company's shares held by the Members of the Company's Management Board as of December 31, 2021.....	148
Table no. 52.	Company's shares held by the Members of the Company's Management Board as of the date of drawing up this report.....	148
Table no. 53.	Key data on the Company's shares in 2011-2021.....	150
Table no. 54.	Recommendations issued in 2021.....	151
Table no. 55.	Timeline of the investor relations events and activities that took place in 2021.....	152
Table no. 56.	Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2020 and as of the date of drawing up this report.....	162
Table no. 57.	Competence of the Company's Management Board as of December 31, 2021, and as of the date of drawing up this report.....	165
Table no. 58.	Competence of the Company's Supervisory Board as of December 31, 2021, and as of the date of drawing up this report.....	166
Table no. 59.	Competence of the General Meeting of the Company as of December 31, 2021, and as of the date of drawing up this report.....	169
Table no. 60.	Description of the Company's shareholders' rights related to the General Meeting of the Company.....	169
Table no. 61.	Compliance of the Members of the Company's Supervisory Board with the independence requirements and the actual ties to a shareholder holding at least 5% of the total number of votes in the Company, as of December 31, 2021 and as of the date of drawing up this report.....	175
Table no. 62.	Compliance, in 2021, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held.....	181
Table no. 63.	Competences of the Audit Committee as of December 31, 2021, and as of the date of drawing up this report.....	182
Table no. 64.	Competences of the Nominations and Compensation Committee, as of December 31, 2021, and as of the date of drawing up this report.....	185
Table no. 65.	Competences of the Strategy Committee as of December 31, 2021, and as of the date of drawing up this report.....	187
Table no. 66.	Compensation of the Members of the Company's Management Board in 2021, broken down into the individual components.....	193
Table no. 67.	Compensation of the members of the Company's Supervisory Board in 2021.....	195
Table no. 68.	Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2021.....	197
Table no. 69.	Explanation of abbreviations and acronyms as well as trade terms.....	206

Index of figures

Figure no. 1.	TAURON Capital Group.....	4
Figure no. 2.	Location of TAURON Capital Group's key assets.....	6
Figure no. 3.	TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2021.....	7
Figure no. 4.	Foundations for the growth of TAURON Capital Group's value.....	12
Figure no. 5.	Direction of TAURON Capital Group's ultimate energy transition.....	18
Figure no. 6.	TAURON Capital Group's ultimate unit emissions level.....	18
Figure no. 7.	Structure of TAURON Capital Group's Lines of Business.....	30
Figure no. 8.	Organizational diagram of TAURON as of December 31, 2021, and as of the date of drawing up this report.....	31
Figure no. 9.	Structure of TAURON Capital Group's processes (mega-processes).....	32
Figure no. 10.	Summary of the Company's 2021 coal shipments (Mg m).....	37
Figure no. 11.	Structure of the Generation Segment's installed capacity as of December 31, 2021.....	38
Figure no. 12.	Structure of the electricity distribution by the tariff groups in 2021.....	39
Figure no. 13.	Coal and coal sludge purchased in 2021 (in Mg m).....	41
Figure no. 14.	Average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2021.....	45
Figure no. 15.	BASE Y-22 contract trading volume and price performance.....	45
Figure no. 16.	Average monthly SPOT market and BASE_Y-22 contract gas prices on TGE (PPX).....	47
Figure no. 17.	Impact of the political actions and the environment on the EUA SPOT product price in 2021.....	49
Figure no. 18.	Property rights indices.....	50
Figure no. 19.	TAURON Capital Group's competitive environment (landscape) based on the available data for the first three quarters of 2021.....	57
Figure no. 20.	EBITDA - estimated structure based on the main operating segments in 2021 ¹	58
Figure no. 21.	Gross electricity production - estimated market shares in the first three quarters of 2021.....	59
Figure no. 22.	Installed capacity - estimated market shares in the first three quarters of 2021.....	59
Figure no. 23.	Electricity distribution - estimated market shares in the first three quarters of 2021.....	59

Figure no. 24.	Electricity supply to the final consumers - estimated market shares in the first three quarters of 2021	60
Figure no. 25.	TAURON's average headcount in FTEs in 2020 - 2021	69
Figure no. 26.	TAURON Capital Group's average headcount in FTEs per operating Segment in 2020 - 2021 ¹	69
Figure no. 27.	Human capital management structure	72
Figure no. 28.	Structure (composition) of the ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2021	79
Figure no. 29.	Structure (composition) of the ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020	79
Figure no. 30.	Structure (composition) and the quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2021	80
Figure no. 31.	Structure of the certificates of origin for the renewable energy (PMOZE) at TAURON Capital Group in 2021 (MWh)	81
Figure no. 32.	Level of recognition (spontaneous awareness) enjoyed by the energy sector companies (electric utilities) as the sponsors of the sports, culture and social campaigns	84
Figure no. 33.	effectiveness of TAURON's sponsoring projects on TV, as compared to the industry competition	85
Figure no. 34.	Level of awareness of the energy groups in Poland	85
Figure no. 35.	Results of an independent research report Sponsoring Monitor 2021 in terms of the most active sponsors in 2019-2021	86
Figure no. 36.	Basic classification of the enterprise risk	88
Figure no. 37.	Architecture of the ERM system in place at TAURON Capital Group	88
Figure no. 38.	Risk management process	89
Figure no. 39.	ERM Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM System	90
Figure no. 40.	Flow of information within the key participants of the risk management process	91
Figure no. 41.	Number of risks monitored, broken down into sub-categories and their impact on TAURON Capital Group	93
Figure no. 42.	Breakdown of TAURON Capital Group's trading operations	94
Figure no. 43.	Credit exposure components	95
Figure no. 44.	Risk management system tools	96
Figure no. 45.	Regulatory risk life cycle	97
Figure no. 46.	Project risk management model	98
Figure no. 47.	TAURON Capital Group's EBITDA in 2012-2021	116
Figure no. 48.	TAURON Capital Group's 2020-2021 EBITDA structure (composition)	116
Figure no. 49.	Change in TAURON Capital Group's EBITDA in 2020-2021	117
Figure no. 50.	Mining Segment's 2020-2021 financial data	118
Figure no. 51.	Mining Segment's EBITDA	118
Figure no. 52.	Generation Segment's 2020-2021 financial data	120
Figure no. 53.	Generation Segment's EBITDA	120
Figure no. 54.	RES Segment's 2020-2021 financial data	121
Figure no. 55.	RES Segment's EBITDA	121
Figure no. 56.	Distribution Segment's 2020-2021 financial data	122
Figure no. 57.	Distribution Segment's EBITDA	123
Figure no. 58.	Supply Segment's 2020-2021 financial data	124
Figure no. 59.	Supply Segment's EBITDA	124
Figure no. 60.	Other Operations Segment subsidiaries' 2020-2021 financial data	125
Figure no. 61.	Structure of assets	126
Figure no. 62.	Structure of equity and liabilities	126
Figure no. 63.	Current liquidity ratio and the net financial debt to EBITDA ratio in 2020-2021	126
Figure no. 64.	Change in assets	127
Figure no. 65.	Change in current assets	127
Figure no. 66.	Change in equity and liabilities	129
Figure no. 67.	Change in equity attributable to majority shareholders	129
Figure no. 68.	Change in long term liabilities	129
Figure no. 69.	Change in short term liabilities	129
Figure no. 70.	TAURON Capital Group's 2020-2021 financial results	131
Figure no. 71.	TAURON Capital Group's sales revenue (except for the compensation) in 2020-2021*	132
Figure no. 72.	TAURON Capital Group's financial results and the level of margins realized in 2020-2021*	133
Figure no. 73.	2020-2021 cash flows	134
Figure no. 74.	TAURON Capital Group's 2021 cash flows	135
Figure no. 75.	Structure of TAURON Capital Group's EBITDA in 2017-2021	139
Figure no. 76.	Mining Segment's 2017 - 2021 data	140
Figure no. 77.	Generation Segment's and RES Segment's 2017 - 2021 data	140
Figure no. 78.	Distribution Segment's 2017 - 2021 data	140
Figure no. 79.	Supply Segment's 2017 - 2021 data	140
Figure no. 80.	Other Operations Segment's 2017 - 2021 data	141
Figure no. 81.	Shareholding structure as of December 31, 2021 and as of the date of drawing up this report	147
Figure no. 82.	TAURON share price performance and trading volumes in 2021	150

Figure no. 83.	TAURON share price and trading volumes since the market debut until December 31, 2021 ...	151
Figure no. 84.	TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2021.....	151
Figure no. 85.	Diagram (flowchart) showing the split of responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report.....	174