



CONSOLIDATED ANNUAL REPORT

of TAURON Polska Energia S.A.
Capital Group for the year 2020

March 2021

TAURON.PL

Letter of the President of the Management Board of TAURON Polska Energia S.A.

Ladies and Gentlemen,

On behalf of the Management Board of TAURON Polska Energia S.A. I have the pleasure to present to you the Consolidated Annual Report of TAURON Polska Energia S.A. Capital Group for 2020, that provides our financial and operating results, as well as the most important accomplishments of last year.

2020 will go down in history as the year of the coronavirus pandemic. It affected all areas of the economic life.

In spite of the challenging conditions in the market environment and the decline in the volumes of electricity distribution and supply, the financial position of TAURON Group has remained stable. We adapted to the new situation efficiently, while the procedures introduced with respect to the functioning of the Group's subsidiaries in a pandemic environment allowed us to ensure continuity of the production and supply of electricity to our customers.

Taking into account such extraordinary circumstances my view of the financial results generated by TAURON Group in 2020 is positive. Sales revenue came in at PLN 20.9 billion, which meant a 7 percent increase as compared to the previous year. EBITDA clocked in at PLN 4.2 billion and it was higher by 17 percent than in 2019. The consolidated loss attributable to the shareholders of the parent company stood at PLN 2.5 billion, mainly as a result of the booking of the impairment charges related to the loss of the assets' carrying amount, first and foremost in the Generation and Mining segments. The net debt to EBITDA ratio continued to stay at a level that guaranteed financial stability and security.

In reference to the market trends that we observed last year, it should be emphasized that it was a period of an extremely fast growth of prosumer energy in the field of renewable energy sources (RES). As a result, the installed capacity in photovoltaic technology in Poland increased by almost 150 percent as compared to 2019, i.e. from 1.5 GW to 4 GW. In this context, it should be noted that TAURON Group connected 100 000 RES micro-installations with the total capacity of 658 MW to its distribution grid in 2020. This is over three times more than in 2019. Overall, the total capacity of RES installations connected to TAURON Group's grid reached 823 MW in 2020.

The expansion of renewable energy sources is an investment priority for TAURON Group, and this is why we are taking a number of initiatives to ensure that the Green Turn of TAURON, announced in May 2019, follows the strategic directions set. As part of the strategy, we are assuming that the share of zero emission sources in the Group's generation mix will rise to 66 percent by 2030. The planned investments in renewable energy sources and the decommissioning of the obsolete conventional generation sources will allow the Group to reduce its emissions by more than 50 percent by 2030.

TAURON Group is currently operating nine onshore wind farms with the total capacity of 381 MW. We want to increase this potential to more than 1 000 MW of installed capacity by 2025. The first significant step, as part of the implementation of the strategy, was the acquisition of five wind farms with the capacity of 180 MW in 2019. In December 2020, in turn, we acquired a 30 MW wind farm project located in the Łódź Province. The wind farm should be commissioned in mid-2022.

Speaking of wind energy, it should be added that offshore wind farms will play an important role in our plans to expand zero emission capacity. Due to its windiness and depth, the Baltic Sea is considered to be one of the most promising reservoirs for the development of this type of energy generation in Europe. We signed a letter of intent on the cooperation in this area with PGE Polska Grupa Energetyczna and Enea in January 2021.

Another important element of TAURON Group's expansion strategy is related to photovoltaics. In accordance with the assumptions of the Green Turn of TAURON, we are planning to operate photovoltaic farms with the capacity of 300 MW as part of our portfolio by 2025. In December 2020, we completed the implementation of the first farm based on such technology in Jaworzno, on the Group's post-industrial land. The electricity generated by that installation will power more than two thousand households. The construction of the Choszczno project is underway - a complex of photovoltaic farms with the total capacity of 6 MW that will be extended by another 8 MW. We signed several preliminary contracts last year, including agreements for the acquisition of six photovoltaic projects and five wind projects.

I would like to emphasize with satisfaction that the volume of electricity produced by TAURON Group from renewable sources went by more than 40 percent in 2020, as compared to the previous year.

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

Referring to the investment activities, it is worth emphasizing that last year TAURON Group allocated a budget in the amount of PLN 4 billion for investment projects, with the largest funds going to the Distribution and Generation segments. In the former one, the capital expenditures of PLN 1.9 billion were spent mainly on the modernization of the distribution grid and the installation of the new grid connections, in the latter one – on the completion of the power generating unit in Jaworzno.

Similar as in the previous years, also in 2020 we undertook a number of effective initiatives aimed at guaranteeing the funds required for TAURON Group's sustainable development. First of all, I would like to mention the first issue of sustainable development bonds in Poland, as part of which we issued five-year bonds worth PLN 1 billion, with the proceeds to be spent on the Group's energy transition. We also signed two loan agreements for the total amount of PLN 1 billion last year.

Ladies and Gentlemen,

In spite of the numerous challenges facing the Polish energy sector, I am convinced that the steadfast implementation of the assumptions of the Green Turn of TAURON will have a positive impact on TAURON Group's market position and prospects. I believe that high competence and extensive experience of the Group's employees will be skillfully used to shore up the key segments of our business operations. On the other hand, our initiatives with respect to social dialogue will continue to contribute to building long term, partnership based relations with all stakeholder groups.

On behalf of the Management Board of TAURON Polska Energia S.A. I would like to thank all stakeholders for their commitment and dedication to building TAURON Group's value.

Yours respectfully,

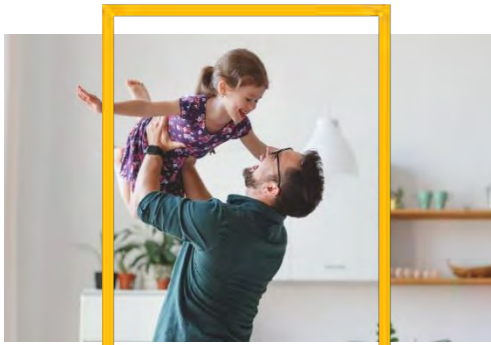
Marek Wadowski

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

| SELECTED FINANCIAL DATA | in PLN '000 | | in EUR '000 | |
|---|--|---|--|---|
| | 2020 from 01.01.2020 to 31.12.2020 | 2019 from 01.01.2019 to 31.12.2019 (adjusted data) | 2020 from 01.01.2020 to 31.12.2020 | 2019 from 01.01.2019 to 31.12.2019 (adjusted data) |
| Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group | | | | |
| Sales revenue | 20 367 400 | 19 112 336 | 4 552 188 | 4 442 869 |
| Compensations | 66 448 | 952 650 | 14 851 | 221 454 |
| Operating profit (loss) | (1 014 635) | 199 048 | (226 775) | 46 271 |
| Pre-tax loss | (1 655 668) | (112 744) | (370 048) | (26 209) |
| Net loss on continued operations | (1 733 550) | (94 197) | (387 455) | (21 897) |
| Net profit (loss) on discontinued operations | (754 327) | 82 514 | (168 595) | 19 181 |
| Net loss | (2 487 877) | (11 683) | (556 050) | (2 716) |
| Net loss attributable to shareholders of the parent entity | (2 485 115) | (10 908) | (555 432) | (2 536) |
| Net loss attributable to non-controlling stakes | (2 762) | (775) | (617) | (180) |
| Other net comprehensive income | (188 006) | (101 853) | (42 020) | (23 677) |
| Total comprehensive income | (2 675 883) | (113 536) | (598 070) | (26 393) |
| Total comprehensive income attributable to shareholders of the parent entity | (2 672 871) | (112 530) | (597 396) | (26 159) |
| Total comprehensive income attributable to non-controlling stakes | (3 012) | (1 006) | (673) | (234) |
| Loss per share (in PLN / EUR) (basic and diluted from net loss for the period, attributable to shareholders of the parent entity) | (1.42) | (0.01) | (0.32) | (0.00) |
| Loss per share (in PLN / EUR) (basic and diluted from net loss on continued operations for the period, attributable to shareholders of the parent entity) | (0.99) | (0.05) | (0.22) | (0.01) |
| Weighted average number of shares (pcs.) (basic and diluted) | 1 752 549 394 | 1 752 549 394 | 1 752 549 394 | 1 752 549 394 |
| Cash flow from operating activities | 4 041 979 | 2 035 575 | 903 397 | 473 191 |
| Cash flow from investing activities | (3 976 568) | (4 534 738) | (888 777) | (1 054 149) |
| Cash flow from financing activities | (373 635) | 2 894 792 | (83 509) | 672 926 |
| Increase/(decrease) in net cash and equivalents | (308 224) | 395 629 | (68 889) | 91 968 |
| | As of 31.12.2020 | As of 31.12.2019 | As of 31.12.2020 | As of 31.12.2019 |
| Fixed assets | 31 736 391 | 35 052 287 | 6 877 089 | 8 231 135 |
| Current assets | 7 674 673 | 6 865 478 | 1 663 056 | 1 612 182 |
| Total assets | 39 411 064 | 41 917 765 | 8 540 146 | 9 843 317 |
| Share capital | 8 762 747 | 8 762 747 | 1 898 836 | 2 057 707 |
| Equity attributable to shareholders of the parent entity | 15 518 642 | 18 192 226 | 3 362 798 | 4 271 980 |
| Equity attributable to non-controlling stakes | 893 623 | 900 434 | 193 643 | 211 444 |
| Total equity | 16 412 265 | 19 092 660 | 3 556 441 | 4 483 424 |
| Long term liabilities | 15 687 376 | 14 963 274 | 3 399 362 | 3 513 743 |
| Short term liabilities | 7 311 423 | 7 861 831 | 1 584 342 | 1 846 150 |
| Total liabilities | 22 998 799 | 22 825 105 | 4 983 704 | 5 359 893 |

The above financial data was converted to EUR according to the following principles:

- individual items of the statement of financial position – at the average exchange rate of NBP announced as of December 31, 2020 – 4.6148 PLN/EUR (as of December 31, 2019 – 4.2585 PLN/EUR),
- individual items of the statement of comprehensive income and the statement of cash flows - at the exchange rate that is an arithmetic mean of the average exchange rates of NBP announced as of the last day of each month of the financial year running from January 1, 2020 to December 31, 2020 – 4.4742 PLN/EUR (for the period from January 1, 2019, to December 31, 2019 – 4.3018 PLN/EUR).



**INDEPENDENT
AUDITOR'S
REPORT ON THE AUDIT**
of the annual consolidated financial
statements of TAURON Polska Energia S.A.
Capital Group for the year 2020



The Polish original should be referred to in matters of interpretation.
Translation of auditor's report originally issued in Polish.

Ernst & Young Audyt Polska spółka z ograniczoną
odpowiedzialnością sp. k.
Rondo ONZ 1
00-124 Warszawa

+48 (0) 22 557 70 00
+48 (0) 22 557 70 01
www.ey.com/pl

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Meeting and Supervisory Board of TAURON Polska Energia S.A.

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of TAURON Polska Energia S.A. Group (the 'Group'), for which the holding company is TAURON Polska Energia S.A. (the 'Company') located in Katowice at Ks. Piotra Ściegiennego 3 street, containing: the consolidated statement of comprehensive income for the period from 1 January 2020 to 31 December 2020, the consolidated statement of financial position as at 31 December 2020, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2020 to 31 December 2020 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2020 to 31 December 2020 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 30 March 2021.

Basis for opinion

We conducted our audit in accordance with the National Standards on Auditing in the version of International Auditing Standards as adopted by the National Council of Statutory Auditors (“NAS”) and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the ‘Act on Statutory Auditors’) and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the ‘Regulation 537/2014’). Our responsibilities under those standards are further described in the ‘*Auditor’s responsibilities for the audit of the financial statements*’ section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board of Accountants’ (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

| Key audit matter | How the matter was addressed in our audit |
|--|--|
| <p>Impairment of assets analysis</p> <p><i>Why the issue is a key audit matter</i></p> <p>As at December 31, 2020, the Group, in the consolidated financial statements, presented within significant asset items:</p> <ul style="list-style-type: none"> • fixed assets including property, plant and equipment with a carrying amount of approximately PLN 27 927 million; • right of use assets with a carrying amount of approximately PLN 1 739 million; • goodwill with a carrying amount approximately PLN 26 million; • other intangible assets with a carrying amount of approximately PLN 549 million; • investments in joint ventures with a carrying amount of approximately PLN 587 million; • loans receivable from joint ventures with a carrying amount of approximately PLN 99 million; <p>constituting in total approximately 78% of the Group's consolidated balance sheet.</p> <p>According to International Financial Reporting Standards the Management of the entity is obliged to determine the appropriate valuation method of loans receivable from joint ventures and, depending on the valuation method, to determine the fair value of these loans or determine the value of expected credit losses that may occur in the period of 12 months or remaining period of existence of loans depending on classification of assets to the brackets and for fixed</p> | <p><i>Audit approach</i></p> <p>Our procedures, in relation to the key audit matter described, included, among others:</p> <ul style="list-style-type: none"> • Overview of the process and identification of control mechanisms operating in the Group related to impairment tests of assets, as well as an understanding of the applied accounting policies and procedures, including internal control environment related to the process of assessing impairment indicators and performing of impairment tests, • Assessment of the assumptions made with regard to the grouping of assets into cash-generating units (CGU), • Analysis of impairments indicators and reconciliation of source data used in impairment test models and assessment of impairment triggers for financial forecasts approved by the Management Board of the Parent Company; • Assessment (with the assistance of valuation specialists) of estimates and assumptions made by the Group in order to determine the assets recoverable amount, including: <ul style="list-style-type: none"> - the key macroeconomic assumptions adopted by the Group for future years (including: discount rates, projected growth rate) by comparing them to market data and available external data; - arithmetical correctness of the discounted cash flows model, and |

assets, right of use assets, goodwill, other intangible assets and investments in joint ventures as a result of the identified assets impairment premise for performing the impairment test.

The issue was identified as key audit matter in the audit of the consolidated financial statements due to the value of the assets listed above, which is significant for the consolidated financial statements, as well as due to the element of professional judgment of the Group management regarding the valuation of loans receivable from joint ventures and a complex element of the professional judgment of the Management Board of Parent Company regarding identifying cash-generating units and the estimation of the recoverable amount of fixed assets, right of use assets, goodwill, other intangible assets and investments in joint ventures.

The valuation of loans receivable from joint ventures requires the application of appropriate valuation model, depending on the classification of assets, in accordance with International Financial Reporting Standard 9 *Financial Instruments*

- assumptions made to determine cash flows and residual values after the period covered by a detailed strategy;

- Inquiries to employees of the financial department and the Management Board of the Parent Company referring to the status of implementation of the adopted assumptions, including the validity of key estimates,
- Analysis of external sources of information such as industry press and evaluation of potential risk related to the implementation of the assumptions with the support of valuation specialists;
- Assessment of the classification of the loan's receivable from joint ventures in accordance with International Financial Reporting Standard 9 *Financial Instruments*;
- Assessment of the Parent Company's Management Board's judgment regarding the valuation models used for loan receivables to joint ventures and the existence of objective events affecting the impairment of loans;
- Assessment of the correctness of recognition of results of impairment tests of assets and the valuation of loans receivable from joint venture in the books;
- Reconciliation of source data being the basis for valuation of loans;
- Assessment of the Group's judgments with regard to the impact of the COVID-19 pandemic on the Group's operations and the assumptions made for impairment tests;
- Obtaining detailed statements of Parent Company Management's regarding the completeness and correctness of the data and significant assumptions provided to us;

Estimation of the recoverable amount of fixed assets, right of use assets, goodwill, other intangible assets and investments in joint ventures require the Management Board of Parent Company to adopt a number of assumptions regarding future market and economic conditions, such as, future changes in the prices of raw materials, electricity, property rights arising from certificates of origin of energy, CO2 emission rights and future revenues, costs and cash flows, weighted average cost of capital ("WACC"), as well as the impact of potential and already approved Polish and European regulatory changes, including environmental protection and the anticipated macroeconomic situation.

A reference to disclosure in the consolidated financial statements

The Group disclosed information regarding impairment indicators, estimates of the impairment test, as well as impairment losses on intangible assets in note 11 of the explanatory the notes to the consolidated financial statements for the year ended December 31, 2020.

The disclosure regarding the valuation of loans receivables from joint ventures and investments in joint venture was included by the Group respectively in note 26 and 27 of the explanatory notes to the consolidated financial statements for the year ended 31 December 2020.

- Assessment of the completeness of disclosures, in accordance with the International Accounting Standard 36 *Impairment of assets*, the International Accounting Standard 1 *Presentation of financial statements* and the International Financial Reporting Standard 7 *Financial instruments - disclosure of information* in the Group's consolidated financial statements regarding impairment and valuation of assets.

| | |
|--|---|
| <p>Claims, lawsuits and contingent liabilities</p> <p><i>Why the issue is a key audit matter</i></p> <p>The Group is a party to many significant claims and court cases which, depending on the Parent Company Management's assessment, are recognized as provisions or contingent liabilities. Significant in terms of value are potential and submitted claims identified by the Group related to the termination of long-term contracts for the purchase of electricity and property rights arising from certificates of origin of energy generated in renewable energy sources.</p> <p>The basis for recognizing provisions and contingent liabilities in the consolidated financial statements are the Parent Company Management's judgments regarding the likelihood of adverse effects of the claims and court cases that may cause an outflow of economic benefits from the Group. The results of these claims and lawsuits are beyond the Group's control.</p> <p>The issue was identified as key audit matter in the audit of the consolidated financial statements due to the significance of the claims and lawsuits, as well as due to the complex element of the professional judgment of the Management regarding their impact on the consolidated financial statements.</p> | <p><i>Audit approach</i></p> <p>Our procedures, in relation to the key audit matter described, included, among others:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the process of making judgments by the Parent Company Management's regarding claims and lawsuits; • Monitoring of public information to identify a violation or potential violation of laws and regulations by the Group and to assess the completeness of the effects of identified violations, as well as to assess the completeness of disclosures in the consolidated financial statements; • Analysis of the documentation regarding court cases presented for the audit purposes and discussion of significant court cases with the Legal Project Management Team of the Group and external lawyers significant claims and lawsuits; • Analysis of the costs of legal services incurred during the year including the identification of entities providing legal services to the Group; • Obtaining written explanations from the lawyers serving the Group with regard to the court and dispute cases conducted by them, and the analysis of the provided explanations; • Analysis and assessment of the level and completeness of provisions for litigation in the context of the existing legal documentation; • Discussion of the selected claims and court cases with internal specialists in the field of law; |
|--|---|

A reference to disclosure in the consolidated financial statements

The Group disclosed information regarding claims and court cases in note 54 of the explanatory notes to the consolidated financial statements for the year ended December 31, 2020.

- Obtaining detailed statements of the Parent Company Management Board regarding the completeness and correctness of the data and significant assumptions provided to us;
- Review of minutes of meetings of the legal bodies of the Parent Company Management Board as well as control reports of supervisory authorities and correspondence with these authorities.
- Analysis of the adequacy of disclosures in relation to court and out-of-court proceedings, related provisions and contingent liabilities in the consolidated financial statements.

Discontinued operations and assets held for sale

Why the issue is a key audit matter

As described in note 19 and 36 of the additional explanatory notes to the consolidated financial statements for the year ended December 31, 2020, the Management Board of the Parent Company in June 2020 decided to start negotiating an agreement for the sale of shares in the subsidiary TAURON Ciepło sp.z o.o.

As a consequence of the decisions and events described in note 36 of additional explanatory notes to the consolidated financial statements for the year ended December 31, 2020, the Group presented the activities of TAURON Ciepło sp.z o.o. as discontinued operations, and the assets and liabilities of TAURON Ciepło sp.z o.o. classified as held for sale. In relation to the fact that the fair value less costs to sell of the disposal group is lower than its current book value, the Group made a write-off on the assets in the amount of PLN 826 million.

Audit approach

Our procedures, in relation to the key audit matter described, included, among others:

- Analysis of accounting policies with regard to the classification of non-current assets as assets held for sale and presentation of discontinued operation in accordance with IFRS 5, related significant judgments and estimates, in particular with regard to:
 - identification of contracts and transactions that may be subject to recognition in accordance with IFRS 5;
 - methods of determining the fair value measurement;
- Understanding of the process control environment and the accounting treatment of events that meet the requirements of IFRS 5, including an understanding of procedures to ensure the completeness of identification of such events and transactions;
- Understanding of the business aspects of the planned transaction of sale of shares in the subsidiary TAURON Ciepło sp. z o.o. ;
- Analysis of the Group's offer for the sale of shares in the subsidiary TAURON Ciepło sp. Z o.o. and other documentation which is the basis for the decision of the Management Board of the Company to classify the potential transaction as meeting the conditions specified in IFRS 5;

The issue was identified as key audit matter in the audit of the consolidated financial statements due to its significant impact on the consolidated financial statements, an element of the professional judgment of the Management Board of the Parent Company in terms of classification the planned sale of shares in the subsidiary TAURON Ciepło sp.z o.o. as meeting the requirements of the International Financial Reporting Standard 5, *Non-current assets held for sale and discontinued operations* ("IFRS 5"), relating to discontinued operations and classification of assets as held for sale, the valuation of the disposal group and other necessary calculations and disclosures.

A reference to disclosure in the consolidated financial statements

Disclosures regarding discontinued operations and assets held for sale are presented in note 19 and 36 additional explanatory notes to the consolidated financial statements for the year ended December 31, 2020, respectively.

- Analysis of the fulfillment of the conditions required to classify the shares in TAURON Ciepło sp. z o.o. as assets held for sale;
- Analysis of the fulfillment of the conditions required to classify the operations of TAURON Ciepło sp. z o.o. as discontinued operation;
- Analysis of the valuation of the fair value of assets held for sale
- Analysis of the assessment made by the Management Board of the Parent Company with regard to determining the moment of classification of assets as held for sale;
- Obtaining detailed statements of the Management Board of the Parent Company regarding the completeness of the data provided to us and significant assumptions;
- Assessment of the impact of events after the reporting period related to the planned transaction of sale of shares in TAURON Ciepło sp. z o.o. on the Group's consolidated financial statements;
- Analysis and assessment of the adequacy and completeness of disclosures in the consolidated financial statements in relation to the requirements of International Financial Reporting Standard 5 *Non-current assets held for sale and discontinued operations*, including disclosures related to the Group's key judgments and estimates in this respect.

Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Company's Management is responsible for assessing the Group's (the holding company and significant components') ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Group nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,
- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2020 to 31 December 2020, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Information on non-financial information

In accordance with the Act on Statutory Auditors, we confirm, that the Company has prepared a statement on non-financial information mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report.

We have not performed any attestation procedures in respect to the statement on non-financial information and do not express any assurance in its respect.

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 55 par. 2c of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any attestation procedures in respect to the separate report on non-financial information and do not express any assurance in its respect.

Report on other legal and regulatory requirements

Opinion on the compliance of the consolidated financial statements prepared in the single electronic reporting format with the requirements of the regulation on technical standards on the specification of a single electronic reporting format

As part of our audit of the consolidated financial statements we were engaged to perform an assurance engagement to obtain reasonable assurance in order to express an opinion on whether the consolidated financial statements of the Group for the year ended 31 December 2020 prepared in the single electronic reporting format included in the file named 'esef_GKTPE_SprawozdanieFinansowe2020.zip' ('consolidated financial statements in ESEF format') was tagged in accordance with the regulations specified in the Commission Delegated Regulation (EU) of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the 'ESEF Regulations') and meet the technical requirements of a single electronic reporting format which are specified in these regulations.

Identification of criteria and description of the subject matter

The consolidated financial statements in ESEF format were prepared by the Company's Management in order to meet the tagging requirements and technical requirements of a single electronic reporting format which are specified in the ESEF Regulations.

The subject matter of our assurance engagement is the compliance of the consolidated financial statements in ESEF format against the requirements of the ESEF Regulations, while the requirements specified in these regulations represent, in our opinion, applicable criteria for us to express an opinion providing reasonable assurance.

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation of the consolidated financial statements in ESEF format in accordance with the tagging requirements and technical requirements of a single electronic reporting format which are specified in the ESEF Regulations. Such responsibility includes the selection and application of appropriate XBRL tags using the taxonomy specified in these regulations.

The responsibility of Company's Management also includes the design, implementation and maintenance of such internal control as determined is necessary to enable the preparation of the consolidated financial statements in ESEF format that are free from any material incompliance with the ESEF Regulations.

The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process, including the preparation of financial statements in compliance with the form in accordance with the governing legal regulations.

Auditor's responsibility

Our objective was to express an opinion, based on the performed assurance engagement providing reasonable assurance, that the consolidated financial statements in ESEF format was tagged in accordance with the ESEF requirements and whether it is in compliance with the technical requirements of a single electronic reporting format which are specified in these regulations.

We have performed our assurance engagement in accordance with the National Standard on Assurance Engagements Other than Audit and Review 3000 (R) in the form of the International Standard on Assurance Engagements 3000 (revised) - 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' ('ISAE 3000 (R)').

This standard, impose an obligation on the auditor to plan and execute procedures in order to obtain reasonable assurance, that the consolidated financial statements in ESEF format were prepared in accordance with specified criteria.

Reasonable assurance is a high level of assurance, but it is not guaranteed that the assurance engagement conducted in accordance with ISAE 3000 (R) will always detect material misstatement when it exists.

The selection of procedures depend on the auditor's professional judgment, including the assessment of risks of material misstatements due to error or fraud. When performing risk assessment and in order to design procedures to be performed the auditor takes into consideration the internal controls related with the preparation of the consolidated financial statements in ESEF format, which can provide the auditor with sufficient and appropriate evidence. The assessment of the internal controls was not performed for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Summary of performed procedures

Procedures that were designed and performed by us included among others:

- obtaining an understanding of the process of preparation of the consolidated financial statements in ESEF format including the Company's process of selection and application of XBRL tags and maintaining compliance with the ESEF Regulations;
- reconciling of the tagged information included in the consolidated financial statements in ESEF format to the audited consolidated financial statements;
- assessment of the compliance with the technical standards on the specification of a single electronic reporting format, including the use of the XHTML format, with the use of specialistic IT tools;
- assessment of the completeness of the tagging of information in the consolidated financial statements in ESEF format with XBRL tags;
- assessment whether the applied XBRL tags from the taxonomy specified by the ESEF regulations were applied appropriately and that extensions to the elements in the taxonomy specified in the ESEF regulations were used when there were no suitable elements in the taxonomy specified in the ESEF Regulations;
- evaluating of the anchoring of the taxonomy extensions to the elements in the taxonomy specified by the ESEF Regulations.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the performed assurance engagement.

Ethical requirements, including independence

While performing the assurance engagement, the key certified auditor and the audit firm have complied with the independence and other ethical requirements as specified by the Code of ethics. The Code of ethics is based on the fundamental principles related to integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We have also complied with other independence requirements and ethical responsibilities in accordance with required applicable rules of such assurance engagement in Poland.

Quality control requirements

The accounting firm applies national quality control standards in the form of International Standard on Quality Control 1 - 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements and other Assurance and Related Services Engagements' as adopted by a resolution of the National Council of Certified Auditors ('ISQC').

In accordance with ISQC, the audit firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Opinion

The matters described above constitute the basis for our opinion which is why our opinion should be read in conjunction with these matters.

In our opinion, the consolidated financial statements in ESEF format was prepared in all material respect in accordance with the requirements of the ESEF Regulations.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.

Appointment of the audit firm

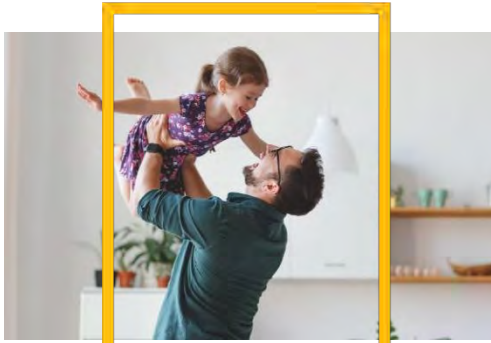
We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of Supervisory Board from 15 March 2017 and reappointed based on the resolution from 28 November 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2017, i.e. for the past four consecutive years.

Warsaw, 30 March 2021

Key Certified Auditor

Leszek Lerch
Certified auditor
no in the register: 9886

on behalf of:
Ernst & Young Audyt Polska
spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1,
00-124 Warsaw
no on the audit firms list: 130



CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the International
Financial Reporting Standards, as
endorsed by the European Union for the
year ended 31 December 2020

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements

compliant with the International Financial Reporting Standards

as endorsed by the European Union

for the year ended 31 December 2020

| | |
|---|-----------|
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME..... | 4 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION..... | 5 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued..... | 6 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY..... | 7 |
| CONSOLIDATED STATEMENT OF CASH FLOWS..... | 8 |
| INFORMATION ON THE CAPITAL GROUP AND THE BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS..... | 9 |
| 1. General information about the TAURON Polska Energia S.A. Capital Group and its parent company | 9 |
| 2. Composition of the TAURON Group and joint ventures | 9 |
| 3. Statement of compliance | 11 |
| 4. Going concern | 12 |
| 5. Functional and presentation currency..... | 12 |
| 6. Accounting principles (policy)..... | 12 |
| 7. Material values based on professional judgement and estimates | 13 |
| 8. Standards and amendments to standards which have been published but are not yet effective..... | 14 |
| 9. Changes in the accounting policies | 15 |
| 9.1. Application of amendments to standards | 15 |
| 9.2. Other changes in accounting policies and presentation applied by the Group..... | 16 |
| BUSINESS SEGMENTS..... | 16 |
| 10. Information on operating segments | 16 |
| 10.1. Operating segments..... | 19 |
| 10.2. Geographical areas of operations | 20 |
| IMPAIRMENT OF NON-FINANCIAL ASSETS..... | 20 |
| 11. Impairment in value of non-financial assets..... | 20 |
| EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME..... | 25 |
| 12. Sales revenue | 25 |
| 13. Compensation | 28 |
| 14. Cost of goods, products, materials and services sold | 29 |
| 14.1. Costs by type | 29 |
| 14.2. Employee benefit expenses | 30 |
| 14.3. Depreciation and amortisation charges and impairment losses | 31 |
| 15. Other operating revenues and costs..... | 32 |
| 16. Financial revenues and costs | 32 |
| 17. Costs arising from leases | 33 |
| 18. Income Tax..... | 33 |
| 18.1. Tax expense in the statement of comprehensive income | 34 |
| 18.2. Reconciliation of the effective tax rate..... | 34 |
| 19. Discontinued activity..... | 35 |
| 20. Earnings/(loss) per share | 36 |
| EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION..... | 36 |
| 21. Property, plant and equipment | 36 |
| 22. Right-of-use assets..... | 40 |
| 23. Goodwill..... | 41 |
| 24. Energy certificates and gas emission allowances | 41 |
| 24.1. Long-term energy certificates and gas emission allowances | 42 |
| 24.2. Short-term energy certificates and gas emission allowances..... | 42 |
| 24.3. Balance of CO ₂ emission allowances recorded in the Union Registry..... | 42 |
| 25. Other intangible assets | 43 |
| 26. Shares and stocks in joint ventures | 44 |
| 27. Loans to joint ventures | 46 |
| 28. Other financial assets | 47 |
| 29. Other non-financial assets..... | 48 |
| 29.1. Other non-current non-financial assets | 48 |
| 29.2. Other current non-financial assets | 48 |
| 30. Deferred income tax | 49 |
| 31. Inventories..... | 50 |
| 32. Receivables from customers | 50 |
| 33. Receivables due to income tax..... | 52 |
| 34. Receivables arising from other taxes and charges..... | 52 |
| 35. Cash and equivalents..... | 52 |
| 36. Assets held for sale and liabilities associated with assets held for sale | 53 |
| 37. Equity | 54 |
| 37.1. Issued capital | 55 |
| 37.2. Shareholder rights..... | 56 |
| 37.3. Reserve capital | 56 |
| 37.4. Retained earnings and restrictions on dividends..... | 56 |

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2020 prepared in accordance with IFRS, as endorsed by the EU
(in PLN thousand)

| | |
|---|-----------|
| 37.5. Revaluation reserve from valuation of hedging instruments | 56 |
| 37.6. Non-controlling shares | 56 |
| 38. Dividends paid | 57 |
| 39. Debt | 57 |
| 39.1. Loans and borrowings | 58 |
| 39.2. Bonds issued | 61 |
| 39.3. Debt agreement covenants | 63 |
| 39.4. Lease liabilities | 63 |
| 40. Provisions for employee benefits | 63 |
| 40.1. Provisions for post-employment benefits and jubilee bonuses | 64 |
| 40.2. Provisions for employment termination benefits and other provisions for employee benefits | 66 |
| 41. Provisions for dismantling fixed assets, restoration of land and other provisions | 66 |
| 41.1. Provision for mine decommissioning costs | 66 |
| 41.2. Provision for restoration of land and dismantling and removal of fixed assets | 67 |
| 42. Provisions for liabilities due to energy certificates of origin and CO ₂ emission allowances | 68 |
| 43. Other provisions | 69 |
| 43.1. Provision for use of real estate without contract | 69 |
| 43.2. Provisions for onerous contracts | 70 |
| 43.3. Provisions for counterparty claims, court disputes and other provisions | 70 |
| 44. Accruals, deferred income and government subsidies | 72 |
| 44.1. Deferred income and government grants | 72 |
| 44.2. Accrued expenses | 72 |
| 45. Liabilities to suppliers | 72 |
| 46. Investment liabilities | 73 |
| 47. Liabilities arising from other taxes and charges | 74 |
| 48. Other financial liabilities | 74 |
| 49. Other current non-financial liabilities | 75 |
| EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS | 75 |
| 50. Significant items of the consolidated statement of cash flows | 75 |
| 50.1. Cash flows from operating activities | 75 |
| 50.2. Cash flows from investment activities | 77 |
| 50.3. Cash flows from financial activities | 77 |
| 50.4. Cash flows from discontinued activities | 78 |
| FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT | 79 |
| 51. Financial instruments | 79 |
| 51.1. Carrying amount and fair value of financial instrument classes and categories | 80 |
| 51.2. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments | 82 |
| 51.3. Derivatives and hedge accounting | 83 |
| 52. Principles and objectives of financial risk management | 85 |
| 52.1. Credit risk | 86 |
| 52.1.1 Credit risk related to receivables from customers | 86 |
| 52.1.2 Credit risk related to other financial receivables | 87 |
| 52.1.3 Credit risk related to cash and cash equivalents and derivatives | 87 |
| 52.1.4 Credit risk related to loans granted | 88 |
| 52.2. Liquidity risk | 89 |
| 52.3. Market risk | 90 |
| 52.3.1 Interest rate risk | 90 |
| 52.3.2 Currency risk | 92 |
| 52.3.3 Raw material and commodity price risk related to commodity derivative instruments | 93 |
| 53. Operational risk | 93 |
| OTHER INFORMATION | 93 |
| 54. Contingent liabilities | 93 |
| 55. Security for liabilities | 97 |
| 56. Related party disclosures | 100 |
| 56.1. Transactions with joint ventures | 100 |
| 56.2. Transactions with State Treasury companies | 100 |
| 56.3. Compensation of the executives | 101 |
| 57. Finance and capital management | 101 |
| 58. Fee of the certified auditor or the entity authorized to audit financial statements | 102 |
| 59. Other material information | 103 |
| 60. Events after the balance sheet date | 105 |

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2020 prepared in accordance with IFRS, as endorsed by the EU
(in PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2020 | Year ended 31 December 2019 (restated figures) |
|---|------|--------------------------------|--|
| Sales revenue | 12 | 20 367 400 | 19 112 336 |
| Recompensation revenue | 13 | 66 448 | 952 650 |
| Cost of sales | 14 | (20 697 679) | (18 928 946) |
| Profit (loss) on sale | | (263 831) | 1 136 040 |
| Selling and distribution expenses | 14 | (491 583) | (496 140) |
| Administrative expenses | 14 | (613 285) | (633 953) |
| Other operating income and expenses | 15 | 338 299 | 145 154 |
| Share in profit/(loss) of joint ventures | 26 | 15 765 | 47 947 |
| Operating profit (loss) | | (1 014 635) | 199 048 |
| Interest expense on debt | 16 | (283 456) | (248 781) |
| Finance income and other finance costs | 16 | (357 577) | (63 011) |
| Loss before tax | | (1 655 668) | (112 744) |
| Income tax expense | 18 | (77 882) | 18 547 |
| Net loss on continuing operations | | (1 733 550) | (94 197) |
| Net profit (loss) on discontinued operations | 19 | (754 327) | 82 514 |
| Net loss | | (2 487 877) | (11 683) |
| Measurement of hedging instruments | 37.5 | (103 172) | 15 179 |
| Foreign exchange differences from translation of foreign entity | | 12 489 | 505 |
| Income tax | 18 | 19 603 | (2 884) |
| Other comprehensive income on continuing operations to be reclassified in the financial result | | (71 080) | 12 800 |
| Actuarial losses | 40.1 | (140 992) | (137 264) |
| Income tax | 18 | 26 786 | 26 073 |
| Share in other comprehensive income of joint ventures | 26 | 15 | (987) |
| Other comprehensive income on continuing operations not to be reclassified in the financial result | | (114 191) | (112 178) |
| Other comprehensive income on discontinued operations | 19 | (2 735) | (2 475) |
| Other comprehensive income, net of tax | | (188 006) | (101 853) |
| Total comprehensive income | | (2 675 883) | (113 536) |
| Net loss: | | | |
| Attributable to equity holders of the Parent | | (2 485 115) | (10 908) |
| Attributable to non-controlling interests | | (2 762) | (775) |
| Total comprehensive income: | | | |
| Attributable to equity holders of the Parent | | (2 672 871) | (112 530) |
| Attributable to non-controlling interests | | (3 012) | (1 006) |
| Loss per share (in PLN): | | | |
| basic and diluted net loss for the period attributable to shareholders of the parent company | 20 | (1.42) | (0.01) |
| basic and diluted net loss from continuing operations for the period attributable to shareholders of the parent company | 20 | (0.99) | (0.05) |

Accounting principles (policy) and additional explanatory notes to the consolidated financial statements form an integral part thereof

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2020 prepared in accordance with IFRS, as endorsed by the EU
(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2020 | As at 31 December 2019 |
|---|------|---------------------------|---------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 21 | 27 926 615 | 31 099 071 |
| Right-of-use assets | 22 | 1 738 926 | 1 773 498 |
| Goodwill | 23 | 26 183 | 26 183 |
| Energy certificates and CO ₂ emission allowances for surrender | 24.1 | 500 936 | 468 197 |
| Other intangible assets | 25 | 549 074 | 478 261 |
| Investments in joint ventures | 26 | 586 559 | 559 144 |
| Loans granted to joint ventures | 27 | 96 293 | 238 035 |
| Other financial assets | 28 | 208 063 | 235 522 |
| Other non-financial assets | 29.1 | 64 064 | 152 288 |
| Deferred tax assets | 30 | 39 678 | 22 088 |
| | | 31 736 391 | 35 052 287 |
| Current assets | | | |
| Energy certificates and CO ₂ emission allowances for surrender | 24.2 | 1 008 208 | 1 285 193 |
| Inventories | 31 | 777 215 | 684 152 |
| Receivables from buyers | 32 | 2 363 085 | 2 290 746 |
| Income tax receivables | 33 | 83 655 | 255 702 |
| Receivables arising from other taxes and charges | 34 | 282 673 | 384 714 |
| Loans granted to joint ventures | 27 | 2 420 | 4 999 |
| Other financial assets | 28 | 266 431 | 599 035 |
| Other non-financial assets | 29.2 | 78 457 | 100 275 |
| Cash and cash equivalents | 35 | 909 453 | 1 237 952 |
| Assets classified as held for sale | 36 | 1 903 076 | 22 710 |
| | | 7 674 673 | 6 865 478 |
| TOTAL ASSETS | | 39 411 064 | 41 917 765 |

Accounting principles (policy) and additional explanatory notes to the consolidated financial statements form an integral part thereof

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2020 prepared in accordance with IFRS, as endorsed by the EU
(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued

| | Note | As at 31 December 2020 | As at 31 December 2019 |
|---|-------------|---------------------------|---------------------------|
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the Parent | | | |
| Issued capital | 37.1 | 8 762 747 | 8 762 747 |
| Reserve capital | 37.3 | 6 338 754 | 6 801 584 |
| Revaluation reserve from valuation of hedging instruments | 37.5 | (67 903) | 15 666 |
| Foreign exchange differences from translation of foreign entities | | 27 010 | 14 521 |
| Retained earnings/(Accumulated losses) | 37.4 | 458 034 | 2 597 708 |
| | | 15 518 642 | 18 192 226 |
| Non-controlling interests | 37.6 | 893 623 | 900 434 |
| Total equity | | 16 412 265 | 19 092 660 |
| Non-current liabilities | | | |
| Debt | 39 | 13 108 449 | 11 830 183 |
| Provisions for employee benefits | 40 | 931 954 | 1 313 480 |
| Provisions for disassembly of fixed assets, land restoration and other provisions | 41 | 669 206 | 663 130 |
| Accruals, deferred income and government grants | 44 | 399 628 | 460 003 |
| Deferred tax liabilities | 30 | 433 738 | 605 285 |
| Other financial liabilities | 48 | 136 855 | 79 417 |
| Other non-financial liabilities | | 7 546 | 11 776 |
| | | 15 687 376 | 14 963 274 |
| Current liabilities | | | |
| Debt | 39 | 1 478 550 | 2 484 093 |
| Liabilities to suppliers | 45 | 965 106 | 847 226 |
| Capital commitments | 46 | 838 486 | 757 943 |
| Provisions for employee benefits | 40 | 101 325 | 118 418 |
| Provisions for liabilities due to energy certificates and CO ₂ emission allowances | 42 | 1 623 453 | 1 378 233 |
| Other provisions | 43 | 273 608 | 563 753 |
| Accruals, deferred income and government grants | 44 | 166 149 | 185 544 |
| Income tax liabilities | | 3 142 | 3 853 |
| Liabilities arising from other taxes and charges | 47 | 392 856 | 589 001 |
| Other financial liabilities | 48 | 549 671 | 560 455 |
| Other non-financial liabilities | 49 | 423 091 | 364 376 |
| Liabilities directly related to assets classified as held for sale | 36 | 495 986 | 8 936 |
| | | 7 311 423 | 7 861 831 |
| Total liabilities | | 22 998 799 | 22 825 105 |
| TOTAL EQUITY AND LIABILITIES | | 39 411 064 | 41 917 765 |

Accounting principles (policy) and additional explanatory notes to the consolidated financial statements form an integral part thereof

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Equity attributable to the equity holders of the Parent | | | | | Total | Udziały niekontrolujące | Razem kapitał własny |
|---|------|---|--------------------|---|--|--|--------------------|----------------------------|-------------------------|
| | | Issued capital | Reserve capital | Revaluation reserve on valuation of hedging instruments | Foreign exchange differences from translation of foreign entities | Retained earnings/ (Accumulated losses) | | | |
| As at 1 January 2019 | | 8 762 747 | 8 511 437 | 3 371 | 14 016 | 1 004 253 | 18 295 824 | 132 657 | 18 428 481 |
| Coverage of prior years loss | | - | (1 709 853) | - | - | 1 709 853 | - | - | - |
| Dividends | 37.6 | - | - | - | - | - | - | (1 932) | (1 932) |
| Shares subscribed for by non-controlling shareholders | 37.6 | - | - | - | - | 8 843 | 8 843 | 771 157 | 780 000 |
| Other transactions with non-controlling shareholders | 37.6 | - | - | - | - | 89 | 89 | (442) | (353) |
| Transactions with shareholders | | - | (1 709 853) | - | - | 1 718 785 | 8 932 | 768 783 | 777 715 |
| Net loss | | - | - | - | - | (10 908) | (10 908) | (775) | (11 683) |
| Other comprehensive income | | - | - | 12 295 | 505 | (114 422) | (101 622) | (231) | (101 853) |
| Total comprehensive income | | - | - | 12 295 | 505 | (125 330) | (112 530) | (1 006) | (113 536) |
| As at 31 December 2019 | | 8 762 747 | 6 801 584 | 15 666 | 14 521 | 2 597 708 | 18 192 226 | 900 434 | 19 092 660 |
| Coverage of prior years loss | 37.3 | - | (462 830) | - | - | 462 830 | - | - | - |
| Dividends | 37.6 | - | - | - | - | - | - | (2 075) | (2 075) |
| Shares subscribed for by non-controlling shareholders | 37.6 | - | - | - | - | (713) | (713) | (1 724) | (2 437) |
| Transactions with shareholders | | - | (462 830) | - | - | 462 117 | (713) | (3 799) | (4 512) |
| Net loss | | - | - | - | - | (2 485 115) | (2 485 115) | (2 762) | (2 487 877) |
| Other comprehensive income | | - | - | (83 569) | 12 489 | (116 676) | (187 756) | (250) | (188 006) |
| Total comprehensive income | | - | - | (83 569) | 12 489 | (2 601 791) | (2 672 871) | (3 012) | (2 675 883) |
| As at 31 December 2020 | | 8 762 747 | 6 338 754 | (67 903) | 27 010 | 458 034 | 15 518 642 | 893 623 | 16 412 265 |

Accounting principles (policy) and additional explanatory notes to the consolidated financial statements form an integral part thereof

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|------|--------------------------------|--------------------------------|
| Cash flows from operating activities | | | |
| Loss before taxation | | (2 374 123) | (15 368) |
| Share in (profit)/loss of joint ventures | | (15 765) | (47 947) |
| Depreciation and amortization | | 1 954 142 | 1 991 733 |
| Impairment losses on non-financial non-current assets | | 3 174 681 | 1 310 000 |
| Impairment on disposal group due to revaluation to fair value | | 825 708 | - |
| Impairment losses on loans granted | | 221 382 | (15 936) |
| Exchange differences | | 245 923 | (35 614) |
| Interest and commissions | | 283 014 | 250 571 |
| Profit on bargain purchase | | - | (119 515) |
| Other adjustments of profit before tax | | (101 499) | 64 988 |
| Change in working capital | 50.1 | (111 338) | (923 601) |
| Income tax paid | 50.1 | (60 146) | (423 736) |
| Net cash from operating activities | | 4 041 979 | 2 035 575 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment and intangible assets | 50.2 | (3 907 608) | (4 035 132) |
| Cash transfer related to the acquisition of wind farms (after deduction of the acquired cash balance) | | - | (543 079) |
| Loans granted | 50.2 | (105 275) | (23 225) |
| Purchase of financial assets | 50.2 | (32 812) | (17 455) |
| Total payments | | (4 045 695) | (4 618 891) |
| Proceeds from sale of property, plant and equipment and intangible assets | | 17 517 | 28 696 |
| Dividends received | | 6 177 | 36 442 |
| Repayment of loans granted | | 16 250 | 15 600 |
| Redemption of share units | | 26 747 | - |
| Other proceeds | | 2 436 | 3 415 |
| Total proceeds | | 69 127 | 84 153 |
| Net cash used in investing activities | | (3 976 568) | (4 534 738) |
| Cash flows from financing activities | | | |
| Redemption of debt securities | | (60 400) | (2 420 000) |
| Repayment of loans and borrowings | 50.3 | (4 406 813) | (867 360) |
| Interest paid | 50.3 | (215 946) | (212 556) |
| Repayment of lease liabilities | 50.3 | (102 085) | (75 047) |
| Other payments | | (24 536) | (20 914) |
| Total payments | | (4 809 780) | (3 595 877) |
| Issue of debt securities | 50.3 | 1 000 000 | 500 000 |
| Proceeds from non-controlling interests | | - | 780 000 |
| Proceeds from contracted loans and borrowings | 50.3 | 3 368 546 | 5 150 000 |
| Subsidies received | | 67 599 | 60 669 |
| Total proceeds | | 4 436 145 | 6 490 669 |
| Net cash from financing activities | | (373 635) | 2 894 792 |
| Net increase/(decrease) in cash and cash equivalents | | (308 224) | 395 629 |
| Net foreign exchange difference | | 2 804 | (256) |
| Cash and cash equivalents at the beginning of the period | 35 | 1 203 601 | 807 972 |
| Cash and cash equivalents at the end of the period, of which : | 35 | 895 377 | 1 203 601 |
| restricted cash | 35 | 210 661 | 729 450 |

Accounting principles (policy) and additional explanatory notes to the consolidated financial statements form an integral part thereof

INFORMATION ON THE CAPITAL GROUP AND THE BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information about the TAURON Polska Energia S.A. Capital Group and its parent company

TAURON Polska Energia S.A. Capital Group (the "Group", the "Capital Group", "TAURON Group") consists of TAURON Polska Energia S.A. (the "parent entity", the "Company", the "Parent Company") and its subsidiaries. TAURON Polska Energia S.A. with its registered office in Katowice at: ul. ks. Piotra Ściegiennego 3, in Poland, operates as a joint-stock company, incorporated by notarial deed on 6 December 2006. Until 16 November 2007, the Company operated under the name Energetyka Południe S.A. The company did not change its name or other identifying information in the year ended 31 December 2020.

The Parent Company is entered in the register of entrepreneurs of the National Court Register maintained by the District Court for Katowice-Wschód, Commercial Department of the National Court Register under KRS number: 0000271562.

The duration of the Parent Company and entities included in the Capital Group is unlimited. The entities operate based on relevant licenses granted to individual companies of the Group.

The TAURON Group's core business is reflected in the breakdown into segments: Mining, Generation (the segment comprising generation of electricity from conventional sources), Renewable Energy Sources (the segment comprising generation of electricity from renewable energy sources), Distribution, Sales and other operations, including customer service, which is discussed in more detail in Note 10 to these consolidated financial statements.

These consolidated financial statements of the Group cover the year ended 31 December 2020 and contain comparative information for the year ended 31 December 2019.

These consolidated financial statements were approved by the Management Board for publication on 29 March 2021.

Composition of the Management Board

As at 1 January 2020, the composition of the Management Board was as follows:

- Filip Grzegorzcyk – President of the Management Board,
- Jarosław Broda – Vice-President of the Management Board,
- Marek Wadowski – Vice-President of the Management Board.

On 14 July 2020, the Supervisory Board dismissed all members of the Management Board of the Company in its former composition, with effect as of the end of 14 July 2020:

At the same time, the Supervisory Board of the Company appointed on 15 July 2020 the Management Board consisting of:

- Wojciech Ignacok – President of the Management Board,
- Jerzy Topolski – Vice-President of the Management Board,
- Marek Wadowski – Vice-President of the Management Board.

After the balance sheet day, on 28 February 2021, Mr. Wojciech Ignacok resigned from his position of the President of the Management Board of TAURON Polska Energia S.A. On 24 February 2021, the Supervisory Board of the Company adopted a resolution entrusting Mr. Marek Wadowski with the duties of the President of the Management Board of the Company from 1 March 2021 until the date of appointment of the President of the Management Board.

2. Composition of the TAURON Group and joint ventures

As at 31 December 2020, TAURON Polska Energia S.A. held, directly and indirectly, interest in the following key subsidiaries:

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Item | Company name | Registered office | Operating segment | Interest in the share capital by TAURON Polska Energia S.A. | Interest in the decision-making body held by TAURON Polska Energia S.A. |
|------|--|----------------------------|--------------------------------------|---|---|
| 1 | TAURON Wydobycie S.A. | Jaworzno | Mining | 100.00% | 100.00% |
| 2 | TAURON Wytwarzanie S.A. | Jaworzno | | 100.00% | 100.00% |
| 3 | Nowe Jaworzno Grupa TAURON Sp. z o.o. | Jaworzno | Generation | 85.88% | 85.88% |
| 4 | TAURON Serwis Sp. z o.o. | Katowice | | 95.61% | 95.61% |
| 5 | TAURON Ekoenergia Sp. z o.o. | Jelenia Góra | | 100.00% | 100.00% |
| 6 | Marselwind Sp. z o.o. | Katowice | | 100.00% | 100.00% |
| 7 | TEC1 Sp. z o.o. | Katowice | | 100.00% | 100.00% |
| 8 | TEC2 Sp. z o.o. | Katowice | | 100.00% | 100.00% |
| 9 | TEC3 Sp. z o.o. | Katowice | | 100.00% | 100.00% |
| 10 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k. | Katowice | | n/a | 100.00% |
| 11 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k. | Katowice | | n/a | 100.00% |
| 12 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. | Katowice | | n/a | 100.00% |
| 13 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k. | Katowice | | n/a | 100.00% |
| 14 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k. | Katowice | Renewable Energy Sources | n/a | 100.00% |
| 15 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k. | Katowice | | n/a | 100.00% |
| 16 | TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. | Katowice | | n/a | 100.00% |
| 17 | TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k. | Katowice | | n/a | 100.00% |
| 18 | TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k. | Katowice | | n/a | 100.00% |
| 19 | TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k. | Katowice | | n/a | 100.00% |
| 20 | WIND T1 Sp. z o.o. ¹ | Pieńkowo | | 100.00% | 100.00% |
| 21 | AVAL-1 Sp. z o.o. ¹ | Jelenia Góra | | 100.00% | 100.00% |
| 22 | TAURON Dystrybucja S.A. | Kraków | Distribution | 99.75% | 99.75% |
| 23 | TAURON Dystrybucja Pomiary Sp. z o.o. ² | Tarnów | | 99.75% | 99.75% |
| 24 | TAURON Sprzedaż Sp. z o.o. | Kraków | | 100.00% | 100.00% |
| 25 | TAURON Sprzedaż GZE Sp. z o.o. | Gliwice | | 100.00% | 100.00% |
| 26 | TAURON Czech Energy s.r.o. | Ostrawa, Czech Republic | Sales | 100.00% | 100.00% |
| 27 | TAURON Nowe Technologie S.A. ³ | Wrocław | | 100.00% | 100.00% |
| 28 | TAURON Obsługa Klienta Sp. z o.o. | Wrocław | | 100.00% | 100.00% |
| 29 | Kopalnia Wapienia Czatkowice Sp. z o.o. | Krzyszowice | | 100.00% | 100.00% |
| 30 | Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. | Warszawa | Other | 100.00% | 100.00% |
| 31 | Finanse Grupa TAURON Sp. z o.o. | Katowice | | 100.00% | 100.00% |
| 32 | Bioeko Grupa TAURON Sp. z o.o. | Stalowa Wola | | 100.00% | 100.00% |
| 33 | Wsparcie Grupa TAURON Sp. z o.o. ² | Tarnów | | 99.75% | 99.75% |
| 34 | TAURON Ciepło Sp. z o.o. | Katowice | Discontinued operations ⁴ | 100.00% | 100.00% |

¹ The share in WIND T1 Sp. z o.o. and AVAL-1 Sp. z o.o. is held by TAURON Polska Energia S.A. indirectly through its subsidiary TAURON Ekoenergia Sp. z o.o.

² The share in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o. is held by TAURON Polska Energia S.A. indirectly through its subsidiary, TAURON Dystrybucja S.A. TAURON Polska Energia S.A. is the user of shares in TAURON Dystrybucja Pomiary Sp. z o.o.

³ On 1 June 2020, the name of the company was changed from former TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.

⁴ As at the balance sheet date, TAURON Ciepło Sp. z o.o. which operates in the Generation business was presented as discontinued operations in connection with its classification as a disposal group.

As at 31 December 2020, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities:

| Item | Company name | Registered office | Operating segment | Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A. |
|------|--|----------------------------|-------------------|--|
| 1 | Elektrociepłownia Stalowa Wola S.A. ¹ | Stalowa Wola | | 50.00% |
| 2 | TAMEH HOLDING Sp. z o.o. ² | Dąbrowa Górnicza | | 50.00% |
| 3 | TAMEH POLSKA Sp. z o.o. ² | Dąbrowa Górnicza | Generation | 50.00% |
| 4 | TAMEH Czech s.r.o. ² | Ostrawa, Czech Republic | | 50.00% |

¹ TAURON holds an indirect share in Elektrociepłownia Stalowa Wola S.A. through its subsidiary, TAURON Wytwarzanie S.A.

² TAURON Polska Energia S.A. holds a direct share in the issued capital and in the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the issued capital and in the governing body of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.

Changes in the composition of the TAURON Group.

- Merger of the company TAURON Dystrybucja Serwis S.A. (currently TAURON Nowe Technologie S.A.) with Magenta Grupa TAURON Sp. z o.o.

On 29 October 2019 the Extraordinary General Meeting of Shareholders of TAURON Dystrybucja Serwis S.A. (currently: TAURON Nowe Technologie S.A.) with its registered office in Wrocław, and the Extraordinary General Meeting of Shareholders of Magenta Grupa TAURON Sp. z o.o. with its registered office in Katowice adopted resolutions on the merger of TAURON Dystrybucja Serwis S.A. (currently: TAURON Nowe Technologie S.A., the acquiring company) with Magenta Grupa TAURON Sp. z o.o. (the acquired company). On 2 January 2020, the merger of the companies was registered in the National Court Register kept by the District Court in Wrocław.

- Increase of share capital of Nowe Jaworzno TAURON sp. z o.o. company

On 2 March 2020, the Extraordinary Meeting of Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. company adopted the resolution on increasing the share capital of the company by the amount of PLN 4 551 thousand. All shares were acquired by the Company for the total amount of PLN 455 100 thousand. On 5 March 2020, the Company transferred the funds for the capital increase. As a result of this transaction, the Company shareholding in the capital and the governing body increased from 84.76% to 85.88%. On 18 May 2020, the capital increase was registered.

On 3 December 2020, the Extraordinary Meeting of Shareholders of Nowe Jaworzno Grupa TAURON sp. z o.o. company adopted the resolution on increasing the share capital of the company by the amount of PLN 1 900 thousand. All shares were acquired by the Company for the total amount of PLN 190 000 thousand. On 7 December 2020, the Company transferred the funds for the capital increase. As a result of this transaction, the Company shareholding in the capital and in the governing body will increase from 85.88% to 86.29%, after the registration in the National Court Register. After the balance sheet date, on 13 January 2021, the capital increase was registered.

- Surcharges to the capitals of the company Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.

In the year ended 31 December 2020 Extraordinary Meeting of Shareholders of Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o adopted the resolution on contribution of surcharges to the capitals of the company:

- on 8 January 2020 in the amount PLN 8 016 thousand;
- on 16 June 2020 in the amount PLN 9 600 thousand.

- Acquisition of AVAL-1 Sp. z o.o. and WIND T-1 Sp. z o.o. companies

In the year ended 31 December 2020, the subsidiary - TAURON Ekoenergia Sp. z o.o. acquired 100% shares in two companies which carry out investment tasks in the area of renewable energy sources: AVAL-1 Sp. z o.o. and WIND T-1 Sp. z o.o. Consequently, TAURON Polska Energia S.A. holds an indirect interest of 100% in both of these companies. In the Group's opinion, AVAL-1 Sp. z o.o. and WIND T1 Sp. z o.o. companies do not constitute a business within the meaning of IFRS 3 *Business Combinations*, therefore the transaction of acquisition of the companies was accounted for as an acquisition of assets other than assets constituting a business.

As at 31 December 2020, the share of TAURON Polska Energia S.A. in the capital and in the governing body of the remaining key subsidiaries and jointly-controlled entities has not changed since 31 December 2019.

3. Statement of compliance

These consolidated financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS") approved by the European Union (the "EU").

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

The Group companies and the Parent Company keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards approved by the EU, except for TAURON Czech Energy s.r.o., which keeps its accounting records and prepares its financial statements in line with accounting policies applicable in the Czech Republic, the companies AVAL-1 Sp. z o.o., WIND T1 Sp. z o.o., TEC1 sp. z o.o., TEC2 sp. z o.o., TEC3 sp. z o.o. and limited partnerships, which keep their accounting books and prepare financial statements in accordance with the Accounting Act.

The consolidated financial statements contain adjustments which have not been recognised in the accounting records of entities of the Group, introduced in order to achieve compliance of these consolidated financial statements with IFRS approved by the EU.

4. Going concern

These consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies in the foreseeable future, i.e. in the period not shorter than 1 year from the balance sheet date. As at the date of approving these consolidated financial statements no circumstances have been detected that could put the going concern operation of the Group's companies at risk.

The Group identifies and actively manages liquidity risk understood as a possible loss or restriction of its ability to settle current expenses. The Group has retained full ability to pay its liabilities when due. At the balance sheet date, the Group has available financing under financial agreements.

In the year ended 31 December 2020, the COVID-19 pandemic developed in the area of operations of the Group, disrupting the economic and administrative system in Poland and triggering significant changes in the market environment potentially affecting the financial position of the Group and the Company. The Management Board has analysed the situation in the context of COVID-19 and, based on the scenarios considered, at present it does not identify any risks for the continuity of the Group as a going concern in the foreseeable future, i.e. in the period not shorter than 1 year from the balance sheet date, in the areas of liquidity, financing and securing the continuity of operating activities, taking into account the description of the impact of the COVID-19 pandemic on the Group's activities, as further discussed in Note 59 to these financial statements.

5. Functional and presentation currency

The Polish zloty has been used as the presentation currency of these consolidated financial statements and the functional currency of the parent entity and the subsidiaries covered by these consolidated financial statements, except TAURON Czech Energy s.r.o. The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna ("CZK"). Items in the financial statements of TAURON Czech Energy s.r.o. are translated into the TAURON Group's presentation currency using the relevant exchange rates.

These consolidated financial statements have been presented in the Polish zloty ("PLN") and all figures are provided in PLN thousand, unless indicated otherwise.

6. Accounting principles (policy)

Significant accounting principles are presented in individual notes to these consolidated financial statements, except consolidation principles and the methods of accounting for business acquisitions (including jointly-controlled entities), which are presented below.

Consolidation principles and the methods of accounting for business acquisitions (including jointly-controlled entities)

Consolidation

Entities over which the parent company, directly or indirectly through its subsidiaries, exercises control are regarded as subsidiaries.

Subsidiaries are consolidated using the full method from the date of assuming to the date of losing control. Financial statements of subsidiaries are prepared for the same reporting period as those of the Parent Company, based on the consistent accounting principles. Balances and transactions between the Group entities, including unrealised gains and losses (if not indicating impairment) which result from transactions within the Group, are eliminated.

Business acquisitions

Business acquisitions are accounted for using the acquisition method. As at the acquisition date, the acquiring entity recognises identifiable assets acquired and liabilities assumed, which are measured at their fair values.

Goodwill is measured as the excess of the aggregate of the consideration transferred for the acquisition, the amount of any non-controlling interest in the acquired entity and the acquisition date fair value of the acquirer's previously held equity interest in the acquired entity over the net amount determined for the acquisition date of fair values of the identifiable assets acquired, the liabilities and contingent liabilities assumed. If the aforementioned difference is negative, the Group reassesses the identification and valuation of identifiable assets, liabilities and contingent liabilities of the acquired entity and the fair value of the payment and immediately recognises in the statement of comprehensive income any surplus remaining after the reassessment (profit from a bargain purchase).

Where the assets acquired do not constitute a business as defined in IFRS 3 *Business Combinations*, the Group accounts for the transaction as the acquisition of assets.

Acquisition of businesses under common control of the State Treasury

Combinations of businesses under common control of the State Treasury (i.e. those which have remained under the control of the State Treasury before and after the transaction) are accounted for using the pooling of interest method in accordance with the principles described below.

Following the business combination, the continuity of common control is presented in the financial statements, while the fair value remeasurement of the net assets (or recognition of new assets) or measurement of goodwill are not presented therein, as none of the entities combined is actually acquired. The financial statements are prepared as if the combined entities had been combined as of the date when common control began to be exercised.

The difference between the book value of the net assets recognized as a result of a business combination and the value of shares recognised in the accounting records of the acquirer thus far or consideration paid is recognised in the equity of the acquirer.

7. Material values based on professional judgement and estimates

When applying the accounting policy, professional judgement of the management, along with accounting estimates, have been of key importance; they have an impact on the figures disclosed in these consolidated financial statements. The assumptions underlying the estimates are based on the Management Board's best knowledge and awareness of current and future actions and events in individual areas. In the period covered by these consolidated financial statements, no significant changes occurred in the estimates or estimation methods applied, which could affect the current or future periods, other than those presented and described hereinafter in these consolidated financial statements.

The items of the consolidated financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in individual notes to these consolidated financial statements. Material estimates include allowances for non-financial assets, recognised as a result of impairment tests, as described in detail in Note 11 to these consolidated financial statements.

Besides the foregoing, the Group makes significant estimates as regards the contingent liabilities recognised, in particular as regards legal proceedings where the Group companies are parties. Contingent liabilities are presented in detail in Note 54 to these consolidated financial statements.

Impact of COVID-19 on the level of expected credit losses and fair value measurement of financial instruments

Impact of COVID-19 on the level of expected credit losses of receivables from customers

Estimates and assumptions

With respect to receivables from customers, the Group estimates the amount of the allowance for expected credit losses based on the probability-weighted credit loss that will be incurred if any of the following events occur:

- a considerable (significant) delay in payment,
- a debtor goes into liquidation or bankruptcy or restructuring,
- the receivables are submitted to administrative enforcement, legal proceedings or enforcement at court.

The Group has allocated a portfolio of strategic counterparties and a portfolio of other counterparties for receivables from customers. The default risk of strategic counterparties is assessed based on the ratings granted to counterparties using an internal scoring model, adequately converted to the probability of default, taking into account estimates of potential recoveries from the collaterals submitted.

For receivables from other counterparties, it is expected that the adjusted historical repayment figures may reflect the credit risk that may be incurred in future periods. The expected credit losses for this group of counterparties were estimated using the receivables ageing matrix and the percentage ratios assigned to the various ranges and groups (including receivables claimed at court, receivables from counterparties in bankruptcy) allowing to estimate the value of receivables from customers expected to be outstanding.

Impact of COVID-19 on the methodology of estimates and assumptions

The economic impact of COVID-19 is expected to affect the quality of the Group's financial asset portfolio and reduce the level of repayment of receivables from customers. The forecast impact varies depending on the economic sector in which a particular counterparty operates. Due to the uncertainty surrounding further development of the COVID-19 pandemic and the expected impact of aid programmes, the ability to accurately estimate the future repayment of receivables from customers is limited.

In order to take into account the impact of future factors (including COVID-19) for the portfolio of strategic and other customers, the Group has applied the following measures:

- it has updated the parameters for the model of expected credit loss in the scope of relevant coefficients and recovery rate,
-

- it has taken into consideration the forward-looking approach.

Impact of COVID-19 on the level of estimates prepared

Estimates including uncertainties related to the effect of COVID-19 on expected credit losses in future periods on receivables from customers amounted to PLN 19 628 thousand, which had an impact on the operating profit of the Group for the year ended 31 December 2020. The total expected credit loss as at 31 December 2020 calculated for receivables from customers (excluding receivables claimed at court) was estimated at a level of PLN 60 522 thousand.

The Group assumes that the volume of data available for analysis in future periods will grow and allow for extending the scope of analysis for expected credit losses for the needs of the next consolidated financial statements.

Impact of COVID-19 on the level of expected credit losses and valuation of loans granted and guarantee issued at fair value

Estimates and assumptions

For loans classified as assets measured at amortised cost, the Group estimates the amount of their impairment losses. The risk of insolvency of borrowers is estimated based on the ratings assigned to counterparties using an internal scoring model, adequately converted into a probability of default, taking into account the time value of money.

The valuation of a loan classified as an asset measured at a fair value is estimated as the current value of future cash flows taking into account the credit risk of the borrower.

The guarantees issued are estimated at the amount of expected credit losses.

Impact of COVID-19 on the methodology of estimates and assumptions

In order to take into account the impact of future factors (including COVID-19), the Group has adjusted the probability of expected credit losses based on quotations of Credit Default Swap (CDS) instruments, diversified according to the internal rating of the counterparty.

Impact of COVID-19 on the level of estimates performed

The effect of considering the impact of COVID-19 on the estimation methodology resulted in the growth of expected credit losses on off-balance sheet liability under the guarantee issued by the Company affecting jointly the financial expenses charging the Group in the year ended 31 December 2020 in the amount of PLN 14 497 thousand which, in accordance with IFRS 9 *Financial Instruments* was recognised as an increase in financial liabilities.

As at the balance sheet date, in the context of the analyses and the valuation of the loans granted, the Group assessed that it was unable to reliably determine the impact of COVID-19 on the reduction of the carrying amount of the loans granted.

The Group assumes that the volume of data available for analysis in future periods will grow and allow for extending the scope of analysis for expected credit losses for the needs of the next consolidated financial statements.

8. Standards and amendments to standards which have been published but are not yet effective

The Group did not choose earlier application of any standards or amendments to standards which were published but have not yet entered into force until 31 December 2020.

- **Amendments to standards issued by the International Accounting Standards Board which have been endorsed by the European Union but have not yet entered into force**

According to the Management Board, the following amendments to standards will not materially affect the accounting policy applied so far:

| Standard | Effective in the EU as of (annual periods beginning on or after the date provided) |
|---|--|
| Amendments to IFRS 4 <i>Insurance Contracts</i> | 1 January 2021 |
| Amendments to IFRS 9 <i>Financial Instruments</i> , IAS 39 <i>Financial Instruments: Recognition and Measurement</i> , IFRS 7 <i>Financial Instruments: Disclosures</i> , IFRS 4 <i>Insurance Contracts</i> and IFRS 16 <i>Leases: Interest Rate Benchmark Reform</i> | 1 January 2021 |

- **Standards and amendments to standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and have not entered into force yet**

Amendments to IAS 1 *Presentation of Financial Statements: Classification of financial liabilities as current or non-current* to enter into force on 1 January 2023

In accordance with the amendments to IAS 1 *Presentation of Financial Statements*, liabilities are classified as non-current if the entity has a significant right to defer the settlement of the liability for at least 12 months after the end of the reporting period. The expectations of the entity do not affect the classification.

As at the balance sheet day, the Company has revolving credit agreements under which the drawing period of the credit tranches is equal to or less than 1 year, while the period of availability of funding exceeds 12 months from the balance sheet date and the Company has the right to defer the liability by at least 12 months from the end of the reporting period. In the case of these credit agreements, the Company classifies the tranches as either a non-current liability or a current liability in accordance with the expectation regarding the repayment of the liability. As at 31 December 2020, taking into account the intentions of the Company, tranches with an aggregate nominal value of PLN 1 000 000 thousand are classified as current liabilities. Under the agreement, the Company has the right to defer the settlement of a liability for a period exceeding 12 months, thus in accordance with the amendments to IAS 1 *Presentation of Financial Statements* the said liability would be classified as a non-current liability.

According to the Management Board, the following standards and amendments to standards will not materially affect the accounting policies applied so far:

| Standard | Effective date specified in the Standard, not endorsed by the EU (annual periods beginning on or after the date provided) |
|--|---|
| IFRS 14 <i>Regulatory Deferral Accounts</i> | 1 January 2016* |
| Revised IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i> with subsequent amendments | the effective date has been postponed |
| Amendments to IFRS 3 <i>Business Combinations: Changes to references to the Conceptual Framework</i> | 1 January 2022 |
| Amendments to IAS 16 <i>Property, Plant and Equipment: Revenues earned before putting into use</i> | 1 January 2022 |
| Amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets: Costs of fulfilling contractual obligations</i> | 1 January 2022 |
| <i>Annual Improvements to IFRS (Cycle 2018-2020):</i> | |
| IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> | 1 January 2022 |
| IFRS 9 <i>Financial Instruments</i> | 1 January 2022 |
| IAS 41 <i>Agriculture</i> | 1 January 2022 |
| Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IFRS Practice Statement 2: <i>Disclosure of Accounting Estimates</i> | 1 January 2023 |
| Amendments to IAS 8 <i>Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates</i> | 1 January 2023 |
| IFRS 17 <i>Insurance contracts</i> | 1 January 2023 |

* The European Commission decided to suspend the process of endorsement of the interim standard for use in the EU until the publication of the final version of IFRS 14 *Regulatory Deferral Accounts*.

9. Changes in the accounting policies

The accounting principles (policy) applied for the preparation of these consolidated financial statements are consistent with those applied for the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019 except for the application of the amendments to standards listed below and the changes in accounting policies and presentation applied by the Group, as described below.

9.1. Application of amendments to standards

According to the Management Board, the following standards and changes to standards have not materially affected the accounting policy applied so far:

| Standard | Effective date in the EU (annual periods beginning on or after the date provided) |
|---|---|
| Revised IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material</i> | 1 January 2020 |
| Amendments to References to the Conceptual Framework in IFRS | 1 January 2020 |
| Amendments to IFRS 16 <i>Leasing</i> | 1 January 2020 |
| Amendments to IFRS 9 <i>Financial Instruments</i> , IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments: Disclosures: Interest Rate Benchmark Reform</i> | 1 January 2020 |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

On 1 January 2020, amendments to IFRS 3 *Business Combinations* entered into force. The most significant changes introduced in the aforementioned standard include the clarification of the definition of a business. The amendments apply progressively to reporting periods beginning on or after 1 January 2020. The Group judges that the amendments may have an impact on possible future transactions covered by IFRS 3 *Business Combinations* related to the acquisition of businesses.

9.2. Other changes in accounting policies and presentation applied by the Group

Discontinued activity

Due to the classification as at 31 December 2020 of the assets and liabilities of the subsidiary as a disposal group, as further discussed in Notes 19 and 36 of these consolidated financial statements, the comparable figures have been adjusted accordingly to present the result from discontinued operations, as presented in the table below.

| | Year ended 31 December 2019 <i>(approved figures)</i> | Discontinued operations | Year ended 31 December 2019 <i>(restated figures)</i> |
|---|---|----------------------------|---|
| Sales revenue | 19 558 292 | (445 956) | 19 112 336 |
| Recompensation revenue | 952 650 | - | 952 650 |
| Cost of sales | (19 264 536) | 335 590 | (18 928 946) |
| Profit on sale | 1 246 406 | (110 366) | 1 136 040 |
| Selling and distribution expenses | (499 171) | 3 031 | (496 140) |
| Administrative expenses | (658 664) | 24 711 | (633 953) |
| Other operating income and expenses | 158 936 | (13 782) | 145 154 |
| Share in profit/(loss) of joint ventures | 47 947 | - | 47 947 |
| Operating profit | 295 454 | (96 406) | 199 048 |
| Interest expense on debt | (250 800) | 2 019 | (248 781) |
| Finance income and other finance costs | (60 022) | (2 989) | (63 011) |
| Loss before tax | (15 368) | (97 376) | (112 744) |
| Income tax expense | 3 685 | 14 862 | 18 547 |
| Net loss on continuing operations | (11 683) | (82 514) | (94 197) |
| Net profit on discontinued operations | - | 82 514 | 82 514 |
| Net loss | (11 683) | - | (11 683) |
| Measurement of hedging instruments | 15 179 | - | 15 179 |
| Foreign exchange differences from translation of foreign entity | 505 | - | 505 |
| Income tax | (2 884) | - | (2 884) |
| Other comprehensive income on continuing operations to be reclassified in the financial result | 12 800 | - | 12 800 |
| Actuarial gains (losses) | (140 320) | 3 056 | (137 264) |
| Income tax | 26 654 | (581) | 26 073 |
| Share in other comprehensive income of joint ventures | (987) | - | (987) |
| Other comprehensive income on continuing operations not to be reclassified in the financial result | (114 653) | 2 475 | (112 178) |
| Other comprehensive income on discontinued operations | - | (2 475) | (2 475) |
| Other comprehensive income, net of tax | (101 853) | - | (101 853) |
| Total comprehensive income | (113 536) | - | (113 536) |

BUSINESS SEGMENTS

10. Information on operating segments

The Group presents segment information for the current and comparative reporting periods in accordance with IFRS 8 *Operating Segments*.

The Group is organized and managed by segment, taking into account the type of products and services offered. Each segment constitutes a strategic business entity offering different products and operating on different markets.

The Group applies the same accounting principles (policy) to all operating segments. The Group accounts for transactions between segments as if they referred to unrelated parties, i.e. using current market prices. Revenue from transactions between segments is eliminated in the consolidation process.

After elimination of costs arising from intercompany transactions, general and administrative expenses of the Parent Company are presented under unallocated expenses. General and administrative expenses of the Parent Company are incurred for the benefit of the entire Group and cannot be directly attributed to the specific operating segment.

Segment assets do not include deferred tax, income tax receivables or financial assets, except for receivables from buyers and other financial receivables, assets relating to gain on measurement of commodity financial derivative instruments as well as cash and cash equivalents, which represent segment assets.

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for liabilities to suppliers, capital commitments and payroll liabilities as well as liabilities relating to loss on measurement of commodity derivative instruments, which represent segment liabilities.

The Group's financing (including financial revenue and costs) and income tax are monitored at the Group level and they are not allocated to segments.

None of the Group's operating segments has been combined with another segment to create reporting operating segments.

The Management Board separately monitors operating results of the segments in order to take decisions concerning allocation of the resources, to assess the effects of the allocation and to evaluate performance. The evaluation of performance is based on EBITDA and operating profit or loss. The Group defines EBITDA as EBIT increased by depreciation, amortisation and write-offs for non-financial assets. To write-offs for non-financial assets TAURON Group includes write-offs for non-financial assets of entities consolidated with the full method and the share in write-offs for non-financial assets of entities valued using the equity method. EBIT is defined by the Group as the profit/(loss) before tax, finance income and financial costs, i.e. operating profit/(loss) from continued and discontinued operations.

Change in the breakdown of the Group's reporting into operating segments

The breakdown of the Group's reporting for the year ended 31 December 2020 is based on the operating segments presented in the table below. As of 1 January 2020, the Group has separated a new operating segment Renewable Energy Sources, assigning to it the data of companies whose activities are related to the generation of electricity from renewable sources, i.e. wind farms and hydroelectric power plants. In addition, in the Renewable Energy Sources segment, the Group presents the activities of TAURON Wytwarzanie S.A. related to the generation of energy from photovoltaic sources. Until 31 December 2019, companies currently assigned to the Renewable Energy Sources segment were assigned to the Generation operating segment. The figures for the comparable period, i.e. for the year ended 31 December 2019 and as at 31 December 2019, were restated accordingly.

The separation of the Renewable Energy Sources operating segment is associated with the update of strategic directions complementary to the TAURON Group Strategy for the years 2016-2025 performed by the Group in 2019. In this update, the TAURON Group highlighted the need to adapt to environmental requirements and focus on the development of low- and zero-emission sources while making the Group's asset portfolio more flexible. The update of the strategic directions reinforced the significance of clean energy development, which will form the basis for the TAURON Group's value creation and assumes an increased share of renewable sources in the TAURON Group's generation assets. As part of the implementation of the aforementioned strategy, the transaction documentation for the acquisition of five wind farms belonging to the in.ventus group by TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. was signed on 3 September 2019. As a result of this transaction, the production capacity related to the Group's renewable energy sources has significantly increased and therefore the materiality of the financial data related to the production activities in the area of renewable energy sources has increased.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Operating segments | Core business | Subsidiaries/ Entities recognized with the equity method |
|--|--|---|
| <p style="color: #e91e63; font-weight: bold;">Mining</p>  | <p><i>Hard coal mining</i></p> | <p>TAURON Wydobycie S.A.</p> |
| <p style="color: #e91e63; font-weight: bold;">Generation</p>   | <p><i>Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels include hard coal, biomass, coal gas and coke-oven gas.</i></p> <p><i>Generation and sales of heat</i></p> | <p>TAURON Wytwarzanie S.A. Nowe Jaworzno Grupa TAURON Sp. z o.o. TAURON Serwis Sp. z o.o. TAMEH HOLDING Sp. z o.o.¹ TAMEH POLSKA Sp. z o.o.¹ TAMEH Czech s.r.o.¹ Elektrociepłownia Stalowa Wola S.A.¹</p> |
| <p style="color: #e91e63; font-weight: bold;">Renewable Energy Sources</p>  | <p><i>Generation of electricity using renewable sources</i></p> | <p>TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o. TEC1 Sp. z o.o. TEC2 Sp. z o.o. TEC3 Sp. z o.o. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k. TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k. TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k. WIND T1 Sp. z o.o. AVAL-1 Sp. z o.o.</p> <p>TAURON Wytwarzanie S.A.³</p> |
| <p style="color: #e91e63; font-weight: bold;">Distribution</p>  | <p><i>Distribution of electricity</i></p> | <p>TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiary Sp. z o.o.</p> |
| <p style="color: #e91e63; font-weight: bold;">Sales</p>  | <p><i>Wholesale trading in electricity, trading in CO₂ emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity</i></p> | <p>TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o. TAURON Nowe Technologie S.A.²</p> |

¹ Entities recognized with the equity method.

² On 1 June 2020, the company name was changed from TAURON Dystrybucja Serwis S.A. to TAURON Nowe Technologie S.A.

³ TAURON Wytwarzanie S.A. classifies assets related to photovoltaic power generation in the Renewable Energy segment.

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulphurisation installations and fluidised bed boilers (Kopalnia Wapienia Czatkowice Sp. z o.o.). The operations of TAURON Obsługa Klienta Sp. z o.o., Finanse Grupa TAURON Sp. z o.o., Bioeko Grupa TAURON Sp. z o.o., Wsparcie Grupa TAURON Sp. z o.o. and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are also treated as other operations of the Group.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Presentation of a subsidiary as discontinued operations

As at 31 December 2020, the Group presents the subsidiary TAURON Ciepło Sp. z o.o. as a disposal group, as further discussed in notes 19 and 36 to these consolidated financial statements. Accordingly, the operations of the company have been presented under discontinued operations. In the past, it was reported within the Generation segment. Comparable figures have been restated accordingly.

10.1. Operating segments

Year ended 31 December 2020

| | Operating segments | | | | | | Unallocated items / Eliminations | Total continuing operations | Discontinued operations | Total continuing and discontinued operations |
|--|--------------------|--------------------|--------------------------|-------------------|-------------------|------------------|----------------------------------|-----------------------------|-------------------------|--|
| | Mining | Generation | Renewable Energy Sources | Distribution | Sales | Other | | | | |
| Revenue | | | | | | | | | | |
| Sales to external customers | 326 840 | 2 019 942 | 147 116 | 3 310 307 | 14 053 536 | 142 744 | - | 20 000 485 | 849 523 | 20 850 008 |
| Inter-segment sales | 724 282 | 1 406 791 | 468 442 | 3 550 526 | 2 982 681 | 890 850 | (10 023 572) | - | - | - |
| Sales to discontinued operations | 801 | 66 654 | - | 5 521 | 213 041 | 80 898 | - | 366 915 | (366 915) | - |
| Total Segment revenue | 1 051 923 | 3 493 387 | 615 558 | 6 866 354 | 17 249 258 | 1 114 492 | (10 023 572) | 20 367 400 | 482 608 | 20 850 008 |
| Recompensation revenue | - | - | - | - | 66 448 | - | - | 66 448 | - | 66 448 |
| Profit/(loss) of the segment | (886 665) | (2 728 621) | 145 801 | 1 857 009 | 641 648 | 136 169 | (98 524) | (933 183) | (717 342) | (1 650 525) |
| Share in profit/(loss) of joint ventures | - | 15 765 | - | - | - | - | - | 15 765 | - | 15 765 |
| Unallocated expenses | - | - | - | - | - | - | (97 217) | (97 217) | - | (97 217) |
| EBIT | (886 665) | (2 712 856) | 145 801 | 1 857 009 | 641 648 | 136 169 | (195 741) | (1 014 635) | (717 342) | (1 731 977) |
| Net finance income (costs) | - | - | - | - | - | - | (641 033) | (641 033) | (1 113) | (642 146) |
| Profit/(loss) before income tax | (886 665) | (2 712 856) | 145 801 | 1 857 009 | 641 648 | 136 169 | (836 774) | (1 655 668) | (718 455) | (2 374 123) |
| Income tax expense | - | - | - | - | - | - | (77 882) | (77 882) | (35 872) | (113 754) |
| Net profit/(loss) for the period | (886 665) | (2 712 856) | 145 801 | 1 857 009 | 641 648 | 136 169 | (914 656) | (1 733 550) | (754 327) | (2 487 877) |
| Assets and liabilities | | | | | | | | | | |
| Segment assets | 1 115 883 | 7 483 993 | 2 438 924 | 20 079 215 | 4 614 093 | 775 856 | - | 36 507 964 | 1 829 617 | 38 337 581 |
| Investments in joint ventures | - | 586 559 | - | - | - | - | - | 586 559 | - | 586 559 |
| Unallocated assets | - | - | - | - | - | - | 486 924 | 486 924 | - | 486 924 |
| Total assets | 1 115 883 | 8 070 552 | 2 438 924 | 20 079 215 | 4 614 093 | 775 856 | 486 924 | 37 581 447 | 1 829 617 | 39 411 064 |
| Segment liabilities | 1 048 140 | 1 711 977 | 238 633 | 1 813 796 | 1 781 168 | 559 237 | - | 7 152 951 | 487 617 | 7 640 568 |
| Unallocated liabilities | - | - | - | - | - | - | 15 358 231 | 15 358 231 | - | 15 358 231 |
| Total liabilities | 1 048 140 | 1 711 977 | 238 633 | 1 813 796 | 1 781 168 | 559 237 | 15 358 231 | 22 511 182 | 487 617 | 22 998 799 |
| EBIT | (886 665) | (2 712 856) | 145 801 | 1 857 009 | 641 648 | 136 169 | (195 741) | (1 014 635) | (717 342) | (1 731 977) |
| Depreciation/amortization | (169 546) | (267 538) | (151 051) | (1 165 576) | (44 562) | (92 897) | - | (1 891 170) | (62 972) | (1 954 142) |
| Impairment | (559 798) | (2 617 463) | - | (421) | 2 858 | (239) | - | (3 175 063) | (825 489) | (4 000 552) |
| EBITDA | (157 321) | 172 145 | 296 852 | 3 023 006 | 683 352 | 229 305 | (195 741) | 4 051 598 | 171 119 | 4 222 717 |
| Other segment information | | | | | | | | | | |
| Capital expenditure * | 345 057 | 1 336 489 | 39 666 | 1 907 947 | 61 331 | 248 485 | - | 3 938 975 | 100 319 | 4 039 294 |

* Capital expenditure includes expenditures for property, plant and equipment intangible assets and right-of-use assets, excluding acquisition of CO₂ emission allowances and energy certificates.

Year ended on 31 December 2019 (restated data)

| | Operating segments | | | | | | Unallocated items / Eliminations | Total continuing operations | Discontinued operations | Total continuing and discontinued operations |
|--|--------------------|-------------------|--------------------------|-------------------|-------------------|----------------|----------------------------------|-----------------------------|-------------------------|--|
| | Mining | Generation | Renewable Energy Sources | Distribution | Sales | Other | | | | |
| Revenue | | | | | | | | | | |
| Sales to external customers | 345 274 | 2 696 572 | 143 578 | 3 202 234 | 12 173 480 | 111 418 | - | 18 672 556 | 885 736 | 19 558 292 |
| Inter-segment sales | 512 196 | 703 611 | 290 333 | 3 387 036 | 2 462 866 | 821 315 | (8 177 357) | - | - | - |
| Sales to discontinued operations | 86 963 | 28 454 | - | 5 594 | 271 591 | 47 178 | - | 439 780 | (439 780) | - |
| Total Segment revenue | 944 433 | 3 428 637 | 433 911 | 6 594 864 | 14 907 937 | 979 911 | (8 177 357) | 19 112 336 | 445 956 | 19 558 292 |
| Recompensation revenue | - | - | - | - | 952 650 | - | - | 952 650 | - | 952 650 |
| Profit/(loss) of the segment | (1 391 949) | (557 582) | 284 346 | 1 443 741 | 382 185 | 46 152 | 51 477 | 258 370 | 96 406 | 354 776 |
| Share in profit/(loss) of joint ventures | - | 47 947 | - | - | - | - | - | 47 947 | - | 47 947 |
| Unallocated expenses | - | - | - | - | - | - | (107 269) | (107 269) | - | (107 269) |
| EBIT | (1 391 949) | (509 635) | 284 346 | 1 443 741 | 382 185 | 46 152 | (55 792) | 199 048 | 96 406 | 295 454 |
| Net finance income (costs) | - | - | - | - | - | - | (311 792) | (311 792) | 970 | (310 822) |
| Profit/(loss) before income tax | (1 391 949) | (509 635) | 284 346 | 1 443 741 | 382 185 | 46 152 | (367 584) | (112 744) | 97 376 | (15 368) |
| Income tax expense | - | - | - | - | - | - | 18 547 | 18 547 | (14 862) | 3 685 |
| Net profit/(loss) for the period | (1 391 949) | (509 635) | 284 346 | 1 443 741 | 382 185 | 46 152 | (349 037) | (94 197) | 82 514 | (11 683) |
| Assets and liabilities | | | | | | | | | | |
| Segment assets | 1 294 329 | 9 451 839 | 2 491 198 | 19 176 164 | 4 730 135 | 648 705 | - | 37 792 370 | 2 758 401 | 40 550 771 |
| Investments in joint ventures | - | 559 144 | - | - | - | - | - | 559 144 | - | 559 144 |
| Unallocated assets | - | - | - | - | - | - | 807 850 | 807 850 | - | 807 850 |
| Total assets | 1 294 329 | 10 010 983 | 2 491 198 | 19 176 164 | 4 730 135 | 648 705 | 807 850 | 39 159 364 | 2 758 401 | 41 917 765 |
| Segment liabilities | 928 077 | 1 671 341 | 194 822 | 2 011 950 | 1 855 630 | 511 992 | - | 7 173 812 | 487 910 | 7 661 722 |
| Unallocated liabilities | - | - | - | - | - | - | 15 163 383 | 15 163 383 | - | 15 163 383 |
| Total liabilities | 928 077 | 1 671 341 | 194 822 | 2 011 950 | 1 855 630 | 511 992 | 15 163 383 | 22 337 195 | 487 910 | 22 825 105 |
| EBIT | (1 391 949) | (509 635) | 284 346 | 1 443 741 | 382 185 | 46 152 | (55 792) | 199 048 | 96 406 | 295 454 |
| Depreciation/amortization | (197 617) | (268 862) | (109 829) | (1 161 247) | (40 801) | (89 193) | - | (1 867 549) | (124 184) | (1 991 733) |
| Impairment | (694 467) | (678 887) | 25 962 | (820) | (5 591) | (841) | - | (1 354 644) | 42 464 | (1 312 180) |
| EBITDA | (499 865) | 438 114 | 368 213 | 2 605 808 | 428 577 | 136 186 | (55 792) | 3 421 241 | 178 126 | 3 599 367 |
| Other segment information | | | | | | | | | | |
| Capital expenditure * | 479 519 | 1 584 702 | 13 885 | 1 784 941 | 47 460 | 132 901 | - | 4 043 408 | 84 483 | 4 127 891 |

* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of CO₂ emission allowances and energy certificates.

In the year ended 31 December 2020, work began on the transformation of the hard coal mining industry in Poland. The works are conducted under the leadership of the Secretary of State, Government Plenipotentiary for Transformation of Energy Companies and Coal Mining. In accordance with the arrangements between the representatives of the Government and representatives of TAURON Wydobycie S.A., this company participates in negotiations on the preparation of a social agreement regarding the transformation of the hard coal mining sector and selected transformation processes of the Silesia District ("Social Agreement"). The social contract is to cover, inter alia, timetable for the liquidation of mines belonging to Polish mining companies, as well as budgetary financing of the costs of liquidation of non-productive assets and a package of social protection for mine employees. In addition to financing the above-mentioned costs related to the liquidation of the industry, the Social Agreement also includes the possibility of financing liquidity shortages in operating mines through potential production subsidies. Currently, the Social Agreement is the subject of agreements between the social party and government representatives.

The above events may significantly translate into the shape and financial data of the Mining segment in subsequent reporting periods.

In the financial years ended 31 December 2020 and 31 December 2019, the Group did not identify individual customers that would generate sales revenue in excess of 10% of total sales revenue of the TAURON Group.

10.2. Geographical areas of operations

The activity of the Group is mostly carried out on the territory of Poland. The table below presents sales to foreign customers.

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Sales to foreign customers, including: | 174 156 | 204 386 |
| Czech Republic | 171 805 | 198 792 |
| Other | 2 351 | 5 594 |

Sales to foreign customers relate mostly to electricity sales which accounted for 92% and 93%, respectively, of revenue generated by foreign customers as at 31 December 2020 and 31 December 2019.

IMPAIRMENT OF NON-FINANCIAL ASSETS

11. Impairment in value of non-financial assets

SELECTED ACCOUNTING PRINCIPLES

Goodwill is tested for impairment every year and each time when indications of impairment have been identified. Other non-financial non-current assets are tested for impairment if indications exist that they may have been impaired.

Within the impairment tests the Group estimates the recoverable amount of an asset or the cash-generating unit ("CGU") to which the specific asset belongs. In order to conduct an impairment test, goodwill acquired under a business combination or M&A transaction is assigned to CGU or CGU groups upon acquisition. Information concerning identification of the CGU to which goodwill is allocated is presented in Note 23.

The recoverable value of an asset or CGU corresponds to the higher of the fair value less costs of sales or the value in use. If the carrying amount of an asset/CGU is higher than its recoverable amount, impairment occurs and the value of the asset is reduced to the recoverable amount determined.

Impairment losses are allocated to goodwill in the first place and the remaining amount is allocated to individual assets forming the CGU based on the share of the carrying amount of each asset in the carrying amount of the CGU, whereas as a result of such allocation the carrying amount of the asset may not be lower than the highest of three amounts: the fair value less disposal costs, the value in use and zero.

If the indications of impairment driving the recognition of an impairment loss in a preceding period are no longer present, the impairment loss is reversed or reduced. Impairment losses on goodwill are not subject to reversal.

PROFESSIONAL JUDGEMENT AND ESTIMATES

As at every balance sheet date the Group assesses whether objective indication of impairment occurs in relation to non-financial non-current assets. The analysis of indications covers both internal and external factors.

While performing an impairment test, the Group estimates the recoverable amount.

Estimation of the value in use of cash generating units is based on their future cash flows discounted to the current value with a discount rate. The value in use calculation is based on a series of assumptions as discussed below in more detail.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

As at 31 December 2020, the Group recognised impairment losses related to property, plant and equipment as a result of impairment tests of assets performed as at 31 December 2020.

The recoverable value of this group of assets corresponds to their useful value. The impairment losses charged own cost of sales.

The impairment loss recognised as a result of the tests performed in the year ended 31 December 2020 is related to the following cash generating units:

| CGU | Company | Discount rate (before tax) assumed in tests as at: | | | Recoverable amount As at 31 December 2020 | Impairment loss recognized Year ended 31 December 2020 |
|----------------------------|--|--|-----------------------------|------------------|---|--|
| | | 31 December 2020 | 30 June 2020 (unaudited) | 31 December 2019 | | |
| Mining | TAURON Wydobycie S.A. | 14.85% | 14.99% | 14.01% | - | (559 638) |
| Generation - Coal | TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON | 9.75% | 9.34% | 8.60% | 5 581 640 | (2 604 430) |
| Generation - Biomass | Sp. z o.o. | 8.55% | 8.04% | 8.60% | 28 127 | (6 248) |
| Generation - Photovoltaics | | 6.98% | - | - | 18 419 | - |
| Hydroelectric power | TAURON Ekoenergia Sp. z o.o. / limited partnerships TEC 1 | 8.03% | 8.27% | 8.90% | 577 185 | - |
| Wind farms | | 8.40% | 8.65% | 8.94% | 1 882 005 | - |
| Distribution | TAURON Dystrybucja S.A. | 6.10% | 6.44% | 7.02% | 22 250 205 | - |
| Total | | | | | | (3 170 316) |

As at 31 December 2020, impairment tests were performed on property, plant and equipment, taking into account the following indications:

- long-term persistence of the market value of the Company net assets at a level below the net carrying amount of assets;
- changes in global prices of energy resources, energy and CO₂ emission allowances;
- significant fluctuations of energy prices on the future/forward market;
- decline in the domestic electricity consumption due to increased temperatures in the winter period and the impact of the COVID-19 pandemic;
- regulatory activities aimed at the limiting of end user price increases;
- increased risks in commercial coal production;
- the effects of the results of the RES auctions to date and the very dynamic development of the prosumer and microinstallation sub-sector in connection with the support programmes launched;
- results of proceeding winter package provisions (including emission standards) adversely affecting the capability of coal-fired units to participate in the capacity market after 1 July 2025;
- tightening of emission standards persisting unfavourable market conditions for the conventional power industry;
- a decrease in the risk-free rate.

The tests conducted as at 31 December 2020 required estimating the value in use of cash generating units, based on their future cash flows discounted subsequently to the present value using a discount rate.

The impairment tests for non-financial non-current assets were carried out at a level of individual companies, except for:

- TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., where cash-generating units ("CGU") were identified at a different level, identifying a cash-generating unit CGU Generation Coal in the area of electricity generation from conventional sources (hard coal) of Nowe Jaworzno Grupa TAURON sp. z o.o. and partially in the area of operations of TAURON Wytwarzanie S.A. Within other areas of activity of TAURON Wytwarzanie S.A., the following cash generating units were identified: CGU Generation Biomass and CGU Generation Photovoltaics. Key indications justifying the inclusion of coal-fired generating units within CGU Generation Coal included: the publication of provisions regarding the new Capacity Market mechanism in 2018, launching a new product: net disposable capacity; the strategy of joining the Capacity Market consisting in the portfolio approach, where maximising the total revenue from the Capacity Market is significant, capacity allocation to suppliers, determining the level of capacity constituting reserve sources for the remaining capacity contracted at the capacity market and high dependence of cash proceeds among generators.
- TAURON Ekoenergia Sp. z o.o., TEC 1 Sp. z o.o. Mogilno I Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno II Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno III Sp. Komandytowa, TEC1 Sp. z o.o. Mogilno IV Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno V Sp. Komandytowa, TEC 1 Sp. z o.o. Mogilno VI Sp. Komandytowa, TEC 1 Sp. z o.o. EW Śniatowo Sp. Komandytowa, TEC 1 Sp. z o.o. EW Dobrzyń Sp. Komandytowa, TEC 1 Sp. z o.o. EW Gołdap

Sp. Komandytowa, TEC 1 Sp. z o.o. Ino 1 Sp. Komandytowa, where the test was carried out separately for activities related to electricity generation in hydroelectric power plants within TAURON Ekoenergia Sp. z o.o. - CGU Hydroelectric Power plants, and for the combined activity associated with electricity generation from wind farms within TAURON Ekoenergia Sp. z o.o. and other companies - CGU Wind Farms. Consolidation of windfarms in one CGU resulted mainly from the specific features and nature of the underlying service agreements and technical management of individual wind farms allowing for optimisation of the production process aimed at improving economic indicators of the operated wind farms. Moreover, from the point of view of management analysis, the notion of a group of assets producing power in wind technology is important, rather than a single operation of wind farms. It is also important for the purpose of integrated management of the portfolio of produced volume originating from wind farms and sales of electricity and property rights within the TAURON Group;

- TAURON Nowe Technologie S.A., where activities related to lighting and provision of solutions associated with modern technologies were separated.

Relevant tests were conducted based on the current value of projected cash flows from CGU operations by reference to detailed projections until 2030 and the estimated residual value, excluding power generating and mining units for which detailed projections cover the entire period of their operation.

Operation of mining units until 2049 has been assumed. Compared to the tests carried out as at 31 December 2019, the current projections assume: reduction in the operating period of the ZG Sobieski and ZG Janina (originally 2060, now 2049); reduction in the operating period of the ZG Brzeszcze (originally 2059, now 2040).

The operation of TAURON Wytwarzanie S.A. generation units until 2035 was assumed. In relation to the tests carried out as at 31 December 2019, the current projections assume: early withdrawal one of the units in Jaworzno III Unit with total capacity of 225 MWe (originally 2029, now 2025) and taking over production by two units in Jaworzno III Unit with total capacity of 445 MWe; early withdrawal of two units in Jaworzno III Unit with total capacity of 445 MWe (originally 2029, now 2028); early withdrawal of two units in Jaworzno II Unit with total capacity of 140 MWe (originally 2038, now 2030); early withdrawal of one unit in Lagisza Unit with total capacity of 460 MWe (originally 2042, now 2035). The operation of the Nowe Jaworzno Grupa TAURON Sp. z o.o. generation unit was assumed until 2060. The forecast for hydroelectric power plants covers the period up to 2066 while for wind farms - up to 2040.

The reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector-oriented assumptions underlying the projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

Key assumptions in the scope of tests performed as at 31 December 2020

| Category | Description |
|-----------------------|--|
| Coal | Coal prices in the coming three years show a nominal upward trend. The price will be subject to a light upward pressure resulting from the sustainable upward trends observed in the domestic mining cost. However, in the long term (2025-2040), coal prices will continue to fall due to the accelerated implementation of the decarbonisation policy promoted by the European Union, aimed at reaching the climate neutrality in Europe by 2050. Its manifestation is the definite abandonment of coal by individual countries (including Germany, the Czech Republic and Poland). Another of its aspects is the increase in the share of energy from RES sources in the energy balance of European Union Member States. After 2025, the price of coal in Poland will begin to fall, as a result of a decline in electricity generation with the use of this raw material as well as an expected increase in import volumes in view of high levels of mining cost in the country. A real decline in power coal prices by 0.6% was assumed in the years 2021-2040. |
| Electricity | Due to the uncertainty concerning the final shape of the market architecture and introduction of the scarcity pricing mechanism, the forecast adopted for wholesale electricity prices for the years 2021-2040, has been updated and adjusted in the first period to the current market price levels for 2021-2023. Between 2024 and 2040, the wholesale electricity price (in constant prices) will increase by 16.8%. The forecast of wholesale electricity prices is affected by the current and expected situation in the national power system, fuel price forecasts and the costs of purchase of CO ₂ emission allowances. In 2021, a slight increase in energy prices by 1.5% compared to 2020 was assumed due to, among others, the anticipated further impact of the COVID-19 pandemic on fuel prices and declining levels of margins earned on the sales of electricity from coal-fired sources. The increase in prices by 2029 results from the growth in prices of CO ₂ emission allowances and planned shutdowns of coal-fired and nuclear units in Germany directly affecting the level of the interconnection exchange balance. Relative to 2021, the price increase projected to 2029 is 12.9%, whereas in the years 2030-2040 a price increase of 4.4% relative to 2029 has been assumed. The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to redeem energy certificates of origin as well as the expected level of margin. |
| CO₂ | CO ₂ emission limits for heat generation have been adopted in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat. The CO ₂ emission allowance price growth path has been adopted throughout the forecasting horizon. In 2021, the 2% higher price of CO ₂ emission allowances has been assumed compared to the average price in 2020. In the years 2022-2026, the stabilisation of CO ₂ prices was assumed at a level of EUR 30/Mg (EUR 28/Mg in fixed prices) due to the announced lack of the European Commission intervention in the EU ETS until at least 2026. In the years 2026-2028, CO ₂ price will rise by approx. 16.6% due to the assumption of an increase in the Linear Reduction Factor (LRF) |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Category | Description |
|---|---|
| | to the minimum level of 3.5% from the current 2.2% and higher emission reduction targets by 2030. The projected CO ₂ price in 2029 compared to the average price in 2020 will be 42.6% higher. In the years 2029-2040, a further increase in prices of CO ₂ emission allowances relative to 2028 (in fixed prices) has been assumed, totalling 31.9%. This results from the assumed increase in the economy decarbonisation rate and the strive to reach climate neutrality for Europe in 2050. |
| Certificates of energy origin (MWh) | The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the valid Act on RES. |
| Capacity market | The exclusion of the operating capacity reserve mechanism from the beginning of 2021 has been assumed, i.e. from the moment of the Capacity Market implementation. The Capacity Market mechanism implementation has been taken into account in accordance with the adopted and notified Act on the Capacity Market and the Capacity Market Regulations. It is assumed that payments for capacity will be launched from 2021 and maintained until 2025 for existing coal-fired units which do not meet the EPS 550 criterion (for which the unit emission performance exceeds 550 kg/MWh). For entities which have been awarded long-term contracts by 31 December 2019 and do not meet the EPS 550 criterion, maintaining of payments until the end of the contract effectiveness period has been assumed. |
| RES | Limited support periods for green energy have been taken into account in accordance with the assumptions of the Act on Renewable Energy Sources defining new mechanisms of granting the support for electricity generated in renewable sources. The support period has been limited to 15 years from the date of the first injection of electricity eligible to receive the energy origin certificate to the grid. |
| WACC | The weighted average cost of capital (WACC) during the projection period, for individual CGUs has been adopted in the range of 5.73% - 14.85% in nominal terms before tax, taking into account the risk-free rate corresponding to the yield on 10-year Treasury bonds (at a level of 1.60%) and the risk premium for operations appropriate for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate. The level of WACC as at 31 December 2020 increased compared to the level as at 31 December 2019 in the Generation and Mining segments, mainly due to recognising the additional risks specific to coal assets, whereas its decline was recorded in the RES and Distribution sectors, mainly due to the fall in the risk-free rate. |
| Regulated revenue | Regulated revenue of distribution companies has been assumed, ensuring the coverage of justified costs and a reasonable level of return on capital. The return on capital depends on the Regulatory Asset Value. In the years 2021-2030, an increase in electricity supply by 1.15% year-on-year has been assumed. |
| Sales volume and production capacity | The volume of sales to end customers was assumed taking into account the GDP growth, the competitive situation in the market, the significant increase in financial costs (trade credit costs) incurred by sales companies. This has caused a decrease in volume in the years 2021-2023. From 2024, a gradual recovery of the lost volume is planned. The economic useful lives of fixed assets and the maintenance of production capacity as a result of replacement investments were taken into account. |

At the Court of Justice of the European Union, the decision of the European Commission is being appealed against in terms of the compliance of the Capacity Market Act with European law. In the opinion of the Management Board, the risk of a settlement resulting in the inability of the Capacity Market to function in Poland is low, even in the event of a temporary suspension of the Capacity Market, therefore the implementation of the Capacity Market mechanism was taken into account in accordance with the adopted and notified Capacity Market Act and the Capacity Market Regulations.

The need to write down the assets of the Mining CGU and the Generation-Coal CGU resulted in particular from:

- an increase in the prices of CO₂ emission allowances resulting from a change in the nature of the market, the reform of the EU ETS system as well as the climate policy of the European Union strongly targeted at accelerating the pace of decarbonisation in pursuit of the climate neutrality of Europe, as the manifestation of the European Green New Deal,
- the projected decline in market margins in the short to mid-term perspective. Decrease is as a result of growing prices of CO₂ emission allowances and an increasing share of renewable energy sources and new, more effective conventional sources in the domestic energy mix, which negatively affects the forecasted electricity prices,
- reduced projected demand for power coal as a result of progressive decarbonisation in Europe and limiting the period of operation of hard coal mines in connection with the adjustment to the energy policy of Poland,
- changes in the assumed cash flow generation periods of these CGUs, as described in detail above.

Sensitivity analysis for Mining and Generation assets

A sensitivity analysis performed for each CGU revealed that the value in use of the tested assets was mainly affected by the forecast electricity prices, CO₂ emission allowances prices, discount rates adopted and hard coal prices. The estimated changes in impairment losses on Mining and Generation assets as at 31 December 2020 as a result of changes in the key assumptions, are presented below.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Parameter | Change | Impact on impairment loss (in PLN million) | | | | Assets of the Group Impact on impairment loss (in PLN million) | |
|---|-----------|---|--------------------------------------|--------------------------------------|--------------------------------------|--|--------------------------------------|
| | | Mining assets | | Generation assets | | Increase of impairment loss (net) | Decrease of impairment loss (net) |
| | | Decrease of impairment loss (net) | Increase of impairment loss (net) | Decrease of impairment loss (net) | Increase of impairment loss (net) | | |
| Change of electricity prices in the forecast period | +1% | - | - | - | 270 | - | 270 |
| | -1% | 7 | 270 | - | - | 263 | - |
| Change of CO ₂ emission allowances prices in the forecast period | +1% | - | 113 | - | - | 113 | - |
| | -1% | - | - | - | 113 | - | 113 |
| Change of WACC (net) | +0.1 p.p. | - | 50 | - | - | 50 | - |
| | -0.1 p.p. | 15 | - | - | 51 | - | 66 |
| Change of coal prices in the forecast period | +1% | 69 | 94 | - | - | 25 | - |
| | -1% | - | - | - | 94 | - | 94 |
| No revenue from the Capacity Market | -100% | - | 2 655 | - | - | 2 655 | - |

Sensitivity analysis for the Distribution segment

The carrying amount of CGU Distribution subject to testing was PLN 19 032 million. The sensitivity analysis was performed for a change in the discount rate and a change in the WACC level adopted for the calculation of regulated income in the years 2022-2025 and in the residual period. The table below presents the estimated inflows to the recoverable amount of Distribution CGU as at 31 December 2020.

| Parameter | Change | Recoverable amount (in PLN million) | Impact on recoverable amount (in PLN million) | |
|--|-----------|--|--|----------|
| | | | Increase | Decrease |
| Change of WACC (net) | +0.1 p.p. | 22 250 | - | 959 |
| | -0.1 p.p. | | 1 037 | - |
| Change in the WACC adopted for the calculation of regulated income in 2022-2030 and in the residual period | +0.1 p.p. | | 663 | - |
| | -0.1 p.p. | | - | 663 |

Impairment of the carrying amount of goodwill

The test was performed for the net assets increased by goodwill in Distribution segment and for other activities. The recoverable amount in each company was determined based on the value in use.

The test was performed based on the current value of projected cash flows from operations. The calculations were based on detailed projections up to 2030 and the estimated residual value, while for the mining units the forecasts cover the entire period of their operation. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector-oriented assumptions underlying the projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

The weighted average cost of capital (WACC) during the projection period for individual CGUs, as used in the calculations, ranges from 6.1% - 7.38% in nominal terms before tax, taking into account the risk free rate determined by reference to the yield on 10-year Treasury bonds (at a level of 1.6%) and the risk premium for operations appropriate for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate. The level of WACC as at 31 December 2020 decreased compared to the level as at 30 June 2020 due to a decline in the risk-free rate.

The key assumptions affecting the estimated value in use and the discount rates applied during tests:

| Operating segment | Key assumptions | Discount rate (before tax) assumed in tests as at: | | |
|-------------------|---|--|-----------------------------|------------------|
| | | 31 December 2020 | 30 June 2020 (unaudited) | 31 December 2019 |
| Distribution | Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the Regulatory Value of Assets. | 6.10% | 6.44% | 7.02% |
| | Maintaining generation capacity of the existing non-current assets as a result of replacement investments. | | | |

The impairment test performed as at 31 December 2020 did not indicate impairment of the carrying amount of goodwill.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

12. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

The Group has introduced a five-step model of revenue recognition comprising, successively: identifying the agreement with a customer; identifying the performance obligations contained in the agreement; determining the transaction price; allocating the transaction price to each performance obligation; and recognising the revenue upon satisfying a performance obligation arising from the agreement.

Revenue is recognised when (or as) the performance obligation is fulfilled in the form of transferring the promised goods, products, materials (i.e. assets) or providing a service to a customer. The asset transfer takes place when a customer acquires control over such an asset whereas in the case of sales of electricity, gaseous fuel and heat, the energy is deemed sold when delivered to a consumer.

Revenue is recognised in the amount expected by the Group, following reduction by VAT, excise duty and other sales taxes, charges and discounts.

The revenue comprises only the inflows of economic benefits received or receivable to the entity's own account. Amounts obtained on behalf of third parties, with the Group acting as an agent, such as taxes on sales or VAT do not constitute economic benefits of the Company and do not result in equity increases. Therefore, these amounts are not recognised in revenue. Similarly, the transitional fee, cogeneration fee and RES fee charged by the Group from the end user of electricity and then transferred to the Transmission System Operator is recognised in the net remuneration amount.

For goods and materials, revenue is recognised when the Group ceases to be permanently involved in the management of the goods sold to the extent the function is usually performed in relation to owned goods, and when it ceases to effectively control these items.

Revenue of the financial year includes also accrued revenue which has not been measured and invoiced due to the settlement system used by customers.

The Group generates its most significant revenues from the sale of electricity, gaseous fuel and distribution services in the Sales segment, distribution services in the Distribution segment and electricity in the Generation segment.

Revenue from the sale of electricity, gas fuel and distribution services in the Sales segment

The Group companies operating in the Sales segment generate revenue from sales of electricity, gaseous fuel and distribution services to retail and wholesale customers. This segment also generates revenues from road lighting maintenance services.

As at each balance sheet date, subject to observance of the prudence principle, an estimate is made of the amount of revenue from the sale of electricity, gaseous fuel and distribution services relating to the financial year which, due to the settlement cycle established in agreements with customers and the fact that invoicing is performed for a significant number of customers in periods other than the reporting periods, will be invoiced in the subsequent year.

The types of estimates of the amounts of revenues from the sale of electricity, gaseous fuel and distribution services are presented below.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Additional assessment type | Description |
|--|--|
| Revenue from the sales of electricity | |
| Additional assessment of sales to buyers, unbilled as at the end of the reporting period | Measurement and billing systems showing the electricity volume sold to retail buyers are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales of electricity and distribution services at the end of each reporting period. For clients that are party to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the end of the reporting period. |
| Additional assessment regarding buyers with projection-based settlement | As at each reporting period end, buyers with six and 12-month periods of projection-based settlement are subject to additional assessment during periods between meter system readings. The additional assessment of sales of electricity and distribution services is based on data regarding sales of electricity obtained from the billing system and on the additional assessment ratio. The additional assessment ratio is based on the number of days passing between the reading date (for settlement invoices) or the payment date (for projection invoices) and the month end compared to the actual number of days in a given calendar month. |
| Additional assessment of revenue regarding buyers charged based on the balancing market prices | The additional assessment includes buyers whose sales of the electricity are priced in line with the balancing market according to the concluded agreements. As at each reporting period end, buyers with additional assessment charged on unbilled sales of power in the billing system are charged with amounts equal to the difference between prices adopted for additional assessment calculation purposes and those to be used for billing purposes. |
| Additional assessment of sales resulting from reconciliation of the energy balance | The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at the end of each reporting period. Under the additional assessment, an amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing sales and the weighted average purchase price of electricity on the balancing market is also accounted for. |
| Revenue from the sale of gas | |
| Additional estimation for customers not invoiced at a given balance sheet date | Metering and billing system readings of the volume of gas sold in the retail trade and its invoicing are made to a large extent in periods different from the reporting periods. Accordingly, the Group companies in the Sales segment make appropriate estimates of gas fuel sales and distribution services at the balance sheet date. Additional estimation of the sales of gas fuel is calculated in the billing systems based on the average 24-hour consumption of gas fuel in the period from the date of the last actual reading to the balance sheet date. Additional estimation of distribution service sales is determined as the difference between the purchase cost of gas distribution services and the invoiced revenue from distribution service sales. |
| Additional estimation resulting from reconciliation of gas balances | As at each balance sheet date, the Group companies belonging to the Sales segment reconcile the gas balance by determining the estimated imbalance volume on the purchase or sales side. As part of this rebalancing, the amount increasing or decreasing gas sales revenue is recognised, calculated as the product of the estimated imbalance volume and the average monthly high-methane gas balancing settlement price published by the Gas Transmission Operator GAZ-SYSTEM S.A. |

Revenue on sales of electricity distribution services in the Distribution segment

The Group presents mainly revenue related to distribution operations in the revenue on sales of services. Electricity distribution services are deemed sold upon service provision to the customer, as registered by the electricity meter, including the projected energy consumption and estimated additional revenue which has not been measured and invoiced due to the consumer settlement system used.

Revenue on wholesale of electricity in the Generation segment

Wholesale of electricity from the centrally dispatched generation units and as part of trading operations takes place through the customer's and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator (TSO), which the Generation segment company is obliged to deliver as the supplier or ensure its provision and the client is obliged to accept. Both the price and the volume per each hour result from transactions signed in advance or (in the case of the Polish Power Exchange - TGE) recorded electronically. The TSO as a sort of guarantor of quantitative settlements, secures the reliability of data in the scope of the volume of energy supplied. Billing is based on reports generated by the TSO.

Invoices for sales of electricity supplied to the Balancing Market shall be issued on the basis of reports from the centralised sales balancing system in the National Power System. These settlements are performed every decade.

Wholesale of electricity from generation units which are not centrally dispatched (generation units of less than 100 MW settled on the local market) takes place under similar rules, however, it is the local market operator (DSO) that is responsible for the settlements.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The TAURON Group estimates revenue as described above whereas the most important estimate regards the additional assessment of revenue from sales of electricity, gaseous fuel and distribution services in the Sales segment.

As at 31 December 2020, additionally assessed revenue from sale of electricity and distribution services in the Sales segment amounted to the total of PLN 737 266 thousand and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2020 was PLN 105 471 thousand.

As at 31 December 2020, the additional assessment of revenue from the sale of gaseous fuel and distribution services in the Sales segment amounted to PLN 43 698 thousand, and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2020 was PLN 16 664 thousand.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| | Year ended 31 December 2020 | Year ended 31 December 2019 (restated figures) |
|---|--------------------------------|--|
| Sale of goods for resale, finished goods and materials without elimination of excise | 13 747 248 | 12 772 817 |
| Excise | (103 837) | (138 948) |
| Sale of goods for resale, finished goods and materials | 13 643 411 | 12 633 869 |
| Electricity | 12 224 806 | 11 216 575 |
| Heat energy | 148 286 | 114 669 |
| Gas | 342 531 | 340 453 |
| Coal | 440 495 | 481 072 |
| Energy certificates and similar | 209 328 | 137 336 |
| Other goods for resale, finished goods and materials | 277 965 | 343 764 |
| Rendering of services | 6 658 888 | 6 417 321 |
| Distribution and trade services | 6 301 154 | 6 058 682 |
| Maintenance of road lighting | 120 647 | 120 527 |
| Connection fees | 83 119 | 80 769 |
| Other services | 153 968 | 157 343 |
| Other revenue | 65 101 | 61 146 |
| Total | 20 367 400 | 19 112 336 |

In the year ended 31 December 2020, sales revenues increased in relation to the comparable period, and the main changes concerned sales revenues of the following finished goods and materials:

- electricity – the increase results from obtaining a higher average selling price as a result of the tariff increase and higher electricity prices on the market with a lower volume of electricity sold by the Group;;
- heat energy – the increase results from the sale of a higher volume, which is related to the heating of unit No. 10 at the Łagisza Power Plant belonging to TAURON Wytwarzanie S.A.;
- coal – the decrease in revenues from the sale of coal results from a lower sales volume and lower prices;
- energy certificates of origin – the increase in revenue from energy certificates of origin is mainly attributable to electricity production by the wind farms previously belonging to the in.ventus group acquired by the TAURON Group on 3 September 2019;
- distribution and trading services – the higher revenue from sales of distribution and trading services is related to the increase in the rate of the distribution service, with simultaneous decline of the volume of sales.

Sales revenue by operating segment is shown in the tables below.

Year ended 31 December 2020

| | Mining | Generation | Renewable Energy Sources | Distribution | Sales | Other | Total |
|---|----------------|------------------|-----------------------------|------------------|-------------------|----------------|-------------------|
| Sale of goods for resale, finished goods and materials | 312 628 | 2 055 662 | 145 543 | 3 335 | 10 956 725 | 169 518 | 13 643 411 |
| Electricity | - | 1 846 105 | 4 512 | - | 10 358 039 | 16 150 | 12 224 806 |
| Heat energy | 40 | 148 246 | - | - | - | - | 148 286 |
| Gas | - | - | - | - | 342 531 | - | 342 531 |
| Coal | 296 015 | - | - | - | 144 480 | - | 440 495 |
| Energy certificates and similar | 803 | 58 322 | 141 031 | - | 975 | 8 197 | 209 328 |
| Other goods for resale, finished goods and materials | 15 770 | 2 989 | - | 3 335 | 110 700 | 145 171 | 277 965 |
| Rendering of services | 13 451 | 20 066 | 1 064 | 3 276 078 | 3 305 992 | 42 237 | 6 658 888 |
| Distribution and trade services | - | - | - | 3 136 715 | 3 164 439 | - | 6 301 154 |
| Maintenance of road lighting | - | - | - | 186 | 120 461 | - | 120 647 |
| Connection fees | - | - | - | 83 076 | - | 43 | 83 119 |
| Other services | 13 451 | 20 066 | 1 064 | 56 101 | 21 092 | 42 194 | 153 968 |
| Other revenue | 1 562 | 10 868 | 509 | 36 415 | 3 860 | 11 887 | 65 101 |
| Total | 327 641 | 2 086 596 | 147 116 | 3 315 828 | 14 266 577 | 223 642 | 20 367 400 |

Year ended 31 December 2019 (restated data)

| | Mining | Generation | Renewable Energy Sources | Distribution | Sales | Other | Total |
|---|----------------|------------------|-----------------------------|------------------|-------------------|----------------|-------------------|
| Sale of goods for resale, finished goods and materials | 412 061 | 2 699 040 | 142 085 | 6 201 | 9 265 751 | 108 731 | 12 633 869 |
| Electricity | - | 2 546 598 | 39 549 | - | 8 630 428 | - | 11 216 575 |
| Heat energy | 33 | 114 636 | - | - | - | - | 114 669 |
| Gas | - | - | - | - | 340 453 | - | 340 453 |
| Coal | 389 889 | - | - | - | 91 183 | - | 481 072 |
| Energy certificates and similar | - | 33 069 | 102 385 | - | 1 882 | - | 137 336 |
| Other goods for resale, finished goods and materials | 22 139 | 4 737 | 151 | 6 201 | 201 805 | 108 731 | 343 764 |
| Rendering of services | 18 714 | 15 217 | 1 025 | 3 168 504 | 3 175 675 | 38 186 | 6 417 321 |
| Distribution and trade services | - | - | - | 3 024 720 | 3 033 962 | - | 6 058 682 |
| Maintenance of road lighting | - | - | - | 11 | 120 516 | - | 120 527 |
| Connection fees | - | - | - | 80 769 | - | - | 80 769 |
| Other services | 18 714 | 15 217 | 1 025 | 63 004 | 21 197 | 38 186 | 157 343 |
| Other revenue | 1 462 | 10 769 | 468 | 33 123 | 3 645 | 11 679 | 61 146 |
| Total | 432 237 | 2 725 026 | 143 578 | 3 207 828 | 12 445 071 | 158 596 | 19 112 336 |

Revenue from sales of electricity by sales market is presented in the following table.

| | Year ended 31 December 2020 | Year ended 31 December 2019 (restated figures) |
|--|--------------------------------|--|
| Revenue from sales of electricity | 12 224 806 | 11 216 575 |
| Retail sale | 8 503 739 | 7 498 019 |
| Strategic clients | 1 012 488 | 1 336 635 |
| Business clients | 4 002 640 | 3 198 529 |
| Mass clients, including: | 3 523 130 | 3 026 110 |
| G group | 2 735 070 | 2 337 247 |
| Other | 69 318 | 75 693 |
| Excise duty | (103 837) | (138 948) |
| Wholesale | 3 014 930 | 3 085 993 |
| Operational capacity reserve | 195 426 | 216 994 |
| Other | 510 711 | 415 569 |

13. Compensation

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|-------------------------|--------------------------------|--------------------------------|
| Price difference amount | 46 397 | 637 595 |
| Financial compensation | 20 051 | 315 055 |
| Total | 66 448 | 952 650 |

In 2019, the Group recognised the consequences of entry into force of the *Act amending the Excise Duty Act and certain other acts* (the "Act") and its implementing legislation in the form of the amount of compensation due to trading companies. The amended Act provided for two compensation formulas for trading companies in the form of:

- the amount of the price difference for the period from 1 January 2019 to 30 June 2019 – with regard to all customers (the "Price Difference Amount");
- financial compensation for the period from 1 July 2019 to 31 December 2019 – with regard to final customers referred to in Article 5(1a), i.e. customers to whom the companies are obliged to apply the prices as of 30 June 2018 ("Financial Compensation").

Due to the fact that the compensation recognised in 2019 was partly based on estimated data, in accordance with Article 9 of the Act, in 2020, TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o., companies submitted applications for adjustments to the Price Difference Amount and Financial Compensation for the full year 2019 to the Settlement Administrator S.A. (the "Administrator"). The applications were submitted within the period prescribed by the Act. The adjusted Price Difference Amount and the Financial Compensation are based on the actual volumes and prices involved in their calculation.

On 18 December 2020, the bank account of TAURON Sprzedaż GZE Sp. z o.o. was credited with the full amount due on account of adjustments of the Price Difference Amount and the Financial Compensation in the total amount of PLN 5 091 thousand. As at the date of approval of these consolidated financial statements for publication, however, no cash was received on account of adjustments of the Price Difference Amount and the Financial Compensation due to TAURON Sprzedaż Sp. z o.o. in the total amount of PLN 61 357 thousand.

14. Cost of goods, products, materials and services sold

SELECTED ACCOUNTING PRINCIPLES

The Company presents costs by function.

Operating expenses include:

- cost of goods, products, materials and services sold (cost of sales), incurred during a given reporting period, including any impairment losses on property, plant and equipment, intangible assets, right-of-use assets, receivables and inventories, adjusted by cost of manufacturing products for own purposes;
- total costs of sales and administrative expenses incurred in the reporting period (recognised separately in the statement of comprehensive income).

Costs which can be directly attributed to revenues gained by the Group affect the financial result of the Group for such reporting period in which those revenues occurred.

Costs of manufacturing that can only be indirectly assigned to revenue or other benefits obtained by the Group affect the profit or loss in the portion pertaining to a given reporting period, and match the revenue or other economic benefits.

14.1. Costs by type

| | Year ended 31 December 2020 | Year ended 31 December 2019 <i>(restated figures)</i> |
|---|--------------------------------|---|
| Depreciation and amortization | (1 891 170) | (1 867 549) |
| Impairment of non-financial assets | (3 174 681) | (1 354 143) |
| Materials and energy | (1 216 941) | (1 503 284) |
| Maintenance and repair services | (204 238) | (202 606) |
| Distribution services | (1 610 126) | (1 550 246) |
| Other external services | (796 009) | (766 586) |
| Cost of obligation to remit the CO ₂ emission allowances | (863 883) | (670 657) |
| Other taxes and charges | (678 414) | (628 149) |
| Employee benefits expense | (2 617 094) | (2 890 673) |
| Allowance for trade receivables expected credit losses | (57 697) | (27 803) |
| Other | (88 772) | (101 583) |
| Total costs by type | (13 199 025) | (11 563 279) |
| Change in inventories, prepayments, accruals and deferred income | 79 683 | 104 845 |
| Cost of goods produced for internal purposes | 905 942 | 830 534 |
| Selling and distribution expenses | 491 583 | 496 140 |
| Administrative expenses | 613 285 | 633 953 |
| Cost of goods for resale and materials sold | (9 589 147) | (9 431 139) |
| Cost of sales | (20 697 679) | (18 928 946) |

In the year ended 31 December 2020 compared to the comparative period, the main changes in the cost of goods, products, materials and services sold involved:

- an increase in impairment losses on property, plant and equipment, rights-of-use assets and intangible assets, as discussed in more detail in Note 14.3 to these consolidated financial statements;
- a decrease in the consumption of materials and energy mainly as a result of a decrease in the cost of fuel consumed, which results from lower achieved electricity production in the year 2020 compared to the comparable period. In addition in the current reporting period, the consumption of materials and energy included the cost of coal used for the start-up of the 910 MW unit in Jaworzno;
- an increase in the cost of distribution services as a result of increases in the tariff for distribution services for Polskie Sieci Elektroenergetyczne S.A., which came into force on 6 April 2019 and 1 January 2020;
- an increase in the cost of the obligation to redeem CO₂ emission allowances, as a result of including in the comparable period in the cost of fulfilling the obligation to redeem CO₂ emission allowances certified emission reductions (CERs) in the amount of 883,000, whose purchase price was significantly lower than EUAs, and an increase in the price of CO₂ emission allowances included in the calculation of the provision. The average price of EUAs included in the calculation of the provision for the year ended 31 December 2020 was higher than the price of EUAs included in the redemption cost for the comparable period. At the same time, emissions decreased in the current period compared to the comparable period;
- an increase in the cost of taxes and fees, mainly due to the cost of real estate taxes on the wind farms acquired in September 2019 and the provision created for real estate taxes due to the Constitutional Court ruling of July 2020, and an increase in the value of network assets as a basis for calculating property tax and higher property tax rates;

- a decrease in the cost of employee benefits, as described in more detail in Note 14.2 to these consolidated financial statements;
- an increase in the value of goods and materials sold, which is the result of:
 - a higher cost of electricity compared to the comparable period, with a simultaneously lower volume of electricity purchased from the market;
 - the effects of the change in the strategy for securing the depreciation needs for CO₂ emission allowances of the Generation area. The transactions concluded as part of the implementation of the strategy change had an impact on charging the value of the Group goods and materials sold in the amount of PLN 123 792 thousand. As part of its management of the portfolio of CO₂ emission allowances of its subsidiaries, the Company purchases allowances for redemption purposes of the Group's generation companies. The main purpose of concluding the above-mentioned transactions by the Company is to secure the expected volume and cost of purchase of CO₂ emission allowances, which the Group's generating companies are obliged to redeem. In the first quarter of 2020, the Group decided to change its strategy in the scope of hedging the redemption needs of the Generation area, consisting of a one-off swap of exchange contracts with a delivery date in December 2020 to OTC contracts with a delivery date in March 2021. The decision to change the strategy was made taking into account current market circumstances which were difficult to predict at the time of concluding the transaction. These circumstances included, in particular, the increasing cost of maintaining a position on the stock exchange, which was related, among other things, to the need for ongoing contributions to stock exchange deposits, the change in legal and market circumstances in the area of CO₂ emissions trading related to Brexit and the COVID-19 pandemic. In implementing the above change of the strategy, the Company sold off the forward position with a delivery date in December 2020 held on the exchange (it entered into an opposite transaction on the exchange), while purchasing the same volume in contracts with a delivery date in March 2021 from counterparties on the OTC market. As a result of conclusion of the countertrade, the original contract will not be settled by physical delivery and therefore the Company recognised this contract and the countertrade in accordance with IFRS 9 *Financial Instruments* at a fair value (these contracts were settled in December 2020). All new transactions concluded on the OTC market will be used for the purpose of meeting the redemption obligation of the TAURON Group generating companies and therefore as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at a fair value. At the same time, the purchase of volume performed with a delivery date in March 2021 from counterparties in the OTC market, at prices lower than the purchase originally contracted, reduces the cost of the creation of the provision for CO₂ liabilities for the current and subsequent reporting periods by the Group. As a result of the foregoing, the Group estimates that the cumulative impact of the change in strategy on the operating profit will not be significant. In the Group's opinion, the change in the strategy makes it possible, in the current market situation, to secure the redemption needs of the Group's generating companies in a manner mitigating the risks to which the Group is exposed.

14.2. Employee benefit expenses

| | Year ended 31 December 2020 | Year ended 31 December 2019 (restated figures) |
|--|--------------------------------|--|
| Wages and salaries | (2 172 267) | (2 145 013) |
| Social security costs | (430 618) | (418 459) |
| Jubilee bonuses | (46 740) | (89 507) |
| Social Fund | (64 772) | (52 265) |
| Post-employment benefit expenses, of which: | 198 202 | (87 092) |
| Provision for retirement, disability and similar benefits | (26 081) | (15 963) |
| Coal allowances and special electricity rates and charges | 291 136 | (8 978) |
| Social Benefits Fund | (4 587) | (2 736) |
| Contributions to employee retirement plans | (62 266) | (59 415) |
| Voluntary termination scheme | (5 935) | 10 984 |
| Other employee benefit expenses | (94 964) | (109 321) |
| Total | (2 617 094) | (2 890 673) |
| Items included in cost of sales | (1 704 107) | (1 893 321) |
| Items included in selling and distribution expenses | (195 582) | (228 434) |
| Items included in administrative expenses | (352 239) | (386 291) |
| Items included in cost of goods produced for internal purposes | (365 166) | (382 627) |

The decrease in the cost of jubilee bonuses in the current period compared to the comparative period is mainly due to a change in the assumptions adopted for the actuarial valuation as at the balance sheet date – the Group recognised actuarial losses on provisions for jubilee bonuses in the financial result in the year 2020 in the amount of PLN 7 650 thousand (PLN 66 773 thousand in 2019);

The decrease in energy tariff costs in the current period compared to the comparative period is mainly due to the recognition of the effects of the reversal of provisions for employee tariff in part on current employees as future pensioners, which contributed to the reduction of operating costs from continuing operations in the amount of PLN 297 175 thousand. The total amount of the provisions released in the part for employees was PLN 299 408 thousand, of which PLN 2 233 thousand was presented as part of discontinued operations. The above events are described in more detail in Note 40.1 to these consolidated financial statements.

14.3. Depreciation and amortisation charges and impairment losses

| | Year ended 31 December 2020 | Year ended 31 December 2019 <i>(restated figures)</i> |
|--|--------------------------------|---|
| Amortization, included in item: | (1 891 170) | (1 867 549) |
| Cost of sales | (1 781 551) | (1 753 115) |
| Selling and distribution expenses | (44 016) | (40 964) |
| Administrative expenses | (41 366) | (45 082) |
| Cost of goods produced for internal purposes | (24 237) | (28 388) |
| Impairment allowance, included in item: | (3 174 681) | (1 354 143) |
| Cost of sales | (3 128 975) | (1 319 623) |
| Selling and distribution expenses | 1 413 | (9 151) |
| Administrative expenses | (47 040) | (25 311) |
| Cost of goods produced for internal purposes | (79) | (58) |
| Total | (5 065 851) | (3 221 692) |

The increase in depreciation expense is mainly due to the recognition in the current period of the depreciation of the wind farm assets acquired from the in.ventus group in September 2019 and the commencement of depreciation, in connection with the commissioning of the 910 MW power unit in Jaworzno.

In the year ended 31 December 2020, as a result of impairment tests performed as at 31 December 2020 and as at 30 June 2020, the Group recognised impairment losses in the Generation and Mining segments in the total amount of PLN 3 170 316 thousand. The tests and their results are further described in detail in Note 11 to these consolidated financial statements.

In addition, in the year ended 31 December 2020, the Group companies created and reversed write-downs on individual assets, customer contract assets and non-current assets classified as held for sale, which charged the Group's operating expenses with the total amount of PLN 4 365 thousand.

The total impairment loss on property, plant and equipment, intangible assets and rights-of-use assets in the year ended 31 December 2020 amounted to PLN 3 174 681 thousand.

15. Other operating revenues and costs

| | Year ended 31 December 2020 | Year ended 31 December 2019 <i>(restated figures)</i> |
|---|--------------------------------|---|
| Surplus of reversal of actuarial provisions for the existing pensioners and disability pensioners | 225 515 | - |
| Income from co-financing the costs of compensation benefits under the crisis shield | 64 680 | - |
| Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges from subsidies to or free of charge received fixed assets | 32 293 | 36 011 |
| Penalties, fines, compensations received or receivable | 56 879 | 53 206 |
| Result on the disposal of non-financial fixed assets and costs of damages to non-current assets | (14 737) | (9 522) |
| Costs of court proceedings, fines and damages | (10 875) | (8 810) |
| Write-off for abandoned investments and production | (2 445) | (45 630) |
| Surplus of other provisions (recognized)/derecognized | (1 992) | 10 456 |
| The result of the bargain purchase of wind farms from the in.ventus group | - | 119 515 |
| Other operating income | 43 583 | 18 011 |
| Other operating expenses | (54 602) | (28 083) |
| Total | 338 299 | 145 154 |

In the year ended 31 December 2020 recognised the effects of the reversal by Group companies of actuarial provisions for the employee tariff in the part for pensioners. The impact of the reversal of the above provisions on the increase in other operating revenue of continuing operations amounted to PLN 255 515 thousand (including PLN 196 409 thousand in the Distribution segment). The total amount of the provisions released in the part for pensioners was PLN 233 911 thousand, of which PLN 8 396 thousand was presented as part of discontinued operations. The aforementioned events are presented in detail in Note 40.1 to these consolidated financial statements.

16. Financial revenues and costs

SELECTED ACCOUNTING PRINCIPLES

Financial revenues and costs comprise, in particular, revenues and costs related to:

- interest and unwinding of discounts and revenues due to participating in the profits of other entities,
- revaluation of financial instruments, except revaluation of financial assets where the effects are recognised in other comprehensive income and charged to revaluation reserve and derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognised;
- foreign exchange differences, except for differences recognized in the initial value of a fixed asset, to the extent they are classified as adjustment to interest expenses;
- disposal/liquidation of financial assets;
- other items related to financing activities.

Transactions expressed in foreign currencies are converted upon the initial recognition into functional currency applying the average exchange rate established for a given currency by the National Bank of Poland on the day preceding that day. As at the balance sheet date, monetary items are converted applying the closing exchange rate (for entities whose functional currency is Polish zloty, the closing rate is the average exchange rate determined for a given currency by the National Bank of Poland on that day).

For the purpose of balance sheet valuation, the following exchange rates were applied:

| Currency | 31 December 2020 | 31 December 2019 |
|----------|------------------|------------------|
| USD | 3.7584 | 3.7977 |
| EUR | 4.6148 | 4.2585 |
| CZK | 0.1753 | 0.1676 |

Exchange differences arising on settlement and translation as at the balance sheet date are recognised, respectively, in the income statement under financial revenues (costs), except when capitalised in the value of assets.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| | Year ended 31 December 2020 | Year ended 31 December 2019 <i>(restated figures)</i> |
|--|--------------------------------|---|
| Income and costs from financial instruments | (631 195) | (255 413) |
| Interest costs | (283 456) | (248 781) |
| Exchange differences | (246 352) | 30 079 |
| Remeasurement of loans granted | (221 382) | 15 936 |
| Gain/loss on derivative instruments | 125 514 | (53 233) |
| Interest income | 25 946 | 30 265 |
| Commission relating to borrowings and debt securities | (18 162) | (20 338) |
| Dividend income | 6 176 | 4 254 |
| Other | (19 479) | (13 595) |
| Other finance income and costs | (9 838) | (56 379) |
| Interest on employee benefits | (21 150) | (31 981) |
| Interest on discount of other provisions | (10 289) | (12 154) |
| Other finance income | 32 941 | 12 871 |
| Other finance costs | (11 340) | (25 115) |
| Total, including recognized in the statement of comprehensive income: | (641 033) | (311 792) |
| Interest expense on debt | (283 456) | (248 781) |
| Finance income and other finance costs | (357 577) | (63 011) |

In the year ended 31 December 2020 compared to the comparative period, the main changes in the financial revenues and costs referred to:

- excess of exchange rate losses over gains in the amount of PLN 246 352 thousand (in the comparable period, the excess of exchange rate gains over losses in the amount of PLN 30 079 thousand). The exchange differences mainly relate to exchange differences related to the Company liabilities on account of debt in EUR;
- revaluation of loans granted to the joint venture, Elektrociepłownia Stalowa Wola S.A., resulting mainly from credit risk analyses of the loans granted as at the balance sheet date, which reduced their carrying amount in the total amount of PLN 235 714 thousand (discussed in more detail in Note 27 to these consolidated financial statements);
- recognising a positive result on derivatives due to the measurement and realisation of derivatives, mainly currency forwards and CCIRS;
- the increase in other financial revenues is mainly related to the recognition by the Company of revenues from the reversal of the provision for audit proceedings in the part relating to interest in the amount of PLN 24 497 thousand, as further described in Note 43.3 to these consolidated financial statements.

17. Costs arising from leases

The table below presents the total charge to profit or loss of continuing operations and discontinued activities due to lease agreements where Group companies are the lessee.

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Cost arising from leases recognized in accordance with MSSF 16 Leases, including: | (151 914) | (137 849) |
| Depreciation of right-of-use assets | (101 974) | (93 049) |
| Cost of interest on lease liabilities | (49 940) | (44 800) |
| Cost arising from leases for which practical exclusion from MSSF 16 Leases has been applied, including: | (17 741) | (20 240) |
| Cost of short-term leases | (15 403) | (19 877) |
| Cost of low-value asset leases | (266) | (111) |
| Variable lease charges not included in the measurement of lease liabilities | (2 072) | (252) |
| Total | (169 655) | (158 089) |

18. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

Income tax recognised in profit or loss for the period includes actual tax charge for the given reporting period of individual companies constituting the Tax Capital Group ("TCG") as well as other non-TCG companies, determined in line with the binding provisions of the Act on corporate income tax and potential adjustments of tax settlements for previous years.

Deferred Tax

The Group recognises a deferred tax assets and liabilities arising from temporary differences between the book value of assets and liabilities and their tax value, as well as a tax loss deductible in the future.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

The deferred tax asset is recognised only if its realization is probable, i.e. if it is expected that a taxable profit sufficient to use the asset will be generated in the future.

Income tax relating to items recognised in other comprehensive income or directly in equity, is recognised in other comprehensive income or equity, respectively.

The deferred tax assets and deferred tax liabilities of the companies forming the Tax Capital Group are set off due to the fact that these companies file a joint tax return.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group assesses the realisability and verifies unrecognised deferred tax assets at each balance sheet date.

Based on the forecasts prepared for the TGC, according to which taxable income will be earned in future periods, it has been concluded that there is no risk that the deferred tax asset recognised in these consolidated financial statements will not be realised.

18.1. Tax expense in the statement of comprehensive income

| | Year ended 31 December 2020 | Year ended 31 December 2019 <i>(restated figures)</i> |
|--|--------------------------------|---|
| Current income tax | (228 422) | (186 352) |
| Current income tax expense | (217 564) | (192 666) |
| Adjustments to current income tax from previous years | (10 858) | 6 314 |
| Deferred tax | 150 540 | 204 899 |
| Income tax expense in profit/(loss) | (77 882) | 18 547 |
| Income tax expense relating to other comprehensive income, including: | 46 389 | 23 189 |
| reclassified to profit or loss | 19 603 | (2 884) |
| not reclassified to profit or loss | 26 786 | 26 073 |

18.2. Reconciliation of the effective tax rate

| | Year ended 31 December 2020 | Year ended 31 December 2019 <i>(restated figures)</i> |
|---|--------------------------------|---|
| Loss before tax on continuing operations | (1 655 668) | (112 744) |
| Profit (loss) before tax on discontinued operations | (718 455) | 97 376 |
| Loss before taxation | (2 374 123) | (15 368) |
| Tax at Poland's statutory tax rate of 19% | 451 083 | 2 920 |
| Adjustments to income tax from previous years | (10 858) | 6 314 |
| Tax effects of the following items: | (200 970) | (18 664) |
| Impairment losses due to revaluation to fair value less costs of sale of assets held for sale | (156 885) | - |
| Surplus of (recognition)/reversal of non-deductible provisions and write-downs/allowances | (38 747) | (29 607) |
| National Disabled Persons Rehabilitation Fund (PFRON) | (5 911) | (5 673) |
| Permanent differences on costs related to tangible assets | (7 535) | (3 643) |
| Other tax non-deductible costs | (18 569) | (31 634) |
| Share in profit/loss of joint ventures | 2 995 | 9 110 |
| Changes in deferred tax estimates caused by revenue and cost with a different tax point | 3 042 | 27 511 |
| Other income not included in taxable base | 20 640 | 15 272 |
| Impairment of deferred tax assets | (292 865) | - |
| Other | (60 144) | (9 593) |
| Bargain purchase | - | 22 708 |
| Tax at the effective rate of -4.8% (2019: 24.0%) | (113 754) | 3 685 |
| Income tax (expense) in the financial result on continuing operations | (77 882) | 18 547 |
| Income tax (expense) attributable to discontinued activity | (35 872) | (14 862) |

In the year ended 31 December 2020, the Group recognized an impairment loss on deferred tax assets relating to the assets and liabilities of the company from the Mining segment, in the amount of PLN 292 865 thousand. The recognition of the above write-down results from the analysis of recoverability of the deferred tax asset of the Tax Capital Group for the years 2021-2023, which does not include TAURON Wydobywanie S.A.

19. Discontinued activity

SELECTED ACCOUNTING PRINCIPLES

The discontinued activity the Group presents revenues and expenses of a disposal group classified as held for sale if the group meets the following conditions:

- represents either a separate major line of business or a geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group recognizes an impairment loss upon the initial or subsequent revaluation of an asset (or disposal group) to fair value less costs to sell. The Group estimated the fair value of the group for sale, which is discussed in more detail below.

The Group estimates that the transactions concluded by the Group with a subsidiary whose operations are classified as discontinued operations, made as part of the basic operating activities, will continue after the disposal of the subsidiary. Therefore, the revenues and costs of the Group companies resulting from transactions with the disposal group are presented in the result on continuing operations, with an appropriate consolidation adjustment included in discontinued operations. In the Group's opinion, other income and costs, including financial ones, resulting from the Group's transactions with discontinued operations will not be continued.

| | Year ended 31 December 2020 | Year ended 31 December 2019 <i>(restated figures)</i> |
|--|--------------------------------|---|
| Sales revenue | 482 608 | 445 956 |
| Cost of sales | (375 210) | (335 590) |
| Profit on sale on discontinued operations | 107 398 | 110 366 |
| Selling and distribution expenses | (5 621) | (3 031) |
| Administrative expenses | (24 197) | (24 711) |
| Other operating income and expenses | 30 786 | 13 782 |
| Impairment losses due to revaluation to fair value less costs of sale | (825 708) | - |
| Operating profit (loss) on discontinued operations | (717 342) | 96 406 |
| Finance income and finance costs | (1 113) | 970 |
| Profit (loss) before tax on discontinued operations | (718 455) | 97 376 |
| Income tax expense | (35 872) | (14 862) |
| Net profit (loss) on discontinued operations | (754 327) | 82 514 |
| Actuarial gains (loss) | (3 377) | (3 056) |
| Income tax | 642 | 581 |
| Other comprehensive income on discontinued operations not reclassified to profit or loss | (2 735) | (2 475) |
| Total comprehensive income from discontinued operations | (757 062) | 80 039 |
| Net profit (loss) on discontinued operations attributable to: | (754 327) | 82 514 |
| Equity holders of the Parent | (754 327) | 82 514 |
| Total comprehensive income on discontinued operations attributable to: | (757 062) | 80 039 |
| Equity holders of the Parent | (757 062) | 80 039 |
| Profit (loss) per share (in PLN) | | |
| basic and diluted net loss from profit (loss) on discontinued operations for the period attributable to shareholders of the parent company | (0.43) | 0.04 |

Discontinued operations represent the activities of the subsidiary TAURON Ciepło Sp. z o.o., which is related to the classification of 100% of its shares in TAURON Ciepło Sp. z o.o. by the Company as held for sale.

The allocation of shares in TAURON Ciepło Sp. z o.o. for sale is in line with the update of the strategic directions complementary to the TAURON Group Strategy for 2016-2025 adopted by the Management Board and positively reviewed by the Supervisory Board in May 2019. Given the need to transform the Group's energy mix, optimise the investment portfolio and maintain financial stability, it was decided to perform a market review of, among others, a strategic option involving making the Group's asset portfolio more flexible by adjusting mining assets to the Group's planned fuel demand, reorganisation of the Generation segment and the capital investment portfolio. The above option comprises, inter alia, market verification of the possibility to sell shares of the subsidiary, TAURON Ciepło Sp. z o.o.

As a result of the above events, the Company launched a project aimed at market verification of the possibility to sell shares of the subsidiary, TAURON Ciepło Sp. z o.o. and potential continuation of the sales process.

On 16 June 2020, the Company Management Board decided to enter into negotiations of the share purchase agreement in TAURON Ciepło Sp. z o.o. with Polskie Górnictwo Naftowe i Gazownictwo S.A. in exclusivity mode for the period of six weeks, which was subsequently extended to 30 November 2020 and 31 January 2021, respectively. After the balance sheet date, on 29 January 2021, Polskie Górnictwo Naftowe i Gazownictwo S.A. expressed its intention to discontinue negotiations aimed at the acquisition of shares in TAURON Ciepło Sp. z o.o. which is described in more detail in Note 60 to these consolidated financial statements.

As at the balance sheet date, the Company assessed that the conditions in the scope of classification of its activity resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were met in relation to TAURON Ciepło Sp. z o.o. activity. The core business of TAURON Ciepło Sp. z o.o. is the generation, distribution and sale of thermal energy for heating, domestic hot water preparation and ventilation. As at the date of classification of the net assets of TAURON Ciepło Sp. z o.o. to the disposal group classified as held for sale, the Group measured the disposal group at a fair value. The fair value as at the balance sheet date was estimated at a level of PLN 1 342 000 thousand, based on information gathered in the course of the conducted market sale process of shares in TAURON Ciepło Sp. z o.o. Due to the fact that the fair value of the disposal group is lower than its existing carrying amount at the level of PLN 2 167 708 thousand, the Group recognised the impairment loss on non-financial non-current assets in the amount of PLN 825 708 thousand.

20. Earnings/(loss) per share

SELECTED ACCOUNTING PRINCIPLES

Net profit (loss) per share for each period is calculated by dividing the net profit (loss) attributable to equity holders of the parent company for a given reporting period by the weighted average number of shares existing in that period.

| | Year ended 31 December 2020 | Year ended 31 December 2019 <i>(restated figures)</i> |
|---|--------------------------------|---|
| Net loss for the year attributable to equity holders of the Parent | (2 485 115) | (10 908) |
| Net loss on continuing operations for the year attributable to equity holders of the Parent | (1 730 788) | (93 422) |
| Number of ordinary shares | 1 752 549 394 | 1 752 549 394 |
| Loss per share - basic and diluted attributable to shareholders of the parent company (in PLN) | (1.42) | (0.01) |
| Loss per share - basic and diluted on continued operations attributable to shareholders of the parent company (in PLN) | (0.99) | (0.05) |

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

21. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

The Group's key fixed assets by segment include:

- in the Generation Segment:
 - boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading, storage and transportation, pumping stations and desulphurisation installations, steam generators, switchgears, landfills, warehouses and other buildings, switchgears for the highest voltages;
 - heating stations, fuel unloading and transportation facilities, as well as pumping stations and water treatment plants.
- in the Distribution Segment:
 - power lines located in an area of 57 thousand square kilometres, with the total length of approximately 242 thousand km;
 - electrical substations (approximately 61 thousand units);
 - transformers (approximately 59 thousand units).
- in the Mining Segment:
 - mechanised enclosures, pit shafts and dip-headings and fixed assets located in the mine walls and the coal processing plant;
 - costs of work related to the cutting of production drifts and accumulated costs of work related to the reinforcement of longwalls;
- in the Segment of Renewable Energy Sources:
 - wind turbines, hydroelectric power stations, hydroelectric power station buildings and weirs, dams and hydroelectric equipment.

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost includes:

- acquisition price or manufacturing cost,
- costs directly attributable to the purchase and bringing the asset to a usable condition,
- the expected cost of disassembly and removal of items of property, plant and equipment and restoration of their current location to its original condition (the accounting policy in the scope of creating provisions for these costs are presented in Note 41 to these consolidated financial statements),
- external financing costs.

All material elements included in an asset but having various useful lives (components) are identified and separated as at the date of acquisition of an item of property, plant and equipment. Components also include costs of overhauls, periodic inspections and costs of replacing the main components. The Company recognises specialised spare parts and servicing equipment as separate items of

property, plant and equipment, if their useful life period exceeds one year.

Depreciation is calculated by reference to the acquisition price or manufacturing cost of the fixed asset less its residual value. Depreciation of property, plant and equipment takes place based on the depreciation plan determining the estimated useful life of each fixed asset. Items of property, plant and equipment (including components) are depreciated on a straight-line basis over the period of their expected useful lives, except for land and fixed assets under construction, which are not subject to depreciation. Specialised spare parts and service equipment are depreciated over the useful life of the fixed asset to which they relate.

External financing costs

Borrowing costs are capitalised as part of the manufacturing cost or acquisition price of the qualifying non-current assets. Borrowing costs consist primarily of interest on specific and general financing calculated using the effective interest rate method and foreign exchange differences arising on foreign currency financing to the extent that they are recognised as an adjustment to interest costs. The effective portion of the hedge for contracts that satisfy the hedge accounting criteria and are concluded in connection with financing the development of non-current assets is also capitalised.

The amount of general borrowing costs subject to activation is defined through the application of the capitalisation rate to the expenditure incurred for the adjustment of the component of assets. The rate of capitalisation is the average weighted rate of all borrowing costs related to external financing constituting liabilities in a given period, other than specific financing.

Fixed assets received free of charge and connection charges and subsidies to assets

Fixed assets received free of charge and connection fees are initially recognised at acquisition cost corresponding to the estimated fair value or value of cash received as a subsidy to assets. Revenues from fixed assets received free of charge, funded with subsidies, are disclosed in the statement of financial position as deferred income and recognised as other operating revenues in the manner proportionate to the corresponding depreciation costs of received or purchased components of property, plant and equipment.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Impairment

As at every balance sheet date the Group assesses whether objective indication of impairment occurs in relation to property, plant and equipment. Impairment tests for property, plant and equipment are carried out in line with the accounting policy presented in Note 11 hereto.

Average remaining useful lives of individual groups of fixed assets

| Asset group | Average remaining depreciation period (number of years) |
|---|---|
| Buildings, premises, civil and water engineering structures | 20 years |
| Plant and machinery | 15 years |
| Mining excavations | 2 years |
| Other tangible fixed assets | 4 years |

The depreciation method, the depreciation rate and the residual value of fixed assets are reviewed at least at each financial year-end and any adjustments to depreciation charges are applied with effect from the beginning of the reporting period in which the review is completed. The review of the economic useful lives of fixed and intangible assets carried out in 2020 had the most significant impact on depreciation and amortisation expense in the Distribution segment - a decrease in depreciation and amortisation expense of PLN 21 900 thousand. The impact on depreciation expense in other segments was not material.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Year ended 31 December 2020

| | Land | Buildings, premises and civil engineering structures | Plant and machinery | Mine workings | Other | Assets under construction | Property, plant and equipment, total |
|---|----------------|--|------------------------|------------------|------------------|------------------------------|---|
| COST | | | | | | | |
| Opening balance | 140 554 | 25 480 506 | 20 297 298 | 265 001 | 957 959 | 7 777 093 | 54 918 411 |
| Direct purchase | - | - | - | 1 174 | - | 3 214 919 | 3 216 093 |
| Borrowing costs | - | - | - | - | - | 226 734 | 226 734 |
| Transfer of assets under construction | 1 506 | 4 271 288 | 5 259 603 | - | 41 678 | (9 574 075) | - |
| Sale | (401) | (14 134) | (107 667) | - | (7 991) | (335) | (130 528) |
| Liquidation | (8) | (70 320) | (281 474) | (146 708) | (11 440) | - | (509 950) |
| Received free of charge | 1 043 | 11 476 | - | - | - | - | 12 519 |
| Transfers to/from assets held for sale | (2 145) | (1 788 629) | (1 863 727) | - | (55 179) | (100 926) | (3 810 606) |
| Overhaul expenses | - | - | - | - | - | 194 987 | 194 987 |
| Items generated internally | - | - | - | 138 625 | - | 180 305 | 318 930 |
| Cost of disassembly of wind farms and decommissioning of mines | - | 71 663 | 8 286 | - | - | - | 79 949 |
| Revenue from start-up | - | - | - | - | - | (161 834) | (161 834) |
| Other movements | 733 | (2 367) | 12 872 | - | (2 626) | 19 726 | 28 338 |
| Foreign exchange differences from translation of foreign entity | - | - | 20 | - | 18 | - | 38 |
| Closing balance | 141 282 | 27 959 483 | 23 325 211 | 258 092 | 922 419 | 1 776 594 | 54 383 081 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| Opening balance | (341) | (10 756 599) | (12 008 192) | (116 238) | (655 060) | (282 910) | (23 819 340) |
| Depreciation for the period | - | (831 008) | (771 850) | (92 210) | (65 278) | (65) | (1 760 411) |
| Increase of impairment | (15) | (1 273 941) | (1 806 495) | (76 149) | (5 475) | (149 509) | (3 311 584) |
| Decrease of impairment | - | 2 851 | 3 580 | - | 210 | 140 061 | 146 702 |
| Sale | 168 | 13 374 | 104 859 | - | 7 825 | - | 126 226 |
| Liquidation | - | 62 191 | 273 578 | 146 708 | 11 432 | - | 493 909 |
| Transfers to/from assets held for sale | - | 742 912 | 872 164 | - | 38 410 | 13 874 | 1 667 360 |
| Other movements | - | 35 | (1 248) | - | 1 941 | (32) | 696 |
| Foreign exchange differences from translation of foreign entity | - | - | (11) | - | (13) | - | (24) |
| Closing balance | (188) | (12 040 185) | (13 333 615) | (137 889) | (666 008) | (278 581) | (26 456 466) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 140 213 | 14 723 907 | 8 289 106 | 148 763 | 302 899 | 7 494 183 | 31 099 071 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 141 094 | 15 919 298 | 9 991 596 | 120 203 | 256 411 | 1 498 013 | 27 926 615 |
| <i>of which operating segments:</i> | | | | | | | |
| Mining | 3 144 | 310 588 | 188 256 | 115 469 | 3 534 | 187 483 | 808 474 |
| Generation | 40 383 | 2 077 270 | 3 645 017 | - | 6 900 | 104 368 | 5 873 938 |
| Renewable Energy Sources | 796 | 885 214 | 1 258 737 | - | 1 184 | 29 670 | 2 175 601 |
| Distribution | 79 913 | 12 127 222 | 4 773 285 | - | 221 908 | 1 028 481 | 18 230 809 |
| Other segments and other operations | 16 858 | 519 004 | 126 301 | 4 734 | 22 885 | 148 011 | 837 793 |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Year ended 31 December 2019 (restated data)

| | Land | Buildings, premises and civil engineering structures | Plant and machinery | Mine workings | Other | Assets under construction | Property, plant and equipment, total |
|---|----------------|--|---------------------|------------------|------------------|---------------------------|--------------------------------------|
| COST | | | | | | | |
| Opening balance | 125 869 | 23 775 062 | 19 133 480 | 221 074 | 943 340 | 6 376 491 | 50 575 316 |
| Direct purchase | - | - | - | 1 714 | - | 3 251 159 | 3 252 873 |
| Borrowing costs | - | - | - | - | - | 183 439 | 183 439 |
| Transfer of assets under construction | 14 006 | 1 395 272 | 924 748 | - | 53 706 | (2 387 732) | - |
| Sale | (39) | (3 264) | (94 428) | - | (26 460) | (47) | (124 238) |
| Liquidation | (10) | (62 965) | (101 672) | (124 816) | (11 285) | - | (300 748) |
| Received free of charge | - | 17 107 | 232 | - | - | - | 17 339 |
| Transfers to/from assets held for sale | (64) | (13 636) | (46) | - | (175) | - | (13 921) |
| Overhaul expenses | - | - | - | - | - | 193 955 | 193 955 |
| Items generated internally | - | - | - | 184 542 | - | 99 509 | 284 051 |
| Business acquisition | 592 | 270 463 | 441 138 | - | - | - | 712 193 |
| Cost of disassembly of wind farms and decommissioning of mines | - | 101 182 | 2 102 | - | - | - | 103 284 |
| Other movements | 200 | 1 285 | (8 256) | (17 513) | (1 168) | 60 319 | 34 867 |
| Foreign exchange differences from translation of foreign entity | - | - | - | - | 1 | - | 1 |
| Closing balance | 140 554 | 25 480 506 | 20 297 298 | 265 001 | 957 959 | 7 777 093 | 54 918 411 |
| ACCUMULATED DEPRECIATION | | | | | | | |
| Opening balance | (404) | (9 599 896) | (10 765 131) | (52 458) | (611 258) | (139 502) | (21 168 649) |
| Depreciation for the period | - | (829 750) | (797 235) | (95 837) | (74 362) | (915) | (1 798 099) |
| Increase of impairment | - | (426 283) | (698 406) | (92 759) | (6 592) | (148 752) | (1 372 792) |
| Decrease of impairment | 65 | 35 438 | 53 208 | - | 102 | 522 | 89 335 |
| Sale | - | 2 143 | 91 800 | - | 24 963 | - | 118 906 |
| Liquidation | - | 55 449 | 95 937 | 124 816 | 11 249 | - | 287 451 |
| Transfers to/from assets held for sale | - | 9 666 | 38 | - | 163 | - | 9 867 |
| Other movements | (2) | (3 366) | 11 597 | - | 676 | 5 737 | 14 642 |
| Foreign exchange differences from translation of foreign entity | - | - | - | - | (1) | - | (1) |
| Closing balance | (341) | (10 756 599) | (12 008 192) | (116 238) | (655 060) | (282 910) | (23 819 340) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 125 465 | 14 175 166 | 8 368 349 | 168 616 | 332 082 | 6 236 989 | 29 406 667 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 140 213 | 14 723 907 | 8 289 106 | 148 763 | 302 899 | 7 494 183 | 31 099 071 |
| <i>of which operating segments:</i> | | | | | | | |
| Mining | 3 146 | 377 857 | 281 925 | 144 613 | 6 980 | 288 647 | 1 103 168 |
| Generation* | 42 477 | 1 373 573 | 1 968 604 | - | 23 488 | 6 167 240 | 9 575 382 |
| Renewable Energy Sources | 807 | 917 144 | 1 329 333 | - | 1 511 | 1 511 | 2 250 306 |
| Distribution | 76 924 | 11 558 666 | 4 590 377 | - | 252 469 | 1 002 867 | 17 481 303 |
| Other segments and other operations | 16 859 | 496 667 | 118 867 | 4 150 | 18 451 | 33 918 | 688 912 |

* Segment data for the comparable period include assets of the subsidiary, TAURON Ciepło Sp. z o.o. reclassified as at 31 December 2020 to assets classified as held for sale.

In the year ended 31 December 2020, the Group purchased property, plant and equipment (including capitalised borrowing costs) in the amount of PLN 3 442 827 thousand. The major purchases were made in connection with investments in the following operating segments:

| Operating segment | Year ended 31 December 2020 | Year ended 31 December 2019 (restated figures) |
|-------------------|-----------------------------|--|
| Distribution | 1 844 732 | 1 744 031 |
| Generation | 1 154 254 | 1 292 561 |
| Mining | 190 544 | 285 257 |

The average capitalisation rate of borrowing costs was 4.14% for the year ended 31 December 2020 and 3.28% for the year ended 31 December 2019.

The main investment tasks implemented by the Group in the financial year 2020 are described in section 1.5.1. of the Management Board reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020.

Impairment losses on property, plant and equipment affected the results of the following operating segments:

Year ended 31 December 2020

| | Generation | Mining | Distribution | Other | Total |
|---|--------------------|------------------|----------------|------------|--------------------|
| Increase of impairment | (2 622 138) | (685 382) | (4 056) | (8) | (3 311 584) |
| Decrease of impairment | 4 096 | 140 061 | 2 542 | 3 | 146 702 |
| Total impact on the profit (loss) for the period | (2 618 042) | (545 321) | (1 514) | (5) | (3 164 882) |

Year ended 31 December 2019 (restated figures)

| | Generation | Mining | Distribution | Other | Total |
|---|------------------|------------------|--------------|---------------|--------------------|
| Increase of impairment | (694 044) | (676 610) | (2 138) | - | (1 372 792) |
| Decrease of impairment | 59 506 | - | 3 867 | 25 962 | 89 335 |
| Total impact on the profit (loss) for the period | (634 538) | (676 610) | 1 729 | 25 962 | (1 283 457) |

22. Right-of-use assets

SELECTED ACCOUNTING PRINCIPLES

An agreement or part of a rental, lease or other agreement or part of an agreement of a similar nature under which the right to control the use of an assets for a given period is transferred in exchange for remuneration is classified as a lease. Lease classification is made at the date of commencement of the lease, based on the economic content of the agreement, not on its legal form.

At the date of commencement of the lease, a right-of-use assets is recognised for use and a liability for the lease.

A right-of-use asset is measured at cost including:

- the amount of the initial measurement of the lease liability,
- all lease payments made at or before the inception of the lease, less any amounts received in respect of the lease or costs paid by the lessor (lease incentives),
- any initial direct costs incurred by the lessee,
- an estimate of the costs of dismantling and removing the underlying asset, restoring the site on which it was located, or restoring it to the condition required by the lease terms.

After the initial recognition, a right-of-use asset is measured at cost less accumulated depreciation and/or amortization and impairment write-down and adjusted for the revaluation of the lease liability. Depreciation and/or amortisation principles applied to assets used under leases are consistent with those applied to depreciation and/or amortisation of assets owned by the Group. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term the asset item is fully depreciated over the shorter of the lease term and its useful life.

PROFESSIONAL JUDGEMENT AND ESTIMATES

At the date of commencement of the lease, the Group measures an rights-of-use assets including in the current value of the lease payments remaining to be paid on that date. Lease payments are discounted using the interest rate of the lease if that rate can be easily determined. Otherwise, the Group applies the incremental borrowing rate, in accordance with the adopted methodology depending on the rating.

The Group applies the portfolio approach to similar leases regarding unified assets with similar use. When accounting for leases under the portfolio approach, the Group applies estimates and assumptions corresponding to the size and composition of the portfolio, including estimates of the weighted average lease term.

In order to determine the lease period, e.g. for contracts for an indefinite period, the Group makes an estimate.

Year ended 31 December 2020

| | Land | Perpetual usufruct right | Buildings, premises and civil engineering structures | Plant and machinery | Motor vehicles | Transmission easements | Right-of-use assets in progress | Right-of-use assets total |
|---|-----------------|--------------------------|--|---------------------|----------------|------------------------|---------------------------------|---------------------------|
| COST | | | | | | | | |
| Opening balance | 475 863 | 1 076 085 | 176 424 | 64 789 | 6 571 | 121 144 | 6 256 | 1 927 132 |
| Increase due to a new lease contract | 54 438 | 447 | 11 699 | 30 755 | 98 | 361 | - | 97 798 |
| Increase(decrease) due to lease changes | 3 239 | 77 921 | 9 374 | (1 397) | (34) | 31 | - | 89 134 |
| Transfer of assets held for sale | (13 081) | (96 590) | (21 340) | - | (282) | (4 196) | - | (135 489) |
| Other movements | 14 169 | (645) | (972) | (5 568) | 1 034 | 11 088 | (492) | 18 614 |
| Closing balance | 534 628 | 1 057 218 | 175 185 | 88 579 | 7 387 | 128 428 | 5 764 | 1 997 189 |
| ACCUMULATED DEPRECIATION | | | | | | | | |
| Opening balance | (20 176) | (60 097) | (15 341) | (34 713) | (2 210) | (21 097) | - | (153 634) |
| Depreciation for the period | (25 071) | (32 813) | (16 053) | (19 331) | (2 868) | (5 838) | - | (101 974) |
| Increase of impairment | - | (1 245) | (20) | (13 775) | (41) | (2 402) | - | (17 483) |
| Decrease of impairment | - | 10 913 | - | - | - | - | - | 10 913 |
| Transfer of assets held for sale | 890 | (7 360) | 2 240 | - | 115 | 708 | - | (3 407) |
| Other movements | 761 | 1 030 | 347 | 5 514 | (341) | 11 | - | 7 322 |
| Closing balance | (43 596) | (89 572) | (28 827) | (62 305) | (5 345) | (28 618) | - | (258 263) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 455 687 | 1 015 988 | 161 083 | 30 076 | 4 361 | 100 047 | 6 256 | 1 773 498 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 491 032 | 967 646 | 146 358 | 26 274 | 2 042 | 99 810 | 5 764 | 1 738 926 |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Year ended 31 December 2019

| | Land | Perpetual usufruct right | Buildings, premises and civil engineering structures | Plant and machinery | Motor vehicles | Transmission easements | Right-of-use assets in progress | Right-of-use assets, total |
|---|-----------------|--------------------------|--|---------------------|----------------|------------------------|---------------------------------|----------------------------|
| COST | | | | | | | | |
| Opening balance | - | - | - | - | - | - | - | - |
| Impact of IFRS 16 | 393 110 | 1 071 236 | 166 028 | 28 978 | 3 739 | 96 489 | 12 931 | 1 772 511 |
| Restated opening balance | 393 110 | 1 071 236 | 166 028 | 28 978 | 3 739 | 96 489 | 12 931 | 1 772 511 |
| Increase due to a new lease contract | 40 384 | 9 | 4 478 | 36 674 | 2 569 | 360 | - | 84 474 |
| Increase/(decrease) due to lease changes | 8 547 | 2 287 | 5 274 | (863) | 397 | (12) | - | 15 630 |
| Business acquisition | 34 931 | - | 1 199 | - | - | 33 | - | 36 163 |
| Other movements | (1 109) | 2 553 | (555) | - | (134) | 24 274 | (6 675) | 18 354 |
| Closing balance | 475 863 | 1 076 085 | 176 424 | 64 789 | 6 571 | 121 144 | 6 256 | 1 927 132 |
| ACCUMULATED DEPRECIATION | | | | | | | | |
| Opening balance | - | - | - | - | - | - | - | - |
| Impact of IFRS 16 | - | (25 384) | - | - | - | (15 987) | - | (41 371) |
| Restated opening balance | - | (25 384) | - | - | - | (15 987) | - | (41 371) |
| Depreciation for the period | (20 229) | (32 435) | (15 334) | (17 828) | (2 112) | (5 111) | - | (93 049) |
| Increase of impairment | - | (3 080) | (48) | (16 885) | (124) | - | - | (20 137) |
| Decrease of impairment | - | 460 | - | - | - | - | - | 460 |
| Other movements | 53 | 342 | 41 | - | 26 | 1 | - | 463 |
| Closing balance | (20 176) | (60 097) | (15 341) | (34 713) | (2 210) | (21 097) | - | (153 634) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | - | - | - | - | - | - | - | - |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 455 687 | 1 015 988 | 161 083 | 30 076 | 4 361 | 100 047 | 6 256 | 1 773 498 |

23. Goodwill

SELECTED ACCOUNTING PRINCIPLES

Goodwill is measured at initial value (determined in accordance with the accounting policy presented in Note 6) less accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually or more frequently if there are indications to do so.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that may benefit from the synergies of the merger. An operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except the Generation segment).

PROFESSIONAL JUDGEMENT AND ESTIMATES

Goodwill is tested for impairment annually and as at each balance sheet date for which relevant indications occur. The impairment test in respect of goodwill is carried out in accordance with the accounting policies presented in Note 11.

| Operating segment | As at | As at |
|-------------------|------------------|------------------|
| | 31 December 2020 | 31 December 2019 |
| Distribution | 25 602 | 25 602 |
| Other | 581 | 581 |
| Total | 26 183 | 26 183 |

24. Energy certificates and gas emission allowances

SELECTED ACCOUNTING PRINCIPLES

Energy certificates of origin and gas emission allowances classified as intangible assets include:

- certificates of origin for energy produced from renewable energy sources (RES), as well as property rights arising from energy efficiency certificates, received or acquired with a view to their redemption in connection with the sale of electricity to final customers;
- CO₂ emission allowances received or acquired for the purpose of meeting an obligation resulting from the CO₂ emission.

The Group classifies energy certificates of origin and CO₂ emission allowances on the basis of the intention as to their intended use specified on the date of purchase (with a possibility of subsequent reclassification) as:

- current intangible assets – energy certificates of origin and gas emission rights designated for own use, where the Group intends to redeem them in order to meet its obligation for the current year;
- non-current intangible assets – energy certificates of origin and gas emission rights designated for own use, the purpose of which is to fulfil the obligation to present them for redemption in subsequent years.

The measurement principles for these assets at initial recognition are as follows:

| | Acquired | Granted/Received free of charge | Release |
|-------------------------------------|------------------|-----------------------------------|--|
| Energy certificates | Acquisition cost | Fair value as at the receipt date | FIFO "First In First Out" |
| CO ₂ emission allowances | Acquisition cost | Nominal value (i.e. zero) | Obtained free of charge in the first place, subsequently acquired ones (FIFO "First In First Out") |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

The energy certificates and the CO₂ emission allowances are surrendered (in correspondence with settlement of the provision amount) at the date of their redemption. The principles applicable to the recognition of provisions relating to the energy certificate surrendering obligation and for liabilities arising from CO₂ emissions are presented in Note 42.

24.1. Long-term energy certificates and gas emission allowances

| | Year ended 31 December 2020 | | | Year ended 31 December 2019 | | |
|------------------------|-----------------------------|-------------------------------------|----------------|-----------------------------|-------------------------------------|----------------|
| | Energy certificates | CO ₂ emission allowances | Total | Energy certificates | CO ₂ emission allowances | Total |
| Opening balance | 306 221 | 161 976 | 468 197 | 208 585 | 453 018 | 661 603 |
| Direct purchase | 216 442 | 141 241 | 357 683 | 234 252 | 100 949 | 335 201 |
| Reclassification | (289 137) | (35 807) | (324 944) | (136 616) | (391 991) | (528 607) |
| Closing balance | 233 526 | 267 410 | 500 936 | 306 221 | 161 976 | 468 197 |

24.2. Short-term energy certificates and gas emission allowances

| | Year ended 31 December 2020 | | | Year ended 31 December 2019 | | |
|-----------------------------------|-----------------------------|-------------------------------------|------------------|-----------------------------|-------------------------------------|------------------|
| | Energy certificates | CO ₂ emission allowances | Total | Energy certificates | CO ₂ emission allowances | Total |
| Opening balance | 594 968 | 690 225 | 1 285 193 | 90 267 | 111 396 | 201 663 |
| Direct purchase | 189 179 | 368 839 | 558 018 | 379 664 | 300 484 | 680 148 |
| Generated internally | 226 443 | - | 226 443 | 143 644 | - | 143 644 |
| Business acquisition | - | - | - | 10 579 | - | 10 579 |
| Surrendered | (595 541) | (776 602) | (1 372 143) | (165 802) | (113 646) | (279 448) |
| Reclassification | 289 137 | 35 807 | 324 944 | 136 616 | 391 991 | 528 607 |
| Transfers to assets held for sale | (46) | (14 201) | (14 247) | - | - | - |
| Closing balance | 704 140 | 304 068 | 1 008 208 | 594 968 | 690 225 | 1 285 193 |

24.3. Balance of CO₂ emission allowances recorded in the Union Registry

| Balance of emission allowances | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|-----------------------------|-----------------------------|
| Allowances recorded at the beginning of the financial year | 13 784 891 | 11 469 679 |
| Allowances surrendered: | | |
| in the installations of TAURON Wytwarzanie S.A. (previous year's emissions) | (10 562 031) | (1 172 702) |
| in the installations of TAURON Ciepło Sp. z o.o. (previous year's emissions) | (1 599 873) | (1 914 237) |
| Allocation of free-of-charge allowances | 223 609 | 302 651 |
| Allowances purchased on the secondary market | 12 555 500 | 11 047 500 |
| Allowances sold on the secondary market | (7 669 500) | (5 948 000) |
| Allowances recorded at the end of the financial year, of which: | 6 732 596 | 13 784 891 |
| Allowances intended for surrender for a given year in the installations of: | | |
| TAURON Wytwarzanie S.A. | (4 048 068) | (11 413 633) |
| TAURON Ciepło Sp. z o.o. | (3 385 799) | (9 815 035) |
| Nowe Jaworzno Grupa TAURON Sp. z o.o. | (444 797) | (1 598 598) |
| | (217 472) | - |

In 2020, TAURON Group companies were allocated free emission allowances under Article 10a of Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009, in the amount of 223 609 EUA for heat production. The remaining allowances, necessary to balance the 2020 emissions needs, have been purchased and contracted for purchase on the secondary market.

In order to secure liabilities of TAURON Polska Energia S.A. resulting from transactions concluded by the Company on the Polish Power Exchange, agreements were concluded for the transfer of CO₂ emission allowances to the Warsaw Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych S.A.), which is discussed in more detail in Note 55 to these consolidated financial statements.

25. Other intangible assets

SELECTED ACCOUNTING PRINCIPLES

Key items of other intangible assets include software, concessions, patents, licenses and similar items.

Other intangible assets are measured at manufacturing cost less accumulated amortisation and impairment losses.

Other intangible assets, except those which have not been made available for use, are amortised over their estimated useful lives. Depreciation and amortisation is calculated by reference to the initial value less the residual value. Residual value is included in determining the basis for calculation of depreciation charges, if for a given asset, an active market exists or a third party has committed to buy the asset upon completion of its useful life.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Impairment

As at each balance sheet date the Group assesses whether objective indication of impairment occurs in relation to intangible assets. Impairment tests for intangible assets are carried out in line with the accounting policy presented in Note 11.

The period and method of depreciation and the residual value are subject to verification, at least at the end of each financial year. Any changes arising from the conducted verification are captured as the change in estimates, while the potential adjustment of depreciation charges is performed with the effectiveness as of the beginning of the reporting period, in which the verification was completed.

Useful life periods

The following average residual useful life periods were adopted for individual groups of other intangible assets:

| Asset group | Average remaining amortization period (number of years) |
|--|---|
| Software, concessions, patents, licenses and similar items | 4 years |
| Other | 9 years |

Year ended 31 December 2020

| | Development expenses | Perpetual usufruct right | Software, concessions, patents, licenses and similar items | Other intangible assets | Intangible assets not made available for use | Intangible assets total |
|---|----------------------|--------------------------|--|-------------------------|--|-------------------------|
| COST | | | | | | |
| Opening balance | 8 946 | 15 605 | 822 069 | 183 967 | 114 253 | 1 144 840 |
| Direct purchase | - | - | - | - | 167 028 | 167 028 |
| Transfer of intangible assets not made available for use | 4 608 | - | 142 624 | 19 497 | (166 729) | - |
| Sale/Liquidation | (1 309) | - | (21 352) | (123) | (33) | (22 817) |
| Transfers to/from assets held for sale | (1 622) | - | (14 590) | (639) | (521) | (17 372) |
| Other movements | 3 | - | (46) | 409 | 5 315 | 5 681 |
| Foreign exchange differences from translation of foreign entity | - | - | 57 | - | - | 57 |
| Closing balance | 10 626 | 15 605 | 928 762 | 203 111 | 119 313 | 1 277 417 |
| ACCUMULATED AMORTIZATION | | | | | | |
| Opening balance | (6 250) | - | (562 534) | (97 765) | (30) | (666 579) |
| Amortization for the period | (983) | - | (80 276) | (10 498) | - | (91 757) |
| Impairment | (282) | - | (702) | (4 982) | (15) | (5 981) |
| Sale/Liquidation | 1 306 | - | 21 352 | 123 | - | 22 781 |
| Transfers to/from assets held for sale | 333 | - | 12 658 | 259 | - | 13 250 |
| Foreign exchange differences from translation of foreign entity | - | - | (57) | - | - | (57) |
| Closing balance | (5 876) | - | (609 559) | (112 863) | (45) | (728 343) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 2 696 | 15 605 | 259 535 | 86 202 | 114 223 | 478 261 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 4 750 | 15 605 | 319 203 | 90 248 | 119 268 | 549 074 |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Year ended 31 December 2019

| | Development expenses | Perpetual usufruct right | Software, concessions, patents, licenses and similar items | Other intangible assets | Intangible assets not made available for use | Intangible assets total |
|---|----------------------|--------------------------|--|-------------------------|--|-------------------------|
| COST | | | | | | |
| Opening balance | 6 403 | 774 682 | 776 434 | 271 336 | 85 486 | 1 914 341 |
| Impact of IFRS 16 | - | (758 941) | - | (94 809) | (12 931) | (866 681) |
| Restated opening balance | 6 403 | 15 741 | 776 434 | 176 527 | 72 555 | 1 047 660 |
| Direct purchase | - | - | - | - | 120 034 | 120 034 |
| Transfer of intangible assets not made available for use | 2 543 | - | 65 962 | 9 041 | (77 546) | - |
| Sale/Liquidation | - | - | (19 938) | (562) | (469) | (20 969) |
| Other movements | - | (136) | (391) | (1 039) | (321) | (1 887) |
| Foreign exchange differences from translation of foreign entities | - | - | 2 | - | - | 2 |
| Closing balance | 8 946 | 15 605 | 822 069 | 183 967 | 114 253 | 1 144 840 |
| ACCUMULATED AMORTIZATION | | | | | | |
| Opening balance | (5 744) | (25 387) | (493 665) | (101 835) | (7) | (626 638) |
| Impact of IFRS 16 | - | 25 387 | - | 15 987 | - | 41 374 |
| Restated opening balance | (5 744) | - | (493 665) | (85 848) | (7) | (585 264) |
| Amortization for the period | (349) | - | (87 833) | (12 403) | - | (100 585) |
| Impairment | (157) | - | (970) | (59) | (23) | (1 209) |
| Sale/Liquidation | - | - | 19 936 | 545 | - | 20 481 |
| Foreign exchange differences from translation of foreign entities | - | - | (2) | - | - | (2) |
| Closing balance | (6 250) | - | (562 534) | (97 765) | (30) | (666 579) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 659 | 749 295 | 282 769 | 169 501 | 85 479 | 1 287 703 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 2 696 | 15 605 | 259 535 | 86 202 | 114 223 | 478 261 |

Under other intangible assets, the Group presents perpetual usufruct rights to land in the amount of PLN 15 605 thousand, which relate to a limestone mine owned by a subsidiary, excluded from the scope of IFRS 16 Leases.

26. Shares and stocks in joint ventures

SELECTED ACCOUNTING PRINCIPLES

The Group's joint contractual arrangements classified as joint ventures are accounted for using the equity method.

Using the equity method the initial value of the investment carried at cost is increased or reduced by a share in profits/losses and in other comprehensive income of the joint venture as from the acquisition date (recognised in profit or loss or in other comprehensive income of the Group, as appropriate).

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group defines the type of the joint arrangement it is a party to, depending on the rights and obligations of parties to such arrangement. Following an analysis of such rights and obligations, the Group assesses its joint control over joint arrangements and rights to their net assets. Consequently, shares in the TAMEH Holding Sp. z o.o. Capital Group and in Elektrociepłownia Stalowa Wola S.A. are classified as joint ventures.

Impairment

Interests in joint ventures are tested for impairment whenever there is an indication that an impairment may occur or a previously recognised impairment loss is reversed.

| | Elektrociepłownia Stalowa Wola S.A. | TAMEH HOLDING Sp. z o.o. * | As at 31 December 2020 or for the year ended 31 December 2020 | Elektrociepłownia Stalowa Wola S.A. | TAMEH HOLDING Sp. z o.o. * | As at 31 December 2019 or for the year ended 31 December 2019 |
|--|-------------------------------------|----------------------------|---|-------------------------------------|----------------------------|---|
| Non-current assets | 1 822 021 | 2 117 521 | 3 939 542 | 1 623 476 | 2 186 422 | 3 809 898 |
| Current assets, including: | 166 157 | 651 735 | 817 892 | 136 404 | 644 722 | 781 126 |
| <i>cash and cash equivalents</i> | 2 242 | 158 680 | 160 922 | 90 830 | 284 503 | 375 333 |
| Non-current liabilities (-), including: | (2 028 065) | (839 590) | (2 867 655) | (1 719 704) | (922 262) | (2 641 966) |
| <i>debt</i> | (1 964 830) | (743 421) | (2 708 251) | (1 716 142) | (827 878) | (2 544 020) |
| Current liabilities (-), including: | (754 866) | (675 067) | (1 429 933) | (519 395) | (709 111) | (1 228 506) |
| <i>debt</i> | (5 662) | (184 206) | (189 868) | (34 961) | (184 095) | (219 056) |
| Total net assets | (794 753) | 1 254 599 | 459 846 | (479 219) | 1 199 771 | 720 552 |
| Share in net assets | (397 377) | 627 300 | 229 923 | (239 610) | 599 886 | 360 276 |
| Investment in joint ventures | - | 586 559 | 586 559 | - | 559 144 | 559 144 |
| Share in revenue of joint ventures | 80 113 | 852 140 | 932 253 | 425 | 959 938 | 960 363 |
| Share in profit/(loss) of joint ventures | - | 15 765 | 15 765 | - | 47 947 | 47 947 |
| Share in other comprehensive income of joint ventures | - | 15 | 15 | - | (987) | (987) |

* The data presented concern the TAMEH HOLDING Sp. z o.o. Group. The value of the interest held in TAMEH HOLDING Sp. z o.o. differs from the value of net assets attributable to the Group, because the cost of shares in TAMEH HOLDING Sp. z o.o. was calculated taking into account the fair value of the share contributed to the joint venture by companies from the ArcelorMittal Group.

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 at the initiative of TAURON Polska Energia S.A. and PGNiG S.A., through which the partners implemented an investment consisting in the construction of CCGT unit in Stalowa Wola fired with natural gas with the gross electrical capacity of 450 MWe and the net heat capacity of 240 MWt.

TAURON Polska Energia S.A. has an indirect shareholding of 50% in the capital of the company and in the governing body, exercised through TAURON Wytwarzanie S.A. Due to the fact that in 2015 the accumulated share of losses of the joint venture and the adjustment to "top-down" transactions between the Group companies and the joint venture exceeded the value of the interest in the joint venture, the Company discontinued to recognise its share of any further losses of the joint venture.

In addition, the Company holds receivables from loans granted to Elektrociepłownia Stalowa Wola S.A. with the carrying amount of PLN 98 713 thousand, as further discussed in Note 27 to these consolidated financial statements.

Judgement of the Court of Arbitration at the Polish Chamber of Commerce on the claims of Abener Energia S.A. Against Elektrociepłownia Stalowa Wola S.A. and proceedings between Abener Energia S.A. and Elektrociepłownia Stalowa Wola S.A.

On 25 April 2019, a judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw ("the Judgement") was issued in the case filed by Abener Energia S.A. ("Abener") against Elektrociepłownia Stalowa Wola S.A. ("ECSW").

The case pending at the Court of Arbitration concerned a claim for payment, for establishing the legal relationship and for the obligation to submit a declaration of intent in connection with the terminated contract concluded between Abener (general contractor) and ECSW (contracting authority) for the construction of a CCGT unit in Stalowa Wola. Under the Judgement, ECSW was obligated to pay to Abener the amount of PLN 333 793 thousand along with statutory interest for delay and costs of the arbitration proceedings. On 24 June 2019, ECSW filed a complaint with the Court of Appeal in Rzeszów and requested that the Judgement be repealed.

On 22 September 2020, the Court of Appeals in Rzeszów, by its judgement, dismissed the complaint of ECSW to repeal the Judgement, and on 29 September 2020, declared the Judgement enforceable. ECSW filed a request for service of the aforementioned judgement on the adjudication of the action with a statement of reasons; the company received a copy of the judgement on 20 October 2020.

In addition, on 25 September 2020, ECSW filed a request with the Court of Appeals in Rzeszów to suspend the enforceability of the Judgement until the cassation appeal is heard, and on 7 October 2020, it filed a complaint against the decision to make the Judgement enforceable.

On 20 November 2020, the Court of Appeals in Rzeszów issued a decision to suspend the execution of the Judgement until the conclusion of the cassation proceedings or the expiry of the time limit for filing a cassation appeal. On 21 December 2020, ECSW filed a complaint in cassation.

In connection with the above Judgement, Elektrociepłownia Stalowa Wola S.A. recognised a provision in the statement of financial position, which amounts to PLN 439 144 thousand as at 31 December 2020.

On 20 December 2019, ECSW received another lawsuit filed by Abener in the Arbitration Court. The subject matter of the lawsuit is the payment by ECSW to Abener of the total amount of PLN 156 447 thousand and EUR 537 thousand plus statutory interest for the delay as compensation for damages resulting from ECSW requesting and obtaining payment from the performance bond at Abener's expense or, alternatively, reimbursement of illegitimate enrichment obtained by ECSW at Abener's expense in connection with obtaining payment from the performance bond. The guarantee was granted to ECSW by Abener in accordance with the contract between the parties for the construction of a CCGT unit in Stalowa Wola. A response to the claim was filed by ECSW on 20 March 2020. An assessment of the claim and its justification shows that they are unfounded. The arbitration proceedings are ongoing.

On 19 October 2020, ECSW filed a statement of claim with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw against Abener for payment by Abener to ECSW of PLN 198 664 thousand and EUR 461 thousand, together with interest, as compensation for damages corresponding to the costs of rectifying the defects, faults and deficiencies in the works, deliveries and services performed by Abener during the performance of the above contract. The proceedings are ongoing.

The contract for the construction of the CCGT unit concluded between ECSW and Abener does not contain provisions obliging the Company to pay any form of remuneration to Abener for ECSW.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014, a shareholders' agreement was concluded by and between the TAURON Group and the ArcelorMittal Group regarding TAMEH HOLDING Sp. z o.o., which is responsible for investment and operational projects in the area of industrial energy. The Agreement was concluded for a period of 15 years, with a possibility of its extension. The two capital groups hold a 50% interest in TAMEH HOLDING Sp. z o.o. each.

TAMEH HOLDING Sp. z o.o. is the owner of 100% of the shares in TAMEH POLSKA Sp. z o.o., formed by a contribution in kind by the TAURON Group: Zakład Wytwarzania Nowa and Elektrownia Blachownia, as well as Elektrociepłownia in Kraków contributed by the ArcelorMittal Group. In addition, TAMEH HOLDING Sp. z o.o. holds 100% of TAMEH Czech s.r.o. shares, which consists of the Ostrava Combined Heat and Power Plant.

On 9 September 2020, the shareholders' meeting of TAMEH Holding Sp. z o.o. decided to leave the net profit of PLN 54 131 thousand for the financial year ended 31 March 2020 for the retained earnings of TAMEH Holding Sp. z o.o.

27. Loans to joint ventures

SELECTED ACCOUNTING PRINCIPLES

Loans granted to a joint venture do not satisfy the criteria to be recognised as a net investment in a joint venture.

PROFESSIONAL JUDGEMENT AND ESTIMATES

In accordance with the requirements of IFRS 9 *Financial Instruments*, the Group appropriately classifies and measures its loans and estimates the allowance for expected credit losses for loans classified as assets measured at amortised cost.

As at the balance sheet date, the loan granted under the debt consolidation agreement, due to the fact that the cash flows do not correspond solely to the payment of principal and interest, was classified as a financial asset measured at a fair value through profit or loss. The Group has estimated the fair value accordingly. The methodology for calculating fair value is presented in Note 51 to these consolidated financial statements.

Other loans are measured at amortised cost and at each balance sheet date the Group estimates expected credit losses. The methodology and expected credit loss amounts are presented below and in Note 52.1.4 to these consolidated financial statements.

| | Loan amount | As at 31 December 2020 | | | As at 31 December 2019 | | | Maturity date | Interest rate |
|---|-------------|------------------------|-----------------|-----------------|------------------------|-----------------|-----------------|---------------|-------------------|
| | | Gross value | Impairment loss | Carrying amount | Gross value | Impairment loss | Carrying amount | | |
| Loans measured at fair value | | | | | | | | | |
| Debt consolidation agreement | 609 951 | 72 523 | n.a. | 72 523 | 216 018 | n.a. | 216 018 | 30.06.2033 | fixed |
| Loans measured at amortized cost | | | | | | | | | |
| VAT loan | 15 000 | 2 453 | (33) | 2 420 | 5 109 | (110) | 4 999 | 31.03.2021 | WIBOR 1M +mark-up |
| | 7 290 | 1 986 | (353) | 1 633 | 7 955 | (218) | 7 737 | | |
| | 9 500 | 2 295 | (304) | 1 991 | 9 197 | (252) | 8 945 | | |
| Other loans | 5 175 | 1 372 | (165) | 1 207 | 5 485 | (150) | 5 335 | 30.06.2033 | fixed |
| | 59 175 | 14 404 | (598) | 13 806 | - | - | - | | |
| | 35 000 | 5 160 | (27) | 5 133 | - | - | - | | |
| Total | | 100 193 | (1 480) | 98 713 | 243 764 | (730) | 243 034 | | |
| Non-current | | 97 740 | (1 447) | 96 293 | 238 655 | (620) | 238 035 | | |
| Current | | 2 453 | (33) | 2 420 | 5 109 | (110) | 4 999 | | |

Pursuant to the borrower's debt consolidation agreement of 28 February 2018 for the total amount of PLN 609 951 thousand, all existing liabilities of Elektrociepłownia Stalowa Wola S.A. towards the Company arising from loans granted and unpaid until 28 February 2018 were renewed. As at the balance sheet date, the nominal amount of the loan is PLN 310 851 thousand (the principal in the amount of PLN 299 100 thousand was repaid on 30 April 2018). The debt under review constitutes subordinated debt, measured at a fair value of PLN 72 523 thousand as at the balance sheet date.

The following loan agreements were concluded between the Company and Elektrociepłownia Stalowa Wola S.A. in 2020.

- Agreement of 20 February 2020 up to the amount of PLN 59 175 thousand to finance liabilities related mainly to the completion of the construction of the CCGT unit and the Reserve Heat Source in Stalowa Wola. As at the balance sheet date, the amount of the loan granted was equal to the maximum loan limit arising from the said agreement;
- Agreement of 16 October 2020 up to the amount of PLN 35 000 thousand to secure the operation and activity in the scope of trading in electricity. As at the balance sheet date, under the agreement, the Company provided the borrower with tranches in the total amount of PLN 22 000 thousand.

The repayment of the two loans described above, accrued interest and costs and other amounts due to the Company under the agreements are secured by the borrower's blank promissory notes including the promissory note declarations.

Analyses of credit risk of loans granted to Elektrociepłownia Stalowa Wola S.A. performed as at the balance sheet date, taking into account, among others, the estimated future cash flows of Elektrociepłownia Stalowa Wola S.A., indicated impairment losses due to credit risk (level 3 of the measurement) resulting in a decrease in the carrying amount of the loans granted in the total amount of PLN 235 714 thousand, whereas the fair value of the debt consolidation agreement was reduced by PLN 156 881 thousand, and in relation to other loans measured at amortized cost, the gross value of loans granted was adjusted by PLN 72 943 thousand and interest accrued by PLN 4 442 thousand, as well as additional impairment losses were recognized in the amount of PLN 1 448 thousand. The amount of credit loss as at the date of recognition has been estimated taking into account the entire lifetime of the financial instrument. As at 31 December 2019 the provision for expected credit losses was measured at the amount of the 12-month expected credit losses.

28. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

Other financial assets of the Group include, inter alia, shares and stocks, deposits, bid bonds, security deposits and collaterals provided, derivatives, loans granted to unrelated entities.

Upon initial recognition, financial assets are classified to the appropriate category of financial assets and measured accordingly. The principles of classification and measurement of financial assets in accordance with IFRS 9 *Financial Instruments* are described in Note 51 to these consolidated financial statements.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The measurement of financial assets at a fair value requires the Group to estimate the fair value at each balance sheet date. The methodology for calculating fair value is presented in Note 51 to these consolidated financial statements.

The measurement of financial assets measured at amortised cost requires the Group to estimate expected credit losses at each balance sheet date. The methodology for estimating expected credit losses for loans granted is presented in note 52.1.4 to these consolidated financial statements.

| | As at 31 December 2020 | As at 31 December 2019 |
|--|---------------------------|---------------------------|
| Derivative instruments | 158 846 | 105 529 |
| Shares | 85 454 | 140 508 |
| Receivables due to financial compensation for trading companies | 61 357 | 151 114 |
| Bid bonds, deposits and collateral transferred | 55 815 | 131 192 |
| Deposits and term deposits for Mining Decommissioning Fund | 53 448 | 50 228 |
| Initial deposits arising from stock exchange transactions | 48 663 | 184 353 |
| Variation margin deposits arising from stock exchange transactions | - | 25 113 |
| Investment fund units | - | 26 622 |
| Loans granted | - | 12 451 |
| Other | 10 911 | 7 447 |
| Total | 474 494 | 834 557 |
| Non-current | 208 063 | 235 522 |
| Current | 266 431 | 599 035 |

As at 31 December 2020, assets from the positive valuation of derivatives relate to commodity derivatives (including, to a large extent, forward instruments from transactions for which CO₂ emission allowances are the underlying commodity), forward FX derivatives and CCIRS instruments. Due to the market situation in the current reporting period, mainly related to COVID-19, the occurrence of material changes in commodity derivative prices and the depreciation of the Polish zloty, an increase in the assets arising from the measurement of the above derivatives occurred in the year ended 31 December 2020 compared to the end of 2019. Derivatives are described in more detail in Note 51.3 hereto.

As at 31 December 2020, the shares and stocks held mainly comprise shares in the following companies:

- SCE Jaworzno III sp. z o.o. with the value of PLN 29 476 thousand;
- EEC Magenta Sp. z o.o. 2 ASI SKA with the value of PLN 19 116 thousand;
- ElectroMobility Poland S.A. with the value of PLN 11 026 thousand.

Decrease in the value of shares and stocks is related to reclassification of assets of the subsidiary, TAURON Ciepło Sp. z o.o. to assets classified as held for sale, as a result of which its shares and stocks in other companies were recognised in the item of assets classified as held for sale and reclassification of shares in PGE EJ 1 Sp. z o.o. to assets classified as held for sale.

Compensation receivables for trading companies in the amount of PLN 61 357 thousand result from the request filed in September 2020 by TAURON Sprzedaż Sp. z o.o. to correct the amount of the price difference and financial compensation for the entire year 2019, as described in more detail in Note 13 to these consolidated financial statements.

The value of deposits, bonds, collaterals relates mainly to the collaterals provided by the subsidiary from the Generation segment in favour of PSE S.A. on account of securing due performance of the agreement for the provision of electricity transmission services and the collaterals provided by the Company under the clearing guarantee system with Izba Rozliczeniowa Giełd Towarowych S.A. As at 31 December 2020 and 31 December 2019, the collaterals under the above titles amounted to the total of PLN 36 209 thousand and PLN 83 817 thousand, respectively.

The value of initial deposits (in the comparable period also of supplementary deposits) is related mainly with forward transactions for CO₂ emission allowances concluded on foreign stock markets. The change in the value of deposits in relation to the comparable period results mainly from the Company's position on the stock exchange as at the balance sheet date and changes in the prices of allowances. The reduction in the volume of stock exchange futures contracts for CO₂ emission allowances is mainly related to the change in the strategy of securing the Group's redemption needs, consisting in a one-off replacement of exchange contracts with over-the-counter contracts (as described in more detail in Note 14.1 of these consolidated financial statements) and the conclusion of new contracts for redemption purposes of the Group's companies on the over-the-counter market.

29. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

Other non-financial assets of the Group include prepayments as well as advance payments for fixed assets under construction, intangible assets, inventories which as non-monetary items are not discounted and costs of acquiring new contracts and costs of rebates. Contract acquisition costs are capitalised if the Group expects to recover them. On the other hand, costs of contract acquisition can be immediately charged to expenses if the period of depreciation of the related asset is up to one year. The asset is depreciated over the period when the goods are transferred or services provided. If the costs are related to more than one contract, depreciation should include both current and projected contracts.

29.1. Other non-current non-financial assets

| | As at 31 December 2020 | As at 31 December 2019 |
|--|---------------------------|---------------------------|
| Prepayments for assets under construction and intangible assets, <i>including:</i> | 15 345 | 79 296 |
| <i>related to project realization: Construction of 910 MW Power Unit in Jaworzno</i> | - | 74 774 |
| Prepayments for debt charges | 7 770 | 10 767 |
| Contract acquisition costs and costs of discounts | 7 084 | 3 365 |
| Other prepayments | 33 865 | 58 860 |
| Total | 64 064 | 152 288 |

29.2. Other current non-financial assets

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---------------------------|---------------------------|
| Costs settled over time | 69 423 | 87 416 |
| IT, telecom and postal services | 23 844 | 24 449 |
| Property and tort insurance | 23 590 | 45 222 |
| Contract acquisition costs and costs of discounts | 12 911 | 8 399 |
| Prepayments for debt charges | 5 937 | 3 796 |
| Other prepayments | 3 141 | 5 550 |
| Other current non-financial assets | 9 034 | 12 859 |
| Advance payments for deliveries | 2 433 | 3 521 |
| Other current assets | 6 601 | 9 338 |
| Total | 78 457 | 100 275 |

Company Social Benefits Fund

The Group entities have offset the assets of the Fund against their liabilities to the Fund since these assets do not constitute separate assets of the Group. As at 31 December 2020, the surplus of assets over liabilities of the Company Social Benefits Fund amounted to PLN 802 thousand (presented in the item: other current assets in the table above). The table below shows the analysis of the fund.

| | As at 31 December 2020 | As at 31 December 2019 (restated figures) |
|---|---------------------------|---|
| Loans granted to employees | 20 429 | 25 251 |
| Cash | 17 887 | 20 861 |
| Other Fund assets and liabilities | (3 694) | (3 511) |
| Social Fund liabilities | (33 820) | (41 776) |
| Net balance | 802 | 825 |
| Transfers made to the Social Fund during the period | (70 984) | (57 161) |

30. Deferred income tax

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---------------------------|---------------------------|
| difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets | 1 555 070 | 1 880 816 |
| difference between tax base and carrying amount of financial assets | 41 769 | 48 137 |
| different timing of recognition of sales revenue for tax purposes | 326 794 | 327 914 |
| difference between tax base and carrying amount of energy certificates | 17 622 | 17 623 |
| other | 65 994 | 66 780 |
| Deferred tax liabilities | 2 007 249 | 2 341 270 |
| provisions and accruals | 694 404 | 665 886 |
| difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets | 535 337 | 495 875 |
| power infrastructure received free of charge and received connection fees | 4 225 | 7 859 |
| difference between tax base and carrying amount of financial assets and financial liabilities | 370 805 | 292 771 |
| different timing of recognition of sales revenue and cost of sales for tax purposes | 270 110 | 277 964 |
| tax losses | 8 747 | 6 533 |
| other | 22 426 | 11 185 |
| Deferred tax assets | 1 906 054 | 1 758 073 |
| Impairment of deferred tax assets | (292 865) | - |
| Deferred tax assets after impairment | 1 613 189 | 1 758 073 |
| After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as: | | |
| Deferred tax asset | 39 678 | 22 088 |
| Deferred tax liability | (433 738) | (605 285) |

Change in deferred tax liability and assets

| | Year ended 31 December 2020 | | Year ended 31 December 2019 | |
|---|-----------------------------|---------------------|-----------------------------|---------------------|
| | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities | Deferred tax assets |
| Opening balance | 2 341 270 | 1 758 073 | 1 992 474 | 1 198 825 |
| Effects of implementing IFRS 16 | - | - | 174 442 | 174 442 |
| Restated opening balance | 2 341 270 | 1 758 073 | 2 166 916 | 1 373 267 |
| <i>Change in the balance:*</i> | | | | |
| corresponding to profit/(loss) | (273 670) | (123 130) | 138 478 | 328 589 |
| corresponding to other comprehensive income | (3 698) | 42 691 | 2 884 | 26 654 |
| reclassification to the disposal group | (57 234) | (65 239) | - | - |
| business acquisition | - | - | 28 950 | 25 828 |
| other changes | 581 | 794 | 4 042 | 3 735 |
| Closing balance | 2 007 249 | 1 613 189 | 2 341 270 | 1 758 073 |

* In 2019, with the financial result and other comprehensive income from continuing and discontinued operations. Only continued operations in 2020.

31. Inventories

SELECTED ACCOUNTING PRINCIPLES

Inventory is measured at a lower of two values: purchase price or manufacturing cost and net achievable sales price. Greenhouse gas emission allowances which are purchased for sale and generation of profit in the short term due to volatility of market prices are measured at a fair value as at each balance sheet date.

Inventory releases are measured using the weighted average method, except for energy certificates of origin and CO₂ emission allowances whose releases are measured using the FIFO method.

The Group's inventories comprise mainly fuel stocks.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Measurement of inventories requires an estimate of the net achievable sales price. It is the estimated price of sales performed in the course of ordinary business, less costs of finishing and estimated costs required to make the sales effective. Valuation of the stock of CO₂ emission allowances described above at a fair value is based on prices quoted in an active market.

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---------------------------|---------------------------|
| Gross value | | |
| Coal, of which: | 578 968 | 557 472 |
| <i>Raw materials</i> | 244 552 | 253 514 |
| <i>Semi-finished goods and work-in-progress</i> | 331 291 | 295 471 |
| CO ₂ emission allowances | 18 436 | - |
| Other inventories | 185 340 | 137 906 |
| Total | 782 744 | 695 378 |
| Measurement to net realisable value | | |
| Coal | (285) | - |
| Other inventories | (5 244) | (11 226) |
| Total | (5 529) | (11 226) |
| Fair value | | |
| CO ₂ emission allowances | 18 436 | - |
| Net realisable value | | |
| Coal, of which: | 578 683 | 557 472 |
| <i>Raw materials</i> | 244 552 | 253 514 |
| <i>Semi-finished goods and work-in-progress</i> | 331 291 | 295 471 |
| Other inventories | 180 096 | 126 680 |
| Total | 777 215 | 684 152 |

32. Receivables from customers

SELECTED ACCOUNTING PRINCIPLES

Receivables from customers include amounts invoiced and receivables accrued to revenue which have not been measured and invoiced due to the customer settlement system used. The accounting policy in the scope of accrued revenue is described in Note 12.

Receivables from customers are measured at the amounts originally invoiced (taking into account the effect of discounting, if material), less allowances / write-downs.

Impairment allowances are recognised for both overdue and current receivables based on probability-weighted credit loss to be incurred should any of the following events occur:

- a material delay in payment,
- a debtor is put in liquidation, declared bankrupt or undergoes restructuring procedures,
- the receivables are claimed at administrative or common court, or undergo enforcement.

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty.

For receivables from customers, the Group has separated a portfolio of strategic counterparties (counterparty with credit exposure exceeding PLN 1 000 thousand) and a portfolio of the remaining counterparties.

For the portfolio of strategic counterparties, the risk of insolvency of strategic counterparties is assessed based on ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recoveries from security interests.

It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this group of counterparties were estimated using the receivables

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

ageing matrix and the percentage ratios assigned to the various ranges and groups (including receivables claimed at court, receivables from counterparties in bankruptcy) allowing to estimate the value of receivables from customers expected to be outstanding.

In order to take into account the impact of future factors (in relation to strategic and other counterparties), the Group adjusts the parameters related to the probability of default using the quotations of Credit Default Swap instruments for individual ratings.

Revaluation allowances of receivables are recognised in such cost categories which correspond to the function of the assets component, i.e. in costs of operating activity or financial costs – depending on the type of receivables the allowance refers to.

PROFESSIONAL JUDGEMENT AND ESTIMATES

In accordance with the requirements of IFRS 9 *Financial Instruments*, the Group estimates impairment losses on receivables from customers attributable to expected credit losses. The allowance calculation methodology is described above.

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---------------------------|---------------------------|
| Value of items before allowance/write-down | | |
| Receivables from buyers, of which: | 2 423 607 | 2 306 208 |
| <i>Additional assessment of revenue from sales of electricity and distribution services</i> | 814 235 | 689 395 |
| Receivables claimed at court | 184 664 | 213 900 |
| Total | 2 608 271 | 2 520 108 |
| Allowance/write-down | | |
| Receivables from buyers | (60 522) | (39 655) |
| Receivables claimed at court | (184 664) | (189 707) |
| Total | (245 186) | (229 362) |
| Value of item net of allowance (carrying amount) | | |
| Receivables from buyers | 2 363 085 | 2 266 553 |
| Receivables claimed at court | - | 24 193 |
| Total, of which: | 2 363 085 | 2 290 746 |
| Current | 2 363 085 | 2 290 746 |

In accordance with the model described above, the Group estimates the impairment loss.

Ageing of receivables from customers as at 31 December 2020

| | Not past due | Past due | | | | | Total |
|---|------------------|----------------|---------------|-------------|--------------|------------|------------------|
| | | < 30 days | 30-90 days | 90-180 days | 180-360 days | > 360 days | |
| Value of item before allowance/write-down | 2 133 713 | 217 763 | 51 711 | 32 521 | 34 199 | 138 364 | 2 608 271 |
| Allowance/write-down | (11 586) | (9 250) | (19 347) | (32 489) | (34 178) | (138 336) | (245 186) |
| Net Value | 2 122 127 | 208 513 | 32 364 | 32 | 21 | 28 | 2 363 085 |

Ageing of receivables from customers as at 31 December 2019

| | Not past due | Past due | | | | | Total |
|---|------------------|----------------|---------------|--------------|--------------|---------------|------------------|
| | | < 30 days | 30-90 days | 90-180 days | 180-360 days | > 360 days | |
| Value of item before allowance/write-down | 2 039 689 | 216 273 | 33 588 | 18 031 | 31 981 | 180 546 | 2 520 108 |
| Allowance/write-down | (9 541) | (6 252) | (10 534) | (15 329) | (31 356) | (156 350) | (229 362) |
| Net Value | 2 030 148 | 210 021 | 23 054 | 2 702 | 625 | 24 196 | 2 290 746 |

As at the balance sheet date, the Group did not have any material non-collectible items not covered with an allowance.

Change in allowances on receivables from customers

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Opening balance | (229 362) | (221 759) |
| Recognised | (37 665) | (13 931) |
| Utilized | 6 240 | 5 101 |
| Reversed | 580 | 1 221 |
| Other movements | 15 030 | 6 |
| Foreign exchange differences from translation of foreign entity | (9) | - |
| Closing balance | (245 186) | (229 362) |

33. Receivables due to income tax

Income tax receivables in the amount of PLN 83 655 thousand result mainly from Tax Capital Group receivables in the amount of PLN 82 365 thousand. The receivable relates entirely to 2020 and represents the excess of advance payments paid in the amount of PLN 287 300 thousand over the tax burden of the TCG in the amount of PLN 204 935 thousand.

The Tax Capital Group Agreement for 2018 – 2020 was registered on 30 October 2017. Main companies forming the Tax Capital Group until 31 December 2020: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o.

On 14 December 2020, the Tax Capital Group Agreement for the years 2021 – 2023 was registered by the Head of the First Silesian Tax Office in Sosnowiec. Main companies forming the Tax Capital Group since 1 January 2021: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., Nowe Jaworzno Grupa TAURON Sp. z o.o., TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o., TAURON Sprzedaż GZE Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TEC1 Sp. z o.o., TEC2 Sp. z o.o., TEC3 Sp. z o.o. and Kopalnia Wapienia Czatkowice Sp. z o.o.

34. Receivables arising from other taxes and charges

SELECTED ACCOUNTING PRINCIPLES

Settlements due to other taxes and charges presented in the statement of financial position include:

- Settlements due to VAT and excise duty;
- Personal income tax and social security settlements;
- Environmental fees and other public law settlements.

| | As at 31 December 2020 | As at 31 December 2019 |
|-------------------------|---------------------------|---------------------------|
| VAT receivables | 267 191 | 362 745 |
| Excise duty receivables | 12 467 | 10 974 |
| Other | 3 015 | 10 995 |
| Total | 282 673 | 384 714 |

A decline in VAT receivables results mainly from the settlement in companies of the Generation segment in the first quarter of 2020 of a VAT receivable as at 31 December 2019 in the amount of PLN 160 528 thousand resulting from the purchase of CO₂ emission allowances from the parent company by these companies.

35. Cash and equivalents

SELECTED ACCOUNTING PRINCIPLES

Cash and cash equivalents comprise, in particular, cash in hand and at bank and short-term deposits with the original maturity period of up to three months.

Cash is recognised at a face value. In case of funds deposited in bank accounts, the face value as at the balance sheet date comprises interest calculated by the bank or accrued by the entity on its own.

Unpaid overdraft facilities that constitute an integral part of cash management are classified as "Cash and cash equivalents" for the purposes of statement of cash flows. In the statement of financial position, such facilities are presented, respectively, in debt liabilities.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---------------------------|---------------------------|
| Cash at bank and in hand | 658 881 | 1 231 112 |
| Short-term deposits (up to 3 months) | 250 006 | 4 898 |
| Other | 566 | 1 942 |
| Total cash and cash equivalents presented in the statement of financial position, of which : | 909 453 | 1 237 952 |
| restricted cash, including: | 210 661 | 729 450 |
| <i>collateral of settlements with Izba Rozliczeniowa Gield Towarowych S.A.</i> | 120 981 | 599 059 |
| <i>bank accounts related to subsidies received</i> | 31 899 | 71 606 |
| <i>cash on VAT bank accounts (split payment)</i> | 49 111 | 58 428 |
| Bank overdraft | (2 261) | (23 339) |
| Cash pool | (20 864) | (10 973) |
| Cash reclassified to assets held for sale | 11 892 | - |
| Foreign exchange | (2 843) | (39) |
| Total cash and cash equivalents presented in the statement of cash flows | 895 377 | 1 203 601 |

The decrease in the balance of restricted cash compared to the comparable period in the total amount of PLN 518 789 thousand relates mainly to settlements with Izba Rozliczeniowa Gield Towarowych S.A. (a decrease in the cash balance on this account by PLN 478 078 thousand) and results from the decline in the value of required margins.

The difference between the balance of cash presented in the statement of financial position and in the statement of cash flows results from overdrafts, cash pool loans granted by entities not subject to consolidation due to the overall immateriality and exchange gains and losses on measurement of cash on accounts in foreign currency.

36. Assets held for sale and liabilities associated with assets held for sale

SELECTED ACCOUNTING PRINCIPLES

The Group classifies a non-current asset (or disposal group) as held for sale if it meets the following criteria:

- representatives of the competent governing body of the Company are committed to implement the plan to sell,
- the assets are available for immediate sale in their current status, subject only to normal and customary terms for sale,
- an active programme to locate a potential buyer has been initiated,
- the sale is highly probable and may be performed within 12 months of the decision,
- the sales price is reasonable in relation to the current fair value,
- it is unlikely that the plan to dispose of such assets will be significantly changed.

Fixed assets or groups of assets classified as held for sale are measured at the lower of the carrying amount and the fair value less costs of sales, except for deferred tax assets, assets arising from employee benefits and financial assets within the scope of IFRS 9 *Financial Instruments*.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group recognises the impairment loss upon initial or subsequent revaluation of an assets (or a disposal group) to the fair value less disposal costs.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---------------------------|---------------------------|
| Disposal group assets classified as held for sale, including: | 1 829 617 | - |
| <i>Property, plant and equipment</i> | 1 433 918 | - |
| <i>Right-of-use assets</i> | 89 380 | - |
| <i>Other non-current assets</i> | 40 954 | - |
| <i>Inventories</i> | 97 195 | - |
| <i>Receivables from buyers</i> | 110 331 | - |
| <i>Other current assets</i> | 57 839 | - |
| Other non-current assets classified as held for sale | 73 459 | 22 710 |
| Total | 1 903 076 | 22 710 |
| Disposal group liabilities classified as held for sale, including: | 487 617 | - |
| <i>Accruals, deferred income and government grants</i> | 95 295 | - |
| <i>Other non-current liabilities</i> | 110 370 | - |
| <i>Provisions for liabilities due to energy certificates and CO₂ emission allowances</i> | 136 098 | - |
| <i>Other current provisions</i> | 24 153 | - |
| <i>Other current liabilities</i> | 121 701 | - |
| Other liabilities directly related to non-current assets classified as held for sale | 8 369 | 8 936 |
| Total | 495 986 | 8 936 |

Net assets of TAURON Ciepło Sp. z o.o.

The disposal group classified as held for sale consists mainly of the net assets of TAURON Ciepło Sp. z o.o., which is described in more detail in Note 19 to these consolidated financial statements.

As at the balance sheet date, the Group assessed that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o., the prerequisites resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in the scope of classification of the above assets as disposal group held for sale were met, in particular the net assets are, in the opinion of the Company, available for immediate sale in their present condition subject only to the terms and conditions that are usual and customary for sale. Therefore, the Group reclassified the assets and liabilities of TAURON Ciepło Sp. z o.o. as a disposal group, respectively, to the following positions: assets classified as assets held for sale and liabilities directly related to assets classified as held for sale. As at the date of the above reclassification of the disposal group and as at the balance sheet date, the Group measured it at a fair value, as described more broadly in Note 19 to these consolidated financial statements. The fair value was estimated at a level of PLN 1 342 000 thousand. Due to the fact that the fair value is lower than the existing carrying amount of the disposal group of PLN 2 167 708 thousand, the Group recognised an impairment loss of PLN 825 708 thousand on non-financial non-current assets, which decreased the value of:

- property, plant and equipment in the amount of PLN 775 885 thousand,
- right-of-use assets in the amount of PLN 48 339 thousand,
- intangible assets in the amount of PLN 1 484 thousand.

Shares in PGE EJ 1 Sp. z o.o.

Other assets classified as held for sale represent mainly shares in PGE EJ 1 Sp. z o.o.

As at the balance sheet date, the Group assessed that in relation to the shares in PGE EJ 1 Sp. z o.o. the prerequisites resulting from IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in the scope of classification of the above assets as held for sale were met, in particular the shares are, in the Group's opinion, available for immediate sale in their present condition subject only to the terms and conditions that are usual and customary for sale; therefore, as at 31 December 2020 the Group reclassified the shares in PGE EJ 1 Sp. z o.o. to assets classified as held for sale. As at the balance sheet date, the Group carried out a fair value measurement of shares in PGE EJ 1 Sp. z o.o., which was estimated at PLN 53 136 thousand, based on information gathered in the course of the sale process of shares in PGE EJ 1 Sp. z o.o.

37. Equity

SELECTED ACCOUNTING PRINCIPLES

Issued capital

Equity is recognised at a level specified in the articles of association of the parent entity and entered in the Court Register.

Reserve capital

Reserve capital is created, to which at least 8% of profit for each financial year is appropriated in order to offset the loss of the joint

stock company, until its amount equals at least one-third of the issued capital.

Revaluation reserve from valuation of hedging instruments

Revaluation reserve arising from hedging instruments is related to the measurement of Interest Rate Swaps hedging interest rate risk of issued bonds. Its amount is determined as the fair value of the effective portion of cash flow hedging instruments, including deferred tax.

Foreign Exchange differences due to translation of foreign entities

Items in the financial statements of foreign entities (TAURON Czech Energy s.r.o.) are translated into the presentation currency as follows:

- assets and liabilities have been translated to the presentation currency at the average exchange rate published by the National Bank of Poland as at the end of the balance sheet date;
- revenue and expenses have been translated at the average exchange rate of the National Bank of Poland published at the transaction date or the average exchange rate for a given period, if no significant exchange rate fluctuations occurred in the period.

The resulting translation differences were recognised in other comprehensive income.

Retained profits / (accumulated losses)

Retained profits/ (accumulated losses) comprise:

- previous years' retained earnings/uncovered losses,
- reserve and supplementary capital of subsidiaries that occurred after the control acquisition date,
- settlement of acquisition/business combination of entities under common control, using the pooling of interests method,
- actuarial gains and losses regarding provisions for post-employment benefits recognised through other comprehensive income,
- impact of adjustments related to the application of IFRS, such as, among others, differences from revaluation of fixed assets to fair value as the assumed cost as at the date of adoption of IFRS or application of exemptions from IFRS 1 *First-time Adoption of International Reporting Standards*.

Non-controlling shares

Non-controlling interests represent a separate equity item. Its initial value is determined as the corresponding fair value of net assets or as fair value of non-controlling interests as at the control commencement date and increased/decreased by respective changes in net assets of the subsidiaries. Decisions regarding initial measurement of non-controlling interests are made on a case-by-case basis.

37.1. Issued capital

Issued capital as at 31 December 2020

| Class/ issue | Type of shares | Number of shares | Nominal value of one share (in PLN) | Value of class/issue at nominal value | Method of payment |
|-----------------|-------------------|----------------------|---|--|------------------------------|
| AA | bearer shares | 1 589 438 762 | 5 | 7 947 194 | cash/in-kind contribution |
| BB | registered shares | 163 110 632 | 5 | 815 553 | in-kind contribution |
| Total | | 1 752 549 394 | | 8 762 747 | |

Shareholding structure as at 31 December 2020 (to the best of the Company's knowledge)

| Shareholder | Number of shares | Nominal value of shares | Percentage of share capital | Percentage of total vote |
|--|----------------------|----------------------------|--------------------------------|-----------------------------|
| State Treasury | 526 848 384 | 2 634 242 | 30.06% | 30.06% |
| KGHM Polska Miedź S.A. | 182 110 566 | 910 553 | 10.39% | 10.39% |
| Nationale - Nederlanden Otworthy Fundusz Emerytalny | 88 742 929 | 443 715 | 5.06% | 5.06% |
| Other shareholders | 954 847 515 | 4 774 237 | 54.49% | 54.49% |
| Total | 1 752 549 394 | 8 762 747 | 100% | 100% |

As at 31 December 2020, the value of issued capital, the number of shares, the nominal value of shares and the shareholding structure, to the best of the Company knowledge, had not changed since 31 December 2019.

37.2. Shareholder rights

The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Meeting. The limitation does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company authorising to at least 25% of the total votes in the Company.

For further details on restrictions on the exercise of voting rights, see Section 9.6. in the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020.

37.3. Reserve capital

On 15 July 2020, the Ordinary General Meeting of Shareholders of the Company adopted a resolution to cover the net loss of the Company for the financial year 2019 in the amount of PLN 462 830 thousand from the Company reserve capital.

37.4. Retained earnings and restrictions on dividends

The amounts of retained earnings arising from the settlement of mergers with subsidiaries as well as actuarial gains and losses on post-employment benefit provisions recognised through other comprehensive income are not distributed.

As at 31 December 2020 and as at the date these consolidated financial statements were authorised for issue, there are no other restrictions on the payment of dividends.

The Management Board of the Company recommends to offset the Company's net loss for 2020 of PLN 3 589 655 thousand with reserve capital of Company.

37.5. Revaluation reserve from valuation of hedging instruments

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Opening balance | 15 666 | 3 371 |
| Remeasurement of hedging instruments | (96 821) | 15 074 |
| Remeasurement of hedging instruments charged to profit or loss | (6 351) | 105 |
| Deferred income tax | 19 603 | (2 884) |
| Closing balance | (67 903) | 15 666 |

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from debt, which has been discussed in more detail in Note 51.3 to these consolidated financial statements.

For concluded hedging transactions covered by the financial risk management policy, the Company applies hedge accounting.

As at 31 December 2020, the Company recognised the amount of PLN (67 903) thousand of revaluation reserve from valuation of hedging instruments. This amount represents the liability arising from the measurement of IRS instruments as at the balance sheet date in the amount of PLN 90 061 thousand, adjusted by the portion of the measurement relating to debt interest accrued at the balance sheet date, including the deferred tax.

37.6. Non-controlling shares

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Opening balance | 900 434 | 132 657 |
| Shareholder contributions related to the assumption of shares | - | 771 157 |
| Share in subsidiaries' net profit or loss | (2 762) | (775) |
| Dividends for non-controlling interests | (2 075) | (1 932) |
| Acquisition of non-controlling interests by the Group and mandatory squeeze-out | (1 724) | (442) |
| Share in actuarial gains/(losses) related to provisions for post-employment benefits | (250) | (231) |
| Closing balance | 893 623 | 900 434 |

Non-controlling interests relate mainly to the shares acquired by the Infrastructure Investment Fund - Capital Closed Investment Fund of Non-Public Assets and PFR Investments Closed Investment Fund in the share capital of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. for a total amount of PLN 880 000 thousand.

The condensed financial information of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. is presented in the table below.

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Total assets | 6 918 576 | 6 219 329 |
| Total liabilities | 628 007 | 525 173 |
| Net loss | (47 624) | (22 670) |
| Net increase/ (decrease) in cash and cash equivalents | (150 249) | 149 993 |

38. Dividends paid

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--------------------------------|--------------------------------|--------------------------------|
| Dividends paid by subsidiaries | (1 880) | (1 932) |

In the financial year ended on 31 December 2020 and in the financial year ended on 31 December 2019, the Parent Company did not pay dividends.

39. Debt

SELECTED ACCOUNTING PRINCIPLES

Debt liabilities include: bank loans, borrowings, bonds issued and lease obligations.

- Bank loans, borrowings, bonds issued

Upon initial recognition, bank loans, borrowings and bonds issued are measured at a fair value less transaction costs and discounts or premiums. After initial recognition, these liabilities are measured at amortised cost, using the effective interest rate method.

- Lease

An agreement or part of a rental, lease or other agreement or part of an agreement of a similar nature under which the right to control the use of an asset (underlying asset) for a given period is transferred in exchange for remuneration is classified as a lease. The lease liability is measured at the present value of the outstanding lease payments, discounted using either the contractual interest rate (if determinable) or the incremental borrowing rate. Lease payments included in the measurement of the lease liability include:

- fixed lease payments less any lease incentives payable,
- variable lease payments that depend on an index or a rate, measured initially using that index or rate according to their value at the starting date,
- amounts expected to be paid by the lessee under the residual value guarantee of the underlying asset,
- the strike price of the call option if it can be assumed that the lessee will exercise it,
- financial penalties for lease termination.

PROFESSIONAL JUDGEMENT AND ESTIMATES

When measuring liabilities at amortised cost using the effective interest rate method, the Group estimates future cash flows considering all contractual terms of a given financial instrument, including the early repayment option. As at the reporting period end, early buy-back of bonds was included in the measurement of liabilities arising from issue of hybrid bonds under agreements concluded with the European Investment Bank and Bank Gospodarstwa Krajowego, in relation to the intention to buy back the bonds after the end of the first financing period.

In the case of a loan agreement defining the maximum term of individual loans tranches up to 1 year or with the payment date at the end of the interest period, where the financing available under the agreement is revolving and the term of availability exceeds 1 year, the Group classifies the tranches according to the intention and ability of maintaining financing under the agreement, i.e. as long-term or short-term liabilities.

The lease incremental borrowing rate is estimated as a weighted average cost of TAURON Group's debt adjusted for the individual rating of the companies, taking into account a breakdown by lease term.

TAURON Polska Energia S.A. Capital Group
 Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
 as endorsed by the European Union
 (in PLN thousand)

| | As at 31 December 2020 | As at 31 December 2019 |
|----------------------|---------------------------|---------------------------|
| Loans and borrowings | 5 992 133 | 7 050 651 |
| Unsubordinated bonds | 5 523 842 | 4 343 595 |
| Subordinated bonds | 1 998 367 | 1 913 427 |
| Lease liabilities | 1 072 657 | 1 006 603 |
| Total | 14 586 999 | 14 314 276 |
| Non-current | 13 108 449 | 11 830 183 |
| Current | 1 478 550 | 2 484 093 |

39.1. Loans and borrowings

Loans and borrowings as at 31 December 2020

| Currency | Interest rate | Value of loans and borrowings as at the balance sheet date | | of which maturing within (after the balance sheet date): | | | | | |
|-------------------------------------|---------------|--|------------------|--|----------------|------------------|----------------|------------------|----------------|
| | | currency | PLN | less than 3 months | 3-12 months | 1-2 years | 2-3 years | 3-5 years | over 5 years |
| PLN | floating | 4 942 213 | 4 942 213 | 1 021 891 | 3 222 | 2 007 473 | 2 191 | 1 109 192 | 798 244 |
| | fixed | 1 035 830 | 1 035 830 | 34 694 | 123 390 | 108 673 | 108 673 | 616 735 | 43 665 |
| Total PLN | | 5 978 043 | 5 978 043 | 1 056 585 | 126 612 | 2 116 146 | 110 864 | 1 725 927 | 841 909 |
| EUR | floating | 487 | 2 249 | 2 249 | - | - | - | - | - |
| | | 487 | 2 249 | 2 249 | - | - | - | - | - |
| Total EUR | | | | | | | | | |
| Total | | | 5 980 292 | 1 058 834 | 126 612 | 2 116 146 | 110 864 | 1 725 927 | 841 909 |
| Interest increasing carrying amount | | | 11 841 | | | | | | |
| Total | | | 5 992 133 | | | | | | |

Loans and borrowings as at 31 December 2019

| Currency | Interest rate | Value of loans and borrowings as at the balance sheet date | | of which maturing within (after the balance sheet date): | | | | | |
|-------------------------------------|---------------|--|------------------|--|----------------|----------------|------------------|----------------|----------------|
| | | currency | PLN | less than 3 months | 3-12 months | 1-2 years | 2-3 years | 3-5 years | over 5 years |
| PLN | floating | 6 313 602 | 6 313 602 | 1 617 085 | 503 014 | 4 135 | 3 191 792 | 99 806 | 897 770 |
| | fixed | 690 834 | 690 834 | 34 590 | 122 114 | 156 704 | 108 082 | 196 712 | 72 632 |
| Total PLN | | 7 004 436 | 7 004 436 | 1 651 675 | 625 128 | 160 839 | 3 299 874 | 296 518 | 970 402 |
| EUR | floating | 5 304 | 22 585 | 22 585 | - | - | - | - | - |
| | | 5 304 | 22 585 | 22 585 | - | - | - | - | - |
| Total EUR | | | | | | | | | |
| USD | floating | 198 | 754 | 754 | - | - | - | - | - |
| | | 198 | 754 | 754 | - | - | - | - | - |
| Total USD | | | | | | | | | |
| Total | | | 7 027 775 | 1 675 014 | 625 128 | 160 839 | 3 299 874 | 296 518 | 970 402 |
| Interest increasing carrying amount | | | 22 876 | | | | | | |
| Total | | | 7 050 651 | | | | | | |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Main liabilities due to loans and borrowings are shown in the table below.

| Loans/ borrowings | Borrowing institution | Purpose | Interest rate | Maturity date | As at 31 December 2020 | As at 31 December 2019 |
|----------------------------|---|---|---------------|-------------------------|---------------------------|---------------------------|
| | | | | 28.06.2020 ³ | - | 1 839 159 |
| | | | | 02.09.2020 ³ | - | 151 376 |
| | | | | 10.09.2020 ³ | - | 302 555 |
| | | | | 01.10.2020 ³ | - | 604 070 |
| | | | | 14.10.2020 ³ | - | 301 714 |
| | | | | 31.01.2020 | - | 502 358 |
| | | | | 30.04.2020 | - | 502 330 |
| | | | | 28.02.2020 | - | 501 195 |
| | | | | 13.01.2020 | - | 600 868 |
| | | | | 14.04.2021 ³ | 601 673 | - |
| | | | | 30.04.2021 ³ | 200 429 | - |
| | | | | 29.06.2021 ³ | 1 099 541 | - |
| | | | | 10.09.2021 ³ | 100 366 | - |
| | | | | 25.01.2021 | 300 100 | - |
| | | | | 28.01.2021 | 600 089 | - |
| | | | | 29.01.2021 | 100 007 | - |
| Loans | Consortium of banks I ¹ | Redemption of bonds, investment expenditures and general expenses of the Group | Floating | | | |
| Loans | Bank Gospodarstwa Krajowego | Group's capital expenditures and refinancing of a portion of debt | Floating | 20.12.2033 | 998 232 | 998 458 |
| Loans | European Investment Bank | Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine | Fixed | 15.12.2021 | 20 354 | 40 047 |
| Loans | European Investment Bank | Construction and start-up of a co-generation unit at EC Bielsko Biąta | Fixed | 15.12.2021 | 29 105 | 57 294 |
| Loans | European Investment Bank | Modernization and extension of power grid | Fixed | 15.06.2024 | 137 682 | 175 298 |
| Loans | European Investment Bank | Modernization and extension of power grid | Fixed | 15.09.2024 | 72 151 | 89 820 |
| Loans | European Investment Bank | Modernization and extension of power grid | Fixed | 15.09.2024 | 90 440 | 112 661 |
| Loans | European Investment Bank | Modernization and extension of power grid and improvement of hydropower plants | Fixed | 15.03.2027 | 190 532 | 219 415 |
| Loans | Intesa Sanpaolo S.p.A. | Group's investment expenditure, except for financing or refinancing projects related to coal assets | Floating | 19.12.2024 | 250 832 | - |
| Loans | Intesa Sanpaolo S.p.A. | Group's investment expenditure, except for financing or refinancing projects related to coal assets | Floating | 19.12.2024 | 250 758 | - |
| Loans | Intesa Sanpaolo S.p.A. | Group's investment expenditure, except for financing or refinancing projects related to coal assets | Floating | 19.12.2024 | 250 526 | - |
| Loans | SMBC BANK EU AG | Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants | Fixed | 23.03.2025 | 498 860 | - |
| Loans | Consortium of banks II ² | Group's general corporate expenses, excluding financing of any new coalassets-related projects | floating | 10.03.2021 ³ | 160 610 | - |
| Overdraft facility | Bank Gospodarstwa Krajowego | financing of CO ₂ emission allowance, electricity and gas transactions on european stock exchanges | Floating | 30.12.2021 | - | 20 456 |
| Borrowings | Regional Fund for Environmental Protection and Water Management | Construction of renewable power unit at Jaworzno III Power Plant | Floating | 15.12.2022 | 8 000 | 12 000 |
| Borrowings | Regional Fund for Environmental Protection and Water Management | Construction of the photovoltaic farm | Floating | 30.11.2025 | 8 547 | - |
| Other loans and borrowings | | | | | 23 299 | 19 577 |
| Total | | | | | 5 992 133 | 7 050 651 |

¹ Consortium of banks I consists of Bank Handlowy w Warszawie S.A., Santander Bank Polska S.A., CaixaBank S.A. (Joint Stock Company) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A., MUFG Bank (Europe) N.V., MUFG Bank (Europe) N.V. S.A. Branch in Poland and Powszechna Kasa Oszczędności Bank Polski S.A.

² Consortium of banks II consists of: Intesa Sanpaolo S.p.A. acting through Intesa Sanpaolo S.p.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Joint Stock Company) Branch in Poland.

³ Tranche classified as a long-term liability

Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the bank consortium (Consortium of banks I), the maximum period for drawing individual loan tranches is 12 months. However, the financing available under the agreement is renewable and the deadline for its availability is end 2022. Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date tranches with the total nominal value of PLN 2 000 000 thousand are presented as a non-current liability as at the balance sheet date. Tranches with a total nominal value of PLN 1 000 000 thousand are classified as current liabilities as at 31 December 2020.

Likewise, the syndicated loan taken out under the agreement of 25 March 2020 (Consortium of Banks II) is of revolving nature. The Company may raise financing against available financing with a selected interest period. Under the agreement, the repayment occurs at the end of the interest period, whereas the Company has the option to re-borrow.

Due to the intention and ability to maintain financing under the said agreement for a period exceeding 12 months from the balance sheet date, the drawdown used is classified as a non-current liability as of the balance sheet date.

Loan Agreement with SMBC BANK EU AG

On 16 March 2020, TAURON Polska Energia S.A. concluded a loan agreement with SMBC BANK EU AG for the amount of PLN 500 000 thousand; the funds are earmarked for the financing of the Group's general corporate purposes, excluding the construction, acquisition, expansion of coal-fired power plants and refinancing of any financial liabilities contracted or expenses incurred for such purposes. On 23 March 2020, the Company drew down funds under the said agreement in the amount of PLN 500 000 thousand.

Syndicated loan agreement (Consortium of banks II)

On 25 March 2020, TAURON Polska Energia S.A. concluded a syndicated loan agreement for PLN 500 000 thousand with Banca IMI S.p.A., London Branch, Banca IMI S.p.A., Intesa Sanpaolo S.p.A. acting through Intesa Sanpaolo S.p.A. S.A. Branch in Poland and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Joint Stock Company) Branch in Poland,

The funds of the loan agreement are intended to finance general corporate purposes of the Company and the TAURON Group, excluding the financing of any new projects related to coal assets.

Pursuant to the loan agreement, the financing period is 5 years from the date of conclusion of the loan agreement with a possibility of two one-year extensions, i.e. up to a maximum of 7 years. The interest rate is calculated on the basis of a variable WIBOR interest rate, appropriate to the interest period in question, plus a margin which depends, among others, on the extent to which the loan is used and the fulfilment of pro-ecological contractual conditions, i.e. reduction of emissions and increasing the share of renewable energy sources in the TAURON Group's generation structure.

On 10 September 2020, the Company drew down funds under the said agreement in the amount of PLN 160 000 thousand.

Changes in the balance of loans and borrowings, excluding interest increasing their carrying amount

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Opening balance | 7 027 775 | 881 582 |
| Movement in bank overdrafts and cash pool loans received | (16 417) | 21 453 |
| Movement in other loans and borrowings: | (1 031 066) | 6 124 740 |
| Repaid | (9 456 813) | (1 367 360) |
| Taken* | 8 412 255 | 5 646 173 |
| Replacing bond issue scheme with loan arrangement* | - | 1 837 822 |
| Change in valuation | 13 492 | 8 105 |
| Closing balance | 5 980 292 | 7 027 775 |

* The cost of borrowing has been taken into account.

In the year ended 31 December 2020, the Group carried out the following transactions relating to bank loans and borrowings (at a nominal value), excluding overdraft facilities:

| Lender | Description | Year ended 31 December 2020 | |
|------------------------------------|---|-----------------------------|--------------------|
| | | Drawdown | Repayment |
| Consortium of banks I | Drawdown of new tranches and repayment of tranches according to credit agreement deadline | 7 000 000 | (9 289 600) |
| Intesa Sanpaolo S.p.A. | Drawdown of 3 tranches of PLN 250 000 thousand each (total available financing) | 750 000 | |
| SMBC BANK EU AG | Drawdown of total of available financing | 500 000 | |
| Consortium of banks II | First tranche draw down | 160 000 | |
| European Investment Bank | Repayment of capital instalments according to schedule | | (162 318) |
| Other borrowings | | 8 546 | (4 895) |
| Total, including: | | 8 418 546 | (9 456 813) |
| Cash flows | | 3 368 546 | (4 406 813) |
| Net settlement (without cash flow) | | 5 050 000 | (5 050 000) |

After the balance sheet date, under the agreement of 19 June 2019 (Consortium of banks I), the Company has drawn tranches with an aggregate nominal value of PLN 1 750 000 thousand and repaid tranches in accordance with the repayment schedule in the aggregate amount of PLN 2 300 000 thousand.

TAURON Polska Energia S.A. Capital Group
 Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
 as endorsed by the European Union
 (in PLN thousand)

Overdrafts

As at 31 December 2020, the balance of overdrafts amounted to PLN 2 261 thousand (as at 31 December 2019 - to PLN 23 339 thousand).

39.2. Bonds issued

Bonds issued as at 31 December 2020

| Issuer | Investor | Interest | Currency | Bonds at nominal value in currency | Maturity date | As at balance sheet date | | | of which maturing within (after the balance sheet date): | | | | |
|---------------------------------|-----------------------------|-----------------------------|----------|------------------------------------|-------------------------|--------------------------|------------------|-----------------------------|--|----------------|------------------|------------------|-----------|
| | | | | | | Total carrying amount | Interest accrued | Principal at amortised cost | up to 1 year | 1-2 years | 2-5 years | Over 5 years | |
| TAURON Polska Energia S.A. | Bank Gospodarstwa Krajowego | floating, based on WIBOR 6M | PLN | 800 000 | 2021-2028 | 799 393 | 448 | 798 945 | 99 953 | 99 917 | 299 607 | 299 468 | |
| | | | | 630 000 | 2021-2029 | 630 105 | 342 | 629 763 | 69 990 | 69 983 | 209 924 | 279 866 | |
| | A series bonds (TPE1025) | floating, based on WIBOR 6M | PLN | 1 000 000 | 30.10.2025 | 1 000 115 | 2 760 | 997 355 | - | - | 997 355 | - | |
| | | Eurobonds | fixed | EUR | 500 000 | 5.07.2027 | 2 321 672 | 27 025 | 2 294 647 | - | - | - | 2 294 647 |
| Finanse Grupa TAURON Sp. z o.o. | International investors | fixed | EUR | 168 000 | 3.12.2029 | 772 557 | 699 | 771 858 | - | - | - | 771 858 | |
| Unsubordinated bonds | | | | | | 5 523 842 | 31 274 | 5 492 568 | 169 943 | 169 900 | 1 506 886 | 3 645 839 | |
| TAURON Polska Energia S.A. | Bank Gospodarstwa Krajowego | floating, based on WIBOR 6M | PLN | 400 000 | 29.03.2031 ² | 400 026 | 559 | 399 467 | - | - | - | 399 467 | |
| | European Investment Bank | fixed ¹ | EUR | 190 000 | 16.12.2034 ² | 864 530 | 1 767 | 862 763 | - | - | 862 763 | - | |
| | | | PLN | 400 000 | 17.12.2030 ² | 391 458 | 1 243 | 390 215 | - | - | 390 215 | - | |
| | | PLN | 350 000 | 19.12.2030 ² | 342 353 | 922 | 341 431 | - | - | 341 431 | - | | |
| Subordinated bonds | | | | | | 1 998 367 | 4 491 | 1 993 876 | - | - | 1 594 409 | 399 467 | |
| Total bonds issued | | | | | | 7 522 209 | 35 765 | 7 486 444 | 169 943 | 169 900 | 3 101 295 | 4 045 306 | |

¹ In the case of hybrid (subordinated) financing - bonds subscribed for by the European Investment Bank, two periods are distinguished. In the first period, the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.

² In the case of subordinated bonds, the maturity date shall take into account two financing periods, as referred to below. The maturity dates presented in the table above are the final terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the reporting period end, includes earlier redemption, intention of bonds redemption is after end of first period of financing. Ageing takes into account estimation of redemption after first period of financing.

Bonds issued as at 31 December 2019

| Issuer | Investor | Interest | Currency | Bonds at nominal value in currency | Maturity date | As at balance sheet date | | | of which maturing within (after the balance sheet date): | | | | |
|---------------------------------|---|-----------------------------|----------|------------------------------------|-------------------------|--------------------------|------------------|-----------------------------|--|----------------|------------------|------------------|-----------|
| | | | | | | Total carrying amount | Interest accrued | Principal at amortised cost | up to 1 year | 1-2 years | 2-5 years | Over 5 years | |
| TAURON Polska Energia S.A. | Bank Gospodarstwa Krajowego | floating, based on WIBOR 6M | PLN | 800 000 | 2021-2028 | 799 551 | 856 | 798 695 | - | 99 906 | 299 568 | 399 221 | |
| | | | | 630 000 | 2021-2029 | 630 368 | 657 | 629 711 | - | 69 980 | 209 914 | 349 817 | |
| | BNP Paribas Bank Polska S.A. ¹ | floating, based on WIBOR 6M | PLN | 3 100 | 25.03.2020 | 3 123 | 24 | 3 099 | 3 099 | - | - | - | |
| | | | | 6 300 | 9.11.2020 | 6 323 | 27 | 6 296 | 6 296 | - | - | - | |
| | | Eurobonds | fixed | EUR | 500 000 | 5.07.2027 | 2 140 700 | 24 870 | 2 115 830 | - | - | - | 2 115 830 |
| Finanse Grupa TAURON Sp. z o.o. | International investors | fixed | EUR | 168 000 | 3.12.2029 | 712 551 | 2 127 | 710 424 | - | - | - | 710 424 | |
| Unsubordinated bonds | | | | | | 4 343 595 | 28 574 | 4 315 021 | 60 361 | 169 886 | 509 482 | 3 575 292 | |
| TAURON Polska Energia S.A. | Bank Gospodarstwa Krajowego | floating, based on WIBOR 6M | PLN | 400 000 | 29.03.2031 ³ | 400 123 | 761 | 399 362 | - | - | - | 399 362 | |
| | European Investment Bank | fixed ² | EUR | 190 000 | 16.12.2034 ³ | 771 161 | 1 630 | 769 531 | - | - | 769 531 | - | |
| | | | PLN | 400 000 | 17.12.2030 ³ | 395 901 | 1 243 | 394 658 | - | - | - | 394 658 | |
| | | PLN | 350 000 | 19.12.2030 ³ | 346 242 | 922 | 345 320 | - | - | - | 345 320 | | |
| Subordinated bonds | | | | | | 1 913 427 | 4 556 | 1 908 871 | - | - | 769 531 | 1 139 340 | |
| Total bonds issued | | | | | | 6 257 022 | 33 130 | 6 223 892 | 60 361 | 169 886 | 1 279 013 | 4 714 632 | |

¹ Bond Issue Scheme of 24 November 2015.

² In the case of hybrid (subordinated) financing - bonds subscribed for by the European Investment Bank, two periods are distinguished. In the first period, the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.

³ In the case of subordinated bonds, the maturity date shall take into account two financing periods, as referred to below. The maturity dates presented in the table above are the final terms of redemption according to agreement, after two period of financing. Measurement of bonds as at the reporting period end, includes earlier redemption, intention of bonds redemption is after end of first period of financing. Ageing takes into account estimation of redemption after first period of financing.

The bonds issued by the Company are unsecured coupon bonds. The bonds were issued at the par value, except for Eurobonds with the issue price accounting for 99.44% of the par value. The Eurobonds were admitted to trading on the regulated market of the London Stock Exchange.

Bonds subscribed by the European Investment Bank ("EIB") are subordinated, which means that they have priority of satisfaction only before the amounts due to the Company's shareholders in the event of its bankruptcy or liquidation. This in turn positively affects Company's financial stability, since the bonds are excluded from the net debt / EBITDA ratio calculation, a covenant in some financing agreements concluded by the Company. Additionally, 50% of the subordinated

bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

There are two financing periods for bonds subscribed for by the EIB. The Company cannot early buy-back the bonds in the first (non-call) period, nor can EIB early sell them to third parties (in both cases except for cases indicated in the subscription agreement). In this period, the interest rate is fixed, while after the non-call period, it is floating and is linked to the underlying rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed margin. In the case of bonds issued in PLN, the maturity date was set at 12 years from the issue date, i.e. 17 and 19 December 2030, with the first financing period defined as 7 years and the next one as 5 years in accordance with the characteristics of hybrid financing. In the case of bonds issued in EUR, the maturity date is set at 18 years from the issue date, i.e. 16 December 2034, with the first financing period defined as 8 years and the next one as 10 years in accordance with the characteristics of hybrid financing.

The bonds issued under the agreement of 6 September 2017 concluded with Bank Gospodarstwa Krajowego with a par value of PLN 400 000 thousand are also of a subordinated nature. For these bonds, two periods are also distinguished. The Company cannot early buy-back the bonds in the first 7-year-period (non-call period), nor can BGK early sell them to third parties (in both cases except for cases indicated in the documentation). The interest rate is variable based on WIBOR 6M increased by a fixed margin, with the margin being further increased after a 7-year financing period.

Change in the balance of bonds excluding interest which increases their carrying amount

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Opening balance | 6 223 892 | 10 034 904 |
| Issue* | 997 318 | 499 312 |
| Redemption | (60 400) | (2 420 000) |
| Replacing bond issue scheme with loan arrangement | - | (1 839 600) |
| Change in valuation | 325 634 | (50 724) |
| Closing balance | 7 486 444 | 6 223 892 |

* Costs of issue have been included.

The change in the valuation of the bonds is mainly due to the currency valuation of the liabilities contracted in EUR.

In the year ended 31 December 2020, the Company performed the following bond issuance and redemption transactions:

| Agreement/ Scheme | Description | Date of issue/ Date of redemption | Year ended 31 December 2020 | |
|--------------------------------|--|---|--------------------------------|-----------------|
| | | | Par value of issue | Redemption |
| BNP Paribas Bank Polska S.A | Redemption of bonds in accordance with the maturity date | 25.03.2020 | | (3 100) |
| | | 9.11.2020 | | (6 300) |
| | | 29.12.2020 | | (51 000) |
| A series bonds (TPE 1025) | Issue of bonds in the total nominal amount of PLN 1 000 000 thousand under the Scheme Agreement with Santander Bank Polska S.A. of 6 February 2020 | 30.10.2020 | 1 000 000 | |
| Total | | | 1 000 000 | (60 400) |

Establishment of a bond issue scheme (A series bonds – TPE1025)

On 6 February 2020, TAURON Polska Energia S.A. entered into the Scheme Agreement with Santander Bank Polska S.A. under which the Bond Issue Scheme (the "Scheme") up to PLN 2 000 000 thousand was established. Funds from the bond issue will support the implementation of the Group's energy transformation, including increasing the share of low- and zero-carbon sources in its generation structure.

On 30 October 2020, under the Scheme, the Company issued bonds in the total nominal amount of PLN 1 000 000 thousand. The bonds are unsecured bearer securities, denominated in PLN, with a maturity of 5 years. The Bonds have been listed in the alternative trading system Catalyst operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) since 19 January 2021.

The terms and conditions of the bond issue include sustainability indicators in the form of the CO₂ emission reduction rate and a RES capacity expansion rate, the achievement of which determined the level of the bond margin.

New subordinated bond issue scheme

After the balance sheet date, on 11 March 2021 TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the issue scheme of subordinated bonds up to PLN 450 000 thousand which is discussed in more detail in Note 60 to these consolidated financial statements.

39.3. Debt agreement covenants

The agreements signed with banks impose the legal and financial covenants on the Company, standard for this type of transactions. The key covenant is the net debt/EBITDA ratio (for long-term loans agreements and domestic bond issue schemes) which determines the debt less cash in relation to generated EBITDA. The net debt/EBITDA covenant for banks is calculated on the basis of consolidated data as at 30 June and 31 December while its permissible limit value is 3.5.

As at 31 December 2020, the net debt/EBITDA ratio amounted to 2.51, therefore the covenant was not exceeded.

39.4. Lease liabilities

As at 31 December 2020, the Company had a lease liability of PLN 1 072 657 thousand. The liability primarily relates to the perpetual usufruct of land, contracts for occupation of the road lane, land lease and rental agreements, transmission easements and the lease of office and warehouse premises.

Ageing of the lease liability

| | As at 31 December 2020 | As at 31 December 2019 |
|--|---------------------------|---------------------------|
| Within 1 year | 120 482 | 110 893 |
| Within 1 to 5 years | 312 553 | 309 789 |
| Within 5 to 10 years | 319 226 | 298 093 |
| Within 10 to 20 years | 547 794 | 500 368 |
| More than 20 years | 770 173 | 708 324 |
| Gross lease liabilities | 2 070 228 | 1 927 467 |
| Discount | (997 571) | (920 864) |
| Present value of lease payments | 1 072 657 | 1 006 603 |
| Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements | 1 072 657 | 1 006 603 |

40. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

In accordance with compensation policies, employees of the Group companies are entitled to the following post-employment benefits:

- retirement and disability benefits - paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits;
- death benefits;
- benefits from the Company Social Benefit Fund.

The above provisions are included in the post-employment defined benefit plans.

Jubilee bonuses are paid to employees of Group companies after a specified number of years of service.

The current value of provisions for post-employment benefits and provisions for jubilee bonuses as at each balance sheet date is calculated by an independent actuary using actuarial methods. Provisions are calculated using the individual method for each employee separately. The accrued liabilities are equal to discounted future payments, including employee turnover, and pertain to the time remaining until the end of the reporting period. Demographic and employee turnover data are based on historical information.

Actuarial gains and losses on measurement of liabilities arising from post-employment benefits are fully recognised in other comprehensive income (with the accumulated amount recognised in retained earnings), while actuarial gains and losses on jubilee bonuses are recognised in profit or loss.

Other increases and decreases in provisions are charged to operating expenses in the case of employees, to other operating expenses/ revenue in the case of pensioners and individuals entitled to disability allowances and to finance costs in the portion pertaining to interest that constitutes the unwinding of discount.

In accordance with IAS 19 *Employee Benefits*, the Group also recognises provisions for termination benefits under the voluntary redundancy schemes. The benefits are measured based on the expected number of employees willing to accept the employment termination offer and the estimated benefit amount.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

PROFESSIONAL JUDGEMENT AND ESTIMATES

Provisions for post-employment benefits and for jubilee benefits have been estimated using actuarial methods. Key actuarial assumptions made as at the end of the reporting period for provision calculation purposes:

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Discount rate (%) | 1.20% | 2.10% |
| Estimated inflation rate (%) | 2.50% | 2.50% |
| Employee rotation rate (%) | 0.95% - 8.79% | 0.93% - 8.98% |
| Estimated salary increase rate (%) | 2.50% | 2.50% |
| Estimated electricity price increase rate (%) | - | 3.50% |
| Estimated increase rate for contribution to the Social Fund (%) | 3.50% | 3.50% |
| Remaining average employment period | 12.06 – 21.62 | 12.18 – 22.67 |

| | As at 31 December 2020 | As at 31 December 2019 |
|--|---------------------------|---------------------------|
| Provision for post-employment benefits and jubilee bonuses | 1 010 885 | 1 397 489 |
| Provision for employment termination benefits and other provisions for employee benefits | 22 394 | 34 409 |
| Total | 1 033 279 | 1 431 898 |
| Non-current | 931 954 | 1 313 480 |
| Current | 101 325 | 118 418 |

40.1. Provisions for post-employment benefits and jubilee bonuses

Change in provisions for employee benefits for the year ended 31 December 2020

| | Provision for retirement, disability and similar benefits | Employee electricity rates | Social Fund | Jubilee bonuses | Provisions, total |
|--|---|-------------------------------|----------------|-----------------|----------------------|
| Opening balance | 378 423 | 450 154 | 119 410 | 449 502 | 1 397 489 |
| Current service costs | 26 892 | 6 063 | 4 587 | 39 090 | 76 632 |
| Actuarial gains and losses, of which: | 14 112 | 79 488 | 49 705 | 7 650 | 150 955 |
| arising from changes in financial assumptions | 31 699 | 76 178 | 24 494 | 28 960 | 161 331 |
| arising from changes in demographic assumptions | (555) | - | 602 | 650 | 697 |
| arising from other changes | (17 032) | 3 310 | 24 609 | (21 960) | (11 073) |
| Benefits paid | (25 317) | (5 970) | (4 223) | (45 531) | (81 041) |
| Past-service costs | (8) | (533 319) | - | - | (533 327) |
| Interest expense | 6 917 | 3 584 | 2 436 | 8 472 | 21 409 |
| Reclassification to liabilities associated with assets held for sale | (21 232) | - | - | - | (21 232) |
| Closing balance | 379 787 | - | 171 915 | 459 183 | 1 010 885 |
| Non-current | 341 593 | - | 167 597 | 413 024 | 922 214 |
| Current | 38 194 | - | 4 318 | 46 159 | 88 671 |

Change in provisions for employee benefits for the year ended 31 December 2019

| | Provision for retirement, disability and similar benefits | Employee electricity rates | Social Fund | Jubilee bonuses | Provisions, total |
|---|---|----------------------------|----------------|-----------------|-------------------|
| Opening balance | 331 270 | 370 267 | 91 720 | 395 572 | 1 188 829 |
| Current service costs | 16 501 | 9 066 | 2 736 | 22 734 | 51 037 |
| Actuarial gains and losses, of which: | 42 973 | 71 633 | 25 714 | 66 773 | 207 093 |
| arising from changes in financial assumptions | 40 623 | 60 007 | 16 016 | 37 262 | 153 908 |
| arising from changes in demographic assumptions | 4 843 | 7 097 | 1 892 | 4 983 | 18 815 |
| arising from other changes | (2 493) | 4 529 | 7 806 | 24 528 | 34 370 |
| Benefits paid | (21 299) | (11 524) | (3 325) | (46 070) | (82 218) |
| Past-service costs | 56 | - | - | - | 56 |
| Interest expense | 8 922 | 10 712 | 2 565 | 10 493 | 32 692 |
| Closing balance | 378 423 | 450 154 | 119 410 | 449 502 | 1 397 489 |
| Non-current | 338 410 | 436 769 | 115 928 | 403 437 | 1 294 544 |
| Current | 40 013 | 13 385 | 3 482 | 46 065 | 102 945 |

The past service costs for the year ended 31 December 2020 result from agreements concluded in May 2020 between the management boards of selected subsidiaries and representative trade union organisations and additional protocols signed amending the company collective bargaining agreements in these companies. On the basis of the additional protocols, changes were introduced to the payments of the cash equivalent for the concessionary use of electricity by pensioners and other eligible persons who are not employees of the above companies, which, in light of the regulations of IAS 19 *Employee Benefits*, formed the basis for the reversal of provisions for the employee tariff. The cumulative effect of the above changes on the reversal of provisions for the employee tariff in the year ended 31 December 2020 amounted to PLN 533 319 thousand, of which the amount of PLN 299 408 thousand relating to employees as future pensioners decreased the Group's operating expenses, while the amount of PLN 233 911 thousand relating to current pensioners had an impact of the increase in the Group's other operating income.

In the year ended 31 December 2020, a change in actuarial assumptions, including mainly a decrease in the discount rate adopted for the calculation, increased actuarial provisions in the amount of PLN 150 955 thousand, of which PLN 7 650 thousand increased the Group's operating expenses and PLN 143 305 thousand was recognised in the Group's other comprehensive income.

Sensitivity analysis

As at 31 December 2020, a sensitivity analysis of the measurement results to a change in the financial discount rate and to changes in planned base amount increases in the range -0.5 p.p./+0.5 p.p. was carried out.

The table below shows the carrying amount of individual provisions and provisions calculated based on the changed assumptions and how these carrying amounts would change with different assumptions applied (deviation):

| Provision title | Carrying amount as at 31 December 2020 | Financial discount rate | | | | Planned base increases | | | |
|---|--|-------------------------|---------------|----------------|-----------------|------------------------|-----------------|------------------|---------------|
| | | -0.5 p.p. | | +0.5 p.p. | | -0.5 p.p. | | +0.5 p.p. | |
| | | balance | deviation | balance | deviation | balance | deviation | balance | deviation |
| Provision for retirement, disability and similar benefits | 379 787 | 398 754 | 18 967 | 362 238 | (17 549) | 363 044 | (16 743) | 397 658 | 17 871 |
| Costs of appropriation to Social Benefits Fund | 171 915 | 188 238 | 16 323 | 157 612 | (14 303) | 157 835 | (14 080) | 187 781 | 15 866 |
| Jubilee bonuses | 459 183 | 476 790 | 17 607 | 442 686 | (16 497) | 446 599 | (12 584) | 472 464 | 13 281 |
| Total | 1 010 885 | 1 063 782 | 52 897 | 962 536 | (48 349) | 967 478 | (43 407) | 1 057 903 | 47 018 |
| effect on profit/loss | | | 17 607 | | (16 497) | | (12 584) | | 13 281 |
| effect on other comprehensive income | | | 35 290 | | (31 852) | | (30 823) | | 33 737 |

The Group classifies provisions as current and non-current based on estimates regarding distribution of payments over time, prepared with the use of actuarial methods.

Provisions for employee benefits by maturity

| Year | Retirement, disability and similar benefits | Social Fund | Jubilee bonuses | Provisions, total |
|--------------|---|----------------|-----------------|-------------------|
| 2021 | 38 194 | 4 318 | 46 159 | 88 671 |
| 2022 | 20 454 | 4 773 | 39 458 | 64 685 |
| 2023 | 24 104 | 4 913 | 37 891 | 66 908 |
| 2024 | 19 526 | 5 047 | 35 600 | 60 173 |
| 2025 | 19 128 | 5 162 | 32 511 | 56 801 |
| Other years | 258 381 | 147 702 | 267 564 | 673 647 |
| Total | 379 787 | 171 915 | 459 183 | 1 010 885 |

40.2. Provisions for employment termination benefits and other provisions for employee benefits

| | Year ended 31 December 2020 | | | Year ended 31 December 2019 | | |
|------------------------|------------------------------|------------------|---------------|------------------------------|------------------|---------------|
| | Voluntary redundancy schemes | Other provisions | Total | Voluntary redundancy schemes | Other provisions | Total |
| Opening balance | 21 032 | 13 377 | 34 409 | 31 991 | 10 658 | 42 649 |
| Recognition | 6 292 | 9 319 | 15 611 | 23 044 | 10 877 | 33 921 |
| Reversal | (2 921) | (810) | (3 731) | (13 689) | - | (13 689) |
| Utilization | (9 999) | (13 896) | (23 895) | (6 992) | (8 158) | (15 150) |
| Other changes | - | - | - | (13 322) | - | (13 322) |
| Closing balance | 14 404 | 7 990 | 22 394 | 21 032 | 13 377 | 34 409 |
| Non-current | 9 740 | - | 9 740 | 13 128 | 5 808 | 18 936 |
| Current | 4 664 | 7 990 | 12 654 | 7 904 | 7 569 | 15 473 |

41. Provisions for dismantling fixed assets, restoration of land and other provisions

SELECTED ACCOUNTING PRINCIPLES

Provision for mine decommissioning costs

The provision for costs of dismantling fixed assets and restoration of land includes mainly the provision for costs of decommissioning of mines for which it is required that the assets be liquidated and the land restored to its original condition after the exploitation.

The provision is determined based on future decommissioning costs and costs of land restoration estimated by independent experts taking into account the discounting effect and the amount determined in line with separate regulations of the Mine Decommissioning Fund. The provision is estimated based on an analysis prepared using deposit exploitation projections (for mines) and a technical and business analysis.

For coal mines a corresponding entry is made in line with IAS 16 *Property, Plant and Equipment* as a fixed asset of a mine and changes in estimates are disclosed in line with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, i.e. as adjustments to the provision and capitalised future mine decommissioning costs. The unwinding of discount is recognised in the profit or loss.

Provision for restoration of land and dismantling and removal of fixed assets

Based on estimates of future costs of dismantling prepared by independent experts, taking into account the discounting effect, the Group establishes a provision for estimated costs of dismantling, to include those related to wind farms, but also for removing fixed assets and restoring the land where the fixed assets were located if it has an obligation arising from the acquisition or use of property, plant and equipment items.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group estimates the amount of provisions created based on the assumptions, methodology and calculations appropriate for a given type of provisions, evaluating the probability of spending funds that incorporate economic benefits and determining the reliable level of funds necessary to perform the obligation. Provisions are created by the Group if the probability of spending funds that incorporate economic benefits is higher than 50%.

| | Year ended 31 December 2020 | | | Year ended 31 December 2019 | | |
|-------------------------------------|--|--|------------------|--|--|------------------|
| | Provision for mine decommissioning costs | Provision for land restoration and dismantling and removal of fixed assets | Provisions total | Provision for mine decommissioning costs | Provision for land restoration and dismantling and removal of fixed assets | Provisions total |
| Opening balance | 305 885 | 194 082 | 499 967 | 202 599 | 135 878 | 338 477 |
| Unwinding of the discount | 6 125 | 3 561 | 9 686 | 6 078 | 3 651 | 9 729 |
| Discount rate adjustment | 62 873 | 24 488 | 87 361 | 97 042 | 11 303 | 108 345 |
| Business acquisition | - | - | - | - | 60 817 | 60 817 |
| Recognition/(reversal), net | 254 | (11 740) | (11 486) | 166 | (25 522) | (25 356) |
| Utilisation | (323) | (2 147) | (2 470) | - | (5 367) | (5 367) |
| Other changes | - | - | - | - | 13 322 | 13 322 |
| Closing balance | 374 814 | 208 244 | 583 058 | 305 885 | 194 082 | 499 967 |
| Non-current | 374 732 | 195 823 | 570 555 | 305 493 | 164 142 | 469 635 |
| Current | 82 | 12 421 | 12 503 | 392 | 29 940 | 30 332 |
| Other provisions, long-term portion | - | - | 98 651 | - | - | 193 495 |
| Total | | | 669 206 | | | 663 130 |

41.1. Provision for mine decommissioning costs

The provision is created for mines included in the Group based on estimated costs of liquidating facilities and reclaiming land to the original condition after the completion of the exploitation process. The provision for mine decommissioning costs includes the balance of the Mine Decommissioning Fund ("MDF"), which is created under the Geological and

Mining Law and the related implementing provisions, by the Group's mining companies as a pre-determined ratio of the tax depreciation charge on fixed assets or, for the exploitation fee, the equivalent of the charge transferred to a separate bank account. The financial assets of the MDF are presented in the statement of financial position under non-current and current financial assets, while the balance of the MDF is recognised under the provision for future costs of mine decommissioning.

As at 31 December 2020, the balance of the provision amounted to PLN 374 814 thousand and the change in the balance is mainly related to the revaluation of the provision due to a change in the discount rate adopted to calculate the provision - a reduction in the discount rate from 2.1% to 1.2%.

The following tables present the amount of appropriation to the MDF, the assets of the MDF and the balance of liabilities arising from future costs of mine decommissioning.

Financial assets of the Mine Decommissioning Fund

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Assets as at 1 January | 50 228 | 47 126 |
| Contributions made | 4 206 | 4 046 |
| Interest | 461 | 888 |
| Use | (1 447) | (1 832) |
| Assets as at 31 December | 53 448 | 50 228 |
| Transfers made to the MDF in the period | (4 550) | (4 193) |

Provision for mine decommissioning costs

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---------------------------|---------------------------|
| Mine Decommissioning Fund | 57 068 | 53 962 |
| Surplus of discounted estimated decommissioning costs | 317 746 | 251 923 |
| Total | 374 814 | 305 885 |

41.2. Provision for restoration of land and dismantling and removal of fixed assets

| | Year ended 31 December 2020 | | | | Year ended 31 December 2019 | | | |
|-----------------------------|---|--|--|--|---|--|--|--|
| | Provision for restoration of ash landfill | Provisions for dismantling of wind farm assets | Provisions for removal of fixed assets | Total provision for restoration, disassembly and removal of fixed assets | Provision for restoration of ash landfill | Provisions for dismantling of wind farm assets | Provisions for removal of fixed assets | Total provision for restoration, disassembly and removal of fixed assets |
| Opening balance | 30 976 | 132 860 | 30 246 | 194 082 | 42 150 | 60 033 | 33 695 | 135 878 |
| Business acquisition | - | - | - | - | - | 60 817 | - | 60 817 |
| Interest cost (discounting) | 507 | 2 516 | 538 | 3 561 | 942 | 1 801 | 908 | 3 651 |
| Discount rate adjustment | 1 185 | 22 521 | 782 | 24 488 | - | 10 209 | 1 094 | 11 303 |
| Recognition/(reversal), net | (11 625) | 551 | (666) | (11 740) | (12 116) | - | (13 406) | (25 522) |
| Utilisation | (954) | - | (1 193) | (2 147) | - | - | (5 367) | (5 367) |
| Other changes | - | - | - | - | - | - | 13 322 | 13 322 |
| Closing balance | 20 089 | 158 448 | 29 707 | 208 244 | 30 976 | 132 860 | 30 246 | 194 082 |
| Non-current | 19 810 | 158 448 | 17 565 | 195 823 | 14 209 | 132 860 | 17 073 | 164 142 |
| Current | 279 | - | 12 142 | 12 421 | 16 767 | - | 13 173 | 29 940 |

The provision for removal of fixed assets comprises mainly the costs of liquidation of a chimney in Elektrownia Jaworzno, cooling towers and a unit in Elektrownia Łagisza, decommissioning of the cooling tower in Elektrownia Siersza and preparation for decommissioning of 120 MW class units in Łaziska, Łagisza, Siersza and Stalowa Wola.

42. Provisions for liabilities due to energy certificates of origin and CO₂ emission allowances

SELECTED ACCOUNTING PRINCIPLES

Provision for CO₂ emission liabilities

The Group creates a provision for the cost of redemption of CO₂ emission allowances. The provision for liabilities arising from emission of gases covered by the emission allowance scheme is created only when the actual emission level for a given year indicates the expected deficit of emission allowances awarded to the Group free of charge, including allocation of free-of-charge emission allowances to facilities belonging to individual Generation companies. The Group companies covered under the EU ETS are required to redeem an allowance for each tonne of carbon dioxide emitted in a given year by 30 April of the following year.

The provision is charged to operating expenses (taxes and fees) in the following amount:

- in the portion covered by allowances held at the end of the balance sheet date:
 - at a zero value, in the case of allowances received free of charge,
 - at the purchase price in the case of purchased allowances;
- in the portion not covered by allowances held as at the balance sheet date:
 - in the first instance, in values resulting from forward and futures transactions concluded for the purchase of allowances intended to meet the obligation for the current year,
 - subsequently, in the market value of the allowances failing to meet the obligation as at the balance sheet date, or in the value of potential penalty - in accordance with the intention regarding the manner of meeting the obligation.

At the date of redemption of the allowances, the emission allowances classified as current intangible assets are derecognised in correspondence with the provision for gas emission liabilities.

Provision for the obligation to present energy certificates of origin

Energy companies trading in and selling electricity to end customers are obliged to acquire property rights resulting from energy certificates of origin and to redeem them or to pay a substitution fee. If in a given financial year the quantitative share of electricity specified in the energy certificates of origin in the total annual sales of electricity to end customers is compliant with the limits provided for in regulations of the Minister of Economy - the obligation shall be deemed satisfied.

In order to meet the obligation to present the rights for redemption or to pay a substitution fee, the Group creates a provision at the end of the reporting periods for the costs of meeting this obligation.

The provision due to the obligation to present certificates of electricity origin for redemption is recognised:

- in the portion corresponding to energy certificates of origin held as at the balance sheet day - in the value of certificates held;
- in the portion not covered by energy certificates of origin held as at the balance sheet day - first, at the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; subsequently, at the market value of certificates necessary to fulfil the obligation at the end of the reporting period or at the amount of the substitution fee – in accordance with the Group's intention concerning the method of fulfilling the obligation.

The provision is charged to operating costs.

The settlement of the amount of the provision and the redemption of the property rights shall take place on the day of redemption of these rights by the President of the Energy Regulatory Office or on the day of incurring the substitution fee.

| | Year ended 31 December 2020 | | | Year ended 31 December 2019 | | |
|--|---|--|------------------|---|--|------------------|
| | Provisions for liabilities due to CO ₂ emission allowances | Provision for obligation to submit energy certificates | Provisions total | Provisions for liabilities due to CO ₂ emission allowances | Provision for obligation to submit energy certificates | Provisions total |
| Opening balance | 772 299 | 605 934 | 1 378 233 | 111 406 | 384 066 | 495 472 |
| Recognition | 920 467 | 759 722 | 1 680 189 | 774 614 | 599 113 | 1 373 727 |
| Reversal | - | (3 063) | (3 063) | (75) | (3 841) | (3 916) |
| Utilisation | (776 602) | (595 707) | (1 372 309) | (113 646) | (373 404) | (487 050) |
| Reclassification to liabilities associated with assets held for sale | (56 473) | (3 124) | (59 597) | - | - | - |
| Closing balance | 859 691 | 763 762 | 1 623 453 | 772 299 | 605 934 | 1 378 233 |

The increase in the cost of creating the provision for CO₂ emission liabilities in the year ended 31 December 2020 compared to the comparative period is described in Note 14 to these consolidated financial statements. The utilisation of the provision in the year ended 31 December 2020 in the amount of PLN 776 602 thousand relates entirely to the redemption obligation for 2019 (the Group fulfilled the entire obligation for 2019 in the first half of 2020). In the comparable period, the utilisation of the provision related to the obligation to redeem CO₂ emission allowances for 2018 amounted to PLN 113 646 thousand, whereas the remaining redemption obligation for 2018 was already fulfilled in 2018 (PLN 498 369 thousand).

The increase in the cost of creating the provision due to the obligation to present certificates of origin of energy in the year ended 31 December 2020 compared to the comparable period is mainly due to the increase in the obligation to present certificates of origin of energy from renewable sources in 2020 from the level of 18.5% to 19.5% of the volume of electricity sales to end users.

43. Other provisions

SELECTED ACCOUNTING PRINCIPLES

Other provisions comprise:

- The provision for use of real estate without a contract
The Group creates provisions for all claims filed by owners of real estate on which power or technology facilities, distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period (including accrued interest, if it can be reliably estimated). The Group does not create provisions for potential claims of land owners with unregulated status which have not been lodged, including for transmission and land easement. Creation and reversal of the provision is charged to other operating revenue or other operating expenses and interest accrued is charged to financial income or financial expenses.
- Provision for onerous contracts
If the Group is a party to the contract pursuant to which unavoidable costs of fulfilling the contractual obligations exceed the expected contractual benefits, the present contractual obligation arising from the contract is recognised and measured by the Group as a provision. The unavoidable costs arising from the contract comprise, at least, net costs of contract termination, corresponding to the costs of fulfilment of the contract or costs of any damages or penalties arising for the failure to fulfil it, whichever is lower. The unavoidable costs of meeting the obligation shall be increased by the value of the interest due if it can be estimated reliably.
- Other provisions relate to court cases, counterparty claims or other claims, potential penalties resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office of Competition and Consumer Protection and tax settlements.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group estimates the amount of provisions created based on the assumptions, methodology and calculations appropriate for a given type of provisions, evaluating the probability of spending funds that incorporate economic benefits and determining the reliable level of funds necessary to perform the obligation. Provisions are created by the Group if the probability of spending funds that incorporate economic benefits is higher than 50%.

| | Year ended 31 December 2020 | | | | Year ended 31 December 2019 | | | |
|--|---|---------------------------------|---|------------------|---|---------------------------------|---|-------------------|
| | Provision for use of real estate without contract | Provision for onerous contracts | Provision for counterparty claims, court dispute and other provisions | Provisions total | Provision for use of real estate without contract | Provision for onerous contracts | Provision for counterparty claims, court dispute and other provisions | Provisions, total |
| Opening balance | 88 070 | 241 796 | 397 050 | 726 916 | 92 110 | 213 996 | 311 295 | 617 401 |
| Unwinding of discount and change of discount rate | - | 106 | 81 | 187 | - | - | 2 425 | 2 425 |
| Recognition/(reversal), net | 168 | 37 754 | (80 088) | (42 166) | (3 611) | 298 057 | 82 305 | 376 751 |
| Utilisation | (310) | (194 965) | (62 555) | (257 830) | (429) | (270 257) | (11 608) | (282 294) |
| Reclassification to liabilities associated with assets held for sale | (44 442) | - | (664) | (45 106) | - | - | - | - |
| Other movements | 3 604 | - | (25 849) | (22 245) | - | - | 12 633 | 12 633 |
| Closing balance | 47 090 | 84 691 | 227 975 | 359 756 | 88 070 | 241 796 | 397 050 | 726 916 |
| Non-current | - | 27 857 | 70 794 | 98 651 | - | 48 815 | 144 680 | 193 495 |
| Current | 47 090 | 56 834 | 157 181 | 261 105 | 88 070 | 192 981 | 252 370 | 533 421 |
| Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions | | | | 12 503 | | | | 30 332 |
| Total | | | | 273 608 | | | | 563 753 |

43.1. Provision for use of real estate without contract

The Group companies create provisions for all claims filed by owners of properties on which distribution networks and heat installations are located. As at 31 December 2020, this provision amounted to PLN 47 090 thousand and was related to the segments:

- Generation - PLN 5 202 thousand;
- Distribution - PLN 34 652 thousand;
- Renewable energy sources - PLN 7 236 thousand.

The decrease in provisions is mainly associated with the reclassification of provisions of the subsidiary TAURON Ciepło Sp. o.o. to liabilities related to assets classified as held for sale.

In 2012, the third party lodged a claim against TAURON Ciepło S.A. (currently TAURON Ciepło Sp. z o.o.) related to clarification of the legal status of the transmission equipment located on its property. The company has questioned both

the legitimacy of the claims and of the grounds for offsetting their amounts against the current liabilities to the company arising from heat supplies. Consequently, the company initiated legal proceedings to assert its current claims against the debtor. The amount of the potential claims of the aforementioned entity in respect of clarification of the legal status of the company transmission equipment will be reviewed in the course of the proceedings. With regard to the pending dispute, in light of the adopted accounting policy, a provision has been recognised for the estimated cost of the above claim. Bearing in mind the pending litigation, having regard to the provisions of IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Due to the classification of the subsidiary, TAURON Ciepło Sp. z o.o. as a disposal group at the balance sheet date, the above provision was presented in the statement of financial position as liabilities related to assets classified as held for sale.

43.2. Provisions for onerous contracts

Provisions for onerous contracts in connection with the approval of the tariff for the sale of electricity by the President of the Energy Regulatory Office ("ERO President")

As at 31 December 2019, a provision for onerous contracts in the amount of PLN 237 445 thousand was created by the companies in the Sales segment. This provision relates primarily to households, including customers benefiting from tariff prices approved by the President of the Energy Regulatory Office ("G tariff") in the amount of PLN 130 287 thousand and individual customers who benefited from product price lists offered by the Company ("GD price lists") in the amount of PLN 99 570 thousand.

The need to create the aforementioned provision for the G tariff resulted from the adoption, for the calculation of the sales price for these customers for 2020, of the parameters set out in the call of the ERO President whose approval in December 2019 results in the impossibility of obtaining revenues from the sale of electricity in a value that would cover the justified costs of conducting activities in this field. The price level approved by the ERO President's decision for the G tariff group for 2020 was also a significant reason for the losses arising on the GD price lists, for which the provision was created. Some of the product contracts in the household segment link electricity rates to the G tariff price, therefore it also prevents gaining sales revenue at a level ensuring covering of full variable costs of the business.

At the same time, on 7 January 2020, the subsidiary, TAURON Sprzedaż Sp. z o.o. submitted an application for the approval of the change of the electricity tariff for the consumers of tariff G groups for 2020, which is to transfer all justified costs that were not accepted in the application approved in December 2019. By virtue of its Decision of July 8, 2020, the ERO President refused to approve changes in the electricity tariff for these customers. On 31 July 2020, the Management Board of TAURON Sprzedaż Sp. z o.o. lodged an appeal to the Court of Competition and Consumer Protection against the decision of the President of the Energy Regulatory Office of 8 July 2020.

During 2020, as a result of the application of the above-mentioned price lists and tariffs, the companies generated a loss on electricity sales to its customers and therefore used the above-described provisions for onerous contracts related to 2020 in the amount of PLN 190 414 thousand, including the entire provision for the G tariff in the amount of PLN 130 287 thousand and partial provision for GD tariffs in the amount of PLN 54 957 thousand.

At the same time, as at 31 December 2020, the companies updated the remaining provision for onerous contracts to PLN 76 394 thousand. This provision relates primarily to GD price lists in the amount of PLN 69 051 thousand. On the other hand, as at 31 December 2020, no necessity arose to create a provision for onerous contracts in terms of G tariff. On the basis of the household tariff for 2021, approved by the ERO President in December 2020, the companies will gain revenues from the sale of electricity fully covering the reasonable costs of doing business in this area.

Other provisions for onerous contracts

As at 31 December 2020, a provision was created for onerous contracts in the amount of PLN 8 297 thousand in connection with the partial acceptance by the Court of Appeal in Warsaw of the request for security by ordering the subsidiary, Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o. to execute in full the provisions of the contracts under the existing terms and conditions, in accordance with their contents, until the legal conclusion of the proceedings in the action brought by Pękanino Wind Invest Sp. z o.o. against Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o., as further described in Note 54 hereto.

43.3. Provisions for counterparty claims, court disputes and other provisions

Material provisions recognised within other provisions are described below:

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Operating segment | Description | As at 31 December 2020 | As at 31 December 2019 |
|--|--|------------------------|------------------------|
| Provision for counterparty claims | | | |
| Generation | The provision relates to claims submitted by contractors in connection with the construction of the 910 MW Unit in Jaworzno. A provision of PLN 93 539 thousand was created by the company in the Generation segment for additional increased costs related to ongoing contracts in the year ended 31 December 2019. The change in the provision, in the year ended 31 December 2020, mainly relates to the creation of a provision of PLN 56 590 thousand in relation to new claims and the partial reversal of the provision of PLN 128 477 thousand in connection with the updating and settlement of estimates during the year; the values were charged to capital expenditure. | 11 895 | 93 539 |
| Provision for the increase in remuneration for transmission easements | | | |
| Distribution | The provision relates to the risk of increased periodic charges for transmission easements for energy infrastructure located in the territory of forest districts subordinated to the Regional Directorate of State Forests in Wrocław in connection with a change in the nature of land from forest land to land associated with business activities. In the year ended 31 December 2020, the company of the Distribution segment used the provision in the amount of PLN 2 566 thousand and partially released the provision of PLN 5 704 thousand. | 59 053 | 67 323 |
| Provision for a fine to the Energy Regulatory Office ("ERO") | | | |
| Distribution | The provision relates to the risk of violation of the Energy Law of 10 April 1997 by misleading the ERO President with respect to the information provided at its request. | 6 000 | 6 000 |
| Provision for real estate tax | | | |
| Distribution | Provision for the economic risk in the scope of real estate tax relating to power grid assets. | 39 356 | 39 356 |
| Renewable Energy Source | The provision relates to the risk of the effects of the Constitutional Court judgement of 22 July 2020 on imposing the real estate tax on wind power plants in 2018. | 16 776 | - |
| Provision for value added tax | | | |
| Sales | <p>In the current reporting period and in the comparable period, the Company updated provisions against tax risks in connection with the inspection proceedings initiated in 2014 and 2016 by the Director of the Tax Inspection Office in Warsaw ("UKS Director") in relation to value added tax. The duration of these proceedings was several times extended by the UKS Director and by the Head of Mazowiecki Customs and Tax Control Office.</p> <p>In the year ended 31 December 2020 and in the comparative period, the Company increased the provision accordingly in connection with interest accrual.</p> <p>On 17 September 2020, the Head of the Mazowiecki Customs and Tax Control Office in Warsaw issued a decision concluding the inspection proceedings initiated in 2014, which was received on 7 October 2020. In connection with the foregoing, the Company has updated the provision accordingly:</p> <ul style="list-style-type: none"> - in connection with the assessment of the liability, the provision of PLN 54 734 thousand was used; - the provision of PLN 24 497 thousand was reversed in the scope of interest accrued. <p>Payment of the liability in the total amount of PLN 54 734 thousand (of which PLN 51 819 thousand was the principal amount due and PLN 2 915 thousand was the interest due until the date of initiation of the proceedings) took place in October 2020. At the same time, on 20 October 2020, a complaint was lodged by the Company against the decision of the Head of the Mazowiecki Customs and Tax Control Office in Warsaw dated 17 September 2020. The complaint, accompanied by the case file was forwarded to the second instance authority, i.e. the Director of the Revenue Administration Regional Office in Katowice. On 18 December 2020 the Director of the Revenue Administration Regional Office in Katowice issued a notice setting a new deadline for the conclusion of the appeal proceedings. The new deadline was scheduled on 15 April 2021.</p> <p>With regard to the inspection proceedings initiated in 2016, in November 2020 the Company received the result of the inspection, i.e. the document concluding these inspection proceedings, in which no irregularities were found with regard to the subject matter of the inspection. The Company has not created any provisions for the consequences of these proceedings.</p> <p>With regard to another inspection proceedings initiated in 2016, after the balance sheet date, on 15 January 2021, the Head of the Mazowiecki Customs and Tax Control Office in Warsaw issued a decision concluding the inspection proceedings. On 3 February 2021, the Company paid the amount of the liability covered by the decision including interest in the total amount of PLN 798 thousand.</p> | 798 | 77 094 |

44. Accruals, deferred income and government subsidies

SELECTED ACCOUNTING PRINCIPLES

Deferred income and government grants

As part of deferred income and government grants, the Group mainly recognises grants and subsidies received for the acquisition of property, plant and equipment and subsidies for development work.

Grants and subsidies received for the acquisition of property, plant and equipment are presented at the value of the cash received and recognised as other operating revenue commensurate with the corresponding depreciation expenses of the property, plant and equipment. This applies in particular to partially redeemed loans and credits and the settlement of the valuation of preferential loans.

Accrued expenses

Accruals are liabilities regarding goods / services received / performed but not paid for, billed and amounts payable to employees, in particular for bonuses and unused holidays. Although it is sometimes required to estimate the amount or the date of payment of accruals, the level of uncertainty is usually much lower than in case of provisions.

44.1. Deferred income and government grants

| | As at 31 December 2020 | As at 31 December 2019 |
|--|---------------------------|---------------------------|
| Deferred income | 28 390 | 48 623 |
| Donations, subsidies received for the purchase or fixed assets received free-of-charge | 25 656 | 44 521 |
| Other | 2 734 | 4 102 |
| Government grants | 395 137 | 443 433 |
| Subsidies obtained from EU funds | 331 602 | 349 335 |
| Forgiven loans from environmental funds | 16 164 | 32 764 |
| Measurement of preferential loans | 29 661 | 32 567 |
| Other | 17 710 | 28 767 |
| Total | 423 527 | 492 056 |
| Non-current | 398 621 | 460 003 |
| Current | 24 906 | 32 053 |

44.2. Accrued expenses

| | As at 31 December 2020 | As at 31 December 2019 |
|----------------------------------|---------------------------|---------------------------|
| Bonuses | 59 691 | 59 827 |
| Unused holidays | 46 177 | 46 612 |
| Environmental protection charges | 19 523 | 25 600 |
| Other accrued expenses | 16 859 | 21 452 |
| Total | 142 250 | 153 491 |
| Non-current | 1 007 | - |
| Current | 141 243 | 153 491 |

45. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

The Group uses simplified methods of measurement of other financial liabilities which are usually measured at amortised cost, if it does not result in the deformation of information contained in the financial statements, in particular, in case if the period to the moment of settlement of the liability is not long. The liabilities in relation to which simplifications are applied, are measured upon initial recognition and later, including, at the end of the reporting period, in the amount requiring payment. Liabilities to suppliers, investment liabilities (Note 46) and selected other financial liabilities (Note 48) are therefore measured at the amount payable, due to the immaterial impact of discounting.

Short-term liabilities to suppliers as at 31 December 2020 and as at 31 December 2019 are presented in the table below:

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Operating segment | As at 31 December 2020 | As at 31 December 2019 (restated figures) |
|--|---------------------------|---|
| Mining | 138 064 | 122 602 |
| Generation* | 106 657 | 124 057 |
| Renevabe Energy Sources | 13 288 | 13 552 |
| Distribution, <i>including:</i> | 242 050 | 223 173 |
| <i>liability to Polskie Sieci Elektroenergetyczne S.A.</i> | 182 555 | 172 790 |
| Sales | 372 207 | 287 827 |
| Other | 92 840 | 76 015 |
| Total | 965 106 | 847 226 |

* The data of the Generation segment for the comparable period include liabilities of the subsidiary, TAURON Ciepło Sp. z o.o. classified as a disposal group as at 31 December 2020.

46. Investment liabilities

Short-term investment liabilities as at 31 December 2020 and as at 31 December 2019 are presented in the table below:

| Operating segment | As at 31 December 2020 | As at 31 December 2019 (restated figures) |
|-------------------------|---------------------------|---|
| Mining | 101 901 | 62 059 |
| Generation* | 353 460 | 426 419 |
| Renevabe Energy Sources | 4 283 | 2 588 |
| Distribution | 253 711 | 182 150 |
| Sales and Other | 125 131 | 84 727 |
| Total | 838 486 | 757 943 |

* The data of the Generation segment for the comparable period include liabilities of the subsidiary, TAURON Ciepło Sp. z o.o. classified as a disposal group as at 31 December 2020.

Long-term investment liabilities were presented in the consolidated statement of financial position under other financial liabilities. As at 31 December 2020, the related liability amounted to PLN 22 983 thousand (as at 31 December 2019 - PLN 7 414 thousand).

Commitments to incur capital expenditure

As at 31 December 2020 and 31 December 2019, the Group committed to incur expenditures of PLN 3 104 699 thousand and PLN 3 981 923 thousand, respectively, on property, plant and equipment and intangible assets, the key items of which are shown in the table below:

| Operating segment | Agreement/investment project | As at 31 December 2020 | As at 31 December 2019 |
|---------------------|---|---------------------------|---------------------------|
| Generation | Construction of 910 MW Power Unit in Jaworzno | 232 160 | 598 758 |
| | Project of adjusting generation units to the BAT (Best Available Techniques) conclusions | 17 074 | 313 110 |
| Distribution | Construction of new electrical connections | 1 425 541 | 1 227 019 |
| | Modernization and reconstruction of existing networks | 708 659 | 918 317 |
| Mining | Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations | 126 202 | 146 380 |
| | Construction of the 800 m drift at "Janina" Mining Plant | 3 613 | 30 681 |
| | Investment Program in "Brzeszcze" Mining Plant | 9 501 | 51 606 |
| Other | Construction of a broadband Internet network under the Operational Programme Digital Poland | 153 896 | 249 798 |

47. Liabilities arising from other taxes and charges

| | As at 31 December 2020 | As at 31 December 2019 |
|---------------------|---------------------------|---------------------------|
| Social security | 222 833 | 215 340 |
| VAT | 89 263 | 297 343 |
| Personal Income Tax | 59 596 | 53 974 |
| Excise | 12 756 | 12 063 |
| Other | 8 408 | 10 281 |
| Total | 392 856 | 589 001 |

A decline in VAT liabilities results mainly from the settlement in the first quarter of 2020 of a VAT liability as at 31 December 2019 in the amount of PLN 160 528 thousand resulting from the transaction of disposal of CO₂ emission allowances by the Company to subsidiaries in the Generation segment.

Tax settlements and other areas of activity may be subject to inspection by authorities entitled to impose high penalties and any additional tax liabilities resulting from final decisions of tax inspection authorities must be paid including interest. Consequently, the amounts presented and disclosed in these consolidated financial statements may change in the future.

48. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities classified as liabilities measured at amortised cost are recognised initially at the fair value, adjusted by transaction costs. Following the initial recognition other financial liabilities are measured at a level of amortised cost, applying the effective interest rate. If the discount effect is insignificant, they are measured at the amount due.

Derivatives are financial liabilities measured at a fair value.

PROFESSIONAL JUDGEMENT AND ESTIMATES

As at each balance sheet date, the Group estimates the fair value of liabilities measured at a fair value. The fair value calculation methodology is presented in Note 51 hereto.

| | As at 31 December 2020 | As at 31 December 2019 |
|--|---------------------------|---------------------------|
| Wages, salaries | 226 473 | 223 679 |
| Derivative instruments | 175 584 | 124 527 |
| Bid bonds, deposits and collateral received | 84 188 | 94 340 |
| Margin deposits arising from stock exchange transactions | 73 221 | 104 |
| Liabilities due to obligation to repay overpaid amounts to customers in connection with the entry into force of the amended Act* | - | 41 720 |
| Other | 127 060 | 155 502 |
| Total | 686 526 | 639 872 |
| Non-current | 136 855 | 79 417 |
| Current | 549 671 | 560 455 |

* Act of 28 December 2019 amending the Act on excise duty and certain other acts.

As at 31 December 2020, liabilities due to negative valuation of derivatives relate to commodity derivatives (including, to a large extent, forward instruments on account of transactions for which CO₂ emission allowances are the underlying commodity) and IRS and CCIRS instruments. Due to the market situation in the current reporting period, mainly related to COVID-19, the occurrence of material changes in commodity derivative prices, the depreciation of the Polish zloty and the decrease in interest rates, an increase in the liabilities arising from the measurement of the above derivatives occurred compared to the end of 2019. Derivatives are described in more detail in Note 51.3 hereto.

The value of variation margins is related mostly to futures transactions in CO₂ emissions allowances concluded on foreign regulated markets. The change in the value of margins compared to the comparable period results mainly from the significant increase in the price of allowances, while taking into account the number of exchange contracts open as at the balance sheet date. The margin deposits represented funds received by the Company on account of current exchange clearing, in connection with the change in the valuation of the concluded futures contracts open as at the balance sheet date.

The obligation to reimburse customers for overpayments relating to the adjustments recognised by the Group reducing revenue from customers for the first half of 2019, which resulted from the need to adjust prices in this period to the

provisions of the amended *Act of 28 December 2018 amending the Excise Tax Act and certain other acts*, was fully settled in the year ended 31 December 2020.

49. Other current non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other non-financial liabilities include, in particular, overpayments received from customers and liabilities in respect of advance payments received which will be settled by the delivery of goods, services or fixed assets. Other non-financial liabilities are recognised in the amount requiring payment.

| | As at 31 December 2020 | As at 31 December 2019 |
|---|---------------------------|---------------------------|
| Payments from customers relating to future periods | 418 358 | 360 602 |
| Amounts overpaid by customers | 336 608 | 299 558 |
| Prepayments for connection fees | 43 964 | 21 085 |
| Other | 37 786 | 39 959 |
| Other current non-financial liabilities | 4 733 | 3 774 |
| Total | 423 091 | 364 376 |

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

50. Significant items of the consolidated statement of cash flows

SELECTED ACCOUNTING PRINCIPLES

The statement on cash flows is prepared according to the indirect method.

50.1. Cash flows from operating activities

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Changes in working capital

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Change in receivables | 199 930 | (298 156) |
| Change in receivables from buyers in statement of financial position | (72 339) | (61 346) |
| Change in receivables due to financial compensation | 89 757 | - |
| Change in other financial receivables | 232 716 | (243 715) |
| Reclassification to assets classified as held for sale | (57 946) | - |
| Adjustment by the opening balance of the acquired business | - | 3 802 |
| Other adjustments | 7 742 | 3 103 |
| Change in inventories | (181 433) | (175 408) |
| Change in inventories in statement of financial position | (93 063) | (174 351) |
| Reclassification to assets classified as held for sale | (81 859) | - |
| Adjustment by the opening balance of the acquired business | - | 10 579 |
| Adjustment related to transfer of inventories to/from property, plant and equipment | (6 511) | (11 636) |
| Change in payables excluding loans and borrowings | 4 942 | (213 341) |
| Change in liabilities to suppliers in statement of financial position | 115 174 | (277 110) |
| Change in payroll, social security and other financial liabilities | (17 266) | (135 831) |
| Change in non-financial liabilities in statement of financial position | 54 485 | 27 597 |
| Change in liabilities arising from taxes excluding income tax | (196 145) | 183 347 |
| Adjustment of VAT change related to capital commitments | 13 639 | (8 732) |
| Reclassification to liabilities directly related to assets classified as held for sale | 57 080 | - |
| Adjustment by the opening balance of the acquired business | - | 7 472 |
| Other adjustments | (22 025) | (10 084) |
| Change in other non-current and current assets | 369 501 | (1 121 021) |
| Change in other current and non-current non-financial assets in statement of financial position | 110 042 | (28 883) |
| Change in receivables arising from taxes excluding income tax | 102 041 | (174 968) |
| Change in non-current and current CO ₂ emission allowances | 280 723 | (287 787) |
| Change in non-current and current energy certificates | (36 477) | (602 337) |
| Change in advance payments for property, plant and equipment and intangible assets | (63 950) | (22 460) |
| Reclassification to assets classified as held for sale | (23 822) | - |
| Adjustment by impairment losses on other non-financial assets | 2 845 | (5 577) |
| Adjustment by the opening balance of the acquired business | - | 7 089 |
| Other adjustments | (1 901) | (6 098) |
| Change in deferred income, government grants and accruals | (47 852) | (70 938) |
| Change in deferred income, government grants and accruals in statement of financial position | (79 770) | 5 141 |
| Adjustment related to property, plant and equipment and intangible assets received free of charge | (12 583) | (19 460) |
| Adjustment related to subsidies received and refunded | (59 669) | (56 069) |
| Reclassification of accruals and government grants to assets classified as held for sale | 108 895 | - |
| Other adjustments | (4 725) | (550) |
| Change in provisions | (456 426) | 955 263 |
| Change of short term and long term provisions in statement of financial position | (437 468) | 1 354 186 |
| Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income | (140 992) | (140 320) |
| Adjustment related to provisions recognized in correspondence with property, plant and equipment | (8 771) | (196 823) |
| Reclassification of provisions to liabilities directly related to assets classified as held for sale | 123 832 | - |
| Adjustment by the opening balance of the acquired business | - | (60 875) |
| Other adjustments | 6 973 | (905) |
| Total | (111 338) | (923 601) |

Income tax paid

In the year ended 31 December 2020, income tax paid amounted to PLN 60 146 thousand. The Tax Capital Group paid advance income tax payments for 2020 in the amount of PLN 287 300 thousand and received a net inflow from income tax settlements for previous years in the amount of PLN 244 314 thousand, which in total resulted in a net outflow of income tax paid by the Tax Capital Group in the amount of PLN 42 986 thousand.

In the year ended 31 December 2019, income tax paid amounted to PLN 423 736 thousand. The Tax Capital Group paid PLN 424 096 thousand of income tax, which results from the payment of advance income tax payments for 2019 in the amount of PLN 442 525 thousand and income tax settlements for previous years resulting in a net inflow of PLN 18 429 thousand.

The significant impact on the decrease in income tax paid in 2020 compared to the previous year is due to the fact that in 2020 the Tax Capital Group paid fixed monthly advance payments of income tax determined on the basis of the 2018 tax return, whereas in 2019 the Tax Capital Group paid monthly advance payments determined on the basis of the monthly income tax return.

50.2. Cash flows from investment activities

Purchase of tangible fixed assets and intangible assets

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Purchase of property, plant and equipment | (3 370 927) | (3 436 312) |
| Purchase of intangible assets | (167 028) | (120 034) |
| Change in the balance of VAT-adjusted capital commitments | 82 473 | (20 887) |
| Change in the balance of advance payments | 63 950 | 22 460 |
| Costs of overhaul and internal manufacturing | (513 917) | (478 006) |
| Other | (2 159) | (2 353) |
| Total | (3 907 608) | (4 035 132) |

Loans granted

Borrowing expenses in the amount of PLN 105 275 thousand are related with the following loans granted by the Company:

- tranches of a loan to the jointly controlled entity, Elektrociepłownia Stalowa Wola S.A. in the total amount of PLN 94 775 thousand;
- a loan to PGE EJ 1 Sp. z o.o in the amount of PLN 10 500 thousand.

Purchase of financial assets

Expenditure on the acquisition of shares in the amount of PLN 32 812 thousand is related to the transfer of funds by the Company to the increase the capital of the following companies:

- PGE EJ 1 Sp. z o.o in the amount of PLN 18 858 thousand;
- EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna in the amount of PLN 8 166 thousand;
- EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna in the amount of PLN 773 thousand;

50.3. Cash flows from financial activities

Repayment of loans/borrowings

Expenditure on repayment of borrowings and loans disclosed in the consolidated statement of cash flows in the amount of PLN 4 406 813 thousand is mainly attributable to repayment by the parent company in the year ended 31 December 2020 of:

- tranches of loans to the consortium of banks (Consortium of banks I) in the amount of PLN 4 239 600 thousand;
- loan instalments to the European Investment Bank in the amount of PLN 162 318 thousand.

Interest paid

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|--|--------------------------------|--------------------------------|
| Interest paid in relation to debt securities | (200 099) | (315 954) |
| Interest paid in relation to loans | (178 281) | (75 685) |
| Interest paid in relation to the lease and other | (7 095) | (5 129) |
| Total | (385 475) | (396 768) |
| investment expenditure | (169 529) | (184 212) |
| financial expenditure | (215 946) | (212 556) |

In the consolidated statements of cash flows, the Group presents costs of external financing incurred activated in the current period on assets as expenditures for acquisition of property, plant and equipment and intangible assets in cash flows from investment activities. In the year ended 31 December 2020, interest representing external financing costs subject to capitalisation in the value of property, plant and equipment and intangible assets amounted to PLN 169 529 thousand.

Repayment of lease liabilities

The repayment of lease liabilities recognised by the Group under IFRS 16 *Leases* amounted to PLN 102 085 thousand. The total cash outflow from leases (including short-term leases and leases of low-value assets, to which the Group applied a practical solution without recognizing them as at 1 January 2020 in accordance with IFRS 16 *Leases*) amounted to PLN 119 826 thousand.

Issue of debt securities

Proceeds from the issue of debt securities in the amount of PLN 1 000 000 thousand, as discussed further in Note 39.2 to these consolidated financial statements, related to the issue of bonds under the Scheme Agreement with Santander Bank Polska S.A. of 6 February 2020.

Loans drawn

Proceeds from loans drawn in the amount of PLN 3 368 546 thousand, as discussed in more detail in Note 39.1 to these consolidated financial statements, were related primarily to the drawdown of:

- tranches of the loan under the agreement concluded with the consortium of banks (Consortium of banks I) in the amount of PLN 1 950 000 thousand;
- all available financing under the loan agreement concluded with Intesa Sanpaolo S.p.A. bank, acting through Intesa Sanpaolo S.p.A. S.A. Branch in Poland, in the amount of PLN 750 000 thousand;
- available financing under the loan agreement concluded with SMBC BANK EU AG in the amount of PLN 500 000 thousand;
- a tranche of a loan in the amount of PLN 160 000 thousand under the syndicated loan agreement of 25 March 2020 (Consortium of banks II), as described in more detail in Note 39.1 to these consolidated financial statements.

50.4. Cash flows from discontinued activities

The Group presents cash flows from jointly the continuing and the discontinued operations in the consolidated statements of cash flows.

Net cash flows attributable to operating, investment and financial activities of discontinued operations are shown in the table below.

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Net cash from operating activity | 180 456 | 217 164 |
| Net cash from investment activity | (95 996) | (75 882) |
| Net cash from financing activity | (1 525) | (4 734) |
| Net increase in cash and cash equivalents on discontinued operations | 82 935 | 136 548 |

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

51. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

Financial assets held by the Group in accordance with IFRS 9 *Financial Instruments* are classified into the following classes of financial instruments:

- financial assets measured at amortised cost;
- financial assets measured at a fair value through profit or loss.

As at the balance sheet date, the Group had no financial assets measured at a fair value through other comprehensive income.

Financial assets in accordance with IFRS 9 *Financial Instruments* are classified upon initial recognition based on the cash flow characteristics (SPPI test) and the business model underlying the management of a given financial asset.

The Group measures equity instruments at a fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

The TAURON Group divides the financial liabilities into the following classes:

- financial liabilities measured at a fair value through profit or loss,
- other financial liabilities, measured at amortised cost at each subsequent balance sheet date.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group makes judgements regarding classification of financial instruments.

As at each balance sheet date, the Group measures the fair value of assets and liabilities classified as measured at a fair value and discloses the fair value of other financial instruments. The methodology of fair value measurement is presented below.

The Group recognises an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting day. The Group recognises the allowance for expected credit losses on financial assets measured at amortised cost mostly on receivables from customers and loans granted. The measurement of methodology is presented in Notes 32 and 52.1.4. hereto.

51.1. Carrying amount and fair value of financial instrument classes and categories

| Categories and classes of financial assets | As at 31 December 2020 | | As at 31 December 2019 | |
|---|---------------------------|------------|------------------------|---------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| 1 Financial assets measured at amortized cost | 2 662 298 | | 2 582 793 | |
| Receivables from buyers | 2 473 416 | 2 473 416 | 2 290 746 | 2 290 746 |
| Deposits | 53 448 | 53 448 | 50 228 | 50 228 |
| Loans granted | 26 190 | 26 190 | 39 467 | 39 467 |
| Other financial receivables | 109 244 | 109 244 | 202 352 | 202 352 |
| 2 Financial assets measured at fair value through profit or loss (FVTPL) | 1 397 075 | | 2 004 034 | |
| Derivative instruments | 158 846 | 158 846 | 86 067 | 86 067 |
| Shares | 85 454 | 85 454 | 140 508 | 140 508 |
| Shares classified as fixed assets held for sale | 91 227 | 91 227 | - | - |
| Loans granted | 72 523 | 72 523 | 216 018 | 216 018 |
| Other financial receivables | 67 680 | 67 680 | 296 867 | 296 867 |
| Investment fund units | - | - | 26 622 | 26 622 |
| Cash and cash equivalents | 921 345 | 921 345 | 1 237 952 | 1 237 952 |
| 3 Derivative hedging instruments | - | - | 19 462 | 19 462 |
| 4 Financial assets excluded from the scope of IFRS 9 Financial Instruments | 586 559 | | 559 144 | |
| Investments in joint ventures | 586 559 | | 559 144 | |
| Total financial assets, of which in the statement of financial position: | 4 645 932 | | 5 165 433 | |
| Non-current assets | 890 915 | | 1 032 701 | |
| Investments in joint ventures | 586 559 | | 559 144 | |
| Loans granted to joint ventures | 96 293 | | 238 035 | |
| Other financial assets | 208 063 | | 235 522 | |
| Current assets | 3 755 017 | | 4 132 732 | |
| Receivables from buyers | 2 363 085 | | 2 290 746 | |
| Loans granted to joint ventures | 2 420 | | 4 999 | |
| Other financial assets | 266 431 | | 599 035 | |
| Cash and cash equivalents | 909 453 | | 1 237 952 | |
| Assets classified as held for sale | 213 628 | | - | |

The above note includes financial instruments of the subsidiary TAURON Ciepło Sp. o.o. recognized by the Group as at the balance sheet date as assets classified as held for sale.

Based on the analysis performed, the collaterals transferred whose value as at 31 December 2020 amounted to PLN 67 680 thousand, were classified as other financial receivables at a fair value through profit or loss due to the fact that this classification provides the best reflection of the nature of these financial assets. The remaining other financial receivables are classified as measured at amortised cost.

The Group classifies the loan granted to Elektrociepłownia Stalowa Wola S.A. under an agreement of 28 February 2019 to assets measured at a fair value through profit or loss, as discussed in detail in Note 27 to these consolidated financial statements.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Categories and classes of financial liabilities | As at 31 December 2020 | | As at 31 December 2019 | |
|--|---------------------------|---------------|---------------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| 1 Financial liabilities measured at amortized cost | 15 913 883 | | 15 428 187 | |
| Preferential loans and borrowings | 16 717 | 16 717 | 12 488 | 12 488 |
| Arm's length loans and borrowings | 5 973 155 | 6 004 972 | 7 014 824 | 7 030 597 |
| Bank overdrafts | 2 261 | 2 261 | 23 339 | 23 339 |
| Bonds issued | 7 522 209 | 7 939 153 | 6 257 022 | 6 537 537 |
| Liabilities to suppliers | 1 021 364 | 1 021 364 | 850 628 | 850 628 |
| Other financial liabilities | 245 623 | 245 623 | 223 920 | 223 920 |
| Capital commitments | 880 373 | 880 373 | 765 357 | 765 357 |
| Salaries and wages | 232 274 | 232 274 | 223 679 | 223 679 |
| Insurance contracts | 19 907 | 19 907 | 56 930 | 56 930 |
| 2 Financial liabilities measured at fair value through profit or loss (FVTPL) | 85 523 | | 124 527 | |
| Derivative instruments | 85 523 | 85 523 | 124 527 | 124 527 |
| 3 Derivative hedging instruments | 90 061 | 90 061 | - | - |
| 4 Financial liabilities excluded from the scope of IFRS 9 Financial Instruments | 1 146 094 | | 1 006 603 | |
| Liabilities under leases | 1 146 094 | | 1 006 603 | |
| Total financial liabilities, of which in the statement of financial position: | 17 235 561 | | 16 559 317 | |
| Non-current liabilities | 13 245 304 | | 11 909 600 | |
| Debt | 13 108 449 | | 11 830 183 | |
| Other financial liabilities | 136 855 | | 79 417 | |
| Current liabilities | 3 990 257 | | 4 649 717 | |
| Debt | 1 478 550 | | 2 484 093 | |
| Liabilities to suppliers | 965 106 | | 847 226 | |
| Capital commitments | 838 486 | | 757 943 | |
| Other financial liabilities | 549 671 | | 560 455 | |
| Liabilities associated with assets classified as held for sale | 158 444 | | - | |

The above note includes financial instruments of the subsidiary TAURON Ciepło Sp. o.o. recognized by the Group as at the balance sheet date as liabilities related to assets classified as held for sale.

The fair value measurement methodology applied to financial instruments and fair value hierarchy levels assigned to these instruments are presented in the following tables.

| Financial asset/liability classes | Fair value measurement level | Fair value measurement methodology |
|--|------------------------------|---|
| Financial assets/liability measured at fair value | | |
| <i>Derivatives, including:</i> | | |
| IRS and CCIRS | 2 | Derivatives have been measured in line with the methodology presented in Note 51.3 hereto. |
| Currency forwards | 2 | |
| Commodity forwards and futures | 1 | |
| Shares | 3 | The Group estimated the fair value of shares held in not listed companies using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments or using a mixed approach. As the key factors affecting the value of the assumed shares had not changed at a given end of the reporting period compared to the initial recognition, in the case of other instruments the Group assumes that the historical cost is an acceptable approximation of the fair value. |
| Loans granted | 3 | Fair value measurement of the loan had the form of the current value of future cash flows, including borrower's credit risk. |
| Financial liabilities whose fair value is disclosed | | |
| Loans, borrowings and bonds issued | 2 | Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or borrowings, i.e. applying market interest rates. |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

The fair value of other financial instruments as at 31 December 2020 and 31 December 2019 (except from those excluded from the scope of IFRS 9 *Financial Instruments*) did not differ considerably from the amounts presented in the financial statements for the individual periods for the following reasons:

- the potential discounting effect relating to short-term instruments is not material;
- these instruments are related to arm's length transactions.

Shares in jointly controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured using the equity method.

Change in the balance of financial assets whose measurement is classified at the 3rd level of the fair value hierarchy

| | Year ended 31 December 2020 | | Year ended 31 December 2019 | |
|--|--------------------------------|----------------|--------------------------------|----------------|
| | Not quoted shares | Loans granted | Not quoted shares | Loans granted |
| Opening balance | 140 508 | 216 018 | 138 492 | 199 256 |
| Gains/(losses) for the period recognized in financial revenue/expenses | (1 376) | (143 495) | (10 044) | 16 762 |
| Purchased | 47 049 | - | 12 072 | - |
| Sold (liquidation)/repaid | - | - | (12) | - |
| Other changes | (9 500) | - | - | - |
| Closing balance | 176 681 | 72 523 | 140 508 | 216 018 |

Neither in the year ended 31 December 2020 nor in the year ended 31 December 2019, reclassification occurred between level 1 and 2 of the fair value hierarchy; nor did such reclassification occur from or to level 3 of that hierarchy.

51.2. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments

Year ended 31 December 2020

| | Assets/ liabilities at fair value through profit or loss | Financial assets at amortized cost | Financial liabilities at amortized cost | Hedging instruments | Financial assets/liabilities excluded from the scope of IFRS 9 | Total |
|---|---|---------------------------------------|---|------------------------|---|------------------|
| Dividends and shares in profits | 6 176 | - | - | - | - | 6 176 |
| Interest income / (expense) | 4 158 | 20 669 | (206 080) | (29 465) | (46 792) | (257 510) |
| Currency translation differences | (4 713) | 7 864 | (249 503) | - | - | (246 352) |
| Impairment / revaluation | 111 441 | (223 200) | (12 919) | (34) | - | (124 712) |
| Commission relating to borrowings and debt securities | - | - | (18 162) | - | - | (18 162) |
| Gain/(loss) on disposal of investments | 2 074 | (4 547) | - | - | - | (2 473) |
| Gain/(loss) on exercised derivative instruments* | 11 838 | - | - | - | - | 11 838 |
| Net financial income (costs) | 130 974 | (199 214) | (486 664) | (29 499) | (46 792) | (631 195) |
| Revaluation | (1 926) | (57 697) | - | - | - | (59 623) |
| Gain/(loss) on exercised derivative instruments* | (136 382) | - | - | - | - | (136 382) |
| Net operating income/(costs) | (138 308) | (57 697) | - | - | - | (196 005) |
| Remeasurement | - | - | - | (103 172) | - | (103 172) |
| Other comprehensive income | - | - | - | (103 172) | - | (103 172) |

*The Group recognises income and expense from commodity derivatives in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.

Year ended 31 December 2019 (restated figures)

| | Assets/ liabilities at fair value through profit or loss | Financial assets at amortized cost | Financial liabilities at amortized cost | Hedging instruments | Financial assets/liabilities excluded from the scope of IFRS 9 | Total |
|---|--|------------------------------------|---|---------------------|--|------------------|
| Dividends and shares in profits | 4 254 | - | - | - | - | 4 254 |
| Interest income / (expense) | 7 414 | 20 902 | (205 674) | 743 | (41 901) | (218 516) |
| Currency translation differences | 4 007 | (3 128) | 29 200 | - | - | 30 079 |
| Impairment / revaluation | (26 952) | (602) | (3 271) | 34 | - | (30 791) |
| Commission relating to borrowings and debt securities | - | - | (20 338) | - | - | (20 338) |
| Gain/(loss) on disposal of investments | 17 | (1 974) | - | - | - | (1 957) |
| Gain/(loss) on exercised derivative instruments* | (18 144) | - | - | - | - | (18 144) |
| Net financial income (costs) | (29 404) | 15 198 | (200 083) | 777 | (41 901) | (255 413) |
| Revaluation | 21 386 | (27 818) | - | - | - | (6 432) |
| Gain/(loss) on exercised derivative instruments* | (34 054) | - | - | - | - | (34 054) |
| Net operating income/(costs) | (12 668) | (27 818) | - | - | - | (40 486) |
| Remeasurement | - | - | - | 15 179 | - | 15 179 |
| Other comprehensive income | - | - | - | 15 179 | - | 15 179 |

*The Group recognises income and expenses from commodity derivatives in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.

51.3. Derivatives and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments within the scope of IFRS 9 *Financial Instruments* are classified as financial assets/liabilities measured at a fair value through profit or loss, except for derivatives designated as hedging instruments and covered by hedge accounting. Derivative instruments for the purchase and sale of non-financial assets acquired and held for internal purposes as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the balance sheet date. Derivatives subject to the scope of IFRS 9 *Financial Instruments* are disclosed as assets if their value is positive or as liabilities if their value is negative.

As at the balance sheet date, the Group holds the following derivatives subject to the scope of IFRS 9 *Financial Instruments*:

| Classification | Instruments type | Recognition in consolidated statement of comprehensive income |
|---|--|---|
| Derivatives subject to hedge accounting | Interest Rate Swaps (IRS) concluded to hedge against interest rate risk related to borrowings. Subject to hedge accounting. | - measurement (effective portion of the hedge) in other comprehensive income, reclassified to profit or loss when the hedged item affects profit or loss for the period; - measurement (non-effective portion of the hedge) in profit or loss for the period |
| Derivatives not subject to hedge accounting, classified as "assets/liabilities measured at fair value through profit or loss" | * forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations; | - finance income/ (costs) |
| | * forwards and futures for purchase and sales of CO ₂ emission allowances, energy and other commodities, concluded and maintained for speculation purposes; | - operating income/ (costs) |
| | * Coupon Only Cross Currency Swap (fixed-fixed-CCIRS) entered into in order to hedge against currency risk. | - finance income/ (costs) |

Hedge accounting

In order to hedge the interest rate risk, the Group uses IRS (Interest Rate Swap) contracts. These instruments hedge cash flows related to the debt. Such transactions are subject to hedge accounting.

At the inception of the hedge the Group formally designates and documents the hedging relationship as well as the risk management objective and the strategy underlying establishing of the hedge.

Cash flow hedges are accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss for the period.

Gain or loss from revaluation of the hedging instrument disclosed in other comprehensive income is recognized directly in profit or loss in the same period during which the hedged item affects profit or loss for the period. For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group measures fair value at each balance sheet date. The methodology is presented below. The Group tests the effectiveness of the hedge at each balance sheet date.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Derivative instrument | Methodology of determining fair value |
|-------------------------------|---|
| IRS | Difference between the discounted interest cash flows based on the floating and fixed interest rates. Reuters' interest rate curve is the input data. |
| CCIRS | Difference between the discounted interest cash flows of the payable and receivables streams, in two various currencies, denominated in the measurement currency. Reuters' interest rate curve, basis spreads and NBP fixing for relevant currencies are the input data. |
| Forward currency contracts | Difference between the discounted future cash flows between the future price as at the valuation date and the transaction price multiplied by the par value of the FX contract. Reuters' NBP fixing and the interest rate curve implied from fx swap transaction for a relevant currency is the input data. |
| Commodity (forwards, futures) | The fair value of forwards for the purchase and sale of CO ₂ emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price. |

Due to the delay in commissioning the power unit in Jaworzno, as at the balance sheet date, the Group had a significant surplus of CO₂ emission allowances contracted to be purchased for redemption by a subsidiary in connection with the emissions for 2020. As at the balance sheet date, the Group intended to acquire CO₂ emission allowances in maturity date, therefore these contracts were recognized as excluded from IFRS 9 *Financial Instruments* and therefore were not measured at fair value as at the balance sheet date.

As of 31 December 2020, the Group holds the following derivative instruments:

| Instrument | Description |
|---|---|
| Derivatives subject to hedge accounting | |
| IRS | IRS (Interest Rate Swap) instruments are used to hedge a portion of interest rate risk in relation to cash flows associated with exposure to WIBOR 6M determined under a dynamic risk management strategy, i.e.: <ul style="list-style-type: none"> • interest on a loan with a nominal value of PLN 750 000 thousand, for periods commencing respectively from July 2020, expiring in December 2024; • interest on bonds with a total nominal value of PLN 3 090 000 thousand, for periods commencing in December 2019, expiring successively from 2023 to 2029. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a variable interest rate in PLN. |
| Derivatives at fair value through profit or loss not subject to hedge accounting | |
| CCIRS | The CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivative consists of an exchange of interest payments on a total notional amount of EUR 500 000 thousand. The transaction matures in July 2027. Under the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN while receiving payments at a fixed interest rate in euro. CCIRS derivatives to hedge currency flows generated by interest payments on issued Eurobonds. |
| Forward/futures commodities | Commodity derivatives (futures, forwards) include forward transactions for the purchase and sale of CO ₂ emission allowances and other commodities. |
| Currency forwards | Currency forward derivatives to hedge currency flows generated from operations. |

The measurement of derivatives as at the respective balance sheet dates is presented in the table below:

| | As at 31 December 2020 | | | | As at 31 December 2019 | | | |
|--|---------------------------|---------------------------------------|----------------|------------------|---------------------------|---------------------------------------|----------------|------------------|
| | Charged to profit or loss | Charged to other comprehensive income | Total | | Charged to profit or loss | Charged to other comprehensive income | Total | |
| | | | Assets | Liabilities | | | Assets | Liabilities |
| Derivatives subject to hedge accounting | | | | | | | | |
| IRS | (6 230) | (83 831) | - | (90 061) | 121 | 19 341 | 19 462 | - |
| Derivatives measured at fair value through profit or loss | | | | | | | | |
| CCIRS | 3 268 | - | 5 023 | (1 755) | (12 885) | - | - | (12 885) |
| Commodity forwards/futures | 2 321 | - | 86 089 | (83 768) | 4 248 | - | 86 067 | (81 819) |
| Currency forwards | 67 734 | - | 67 734 | - | (29 823) | - | - | (29 823) |
| Total | | | 158 846 | (175 584) | | | 105 529 | (124 527) |
| Non-current | | | 36 041 | (73 739) | | | 20 352 | (16 848) |
| Current | | | 122 805 | (101 845) | | | 85 177 | (107 679) |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

The fair value hierarchy for derivative financial instruments was as follows:

| | As at 31 December 2020 | | As at 31 December 2019 | |
|------------------------------------|------------------------|---------------|------------------------|---------------|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| Assets | | | | |
| Derivative instruments - commodity | 86 089 | - | 86 067 | - |
| Derivative instruments - currency | - | 67 734 | - | - |
| Derivative instruments-IRS | - | - | - | 19 462 |
| Derivative instruments-CCIRS | - | 5 023 | - | - |
| Total | 86 089 | 72 757 | 86 067 | 19 462 |
| Liabilities | | | | |
| Derivative instruments - commodity | 83 768 | - | 81 819 | - |
| Derivative instruments - currency | - | - | - | 29 823 |
| Derivative instruments-IRS | - | 90 061 | - | - |
| Derivative instruments-CCIRS | - | 1 755 | - | 12 885 |
| Total | 83 768 | 91 816 | 81 819 | 42 708 |

52. Principles and objectives of financial risk management

Risks related to financial instruments which the TAURON Group is exposed to, including a description of the exposure and the risk management method are presented in the table below.

| Risk exposure | Risk management | Regulation |
|---|---|--|
| Credit risk | | |
| Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on its obligations for goods or service) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided). | <p>Credit risk management is aimed at limiting losses resulting from the deterioration of the financial situation of the TAURON Group's counterparties and mitigating the risk of credit exposures at risk of impairment.</p> <p>Commercial transactions of significant value are preceded by an assessment of the counterparty's creditworthiness, including an economic and financial analysis of the entity. Based on the assessment, the counterparty is granted a credit limit, which is a limit on the maximum credit exposure understood as the amount that may be lost if the counterparty fails to meet its contractual obligations within a specified period of time (taking into account the value of the collateral provided). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement.</p> <p>The TAURON Group has a decentralised credit risk management system, which means that each risk owner is actively responsible for managing the credit risks that arise within their business scope, but control, monitoring and reporting is performed at the Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures for the entire Group with the view to reduce the impact of the risk on the Group's strategic objectives.</p> <p>Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.</p> | Credit risk management policy for the TAURON Group |
| Liquidity risk | | |
| Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities. | <p>The liquidity situation of TAURON Capital Group is monitored on an on-going basis in terms of potential deviations against the assumed plans and the availability of external sources of financing whose amount significantly exceeds the expected demand in a short term mitigates the risk of losing liquidity.</p> <p>To this end, the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies cash-pooling) as well as using external financing.</p> <p>The Company also manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To mitigate the financing risk, the Company's policy assumes obtaining funding for the TAURON Group in advance of the planned time of use, i.e. up to 24 months prior to the planned demand. The key objective of the policy is to ensure flexible selection of funding source, use favourable market conditions and reduce the risk related to the necessity to contract new debt on adverse terms.</p> | Liquidity management policy for the TAURON Group |
| Market risk - interest rate and currency risks | | |
| The possibility of an adverse effect on the Group's performance through | The TAURON Group manages currency and interest rate risks on the basis of the TAURON Group Financial Risk Management Policy developed and adopted for use, as well as the risk tolerance, the global limit for financial risk and its decomposition | Financial risk management policy for the |

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Risk exposure | Risk management | Regulation |
|--|---|--|
| fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates. | <p>into individual types of financial risk approved by the Management Board. The key objective of such risk management is to minimise the cash flow sensitivity of the TAURON Group to financial risks and to minimize financial cost and costs of hedging with the use of derivative instruments. Wherever possible and commercially viable, derivative instruments are used, whose nature allows for the application of hedge accounting</p> <p>The financial risk management policy of the TAURON Group has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS.</p> | TAURON Group |
| Market risk - price risk | | |
| Unplanned volatility of the TAURON Group's operating result resulting from fluctuations in commodity market prices in individual areas of the TAURON Group's trading activities. | Effective management is ensured by a commercial risk management system linked in terms of organisation and information with the TAURON Group's strategy of hedging trading positions. The policy has introduced an early-warning system and risk-exposure limiting system in various trading areas. The basic operational measure of the market risk in the TAURON Group is the Value at Risk measure which determines the maximum allowed change in the value of the position over a given time period and with a given probability. | Commercial risk management policy for the TAURON Group |

The notes below include the financial assets and liabilities of the subsidiary TAURON Ciepło Sp. z o.o. recognized by the Group as at the balance sheet date as assets classified as held for sale and liabilities related to these assets.

52.1. Credit risk

Key classes of financial instruments that give rise to credit risk exposure have been presented in the table below. The maximum credit risk exposure related to financial assets of the TAURON Group equals their carrying amounts.

| Classes of financial instruments | As at 31 December 2020 | As at 31 December 2019 |
|----------------------------------|---------------------------|---------------------------|
| Receivables from buyers | 2 473 416 | 2 290 746 |
| Cash and cash equivalents | 921 345 | 1 237 952 |
| Loans granted | 98 713 | 255 485 |
| Derivative instruments | 158 846 | 105 529 |
| Deposits | 53 448 | 50 228 |
| Other financial receivables | 176 924 | 499 219 |

52.1.1 Credit risk related to receivables from customers

The Group has receivables from two groups of customers: institutional customers and individual customers. The table below shows the percentage share of each group in the total amount of receivables from customers.

| | As at 31 December 2020 | As at 31 December 2019 |
|-----------------------|---------------------------|---------------------------|
| Institutional clients | 64.45% | 76.65% |
| Individual clients | 35.55% | 23.35% |
| Total | 100% | 100% |

The Group has no significant concentrations of credit risk related to its core business. Amounts due from PSE S.A. constitute the largest item of receivables from buyers with a share of 8.06% as at 31 December 2020 and 6.69% as at 31 December 2019, respectively.

The Group monitors credit risk related to its operations on an ongoing basis, in line with the *Credit Risk Management Policy in TAURON Group*. As a result of the analysis of credit standing of counterparties with significant credit exposure, the conclusion of trading transactions resulting in an increase in credit exposure above the allocated exposure limit generally requires the establishment of a collateral.

In an environment of uncertainty and dynamic changes caused by the COVID-19 pandemic, TAURON Group's credit risk measures focus on early identification of potential counterparties exposed to increased levels of credit risk. These measures include, among others, tightening of the rules for assessing the financial standing of counterparties, continuous monitoring of receivables, monitoring of industry information and the macroeconomic environment.

The ageing of receivables from customers and information on impairment losses on receivables from customers is presented in Note 32 to these consolidated financial statements.

52.1.2 Credit risk related to other financial receivables

The Group's other financial receivables at 31 December 2020 and as at 31 December 2019 mainly relate to institutional customers (share of 99.69% and 99.94%, respectively).

As at 31 December 2020, the main item of other financial receivables are margin deposits and other collaterals provided in respect of transactions entered into on stock exchange markets. In the Company's opinion commodity exchange mechanisms and collateral used materially mitigate the credit risk. In addition to stock exchange collaterals, there is no significant concentration of credit risk associated with other financial receivables.

With respect to other financial receivables measured at amortised cost at the balance sheet date, the Group estimates the impairment loss.

Ageing of other financial receivables measured at amortised cost as at 31 December 2020

| | Not past due | Past due | | | | | Total |
|---|----------------|--------------|------------|-------------|--------------|------------|------------------|
| | | < 30 days | 30-90 days | 90-180 days | 180-360 days | > 360 days | |
| Value of item before allowance/write-down | 114 190 | 2 717 | 9 440 | 8 284 | 6 473 | 79 925 | 221 029 |
| Allowance/write-down | (6 706) | (1 190) | (9 327) | (8 277) | (6 380) | (79 905) | (111 785) |
| Net Value | 107 484 | 1 527 | 113 | 7 | 93 | 20 | 109 244 |

Ageing of other financial receivables measured at amortised cost as at 31 December 2019

| | Not past due | Past due | | | | | Total |
|---|----------------|--------------|--------------|-------------|--------------|------------|------------------|
| | | < 30 days | 30-90 days | 90-180 days | 180-360 days | > 360 days | |
| Value of item before allowance/write-down | 206 721 | 5 526 | 5 055 | 1 428 | 2 124 | 97 633 | 318 487 |
| Allowance/write-down | (9 330) | (3 317) | (2 576) | (1 391) | (2 113) | (97 408) | (116 135) |
| Net Value | 197 391 | 2 209 | 2 479 | 37 | 11 | 225 | 202 352 |

Change in allowances/write-downs on other financial receivables measured at amortised cost

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|------------------------|--------------------------------|--------------------------------|
| Opening balance | (116 135) | (119 302) |
| Recognised | (2 349) | (3 143) |
| Utilized | 222 | 560 |
| Reversed | 6 477 | 5 750 |
| Closing balance | (111 785) | (116 135) |

52.1.3 Credit risk related to cash and cash equivalents and derivatives

Cash and equivalents

The Group manages its cash credit risk by diversifying the banks where surplus cash can be deposited while reducing the cost of holding cash in accounts. These banks receive investment rating. The share of the three banks where the Group holds its largest cash balances was 76% as at 31 December 2020.

Derivative instruments

The entities with which the Company enters into derivative transactions to hedge the risks associated with changes in interest rates and exchange rates operate in the financial sector. These banks receive investment rating. The Company diversifies banks with whom derivative transactions are concluded.

Derivatives, which basis are non-financial assets, included in IFRS 9 *Financial Instruments*, involve futures (exchange market) and forward transactions (OTC). Exchange markets apply appropriate mechanisms to protect, in the form of initial and variation margin deposits. Under variation margin deposits, the Company provides and receives cash arising from changes in the measurement of the underlying instruments on an ongoing basis, which means that as at the end of the reporting period, credit risk does not occur in relation to futures transactions.

In the case of OTC instruments there is a credit risk related to the possibility of insolvency of the other party to the agreement. Therefore, commercial transactions of significant value are preceded by the assessment of the credit standing counterparty, including the economic and financial analysis of the entity. On the basis of the assessment, the counterparty is granted a credit limit, which is a limit of the maximum credit exposure. Execution of trade transactions resulting in an increase in credit exposure above the allocated exposure limit generally requires the establishment of collateral in accordance with the *Credit Risk Management Policy in the TAURON Group*.

52.1.4 Credit risk related to loans granted

Loans measured at amortised cost

As far as granted loans measured at amortized cost are concerned, the Group assesses the risk of insolvency on the part of the borrowers based on the ratings assigned to the counterparties using an internal scoring model. The individual ratings are assigned with the probability of default, implied by the quotation of CDS instruments (denoting the market macroeconomic environment), in terms of time perspective and averaged for the counterparties rated under a given rating. The expected credit loss is calculated based on the time value of money.

As part of the model used, the Group continuously analyses the level of credit risk of financial assets and possible changes in the level of this risk. For the purpose of identifying a significant increase in credit risk, the Group aggregates financial assets that have similar characteristics. Based on changes in the credit risk of financial assets since the moment of their initial recognition, financial assets are assigned to one of the following levels:

- level 1 - financial assets for which no significant increase in credit risk has been identified and assets that have a low level of credit risk as at the balance sheet date,
- level 2 - financial assets where a significant increase in credit risk has been identified,
- level 3 - financial assets found to be impaired.

For assets allocated to level 1, the allowance for expected credit losses is estimated on the basis of a 12-month period. For assets allocated to levels 2 and 3, the allowance for expected credit losses is estimated on the basis of the entire expected lifetime of the asset.

As at each reporting date, the Group analyses the occurrence of indications resulting in the classification of financial assets into the levels mentioned above.

If a counterparty has an investment grade rating as at the reporting date, it is assumed that the counterparty's credit risk has not increased significantly. For the purposes of determining the calculation horizon for expected credit losses, material credit risk increases related to certain financial assets are analysed beginning from the initial recognition of a given asset.

When analysing a significant increase in credit risk related to such assets, the Group considers among others the following indications:

- the counterparty's internal or external rating as at the reporting period end having deteriorated by more than two rating levels compared to its rating upon initial recognition;
- the counterparty's probability of insolvency projected within one-year horizon as at the reporting period end being at least twice higher than as at the initial recognition date;
- receivables related to a given asset being overdue by more than 30 days.

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty. The loans granted by the Group as at 31 December 2020 and 31 December 2019 were not overdue.

Loans measured at a fair value

The measurement of the loan granted to the joint venture, Elektrociepłownia Stalowa Wola S.A., classified as financial assets measured at fair value through profit or loss, with the carrying amount of PLN 72 523 thousand, includes credit risk effects. The loan is collateralized with a blank promissory note accompanied by a promissory note agreement.

52.2. Liquidity risk

The Group maintains a balance between continuity, flexibility and cost of financing by using various sources of funding, which enable management of liquidity risk and effective mitigation of risk consequences. The Company pursues policy of diversification of financing instruments but first of all it seeks to secure financing and maintain the ability of the Group companies to meet current and future liabilities in the short and long term. Liquidity risk management is connected with planning and monitoring cash flows in the short and long term and taking actions to ensure funds for the operations of the Group companies.

The TAURON Group carries out a centralized finance management policy, allowing effective management in this respect on the Group level. Among others, the TAURON Group has adopted *Liquidity management policy for the TAURON Group*, which facilitates optimization of liquidity management at the TAURON Group, reduces the risk of liquidity loss, as well as financial expenses in the Group and in each company from the TAURON Group. Having implemented appropriate projection standards, the TAURON Group can precisely determine its liquidity position and optimize the time of obtaining funding, maturity and types of deposit instruments, as well as an appropriate level of the liquidity provision.

Additionally, in order to mitigate a possibility of cash flow disruption and liquidity risk, the TAURON Group uses the cash pooling mechanism. The cash pooling structure enables the Group companies that experience short-term shortage of funds to use cash provided by companies with cash surplus, without the need to obtain borrowings from third parties.

The Company also has available financing under the concluded overdraft agreements up to the amount of EUR 45 000 thousand allocated for financing transactions on the European exchanges. The purpose of concluding a FX loan agreement is to mitigate the exchange rate risk associated with euro-denominated trade transactions. As at 31 December 2020, the Company did not have any liabilities arising from the aforementioned loan.

In addition, the Company primarily has available financing under syndicated loan agreements which can be used for general corporate purposes, including securing the Group's current liquidity position.

The policy pursued with regard to the acquisition of financing sources enables, above all, an increase in the possibility of obtaining financing for general corporate purposes and capital expenditure, a reduction in the cost of external capital, a reduction in the amount and forms of collateral established on TAURON Group assets and covenants required by financial institutions, and a reduction in administrative costs. The corporate finance model also makes it possible to acquire sources of financing that are not available to individual companies.

In terms of liquidity, the Company was obliged, as a result of the high price volatility in the electricity and related products market, which was affected by the COVID-19 pandemic, to pay (especially in the first half of 2020) high amounts of the required variation margins both to the IRGiT and to the ICE exchange, which consequently translated into the level of cash committed for this purpose. In order to mitigate the impact of the pandemic on its liquidity position, the Company has undertaken a number of measures including, but not limited to, entering into additional agreements to allow the required collateral to be lodged with the IRGiT in non-cash form, as further described in Note 59 to these consolidated financial statements.

In 2020, the Group demonstrated full capacity to settle its liabilities on their maturity date.

The tables below show the ageing of the Group's financial liabilities by non-discounted contractual payments.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Financial liabilities as at 31 December 2020

| Classes of financial instruments | Carrying amount | Non-discounted contractual payments | of which non-discounted contractual payments maturing within (after the balance sheet date) | | | | | |
|--|-------------------|-------------------------------------|--|------------------|--------------------|------------------|--------------------|--------------------|
| | | | less than 3 months | 3 - 12 months | 1 - 2 years | 2 - 3 years | 3 - 5 years | more than 5 years |
| Financial liabilities other than derivative instruments | | | | | | | | |
| Interest-bearing loans and borrowings and issued bonds | 13 514 342 | (15 318 768) | (1 075 424) | (561 180) | (2 542 068) | (590 074) | (5 318 932) | (5 231 090) |
| Liabilities to suppliers | 1 021 364 | (1 021 364) | (1 019 911) | (757) | (696) | - | - | - |
| Capital commitments | 880 373 | (880 373) | (832 511) | (24 879) | (22 824) | (159) | - | - |
| Other financial liabilities | 497 804 | (497 804) | (428 360) | (29 303) | (19 708) | (6 161) | (7 628) | (6 644) |
| Obligations under finance leases | 1 146 094 | (2 263 186) | (77 145) | (48 968) | (98 745) | (84 251) | (148 751) | (1 805 326) |
| Derivative financial liabilities | | | | | | | | |
| Derivate instruments - commodity | 83 768 | (17 920) | (288) | (12 956) | (4 676) | - | - | - |
| Derivate instruments - IRS | 90 061 | (90 412) | (1 746) | (30 979) | (31 305) | (21 793) | (3 646) | (943) |
| Derivate instruments - CCIRS | 1 755 | (13 448) | - | (1 962) | (1 888) | (1 888) | (3 932) | (3 778) |
| Total | 17 235 561 | (20 103 275) | (3 435 385) | (710 984) | (2 721 910) | (704 326) | (5 482 889) | (7 047 781) |

Financial liabilities as at 31 December 2019

| Classes of financial instruments | Carrying amount | Non-discounted contractual payments | of which non-discounted contractual payments maturing within (after the balance sheet date) | | | | | |
|--|-------------------|-------------------------------------|--|--------------------|------------------|--------------------|--------------------|--------------------|
| | | | less than 3 months | 3 - 12 months | 1 - 2 years | 2 - 3 years | 3 - 5 years | more than 5 years |
| Financial liabilities other than derivative instruments | | | | | | | | |
| Interest-bearing loans and borrowings and issued bonds | 13 307 673 | (15 536 815) | (1 693 417) | (977 598) | (650 705) | (3 882 401) | (1 981 047) | (6 351 647) |
| Liabilities to suppliers | 850 628 | (850 628) | (847 226) | - | (1 706) | (1 696) | - | - |
| Capital commitments | 765 357 | (765 357) | (757 850) | (93) | (3 708) | (3 706) | - | - |
| Other financial liabilities | 504 529 | (504 529) | (362 412) | (90 370) | (32 194) | (5 081) | (7 376) | (7 096) |
| Obligations under finance leases | 1 006 603 | (1 927 467) | (66 996) | (43 897) | (94 969) | (77 448) | (137 372) | (1 506 785) |
| Derivative financial liabilities | | | | | | | | |
| Derivate instruments - commodity | 81 819 | (29 676) | (24 602) | (4 950) | (124) | - | - | - |
| Derivative instruments - currency | 29 823 | (29 823) | (2 505) | (19 911) | (7 407) | - | - | - |
| Derivate instruments - CCIRS | 12 885 | (49 267) | - | (6 207) | (6 188) | (6 120) | (12 326) | (18 426) |
| Total | 16 559 317 | (19 693 562) | (3 755 008) | (1 143 026) | (797 001) | (3 976 452) | (2 138 121) | (7 883 954) |

52.3. Market risk

The Group identifies the following types of market risk it is exposed to:

- interest rate risk;
- currency risk;
- raw material and commodity price risk related to commodity derivative instruments.

52.3.1 Interest rate risk

Due to floating-rate items the Group is exposed to cash flow changes resulting from interest rate fluctuations. As a result of fixed-rate items the Group is exposed to changes in the fair value of items measured at a fair value. The risk of fair value changes resulting from interest rate changes relates to IRS and CCIRS contracts as well as the loan granted to Elektrociepownia Stalowa Wola S.A. The Group is also exposed to the risk of lost benefits related to a decrease in interest rates in the case of fixed-rate debt or to an increase in interest rates in the case of fixed-rate assets, although the changes are not disclosed in the financial statements.

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating-rate debt, the Group entered into interest rate swap (IRS) contracts, described in detail in Note 51.3 hereto. IRS transactions concluded in order to hedge interest rate risk are subject to hedge accounting.

The following tables present the carrying amounts of the Group's financial instruments exposed to interest rate risk. As the Company has adopted a dynamic financial risk management strategy where the hedged item is cash flows relating to the exposure to the floating WIBOR 6M interest rate, the interest rate risk for a portion of interest cash flows has been reduced by the hedging IRS transactions. Thus, a portion of the carrying amount of debt with floating interest cash flow fluctuations hedged with interest rate swaps has been presented in the tables below together with valuation of these hedging instruments as fixed-rate items.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

Financial instruments by interest rate type

| Financial instruments | As at 31 December 2020 | | | As at 31 December 2019 | | |
|-----------------------------------|------------------------|------------------------|------------------|------------------------|------------------------|------------------|
| | Fixed interest rate | Floating interest rate | Total | Fixed interest rate | Floating interest rate | Total |
| Financial assets | | | | | | |
| Deposits | 53 448 | - | 53 448 | 50 228 | - | 50 228 |
| Loans granted | 96 293 | 2 420 | 98 713 | 246 243 | 9 242 | 255 485 |
| Cash and cash equivalents | - | 788 277 | 788 277 | - | 1 143 598 | 1 143 598 |
| Derivative instruments-CCIRS | 5 023 | - | 5 023 | - | - | - |
| Derivative instruments-IRS | - | - | - | 19 462 | - | 19 462 |
| Financial liabilities | | | | | | |
| Bank overdrafts | - | 2 261 | 2 261 | - | 23 339 | 23 339 |
| Preferential loans and borrowings | - | 16 717 | 16 717 | - | 12 488 | 12 488 |
| Arm's length loans and borrowings | 2 789 476 | 3 183 679 | 5 973 155 | 2 892 708 | 4 122 116 | 7 014 824 |
| Bonds issued | 6 782 151 | 740 058 | 7 522 209 | 5 756 491 | 500 531 | 6 257 022 |
| Obligations under finance leases | 1 146 094 | - | 1 146 094 | 1 006 603 | - | 1 006 603 |
| Derivative instruments-CCIRS | 1 755 | - | 1 755 | 12 885 | - | 12 885 |
| Derivative instruments-IRS | 90 061 | - | 90 061 | - | - | - |

Other financial instruments of the Group which are not included in the above tables, are not interest-bearing and therefore they are not subject to interest rate risk.

Sensitivity analysis

For the needs of the analysis of sensitivity to changes in market risk factors the Group uses the scenario analysis method. The Group relies on expert scenarios reflecting its judgement concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The interest rate risk sensitivity analysis is conducted by the Group using the parallel shift in the yield curve by the potential change in reference interest rates within a horizon until the date of the next financial statements. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year. The scale of potential changes in interest rates has been estimated on the basis of implied volatility for interest rate options quoted on the interbank market for currencies which expose the Group to the interest rate risk as at the balance sheet date.

The Group identifies its exposure to the risk of changes in WIBOR, EURIBOR, ESTRON and LIBOR USD interest rates. As at 31 December 2020 and 31 December 2019, its exposure to changes in EURIBOR, ESTRON and LIBOR USD rates was insignificant.

The tables below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) to reasonably potential changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

| Classes of financial instruments | Sensitivity analysis for interest rate risk as at 31 December 2020 | | | | 31 December 2019 | | Sensitivity analysis for interest rate risk as at 31 December 2019 | |
|----------------------------------|--|---------------|---|------------------|------------------|---------------|--|----------------|
| | 31 December 2020 | | as at 31 December 2020 | | 31 December 2019 | | as at 31 December 2019 | |
| | Carrying amount | Value at risk | WIBOR +225 pb | WIBOR -225 pb | Carrying amount | Value at risk | WIBOR +38 pb | WIBOR -38 pb |
| | | | Profit/(Loss) / Other comprehensive income* | | | | Profit/(Loss) / Other comprehensive income* | |
| Loans granted | 98 713 | 74 943 | (15 002) | 19 352 | 255 485 | 225 260 | (9 883) | 10 398 |
| Cash and cash equivalents | 921 345 | 788 277 | 14 790 | (7 787) | 1 237 952 | 1 143 598 | 4 237 | (4 237) |
| Derivatives (assets) | 158 846 | 5 023 | 29 458 | (29 458) | 105 529 | 19 462 | 37 204 | (37 204) |
| Preferential loans | 16 717 | 16 717 | (376) | 376 | 12 488 | 12 488 | (47) | 47 |
| Arm's length loans | 5 973 155 | 4 934 027 | (111 016) | 111 016 | 7 014 824 | 6 320 285 | (24 017) | 24 017 |
| Bonds issued | 7 522 209 | 2 829 640 | (63 667) | 63 667 | 6 257 022 | 1 890 467 | (7 184) | 7 184 |
| Derivates (liabilities) | 175 584 | 91 816 | 415 964 | (415 964) | 124 527 | 12 885 | 6 098 | (6 098) |
| Total | | | 270 151 | (258 798) | | | 6 408 | (5 893) |

*Refers to Interest Rate Swap financial derivatives covered by hedge accounting, as further discussed in Note 51.3 to these consolidated financial statements.

As at 31 December 2020, the sensitivity analysis for the risk of falling interest rates does not take into account cash in bank accounts for which, according to contractual provisions, banks will not charge negative interest rates.

The risk exposure as at 31 December 2020 and as at 31 December 2019 is representative of the Group's risk exposure during the preceding one-year period.

52.3.2 Currency risk

TAURON Group companies are exposed to transaction and translation currency risk. Group companies are mainly exposed to changes in the EUR/PLN, CZK/PLN, USD/PLN and GBP/PLN exchange rates in connection with their operating and financing activities. The following tables show the Group's exposure to currency risk by class of financial instrument. Significant exposure relates to EUR/PLN and CZK/PLN exchange rate movements. The Group's exposure to other currencies is immaterial.

| Classes of financial instruments | As at 31 December 2020 | | | | | As at 31 December 2019 | | | | |
|----------------------------------|------------------------------|------------------|--------------------|----------------|---------------|------------------------------|------------------|--------------------|----------------|---------------|
| | Total carrying amount in PLN | EUR | | CZK | | Total carrying amount in PLN | EUR | | CZK | |
| | | in currency | in PLN | in currency | in PLN | | in currency | in PLN | in currency | in PLN |
| Financial assets | | | | | | | | | | |
| Receivables from buyers | 2 473 416 | 2 022 | 9 330 | 61 124 | 10 715 | 2 290 746 | 2 170 | 9 251 | 50 029 | 8 384 |
| Other financial receivables | 176 924 | 11 153 | 51 470 | 20 342 | 3 566 | 499 219 | 49 784 | 212 005 | 20 346 | 3 410 |
| Cash and cash equivalents | 921 345 | 26 767 | 123 524 | 29 458 | 5 164 | 1 237 952 | 4 187 | 17 832 | 48 443 | 8 119 |
| Derivatives (assets) | 158 846 | 17 529 | 80 894 | - | - | 105 529 | 14 214 | 60 531 | - | - |
| Total | | 57 471 | 265 218 | 110 924 | 19 445 | | 70 355 | 299 619 | 118 818 | 19 913 |
| Financial liabilities | | | | | | | | | | |
| Bank overdrafts | 2 261 | 487 | 2 249 | - | - | 23 339 | 5 304 | 22 585 | - | - |
| Issued bonds | 7 522 209 | 857 840 | 3 958 759 | - | - | 6 257 022 | 851 101 | 3 624 412 | - | - |
| Liabilities to suppliers | 1 021 364 | 12 363 | 57 053 | 8 340 | 1 462 | 850 628 | 5 770 | 24 572 | 8 884 | 1 489 |
| Capital commitments | 880 373 | 14 985 | 63 813 | - | - | 765 357 | - | - | - | - |
| Other financial liabilities | 245 623 | 15 867 | 73 221 | - | - | 223 920 | 2 530 | 10 774 | - | - |
| Derivatives (liabilities) | 175 584 | 17 026 | 78 573 | - | - | 124 527 | 13 206 | 56 238 | - | - |
| Total | | 918 568 | 4 233 668 | 8 340 | 1 462 | | 877 911 | 3 738 581 | 8 884 | 1 489 |
| Net currency position | | (861 097) | (3 968 450) | 102 584 | 17 983 | | (807 556) | (3 438 962) | 109 934 | 18 424 |

As part of its currency risk management, the TAURON Group uses forward contracts. The purpose of these transactions was to hedge the Group against currency risk arising in the course of its trading activities, mainly due to the purchase of CO₂ emission allowances and to hedge currency exposure generated by interest payments on acquired financing in EUR.

The fair value measurement of currency forward contracts and CCIRS contracts is exposed to the risk of changes in the EUR/PLN exchange rate. Transactions entered into to hedge against currency risk are not subject to hedge accounting.

Sensitivity analysis

For the needs of the analysis of sensitivity to changes in market risk factors the Group uses the scenario analysis method. The Group relies on expert scenarios reflecting its judgement concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The potential changes in foreign exchange rates have been determined within a horizon until the date of the next financial statements and calculated on the basis of annual implied volatility for FX options quoted on the interbank market for a given currency pair as at the end of the reporting period or, in the absence of quoted market prices, on the basis of historical volatility for a period of one year preceding the balance sheet date.

The Group identifies its exposure to foreign currency risk related to EUR/PLN, CZK/PLN, USD/PLN, GBP/PLN. Significant risk exposure regards EUR, mainly due to external financing contracted in EUR. Other currencies do not generate material risk for the Group.

The table below presents sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group to reasonably possible changes in foreign exchange rate EUR/PLN within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| Classes of financial instruments | 31 December 2020 | | Sensitivity analysis for currency risk as at 31 December 2020 | | 31 December 2019 | | Sensitivity analysis for currency risk as at 31 December 2019 | |
|----------------------------------|------------------|---------------|---|-------------------|------------------|---------------|---|-------------------|
| | Carrying amount | Value at risk | EUR/PLN | | Carrying amount | Value at risk | EUR/PLN | |
| | | | exchange rate | exchange rate | | | exchange rate | exchange rate |
| | | | EUR/PLN +5.78% | EUR/PLN -5.78% | | | EUR/PLN +4.24% | EUR/PLN -4.24% |
| Receivables from buyers | 2 473 416 | 9 330 | 539 | (539) | 2 290 746 | 9 251 | 392 | (392) |
| Other financial receivables | 176 924 | 51 470 | 2 975 | (2 975) | 499 219 | 212 005 | 8 989 | (8 989) |
| Cash and cash equivalents | 921 345 | 123 524 | 7 140 | (7 140) | 1 237 952 | 17 832 | 756 | (756) |
| Derivatives (assets) | 158 846 | 153 651 | 160 819 | (160 819) | 105 529 | 60 531 | 2 567 | (2 567) |
| Overdraft | 2 261 | 2 249 | (130) | 130 | 23 339 | 22 585 | (958) | 958 |
| Bonds issued | 7 522 209 | 3 958 759 | (228 816) | 228 816 | 6 257 022 | 3 624 412 | (153 675) | 153 675 |
| Liabilities to suppliers | 1 021 364 | 57 053 | (3 298) | 3 298 | 850 628 | 24 572 | (1 042) | 1 042 |
| Capital commitments | 880 373 | 63 813 | (3 688) | 3 688 | 765 357 | - | - | - |
| Other financial liabilities | 245 623 | 73 221 | (4 232) | 4 232 | 223 920 | 10 774 | (457) | 457 |
| Derivatives (liabilities) | 175 584 | 80 328 | (1 370) | 1 370 | 124 527 | 98 946 | 79 408 | (79 408) |
| Total | | | (70 061) | 70 061 | | | (64 020) | 64 020 |

The risk exposure as at 31 December 2020 and as at 31 December 2019 is representative of the Group's risk exposure during the preceding one-year period.

52.3.3 Raw material and commodity price risk related to commodity derivative instruments

The Group concludes derivative contracts, with underlying instruments being commodities and raw materials. The Group's exposure to price risk inherent in commodity derivative instruments is related to a risk of changes in the fair value of the said instruments, driven by fluctuations of prices of the underlying raw materials/commodities. The Group limits price risk related to commodity derivatives concluding offsetting transactions. The risk is limited to open long and short positions concerning a given commodity or raw material, i.e. concern unbalanced portfolio.

At 31 December 2020, the portfolio of concluded contracts is fully balanced. This minimises market risk in the commodity derivatives portfolio. This is confirmed by a sensitivity analysis, which indicated immaterial effects of potential changes in the prices of emission allowances on Group's gross profit/loss.

53. Operational risk

The commercial operational risk is managed at the level of the TAURON Group, as described in section 3.3 of the Management Board's report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020. The Group manages its commercial risk following the *Commercial risk management policy in the TAURON Group*, which has introduced an early warning system in addition to a system of limiting the exposure to risk in various commercial areas.

Companies of the Group are exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods in the open market position. The Group's exposure to commodity price risk is reflected in the volume of purchases of basic raw materials and commodities, which include hard coal, gas and energy. The volume and costs of purchases of basic raw materials from suppliers outside the Group are shown in the table below.

| Fuel type | Unit | 2020 | | 2019 | |
|--------------|-------|------------|------------------|------------|------------------|
| | | Volume | Purchase cost | Volume | Purchase cost |
| Coal | tonne | 2 814 471 | 702 943 | 3 809 329 | 1 002 443 |
| Gas | MWh | 3 965 153 | 331 111 | 3 498 481 | 345 742 |
| Electricity | MWh | 32 036 767 | 8 092 668 | 32 326 975 | 7 906 677 |
| Heat energy | GJ | 4 769 991 | 209 438 | 5 718 634 | 226 430 |
| Total | | | 9 336 160 | | 9 481 292 |

OTHER INFORMATION

54. Contingent liabilities

Claims related to termination of long-term contracts

Claims relating to termination of long-term contracts against subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o.

In 2015 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed a case against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination of agreements submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and property rights concluded with these companies ineffective. In the course of court proceedings,

plaintiffs extend their scope raising claims for damages and contractual penalty claims related to contract termination.

As at the date of approval of these consolidated financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies - PLN 115 566 thousand (including Amon Sp. z o.o. - PLN 69 488 thousand, Talia Sp. z o.o. - PLN 46 078 thousand); Wind Invest group companies - PLN 322 313 thousand.

In the case filed by Amon Sp. z o.o. and Talia Sp. z o.o., partial and preliminary judgements were issued (judgement of 25 July 2019 in the Amon Sp. z o.o. lawsuit and judgement of 6 March 2020, supplemented by the court on 8 September 2020 in the Talia Sp. o.o. lawsuit), in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term agreements concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and those concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Talia Sp. z o.o. for the purchase of electricity and property rights resulting from certificates of origin are ineffective and do not produce legal effect in the form of termination of both agreements, as a result of which the agreements after the notice period, i.e. after 30 April 2015, remain in force in respect of all provisions and are binding on the parties. Moreover, the courts also recognised the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages justified as to the merits, without, however, prejudging the amount of potential damages. The judgements are not final. Polska Energia-Pierwsza Kompania Handlowa sp. z o.o. filed a complaint against the judgments.

These partial and preliminary judgements, do not change the Group's assessment that the chances of losing the case are not higher than the chances of winning it.

In the case filed by Pękanino Wind Invest Sp. z o.o. for the provision of security for claims for determining that the terminations of long-term contracts submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are ineffective, the Court of Appeals in Warsaw on 6 November 2019 partially granted the application for security by ordering Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to perform the provisions of the contracts in their entirety on the existing terms and conditions, in accordance with their content, until the proceedings from the suit of Pękanino Wind Invest Sp. z o.o. are legally concluded against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the Regional Court in Warsaw. The decision regarding the security is binding. This decision does not prejudice the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings. In view of the need to realise the security provision referred to above, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts, the value of which as at the balance sheet date amounts to PLN 8 297 thousand.

Other cases are held at first instance courts (including one remanded for re-examination to the first- instance court by a second-instance court).

In light of the current status of the proceedings and the related circumstances, the Group believes that the probability of losing other cases related to the claims both as regards declaration of ineffectiveness of the termination notices and securing non-monetary claims and the claims for compensation is less than 50%. Therefore, no provision for the related costs has been recognized (except provision which have been made for cases filed by Pękanino Wind Invest Sp. z o.o., which have been discussed above).

In connection with the transaction of purchase on 3 September 2019 by the subsidiaries of TAURON Polska Energia S.A., i.e. TEC1 Sp. z o.o., TEC2 Sp. z o.o. and TEC3 Sp. z o.o. of five wind farms belonging to the in.ventus group and the financial receivables due to Hamburg Commercial Bank AG against the companies operating the wind farms, the lawsuits of the companies of the in.ventus group initiated against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. were suspended by the court, at the joint request of the parties. In March 2020, the parties filed a motion to commence proceedings in order for the plaintiff to withdraw the lawsuit with a waiver of the claim. In June 2020, the court took up the proceedings and the companies filed statements of withdrawal of the lawsuits with waiver of claims. By its order of 3 July 2020, the court discontinued the proceedings in the case. The court order is final.

Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.

In 2017 and 2018 companies of the following capital groups: in.ventus, Polenergia and Wind Invest filed cases against TAURON Polska Energia S.A. regarding damages and liability for potential future losses resulting from tort, including unfair competition. According to the plaintiffs notices of termination submitted by Polska - Energia Pierwsza Kompania Handlowa Sp. z o.o. regarding long-term contracts for the purchase of power and property rights related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims.

As at the date of approval of these consolidated financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies - PLN 78 855 thousand, Wind Invest group companies - PLN 272 450 thousand.

Moreover, in their claims, the plaintiffs indicate the following values of estimated damages that may arise in the future: Polenergia Group companies - PLN 265 227 thousand, Wind Invest Group companies - PLN 1 119 363 thousand.

The District Court in Katowice has jurisdiction to hear the lawsuits. All cases are held before the first instance courts. Those filed by Wind Invest group companies are held in camera. As at the date of approval of these consolidated financial statements for publication, the Company's chances of obtaining a favourable resolution of the disputes should be assessed positively, i.e. the chances of losing are not higher than the chances of winning.

In connection with the transaction of purchase on 3 September 2019 by the subsidiaries of TAURON Polska Energia S.A., i.e. TEC1 Sp. z o.o., TEC2 Sp. z o.o. and TEC3 Sp. z o.o. of five wind farms belonging to the in.ventus group and the financial receivables due to Hamburg Commercial Bank AG against the companies operating the wind farms, the lawsuits of the companies of the in.ventus group initiated against TAURON Polska Energia S.A. were suspended by the court, at the joint request of the parties. In the first quarter of 2020, the parties filed a motion to commence proceedings in order for the plaintiff to withdraw the lawsuit with a waiver of the claim. At the unanimous request of the parties, the court resumed the proceedings. By its letter dated 5 June 2020, the plaintiff withdrew the claim with a disclaimer. By its order of 6 August 2020, the court discontinued the proceedings in the case. The court order is final.

Claims relating to termination of long-term contracts against a subsidiary TAURON Sprzedaż Sp. z o.o.

In 2018, the subsidiary TAURON Sprzedaż Sp. z o.o. received notices in cases from motions filed by two Polenergia group companies against TAURON Sprzedaż Sp. z o.o. for a settlement attempt as to a total amount of PLN 78 855 thousand as compensation for alleged damage caused to Polenergia group companies as a result of the unjustified termination of the long-term contract concluded between these companies and Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The companies indicated in their motions that the Company, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and the liquidators of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. had caused and continue to cause damage to Polenergia Group companies, and TAURON Sprzedaż Sp. z o.o. has deliberately taken advantage of this damage and - according to Polenergia Group companies - is liable for it. TAURON Sprzedaż Sp. z o.o. considered the demands of the Polenergia group companies as unjustified, and therefore no settlement was concluded. Based on the analysis of the legal situation, in the opinion of the Management Board of TAURON Sprzedaż Sp. z o.o. there are no grounds to create a provision for the above case. The case is not subject to legal proceedings.

Claim against PGE EJ 1 Sp. z o.o.

On 13 March 2015, a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter referred to as the "WorleyParsons consortium"), which is a research contractor within the investment process related to the construction of a nuclear power plant by PGE EJ 1 Sp. z o.o. (hereinafter referred to as: "the Agreement"), reported in connection with the Agreement - in a call for payment to the PGE EJ 1 Sp. z o.o. - claims for the total amount of PLN 92 315 thousand. As a result, on 15 April 2015 the Company (as a holder of 10% of shares in the issued capital of PGE EJ 1 Sp. z o.o.) concluded an agreement with PGE EJ 1 Sp. z o.o. and its other shareholders (i.e. PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A.) that regulated mutual relations of the parties to the agreement as regards the claims, including principles of providing additional funds (if any) to PGE EJ 1 Sp. z o.o. by its shareholders.

In the company's view, its potential additional exposure to PGE EJ 1 Sp. z o.o. arising from the agreement shall not exceed its percentage equity share in PGE EJ 1 Sp. z o.o.

In November 2015, the District Court in Warsaw served PGE EJ 1 Sp. z o.o. with the claim made by the WorleyParsons consortium for the amount approximating PLN 59 million, in 2017 and 2019 to approx. PLN 128 million. PGE EJ 1 Sp. z o.o. did not accept the claim and believed that the probability that the court would decide in favour of the plaintiffs was remote. No provision was recognised in relation to the above events.

Claims filed by Huta Łaziska S.A.

In connection with the merger of the Company with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. became the party to the court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of the ERO. Currently, the proceedings are pending before the Court of Appeals in Warsaw.

By the statement of claim of 12 March 2007 Huta demands from GZE and the State Treasury - the President of the Energy Regulatory Office (in solidum) to adjudicate the amount of PLN 182 060 thousand with interest from the date of filing the statement of claim to the date of payment as compensation for the alleged damage caused by the failure of GZE to implement the decision of the President of the Energy Regulatory Office of 12 October 2001 concerning resumption of deliveries of electricity to Huta.

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. By judgement of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the defendant for the costs of the proceedings. The judgement is not legally binding. Huta appealed (dated 25 July 2019), challenging the above judgement in its entirety and requesting that it be amended by upholding the claim in its entirety and ordering the defendants to pay the costs of the proceedings in favour of Huta, or, in the alternative, that the contested judgement be set aside in its entirety and the case be referred back to the court of first instance. In response to the appeal of 9 August 2019, the Company requested that the appeal be dismissed in its entirety as manifestly unfounded and that the costs of the appeal proceedings be awarded against Huta in favour of the Company.

Based on a legal analysis of claims, as well as taking into account the said judgement, the Company believes that they are unjustified and the risk that they must be satisfied is remote. As a result, no provision has been recognised by the Company for any costs associated with those claims.

Case filed by ENEA S.A.

Case filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016, regards the payment of PLN 17 086 thousand with statutory interest from 30 June 2015 until the payment date. The actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of the aggregated measurement and settlement data by ENEA Operator Sp. z o.o. constituting the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the Balancing Market in the period from January to December 2012. In the course of the proceedings at the request of ENEA additional sellers were summoned, for whom TAURON Polska Energia S.A. acted as an entity responsible for trade balancing, including the Company's subsidiaries, i.e. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The claim for payment by the above subsidiaries amounting in total to PLN 8 414 thousand, together with statutory interest, was submitted by the claimant in the event the action against TAURON Polska Energia S.A. is dismissed.

After the balance sheet date, on 22 March 2021, the Regional Court in Katowice dismissed ENEA's claim in its entirety and ruled that ENEA reimbursed the Company the costs of the proceedings. The judgement is not legally binding.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions were recognized by the subsidiaries of TAURON Polska Energia S.A. in the total amount of PLN 5 928 thousand in case of TAURON Sprzedaż Sp. z o.o. and in the total amount of PLN 4 214 thousand in case of TAURON Sprzedaż GZE Sp. z o.o.

Administrative proceedings initiated by the President of the Energy Regulatory Office ("ERO")

Administrative proceedings initiated by the President of the ERO are pending against companies in the Sales segment. The Companies provide clarifications in the respective cases on an ongoing basis. The companies do not create provisions for potential penalties related to initiated proceedings, since in the opinion of the Management Boards of the companies the risk of unfavourable resolution of cases and imposition of a penalty is low.

With regard to proceedings initiated against a company in the Distribution segment and a company in the Sales segment for which the ERO President has issued decisions imposing fines, the companies have established provisions for pending proceedings. The companies appealed to the SOKiK against the ERO President's decision to impose a penalty in the cases.

Administrative proceedings initiated by the President of the Office for Competition and Consumer Protection ("UOKiK")

Administrative and explanatory proceedings initiated by the UOKiK President are pending against companies in the Sales segment. The Companies provide clarifications in the respective cases on an ongoing basis and undertakes remedying actions. The companies do not create provisions for potential penalties related to initiated proceedings, since in the opinion of the Management Boards of the companies the risk of

unfavourable resolution of cases and imposition of a penalty is low.

Use of real estate without a contract

The companies belonging to Group do not hold legal titles to all plots of land on which the distribution grids and the related equipment and installations are situated. In the future, the Group may be required to incur costs for the use of real estate without the underlying contracts; however, it must be emphasised that the risk of loss of assets is minor. The Group recognizes the provision for all court disputes filed in this respect. The provision is not established for unreported potential claims from owners of land of unregulated status due to the lack of detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims. However, considering the history of the reported claims and the costs incurred in this respect in previous years, the risk of incurring significant costs due to such claims can be considered as remote.

As at the balance sheet date, provisions in the amount of PLN 47 090 thousand were created, recognised in the statement of financial position within other provisions (note 43.1) and PLN 29 589 thousand recognised within liabilities relating to assets classified as held for sale (created by a subsidiary classified as a disposal group as at the balance sheet date).

Claim for reimbursement of expenses incurred to protect a facility against the effects of mining operations

In December 2017, the subsidiary, TAURON Wydobywanie S.A. received a claim from Galeria Galena Sp. z o.o., with its registered office in Gliwice, for payment of the amount of PLN 22 785 thousand as reimbursement of expenses for protecting the facility located in Jaworzno against the effects of mining exploitation. In addition, on 5 April 2018, company received a claim for payment filed by Galeria Galena Sp. z o.o. against the legal successors of Kompania Węglowa S.A. together with an application for merging this case for joint consideration with the case against TAURON Wydobywanie S.A. Currently, the case has been combined for joint examination against the defendants by Galeria Galena Sp. z o.o., i.e. against the State Treasury - Director of the Regional Mining Office in Katowice and legal successors of Kompania Węglowa S.A. in Katowice. The parties have been providing explanations and serving pleadings on an ongoing basis. The case is pending before District Court in Katowice (the first instance). In the course of the proceedings, an expert opinion was drawn up by a court expert, to which objections were raised. A supplementary opinion was requested in February 2020.

Due to the extension of the claim to additional defendants represented by legal successors of the former Kompania Węglowa S.A. and doubts of factual and legal nature preventing an unambiguous determination of the direction of the Court's adjudication of the case as well as the amount of the adjudicated claim, company does not recognize a provision for the above event.

The commitment of the Funds in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

The investment agreement signed by the Company with the Closed-End Investment Funds (the "Funds") managed by Polish Development Fund provides for a number of situations the occurrence of which constitutes a material breach of the agreement on the part of the Company. The above situations, some of which are beyond the direct control of the Company, include, among others, the occurrence of events of a legal nature, events relating to the financial situation of the TAURON Group, decisions of an investment and operational nature taken by the Group with respect to the financing and construction of the 910 MW unit, as well as events relating to the future operation of the unit. Any possible material breach of the agreement on the part of the Group's companies may lead to the potential launch of a procedure, the effect of which may be a request (activation of an option) by the Closed-End Investment Funds to repurchase from the Closed Investment Funds the shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. held by those Funds, in the amount invested by the Funds in the shares, increased by the agreed return and a material breach bonus and reduced by the distribution of funds by Nowe Jaworzno Grupa TAURON Sp. z o.o. to the Funds.

On 27 March 2020, an annex to the investment agreement was concluded, removing from the catalogue of significant breaches of the agreement on the part of the Company the breaches referring to debt ratios combined with a simultaneous amendment to the shareholders' agreement, consisting in granting the Funds special rights in case of exceeding the agreed levels of these ratios.

On 4 May 2020, the subsidiary company Nowe Jaworzno Grupa TAURON Sp. z o.o. and the contractor signed an agreement related to the execution of the contract for the construction of the 910 MW unit, in which the estimated date of commissioning of the 910 MW unit was postponed to 15 November 2020, which is further described in Note 54 to these consolidated financial statements. On 5 August 2020, annexes to the investment agreement were concluded between the Company, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Funds, as well as an annex to the contingency agreement on the sale of the Funds' shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. concluded by the Company with the Funds. By virtue of these annexes, in particular, the commissioning cut-off date set in the investment agreement has been postponed by six months. On 13 November 2020, the 910 MW unit was commissioned, which, in the context of the signed annexes to the investment agreement, means that the cut-off date for commissioning the block was not exceeded, and therefore there was no breach of the investment agreement.

As at the date of approval of these consolidated financial statements for publication, the Company does not identify on its side any risk of material breach of agreement beyond the Company's direct control and takes the view that there is no realistic possibility, including in the future, of such breaches occurring. Accordingly, the Group, having regard to the provisions of IAS 32 *Financial Instruments: Presentation*, does not recognise the Funds' involvement as a liability but as a non-controlling interest.

As at the balance sheet date, the Closed-end Investment Funds hold shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 880 000 thousand.

Claim for amendment to the agreement for the construction of the Grzegorz Shaft in TAURON Wydobywanie S.A.

The general contractor for TAURON Wydobywanie S.A. investment project entitled "Construction works performed by the General Contractor for Stage I of the construction of the Grzegorz Shaft along with the construction of surface infrastructure for TAURON Wydobywanie S.A." suspended the works, indicating as the reason the risk to safety caused by the disclosure of changes in hydrogeological conditions in the area of the works and applied to the company for an amendment to the underlying agreement, including changes in the scope of the amount of the remuneration. TAURON Wydobywanie S.A., having analysed materials related to claims for amendments to the agreement by the contractor and having obtained an expert opinion on the correctness of execution of hydrogeological and geological and engineering documentation for the needs of the sinking of the Grzegorz Shaft, which did not confirm the thesis of the General Contractor, as well as on the basis of an expert opinion which indicated significant errors in the design of the shaft enclosure making it impossible to continue execution of the agreement with the General Contractor, requested the designer of the design documentation to remove significant defects in the technical design of the shaft enclosure of the Grzegorz Shaft. In the opinion of company, in order to execute the investment in a manner consistent with the agreement concluded with

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

the General Contractor, it is necessary to improve the design of the shaft enclosure and remove design errors.

In response to the contractor's request for a guarantee of payment for the construction works, TAURON Wydobycie S.A. granted the contractor a guarantee of payment in the form of a bank letter of credit valid until 18 January 2021. The bank letter of credit has not been extended.

The Group assesses that there is no basis to create provisions for the effects of the above events as at the balance sheet date. The case is not subject to legal proceedings.

After the balance sheet date, in February 2021, company filed a request for mediation with the Court of Arbitration at the Polish Attorney General's Office.

55. Security for liabilities

Among the collateral established and in force as at 31 December 2020 for the repayment of the Group's liabilities, the most significant items, set out in the table below, are the collaterals for contracts entered into by the parent company.

| Collateral | Collateral amount | | Due date | Agreement/transaction | |
|---|-------------------|-----------|------------|--|---|
| | Currency | PLN | | | |
| | | 7 284 000 | 31.12.2025 | Loan arrangement with a consortium of banks of 19 June 2019 | |
| | | 2 550 000 | 20.12.2032 | Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego of 31 July 2013 | |
| | | 1 500 000 | 31.12.2036 | Overdraft agreement with Bank Gospodarstwa Krajowego of 19 December 2018 | |
| | | 900 000 | 31.12.2027 | Credit agreements with Intesa Sanpaolo S.p.A. of 19 December 2019 | |
| | | 621 000 | 31.10.2021 | Bank guarantee agreement dated 28 January 2020 with MUFG Bank, Ltd. ¹ | |
| | | 600 000 | 30.06.2034 | Subordinated Bond Issue Scheme in Bank Gospodarstwa Krajowego of 6 September 2017 | |
| | | 600 000 | 17.12.2021 | Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017 ² | |
| | | 600 000 | 31.12.2028 | Credit agreement with SMBC Bank EU AG of 16 March 2020 | |
| | | 600 000 | 31.12.2030 | Credit agreement with a consortium of banks of 25 March 2020 | |
| | | 600 000 | 14.03.2023 | Agreement concluded with BGK for bank guarantees in favour of Izba Rozliczeniowa Gield Towarowych S.A. of 13 March 2020 | |
| Declarations of submission to enforcement | | 600 000 | 31.03.2021 | Membership agreement in the Exchange Clearing Chamber operated by Izba Rozliczeniowa Gield Towarowych S.A. ² | |
| | | 360 000 | 29.12.2021 | Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017 ² | |
| | | 300 000 | 24.04.2024 | Agreement concluded with Santander Bank Polska S.A. for bank guarantees for the benefit of Izba Rozliczeniowa Gield Towarowych S.A. of 24 April 2020 | |
| | | 384 000 | 31.12.2027 | Agreement concluded with Santander Bank Polska S.A. for intraday loan in the Intra Day auxiliary account of 8 December 2020 | |
| | | 240 000 | 31.12.2023 | Bond Issue Scheme of 24 November 2015 ² | |
| | | 180 000 | 25.05.2024 | Contingent agreement concluded with Intesa Sanpaolo S.p.A. Spółka Akcyjna Branch in Poland for bank guarantees for the benefit of Izba Rozliczeniowa Gield Towarowych S.A. of 25 May 2020 | |
| | | 24 000 | 110 755 | 31.12.2021 | |
| | EUR | 50 000 | 230 740 | 31.12.2021 | Overdraft agreement with Bank Gospodarstwa Krajowego of 30 December 2015 ² |
| | | 67 500 | 311 499 | 31.12.2022 | |
| | | 96 000 | 27.05.2024 | | |
| | | 24 000 | 27.05.2029 | | Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019 |
| Bank account mandates | | 500 000 | 13.03.2022 | Agreement concluded with BGK for bank guarantees in favour of Izba Rozliczeniowa Gield Towarowych S.A. of 13 March 2020 | |
| | | 300 000 | 22.02.2021 | Bank account agreement (intraday limit) with PKO Bank Polski S.A. of 9 October 2017 ² | |
| | | 300 000 | | Overdraft agreement with PKO Bank Polski S.A. of 9 October 2017 ² | |
| | EUR | 45 000 | 207 666 | 30.12.2021 | Overdraft agreement with Bank Gospodarstwa Krajowego of 30 December 2015 |
| | | 80 000 | 26.05.2023 | | |
| | | 20 000 | 26.05.2028 | | Framework bank guarantee agreements with CaixaBank S.A. of 27 May 2019 |
| Bank guarantees | | 100 000 | 15.01.2021 | Bank guarantees issued by Intesa Sanpaolo S.p.A. Spółka Akcyjna Oddział w Polsce, Santander Bank Polska S.A. and BGK to Izba Rozliczeniowa Gield Towarowych S.A. as a collateral of transactions concluded on Power Commodity Exchange | |
| | | 50 000 | | | |
| | | 30 000 | 18.02.2021 | | |
| | | 10 000 | 30.06.2021 | Bank guarantee issued by CaixaBank S.A. to PSE S.A. as performance security for the power transmission service agreement and to GAZ-SYSTEM S.A. as transmission contract performance security | |
| | | 1 000 | 31.03.2021 | | |
| | | 500 | 31.12.2021 | | |

¹ The security in the form of a declaration of submission to execution submitted to the Guarantee Limit Agreement dated 28 January 2020 relates to an addendum to the bank guarantee issued under the previous Guarantee Limit Agreement concluded with MUFG Bank, Ltd. in February 2019, which extended its term to 11 April 2021. The security in the form of a declaration of submission to execution submitted to the guarantee limit agreement concluded in February 2019 in the amount of PLN 621 000 thousand expired on 31 July 2020.

² The security relates to an agreement for which, as at the balance sheet date, the liabilities expired, were repaid or replaced with others (in the case of the overdraft facility agreement with BGK of 30 December 2015, it concerns declarations of submission to enforcement in the amount of EUR 24 000 thousand and EUR 50 000 thousand).

After the balance sheet date

- bank guarantees were issued to the IRGiT as security for the Company liabilities. As at the date of approval of these consolidated financial statements for publication, two guarantees in the total amount of PLN 80 000 thousand are in force, with expiry dates of 16 April and 18 June 2021;
- on 12 March 2021, an annex was signed to the agreement with Bank Gospodarstwa Krajowego for bank guarantees for IRGiT, on the basis of which a declaration of submission to enforcement was issued up to the

amount of PLN 300 000 thousand, valid until 14 March 2024. The new declaration replaces the declaration on submission to enforcement up to the amount of PLN 600 000 thousand, valid until 14 March 2023.

Carrying amount of assets pledged as a collateral for the repayment of the Group's liabilities

The carrying amounts of assets pledged as a collateral for the repayment of liabilities at each balance sheet date have been presented in the table below.

| | As at 31 December 2020 | As at 31 December 2019 |
|-----------------------------|---------------------------|---------------------------|
| Other financial receivables | 48 663 | 184 353 |
| Real estate | 7 935 | 10 482 |
| Cash | 8 363 | 45 |
| Total | 64 961 | 194 880 |

The main item consists of collaterals of forward transactions - derivative financial instruments concluded by the Company on foreign stock exchange markets. As at 31 December 2020 and 31 December 2019, the related collaterals amounted to PLN 48 663 thousand and PLN 184 353 thousand, respectively.

Transfer of CO₂ emission allowances and property rights of certificates of origin

In 2019 and in February 2020, agreements for the transfer of CO₂ emission allowances to the IRGiT were concluded between the Company and the IRGiT and between the Company, a subsidiary of TAURON Wytwarzanie S.A., and the IRGiT. As at 31 December 2020, CO₂ emission allowances in the total amount of 3 021 799 tonnes were transferred to the IRGiT, including:

- the Company has deposited 2 205 000 tonnes of allowances held in the Union Registry account, and
- the subsidiary, TAURON Wytwarzanie S.A. transferred the allowances owned by TAURON Wytwarzanie S.A. to the IRGiT in the total amount of 816 799 tons.

After the balance sheet date, on 16 February 2021, all rights owned by the subsidiary were returned to the account of TAURON Wytwarzanie S.A. and no longer constitute the subject of the transfer of property. Additionally, on 17 March 2021, the portion of allowances in the amount of 1 660 000 tonnes were returned to the Company.

On 10 February 2020, two agreements of transfer of ownership as collateral concerning property rights to certificates of origin were concluded between the Company, the subsidiary TAURON Sprzedaż Sp. z o.o. and the IRGiT and between the Company, the subsidiary TAURON Sprzedaż GZE Sp. z o.o. and the IRGiT. As at 31 December 2020, pursuant to the agreements entered into, the subsidiaries submitted an instruction to block the property rights held in a total of 1 930 594.92 MWh in the Certificate of Origin Register maintained by the Polish Power Exchange. After the balance sheet date, on 18 January 2021, all property rights arising from certificates of origin were unblocked and are no longer the subject of the transfer of title.

Other collaterals for the repayment of liabilities of the Group and joint ventures

Other material collaterals for the repayment of the Group's liabilities and joint ventures as at 31 December 2020 are described below.

- Registered pledges and the financial pledge on shares of TAMEH HOLDING Sp. z o.o.

Under the agreement of 15 May 2015, the parent company established a financial pledge on its shares in the share capital of TAMEH HOLDING Sp. z o.o. with a total nominal value of PLN 329 340 thousand, representing approximately 50% of the shares in the share capital, a financial pledge, a registered pledge with highest priority of satisfaction on the shares up to the highest amount of security in the amount of CZK 3 950 000 thousand and a registered pledge with highest priority of satisfaction on the shares up to the highest level of security in the amount of PLN 1 370 000 thousand in favour of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges on the new shares. Moreover, the Company assigned the rights to dividend and other payments.

The agreement to establish registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Group companies and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

As at 31 December 2020, the carrying amount of the investment in joint venture accounted for using the equity method in the TAMEH HOLDING Sp. z o.o. group was PLN 585 863 thousand.

- Blank promissory notes

| Agreement/transaction secured by blank promissory notes | Issuer of a blank promissory note | As at 31 December 2020 |
|---|-----------------------------------|------------------------|
| Agreements concerning loans granted to subsidiary TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice. The companies have provided declarations of submission to enforcement as collateral for the loans in question. | TAURON Polska Energia S.A. | 70 000* |
| Performance bonds under contracts and agreements concluded by the company, including co-funding of engagements being carried out. | TAURON Dystrybucja S.A. | 200 167 |
| Performance bond and reimbursement security under the co-funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw and the Regional Fund for Environmental Protection and Water Management in Katowice | TAURON Ciepło Sp. z o.o. | 109 851 |
| Performance bonds under the co-funding agreements concluded with Centrum Projektów Polska Cyfrowa in Warsaw. | TAURON Obsługa Klienta Sp. z o.o. | 187 841 |
| An agreement with PSE S.A. to provide electricity supply services, an agreement with the National Fund for Environmental Protection and Water Management in Warsaw concerning partial cancellation of a loan and an agreement with the National Centre for Research and Development in Warsaw for the funding of a project. | TAURON Wytwarzanie S.A. | 63 708 |

*As at 31 December 2020, the outstanding amount under loans, secured with bills of exchange, amounts to PLN 8 000 thousand.

- Corporate and bank guarantees

- Corporate guarantee granted by the Company

The corporate guarantee was granted in 2014 to secure the bonds (i.e. registered bonds) of Finanse Grupa TAURON Sp. z o.o. The guarantee is valid until 3 December 2029, i.e. the redemption date of the bonds, and amounts to EUR 168 000 thousand (PLN 775 286 thousand), and the beneficiaries of the guarantee are the private placement investors who purchased the issued bonds.

- Corporate guarantee granted in the Renewable Energy Sources segment

On 15 December 2020, TAURON Ekoenergia Sp. z o.o. granted a corporate guarantee for the liabilities of WIND T1 Sp. z o.o. to a third party up to EUR 24 600 thousand (PLN 113 524 thousand). The guarantee is valid until WIND T1 Sp. z o.o. performs all obligations under the agreement concluded. After the balance sheet date, on 20 January 2021, the value of the collateral was increased to EUR 30 258 thousand.

- Liability towards MUFG Bank, Ltd.

At the Company's request, MUFG Bank, Ltd. issued a bank guarantee as security for the receivables of Bank Gospodarstwa Krajowego, resulting from the loan agreement concluded on 8 March 2018 between the borrower Elektrociepłownia Stalowa Wola S.A. and Bank Gospodarstwa Krajowego and Polskie Górnictwo Naftowe i Gazownictwo S.A.

As at the balance sheet date, the amount of security granted is PLN 517 500 thousand, with a term to 11 April 2021. The guarantee was issued on the basis of a guarantee limit agreement concluded in January 2020 with MUFG Bank, Ltd. and the collateral for MUFG Bank, Ltd.'s claims against the Company is a declaration on submission to execution up to the amount of PLN 621 000 thousand with the term of validity until 31 October 2021.

After the balance sheet date, on 2 February 2021, a guarantee limit agreement was concluded, under which an annex to a bank guarantee of up to PLN 517 500 thousand was issued, valid until 11 April 2022. The receivables of MUFG Bank, Ltd. towards the Company are secured by a declaration of submission to enforcement up to the amount of PLN 621 000 thousand, valid until 31 October 2022.

In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which at 31 December 2020 amounted to PLN 28 184 thousand (PLN 15 265 thousand as at 31 December 2019).

In order to secure funds to cover future decommissioning costs, the Group's subsidiaries TAURON Wydobywanie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. create the Mine Decommissioning Fund.

56. Related party disclosures

56.1. Transactions with joint ventures

The group has interest in the following joint ventures: Elektrociepłownia Stalowa Wola S.A. and the TAMEH HOLDING Sp. z o.o. capital group, which are further described in Note 26 to these consolidated financial statements.

The total value of transactions with jointly-controlled entities is presented in the table below.

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---------|--------------------------------|--------------------------------|
| Revenue | 295 641 | 123 504 |
| Costs | (117 555) | (63 354) |

The main item of settlements with jointly-controlled entities are the loans granted to Elektrociepłownia Stalowa Wola S.A., which is discussed in more detail in Note 27 to these consolidated financial statements.

The Company provided collateral to joint ventures in the form of pledges on shares in TAMEH HOLDING Sp. z o.o. and a bank guarantee commissioned by the Company to secure loan liabilities of Elektrociepłownia Stalowa Wola S.A., as described in detail in Note 55 hereto.

56.2. Transactions with State Treasury companies

The main shareholder of the Group is the State Treasury of the Republic of Poland, therefore the State Treasury companies are treated as related parties.

The total value of transactions with State Treasury companies are presented in the table below.

Revenues and expenses

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---------|--------------------------------|--------------------------------|
| Revenue | 2 472 555 | 2 354 188 |
| Costs | (2 747 239) | (2 815 591) |

Receivables and liabilities

| | As at 31 December 2020 | As at 31 December 2019 |
|-------------|---------------------------|---------------------------|
| Receivables | 319 612 | 277 032 |
| Payables | 387 636 | 290 373 |

As at 31 December 2020 and as at 31 December 2019, the receivables item in the table above includes advance payments for the purchase of fixed assets in the amount of PLN 2 996 thousand and PLN 2 439 thousand, respectively.

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the year ended 31 December 2020 included KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. and Spółka Restrukturyzacji Kopalń S.A. In total, sales to the above-mentioned counterparties amounted to 89% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transaction was performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above counterparties accounted for 87% of the value of purchases from State Treasury companies in the year ended 31 December 2020.

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the year ended 31 December 2019 included KGHM Polska Miedź S.A., PSE S.A., Polska Grupa Górnicza S.A. In total, sales to the above-mentioned counterparties amounted to 82% of the volume of revenues generated in transactions with State Treasury companies. The largest purchase transaction was performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węglokoks S.A. Purchases from the above counterparties accounted for 89% of the value of purchases from State Treasury companies in the year ended 31 December 2019.

The Capital Group conducts material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organisation of commodities exchange trading, it has been decided to abandon classification of purchase and sale transactions made through this entity as related-party transactions.

Transactions with State Treasury companies are mainly related to the operating activities of the Group and are performed on an arm's length terms.

56.3. Compensation of the executives

The amount of compensation and other benefits paid and/or due to the Management Board, Supervisory Boards and other key management personnel of the parent company and the subsidiaries in the year ended 31 December 2020 and in the comparative period has been presented in the table below.

| | Year ended 31 December 2020 | | Year ended 31 December 2019 | |
|--|--------------------------------|---------------|--------------------------------|---------------|
| | Parent | Subsidiaries | Parent | Subsidiaries |
| Management Board | 4 679 | 23 513 | 5 209 | 19 801 |
| Short-term benefits (with surcharges) | 3 699 | 22 835 | 4 650 | 18 220 |
| Employment termination benefits | 829 | 658 | 541 | 1 577 |
| Other | 151 | 20 | 18 | 4 |
| Supervisory Board | 648 | 1 274 | 898 | 1 062 |
| Short-term employee benefits (salaries and surcharges) | 648 | 1 168 | 898 | 952 |
| Other | - | 106 | - | 110 |
| Other key management personnel | 16 853 | 45 446 | 17 805 | 42 419 |
| Short-term employee benefits (salaries and surcharges) | 14 910 | 43 750 | 15 707 | 40 762 |
| Jubilee bonuses | - | 109 | - | 94 |
| Employment termination benefits | 959 | 197 | 933 | 110 |
| Other | 984 | 1 390 | 1 165 | 1 453 |
| Total | 22 180 | 70 233 | 23 912 | 63 282 |

In accordance with the accounting policy adopted, the Group recognises provisions for benefits due to termination of management contracts of members of the Management Board and employment contracts with other key management personnel that may be paid or due to be paid in subsequent reporting periods. The table above takes into account the amounts paid and due to be paid until 31 December 2020.

57. Finance and capital management

The Company carries out a centralised finance management policy, allowing effective management in this respect at a level of the entire TAURON Group. The main tools allowing for effective management include the appropriate internal corporate regulations, as well as the TAURON Group's cash pool service and intra-group loans. In addition, the finance management system is supported by the TAURON Group's central financial risk management policy and the TAURON Group's central insurance policy. In these areas, the Company acts as a manager and decides on the direction of activities, enabling it to set appropriate risk exposure limits.

Detailed information concerning finance management are described in section 7.3. of the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020.

In 2020, the Company and TAURON Group demonstrated full capacity to settle their liabilities on their maturity date.

The main objective of the Group's capital management is to maintain a good credit rating and safe capital ratios that would support the Group's operations and increase value for its shareholders.

The Group primarily monitors the debt ratio, defined as the ratio of net financial debt to EBITDA.

The TAURON Group's net financial debt is defined in the individual financing agreements and generally represents the obligation to pay or repay money on account of loans, borrowings and debt securities and on account of financial leases, excluding: subordinated bond liabilities and lease liabilities recognised under IFRS 16 *Leases*, which would not meet the conditions for classification as lease liabilities under the provisions of IAS 17 *Leases*, less cash and short-term investments with a maturity of up to 1 year. EBITDA means the TAURON Group's operating profit or loss plus depreciation and amortisation and write-downs on non-financial assets. The value of the ratio is monitored by the financing institutions of the Group and rating agencies and influences the possibility and cost of obtaining financing as well as the Company credit rating.

As at the balance sheet date, the debt ratio stood at 2.51, which is acceptable to financial institutions.

TAURON Polska Energia S.A. Capital Group
*Consolidated financial statements for the year ended 31 December 2020 compliant with the IFRS,
as endorsed by the European Union
(in PLN thousand)*

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Loans and borrowings | 4 794 846 | 4 727 633 |
| Bonds ¹ | 5 322 625 | 4 254 660 |
| Finance lease ² | - | - |
| Non-current debt liabilities | 10 117 471 | 8 982 293 |
| Loans and borrowings | 1 197 287 | 2 323 018 |
| Bonds ¹ | 201 217 | 88 935 |
| Finance lease ² | - | - |
| Short-term debt liabilities | 1 398 504 | 2 411 953 |
| Total debt | 11 515 975 | 11 394 246 |
| Cash and cash equivalents ³ | 921 345 | 1 237 952 |
| Short-term investments maturing within one year | 100 | 26 722 |
| Net debt | 10 594 530 | 10 129 572 |
| EBITDA | 4 222 717 | 3 599 367 |
| Operating profit (loss) | (1 731 977) | 295 454 |
| Depreciation/amortization | (1 954 142) | (1 991 733) |
| Impairment | (4 000 552) | (1 312 180) |
| Net debt / EBITDA | 2.51 | 2.81 |

¹ Debt does not include liabilities arising from subordinated bonds

² Liabilities arising from lease in line with IAS 17 Lease

³ Cash and cash equivalents include cash of TAURON Ciepło Sp. z o.o. classified as at the balance sheet date as the disposal group.

The change in debt liabilities is shown in the table below.

| Debt | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|--------------------------------|--------------------------------|
| Opening balance | 14 314 276 | 10 963 377 |
| subordinated bonds | (1 913 427) | (1 541 659) |
| lease indebtedness (except for those meeting the conditions of IAS 17 Leases) | (1 006 603) | - |
| Opening balance - debt in the calculation of debt ratio | 11 394 246 | 9 421 718 |
| Effects of implementing new IFRS | - | 918 115 |
| Proceeds arising from debt taken out | 4 359 573 | 5 645 485 |
| financing received | 4 368 546 | 5 650 000 |
| transaction costs | (8 973) | (4 515) |
| Interest accrued | 427 015 | 450 716 |
| charged to profit or loss | 257 486 | 266 504 |
| capitalized to property, plant and equipment and intangible assets | 169 529 | 184 212 |
| Debt related payments | (4 954 773) | (3 759 175) |
| debt securities redemption | (60 400) | (2 420 000) |
| principal repaid | (4 406 813) | (867 360) |
| lease instalments paid | (102 085) | (75 047) |
| interest paid | (215 946) | (212 556) |
| interest paid, capitalized to investment projects | (169 529) | (184 212) |
| Change in the balance of overdraft facility and cash pool | (16 417) | 21 453 |
| Recognition of new lease agreements and change of lease agreements | 186 932 | 84 474 |
| Business acquisition - recognition of acquired lease liabilities | - | 35 215 |
| Change in debt measurement | 339 126 | (42 619) |
| Reclassification of the Group for sale as for sale | (64 625) | - |
| Other non-monetary changes | (4 108) | (2 765) |
| Closing balance | 14 586 999 | 14 314 276 |
| subordinated bonds | (1 998 367) | (1 913 427) |
| lease debt (except for debt meeting the conditions of IAS 17 Leases) | (1 072 657) | (1 006 603) |
| Closing balance - debt in the calculation of debt ratio | 11 515 975 | 11 394 246 |

58. Fee of the certified auditor or the entity authorized to audit financial statements

Information on the statutory auditor's remuneration is presented in section 6. in the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020.

59. Other material information

Commissioning of the 910 MW power unit

As a result of damage to one of the boiler components which occurred during the last testing phase of the 910 MW power unit ("the Unit") in Jaworzno, the Consortium of RAFAKO S.A. – MOSTOSTAL WARSZAWA S.A., (the "Consortium") being the contractor of the Unit, the designer of the boiler and the entity responsible for the commissioning of the boiler indicated that it was necessary to postpone the date of commissioning of the Unit. On 6 March 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. received information from the contractor, according to which the estimated commissioning of the Unit was to take place by the end of July 2020. On 4 May 2020, the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and the contractor signed an agreement related to the execution of the contract for the construction of the Unit. In the signed agreement, the parties agreed on the causes of the damage to one of the boiler components referred to above. According to the conclusions presented by the emergency commission consisting of representatives of the parties, the failure resulted from an unfavourable combination of phenomena during the start-up of the Unit. In addition, the emergency committee agreed on a method of repairing the damaged boiler components that will avoid similar failures in the future.

The agreement also established a schedule of activities including procedures to prevent the risk of recurrence of failures and procedures for tuning and start-up work on the Unit. The agreement was followed by an addendum to the main contract between the parties, in which the Contractor undertook to commission the Unit by 15 November 2020. This deadline took into account the additional time needed to remedy the failure referred to above.

On 13 November 2020, the Unit was commissioned. On the day of commissioning of the 910 MW Unit, Nowe Jaworzno Grupa TAURON Sp. z o.o., E003B7 Sp. z o.o. (a company 100% controlled by RAFAKO S.A. in restructuring) and the Consortium (acting with the consent of the supervisor of the arrangement in simplified restructuring proceedings) signed a settlement agreement which is the result of mediation conducted before the Court of Arbitration at the Polish Prosecutor General's Office and which regulates in particular the following issues:

- Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Consortium waived their mutual equivalent claims which had occurred by the date of signing the Settlement Agreement, except for, inter alia, Nowe Jaworzno Grupa TAURON Sp. z o.o.'s claims under warranty or guarantee and recourse claims against the Consortium for payment of further subcontractors' claims and the Consortium's claims for work performed in accordance with the contract,
- The Consortium will perform additional services for Nowe Jaworzno Grupa TAURON Sp. z o.o., including optimising the operation of the Unit, which will result, inter alia, in reducing the technical minimum of the Unit from 40% to 37%. In addition, the technical guarantee for the high-pressure part of the boiler will be extended by six months (to 36 months), for which Nowe Jaworzno Group TAURON Sp. z o.o. will receive additional security provided by the guarantors.

The Settlement became effective after the balance sheet date, on 6 January 2021, following the fulfilment of all conditions precedent, key among which were the commissioning of the Unit by 15 November 2020, the submission by the Consortium of an agreement in the form of a Promissory Note with financial institutions on how to raise the funds necessary to complete the project and the approval of the Settlement by a court of law.

In connection with the conclusion of the settlement, on 13 November 2020, Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Consortium concluded an annex to the agreement for the construction of the Unit, which regulates in detail the arrangements between the parties set out in the Settlement Agreement with respect to additional services provided by the Consortium, including, inter alia, dates of their performance and related dates of payments.

Impact of the COVID-19 pandemic on the operations of the Group

The development of COVID-19 cases has been observed in Poland during the year ending 31 December 2020. As a result, numerous restrictions have been put in place in the country to contain the spread of the SARS-CoV-2 virus that causes COVID-19 disease. This situation has caused disturbances in the economic and administrative system in Poland and worldwide. As a result, the pandemic has significantly reduced economic activity, affecting the work of industrial plants and companies in the small and medium-sized enterprise segment. Consequently, in the medium and long term, it is expected that the pandemic will continue to affect national, European as well as global economic conditions, having a negative impact on economic growth in Poland in 2021 and beyond. Material issues relating to the impact of the pandemic on the TAURON Group are set out below.

- The situation related to the COVID-19 pandemic in 2020 significantly affected the level of demand for electricity in the National Power System and, consequently, the volumes of electricity distribution and sales in the TAURON Group. In the second half of 2020, the impact of the COVID-19 pandemic on domestic demand was milder than it was in the first half of 2020. The biggest drop in electricity consumption in Poland took place in the second quarter of 2020,

amounting to as much as 8.5%, while the country's annual electricity consumption fell by around 2.3% compared to the same period in 2019. Changes in electricity demand resulted in a decrease in revenues mainly in the area of electricity distribution and sales. The Group estimates that, in terms of the Distribution segment, the adverse impact of the pandemic on EBITDA amounted to PLN 47 876 thousand, which is due to the loss of some sales volume to non-household customers. With regard to the Sales segment, the estimated negative impact of the pandemic on EBITDA amounted to PLN 77 179 thousand, due to the loss of margin associated with the decrease in electricity sales and the need to balance the purchase position. In addition, the pandemic situation has led to a reduction in production in the area of conventional generation and, consequently, to a fall in demand for hard coal and an increase in coal stocks. In view of this situation, renegotiations were undertaken with coal suppliers on price and quantity conditions for its purchase. In order to mitigate the negative impact of the pandemic on TAURON Group in TAURON Wydobycie S.A., an agreement was signed between the Management Board of the company and the social side, limiting working hours and reducing the remuneration of the company's Management Board and employees by 20% in the period of three months starting from 1 May 2020. In turn, at TAURON Wytwarzanie S.A., an agreement signed between the company's Management Board and the social side limited working hours and reduced the remuneration of the company's Management Board and employees by 10% in the corresponding period. These agreements made it possible to reduce costs and obtain funds under the solutions contained in the anti-crisis shield for reduced working hours of employees.

- Disturbances in economic activity in Poland caused financial difficulties for customers and contractors of the TAURON Group. The situation was mitigated by regulatory measures in the introduction of successive anti-crisis shields, which were aimed at maintaining liquidity and protecting jobs at Polish entrepreneurs. In the period from March to December 2020, changes in the level of overdue receivables were observed in the first weeks of the development of the pandemic. In the remainder of the year, past due receivables were broadly stable, with increased migration of the balance of receivables into subsequent past due periods observed. In order to limit potential credit losses, extended credit risk management criteria are applied, monitoring of receivables has been intensified and debt collection activities have been stepped up. The COVID-19 pandemic has further affected the need for additional allowances for expected credit losses of financial instruments and the remeasurement to fair value of loans granted. This increased the Company's operating expenses by PLN 19 628 thousand and financial expenses by PLN 14 497 thousand.
- In terms of the market environment, increased volatility was observed in the prices of commodity instruments, in particular electricity and CO₂ emission allowances, which translated into an increase in the required security deposits and, consequently, the level of cash committed for this purpose. In order to improve its liquidity position, the Company has entered into guarantee limit agreements allowing it to provide the required collateral to the IRGiT in non-cash form. The Company has also taken advantage of the anti-crisis shield solution by filing a declaration of submission to enforcement with the IRGiT, thereby reducing the level of deposits made both in cash and in established bank guarantees (this solution, in accordance with the Act, expired on 30 September 2020). In order to further reduce the liquidity risk, the Company matched the delivery dates of the concluded forward contracts for CO₂ emission allowances with their redemption dates and decided to conclude new contracts exclusively on the OTC market. A capping system for TAURON expenditure has also been introduced.
- In terms of financial instruments, a depreciation of the zloty and a fall in interest rates were observed, including an intervention reduction in the NBP reference interest rate. Changes in exchange rates affect the costs incurred to purchase CO₂ emission allowances, as well as the valuation of the Company's debt denominated in foreign currencies. On the other hand, changes in interest rates may affect the costs resulting from the concluded financing agreements based on a variable interest rate.
- As a result of the COVID-19 pandemic, there were also some difficulties in the implementation of TAURON Group's strategic investment projects. In the case of the investment in the construction of the 910 MW unit at Jaworzno and the construction of the unit at EC Stalowa Wola, these occurred in the early stages of the pandemic as a result of the introduction of strict controls on access to infrastructure and additional security procedures. With regard to the construction of the 910 MW unit, COVID-19 was one of the reasons for amending the contract with the Consortium of Rafako S.A. and Mostostal Warszawa S.A. (the change in the commissioning date of the 910 MW power unit is described above in this note). In order to mitigate the consequences of project disruptions, all contractors implementing the projects cooperate closely and on an ongoing basis with TAURON Group companies responsible for the investments, which monitor the situation in the projects and respond appropriately to the situation using available tools.
- The pandemic situation also affected the operations of individual business areas through increased employee absenteeism and increased operating costs resulting from the need to meet epidemiological conditions. In this regard, the TAURON Group has taken a number of preventive measures in organisational and material terms aimed

at protecting employees of individual TAURON Group companies and maintaining the continuity of critical infrastructure operations. Dedicated Crisis Teams have been established at the level of the Parent Company as well as individual Subsidiaries in order to coordinate the security work related to the threat of COVID-19.

In conclusion, the TAURON Group, being aware of the risks related to the epidemiological situation, undertook in 2020 and continues to undertake active measures to mitigate the impact of the current and expected economic situation as well as to protect against extreme events. However, it should be stressed that the COVID-19 pandemic situation is highly volatile and the future impact and scale of the pandemic are difficult to estimate precisely at present. The duration of the pandemic, its severity and spread, and its impact on Polish economic growth in the short, medium and long term will be important. The Company's Management Board, being aware of the threats resulting from the pandemic, monitors the impact on an ongoing basis and will take all possible steps to mitigate any negative effects of the COVID-19 pandemic on the TAURON Group.

60. Events after the balance sheet date

Conclusion of the negotiations in the sales process of shares in TAURON Ciepło Sp. z o.o.

Polskie Górnictwo Naftowe i Gazownictwo S.A. on 29 January 2021, expressed its will to discontinue the negotiations aimed at the acquisition of shares in TAURON Ciepło Sp. z o.o.

Due to the failure to conclude the transaction, the Management Board of the Company decided to commence analyses concerning the Heat Area, taking into account the projected changes in the external environment, including regulatory and market changes as well as taking into account the outlook of the Polish heat sector, which may affect further decisions on the sale of shares in TAURON Ciepło Sp. z o.o. or keeping the Company in the Group.

New subordinated bond issue scheme

On 11 March 2021, TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the new scheme for the issue of subordinated bonds up to PLN 450 000 thousand.

The subordinated bond issue scheme provides for a possibility to carry out the issue within a period of two years from signing of the documentation. The financing period is 12 years from the date of issue. In the period of the first seven years following the issue, earlier redemption of the bonds by the Company is not possible and the earlier sale of bonds by BGK to third parties is not possible. The interest rate is variable based on WIBOR 6M increased by a fixed margin, and after the 7-year financing period, the margin is additionally increased.

If issued, the bonds will be subscribed by Bank Gospodarstwa Krajowego on the primary market.

Funds from the issue may be used to finance the Group's current and investment needs, including projects related to Green Turn of TAURON.

Until the date of approval of these consolidated financial statements for publication, no bonds had been issued.

Contributions to the capital of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.

On 17 March 2021, the Extraordinary General Meeting of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. adopted a resolution on contributing to the company's equity in the amount of PLN 10 800 thousand by the sole shareholder of TAURON Polska Energia S.A. As part of the additional payments, the funds were contributed by the Company on 24 March 2021.

Restructuring of the portfolio of CO₂ emission allowances of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

After the balance sheet date, in March 2021, the Group restructured the portfolio of CO₂ emission allowances of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o., in relation to the volume of 3 258 000 CO₂ emission allowances, with the deadline for collection in March 2021.

Due to the delay in putting the 910 MW unit into operation and, consequently, lower production, the company's portfolio had a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand. As at the balance sheet date, the Group intended to purchase CO₂ emission allowances with a maturity date of March 2021, therefore these contracts are recognized as excluded from IFRS 9 *Financial Instruments* and therefore are not measured at fair value as at the balance sheet date.

In the first quarter of 2021, as a result of the analysis of new premises and circumstances that appeared after the balance sheet date, the Group changed its intentions regarding the above CO₂ emission allowances and decided to roll them over with the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024.

Therefore, the original contracts were not settled by physical delivery, and therefore the Group recognized 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 the result from the settlement of the instruments, which resulted in an increase in its operating result in the amount of EUR 65 893 thousand.

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 measured at fair value. At the same time, these transactions were made at prices higher than the originally contracted purchase, which will increase the costs of establishing a provision by the Group for liabilities due to CO₂ emissions for 2021 and subsequent financial years.

As a result of the above, the Group estimates that the total impact of the restructuring on its operating results in 2021-2023 will not be significant.

Signing an agreement for the sale of shares in PGE EJ 1 Sp. z o.o. for the State Treasury

After the balance sheet date, on 26 March 2021, the Company signed an agreement with the State Treasury for the sale of shares in PGE EJ 1 Sp. z o.o. ("Agreement"). The Agreement was signed by all entities holding shares in PGE EJ 1 Sp. z o.o. In addition to the Company, these are: PGE Polska Grupa Energetyczna S.A., Enea S.A. and KGHM Polska Miedź S.A., jointly (the "Shareholders"). The company PGE EJ 1 Sp. z o.o. is responsible for the preparation and implementation of the investment consisting in the construction and operation of the first Polish nuclear power plant.

Pursuant to the Agreement, the Company sold to the State Treasury 532 523 shares of PGE EJ 1 Sp. z o.o. representing 10% of the share capital and representing 10% of votes at the shareholders' meeting of PGE EJ 1 Sp. z o.o. After closing the transaction, the Company will not have any shares in PGE EJ 1 Sp. z o.o. The selling price for 100% of the shares amounted to PLN 531 362 thousand, of which PLN 53 136 thousand is attributable to the Company. Payment for shares in PGE EJ 1 Sp. z o.o. will take place no later than 31 March 2021. The selling price will be subject to adjustment based on the valuation of PGE EJ 1 Sp. z o.o. updated as of the closing date of the transaction. In the opinion of the Company, any possible adjustment will not have a significant impact on the final sale price.

Moreover, the Shareholders concluded with PGE EJ 1 Sp. z o.o. an annex to the agreement of 15 April 2015 in the case of WorleyParsons, according to which the Shareholders are proportionally liable for the liabilities or are proportionally entitled to benefits potentially arising as a result of the settlement of the dispute with WorleyParsons up to the level of claims, together with interest as at 26 March 2021.

Company Management Board

Katowice, 29 March 2021

Marek Wadowski – acting President of the Management Board / Vice-President of the Management Board

Jerzy Topolski – Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director in Charge of Taxes and Accounting



REPORT OF THE MANAGEMENT BOARD

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

TABLE OF CONTENTS

| | |
|--|------------|
| 1. TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP | 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 | 12 |
| 1.7. Description of the expansion policy and directions | 21 |
| Implementation of the strategic investment (CAPEX) projects | 22 |
| Evaluation of the capability to complete the intended investment projects | 28 |
| Directions for advancing innovations as well as research and development activities | 29 |
| 1.8. Major achievements in the field of research and development | 29 |
| 1.9. TAURON Group's Business and Operational Model | 33 |
| 1.10. Principles of management of TAURON Polska Energia S.A. and TAURON Capital Group and the changes thereof | 34 |
| 2. OPERATIONS OF TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP | 38 |
| 2.1. Core products, goods and services | 38 |
| 2.2. Markets and sources of supply | 41 |
| 2.3. Assessment of the factors and non-typical (one-off) events that have a significant impact on the financial result achieved | 46 |
| 2.4. Material factors impacting growth | 61 |
| 2.5. Timeline | 62 |
| 2.6. Major events ha a significant impact on the operations in 2020 and after the balance sheet date, i.e. December 31, 2020 | 63 |
| 2.7. Prizes and accolades (honorable mentions) | 69 |
| 2.8. Information on the employment and employee related issues | 70 |
| 2.9. Corporate Social Responsibility (CSR) Policy | 77 |
| 2.10. Key non-financial efficiency ratios (metrics, performance indicators) | 82 |
| 2.11. Sponsoring activities | 83 |
| 3. TAURON CAPITAL GROUP'S RISK MANAGEMENT | 85 |
| 3.1. Risk management objective and principles | 85 |
| 3.2. Risk management strategy | 85 |
| 3.3. Key risks management | 91 |
| 3.4. Description of the most material risk categories | 96 |
| 3.5. Risk classification in the individual operating Segments | 103 |
| 4. ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A. | 107 |
| 4.1. Overview of the economic and financial data disclosed in the annual financial statements | 107 |
| 4.2. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier | 112 |
| 4.3. Key financial ratios and the Alternative Performance Measures | 112 |
| 4.4. Principles of preparing annual financial statements | 112 |
| 5. ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL RESULTS | 113 |
| 5.1. TAURON Capital Group's financial results | 113 |
| 5.2. TAURON Capital Group's financial results by operating Segments (Lines of Business) | 114 |
| 5.3. Characteristics of the structure of assets and liabilities in the consolidated statement of financial position | 122 |
| 5.4. Discussion of the economic and financial figures disclosed in the annual consolidated financial statement | 129 |
| 5.5. Material off-balance sheet items | 134 |
| 5.6. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier | 134 |
| 5.7. Key financial ratios and the Alternative Performance Measures | 134 |
| 5.8. Most significant financial and operating data for the last 5 years | 137 |
| 5.9. What can we expect in 2021 | 140 |
| 5.10. Current and forecast financial and assets situation (financial and assets outlook) | 140 |
| 5.11. Principles of preparing annual consolidated financial statements | 141 |
| 6. INFORMATION ON THE AUDIT FIRM | 142 |
| 7. FINANCIAL RESOURCES AND INSTRUMENTS | 143 |
| 7.1. Proceeds from security issues | 143 |

| | | |
|--|--|------------|
| 7.2. | Financial instruments | 143 |
| 7.3. | Assessment of financial resources management | 143 |
| 8. | SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A. | 145 |
| 8.1. | Shareholding structure | 145 |
| 8.2. | Dividend policy | 145 |
| 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 | 145 |
| 8.4. | Agreements related to potential changes to the shareholding structure | 146 |
| 8.5. | Share buybacks | 146 |
| 8.6. | Employee stock award programs | 146 |
| 8.7. | Shares performance on the Warsaw Stock Exchange (WSE) | 146 |
| 8.8. | Investor relations | 149 |
| 9. | STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE | 151 |
| 9.1. | Applied set of corporate governance rules | 151 |
| 9.2. | Set of abandoned rules of corporate governance | 151 |
| 9.3. | Main characteristics of internal controls and risk management systems in relation to the process of generating the financial statements and consolidated financial statements | 152 |
| 9.4. | Shareholders holding substantial blocks of shares | 154 |
| 9.5. | Holders of securities providing special control rights | 154 |
| 9.6. | Restrictions on exercising the voting right | 154 |
| 9.7. | Restrictions on transfer of the ownership right to securities | 155 |
| 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 | 155 |
| 9.9. | Procedure of amending TAURON Polska Energia S.A.'s Articles of Association | 159 |
| 9.10. | General Meeting of TAURON Polska Energia S.A. and the shareholders' rights | 159 |
| 9.11. | Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof .. | 161 |
| 9.12. | TAURON Group's Diversity Policy | 176 |
| 10. | STATEMENT ON NON-FINANCIAL INFORMATION | 178 |
| 11. | MANAGEMENT AND SUPERVISORY PERSONNEL COMPENSATION POLICY | 179 |
| 11.1. | Compensation system for the Members of the Management Board and the key managers | 179 |
| 11.2. | Principles, conditions and amount of compensation for the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group | 182 |
| 11.3. | Agreements concluded with the management personnel that envisage compensation in case of their resignation or dismissal from the position held, with no important reason, or if their dismissal or resignation takes place as a consequence of the merger of the Company as a result of a takeover | 183 |
| 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 | 183 |
| 11.5. | Information on the changes to the compensation policy during the last financial year | 183 |
| 11.6. | Assessment of the functioning of the compensation policy in terms of the fulfilment of its objectives, in particular the long term growth in shareholder value and stability of the company's performance | 184 |
| 11.7. | System of Compensation for the Members of the Supervisory Board | 184 |
| 11.8. | Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A. | 185 |
| 12. | OTHER MATERIAL INFORMATION AND EVENTS | 186 |
| 12.1. | Material proceedings pending before the court, competent arbitration authority or public administration authority | 186 |
| 12.2. | Agreements that are material for TAURON Capital Group's operations | 189 |
| 12.3. | Transactions with related entities on terms other than at arm's length | 191 |
| 12.4. | Concluded and terminated credit and loan agreements | 191 |
| 12.5. | Loans and sureties granted as well as sureties and guarantees received | 192 |
| 12.6. | The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in 2020 | 193 |
| 12.7. | Other information that could be material for the evaluation of TAURON Capital Group's personnel, assets, financial position, financial result and changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations | 195 |
| Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS | | 195 |
| Appendix B: INDEX OF TABLES AND FIGURES | | 201 |

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

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

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

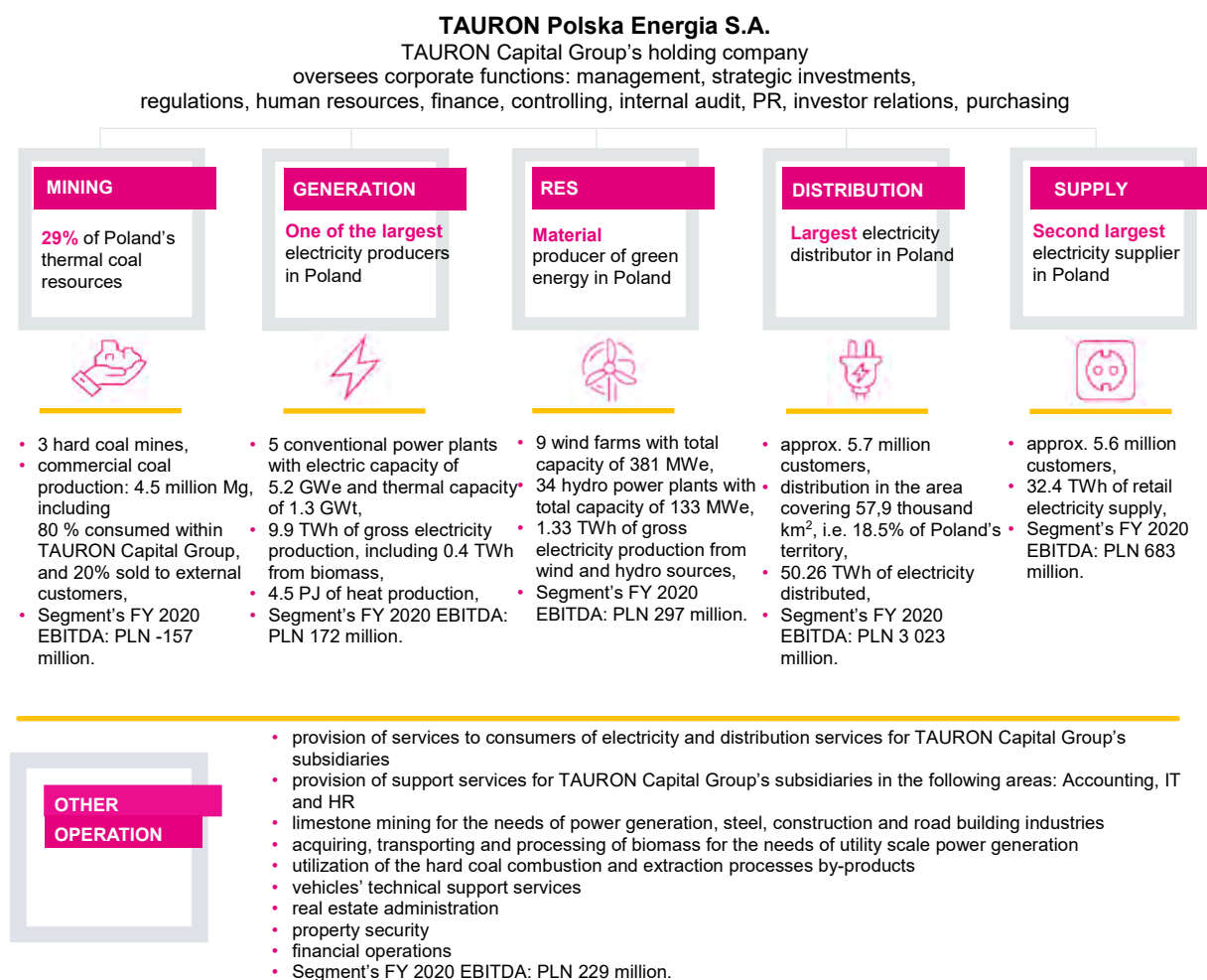
1.1. Basic information

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

The Company does not have any branches (plants).

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

Figure no. 1. TAURON Capital Group TAURON



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

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

1.2. Segments of operations (lines of business)

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

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

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



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



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



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



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



Supply Segment comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of the CO₂ emission allowances, property rights arising from the certificates of origin that confirm electricity generation from the renewable sources, in cogeneration and the property rights arising from the energy efficiency certificates, as well as fuels, and, as of January 2019, also the lighting services sales. The Segment's operations are conducted by TAURON Polska Energia S.A., TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE), TAURON Czech Energy s.r.o. (TAURON Czech Energy) and TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) subsidiary providing services for the business and individual customers with respect to, among others, innovative products and services related to the modern Led lighting systems,

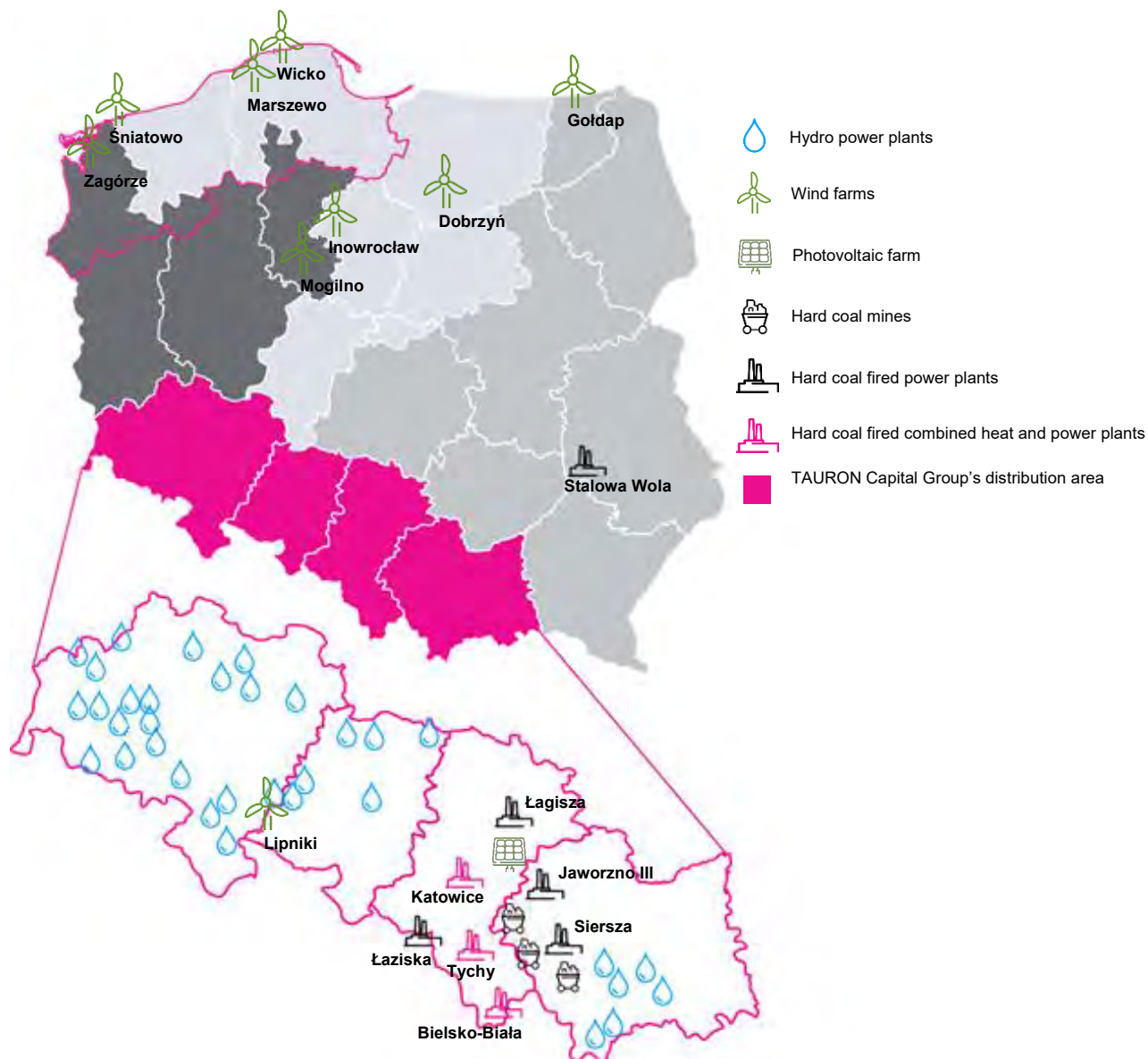
smart city, e-mobility products as well as energy efficiency, operating the MV/LV grids, the construction of electric vehicle charging stations.

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

The operations of TAURON Ciepło (thus far included as part of the Generation Segment) are presented under the **Discontinued Operations**. The core operations of TAURON Ciepło comprise the production, distribution and supply of thermal energy (heat) for the purpose of heating, preparing (conditioning) domestic (tap) hot water and ventilation.

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

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



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

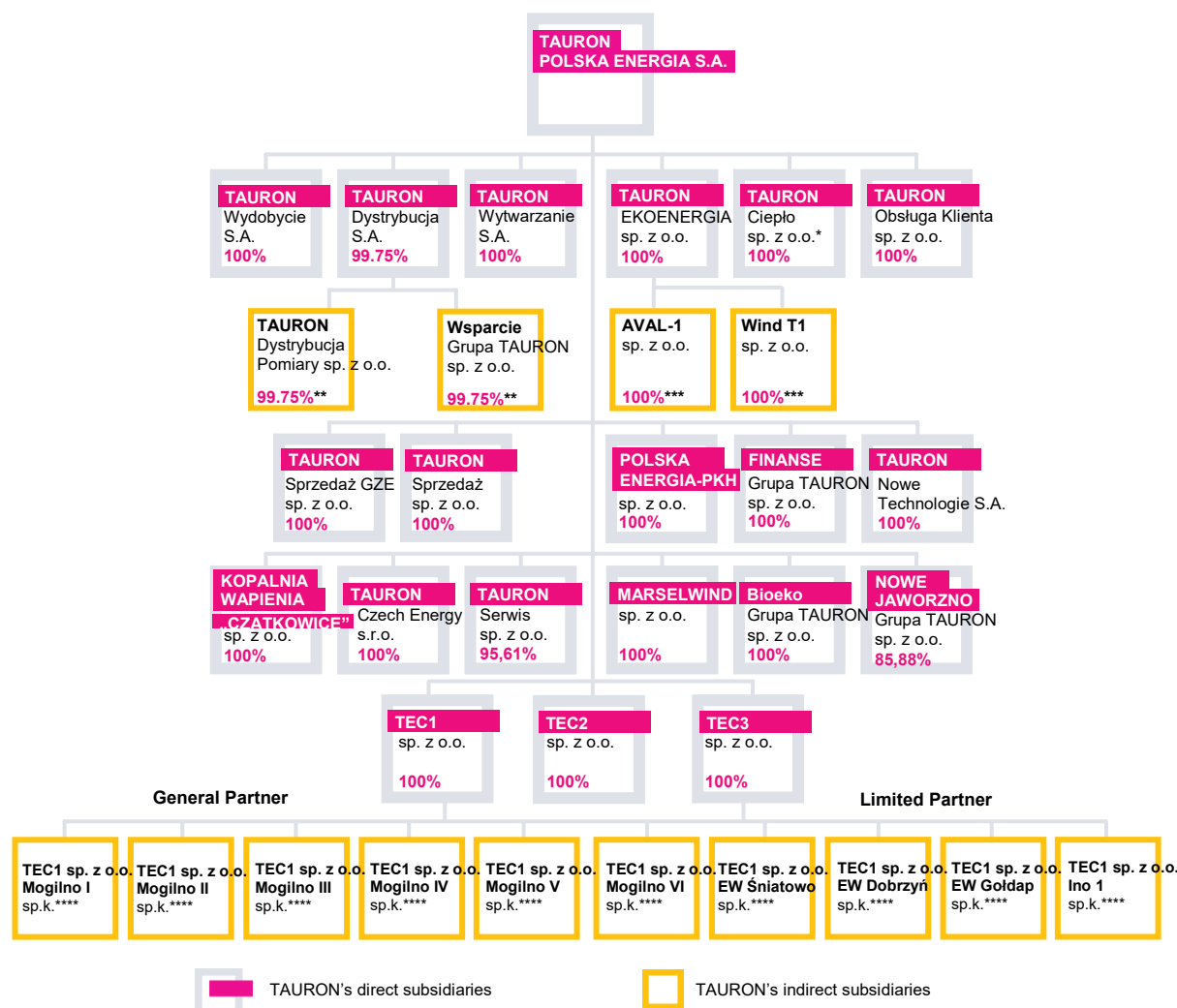
As of December 31, 2020, and as of the date of drawing up this report, TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 34 subsidiaries subject to consolidation, that are listed below.

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

Entities subject to consolidation

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

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



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

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

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

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

Changes to the organization

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

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

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

The above event was the result of adopting, on October 29, 2019, of the resolutions regarding the merger of the above mentioned companies, by the Extraordinary General Meeting (GM) of the Acquiring Company and the Extraordinary General Meeting (GM) of the Partners (Shareholders) of the Acquired Company.

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

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

On March 3, 2020, the Extraordinary General Meeting (GM) of TAURON Dystrybucja Serwis S.A. adopted a resolution to change the company's name to: TAURON Nowe Technologie S.A.

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

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

On January 2, 2020, TAURON EKOENERGIA acquired 100% shares in AVAL-1 with its registered office in Szczecin, i.e. 50 shares with a nominal value of PLN 100 each and the total value of PLN 5 000.

AVAL-1 is implementing a 6 MW photovoltaic farm construction project in the municipality of Choszczno in the West Pomerania Region.

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

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

Cessation of the legal existence of German limited partnerships

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

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

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

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

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

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

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

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

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

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

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

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

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

1.4. Organizational or equity ties with other entities

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

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

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

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

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

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

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

Taking up or acquiring share securities in TAURON Capital Group companies

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

Table no. 2. Summary of equity increases in TAURON Capital Group's subsidiaries in 2020 and by the date of drawing up this report

| Subsidiary | Share capital increase (total price for taking up shares) | Company taking up shares | Nominal value of shares taken up | Date of passing the resolution by the GM | Structure of the share capital following the increase |
|-------------------------------|---|--------------------------|----------------------------------|--|---|
| 1. AVAL-1 | PLN 4 500 000 | TAURON EKOENERGIA | PLN 45 000 | 27.02.2020 | TAURON EKOENERGIA 100% |
| 2. Nowe Jaworzno Grupa TAURON | PLN 455 100 000 | TAURON | PLN 4 551 000 | 02.03.2020 | TAURON 85.88% FIK FIZAN 7.06% PFR IFIZ 7.06% |
| 3. AVAL-1 | PLN 11 060 000 | TAURON EKOENERGIA | PLN 110 600 | 10.06.2020 | TAURON EKOENERGIA 100% |

| Subsidiary | Share capital increase (total price for taking up shares) | Company taking up shares | Nominal value of shares taken up | Date of passing the resolution by the GM | Structure of the share capital following the increase |
|-----------------------------------|---|--|----------------------------------|--|---|
| | PLN 37 999 923 | TAURON | PLN 37 999 923 | | TAURON 10% |
| 4. PGE EJ 1 sp. z o.o. (PGE EJ 1) | PLN 265 999 461 | PGE Polska Grupa Energetyczna S.A. (PGE) | PLN 265 999 461 | 23.11.2020 | PGE 70% |
| | PLN 37 999 923 | KGHM Polska Miedź S.A. (KGHM Polska Miedź) | PLN 37 999 923 | | KGHM Polska Miedź 10% |
| | PLN 37 999 923 | Enea S.A. (Enea) | PLN 37 999 923 | | Enea 10% |
| | | | | | TAURON 86.29% |
| 5. Nowe Jaworzno Grupa TAURON | PLN 190 000 000 | TAURON | PLN 1 900 000 | 03.12.2020 | FIIK FIZAN 6.85% |
| | | | | | PFR IFIZ 6.85% |
| 6. WIND T1 | PLN 50 000 000 | TAURON EKOENERGIA | PLN 500 000 | 21.12.2020 | TAURON EKOENERGIA 100% |

Making additional contributions to the capital of PEPKH

As part of the implementation of the resolution of the Extraordinary General Meeting (GM) of PEPKH of January 8, 2020, regarding the imposition on TAURON, as the sole shareholder, of the obligation to make additional payments, on January 10, 2020, TAURON made additional contributions to the share capital of the above mentioned company in the total amount of PLN 8 016 000. The resolution of the Extraordinary General Meeting (GM) was adopted in connection with the pending licensing proceedings before the Energy Regulatory Office (URE) for granting PEPKH a new license for trading in electricity.

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

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

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

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

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

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

Making additional contributions to the capital of the company Marselwind

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

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

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

The below table presents a summary of equity increases in the other companies in which TAURON holds an equity stake in 2020 and by the date of drawing up this report.

Table no. 3. Summary of equity increases in the other companies in which TAURON holds an equity stake in 2020 and by the date of drawing up this report

| Company | Share capital increase (total price for taking up shares) | Company taking up shares | Nominal value of shares taken up | Date of passing the resolution by the GM | Structure of the share capital following the increase |
|---|---|---|----------------------------------|--|---|
| 1. EEC Magenta spółka z ograniczoną odpowiedzialnością ASI spółka komandytowo – akcyjna (EEC Magenta limited liability company ASI limited joint stock partnership) (EEC Magenta ASI) | PLN 17 200 | EEC Ventures spółka z ograniczoną odpowiedzialnością spółka komandytowa (EEC Ventures limited liability company (EEC Ventures)) | PLN 172 | 02.03.2020 | EEC Ventures 3% |
| | PLN 414 600 | PFR Starter FIZ | PLN 4 146 | | PFR Starter FIZ 72.1% |
| | PLN 143 200 | TAURON | PLN 1 432 | TAURON 24.9% | |
| | PLN 75 900 | EEC Ventures | PLN 759 | EEC Ventures 3% | |
| | PLN 1 823 300 | PFR Starter FIZ | PLN 18 233 | 27.08.2020 | PFR Starter FIZ 72.1% |
| | PLN 629 700 | TAURON | PLN 6 297 | | TAURON 24.9% |
| | PLN 21 000 | EEC Ventures | PLN 210 | EEC Ventures 3% | |
| | PLN 504 700 | PFR Starter FIZ | PLN 5 047 | 23.12.2020 | PFR Starter FIZ 72.1% |
| PLN 174 300 | TAURON | PLN 1 743 | TAURON 24.9% | | |
| 2. EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI spółka komandytowo – akcyjna (EEC Magenta limited liability company 2 ASI limited joint stock partnership) (EEC Magenta 2 ASI) | PLN 60 200 | EEC Ventures spółka z ograniczoną odpowiedzialnością 2 spółka komandytowa (EEC Ventures limited liability company 2 limited partnership) (EEC Ventures 2) | PLN 1 790 | 04.05.2020 | EEC Ventures 2 2.95% |
| | PLN 2 986 000 | PFR NCBR CVC FIZAN | PLN 29 860 | | PFR NCBR CVC FIZAN 49.02% |
| | PLN 2 925 800 | TAURON | PLN 29 258 | TAURON 48.03 % | |
| | PLN 20 500 | EEC Ventures 2 | PLN 601 | EEC Ventures 2 2.95% | |
| | PLN 1 000 000 | PFR NCBR CVC FIZAN | PLN 10 000 | 28.05.2020 | PFR NCBR CVC FIZAN 49.02% |
| | PLN 979 500 | TAURON | PLN 9 795 | | TAURON 48.03 % |
| | PLN 88 800 | EEC Ventures 2 | PLN 2 571 | EEC Ventures 2 2.95% | |
| | PLN 4 350 000 | PFR NCBR CVC FIZAN | PLN 43 500 | 24.09.2020 | PFR NCBR CVC FIZAN 49.02% |
| PLN 4 261 200 | TAURON | PLN 42 612 | TAURON 48.03 % | | |

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

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

Investments in financial assets

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

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

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

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

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

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

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

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

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

2020 was the year of the continuation of the implementation of *TAURON Group's Strategy for the years 2016-2025* (Strategy), that had been adopted by the Management Board of TAURON and received a positive opinion of the Company's Supervisory Board on September 2, 2016.

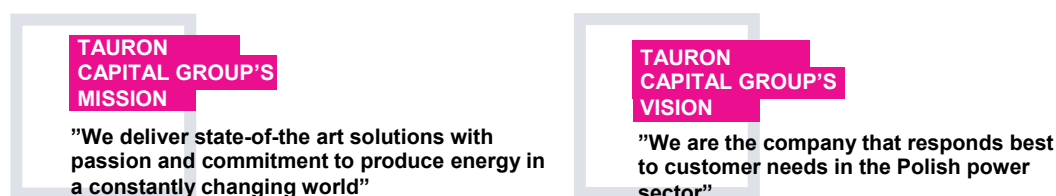
Since the date of adopting the Strategy some of its assumptions have changed, first of all the regulations that have a material impact on TAURON Capital Group's operations have become more specific and detailed, among others, *the act on the capacity market, the act on promoting high efficiency cogeneration electricity, the energy law act, the act on electromobility*, and the regulations related to quality requirements for solid fuels.

In view of the above, on May 27, 2019, the Company's Management Board adopted, and the Company's Supervisory Board issued a positive opinion on the *Update of the Strategic Directions in TAURON Group's Strategy for the years 2016-2025*, which complemented the Strategy. The Update of the Strategic Directions takes into account the impact of the above mentioned documents and the key regulatory changes on TAURON Capital Group and assumes the so-called *Green Turn of TAURON*, i.e. a sustainable transition of TAURON Capital Group towards becoming the leading low emission energy group in Poland that will mainly focus on changing the energy mix of TAURON Capital Group by shutting down obsolete coal fired units and developing low and zero emission sources.

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

Mission, Vision and values

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



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

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

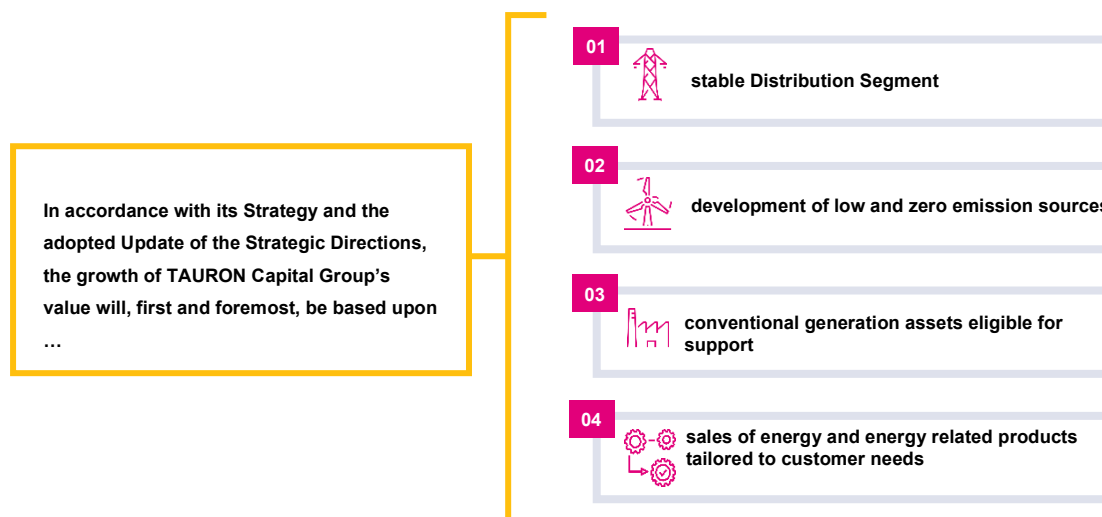
TAURON Capital Group's Strategy

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

Strategy describes the approach to developing the individual Segments of TAURON Capital Group's operations, dividing them into those segments that TAURON Capital Group is planning to strongly expand, the segments that will constitute the foundation of the financial stability and the segments where strong emphasis on cost efficiency is required. In the Update of the Strategic Directions, TAURON Capital Group emphasized the focus on the development of the low and zero emission sources while making TAURON Capital Group's portfolio of assets more flexible. The above reflects the need for the energy transition of TAURON Capital Group and for increasing the investment potential aimed at developing the renewable energy sources (RES), which, combined with the changed management philosophy and the orientation towards the customer and his / her needs, allows for the development of TAURON Capital Group that is innovative and open to the new challenges.

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

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



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



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

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

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

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

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

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

| Strategic goals | Growth prospects |
|--|--|
| Mining Segment | |
| <p>The main goal for the Mining Segment is to provide a stable supply of cost-competitive and adequate, in terms of quality, fuel and to align the output level to TAURON Capital Group's planned demand for fuel.</p> <p>The goals set in the Strategy are implemented through such actions as:</p> <ol style="list-style-type: none"> 1. optimizing the costs and capital expenditures, 2. tri-product processing at Sobieski Coal Mine (ZG Sobieski) and Janina Coal Mine (ZG Janina), 3. expanding the line for packaging eco-pea coal, preparing dedicated fuel for the generating units <p>As part of the Update of the Strategic Directions, a strategic option was adopted that involved conducting a market verification of the sale of ZG Janina. (Janina Coal Mine).</p> | <p>The introduction of further restrictions with respect to environment protection, quality of solid fuels placed on the market, taxes and local government regulations (including the anti-smog ones) pose a challenge for the sector. The energy and climate regulations lead to a successive decline of the competitiveness of the coal fired electricity generation. The directions of the mining industry's development will also be strongly correlated with the guidelines outlined in the government documents: <i>Poland's Energy Policy until 2040</i> (draft) and the <i>National Plan for Energy and Climate for 2021-2030</i>. The above-mentioned documents demonstrate the growing importance of the renewable energy sources, including off-shore wind energy, new technologies and a gradual change in the country's generation mix at the expense of conventional Energy.</p> <p>The future of the Polish mining industry will depend on the ultimate shape of the government program for the mining industry.</p> |
| Generation Segment | |
| <p>The main goals for the Generation Segment include:</p> <ol style="list-style-type: none"> 1. for TAURON Wytwarzanie: to develop an optimal, from the point of view of profitability and risk, generation assets portfolio and the efficient operation thereof, 2. for TAURON Ciepło: to achieve a return on invested capital. <p>The goals set in the Strategy are to be accomplished by:</p> <ol style="list-style-type: none"> 1. optimizing the costs and capital expenditures as well as streamlining employment (headcount), 2. optimizing production assets, 3. selling redundant non-production assets, 4. investment projects that lead to the upgrading of the generation fleet <p>The Update of the Strategic Directions indicated that the priority was to decommission all obsolete coal fired units (120 MW units - by the end of 2020 and 200 MW units - after 2025) and to maintain assets that receive the regulatory support. Ultimately, the modern conventional units will remain a part of the production portfolio: Łagisza 460 MW and Jaworzno 910 MW.</p> <p>In the heat generation, distribution and trading line of business significant actions include eliminating low emissions, looking for solutions in the co-generation area as well as improving the rate of utilizing the existing infrastructure.</p> <p>As part of the Update of the Strategic Directions, a market verification of the TAURON Ciepło sale (divestment) option was assumed.</p> <p>In addition, the sale of the shares in EC Stalowa Wola and PGE EJ1 is planned.</p> | <p>The tightening energy and climate policy of the European Union (EU), including the further implementation of the <i>European Green Deal</i>, combined with the increase in the prices of the CO₂ emission allowances set the direction of the development of the energy sector. The curtailment of the support systems for conventional energy, the revision of the EU ETS emissions trading system, the works on the implementation of the carbon footprint tax will mean a permanent loss of profitability for such units. The resignation of the financial institutions from financing both coal installations as well as capital groups that own coal assets, and the impact of the <i>EU Taxonomy</i> on the possibility of financing investment projects in the energy sector reduce the economic sense of maintaining conventional assets.</p> <p>The key issue will be ensuring the security of the operation of the National Power System (Krajowy System Elektroenergetyczny - KSE). The capacity market has been introduced in Poland, which is one of the elements supporting the transition of the Polish power sector. Obtaining derogations from the requirements to adapt the generating units to the <i>BAT Conclusions</i> represents an opportunity for the conventional power generation.</p> <p>On the heat market Poland's policy, aimed at providing support for the co-generation and improving air quality, may lead to an increase of investments and the growth of this area. An important factor is rising social awareness, the actively conducted battle against smog waged by the local government and the national aid programs. On the other hand, the growth opportunities for the heating market are limited due to the improvement in the energy efficiency of buildings and the rising competition from the ever more efficient individual heating devices. The curtailment of the financing and insurance of the coal investment projects should also be taken into account.</p> <p>The ultimate shape of the domestic conventional energy sector will depend on the final provisions of the government program for the energy sector.</p> |
| RES Segment | |
| <p>The main goal for the RES Segment is to improve the profitability of its generation assets and the profitable growth of this line of business in wind and PV technologies.</p> <p>The activities undertaken are focused on improving the operational efficiency, while preparing and implementing investment and expansion projects at the same time. Options for expanding RES installations are being prepared by building in-house sources, acquiring existing installations and ready-made projects.</p> <p>The Update of the Strategic Directions has strengthened the importance of clean energy development, which will be the basis for building the value of TAURON Capital Group.</p> <p>The involvement in the low and zero emission energy is implemented through:</p> <ol style="list-style-type: none"> 1. investments in on-shore wind farms – the ultimate (target) level of wind based capacity in 2025: approx. 1.1 GW, which represents an | <p>A strong growth of photovoltaics is observed, associated primarily with the launch of the support programs. According to SolarPower Europe, Poland was ranked fourth in the EU in 2020 in terms of new solar capacity growth. In 2021, another step up increase in new PV capacity is estimated.</p> <p>An additional factor supporting the growth is the possibility of obtaining funds for investments from the dedicated funds.</p> <p>The growth of investments in the renewable energy sources (RES) will also apply to on-shore wind farms and, in the long term, off-shore wind farms. The technological changes related to wind farms and the favorable regulations (the potential amendment of the so-called distance act) will translate into the growth of the line of business repowering of the installations, and thus increasing the capacity and improving the efficiency of the use thereof. At the end of December 2020, the Parliament adopted the <i>Act on promoting electricity generation in offshore wind farms</i>, assuming a two-phase support model and granting,</p> |

| Strategic goals | Growth prospects |
|---|--|
| <p>increase by approx.. 900 MW as compared to the level as of the end of 2018,</p> <ol style="list-style-type: none"> investments in photovoltaic farms: the ultimate (target) level of PV based capacity in 2025: approx. 0.3 GW, readiness to take part in off-shore wind farm projects. | <p>in the first phase, support for wind farms with a total installed capacity of 5.9 GW and conducting the first auctions in 2025.</p> |
| Distribution Segment | |
| <p>The main goal for the Distribution Segment is to maintain its leadership position on the Polish market in terms of the security and efficiency of the grid operation.</p> <p>The level of annual capital expenditures in the Distribution Segment stands at PLN 2 billion. Mainly tasks related to connecting new customers to the grid, as well as upgrading and expanding of the grid are carried out.</p> <p>Activities underway are aimed at ensuring the flexibility of the grid and simplifying the procedures related to connecting new customers to the grid. The investment projects underway are adapting the distribution assets to the growing volume of electricity generated by the renewable sources, are aimed at ensuring the timely implementation of the process of connecting micro-installations to the grid and are also preparing the grids to interoperate with the infrastructure for charging electric vehicles.</p> <p>The <i>Single Distribution Program</i>, that was made up of projects aimed at optimizing the company's operational processes, including; activities leading to raising customer satisfaction and improving the company's image, was completed.</p> | <p>The activities aimed at ensuring the reliability of electricity supply and simplifying the procedures related to connecting the new consumers and micro-installations to the grid will be continued. The investment projects carried out will allow for adapting TAURON Capital Group's distribution assets to the growing volume of electricity generated by the distributed renewable sources, and also for preparing the grid to interoperate with the infrastructure to be used for charging electricity vehicles. The development of TAURON Capital Group with respect to smart grids and meters will allow for introducing additional functionalities, both on the part of the distributor, as well as the customer. The Distribution Segment's growth will be significantly affected by the ability to obtain aid funds, both with respect to improving the grid security, as well as the research and development (R&D) activities.</p> <p>The Distribution Segment's operations are dependent on the new elements of the regulatory policy introduced by the President of ERO. Significant changes to the functioning of the Distribution Segment may be a consequence of changes to the energy law. - work is underway to amend the Energy Law regarding smart metering, energy storage and DSO unbundling.</p> |
| Supply Segment | |
| <p>The main goal for the Supply Segment is to achieve the leadership position in the relationships with the customers based on the high quality customer service as well as product leadership.</p> <p>A number of initiatives are implemented, i.e.: increasing the sales potential by transforming the customer service channels into integrated customer contact channels, increasing the value of the products and services sales to mass customers by developing the product offering and sales techniques, developing products and developing contact channels with respect to specialty products as well the partnership offering addressed to the mass customer segment.</p> <p>The Update of the Strategic Directions confirmed the continuation of the development of new energy related products and services, including:</p> <ol style="list-style-type: none"> for business customers: consulting and management of energy assets and infrastructure, energy audit and efficiency improvement services, for institutional customers: products and services with respect to Smart City, electromobility, low emission reduction, multiutility. | <p>The actions taken by the competition and the rising customer expectations have an impact on developing the product offering and maintaining the highest customer service standards. The growing customer awareness has an impact on the rising requirements, both with respect to the products offered, as well as the speed and quality of the customer service. The importance of ecology, a change in the customer's approach to the way electricity is consumed and a large increase in the number of prosumers are ever more affecting the needs and expectations of customers. TAURON Capital Group is systematically expanding its product offering, tailoring it to the expectations of the individual and business customers, and developing the communications channels, both on the level of digital platforms, as well as that of direct contacts.</p> <p>Competing companies are offering products on the market that are often very similar to the products offered by the Supply Segment. With similar price offerings the competition for a customer will take place on the level of innovative product and service proposals, in particular on the level of customer communications platforms and customer service quality.</p> |

Key challenges

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



Regulations

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



Market

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



Customer

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

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



Technology

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

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

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

Opportunities and threats

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

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

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

Technologies

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

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

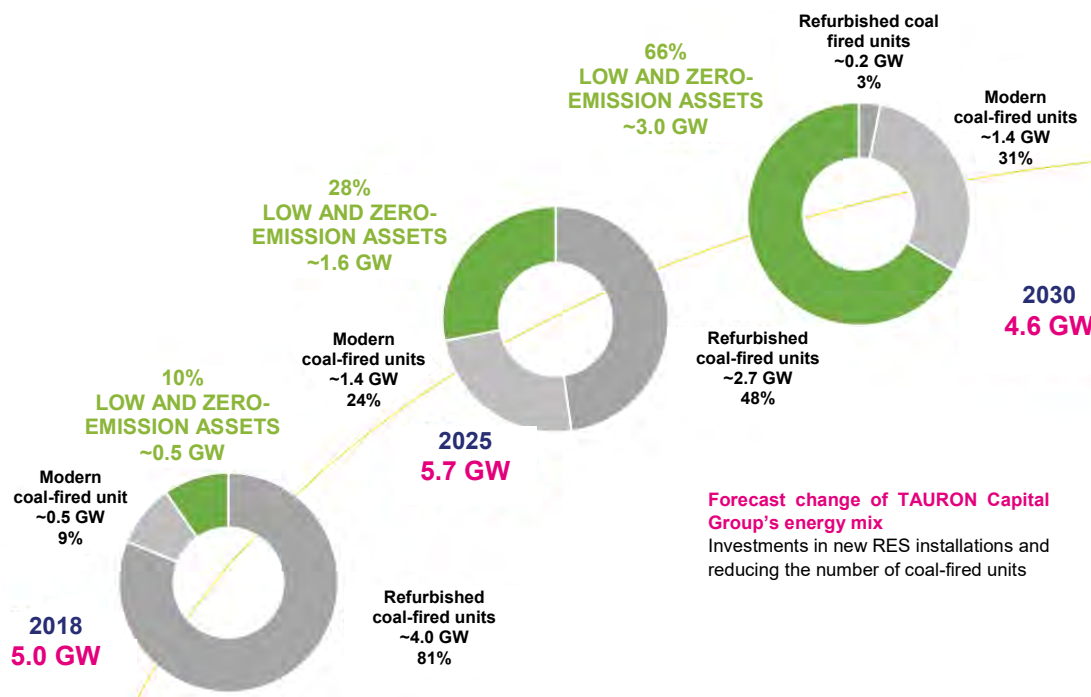
At the stage of preparing the Strategy it was assumed that the activities outlined therein would allow for accomplishing the key goals set for TAURON Capital Group, i.e.:

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. EBITDA above PLN 4 billion in 2020. 2. Maintaining the net debt/EBITDA covenant below 3.5x. 3. Maintaining a high Customer Satisfaction Index (CSI). 4. Power plants generating positive cash flows by 2020. | <ol style="list-style-type: none"> 5. Maintaining the customer base. 6. Unit margin leadership among Poland's 4 largest electricity suppliers. 7. New businesses will account for at least 25% of the revenue/margin in 2025. |
|--|--|

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

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

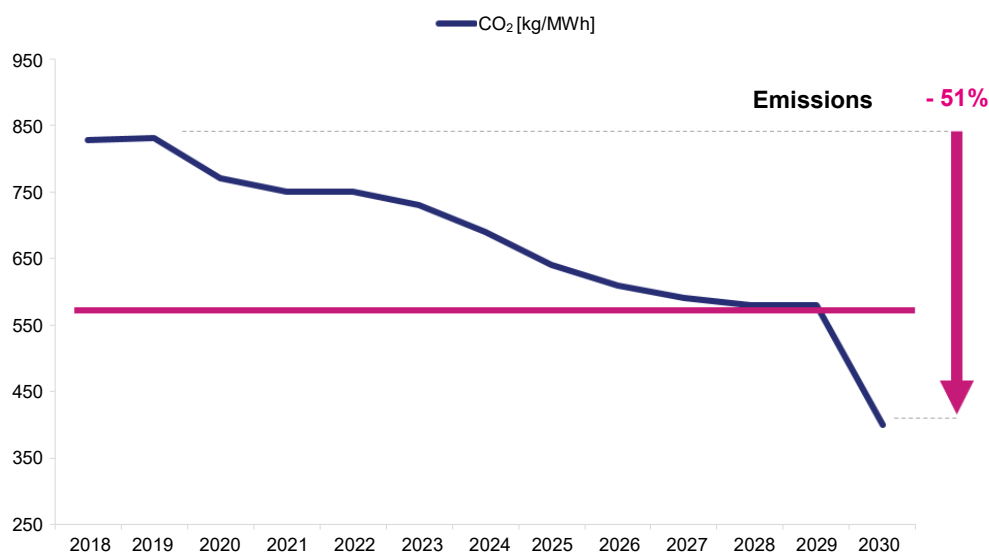
Figure no. 5. TAURON Capital Group's ultimate energy transition



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

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

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



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

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

The below table presents TAURON Capital Group's strategic goals realized in 2020.

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

| Strategic goal | Realization in 2020 |
|--|---|
| 1. EBITDA above PLN 4 billion in 2020. | The goal was realized by the core operations of TAURON Capital Group's business segments. In 2020 EBITDA of PLN 4.2 billion was achieved. |
| 2. Net debt/EBITDA covenant below 3.5x | Maintaining the covenants is both the consequence of actions leading to the improved financial results as well as actions aimed at improving the investment efficiency. As part of the Strategy the investment portfolio was optimized and modern financing in the form of a hybrid bond issue was obtained. As of the end 2020 the net debt/EBITDA ratio came in at 2.8x. |
| 3. Maintaining a high Customer Satisfaction Index (CSI) | TAURON Capital Group is an industry leader in customer service quality. The annual customer satisfaction surveys performed by an external company confirm a high satisfaction level of TAURON Capital Group's customers. The results of the December 2020 CSI survey were as follows: for households 83 points, for small and medium size enterprises 74 points, and for the business customers 77 points. |
| 4. Power plants generating positive cash flows by 2020 | Achievement of this goal will be the consequence of a number of actions undertaken within TAURON Capital Group, among others: optimizing the costs and outlays related to the generating units, TAURON Capital Group's trading strategy, as well as the impact of the external environment, both the regulatory one, as well as the market one. The goal was achieved for 3 out of 5 power plants: in 2020, positive flows were obtained at the following power plants: Łagisza, Siersza and Stalowa Wola. The goal for the Łaziska and Jaworzno Power Plants was not achieved. The lack of positive cash flows in 2020 by the Jaworzno and Łaziska branches is due to the accumulation of investments: in 2020 the Jaworzno and Łaziska Branches were implementing the key stages of the program for adapting the units to the <i>BAT Conclusions</i> , incurring investment outlays in the amount of PLN 239 million for that purpose. Taking advantage of the shutdown of those units, major and medium scope overhauls were also carried out for the total amount of PLN 181 million. The revenues resulting from the participation of those units in the new support mechanism on the electricity market, which is the Capacity Market, will have a material positive impact on achieving positive cash flows by TAURON Capital Group's generating units starting from 2021. The revenues expected to be obtained by TAURON Wytwarzanie from that source in the time frame until 2028 have already been contracted as part of the completed capacity auctions. |
| 5. Maintaining the customer base | TAURON Capital Group is Poland's largest electricity distributor and the second largest electricity supplier. Maintaining the customer base constitutes for TAURON Capital Group a long term growth platform and is implemented by both, actions improving the quality of the services provided, among others an expansion of the customer communications channels, as well as a broad product offering. As of the end of 2020, TAURON Capital Group provided services for approx. 5.6 million customers of the Supply Segment and approx. 5.7 million customers of the Distribution Segment. |
| 6. Unit margin leadership among Poland's 4 largest electricity suppliers | Maintaining of the leadership position is based both on maintaining a high volume of electricity supplied, as well as the ability to generate a positive financial result. TAURON Capital Group, by focusing on the customer, is developing a broad, profitable base of products and services. Based on the data for the first three quarters of 2020, TAURON Capital Group maintained the leading position among Poland's 4 largest utilities in terms of the unit margin, calculated as the Supply Segment's EBITDA attributed to the electricity supplied to the final consumers. |

7. New businesses are to account for at least 25% of the revenue / margin in 2025

The largest project as part of the implementation of the goal with respect to the New Businesses is the broadband internet access deployment. This project is composed of the Digital Poland Operational Program (POPC) implemented in 7 regions of southern Poland and the construction of structures enabling taking advantage of the business potential of the infrastructure within the Business Services Center at TAURON Customer Service. In 2020, connecting of 100% of schools to the network was completed and the construction of broadband access for households was continued, which was a significant milestone in the implementation of the project. The attractiveness of the project is additionally enhanced by the amount of the subsidy that is ultimately worth PLN 187 million. With respect to the development of eMobility, TAURON Capital Group is building an infrastructure for charging electric cars. As of the end of 2020, after more than 2 years from the commencement of the first activities with respect to electromobility, the charging network of TAURON Capital Group is composed of more than 70 charging stations in operation, which puts it in the 4th place in Poland in terms of size. In 2020, the works related to the construction of the cogeneration engines were continued based on the model assuming the optimization of the use of methane obtained from the mining headings at Brzeszcze Coal Mine (Zakład Górniczy Brzeszcze - ZG Brzeszcze). The commissioning of the units as part of Stage 1 took place at the turn of January and February 2021.

Ensuring TAURON Capital Group's financial stability

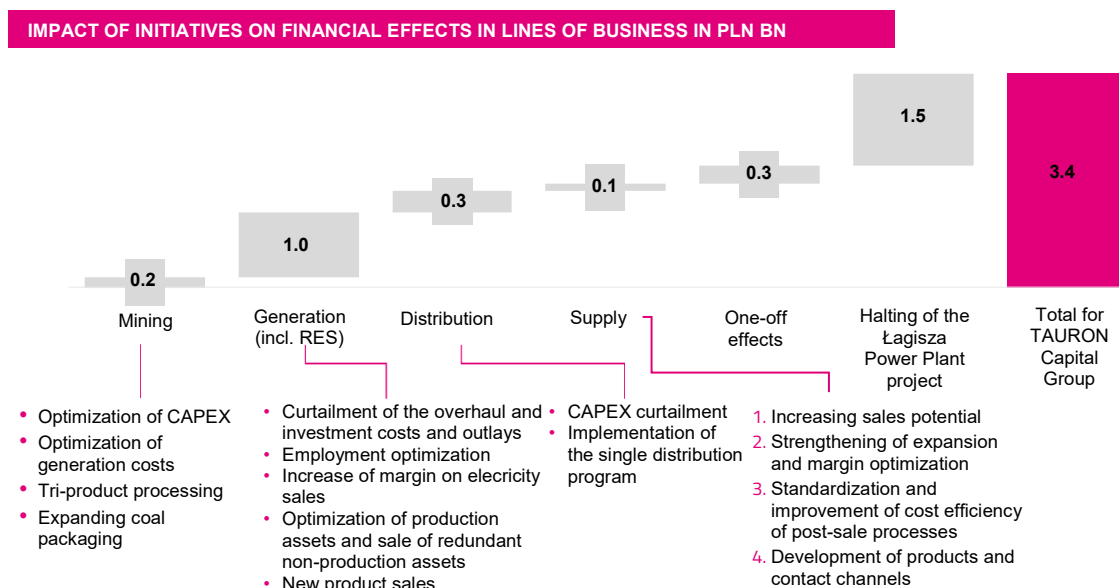
Ensuring TAURON Capital Group's financial stability is achieved through the Efficiency Improvement Program, the implementation of the Strategic Initiatives and the improvement of the investment efficiency.

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

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

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

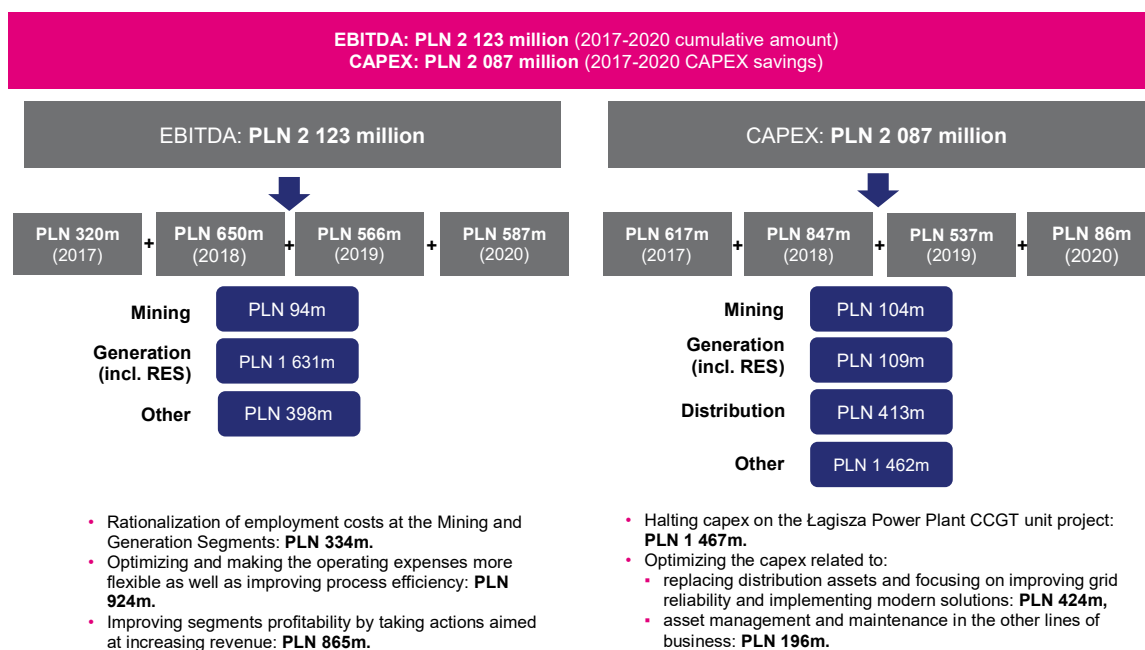
Figure no. 7. Assumptions of the Strategic Initiatives and the CAPEX rationalization in the years 2017-2020



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

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

Figure no. 8. Implementation of the Strategic Initiatives in the years 2017-2020 (cumulatively)



Pursuant to the Update of the Strategic Directions, maintaining financial stability is to be supported by a market verification of the strategic options: disinvestments in the Mining Line of Business and in the Heat Line of Business. In 2019, a decision was made to carry out the market verification of the sale of the Janina Coal Mine (ZG Janina). The goal of this decision was to make TAURON's portfolio of assets more flexible by adapting the mining assets to the planned demand for fuel. On December 10, 2019, the process of searching for a potential investor was ended due to the lack of interest in the acquisition of the Janina Coal Mine (ZG Janina). The strategic option of adapting the level of fuel production to the future needs of the coal generating units that will continue to be operated within TAURON Capital Group remains valid and the conceptual and analytical works are underway, as a result of which alternative solutions should be developed. TAURON is continuing its works on making the Mining Segment profitable, among others, by implementing the *Turnaround Program for TAURON Wydobycie*.

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

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

Building a strong capital group

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

The regulated assets that deal with the operations with respect to electricity and heat distribution are an important link in TAURON Capital Group's value chain. A significant portion of the capital expenditures is spent on the construction and refurbishment of the distribution grid. TAURON Capital Group invested PLN 1 908 million in total in the Distribution Segment in 2020, while at the same time implementing initiatives aimed at improving the Segment's cost and organizational efficiency. The main activities involved unifying the processes and systems as well as implementing an optimal and coherent structure of TAURON Dystrybucja.

The steps aimed at improving the economic efficiency of the generation assets held were continued in the Mining Segment and the Generation Segment in 2020, thanks to the optimization of the costs and capital expenditures related to the assets that will not generate positive results in the future, the optimization of the production assets and the sale of the redundant non-production assets, the streamlining of the employment (headcount). The refurbishment investment projects are conducted as part of the undertakings aimed at adapting the generating units to the *BAT Conclusions* requirements. As a result of concluding agreements, as a consequence of taking part in the capacity market auctions conducted, TAURON Capital Group's generating units will be receiving additional revenue. As part of the Update of the Strategic Directions, the new schedules for the 120 MW and 200 MW unit shutdowns were developed and adopted. As of the end of 2020, all of the 120 MW units were shut down, except for the two units at the Stalowa Wola branch, that were shut down on February 1, 2021 (970 MW in total). In the

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

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

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

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

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

Introduction of the organizational changes supporting the implementation of the Strategy

The basis of the operational model is process based management and the division of the tasks and responsibilities among the defined units: Corporate Center, Lines of Business and Shared Services Centers (CUW). TAURON Capital Group's cooperation with start-up companies has become important, apart from the traditionally understood research and development activities, as part of the innovative culture. TAURON Capital Group's new proposal for startups is the *TAURON Progres* acceleration program enabling a quick presentation of the solution to experts, without waiting for the call for applications to be opened.

1.7. Description of the expansion policy and directions

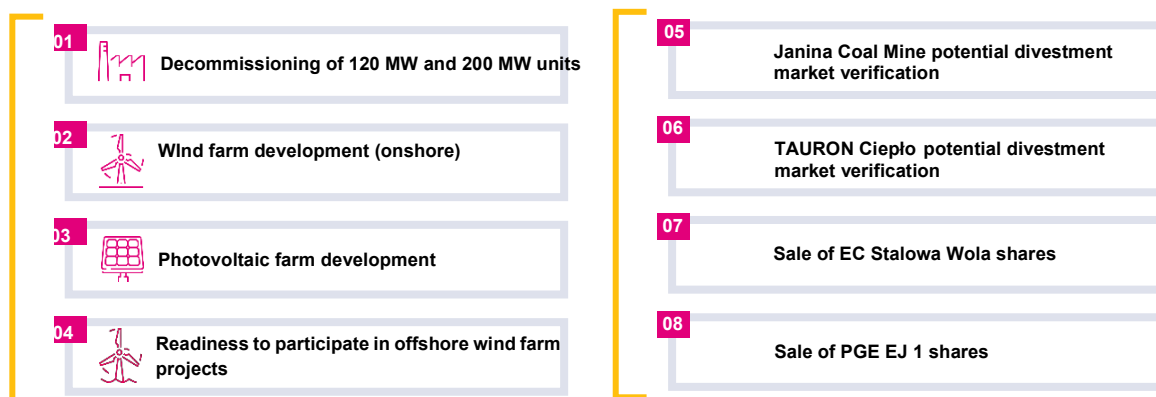
Strategy sets the directions of TAURON Capital Group's short and long term expansion (growth). The priority is to maintain a stable financial position and lay down solid foundations for growth in a changing environment. The Update of the Strategic Directions additionally highlighted the importance of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

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

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

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

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



Implementation of the strategic investment (CAPEX) projects

Key strategic investment (CAPEX) projects underway

The below table presents the activities carried out by TAURON Capital Group in 2020 and by the date of drawing up this report in connection with the implementation of the key strategic investment (CAPEX) projects.

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

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

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

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

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

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

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

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

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

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

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

2. Construction of a 449 MWe CCGT unit, including a 240 MWt heat generation unit at Stalowa Wola (Project implemented jointly with the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).

Contractor: the contract with Abener Energia S.A. was terminated. The project's completion is implemented under the EPCM formula (Contract Manager) – Energoprojekt Gliwice – Energopomiar Katowice consortium

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

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

Planned project completion date: Q4 2020

Work progress: 100 %

Expenditures incurred: PLN 1 398.4 million

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

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

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

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

The implementation of the investment project has been completed.

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

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

Planned project completion date: 2023

Work progress: 50 %

Expenditures incurred: PLN 275.9 million

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

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

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

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

Contractor: Consortium of Mostostal Zabrze GPBP S.A. and SIEMAG TECBERG POLSKA S.A. (Construction of the ultimate above the ground and underground infrastructure including the Janina VI shaft mine shaft elevator), KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (task completed – shaft drilling)

Planned project completion date: Q3 2021

Work progress: 87 %

Expenditures incurred: PLN 450.0 million

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

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

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

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

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

5. Brzeszcze CAPEX Program

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

Program completion date: 2020

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

Expenditures incurred: PLN 326.8 million

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

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

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

6. Implementing heat generation at unit no. 10 and the construction of the peaking and backup boilers in Łagisza

Contractor: GE Power (steam turbine set refurbishment), Mostostal Warszawa (implementing the heat generation unit including refurbishing the heat production part), SBB Energy (construction of the peaking and backup boilers)

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

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

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

| Investment project | Investment project's work progress |
|---|--|
| <p>Investment project completion date: Q4 2019 / Q2 2020</p> <p>Work progress: 100%</p> <p>Expenditures incurred: PLN 127.4 million</p> | <p>The boiler room was commissioned in June 2020.</p> <p>The implementation of the investment project has been completed.</p> |
| <p>7. Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation</p> <p>Contractor: Contractors are being selected to carry out specific work (project) stages.</p> <p>Planned project completion date: 2023</p> <p>Work progress: 23 %</p> <p>Expenditures incurred: PLN 25.8 million</p> | <p>The PLNE program is carried out on the territory of the following metropolitan areas: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice.</p> <p>The new agreement with the Voivodeship Fund for Environmental Protection and Water Management (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej - WFOŚiGW) was concluded on January 31, 2020, as a result of a new application submitted by TAURON Ciepło to WFOŚiGW in 2019, for the co-financing of the PLNE Program for a new scope of the program's implementation in the form of 22 MWt. The amount of the funding obtained is PLN 32 million.</p> <p>In 2020, the works related to installing the network connections were continued under the network connection agreements concluded and the process of acquiring new customers continued. As part of the planned target for 2020, more than 7.8 MWt of new customers were acquired under the network connection agreements concluded.</p> |
| <p>8. TAURON Internet (POPC) – implementation of the project in the areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice-Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec)</p> <p>Contractor: Atem Polska sp. z o.o. (Katowice-Tychy), MZUM sp. z o.o. (Sosnowiec), Atem Polska sp. z o.o. (Wałbrzych A), Mediamo Sp. z o.o. (Oświęcim), MX3 sp. z o.o. (Rybnik), MZUM sp. z o.o. (Wałbrzych B), ZICOM sp. z o.o. (Kraków-Tarnów)</p> <p>Planned project completion date: 2022</p> <p>Work progress: 38%</p> <p>Expenditures incurred: PLN 116.7 million</p> | <p>The POPC program involves implementing an infrastructure to enable high speed internet connections for households (min 30 MB/s). The final product of the project will be the provision of the wholesale services enabling connecting of the end users by the retail operators.</p> <p>In January 2020, a contractor for the construction of the backbone network was selected, and the selected contractor completed the works contracted in 2020.</p> <p>All of the contractors had been conducting the works related to the deployment of the fiber optic network and connecting of the schools to the network until the end of 2020.</p> <p>The contractors had been actively connecting the schools and installing the fiber optic line terminal cabinets (racks) until the end of September 2020,</p> <p>In the fourth quarter of 2020, a significant milestone was achieved as 100% of the schools had been connected under the funding agreement.</p> <p>In the next period, the works related to the further expansion of the optical fiber network will be carried out.</p> |
| <p>9. Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021</p> <p>Contractor: Contractors are being selected to carry out specific projects.</p> <p>Planned project completion date: Q4 2021</p> <p>Work progress: 94%</p> <p>Expenditures incurred: PLN 281.6 million</p> | <p>As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned:</p> <ol style="list-style-type: none"> Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installation. The implementation of the project was halted in the second quarter of 2020 due to the obtained derogations from the <i>BAT Conclusions</i>, which allowed for further operation of the units. The parties are preparing documents that will enable the termination of the contract and the mutual settlements. Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installation In the fourth quarter of 2020, the assembly was completed in all branches for unit 5, the adjustment is underway. The installation for unit no. 1 was commissioned. Unit no. 3 was commissioned, the works related to final acceptance are in progress Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the selective catalytic reduction (SCR) installation. The installation for unit no. 9 and unit no. 10 was commissioned. In the fourth quarter of 2020, the installations for units no. 11 and no. 12 were commissioned. Łaziska Power Plant, units no. 9, 10, 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installation. The installation for units no. 9 and no. 10 was commissioned. In the fourth quarter of 2020, most of the flue gas channel switching (rerouting) tests were completed at the connection of units no. 9, 10, 11 and 12. Łaziska Power Plant – the refurbishment of the sewage treatment plant. The reduced scope of the refurbishment works will be carried out as part of the ongoing overhauls (maintenance) starting from the spring of 2021, the works will be conducted without any impact on the power plant's operation. 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>. Łaziska Power Plant – the construction of the flue gas desulfurization (FGD) installation was substituted by the completion of the dry additives feeding installation. The tender procedure has been carried out. The project implementation has been halted due to the obtained derogations from the <i>BAT Conclusions</i>. |

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

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

Other investment projects

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

In accordance with the assumptions of the Update of the Strategic Directions, that assumes an increase in the share of the low and zero emission sources in the generation mix of TAURON Capital Group to more than 65% in 2030, TAURON Capital Group's subsidiaries have been steadfastly developing projects related to the new RES capacity. By 2025, the Group is planning to invest in on-shore wind farms (additional 900 MW), photovoltaic farms (additional 300 MW) and commence the process of getting involved in the construction of off-shore wind farms.

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

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

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

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

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

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

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

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

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

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

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

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

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

Nuclear power plant construction project

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

The project is carried out under the Partners' (Shareholders') Agreement concluded in 2014 by TAURON, Enea S.A. (Enea) and KGHM Polska Miedź S.A. (KGHM Polska Miedź) (Business Partners) with Polska Grupa Energetyczna S.A. (PGE). In accordance with the above agreement each of the Business Partners holds 10% of the shares in PGE EJ 1 – a special purpose vehicle responsible for preparing and implementing the investment project involving the construction and operation of a nuclear power plant.

The Partners' (Shareholders') Agreement governs the principles of cooperation in the project implementation, including the parties' commitment to jointly, in proportion to the stakes held, finance the operations as part of a project development milestone (stage).

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

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

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

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

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

Capital expenditures (CAPEX)

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

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

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

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

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

Evaluation of the capability to complete the intended investment projects

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

The Company pursues a policy of diversifying financing instruments and strives to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet both the current as well as the future obligations in the short and the long term, including the ones related to the capex plans. Steps are taken to acquire new sources of financing, resulting, among others, in a program agreement concluded with Santander Bank Polska S.A. on February 6, 2020, under which the bonds worth PLN 1 000 000 000 were issued on October 30, 2020, and the agreements concluded in March 2020: a syndicated loan agreement with Intesa Sanpaolo S.P.A. and China Construction Bank (Europe) S.A. as well as a loan agreement with SMBC BANK EU AG.

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

Directions for advancing innovations as well as research and development activities

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

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

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

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

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

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

1.8. Major achievements in the field of research and development

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

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

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

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

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

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

| Projects / programs / tasks | Co-financing source |
|--|---|
| 11. Development of the hybrid system for reducing the emission of acid components and fly ash from flue gases. | |
| 12. Development of advanced technology for monitoring and predictive analysis of the technical condition of the boiler in order to increase the reliability of the boiler unit. | |
| 13. Project TEXMIN - impact of extreme weather conditions on the mining operations. | |
| 14. Project RECOVERY - assessment of the environmental management and the measures aimed to protect and repair it using tools to analyze the state of the ecosystem. | European Union's Coal and Steel Research Fund |
| 15. Project MOBISTYLE - technology solutions that will allow for positively influencing customer behavior by raising the consumers' awareness and feeling of ownership. | |
| 16. Project UtilitEE - implementing a solution that will increase electricity consumption efficiency by actively engaging customers in their behaviors related to electricity consumption with the use of information and communications technologies and DSM mechanisms. | Horizon 2020 (Horyzont 2020): Framework Program with respect to scientific research and innovations |
| 17. Project GEMINI+ - developing a design of a high temperature gas cooled nuclear reactor (HTGR) for electricity and heat production. | |

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

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

So-called Virtual Power Plant platform

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

Project TENNESSEE

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

Second Life ESS

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

Program HEMS

The program is addressed to the retail customers. The goal of the program is to prepare TAURON Capital Group to obtain a new revenue stream for TAURON Capital Group's subsidiaries, by developing a strategy, organization and model for the provision of services and selling products under HEMS based on the existing as well as the new products and services. As part of the program, the works related to the following projects were carried out in 2020:

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

Internet of Things

The works related to the Internet of Things were continued in 2020. The activities aimed at developing and implementing services for the needs of a smart city with the use of the above mentioned technology were carried out. The implementation of this type of solutions will be Poland's first undertaking that uses the Internet of Things on the scale of a city with the population of several hundred thousand inhabitants. The implementation assumes a comprehensive optimization of the use of and developing the new services based on the city, municipal, power and telecommunications infrastructure, which will be possible due to the use of a network of sensors providing information facilitating the management of the individual functions of the metropolitan area. The existing distribution infrastructure of TAURON Capital Group is used to provide advanced technology solutions for the inhabitants, the city authorities and businesses. The data was collected from the infrastructure of sensor devices and the works on the delivery of the ultimate platform for data visualization in selected functional areas of the city were carried out in 2020. The functionalities for measuring air quality along with the pollution prediction module, a smart parking service that helps residents find vacant parking spaces, the functionality of managing smart street lighting are tested, and the functionality of monitoring the level of filling waste bins was verified in order to try to optimize the waste collection process. In addition, the works on the development and testing of the analytical models for monitoring city traffic based on the image from the cameras were undertaken.

OPTI AI UNIT

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

Cooperation with the American Electric Power Research Institute

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

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

Cooperation with start-ups

Activities were continued within TAURON Capital Group in 2020 with respect to the cooperation with startups under external acceleration programs, as well as under the acceleration program of TAURON Capital Group - TAURON Progres. The programs are addressed to entities that have an innovative idea related to the areas indicated in the Strategic Research Agenda and are willing to cooperate in the development of innovative solutions that would allow for extending the current offering of TAURON Capital Group's subsidiaries by adding the new products and services.

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

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

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

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

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

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

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

1.9. TAURON Group's Business and Operational Model

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

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

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

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

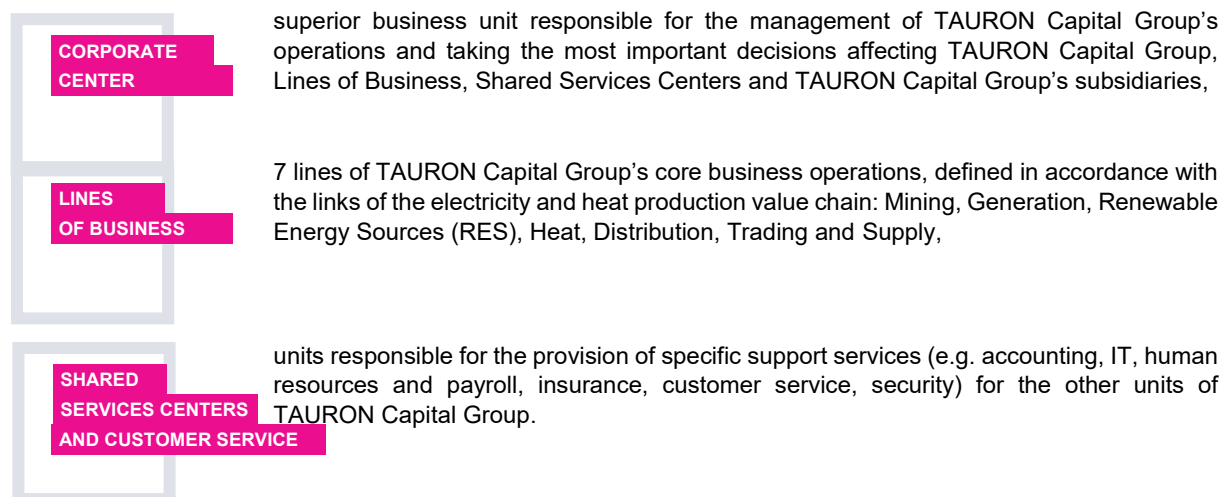
Assumptions of TAURON Group's Business and Operational Model

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

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

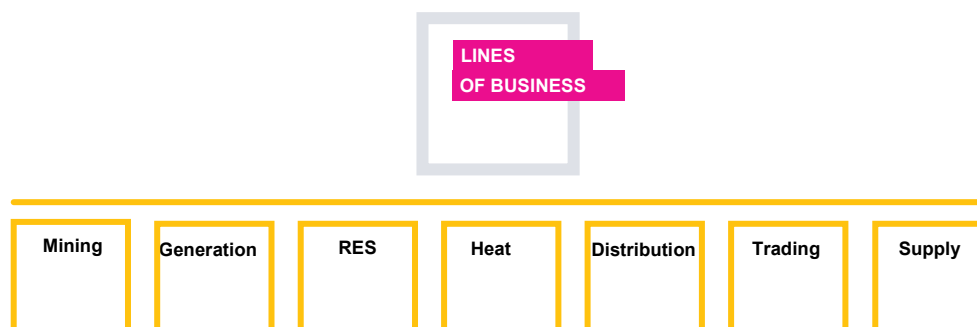
Lines of Business

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



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

Figure no. 10. Structure of TAURON Capital Group's Lines of Business



TAURON Capital Group's Shared Services Centers (CUW)

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

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

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

Principles of management of TAURON Polska Energia S.A.

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

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

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

The Company carries out its tasks through:

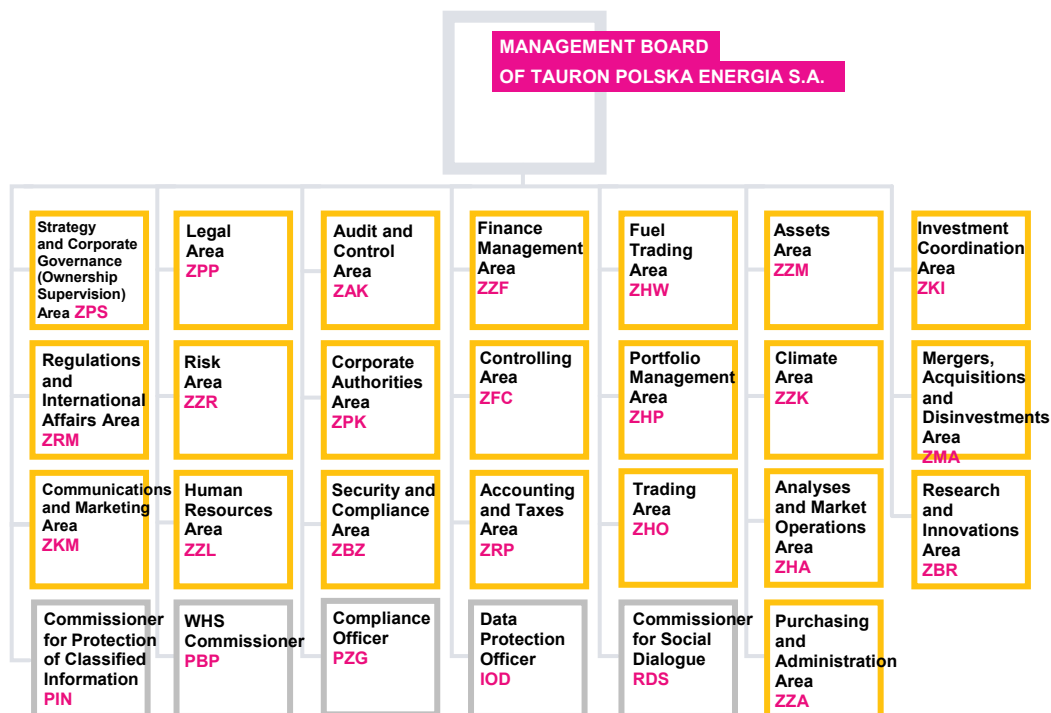
1. separate organizational units (business units):
 - 1) Business areas, comprising independent work positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by the Members of the Company's Management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

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

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

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

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

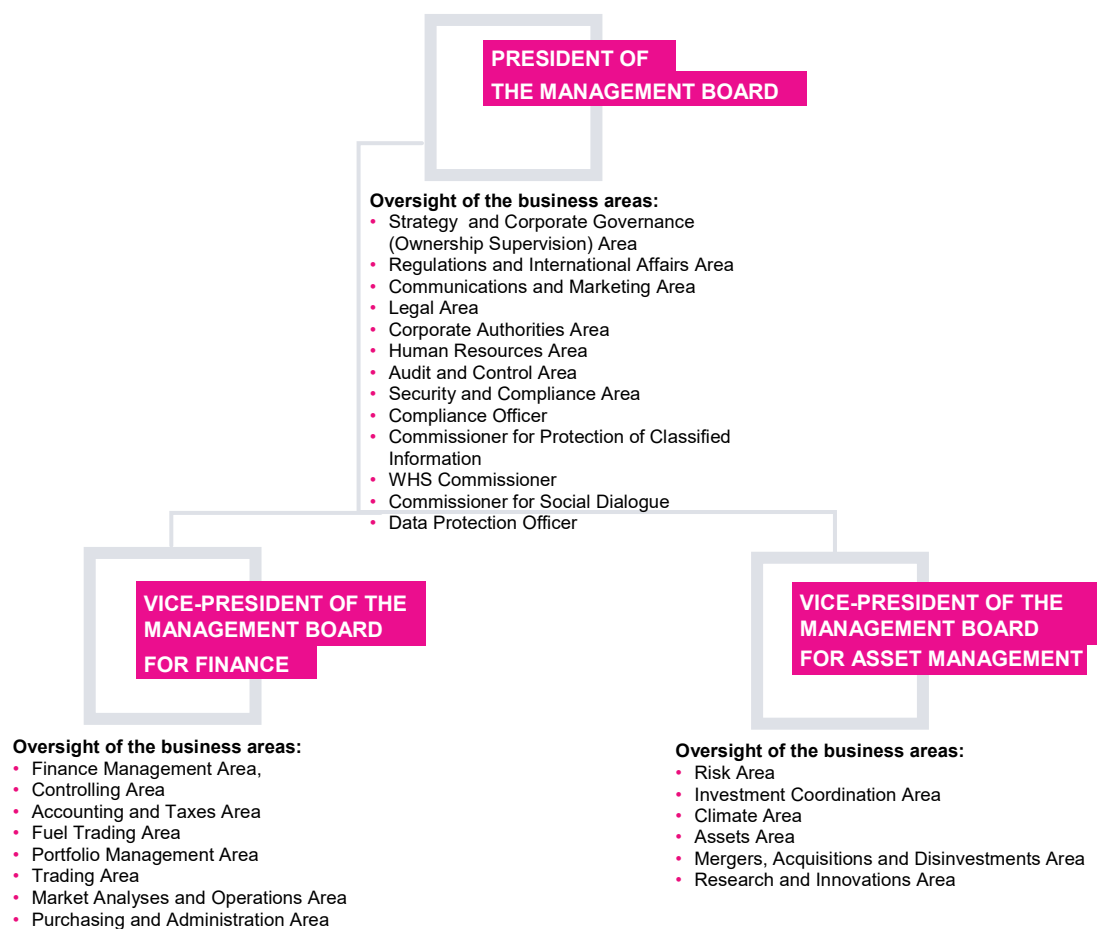


In connection with the new Organizational Regulations, the required modifications of the scopes of functions of the individual Business Areas in the Company's organizational structure were also made.

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

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

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



Principles of management of TAURON Capital Group

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

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

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

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

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

competences stemming from the organizational structure of the individual subsidiaries and support the operations of TAURON Capital Group's subsidiaries as a single entity.

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

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

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

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

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

Figure no. 13. Structure of TAURON Capital Group's processes (mega-processes)



Changes to the principles of management of TAURON Capital Group

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

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

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

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

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

2.1. Core products, goods and services

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

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

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

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

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

The Company is focusing on purchasing and selling electricity for the needs of securing the buy and sell positions of TAURON Capital Group's entities and on wholesale electricity trading. The Company bought and sold 40.7 TWh of electricity in 2020. Electricity sales performed by TAURON during that period were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE, with 81.6% of the electricity purchased sold thereto. The above subsidiaries are carrying out the retail electricity supply to the final consumers, and therefore TAURON is not dependent on any single electricity consumer. The other consumers (the trading companies outside TAURON Capital Group, the exchanges) accounted for less than 7.8% of the revenue and none of them exceeded 4% of the total revenue from electricity sales. A decision was made in the third quarter of 2020 to discontinue the trading activities with respect to intersystem exchange. This is due to the situation regarding the restriction of importing options (transmission capacity available), which has been prevailing since the beginning of 2020, the Company's trading strategy, as well as the planned changes with respect to the system for allocating of the transmission capacity for intersystem exchange at the level of the Community electricity market (the planned introduction of the Market Coupling mechanism for the Day-ahead and Intraday markets). In connection with the above, the documents terminating the transmission contracts were submitted to the TSO in Germany (50Hertz Transmission GmbH, TenneT TSO GmbH, Amprion GmbH) in September 2020.

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

The Company's additional operations include wholesale trading in natural gas on the territory of the Republic of Poland based on the license for trading in gas fuels issued by the President of ERO for the period from May 4, 2012 until May 4, 2022. In 2020 the Company purchased and sold 4.1 TWh of gas fuel. The Company is focusing on selling natural gas for the supply needs of TAURON Sprzedaż, with 58.4% of the purchased fuel gas sold thereto.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The core products, goods and services of TAURON Capital Group

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

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

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

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

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

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

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

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

2.2. Markets and sources of supply

Markets

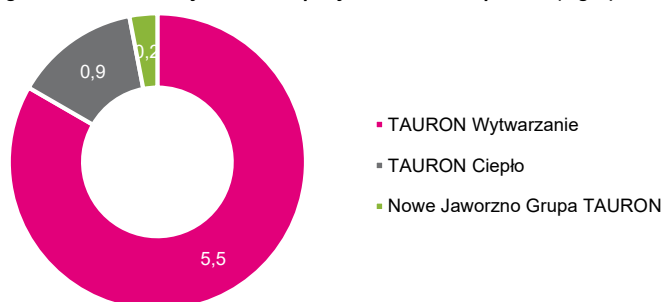
Hard coal sales

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

With a view to implementing its tasks with respect to the fuel (hard coal) trading, TAURON continued, in 2020, to sell the fuels solely to TAURON Capital Group's subsidiaries, i.e. TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa Tauron, based on the purchase of fuels on the market and from within TAURON Capital Group - from the TAURON Wydobycie subsidiary.

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

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



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

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

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

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

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

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

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

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

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

Sales of generated electricity and heat

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

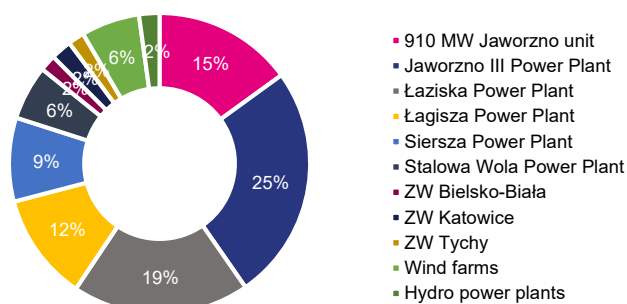
1. hard coal fired and biomass burning power plants and combined heat and power plants
2. hydroelectric power plants,
3. wind farms.

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

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

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

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



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

In 2020 the electricity produced by TAURON Capital Group's subsidiaries was sold on the domestic market, first of all to TAURON Capital Group's Supply Segment subsidiaries (57%), as well as on the balancing market (RB) (PSE Operator) (27%) and on TGE (14%).

Heat sales by TAURON Capital Group's subsidiaries came in at 14.2 PJ in 2020 and it was lower by 2%, as compared to 2019. The share of the heat generated from in-house sources in the total heat sales volume reached 71% in 2020. TAURON Wytwarzanie subsidiary's power plants are selling heat in the Upper Silesia and Zagłębie, and also in parts of the Podkarpackie region – Stalowa Wola and Nisko supplied by the Stalowa Wola Power Plant and Małopolska region – a part of Trzebinia supplied by the Siersza Power Plant.

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

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

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

Sales of electricity distribution services

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

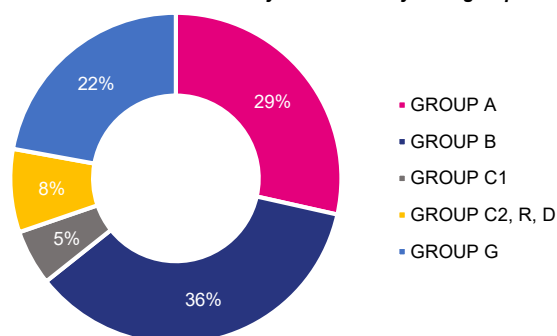
The regulated market on which TAURON Dystrybucja is operating includes the operations of 5 large distribution system operators (DSOs) that are subject to the full regulatory model. Each DSO is operating on the territory defined in the license. Following changes to the law, also more than a hundred of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

TAURON Dystrybucja is providing electricity distribution services for approx. 5 714 000 final consumers. The above company covers with its operations the area of about 57 thousand km², located mainly in the Lower Silesia, Małopolska, Opole and Silesia regions and, in addition, in the Łódź, Podkarpacie and Świętokrzyskie regions. The operational functions are performed by 11 branches located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

Sales to the tariff eligible consumers on individual voltage levels: high voltage (A group), medium voltage (B group) and low voltage (C,G,R), represent 96.7% of the distribution services sales volume. The total electricity volume supplied to the tariff eligible consumers connected to TAURON Dystrybucja's grid in 2020, as part of the sales of distribution services, came in at 50.3 TWh (upward adjusted) and it was lower, as compared to 2019, by approximately 1.5 TWh, i.e. by -2.8%.

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

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



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

Wholesale and retail supply of electricity and gas

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

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

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

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

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

With respect to the **wholesale gas fuels trading operations** the Company is an active participant of the gas market run by TGE, carries out transactions on the SPOT market as well as on the commodity forward market (RTT) products. It is involved in the proprietary trading activity on the international gas exchange POWERNEXT Pegas (as of January 1, 2020, The European Energy Exchange). The Company is present on the following hubs: GASPOOL, New Connect Germany and Tittle Transfer Facility. TAURON is operating on the foreign markets due

to the agreements concluded by the Company with the German transmission system operators: GASCADE Gastransport and ONTRAS Gastransport GmbH as well as Czech NET4GAS s.r.o.

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

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

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

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

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

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

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

The supply companies (subsidiaries) were operating in 2020 in a market environment where the level of competitiveness in the individual market segments did not change significantly as compared to the previous years. The household market (individual customers) continued in 2020 to be covered by the obligation to have the electricity sales prices approved by the President of ERO.

According to the ERO data, from mid-2007 until December 2020, i.e. since the beginning of the electricity market liberalization process, approx. 657 000 households and more than 214 000 institutional entities switched their electricity supplier.

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

The household segment, where the number of supplier switch cases represents a small percentage, is considered to offer a strong potential. In 2020 more than 23 500 consumers of electricity switched their suppliers (including approximately 4 200 institutional customers and approximately 19 400 households). In 2020 the pace of supplier changes in case of households dropped, as compared to 2019, by 2.9%, and in case of institutional entities, by 1.98%.

The offering of TAURON Sprzedaż for the business segment in 2020 included 2 media: electricity and gas fuel. The above company continued its activities geared towards building customer loyalty, with particular emphasis placed on developing an offering that would meet customer expectations. Customers were offered a number of products to choose from, taking into account their needs and the specifics of electricity consumption, including ecological, exchange based and technical products. The activities related to the promotion and sale of the "EKO" products - TAURON EKO PREMIUM (TEP), TAURON EKO BIZNES, Guarantees of Origin - were continued. As part of these

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

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

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

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

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

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

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

The below table presents information on the volume of electricity supplied by TAURON Capital Group's subsidiaries conducting operations related to the retail electricity supply, as well as the number of customers, broken down into individual customer segments, in 2020.

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

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

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

Supply sources – fuels

Hard coal (domestic market)

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

In 2020 TAURON continued hard coal and coal sludge purchasing and trading, for the needs of TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON, under the agreements concluded with the suppliers from outside TAURON Capital Group:

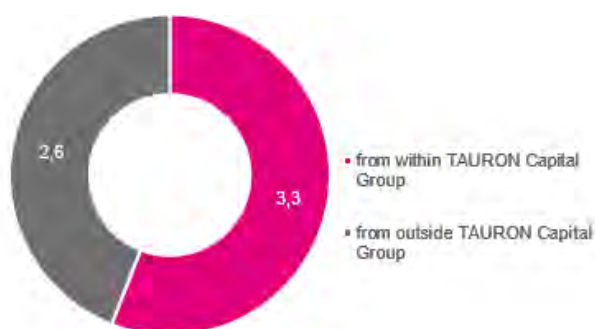
1. Polska Grupa Górnicza Sp. z o.o. (64%^{*}),
2. Węglokoks S.A. (15%^{*}),
3. Jastrzębska Spółka Węglowa S.A. (14%^{*}),
^{*}suppliers' shares in the total coal supplies.
4. EP Coal Trading Polska S.A. (5%^{*}),
5. TRANSLIS Sp. z o.o. (2%^{*}).

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

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

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

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



56% of the hard coal supplies for the electricity and heat production were satisfied by the hard coal coming from TAURON Wydobywanie's own coal mines in 2020. The remaining part of the demand was covered from the external sources, among which Polska Grupa Górnicza S.A. (PGG) and Węglokoks S.A. had the largest shares.

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

Gas (domestic and foreign market)

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

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

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

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

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

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

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

Internal factors

The operations and earnings of the Company and TAURON Capital Group in 2020 were impacted, among others, by the following internal factors:

1. update of the strategic directions and steadfast implementation of the Strategy as well as achieving of the assumed financial and non-financial effects,
2. actions with respect to optimizing processes taken by all of TAURON Capital Group's subsidiaries,

3. decisions with respect to the implementation of the key investment projects,
4. measures implemented at TAURON Capital Group's subsidiaries in connection with the COVID-19 pandemic, aimed at ensuring the safety of the employees and customers, as well as securing business continuity, including curbing the operating expenses,
5. implementing the *2018-2025 Strategic Asset Management Plan* – one of the fundamental documents constituting the core of the integrated asset management system at TAURON Capital Group,
6. implementation of the investment projects with respect to adapting TAURON Capital Group's power plants to the *BAT Conclusions* by reducing, starting from 2021, the emissions of sulfur and nitrogen compounds as well as chlorine and mercury or obtaining of the derogations,
7. completion of the strategic investment project: the construction of a 910 MWe power generating unit in Jaworzno,
8. loyalty building measures aimed at retaining the existing customers and marketing activities with respect to acquiring new customers,
9. centralized TAURON Capital Group's financial management area, supported by the use of such tools as: central model of financing, financial liquidity (cash flow) management policy using the *cash pool* mechanism, risk management policy in the financial area, insurance policy,
10. ability to obtain debt financing on the international markets,
11. Tax Capital Group's (Podatkowa Grupa Kapitałowa – PGK) operations, first and foremost aimed at optimizing the performance of the obligations associated with the payment of the corporate income tax by TAURON Capital Group's key subsidiaries,
12. TAURON's purchasing processes management, in particular, the management of fuel purchases for the needs of TAURON Capital Group's generation entities,
13. geological and mining conditions of hard coal extraction,
14. failures of TAURON Capital Group's equipment, installations and grids,
15. implementation of *TAURON Wydobywanie (Mining) Turnaround Program for 2020-2029*
16. postponement of the date of the commissioning of Nowe Jaworzno Group TAURON's 910 MW unit and the operational problems occurring in the commissioning period, which resulted in a reduced consumption of hard coal in relation to the planned volumes.

The detailed information related to the impact of the above mentioned factors on the financial result achieved in 2020 is presented in sections 4. and 5. of this report. The effects of this impact are visible both in the short term as well as in the long term outlook.

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

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

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

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

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

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

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

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

External factors

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

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

Macroeconomic environment

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

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

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

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

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

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

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

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

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

Market environment

Electricity

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

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

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

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

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

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

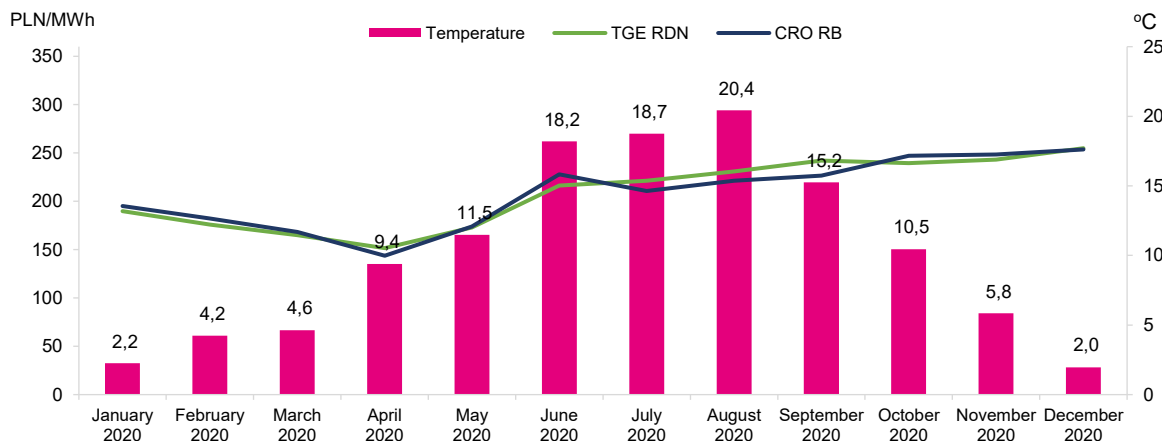
The combination of a decrease in electricity consumption with the volume of electricity imported into the Polish power system (net electricity imports clocked in at 13.22 TWh in 2020) and an increase in electricity production by the wind farms, that came in at 14.18 TWh in 2020, significantly contributed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

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

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

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

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



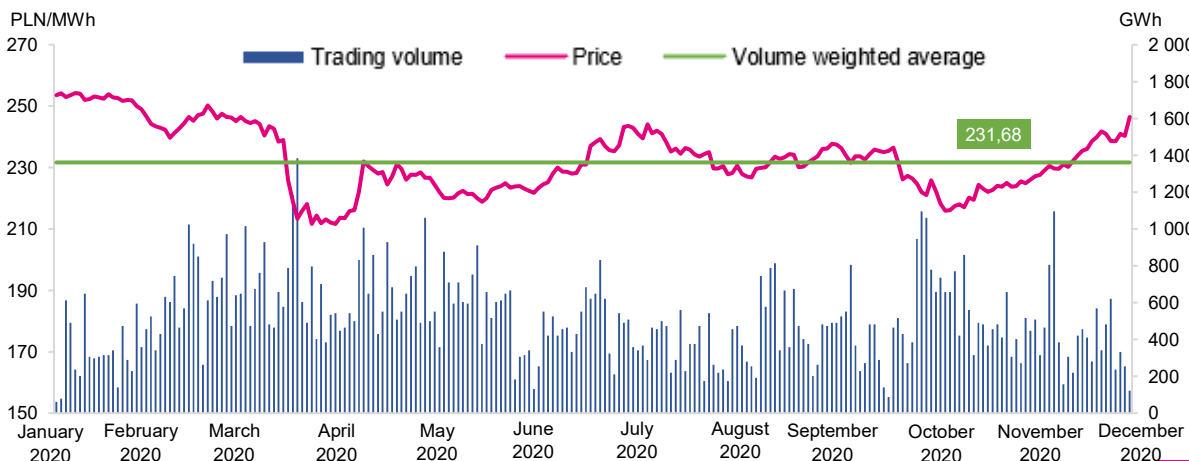
The reference base load contract with the delivery in 2021 (BASE_Y-21) was trending sideways on the electricity futures market for the larger part of 2020. The price changes were in line with the changes in the commodity prices, in particular the prices of the CO₂ emission allowances, the valuation of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

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

The PEAK5_Y-21 contract price displayed similar volatility patterns, with its trading volume weighted average price a year before delivery reaching 271.98 PLN/MWh, i.e. it and was lower by 51.96 PLN/MWh (-16%) than the average PEAK5_Y-20 contract price recorded in 2019. The lower average price of the PEAK5_Y-21 contract was a consequence of low PEAK prices on the Day Ahead Market (RDN) market and a significant increase in the photovoltaics' installed capacity.

The below figure presents the BASE Y-21 contract trading price performance.

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



Crude oil

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

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

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

Hard coal

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

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

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

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

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

Natural gas

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

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

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

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

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

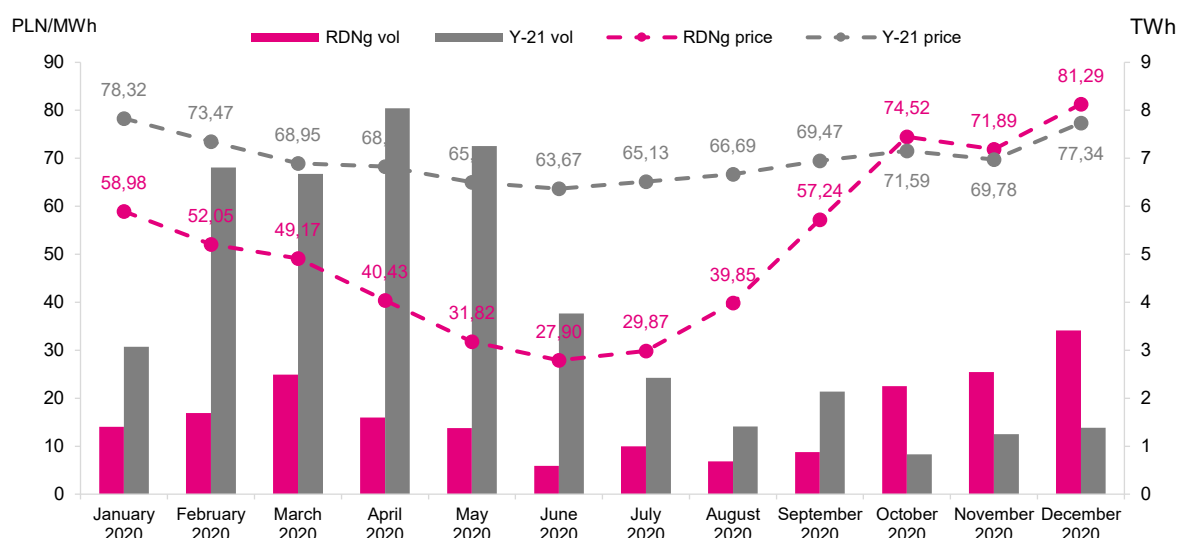
The weighted average price of the reference one year GAS_BASE_Y-21 contract stood at 69.16 PLN/MWh in 2020. The lowest price of that contract was recorded at the beginning of June 2020, while the highest price was observed during the final session in 2020, coming in at 61.70 PLN/MWh and 87.50 PLN/MWh,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

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

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

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

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



CO₂ emission allowances

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

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

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

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

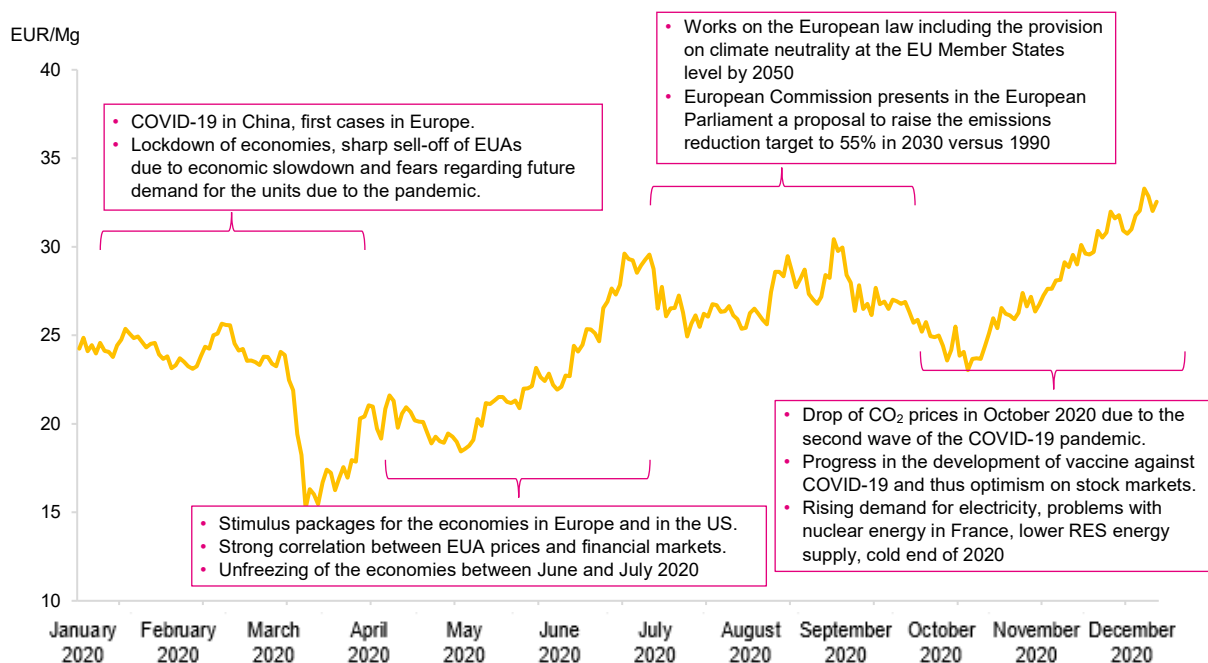
In early October 2020, the number of the COVID-19 infections began to rise again, which, as in March 2020, caused a sell-off on all of the financial markets. The turning point was the announcement of the invention of an effective vaccine against COVID-19, which brought the CO₂ prices again close to the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

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

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

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

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



Property rights

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

The prices of the certificates confirming the production of electricity from agricultural biogas, PMOZE-BIO-2019 (blue certificates), for which the obligation was 0.5% in 2019, were consistently fluctuating around the substitution fee level, which stood at 300.03 PLN/MWh. The prices of the TGEozebio index fluctuated within the range from 299.62 PLN/MWh to 301.66 PLN/MWh. Ultimately, the weighted average value of the index stood at 300.15 PLN/MWh at the end of 2020 and it was slightly lower (by 0.02%) than the weighted average price for 2019. The total trading volume came in at 490.6 GWh (a drop by almost 4.4% year on year), and the PMOZE_BIO register balance reached the level of 394 GWh as of the end of 2020. Taking into account the certificates blocked for redemption (retirement), this level dropped to 371 GWh.

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

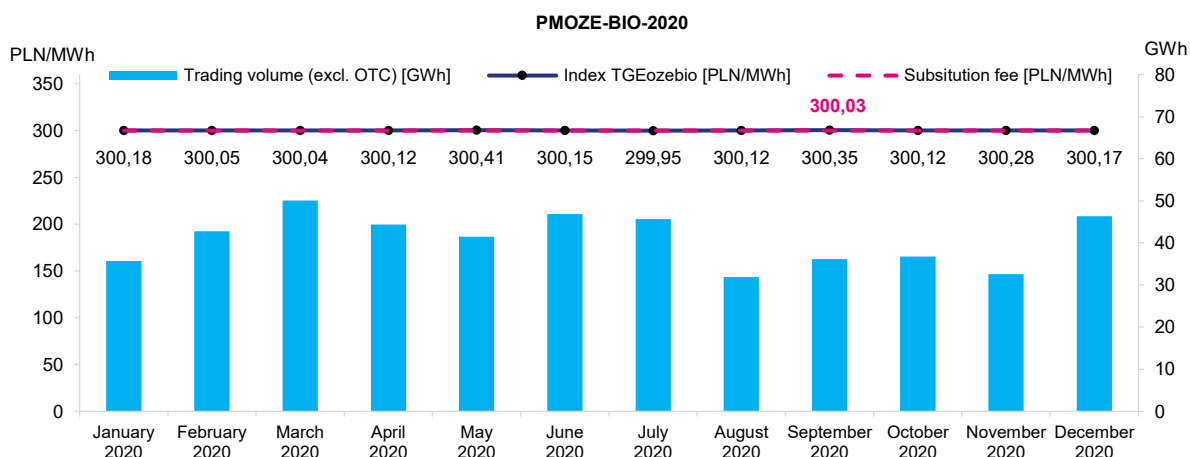
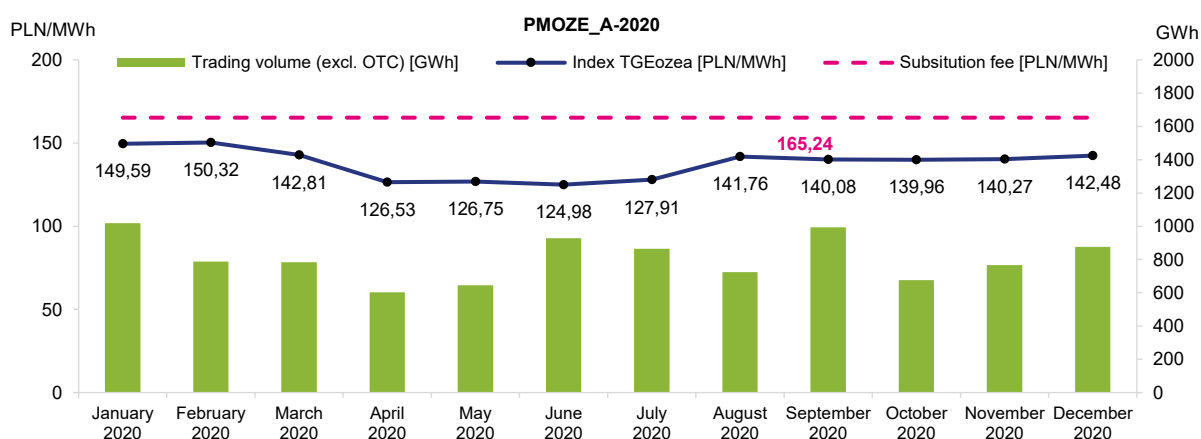
weighted average price for the contract in question for the entire 2020 stood at 1 841.33 PLN/toe and it was higher by almost 82% as compared to 2019. On average, the prices were more than 6% above the substitution fee, which stood at 1 736.44 PLN/toe for the whites certificates in 2020. In contrast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

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

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

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

Figure no. 22. Property rights indices



Regulatory environment

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

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

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

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

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

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

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

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

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

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

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

European Union (EU) regulations

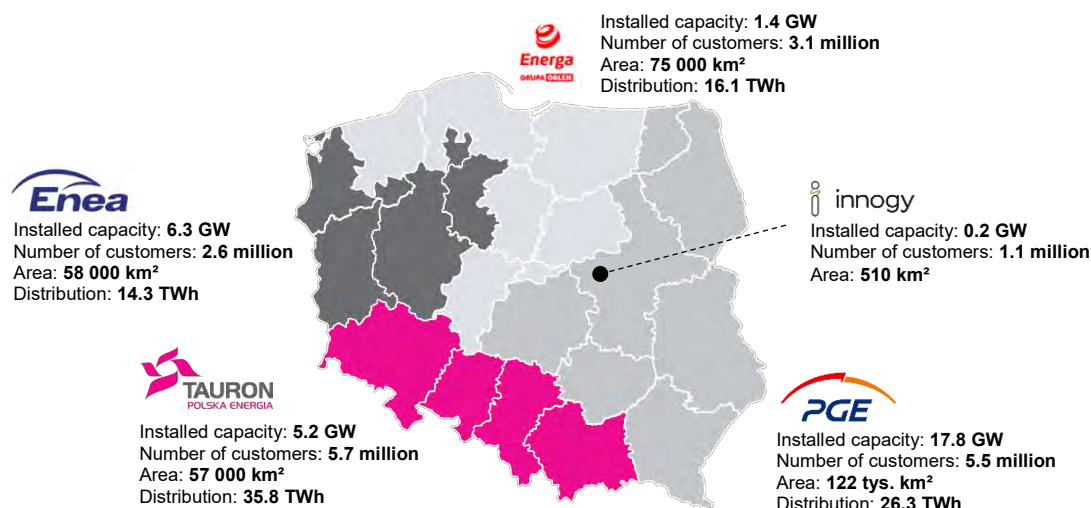
| | | | |
|---------------------------|--|--|---|
| Just Transition Mechanism | <p>The proposed regulation was published by the European Commission in January 2020 as part of implementing the <i>European Green Deal</i>, the Just Transition Mechanism consists of three pillars:</p> <ul style="list-style-type: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

Competitive environment (landscape)

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

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

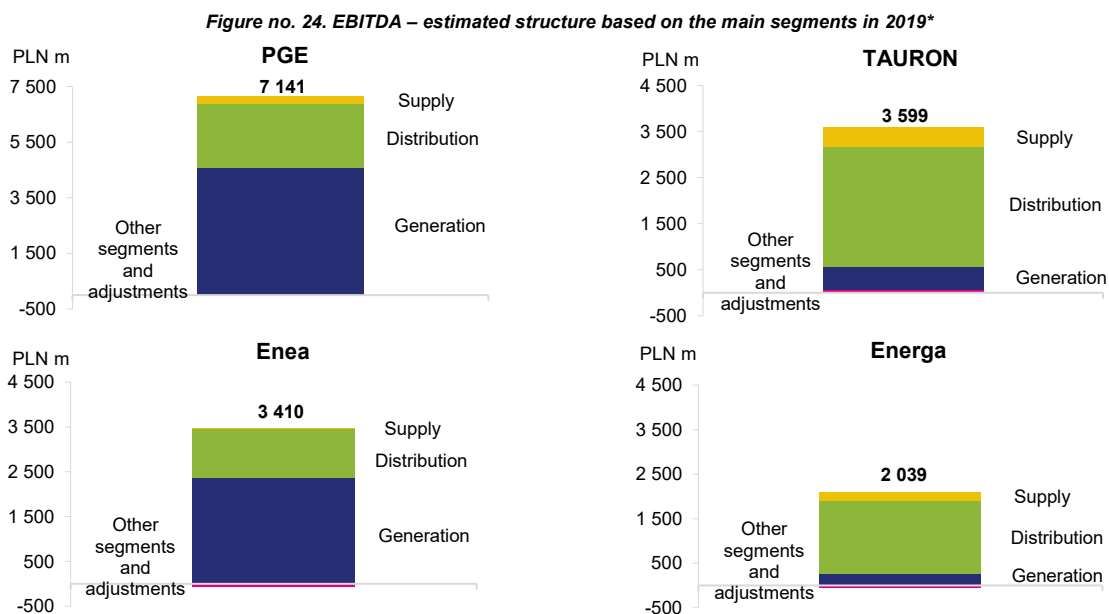
Figure no. 23. TAURON Capital Group's competitive environment (landscape) based on the available Q1-3 2020 data



According to Q1-3 2020 data, the consolidated energy groups (PGE, TAURON, Enea, Energa) held a 67% market share in the electricity generation sub-sector.

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

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



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

Generation

TAURON Capital Group is Poland's key electricity producer

TAURON Capital Group's share in the domestic electricity generation market, based on the gross electricity production output, stood at approx. 8% after the first three quarters of 2020. TAURON Capital Group is the third largest electricity producer on the Polish market. TAURON Capital Group's generation assets are concentrated in the south of Poland. The deposits of the hard coal used to fire TAURON Capital Group's power plants and combined heat and power plants are also located in that region. The location of the generating assets in the vicinity of the hard coal deposits allows for the optimization of the costs related to the transportation of this raw material

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

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

Nationwide, after the first three quarters of 2020, TAURON Capital Group's hard coal fired units' installed capacity accounted for approx. 14% of the total installed capacity of all hard coal and lignite fired generating units in Poland. With respect to the installed capacity of the wind farms, biomass and biogas fired power plants as well as hydro power plants, the share of TAURON Capital Group came in at approx. 6%, 13% and 6%, respectively.

According to the data after the first three quarters of 2020, PGE Group is the largest electricity generator in Poland, with its share in the domestic electricity production market in the third quarter of 2020 standing at approx. 41%, and the installed capacity of 17.8 GW. ENEA is the second largest electricity producer in Poland, with a market share of approx. 16% and the installed capacity of 6.3 GW. Energa, on the other hand, has the largest share of electricity produced from the renewable energy sources (RES) on the Polish market and Energa's total installed capacity stands at approx. 1.4 GW. Energa produced 2.2 TWh of electricity in the first three quarters of 2020, with approx. 1.0 TWh (i.e. 47%) coming from RES.

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

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

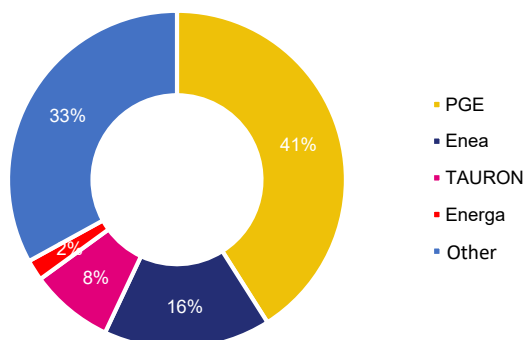
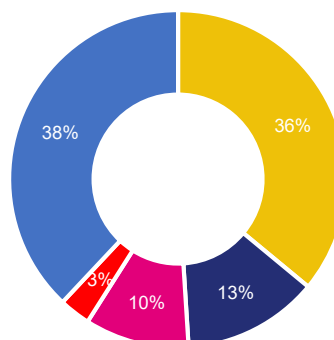


Figure no. 26. Installed capacity - estimated market shares in Q1-3 2020



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

Distribution

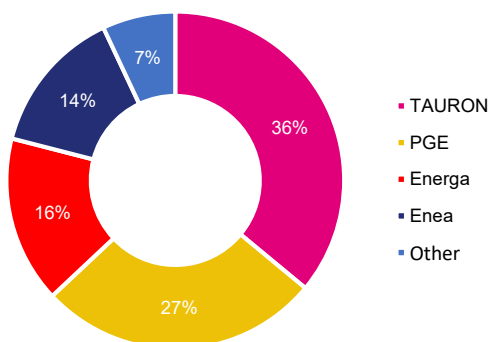
TAURON Capital Group is the Polish market leader in terms of the number of distribution customers and volume of electricity distributed

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

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

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

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



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

Supply

TAURON Capital Group is Poland's second largest electricity supplier

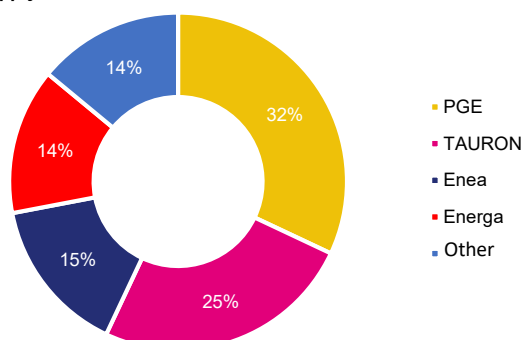
TAURON Capital Group holds a 25% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 32.4 TWh in 2020. The number of customers served by TAURON Capital Group's Supply Segment is 5.6 million.

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

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

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

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



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

The below table presents information on the installed capacity and the volume of electricity generation, distribution and supply after the first three quarters of 2020, as well as the domestic market shares.

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

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

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

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

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

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

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

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

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

2.4. Material factors impacting growth

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

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

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

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

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

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

2.5. Timeline

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

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

**JULY
AUGUST**

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

**SEPTEMBER
OCTOBER**

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

**NOVEMBER
DECEMBER**

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

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

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that occurred in 2020, as well as by the date of drawing up this report are listed below.

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

Major business events in 2020

Information on the construction of the power generating unit in Jaworzno

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

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 2/2020 of January 30, 2020, no. 4/2020 of February 13, 2020, no. 7/2020 of March 6, 2020, no. 19/2020 of May 4, 2020 and no. 53/2020 of November 13, 2020.

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

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

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

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

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

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

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

Sale of the shares in TAURON Ciepło

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

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

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

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

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

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

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

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

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

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

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

Sale of the shares in PGE EJ 1

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

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

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

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

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

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

Major corporate events in 2020

Changes to the composition of TAURON's Management Board

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

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

Changes to the composition of TAURON's Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

Ordinary General Meeting of TAURON

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

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

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

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

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

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

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

Other major events in 2020

Petitions of TAURON Sprzedaż for a change of the approved tariff

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

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

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

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

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

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

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

Ruling of the Regional Court related to PEPKH

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

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

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

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

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

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

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

On September 14, 2020, PEPKH filed with the court its request that the court serve the decision, including the statement of reasons in writing, in order to analyze it and file an appeal. The appeal was filed on March 8, 2021.

Abener Energia's lawsuit against EC Stalowa Wola

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

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

The proceedings are pending.

Revision of the ratings granted by the Fitch Ratings agency

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

The full list of rating actions:

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

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

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

Protective measures for the energy industry in connection with the epidemic

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Filing of a lawsuit against Abener Energia by EC Stalowa Wola

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

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

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

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

The proceedings are pending.

Major events after December 31, 2020

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

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

2.7. Prizes and accolades (honorable mentions)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

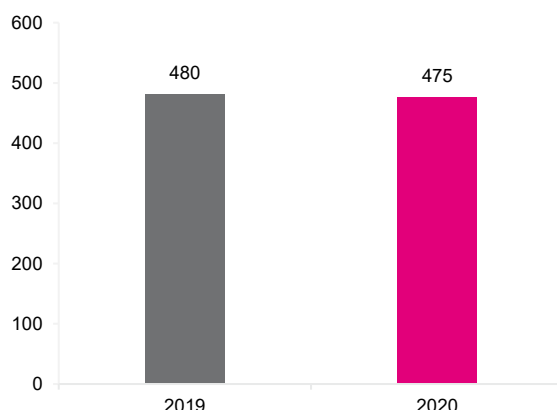
2.8. Information on the employment and employee related issues

Key headcount data

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

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

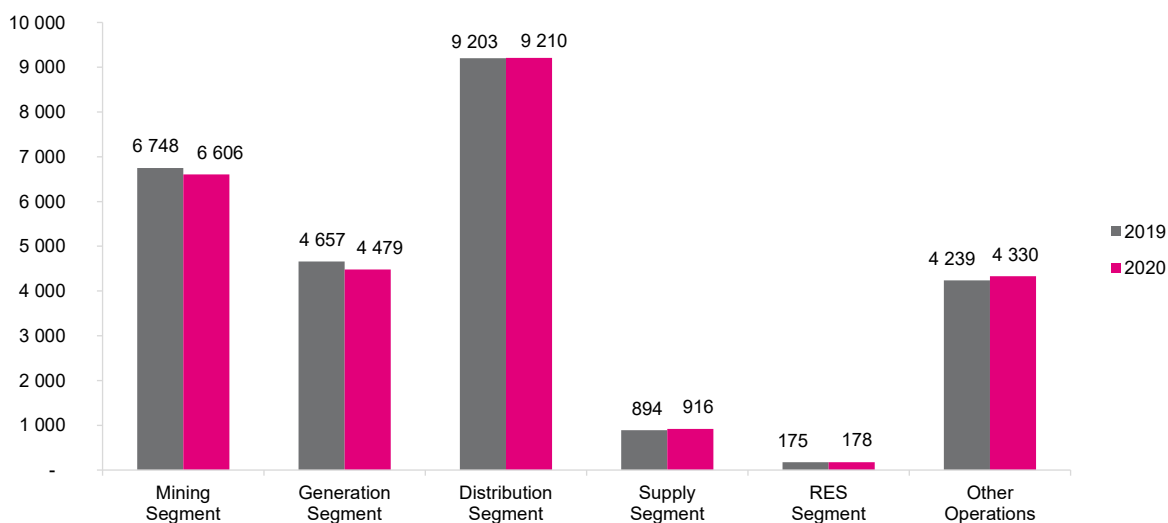
Figure no. 29. TAURON's average headcount in FTEs in 2019 - 2020



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

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

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



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

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

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

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

**figure includes TAURON's headcount

TAURON Group's Human Capital Management Policy

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

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

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

MISSION IN HR AREA

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

VISION IN HR AREA

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

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

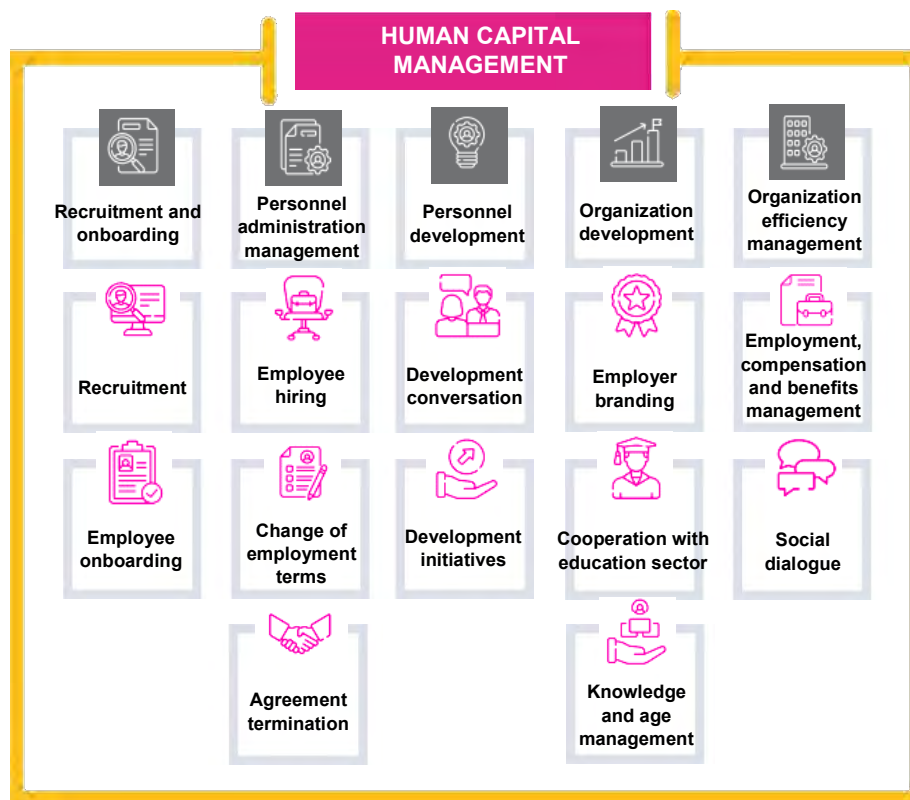
The table below presents specific goals in the area of human capital management.

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

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

The below figure presents the human capital management structure.

Figure no. 31. Human capital management structure



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

A family friendly company. A human friendly company

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

Remote work

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

Development and training

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

70% of the development activities should be related to gaining experience in the position, among others by delegating new or additional tasks and empowerments to the employee, broadening the scope of his/her responsibility, participation in the task or project teams,

20% of the development activities are based on learning from others, including the ongoing support and regular feedback from your direct superior and colleagues,

10% of the development activities involve participation in various forms of educational and training activities (internal and external).



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

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

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

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

Initiatives, development activities and development supporting activities

Development Conversation

Actions aimed at implementing a new human resources (HR) management process - Development Conversation, were initiated in 2019. The goal of the initiative is the development of the organization by building a culture of dialogue between the superior and the employee, and the ability to focus on the development of employees in accordance with their needs as well as the business capabilities and needs of the organization. The development conversation is based on *TAURON Group's Competence Model* and assumes the need for the continuous development of these competences in line with the changing business challenges. The essence of the Development Conversation is based on employee development in relation to the goals pursued thereby and may refer to the manner of fulfilling official duties, attitude, motivation, as well as mutual expectations.

TAURON Group Open University

TAURON Group's employees have continuously had the opportunity to participate in lectures conducted as part of the TAURON Group Open University since 2014. The goal of establishing and continuing the TAURON Group Open University concept is to provide employees with access to knowledge and information on the current topics, related to both business as well as personal development. In addition, this initiative allows for the creation of a platform enabling an exchange of views and experiences among the employees from various Subsidiaries and, as a result, increased integration among the workforce.

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

Development Squared (Rozwój do Kwadratu)

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

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

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

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

Cooperation with the education sector

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

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

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

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

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

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

Social dialogue

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

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

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

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

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

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

2.9. Corporate Social Responsibility (CSR) Policy

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

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

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

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

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

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

Impact on natural environment

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

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

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

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

Environmental Policy

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

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

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

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

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

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

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

The below table presents the annual emissions of SO₂, NO_x, dust and CO₂ from thermal combustion of fuel for 2020.

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

| Subsidiary name | Emission of SO ₂ (Mg) | Emission of NO _x (Mg) | Emission of dust (Mg) | Emission of CO ₂ (Mg) |
|---|-------------------------------------|-------------------------------------|--------------------------|-------------------------------------|
| 1. TAURON Wytwarzanie including: | 5 392,1 | 6 238,5 | 282,1 | 8 528 695 |
| 1) Oddział (Branch) Jaworzno III | 1 601.8 | 2 362.8 | 71.1 | 3 489 652 |
| 2) Oddział (Branch) Łaziska | 914.1 | 1 101.6 | 78.7 | 1 773 839 |
| 3) Oddział (Branch) Łagisza | 1 361.0 | 1 633.1 | 59.1 | 2 292 381 |
| 4) Oddział (Branch) Siersza | 649.6 | 504.8 | 16.9 | 751 495 |
| 5) Oddział (Branch) Stalowa Wola | 865.5 | 636.2 | 56.3 | 221 328 |
| 2. TAURON Ciepło including: | 1 538.2 | 1 102.3 | 82.4 | 1 324 397 |
| 1) Zakład Wytwarzania (Generation Plant) Bielsko-Biała | 585.5 | 224.9 | 15.2 | 362 828 |
| 2) Zakład Wytwarzania (Generation Plant) Kamienna Góra | 20.9 | 16.8 | 4.6 | 14 228 |
| 3) Zakład Wytwarzania (Generation Plant) Katowice | 354.2 | 431.9 | 28.0 | 597 102 |
| 4) Zakład Wytwarzania (Generation Plant) Tychy | 384.6 | 343.8 | 17.2 | 284 543 |
| 5) Centralna Ciepłownia (Central Heating Plant) Olkusz | 114.8 | 42.6 | 9.4 | 25 958 |
| 6) Centralna Ciepłownia (Central Heating Plant) Zawiercie | 65.8 | 31.9 | 6.8 | 30 993 |
| 7) Other (local heating plants) | 12.4 | 10.4 | 1.2 | 8745 |
| 3. KW Czatkowice | 0.03 | 0.7 | 6.5 | 5 291 |
| Total | 6 930.3 | 7 341.5 | 371.0 | 9 858 383 |
| Decline versus 2019 | 33% | 29% | 37% | 19% |

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

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

TAURON Capital Group assumes responsibility for taking care of the natural environment and the consequences of using its resources. TAURON Capital Group's subsidiaries calculated fees in the total amount of approx. PLN 30.5 million in 2020 (less by approx. PLN 2.4 million than in 2019).

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

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

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

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

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

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

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

Circular economy

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

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

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

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

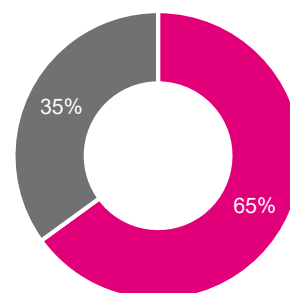
4.3 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2020, with as much as 65% of that quantity brought to the market as the full value products to be used, among others, in the construction, road building, mining or agricultural sector. This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

The below figures present the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019 and in 2020.

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



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



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

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

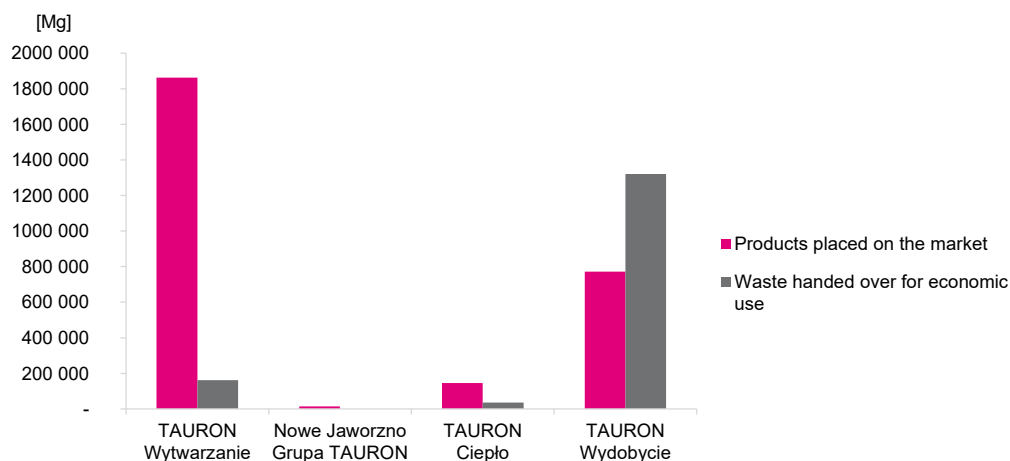
TAURON Capital Group's power plants produced 132 thousand Mg of ashes in 2020 that was used as valuable raw material in fire prevention by the coal mines. The ashes from TAURON Capital Group's power plants and combined heat and power plants cover 100% of the demand for ashes to be used for fire prevention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

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

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

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

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



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

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

Climate policy

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

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

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

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

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

TAURON Capital Group introduced the update of the strategic directions in 2019, thus conducting the first activities as part of the final review and adaptation of the Strategy towards reducing the risk associated with the transition of the energy sector and taking advantage of the market expectations related to the climate.

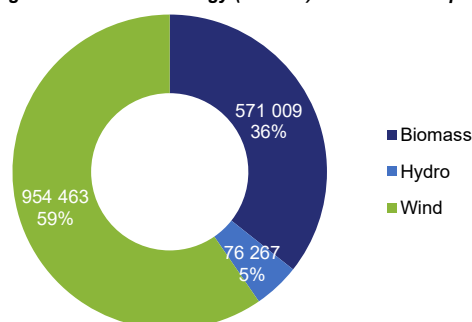
In 2020, TAURON Wytwarzanie completed the first photovoltaic farm implementation project with the capacity of 5 MW in Jaworzno, built on the site where the Jaworzno I Power Plant (Elektrownia Jaworzno I) had formerly been located. The project is in lined with the expected transition of the energy sector.

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

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

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

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



TAURON Capital Group's dependence on the natural capital varies for the individual Lines of Business of TAURON Capital Group. Mining, Generation and Heat Lines of Business are dependent on the fossil fuel resources, which are not very sensitive to the climate change, and their physical availability is not dependent on the pace of the global warming. The RES Line of Business, due to generating electricity in hydropower plants, is highly exposed to the risk of outages or curtailments of production as a result of prolonged droughts, which translate into a decrease in surface water resources in river basins, where hydropower plants are located. TAURON Ekoenergia is monitoring such developments on an ongoing basis and has an inventory list of assets most exposed to such restrictions.

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

In order to make the best use of the value levers (drivers) defined as part of the Strategy and the Update of the Strategic Directions, the key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations in the following areas defined in *TAURON Group's Sustainable Development Strategy for the years 2017-2025*, adopted by the Company's Management Board in 2017, were defined:

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

The below table presents the key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2019-2020.

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

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

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

2.11. Sponsoring activities

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

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

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

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

The Company's sponsoring activities are monitored, analyzed and reported on an on-going basis to the Company's Management Board and Supervisory Board, among others based on the detailed reports on the implementation of the sponsoring contracts. The surveys and analyses are conducted in quarterly, 6-month and annual cycles by the specialized external entities and the internal oversight. In accordance with the procedures implemented at TAURON Capital Group, the effectiveness of the activities conducted is assessed on a regular basis based on the opinion polls, by measuring the size and value of the brand's exposure in the media in the context of the activities conducted, as well as by measuring the impact on the pro-sales attitudes, including the reporting of the results achieved.

An independent research entity initially estimated, as a result of the measurement of the promotional effectiveness, the advertising equivalent achieved in relation to the activities completed in 2020. By comparing the summarized value obtained this way to the total of all expenditures arising from the relevant sponsoring contracts, the ROI ratio (understood here as a comparison of the advertising equivalent to the expenditures on the implementation of the contract) at a level of approximately 9.03 was obtained. This means that each zloty (PLN) spent for that purpose generated promotional benefits to TAURON Capital Group, the value of which was independently initially estimated at approximately PLN 9.

The confirmation of the financial effectiveness of the activities conducted is the high positioning of the TAURON brand in an independent research report, *Sponsoring Monitor 2020*, according to which TAURON is ranked 7th overall among the TOP 10 sponsors. Several hundred brands were classified in the ranking, which was the result of the opinion polls and TAURON's spot in the ranking was a very good result. Taking into consideration the relatively low level of sponsorship spending by TAURON Capital Group, the position in this ranking can be regarded as high.

3. TAURON CAPITAL GROUP'S RISK MANAGEMENT

3.1. Risk management objective and principles

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

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, TAURON Capital Group's risk management is to ensure increased predictability of achieving its strategic goals, sustainable (stable) generation of its financial results, the protection of TAURON Capital Group's current economic value (preventive function), as well as support for the decision-making processes.

TAURON Capital Group's risk management:

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

3.2. Risk management strategy

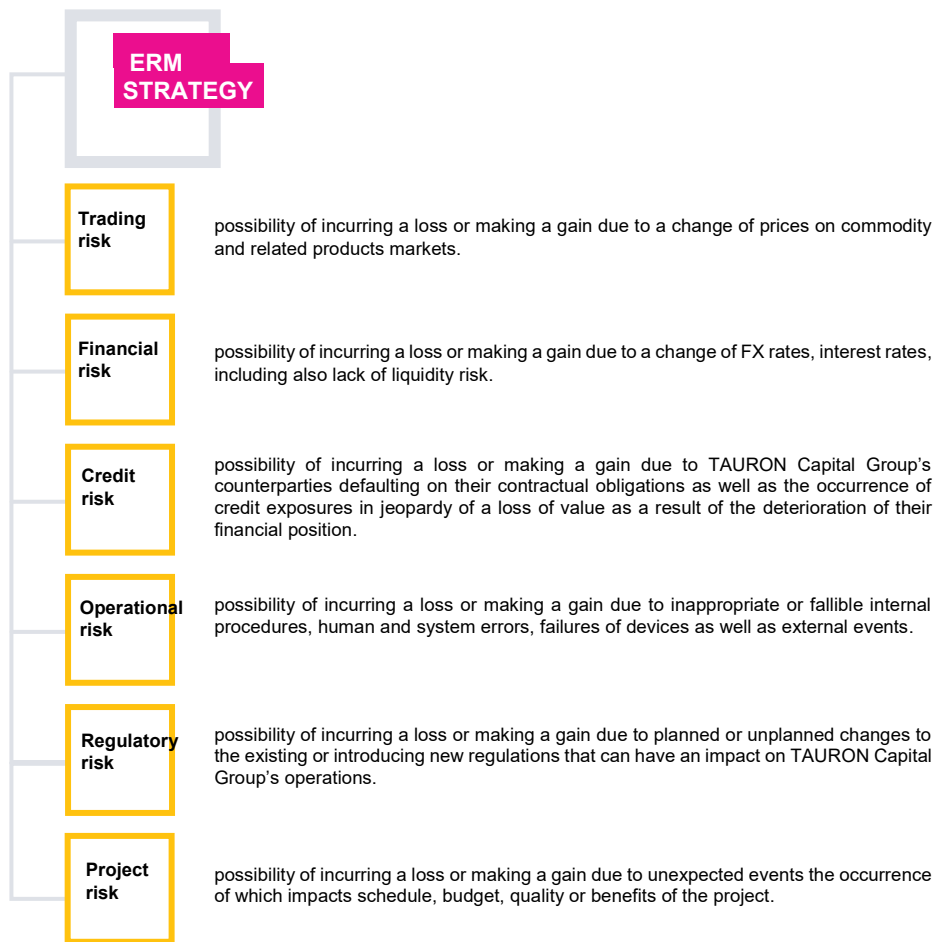
The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring safety (security) of TAURON Capital Group's operations.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

As part of the ERM System, the following specific risks are identified within TAURON Group, for which separate policies tailored to the nature and specifics of the given group of threats are defined:

1. Trading (commercial) risk,
2. Credit risk,
3. Financial risk,
4. Operational risk,
5. Regulatory risk,
6. Project risk.

The below figure presents the basic classification of the enterprise risk.

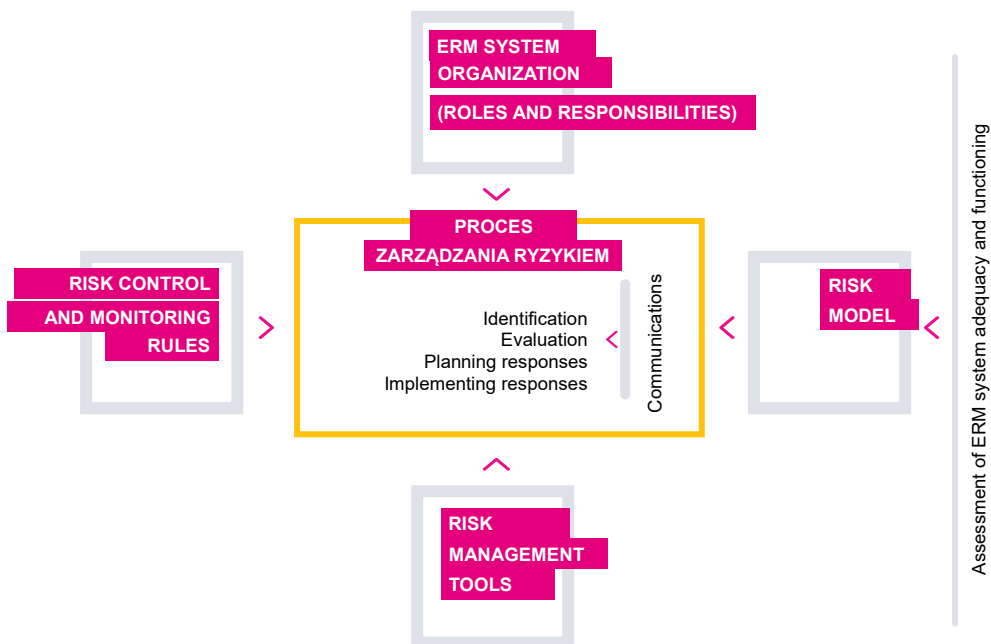
Figure no. 36. Basic classification of the enterprise risk



The core (central) element of the ERM System is a risk management process that includes continuous activities, i.e. risk identification, risk measurement as well as developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including: organization of the ERM System, risk control and monitoring rules, risk model, risk management tools and the assessment of the adequacy and functioning of the ERM system.

The below figure presents the architecture of the ERM system in place at TAURON Capital Group.

Figure no. 37. Architecture of the ERM system in place at TAURON Capital Group

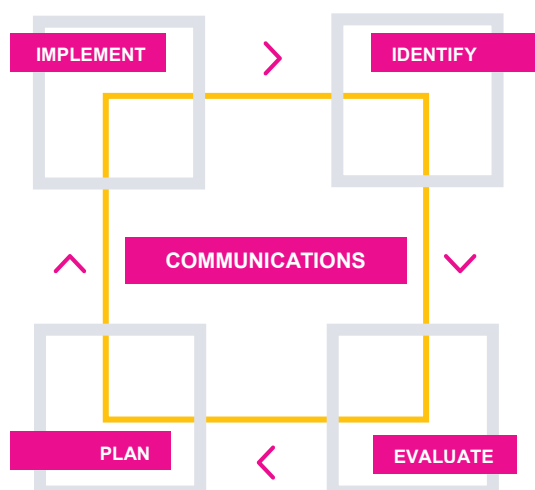


Risk management process

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

The below figure presents the risk management process.

Figure no. 38. Risk management process



Risk identification consists in determining the potential events that may affect the implementation of business goals of TAURON Capital Group. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated responses to the risk identified in order to achieve the desirable results. The planned actions constituting the prepared risk response are dependent and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in practical implementation of the response to the identified risk, prepared in the planning process. The defined set of actions as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, inform whether the activities carried out thus far are effective and if risk management is bringing the assumed effect of maintaining the value of the EWI indicators within the acceptance range.

Communication consists in a continuous flow of information among the participants of the process, which is to ensure full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodical risk reporting is also an element of this process.

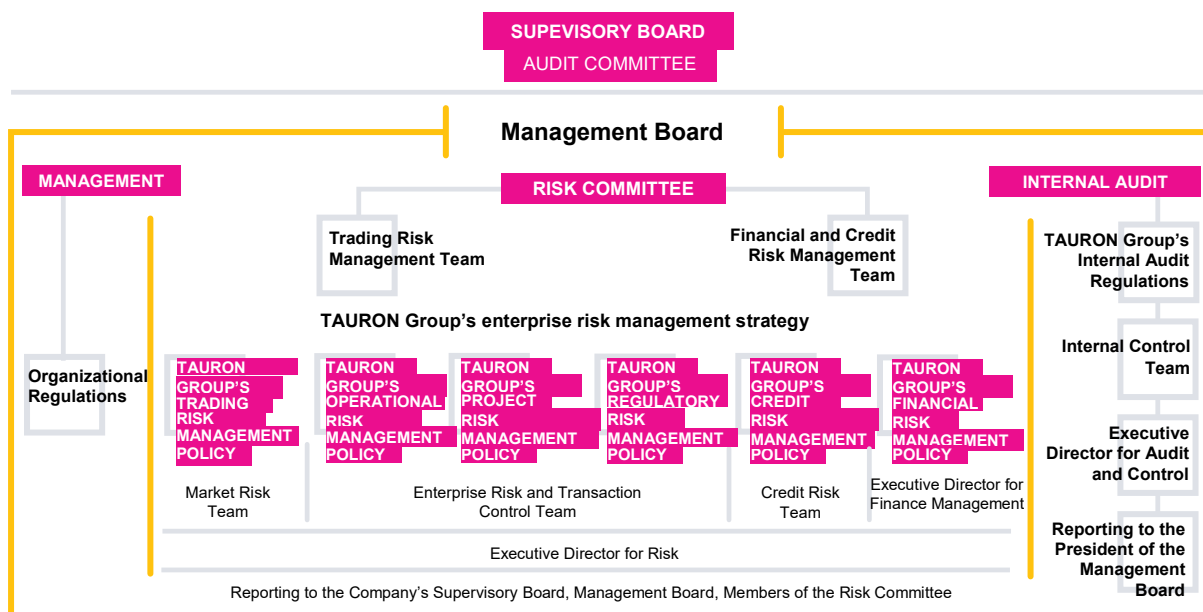
Organization of the risk management system (roles and responsibilities)

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest. In particular, the system guarantees independence of the risk taking function from risk control and monitoring. This is achieved through the centralization of the control function at the parent Company level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the risk owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system was placed at the parent Company, in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and oversight of the risk management process effectiveness. Within the Risk Committee two separate teams are set up, one for the trading (commercial) risk area and the other for the financial and credit risk area. Oversight of the enterprise risk management system is performed directly by the Risk Committee.

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

Figure no. 39. Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM System



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

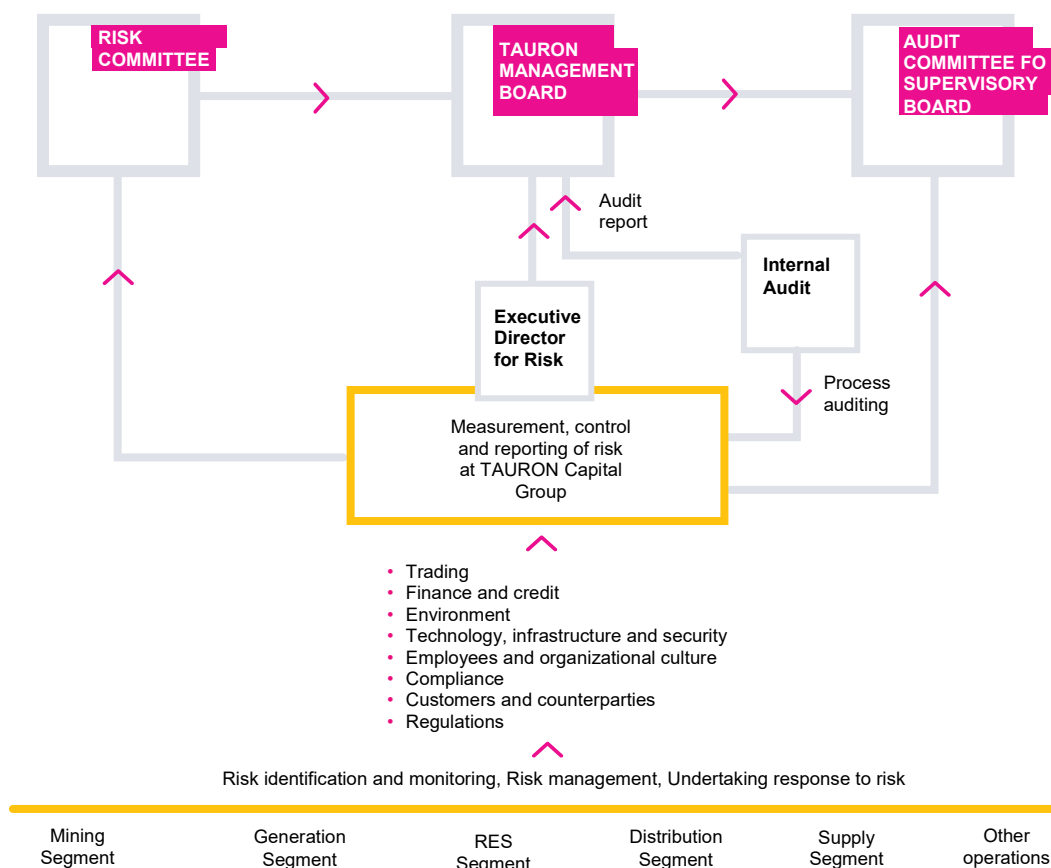
Table no. 25. Description of the ERM System participants' roles and responsibilities

| Participant | Participant's roles and responsibilities |
|---|---|
| 1. TAURON Supervisory Board | <ol style="list-style-type: none"> 1. Assessment of the ERM System, especially of its adequacy and effectiveness. 2. Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities. |
| 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 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 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 and oversight over the system's participants in the risk management implementation and evaluation of its efficiency. 4. Preparing and providing the risk reports to the authorized risk management process participants. 5. 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. |

| Participant | Participant's roles and responsibilities |
|---------------|---|
| 8. Risk Owner | <ol style="list-style-type: none"> 1. Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in the context of an impact on the ongoing operations as well as on the implementation of the strategic, operational and financial goals of the unit. 2. Responsibility for preparing a plan and for implementing a response to risk, and also for the communications and reporting within the risk management performed. 3. Responsibility for meeting (compliance with) the imposed operational limits. |

The below figure below presents the flow of information within the key participants of the risk management process.

Figure no. 40. Flow of information within the key participants of the risk management process



Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to factors that may have an adverse impact on its functioning. The basic risk control tool is the Risk Appetite, approved by the Company's Management Board, that defines the basic framework used by TAURON Capital Group for risk management. In accordance with the adopted approach, TAURON Capital Group's priority is to maintain the maximum security at the level allowing for the implementation of TAURON Capital Group's strategic goals.

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

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

A supplementary tool used for risk monitoring and control comprises the Early Warning System based on the catalogue of Key Risk Indicators (KRI) and Early Warning Indicators (EWI).

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

Risk management tools

Risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group uses, in particular, the following tools:

1. **Risk identification / review questionnaire** - a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
2. **Risk card** - a document containing the detailed information on the identified risk,
3. **Risk register** - a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations,
4. **Risk response plans** - a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to a given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization,
5. **Risk assessment form** - a tabular summary of detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of risk measurement parameters (KRI / EWI).

Risk Model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories.

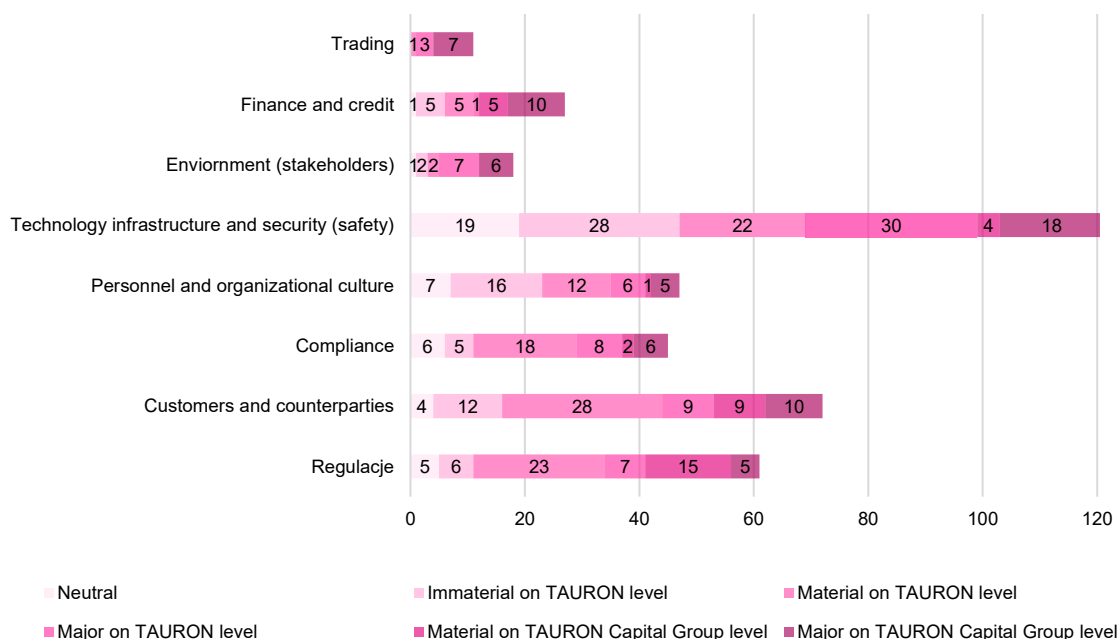
The below table presents the main risk categories and sub-categories, in accordance with the Risk Model in place.

Table no. 26. Main risk categories and sub-categories, in accordance with the Risk Model in place

| Main risk categories | Main risk sub-categories | Description of the main risk sub-categories |
|------------------------------|--|---|
| 1. Trading risk | | Risks related to the volatility of electricity and related products market prices to which the enterprise is exposed. |
| 2. Financial and credit risk | | Risks related to the fluctuations in exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on contractual obligations. |
| 3. Operational risk | Environment (stakeholders) | Risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Capital Group's goals, including in particular the macroeconomic and reputational risks. |
| | Technology, infrastructure and security | All events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure. |
| | Employees and organizational culture | Risks related to employee issues and organizational culture, including also the pandemic risk. |
| | Compliance | Risks related to the cases of non-compliance with the legal regulations, internal and intra-corporate regulations, internal and external abuse as well as unethical behaviors and violations of the social norms (standards). |
| 4. Regulatory risk | Customers and contractors (counterparties) | Risks related to the volatility of the supplies / services market, a failure of the customer / contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin. |
| | | Risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Capital Group. |

The below figure presents the main risk categories defined by TAURON Capital Group, including the number of key threats.

Figure no. 41. Number of risks monitored, broken down into sub-categories and their impact on TAURON Capital Group



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

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

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

3.3. Key risks management

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

Trading risk management

In accordance with *TAURON Group's Trading Risk Management Policy* in place trading risk is understood as the possibility of incurring a loss or making a gain due to price fluctuations on the commodity and related products markets. The trading risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of subsidiaries operating both in the Mining and the Generation Lines of Business, including also the RES Line of Business, as well as in the Supply Line of Business. Due to the opposing positions in the above Lines of Business the risk is, to a certain degree, naturally diversified, however, since the above mentioned Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and related products.

In order to efficiently manage that group of risks the trading risk management system was established, tied with respect to the organizational structure and information flow, to the trading position hedging strategy in place at TAURON Capital Group's level. In particular, *TAURON Group's Trading Risk Management Policy* introduces an

early warning system and a system used to limit the risk exposure in the individual trading areas based on the Risk Tolerance approved by the Management Board.

The basic operating measure of TAURON Capital Group's market risk is Value at Risk (VaR), defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk (VaR) represents a dynamic risk measure which, in contrast to static measures, allows for determining potential negative effects before their factual occurrence. However, being aware of certain limitations of the statistical measures of this type, the Risk Area also uses a number of supplementary risk measures aimed at enabling a safe operation of the trading areas.

The strategic measurement of market risk is conducted based on the mechanism of Hedge Curves, which are to ensure the maximum level of security by optimizing open trading positions exposed to the volatility of price factors in the individual areas of TAURON Capital Group's operations.

The organizational structure of the trading risk management system envisages a strict division of competences, where the risk supervision (steering) and control are performed centrally at TAURON level. In particular, an element of the organizational structure of the trading risk management system is the split of TAURON Capital Group's trading operations into: Front Office, Middle Office and Back Office. The goal of such a split of tasks is to guarantee the independence of the operating functions carried out by the Front Office from the risk control function carried out by the Risk Area, and it ensures an appropriate level of operational flexibility. For the needs of the risk management process such a placement of responsibility is assumed in order to ensure an optimal approach to the given type of threat, in particular taking advantage of the economy of scale and the synergy effect. Such an approach ensures efficiency of the trading processes conducted and adequate supervision over one of the main business processes conducted by TAURON Capital Group.

The below figure presents a.

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



Financial risk management

As part of the financial risk management, TAURON Capital Group is managing the FX risk and the interest rate risk, based on the developed and adopted for use *TAURON Group's Financial Risk Management Policy* and the Risk Tolerance approved by the Management Board, the Global Financial Risk Limit including the decomposition thereof into individual financial risk types. The main goal of managing such risks is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of transactions with the use of the derivative instruments. In cases when it is possible and economically justified, TAURON uses the derivative instruments the characteristics of which allow for applying the hedging accounting.

With respect to the financial risks TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay the current expenses, due to an inadequate value or structure of liquid assets in relation to the short term obligations or an insufficient level of the actual net inflows from the operating activities.

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. As part of efforts aimed at minimizing the financing risk, TAURON conducts a policy of

acquiring the funding for TAURON Capital Group with an appropriate advance notice in relation to the planned date of its use, i.e. up to 24 months in advance of the planned funding requirement. This means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging for such financing by accumulating the funds on TAURON Capital Group's accounts. Such a policy is first and foremost aimed at ensuring a flexible choice of the financing sources and taking advantage of favorable market conditions as well as reducing the risk of the need to take on new liabilities under unfavorable market conditions. TAURON's policy also covers the standardizing of the covenants and the provisions of the financing agreements in the key elements of the documentation.

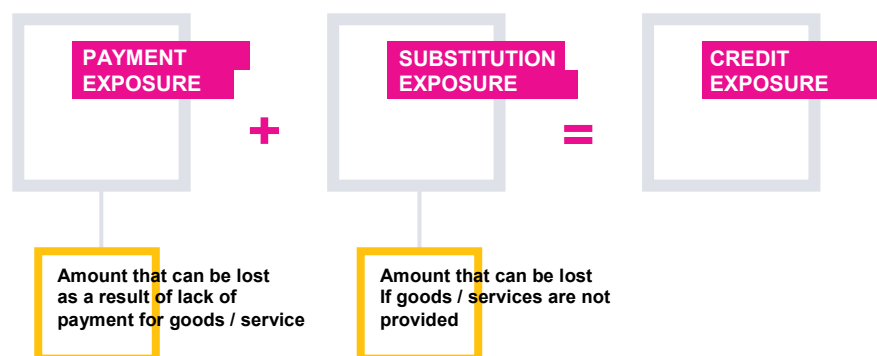
Credit risk management

In accordance with *TAURON Group's Credit Risk Management Policy* in place credit risk is understood as the possibility of incurring a loss or making a gain due to trading partners (counterparties) failing to fulfill their contractual obligations (default) as well as the occurrence of credit exposures at risk of impairment due to the deterioration of their financial position. TAURON Capital Group has a decentralized credit risk management system in place, however the control, limiting and reporting of this risk category is carried out centrally, on the parent Company level. *TAURON Group's Credit Risk Management Policy* put in place defines credit risk management principles on TAURON Capital Group's level, aimed at effectively minimizing the impact of that risk on achieving TAURON Capital Group's goals.

Credit risk management is carried out by controlling the credit exposure generated upon the conclusion of contracts by TAURON Capital Group's subsidiaries. The general rule is that prior to concluding a material contract every entity is subjected to an examination of its financial standing and receives a credit limit which caps the maximum exposure due to the given trade. Credit exposure is, in this context, understood as an amount that can be lost if a counterparty (business partner, contractor) fails to fulfill its obligations (defaults) within a certain time (taking into account the value of the collaterals submitted thereby). Credit exposure is calculated as of the current day and is split into exposure due to payment (payment exposure) and substitution exposure.

The below figure presents credit exposure components.

Figure no. 43. Credit exposure components



Based on the exposure value and the synthetic measure of evaluation of the financial standing of specific customers, the global credit value at risk that TAURON Capital Group is exposed to is calculated using the statistical methods according to which the exposure value is calculated based on the total loss probability distribution CVaR. This measure is the basic operational limit of credit risk, which represents the allocation of the Risk Tolerance approved by Management Board.

Operational risk management

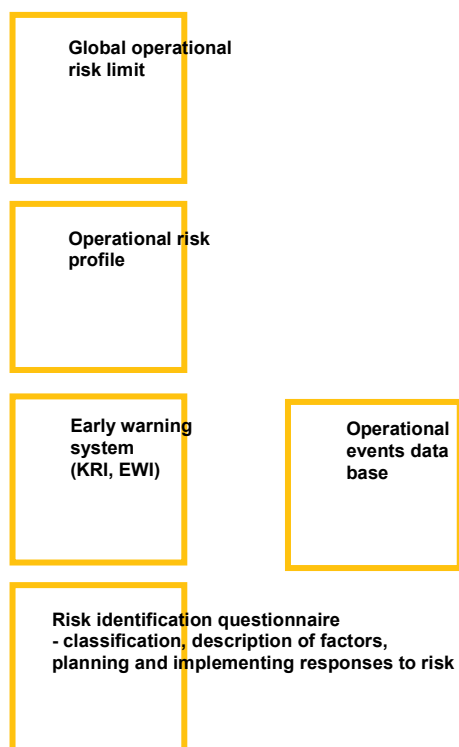
Operational risk, in accordance with *TAURON Group's Operational Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to inappropriate or fallible internal procedures, human and system errors or as a consequence of external events. It also includes reputational risk and non-compliance risk. Operational risk, due to the specific nature of the threats and the ability to manage them, constitutes a separate group of risks affecting TAURON Capital Group's operations. The said risk is a complex issue, occurs in every process and type of operations, it is multi-dimensional and applies to various types of activities and operations. In particular, the exposure to the operational risk factors is related to the size and complexity of the organizational structure, the number and complexity of the IT systems and to the number of business processes conducted. Operational risk is characterized by the lack of the ability to totally eliminate its sources, and the analysis of its factors and parameters (among others, frequency and severity), and also the evaluation thereof requires the use of complex measurement and analysis methods.

In order to effectively manage the operational risk, TAURON Capital Group is using appropriate tools that, in particular, include: the global operational risk limit, the operational risk profile the early warning system functioning on a broad scale, operational events database, and the related operational limits system. In particular, based on the approved Risk Tolerance, operational limits are determined for the individual operational risks (or their groups)

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

The below figure presents the risk management system tools.

Figure no. 44. Risk management system tools



Global operational risk limit is the basic tool for the operational risk control and represents the allocation of Risk Tolerance adopted by TAURON Capital Group. The global operational risk limit can be subsequently allocated to TAURON Capital Group's individual lines of business, the operational risk sub-categories as well as to the specific operational risks.

Operational risk profile is aimed at identifying areas, processes or activities with an excessive exposure to threats stemming from specific operational risk factors. It is expressed in particular in the structural dimension that includes types of operational events, TAURON Capital Group's organizational structure and processes, and in the scale dimension that includes estimated potential losses, taking into account in particular the historical values of actual losses, as well as the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the Operational Risk Profile the individual types of the operational risk are broken down (due to the nature of the occurrence thereof) into continuous and one-off risks.

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

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

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

Regulatory risk management

Regulatory risk, in accordance with *TAURON Group's Regulatory Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of TAURON Capital Group. Regulatory risk, due to the specific nature of threats and limited options to manage them, is a separate category of the enterprise risk to which TAURON Capital Group is exposed as part of its operations. Regulatory risk management is based on the Regulatory Risk Management Process and is a refinement of the Risk Management Process specified in the ERM Strategy.

The main causes of the regulatory risk include:

1. instability of the legal environment,
2. change in regulatory policy at national and European levels,
3. progressing integration of the European energy market,
4. uncertain political situation,
5. a significant increase in the requirements with respect to a specific regulation.

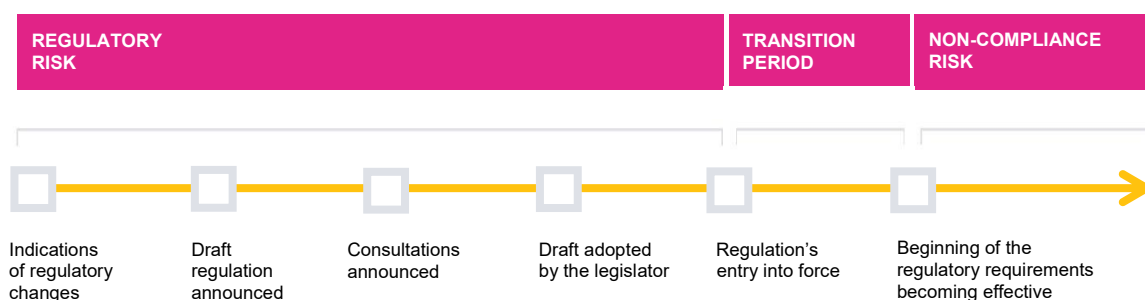
The main goal of the regulatory risk management at TAURON Capital Group is to minimize losses and maximize gains from the planned or unplanned changes to the existing regulations or the introduction of the new regulations that may affect the operations of the organization. As a result, it allows for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

that would be possibly favorable for achieving TAURON Capital Group's strategic goals. The regulatory risk management is also aimed at building culture and awareness among the employees of TAURON Capital Group regarding the risk taken, as well as at the continuous improvement of the process of managing such risk.

Regulatory risk occurs when there are indications of regulatory changes, for example an entry into force of the EU directive, which will be implemented into the Polish legal regime or the positions of the legislators declaring the regulatory changes. The regulatory risk management does not cease when a specific regulation which is frequently expected to provide executive regulations that specify its implementation method comes into force but from the moment the regulatory requirements take effect (the period from the entry of a legal act into force until the beginning of the regulatory requirements becoming effective is a transition period). At that time the regulatory risk management turns into the risk of non-compliance monitored as part of the non-compliance risk.

The below figure presents the regulatory risk life cycle.

Figure no. 45. Regulatory risk life cycle



In accordance with the classification of the regulatory risk, as part of *TAURON Group's Regulatory Risk Management Policy*, 13 areas of regulatory risk have been identified at TAURON Capital Group. The classification is based on the identification of homogeneous groups of regulations, based on their impact on the operations of TAURON Capital Group, taking into account the possibility of undertaking an effective response to the given risk. The regulatory risk areas are divided into 2 basic categories:

1. **Sector regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to the generation and supply of electricity and heat. Within this category, independently, there are also risks related to the distribution of electricity and the extraction of raw materials.
2. **Non-sector regulatory risks** - regulatory risks that may affect the operations of TAURON Capital Group related to, among others, the public procurement law, information security or compliance area, personal data protection, labor law, accounting and tax law, work (occupational) health and safety, environment protection and climate change as well as corporate management.

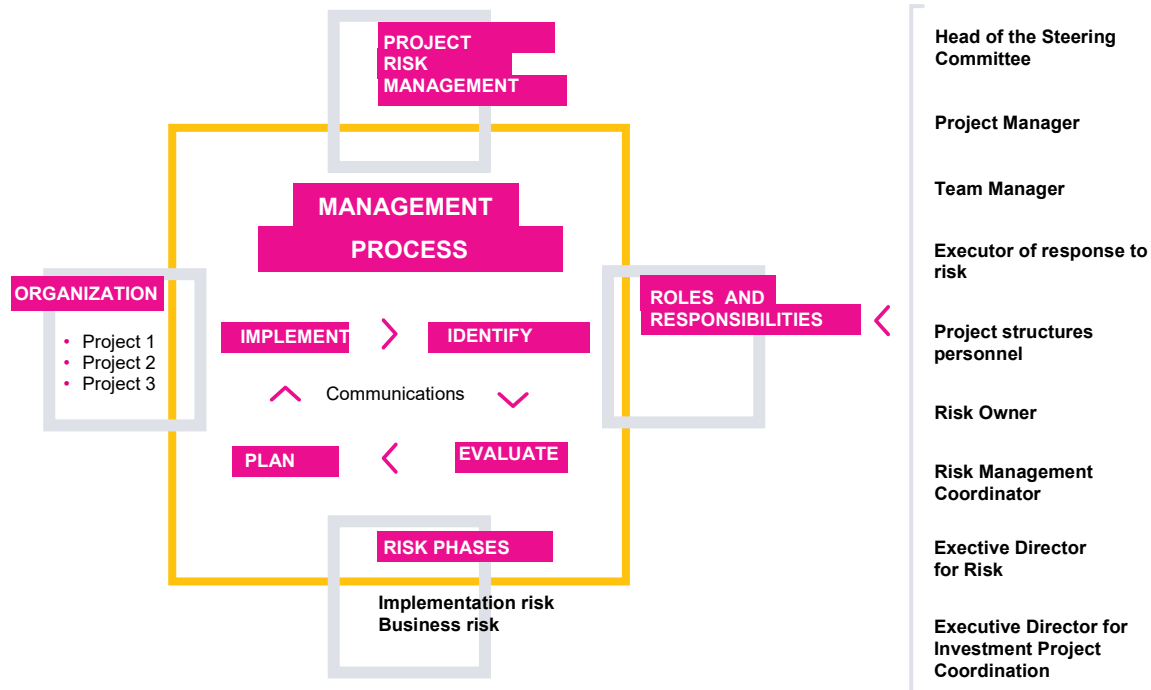
Project risk management

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

Project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes identification, valuation of such risks, defining and monitoring the early warning indicators as well as planning and implementing actions related to managing such risks. In case of the risks that have an impact on the organization, the risk valuation is made as the absolute value of the impact, including indicating the impact period broken down into the individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks that have an impact on the organization, Plans of Responses to the Risk and Back-up (Contingency) Plans are developed. The evaluation of the project risks and the risks stemming from the projects for the organization is taken into account when making the key decisions related to launching and implementing such projects.

The below figure presents the project risk management model.

Figure no. 46. Project risk management model



3.4. Description of the most material risk categories

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

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

| Risk name | Risk description | Risk trend and materiality | Reaction to risk |
|---------------------------|--|----------------------------|--|
| Trading | | | |
| 1. Market risk | The risk related to unfavorable changes in prices on the wholesale electricity market and the energy related product markets, which adversely affect the financial results. | ↗ ■ | <ol style="list-style-type: none"> Daily measurement and reporting of portfolio positions. Ongoing monitoring of the result level and the risk level (VaR, Stop Loss, open positions). Use of tools that minimize the formation of open trading positions (position limits and the Hedge Curve tolerances).. Taking advantage of the synergy effect among TAURON Capital Group's individual lines of business (central trading risk management). Adoption of an optimal trading strategy. Implementing pre-emptive position hedging mechanisms. Granting and control of the compliance with risk mandates with certain limits. Preparation and periodic verification of the price forecasts in the short, medium and long term |
| Finance and credit | | | |
| 2. Interest rate risk | Risk related to an unfavorable impact of interest rates on TAURON Capital Group's financial results. | ↗ ■ | <ol style="list-style-type: none"> Ongoing monitoring of risk exposure in order to minimize negative impact of changes to the interest rates. Transfer of risk through the use of derivative instruments. |
| 3. FX rate risk | Risk related to an unfavorable impact of FX rates on TAURON Capital Group's financial results. | ↗ ■ | <ol style="list-style-type: none"> Ongoing monitoring of risk exposure vulnerable to the FX rate risk. Use of risk limits for TAURON Capital Group's operational FX position (Value at Risk). Transfer of the FX rate risk through the use of the hedging transactions in accordance with the adopted <i>TAURON Group's Financial Risk Management Policy</i>. |
| 4. Liquidity risk | Risk related to the lack of TAURON Capital Group's ability of to pay its liabilities on an ongoing basis and difficulties in accessing capital, changes in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy). | ↗ ■ | <ol style="list-style-type: none"> Diversification of the sources of financing including arranging guaranteed financing programs as well as securing alternative sources of financing. Analyzing the market and the availability of the sources of financing. Ongoing communications with the financial institutions. Arranging financing agreements 12-24 months in advance of the date the funding is needed. Monitoring of the financial liquidity and planning the use of the available sources of financing. |

| Risk name | Risk description | Risk trend and materiality | Reaction to risk |
|-----------------------------------|---|----------------------------|---|
| | | | 6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company. |
| 5. Financing risk | Risk related to the difficulties in accessing capital, changes in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy). | → ■ | <ol style="list-style-type: none"> 1. Diversification of the use of the available sources of financing by using the financing instruments that reduce the risk of breaching the covenant in the form of the net debt / EBITDA ratio (e.g. hybrid bonds, factoring). 2. The use of instruments without financial covenants and limiting the number of conditions that breach such covenants. 3. Ongoing communications with the financial institutions. 4. Pre-emptive activities with respect to obtaining approvals from the financial institutions to carry out transactions or activities specified in the financing agreements. 5. Identification of events that may potentially affect the breach of the financial contracts and taking advance actions to mitigate the negative impact of the occurrence of such an event. 6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company. 7. Taking actions aimed at reducing the net debt and/or increasing EBITDA based on the decisions of the Risk Committee or the Management Board of the Company. |
| 6. Tax risk | Risk related to incorrect or untimely payment of the tax obligations. | → ■ | <ol style="list-style-type: none"> 1. Activities in accordance with legal regulations (Corporate Income Tax Act). 2. Issuing opinions on the economic events by TAURON Capital Group's tax advisors. 3. Jointly agreed positions at TAURON level. 4. Applying uniform accounting principles for companies within the PGK (Tax Capital Group). 5. Preparation of tax documentation for transactions between PGK companies and related entities outside PGK, requiring such documentation in accordance with the CIT Act, and auditing other transactions to confirm that they are concluded at arm's length. |
| 7. Credit risk | Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty (business partner, contractor) that may turn out to be insolvent. | ↗ ■ | <ol style="list-style-type: none"> 1. Regular monitoring of the counterparties (business partners, contractors) financial standing. 2. Periodic customer scoring, credit rating of each customer prior to submitting an offer / concluding a contract. 3. Use of protection mechanisms (hedging) in commercial agreements |
| Environment (stakeholders) | | | |
| 8. Reputational risk | Risk related to the current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash, including the risk related to not following the market trends related to the climate protection. | → ■ | <ol style="list-style-type: none"> 1. Continuous monitoring of the Company's external and internal threats. 2. Media monitoring, developing contacts and relationships with the media within TAURON Capital Group. 3. Preparing procedures for the Company's communications with the external and internal environment (stakeholders). 4. Striving to change the business profile to zero and low emission (carbon). 5. Adoption and implementation of: <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>, <i>TAURON Group's Anti-corruption Policy</i>, <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i>, <i>TAURON Group's Diversity Policy</i>, <i>TAURON Group's Respect for Human Rights Policy</i> |
| 9. License risk | Risk related to the lack of the possibility to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held, as well as the unfavorable legal changes with respect to the licensed operations. | → ■ | <ol style="list-style-type: none"> 1. Ongoing control of the correct performance of the licensing obligations. 2. Monitoring changes to the legal acts with respect to the licensing obligations. 3. Legal support for the license extension and obtaining process. |
| 10. Macroeconomic risk | Risk related to the changes in the economic situation of the country, instability of the financial markets resulting in a decrease of the demand for electricity. | ↗ ■ | <ol style="list-style-type: none"> 1. Diversification of the revenue sources. 2. Market analysis and the application of the pre-emptive actions for the anticipated crisis or a slowdown of the GDP growth rate. |
| 11. Climate change risk | Risk related to the tightening of the EU climate policy, as well as the environmental requirements resulting from the climate change, activities supporting energy efficiency (prosumer development, support for the thermal insulation, construction of in-house energy and heat sources, departure from coal as fuel), change in the conditions of TAURON Capital Group's operations (the | ↗ ■ | <ol style="list-style-type: none"> 1. Application of <i>TAURON Group's Climate Policy</i>. 2. Defining, updating and implementing the Strategy. 3. Update of <i>TAURON Group's Strategic Research Agenda</i>. 4. Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from <i>TAURON Group's Climate Policy</i> and Investment Strategy. 5. Update and implementation of <i>TAURON Group's sustainable development strategy</i>. |

| Risk name | Risk description | Risk trend and materiality | Reaction to risk |
|---|---|----------------------------|--|
| | need to adapt the company to the challenges of change resulting from the climate change). The implications of the risk include: difficulties or increase in the cost of raising capital to finance operations based on the fossil fuels, the need to incur additional capital expenditures for adapting the assets to the environmental requirements, an increase of the price of the CO ₂ emission allowances, declining demand for the products offered by TAURON Capital Group's subsidiaries. | | |
| Technology, infrastructure and security (safety) | | | |
| 12. Environmental risk | <p>Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would enable the prevention of excessive pollution, damage, disruption or failures of the installations or equipment that would have a negative impact on the environment. The risk also related to the possibility of: lack of the validity of environmental decisions, depositing waste in places not intended for such purpose or not in accordance with the conditions of the use of the facilities intended for such a purpose, the occurrence of a crisis situation (e.g. fire, displacement of earth masses, extreme conditions), the use of the waste not in accordance with the authorized destination (intended use), the lack of the appropriate safeguards limiting the negative impact of TAURON Capital Group's operations on the environment, release of the hazardous substances into the environment, social protests.</p> <p>The implications of the risk include: degradation of the natural environment and penalties for a failure to comply with environmental requirements, the need to remove such substances, the curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that would prevent their use, destruction of a habitat, object or valuable natural area - environmental compensation, restrictions on a further expansion of the business operations, a loss of the image of TAURON Capital Group, limitation of the ability to use the financial assistance programs.</p> <p>The risk also includes an increase in the environmental requirements due to the tightening of the EU's climate policy.</p> | → ■ | <ol style="list-style-type: none"> 1. Adoption and implementation of <i>TAURON Group's Environmental Policy</i>. 2. Conducting business operations that affect the environment in accordance with the principles of the sustainable development. 3. Ongoing supervision over compliance with the conditions of the environmental decisions. 4. Maintaining the required efficiency of the devices reducing the emission of pollutants. 5. Frequent evaluation of the compliance of the activities with the legal requirements with respect to environment protection. 6. Implementing investment projects in the environment protection area in order to minimize the adverse impact of the mining and processing operations conducted on the environment and climate. 7. Active search for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on the climate change. |
| 13. Weather risk | <p>Risk related to the more frequent occurrence of the weather anomalies, including relatively high temperatures in winter, higher rainfall intensity that can cause floods at any time of the year, uneven precipitation, resulting in longer periods of no rainfall, intermittent abrupt rainfall, and the intensification of the evaporation processes, increased frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings, more frequent occurrence of droughts and restrictions in access to water related thereto, as well as an increased risk of fires, a very high risk of weakening of the stands, making trees more susceptible to the damage caused by the wind.</p> <p>The implications of the risk include, in particular: a decrease of the volume of electricity and heat supply, a decline of the production volume, the deterioration of the quality indicators and an impact on the regulated revenue.</p> | → ■ | <ol style="list-style-type: none"> 1. Upgrading (refurbishing) the hydroelectric structures aimed at optimizing the utilization of the water resources. 2. Preparing of the plans of overhauls, inspections and maintenance activities with flexible provisions on deadlines for completing the works. 3. Continuous monitoring of the wind conditions and icing on the wind farms' blades. 4. Continuous technical oversight over the operation of the individual wind farms, conducted by the companies operating the farms. 5. Monitoring and analyzing new technological solutions that reduce the impact of the adverse weather conditions on the volume of the electricity generated. 6. Gradual adaptation of the production assets to the consequences of the extreme weather conditions and the variability of the weather conditions, in particular in the Lines of Business sensitive to these factors. |

| Risk name | Risk description | Risk trend and materiality | Reaction to risk |
|---|--|----------------------------|--|
| 14. Company asset failure risk | Risk related to the machinery and equipment failures, distribution grid failures (electricity, heat) caused, among others, by the operation thereof, but also by random events including those related to the extreme weather conditions (storms, floods, hurricane winds, heat waves, fires) as a consequence of, among others, the climate change. The materialization of the risk affects the availability of the assets and results in downtime related to the asset failures, increased costs of the rectification thereof. In addition, it may also be a failure to meet the capacity obligation, resulting in the need to conclude transactions on the secondary market or the payment of the financial penalties to the TSO (PSE). | → ■ | <ol style="list-style-type: none"> 1. Optimizing capital expenditures on asset replacements, ongoing monitoring of the condition of the machines, devices and installations. 2. Raising professional qualifications and work culture of the personnel by organizing courses and training. 3. Responding to an emergency situation by the technical personnel and automatic process safety interlocks (safeguards). 4. Insuring assets against fortuitous events (excluding underground assets). 5. Introducing IT tools with respect to improving the monitoring and managing failure indicators (ratios). 6. Continuous monitoring of the availability (dispatchability) of the generation units and the demand reduction, as well as shifting the capacity obligations that require reserving to the dedicated intra-group reserve units or external entities. 7. Updating the activities related to the handling of the group reserve, with particular emphasis on the analyses of the functioning of the secondary market starting from January 2021. 8. Updating TAURON Capital Group's maintenance (overhaul) shutdowns (outages). 9. Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Distribution Line of Business. |
| 15. IT risk | Risks related to the IT infrastructure security, failures of the IT infrastructure. | → ■ | <ol style="list-style-type: none"> 1. Developing and maintaining plans aimed at ensuring continuity of the IT infrastructure's operation. 2. Periodic identifying and categorizing of the IT resources based on the service restoration targets. 3. Use of the IT solutions with the appropriate technical parameters, providing an acceptable level of reliability and performance of the operation (including also UPS devices, GSM modem, mobile phones). 4. Planning and conducting training courses on the IT infrastructure's continuity of operation and security. 5. Storing and protecting the back-up data. |
| 16. Asset (property) security and protection risk | Risk related to compromising the integrity of machines / devices and to the security of information, including its improper processing and unauthorized disclosure. | → ■ | <ol style="list-style-type: none"> 1. Monitoring the implementation of the developed plans to protect the facilities that are subject to mandatory protection. 2. Maintaining and updating contingency procedures / plans. 3. Oversight over compliance with the information security rules in force. 4. Regular personnel training with respect to the security procedures in force. |
| 17. Geological risk | Risk related to the impact of geological factors on the mining operations | → ■ | <ol style="list-style-type: none"> 1. Making test drillings for the better intelligence on the positioning of the coal deposits. 2. Continuing to take preventive measures in areas under threat in order to improve the geological and mining conditions and to provide protection against natural threats (including, among others, long-drilled blasting hole shooting in order to break the rock mass) |
| Workforce and organizational culture | | | |
| 18. Social dispute risk | Risk related to collective disputes, strikes, social conflicts being the consequence of a lack of the personnel's satisfaction with the economic and social situation. | → ■ | <ol style="list-style-type: none"> 1. Conducting public consultations regarding the planned changes. 2. Conducting a policy of dialogue with the social partners (workforce). 3. Preparing and implementing motivational solutions for the personnel. 4. Standardizing the tasks and requirements towards the personnel. 5. Developing organizational culture based on values. 6. Conducting active internal communications on personnel matters |
| 19. Human resources risk | Risk related to the employee issues, including also diversity, participation, employment and labor conditions, relations with the trade unions and respect for the right to freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to the climate change, forcing a change in the profile of the business operations. The materialization of the risk may result in interruptions or disruptions to the operations, employee complaints, collective disputes, strikes, loss of | → ■ | <ol style="list-style-type: none"> 1. Adoption and implementation of <i>TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy</i>. Adoption and implementation of <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>. 2. Taking care of developing personnel competences through the participation in the training courses 3. Conducting consultations with the social organizations at TAURON Capital Group 4. Implementation of the human resources policy based on <i>TAURON Group's Competence Model</i> and the applicable remuneration and labor law regulations (Compensation Regulations, Company Collective Bargaining Agreement, Labor Regulations). 5. Adoption and implementation of <i>TAURON Group's Diversity Policy</i> and <i>TAURON Group's Respect for Human Rights Policy</i>. |

| Risk name | Risk description | Risk trend and materiality | Reaction to risk |
|--|--|----------------------------|--|
| | specialized staff and difficulties in recreating it. | | |
| 20. Risk of the lack of the employees' due diligence | Risk related to non-compliance with the procedures and the lack of the employees' due diligence in the performance of the official duties. | → ■ | <ol style="list-style-type: none"> 1. Implementation of <i>TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy</i>, 2. Systematic periodic employee training, 3. Analysis of the recurring cases of errors and mistakes of the employees, taking systemic remedial actions. 4. Implementation of the Internal Control (Audit) System and the control (audit) mechanisms for the processes conducted in TAURON Capital Group. |
| 21. Pandemic risk | Risks related to the persistence of the pandemic disrupting Poland's economic system and administration and causing significant changes in the market environment, impacting the operating conditions of TAURON Capital Group's subsidiaries. The increase in the number of infection cases leads to the curtailment of the economic activity, affecting the level of demand for the products offered by TAURON Capital Group's subsidiaries, including, in particular, the electricity distribution and supply volumes. | ↗ ■ | <ol style="list-style-type: none"> 1. Monitoring the state (condition) of the epidemiological threat (risk) at TAURON Capital Group. 2. Collecting information on the threats and identification of the potential threats to the safety of the workforce of TAURON Capital Group's subsidiaries. 3. Developing and recommending solutions aimed at reducing the level of threat to the resources of TAURON Capital Group. 4. Ongoing monitoring of the risk related to the availability of the employees and services provided by TAURON Capital Group's subsidiaries. 5. Recommending solutions aimed at curbing the effects of the materialization of the threat to the resources of TAURON Capital Group. 6. Preparing and providing opinions (feedback) on the content of the messages to be disseminated at the level of TAURON Capital Group and the Company. 7. Use of the screening tests. 8. Preparing of the contingency plans in the event of the loss of key employees of TAURON Capital Group. 9. Developing backup business continuity plans. 10. Undertaking trading activities in order to balance the buy position on an ongoing basis in relation to the observed drops in the volume of electricity sales. 11. Taking advantage of market opportunities to hedge the position in the Generation Line of Business (buy-backs). 12. Taking advantage of the anti-crisis shield mechanisms.. 13. Increasing the frequency of monitoring the overdue accounts receivable. 14. Introducing additional guidelines with respect to taking credit risk and extending the scope of the customer financial condition examination (vetting). 15. Introduction of a mechanism for monitoring and curbing spending. |
| 22. Work Health and Safety (WHS) Risk | Risk related to ensuring health and safety at work. The materialization of the risk results in an employee injury, a loss of health or excessive exposure of an employee to factors harmful to health, the compensation paid out for personal injury. | → ■ | <ol style="list-style-type: none"> 1. Prioritizing safety of the employees, customers, contractors and stakeholders in the business activities undertaken 2. Adoption and implementation of <i>TAURON Group's WHS Policy</i>, 3. Ensuring optimal labor conditions, 4. Conducting active monitoring of the working conditions and the correctness of its organization, 5. Raising the employees' qualifications with respect to improving work safety, 6. Conducting training courses, implementing and improving the WHS management system |
| 23. Communications risk | Risk related to providing inaccurate, untrue information or a lack of information disclosure at specific time. | → ■ | <ol style="list-style-type: none"> 1. Building relationships with the social partners (workforce) of TAURON Capital Group and close cooperation with the Social Dialogue Ombudsman. 2. Use and development of the available communications tools to provide relevant information to the employees of TAURON Capital Group. 3. When providing the relevant information – organizing the direct meetings between the management and the employees. 4. Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social anxiety. 5. Regular periodic meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange information. 6. Developing the Communications Strategy for TAURON Capital Group |
| Compliance | | | |
| 24. Internal fraud risk | Risk related to the appropriation or use of the Company's assets, its devastation, theft, the use of the official position for personal gain resulting in the financial losses, criminal and administrative sanctions, criminal and civil law liability. | → ■ | <ol style="list-style-type: none"> 1. Educational and training activities for the employees, including the mandatory e-learning training with respect to the TAURON Group's Compliance Management System. 2. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 3. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators. |

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

| Risk name | Risk description | Risk trend and materiality | Reaction to risk |
|--|---|----------------------------|---|
| | | | <ol style="list-style-type: none"> Raising the level of awareness of the workforce with respect to personal data protection, in accordance with the applicable regulations. Defining and implementing the process of handling the data subjects' requests in accordance with the regulations and process documentation in force at TAURON Capital Group. Providing information and advice on personal data protection to the employees of the organization. |
| Customers and counterparties (business partners, contractors) | | | |
| 30. | Customer service risk Risk related to non-compliance with the customer service standards leading to customer dissatisfaction with the service, customer complaints, loss of customers. | → ■ | <ol style="list-style-type: none"> Monitoring and analyzing the external customer satisfaction indicators and the indicators related to the complaints. Taking the additional measures, e.g. with respect to the internal regulations, defining standards of conduct as a result of the analysis of indicators. Taking the additional measures, e.g. introducing new internal regulations, in order to improve the customer service standards. Developing the key account managers' competences and skills. Continuous raising of the customer service standards. |
| 31. | Risk related to performance of agreements by contractors and subcontractors Risk related to the improper performance by the contractors and subcontractors of the works commissioned, the termination of the agreement and delays, changes to the budget and scope related thereto. | → ■ | <ol style="list-style-type: none"> Concluding of the agreements with the contractors and subcontractors in accordance with TAURON Capital Group's standards. Analyzing the performance of the subject of the agreement, examining the quality of services provided by the contractors and subcontractors. Evaluating the financial standing and credibility of the contractors and the subcontractors. |
| 32. | Volume and margin risk Risk related to the decline in the volume of the sales of the products offered by TAURON Capital Group's subsidiaries, in particular as a result of the development of the energy efficiency solutions, building insulation, prosumer development (growth), the impact of the climate factors causing a significant temperature deviation from the planned values. The implications of the risk include, first of all, the loss of revenue in the individual operating segments of TAURON Capital Group due to the reduced demand. | ↗ ■ | <ol style="list-style-type: none"> Ongoing updating of the offering, launching of the sales of the multi-package type products. Conducting the marketing campaigns, acquiring new customers. Taking actions focused on retaining the existing customers and recovering the lost ones. |
| 33. | Purchasing process risk Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, including the methods used to prevent violations of the human rights by the business partners, counteracting corruption and abuse (fraud) in the purchasing process and compliance with the ethical and moral standards during the implementation thereof. The materialization of the risk results in unfavorable purchase agreements, the need to cancel the tender procedures, a loss of the image of TAURON Capital Group and its credibility with the stakeholders. | → ■ | <ol style="list-style-type: none"> Adoption and implementation of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's subsidiaries</i>. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>. Adoption and implementation of <i>TAURON Group's Respect for Human Rights Policy</i>. Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof. Building lasting relationships with the contractors (counterparties) based on trust and mutual respect. Expecting the contractors (counterparties) to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of countering discrimination and unequal treatment, respect for human rights and dignity of the employees, transparent personnel policy, environment protection, fair competition, preventing and combating fraud, and information security and protection. Application of the contract forms (templates) and standard clauses in the contracts regarding compliance with the human rights by the business partners of TAURON Capital Group. |
| Regulations | | | |
| 34. | Regulatory risk Risk related to the change of the existing regulations or the introduction of the new regulations that affect the operations of TAURON Capital Group and the need to adapt to the regulatory changes, in particular those resulting from a significant increase in the requirements of a specific regulation, including the environmental requirements stemming from the climate change, the support for the pro-climate activities (prosumer development, thermal insulation, development of in-house production | ↗ ■ | <ol style="list-style-type: none"> Ongoing analysis of the draft regulations and acts. Active participation in the works of the teams providing opinions on the drafts and proposing optimal solutions. Gradual adaptation of the generation assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as to the zero and low-emission electricity generation technologies. |

| Risk name | Risk description | Risk trend and materiality | Reaction to risk |
|-----------|--|----------------------------|------------------|
| | sources). The implications of the risk are primarily: the loss of revenues in the individual operating segments of TAURON Capital Group, the increase in the operating expenses as a result of the need to adapt to the legislative changes. | | |

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

3.5. Risk classification in the individual operating Segments

Mining Segment

The Mining segment, in particular with respect to the hard coal mining, is exposed to a number of risk factors, the materialization of which significantly hinders or completely reduces the mining capacity at the individual coal mines. The most material operational risks include:

1. risk of adverse geological and mining conditions characterized by, e.g. unfavorable positioning of the coal deposits in the coal seam, faults, or excessive presence of the rocks (stone),,
2. risk of the lack of the timely commissioning of the coal faces involving the lack of the preparation of the mining fronts (headings) adequately in advance,
3. risk of asset failures leading to the coal mining downtime, due to the occurrence of the machinery and equipment failures,
4. risk of the occurrence of natural geological and mining threats leading to the coal mining downtime, caused by the rock bursts, endogenous fires, presence of methane in the deposit, too much water inflow.

The material risks in the Mining Segment also include threats stemming from the regulatory environment, including the gradual introduction of the new environmental requirements tightening the emission standards for the coal fired power plants, which will result in a decline of the demand for coal with low quality parameters.

The Mining Segment will also be materially affected by the climate policy that assumes a departure from the coal based generation technology in order to reduce pollution and achieve climate neutrality in the EU in the long term, which will, in effect, lead to the need to gradually phase out coal production. The level of demand for hard coal is also impacted by the issues related to the volume of electricity imported to Poland, observed in recent years, as well as the situation associated with the COVID-19 pandemic and the decrease in demand in the Polish Power System (KSE). In addition, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investment projects in the Mining Segment.

Generation Segment

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

As part of the market risk, the material risk factors include: the gradually declining CDS margin and the plans to integrate the European electricity market (increase in the electricity imports). In addition, the development of renewable energy technologies and the ever growing share of RES in meeting the demand for electricity have a material impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market. Also, the electricity imports and the introduction of the new coal fired capacity into the system, with the efficiency much higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be declining. A decrease in electricity demand is also observed in 2020, as a result of the epidemic in Poland. The above factors, in turn, lead to the decrease in demand for hard coal, resulting in a reduction in its purchases from the external suppliers.

With respect to the operational factors, the most material threat is the risk of not achieving the planned availability (dispatchability) rate of the units, which is closely related to the individual units' failure rate, high variability of the units' loads and the higher frequency of start-ups or the use of inadequate quality fuel.

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

The Generation Segment's operations are also materially impacted by the climate factors, including the EU's climate policy, that assumes the ultimate departure from the coal fired generation technology in order to reduce pollution, which, as a consequence, will cause a drop in the profitability of this operating segment. In addition, the climate factors will lead to an increase of the average temperature during the year, causing, in turn, the reduction of the revenue from the heat supply. Furthermore, the withdrawal of the financial institutions from financing of the assets

based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investments in the Generation Segment.

Currently the material risk factors include planned refurbishments of the units, with the goal to adapt the units to the new environmental requirements defined in the *BAT Conclusions*. The implementation of the refurbishments on the existing facilities leads to the rise of the project and organizational risks related to, among others, the potential increase of the costs of the refurbishments or the reduction of the units' availability (dispatchability) rates.

In the long term, the regulatory risks, including the further tightening of the environmental requirements, will lead to the need to carry out the transition of the Generation Segment, both in terms of the technical, as well as the social aspects.

RES Segment

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

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

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

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

Distribution Segment

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

An equally material risk is associated with the occurrence of an unfavorable deviation of the operating expenses resulting in the costs of the operations, and in particular the operating expenses and the costs of purchasing electricity to cover the balancing difference, not being covered by the tariff during the tariff period.

With respect to the operational factors, a material risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs of fixing the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings causing failures of the distribution grids.

In the medium and long term, the material risks for the Distribution Segment include the risk of an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the amount of the capital expenditures, the balancing difference indicators and the amount of the transmission fees), the issues related to the compliance with the distribution's quality indicators that have an impact on the regulated revenue and the planned change to the distribution tariff model.

Supply Segment

In the Supply Segment, TAURON Capital Group identifies and manages the risks related to the supply of electricity to the final consumers, including the key customers (volume risk per individual customer segment, margin risk, profile risk and the risk of non-balancing).

A material threat to the accomplishment of the Supply Segment's assumed goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the macroeconomic factors, i.e. a drop of the demand for electricity caused by the economic slowdown, the restrictions due to COVID-19 and the volatility of the electricity prices. In addition, this risk

is fueled by the increased customer awareness, the trend to strengthen consumer protection and the regulatory pressure to reduce the price hikes.

At the same time, the Supply Segment is facing the market risk due to the high volatility of the electricity, gas and related products prices. Such risk, as a consequence of the price fluctuations, as well as the observed liquidity of the electricity market, affects the margin obtained due to the steps required to hedge the cost of the electricity supply.

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

The most important regulatory risks in the Supply Segment include the tariff risk, in particular related to the curbing of the Company's costs by the President of the Energy Regulatory Office to the level of the justified costs and the costs actually incurred not being covered by the tariff for the given year. The consequences of the materialization of such risk include the curtailment of the planned revenue, profitability and funds for the development of the company's potential. A material regulatory risk is also posed by the introduced and announced changes in the functioning of the balancing market, which may affect the costs of balancing changes in the supply volume to the customers of the Supply Segment's customers.

In the long run, the climate factors, and in particular the rapid expansion of the prosumer energy, pose a threat to the stability (predictability) of achieving the Supply Segment's goals. The risk of the prosumer market growth is associated with an increase in the electricity production from the micro-installations, resulting in an increase of the costs of serving the prosumers, as well as a loss of the supply volume and the planned margin on electricity supply.

Other operations

Other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other operations segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, personal data protection, as well as security and protection of property.

At TAURON Capital Group's level, the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing resulting from the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, the risks associated with the human resources management and the workforce expectations with respect to the growth of wages, as well as the pending court litigations against TAURON.

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

Risk category map

The below table presents the classification of risks based on TAURON Capital Group's operating segments. The risk categories indicated below are consistent with the Risk Model adopted by TAURON Capital Group described in section 3.2. of this report.

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

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

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

*values signifying the impact of the individual risks on TAURON Capital Group's operating segments: 0 - neutral, 1 – immaterial on the Company's level, 2 - material on the Company's level, 3 - serious on the Company's level, 4 – material on TAURON Capital Group's level, 5 – serious on TAURON Capital Group's level

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

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

Statement of comprehensive income

The below table presents the annual standalone statement of comprehensive income in 2019-2020, drawn up in accordance with the IFRS.

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

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

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

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

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

Revenue

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

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

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

Revenue from the sales of goods and materials represents 87% of the total revenue, while financial revenue represents 12%, which is a consequence of the implemented Business Model and centralizing of the functions by TAURON.

The goal of the adopted solution is to hedge the buy and sell positions of TAURON Capital Group's entities, to perform the function of the Market Operator and the entity responsible for the trading balancing of TAURON Capital Group's subsidiaries and to optimally manage, among others, the property rights and the CO₂ emission allowances.

A relatively large share of revenue from bonds and loans interest is a consequence of the implemented central financing model and *TAURON Group's Liquidity Management Policy*, along with the *cash pool* mechanism put in place at TAURON Capital Group, which allows for efficient management of the finances of all of TAURON Capital Group's subsidiaries.

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

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

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

Costs

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

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

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

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

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

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

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

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

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

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

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

Company's assets and financial position

The below table presents the Company's annual standalone statement of financial position, drawn up in accordance with the IFRS.

Table no. 32. Company's annual standalone statement of financial position, drawn up in accordance with the IFRS (material items)

| Statement of financial position drawn up in accordance with the IFRS (PLN '000) | As of December 31, 2019 | As of December 31, 2020 | Change in % (2020 / 2019) |
|---|-------------------------|-------------------------|---------------------------|
| ASSETS | | | |
| Fixed assets | 27 010 590 | 24 498 483 | 91% |
| Stocks and shares | 21 844 183 | 20 152 633 | 92% |
| Bonds and loans granted | 5 047 552 | 4 233 601 | 84% |
| Current assets | 3 474 539 | 4 209 659 | 121% |
| Inventory | 149 364 | 394 031 | 264% |
| Accounts receivable due to deliveries and services | 1 727 952 | 1 383 873 | 80% |
| Bonds and loans granted | 265 202 | 1 147 350 | 433% |
| Cash and equivalents | 923 728 | 643 134 | 70% |
| TOTAL ASSETS | 30 485 129 | 28 708 142 | 94% |
| EQUITY AND LIABILITIES | | | |
| Equity | 14 808 177 | 11 123 155 | 75% |
| Long term liabilities | 10 947 500 | 13 074 803 | 119% |
| Liabilities due to debt | 10 909 597 | 12 117 294 | 111% |
| Short term liabilities | 10 947 500 | 13 074 803 | 119% |
| Liabilities due to debt | 3 607 266 | 2 772 339 | 77% |
| Liabilities towards suppliers and other liabilities | 697 230 | 997 195 | 143% |
| TOTAL EQUITY AND LIABILITIES | 30 485 129 | 28 708 142 | 94% |

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

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

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

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

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

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

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

3. loans obtained from BGK in the amount of PLN 998.2 million,
4. loans from related entities drawn under the *Agreement on the provision of the cash pool service* in the amount of PLN 1 386.4 million,
5. loans obtained from the European Investment Bank (EIB) in the amount of PLN 540.3 million (along with the interest),
6. loans obtained from Intensa Sanpaolo S.p.A. in the amount of PLN 752.1 million (along with the interest),
7. loans obtained from SMBC Bank EU AG in the amount of PLN 498.9 million (along with the interest),
8. loan from a subsidiary in the amount of PLN 770.5 million,

In addition, pursuant to *IFRS 16 Leases*, the Company's liabilities due to debt also include a lease liability in the amount of PLN 30.7 million, related to the right of perpetual usufruct of land, leases of office premises and storage space, parking spaces and cars.

Statement of cash flows

The table below presents the statement of cash flows drawn up in accordance with the IFRS.

Table no. 33. Statement of cash flows drawn up in accordance with the IFRS (material items)

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

The balance of cash received from the operating, investing and financing activities of the Company for 2020, taking into account the opening cash balance, stood at PLN (742.9) million. In addition, the closing cash balance presented in the Company's balance sheet as of the end of the period in the amount of PLN 643.1 million stems from the adjustment of cash by the balance of loans granted and drawn under the *cash pool* transactions, due to the fact that they do not constitute cash flows from the investing or financing activities, as they are used mainly for the current liquidity management.

4.2. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON for 2020. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

4.3. Key financial ratios and the Alternative Performance Measures

The below table presents key financial ratios of TAURON, which may constitute an important source of information for investors about the financial and operational standing of the Company. The Alternative Performance Measures below as defined by the ESMA Guidelines on Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding the Company's financial results. They constitute standard metrics commonly used in financial analysis, the usefulness of which has been analyzed in terms of the information provided to investors on the financial standing, financial efficiency and cash flows of the Company.

Table no. 34. Key financial ratios of TAURON

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

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

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

The amount of the operating profit is typical for a company conducting operations involving managing a holding entity (costs related to managing TAURON Capital Group are included in the operating activities while revenues gained from dividends are recognized under the financial activities).

The Company's ability to pay its accounts payable was not in jeopardy in 2020.

4.4. Principles of preparing annual financial statements

The Financial Statements of TAURON have been drawn up in accordance with the IFRS approved by the EU.

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

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

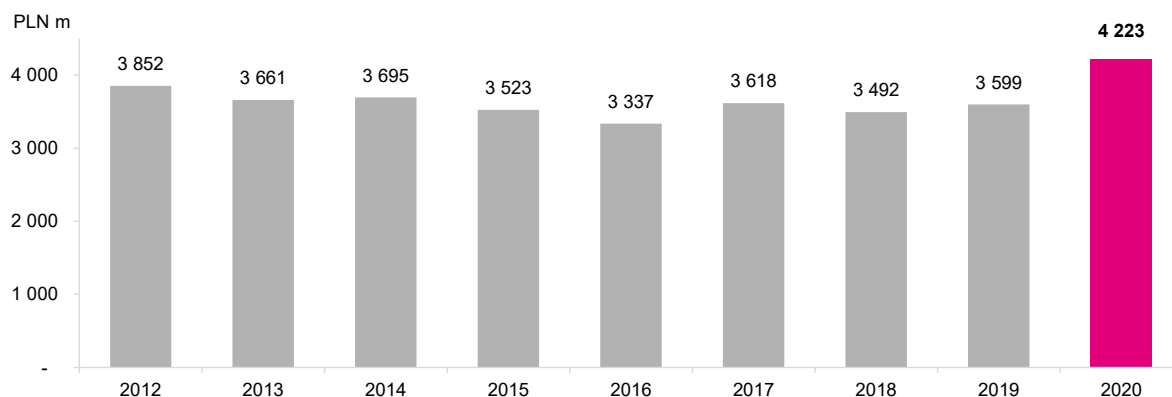
The accounting principles (policy) adopted for drawing up of the Financial Statements of TAURON are presented in note 6 to the *Financial Statements of TAURON*.

5. ANALYSIS OF TAURON CAPITAL GROUP'S FINANCIAL RESULTS

5.1. TAURON Capital Group's financial results

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

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



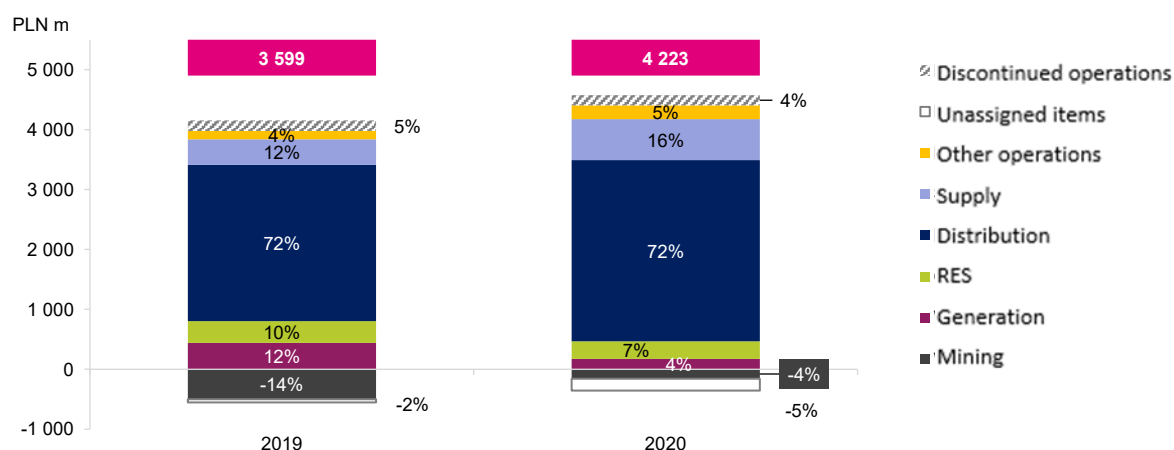
The below table presents TAURON Capital Group's 2019-2020 EBITDA broken down into individual lines of business (segments). Data for the individual segments do not include the consolidation exclusions.

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

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

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

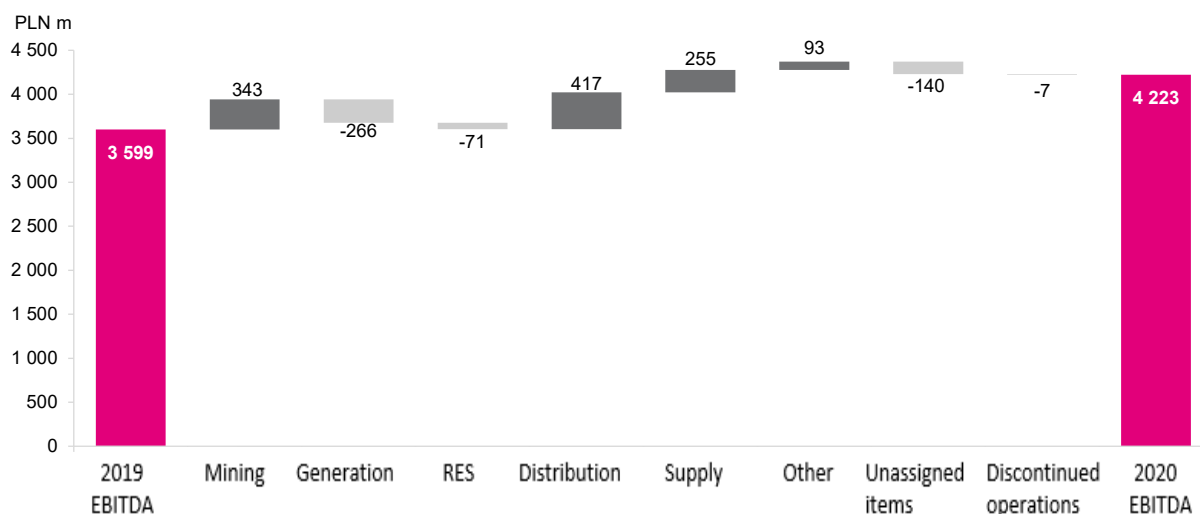
Figure no. 48. TAURON Capital Group's 2019-2020 EBITDA structure (composition)



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

The below figure presents the change in TAURON Capital Group's EBITDA in 2019-2020.

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



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

Mining Segment

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

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

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

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

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

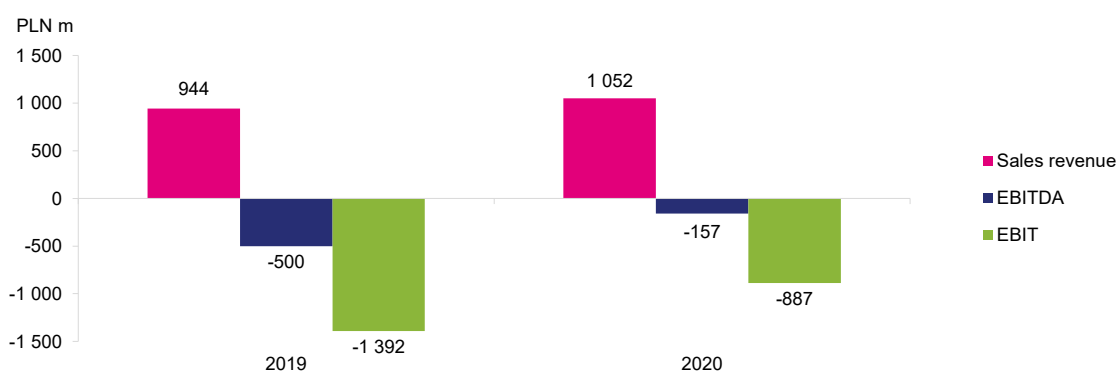
1. an increase of the sales volumes of the large and medium size grain products by 8% and of the thermal coal by 10%,
2. an increase of average coal price by 7%, i.e. from 237,25 PLN/Mg to 247.60 PLN/Mg, which was mainly due to an increase of the price of the coal dust (fine grained product) from 221.35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

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

TAURON Capital Group recognized, in the 2020 results, the booking of the impairment charges related to the loss of the carrying amount on the balance sheet of the Mining Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 560 million in 2020, which is a lower figure than the amount recorded in the same period of last year, i.e. PLN 694 million.

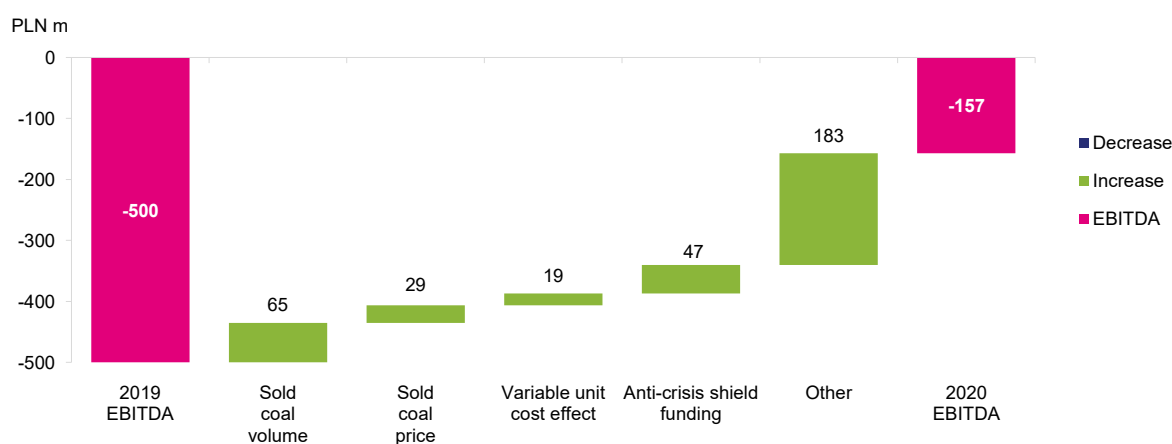
The below figure presents the Mining Segment's 2019-2020 financial data.

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



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

Figure no. 51. Mining Segment's EBITDA



Major investments (CAPEX)

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

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

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

Generation Segment

The below table presents the Generation Segment's 2019–2020 results.

Table no. 37. Generation Segment's 2019–2020 results

| Item (PLN '000) | 2019 | 2020 | Change in % (2020 / 2019) | Change (2020 - 2019) |
|--|------------------|--------------------|------------------------------|-------------------------|
| Sales revenue | 3 428 637 | 3 493 387 | 102% | 64 750 |
| electricity | 3 212 208 | 3 202 512 | 100% | (9 696) |
| heat | 114 636 | 148 246 | 129% | 33 610 |
| property rights related to certificates of electricity origin | 52 196 | 91 538 | 175% | 39 342 |
| other revenue | 49 597 | 51 092 | 103% | 1 495 |
| EBIT | (509 635) | (2 712 856) | - | (2 203 221) |
| Depreciation and write-downs | 947 749 | 2 885 001 | 304% | 1 937 252 |
| EBITDA | 438 114 | 172 145 | 39% | (265 969) |

The Generation Segment's sales revenue was higher by 2% in 2020, as compared to the same period of 2019, primarily due to the higher heat and RES property rights sales revenue (higher sales volume).

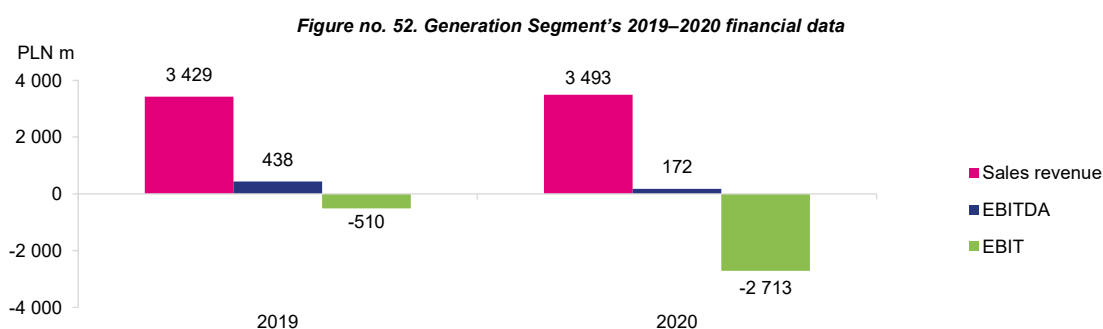
Generation Segment's 2020 EBITDA and EBIT were lower than the 2019 results. The following factors had an impact on the results achieved:

1. lower margin on electricity (coal fired units) - mainly due to the lower CDS year on year and the decline of the electricity sales volume. The recognition of the provision set up in connection with the obligation to present the CO₂ emission allowances for redemption (retirement) related to (including) 883 thousand Certified Emission Reduction (CER) units, had a significant impact on the CDS in 2019,
2. commissioning of the 910 MWe in Jaworzno in November 2020,
3. higher margin on electricity (biomass fired units) - due to the higher PMOZE prices, higher electricity prices as well as the higher production volume,
4. a swap of the CO₂ emission allowance purchase contracts, in the first quarter of 2020 TAURON Capital Group made a decision to change the hedging strategy related to securing the Generation Segment's retirement needs, involving a one-time swap of the exchange traded contracts with the delivery date in December 2020 to the OTC contracts with the delivery date in March 2021. All of the new transactions concluded on the OTC market will be used for the purpose of performing the retirement obligation by TAURON Capital Group's generation subsidiaries. The above transactions led to a charge to the Generation Segment's EBITDA result in the amount of PLN 111 million. At the same time, the completed purchase of the volume with the delivery date in March 2021 from the counterparties on the OTC market, taking into account the decrease of the CO₂ emission allowances prices at the time of the transaction, led to the reduction of the costs of TAURON Capital Group setting up a provision for the CO₂ emission liabilities for 2020,
5. receiving of the financing aid as part of the government anti-crisis shield package program,
6. other - mainly: the lower TAMEH result, higher property insurance costs, higher result on the sale of non-financial fixed assets and changes in the provisions year on year.

In addition, the Segment's lower EBIT was impacted by the higher impairment charges year on year.

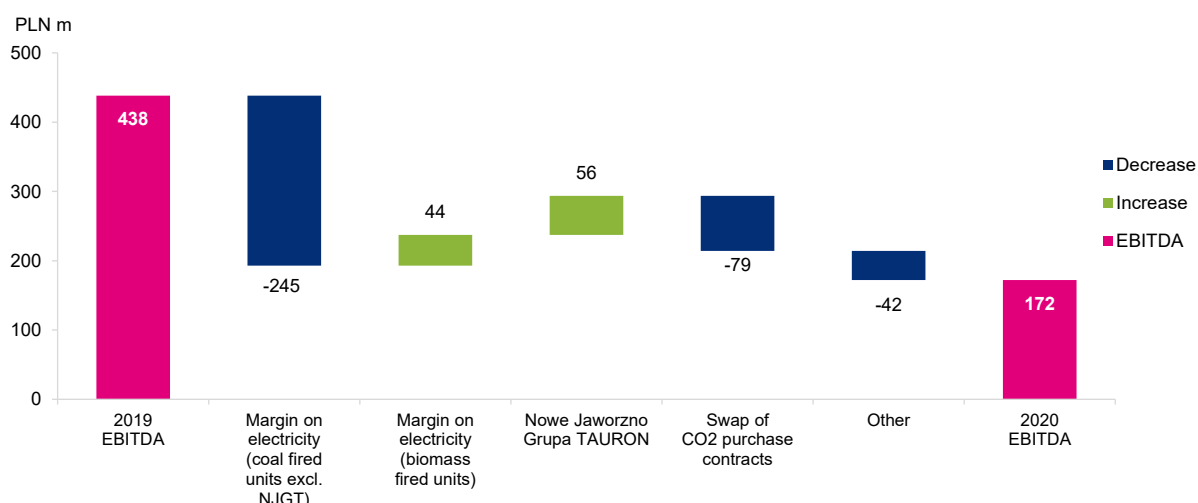
TAURON Capital Group recognized, in the 2019 and 2020 results, the booking and reversing of the impairment charges related to the loss of the carrying amount on the balance sheet of the Generation Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 635 million and PLN 2 618 million, respectively.

The below figure presents the Generation Segment's 2019–2020 financial data.



The below figure presents the Generation Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 53. Generation Segment's EBITDA



Major investments (CAPEX)

The Generation Segment's total capital expenditures came in at PLN 1 336 million in 2020, including the outlays on the following strategic investment projects:

1. PLN 688 million on the construction of the new 910 MWe unit in Jaworzno,
2. PLN 239 million on the adaptation of TAURON Wytwarzanie's generating units to the *BAT conclusions*,
3. PLN 187 million on the replacement expenditures and overhaul components at TAURON Wytwarzanie
4. PLN 18 million on the implementation of the heat unit at Łagisza Power Plant,

In addition, the financial costs account for approx. PLN 205 million of the segment's total capex.

Apart from the above capex the investment project in Stalowa Wola, with the participation of the strategic partner, PGNiG, was completed. TAURON and PGNiG hold a 50% stake each in the special purpose vehicle that implemented the project that included the construction of the 449 MWe CCGT unit, including the 240 MWt heat generation component. In January 2016, the contract with the general contractor Abener Energia S.A was terminated. In March 2017, thanks to the repayment of the institutions financing the project thus far, the signed amendments to the gas and electricity agreements as well as the agreement on the project's restructuring came into force. The agreement was reached and the decision was taken on the construction of the backup heat source. In March 2018, financing was obtained from Bank Gospodarstwa Krajowego S.A. (BGK) and PGNiG. As a result of completing a number of analyses, the contract manager formula (EPCM) was chosen. among others due to the project's advancement level. Energopomiar Gliwice - Energoprojekt Katowice consortium was selected to implement the EPCM project. The project's implementation was completed in September 2020 and since October 2020 Elektrociepłownia Stalowa Wola S.A. has been operating a CCGT unit with a heating unit and a back-up heat source. The capital expenditures incurred on the project (excluding the financial costs) amount to PLN 1.4 billion.

RES Segment

The below table presents the RES Segment's 2019–2020 results.

Table no. 38. RES Segment's 2019–2020 results

| Item (PLN '000) | 2019 | 2020 | Change in % (2020 / 2019) | Change (2020 - 2019) |
|---------------------------------------|----------------|----------------|---------------------------|----------------------|
| Sales revenue | 433 911 | 615 558 | 142% | 181 647 |
| electricity | 253 058 | 305 505 | 121% | 52 447 |
| certificates of origin of electricity | 177 906 | 309 971 | 174% | 132 064 |
| other | 2 947 | 82 | 3% | (2 865) |
| EBIT | 284 346 | 145 801 | 51% | (138 545) |
| Depreciation and write-downs | (83 867) | (151 051) | 180% | (67 184) |
| EBITDA | 368 213 | 296 852 | 81% | (71 361) |

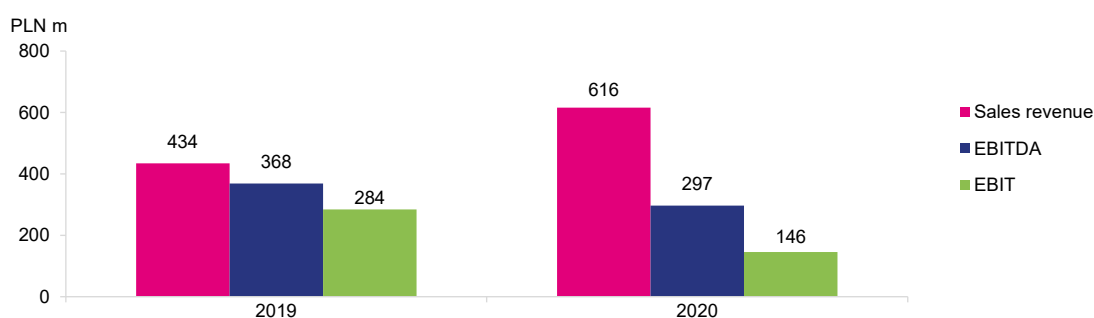
RES segment's EBITDA and EBIT were lower in 2020 than in the same period of 2019. The results posted were affected by the following factors:

1. recognition of the opportunistic acquisition of 5 wind farms from the in.ventus group in the 2020 result,
2. a higher margin on electricity sales - mainly due to the electricity production by the wind farms acquired in September 2019,
3. higher revenues from the certificates of origin of electricity, which is a consequence of the higher prices and the certificates obtained as a result of the electricity production by the wind farms acquired in September 2019,
4. higher fixed costs as a result of setting up, in June 2020, of the provision for the real estate tax as a result of the judgement of the Constitutional Tribunal of July 2020 with respect to the constitutionality of the definition of a building structure and the costs of operating the wind farms acquired in September 2019.

In addition, the depreciation costs rose in 2020 in the RES Segment, as a result of an increase in the value of assets as a result of the wind farm acquisition transaction in September 2019.

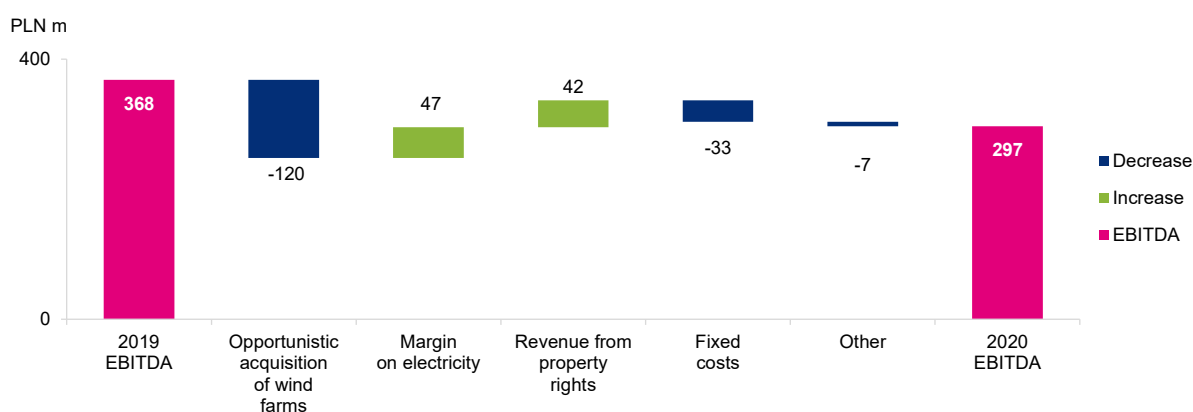
The below figure presents the RES Segment's 2019-2020 financial data.

Figure no. 54. RES Segment's 2019-2020 financial data



The below figure presents the RES Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 55. RES Segment's EBITDA



Major investments (CAPEX)

The RES Segment's total capital expenditures came in at PLN 40 million in 2020, including the outlays on the following strategic investment projects:

1. PLN 16 million on the construction of the Choszczno PV farm,
2. PLN 15 million on the construction of the Jaworzno PV farm.

Distribution Segment

The below table presents the Distribution Segment's 2019-2020 results.

Table no. 39. Distribution Segment's 2019-2020 results

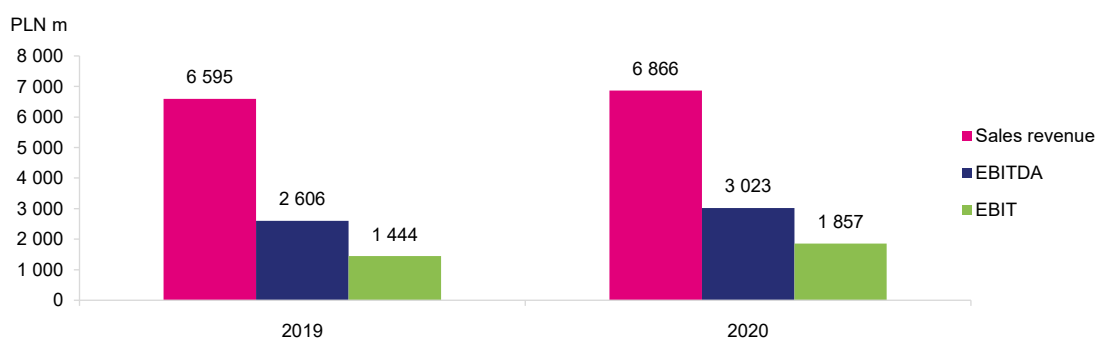
| Item (PLN '000) | 2019 | 2020 | Change in % (2020 / 2019) | Change (2020 - 2019) |
|---|------------------|------------------|------------------------------|-------------------------|
| Sales revenue | 6 594 864 | 6 866 354 | 104% | 271 490 |
| distribution and trading services | 6 299 847 | 6 577 492 | 104% | 277 645 |
| grid connection fees | 80 885 | 83 319 | 103% | 2 434 |
| Revenue due for fixing power line collisions | 45 058 | 37 446 | 83% | (7 612) |
| other revenue (rent, goods and materials, construction and assembly services) | 169 074 | 168 097 | 99% | (977) |
| EBIT | 1 443 741 | 1 857 009 | 129% | 413 268 |
| Depreciation and write-downs | 1 162 067 | 1 165 997 | 100% | 3 930 |
| EBITDA | 2 605 808 | 3 023 006 | 116% | 417 198 |

The Distribution Segment reported a 4% sales revenue increase, while EBIT and EBITDA went up by, respectively, 29% and 16% in 2020, as compared to 2019. The changes to the results posted were affected by the following factors:

1. an increase of the average rate for the distribution service sales to the final consumers,
2. a decline of the total electricity delivery by 1 464 GWh, including to the final consumers by 1 381 GWh, first of all in the B and C tariff groups, as a result of the economic slowdown and the visible impact of the COVID-19 pandemic on the economy,
3. higher costs of purchasing the transmission and distribution services,
4. an increase of the other revenue from the distribution operations, i.e. due to the passive energy off-take exceeding the contractual connection capacity (power) and the grid connection fees,
5. an increase of the costs of purchasing electricity to cover the balancing difference as a result of the higher volume, the higher purchase price,
6. dissolution, in 2020, of the provision for the payment of the equivalent for electricity,
7. a rise of the other fixed costs, including the labor costs as a result of the wages agreements signed, as well as an increase in the benefits in connection with the applicable regulations and the costs of the taxes on the grid assets due to the increase of the value of the assets as a result of the investment projects conducted.

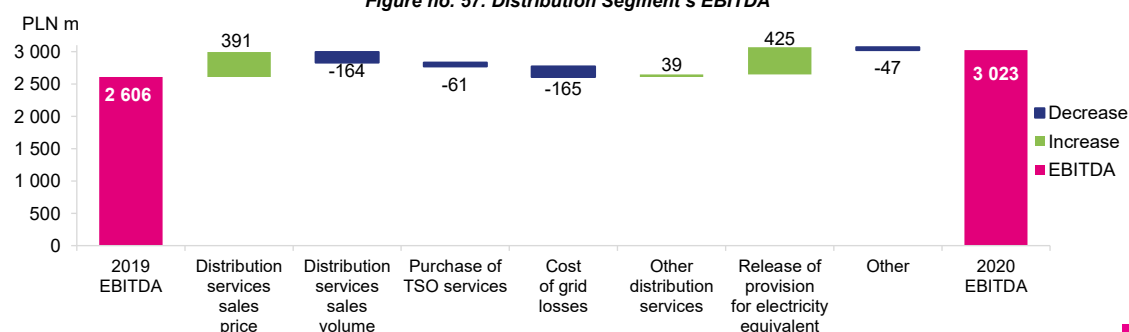
The below figure presents the Distribution Segment's 2019-2020 financial data.

Figure no. 56. Distribution Segment's 2019-2020 financial data



The below figure presents the Distribution Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 57. Distribution Segment's EBITDA



Major investments (CAPEX)

The Distribution Segment's total capital expenditures came in at PLN 1 908 million in 2020. The main capex directions included:

1. PLN 924 million on the investment projects related to connecting new consumers to the grid
2. PLN 827 million on the investment projects related to the grid upgrades (refurbishments) and replacements
3. PLN 52 million for the construction of a dispatcher communications system.

In addition, the expenditures in the total amount of approx. PLN 103 million were also incurred on: communications and IT, buildings and structures, means of transportation, in 2020.

Supply Segment

The below table presents the Supply Segment's 2019-2020 results.

Table no. 40. Supply Segment's 2019-2020 results

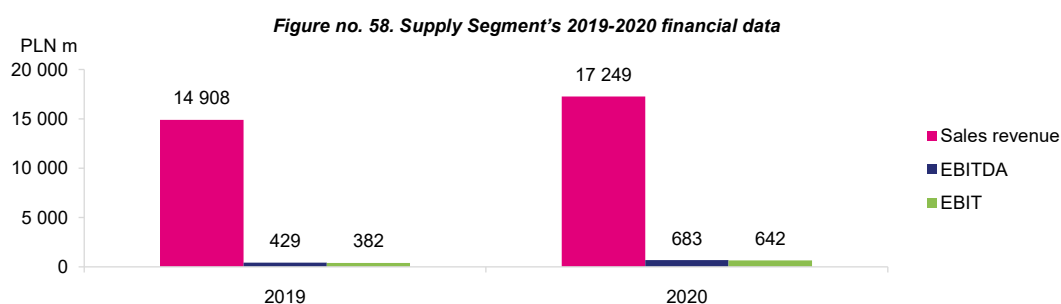
| Item (PLN '000) | 2019 | 2020 | Change in % (2020 / 2019) | Change (2020 - 2019) |
|---|-------------------|-------------------|------------------------------|-------------------------|
| Sales revenue | 14 907 937 | 17 249 258 | 116% | 2 341 321 |
| electricity, including | 9 488 091 | 11 685 519 | 123% | 2 197 428 |
| revenue from retail electricity supply | 7 479 056 | 9 575 392 | 128% | 2 096 336 |
| greenhouse gas emission allowances | 701 607 | 339 632 | 48% | (361 975) |
| fuel | 1 396 300 | 1 754 270 | 126% | 357 970 |
| distribution service (transferred) | 3 117 588 | 3 242 716 | 104% | 125 128 |
| other revenue, including trading services | 204 351 | 227 121 | 111% | 22 770 |
| Compensations | 952 650 | 66 448 | 7% | 886 202 |
| EBIT | 382 185 | 641 648 | 168% | 259 463 |
| Depreciation and write-downs | 46 392 | 41 704 | 90% | (4 688) |
| EBITDA | 428 577 | 683 352 | 159% | 254 775 |

The Supply Segment's sales revenue was 16% higher in 2020, as compared to the same period of 2019, mainly due to the higher electricity sales revenue (higher electricity sales price) and the higher fuel sales revenue (higher coal and gas fuel sales volumes).

The Supply Segment's EBITDA and EBIT were higher in 2020 than in the same period of 2019. The results posted were affected by the following factors:

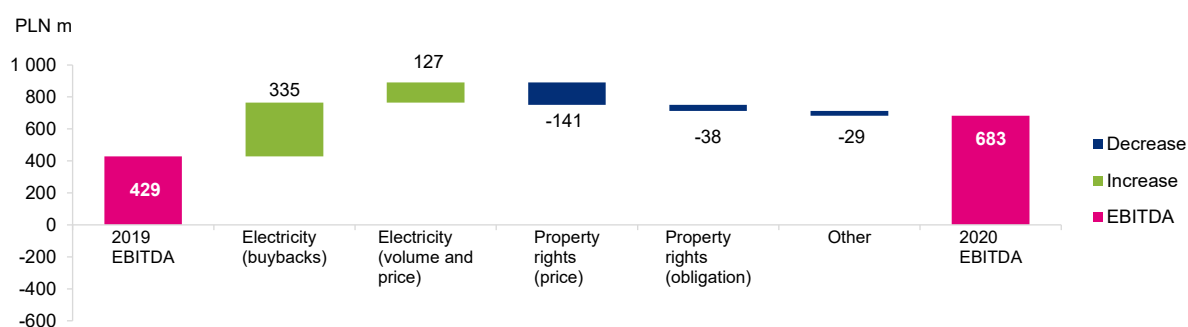
1. electricity (buybacks) – a positive impact on the result is brought about by the result generated on the electricity wholesale trading due to the performance of the buybacks of the volume contracted for the 910 MW unit in Jaworzno and the performance of the electricity buybacks for EC Stalowa Wola,
2. electricity volume and prices – a positive impact on the result is mainly due to an increase of retail electricity sales prices (an increase of the tariff and price lists) and the purchase of electricity generated by the 910 MW generating unit commissioned in Jaworzno in November 2020 in accordance with the adopted multi-year purchase agreement by TAURON at a price calculated in accordance with the net transaction margin method,
3. property rights prices – a negative impact on the result due to an increase of the prices of the *green certificates* (PMOZE),
4. obligation to retire the property rights – a negative impact on the result is a consequence of an increase of the obligation related to the *green certificates* (PMOZE) from 18.5% to 19.5%,
5. other – the recognized result on the sale of the other market (commercial) products, street lighting, the higher costs of sales and the balance of the other operations

The below figure presents the Supply Segment's 2019-2020 financial data.



The below figure presents the Supply Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 59. Supply Segment's EBITDA



Major investments (CAPEX)

The Supply Segment's total capital expenditures came in at PLN 61 million in 2020, mainly by TAURON Nowe Technologie, for the activities related to the maintenance and expansion of the street lighting in the amount of PLN 43 million and PLN 10 million for the construction of the gas engines .

Other operations

The below table presents the Other Operations Segment's 2019-2020 results.

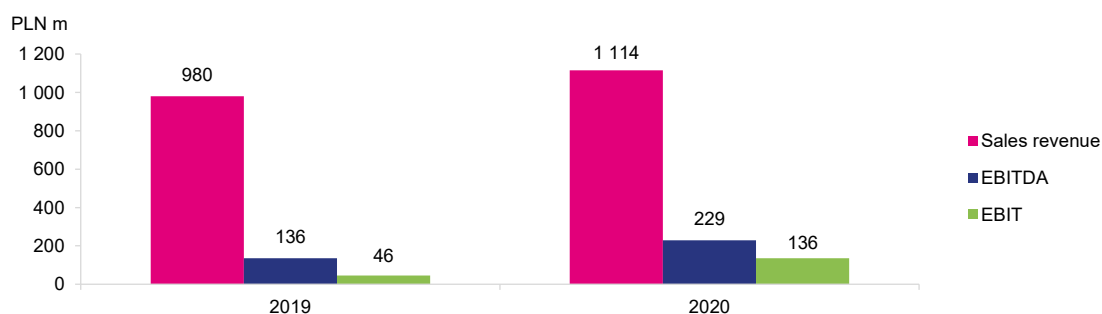
Table no. 41. Other Operations Segment's 2019-2020 results

| Item (PLN '000) | 2019 | 2020 | Change in % (2020 / 2019) | Change (2020 / 2019) |
|------------------------------|----------------|------------------|---------------------------|----------------------|
| Sales revenue | 979 911 | 1 114 493 | 114% | 134 582 |
| customer service services | 215 785 | 237 279 | 110% | 21 494 |
| support services | 481 000 | 511 646 | 106% | 30 646 |
| biomass | 118 546 | 156 472 | 132% | 37 926 |
| aggregates | 106 573 | 104 173 | 98% | -2 400 |
| other revenue | 58 007 | 104 923 | 181% | 46 916 |
| EBIT | 46 152 | 136 174 | 295% | 90 022 |
| Depreciation and write-downs | 90 034 | 93 140 | 103% | 3 106 |

The Other Operations Segment's subsidiaries revenue was 14% higher in 2020, as compared to 2019, which was primarily due to an increase of the revenue from the higher sales of biomass to TAURON Capital Group's subsidiaries and the sales of the other services, including, among others, the sales of the by-products of the combustion and extraction.

The below figure presents the Other Operations Segment subsidiaries' 2019-2020 financial data.

Figure no. 60. Other Operations Segment subsidiaries' 2019-2020 financial data



Major investments (CAPEX)

The Other Operations Segment subsidiaries' capital expenditures came in at PLN 248 million in total in 2020 and they included mainly outlays related to the IT systems, including PLN 101 million for the broadband internet construction project as part of the POPC III program.

Discontinued operations

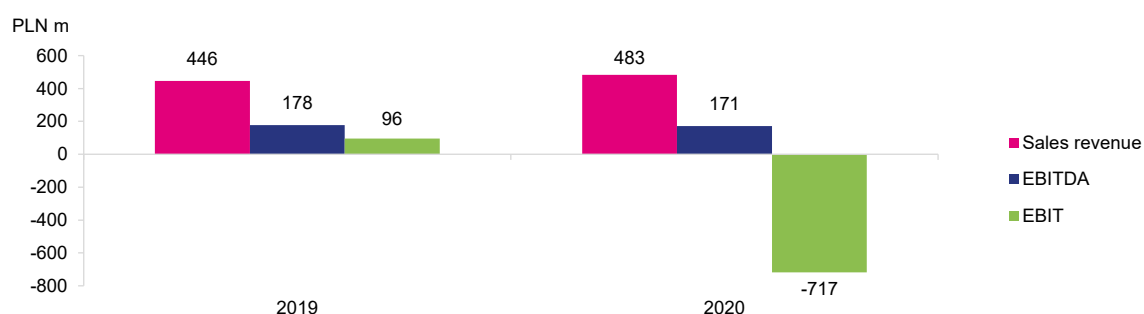
The below table presents the results posted as part of the Discontinued operations in 2019-2020.

Table no. 42. Discontinued operations' 2019-2020 results

| Item (PLN '000) | 2019 | 2020 | Change in % (2020 / 2019) | Change (2020 / 2019) |
|------------------------------|----------------|------------------|---------------------------|----------------------|
| Sales revenue | 445 957 | 482 608 | 108% | 36 652 |
| EBIT | 96 406 | (717 342) | - | (813 748) |
| Depreciation and write-downs | 81 720 | 888 461 | 1087% | 806 741 |
| EBITDA | 178 126 | 171 119 | 96% | (7 007) |

The below figure presents the Discontinued operations' 2019-2020 financial data.

Figure no. 611. Discontinued operations' 2019-2020 financial data



As of the date of placing TAURON Ciepło's net assets in the group for disposal, classified as held for sale, TAURON Capital Group performed a valuation of the group for disposal at fair value (mark to market). The fair value was, as of the balance sheet date, determined to stand at PLN 1 342 000 000. In connection with the fact that the fair value of the group for disposal is lower than its current book value (carrying amount), TAURON Capital Group took an impairment charge related to the loss of the carrying value of the non-financial fixed assets in the amount of PLN 822 009 000.

Major investments (CAPEX)

In terms of the discontinued operations, the main capital expenditures in 2020 are related to the outlays incurred by TAURON Ciepło subsidiary that clocked in at PLN 101 million, including spending on the following investment projects:

1. PLN 33 million on connecting of the new facilities to the grid,
2. PLN 16 million on the investment projects related to the development and maintenance of the district heating networks,
3. PLN 9 million on connecting of the facilities heated thus far from the low emission sources to the district heating networks.

5.3. Characteristics of the structure of assets and liabilities in the consolidated statement of financial position

The below table shows the structure of the annual consolidated statement of financial position.

Table no. 43. Structure of the annual consolidated statement of financial position

| Consolidated statement of financial position | As of December 31, 2019 | As of December 31, 2020 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Fixed assets | 83.6% | 80.5% |
| Current assets | 16.4% | 19.5% |

| Consolidated statement of financial position | As of December 31, 2019 | As of December 31, 2020 |
|--|----------------------------|----------------------------|
| TOTAL ASSETS | 100.0% | 100.0% |
| EQUITY AND LIABILITIES | | |
| Equity attributable to shareholders of the parent entity | 43.4% | 39.4% |
| Non-controlling stakes | 2.1% | 2.3% |
| Total equity | 45.5% | 41.6% |
| Long term liabilities | 35.7% | 39.8% |
| Short term liabilities | 18.8% | 18.6% |
| Total liabilities | 54.5% | 58.4% |
| TOTAL EQUITY AND LIABILITIES | 100.0% | 100.0% |
| Financial liabilities | 11 394 246 | 11 515 873 |
| Net financial liabilities | 10 129 572 | 10 594 528 |
| Net debt / EBITDA ratio | 2.8x | 2.5x |
| Current liquidity ratio | 0.87 | 1.05 |

The below figures present the structure of assets as well as equity and liabilities.

Figure no. 62. Structure of assets

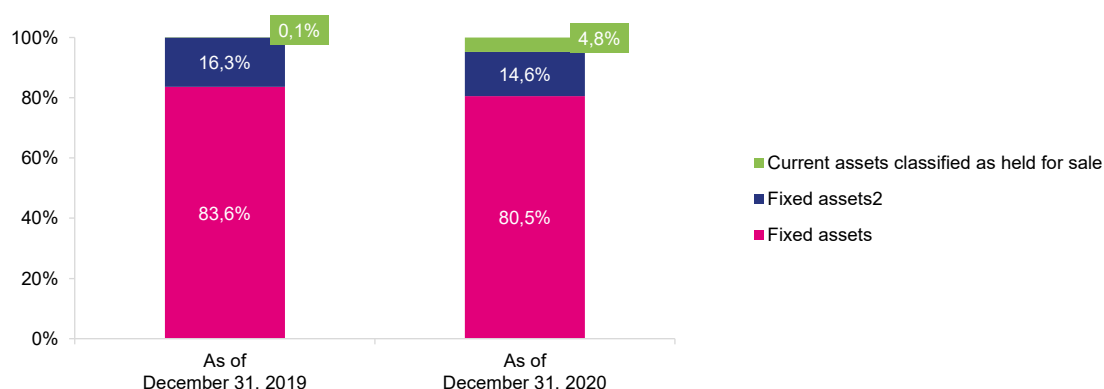
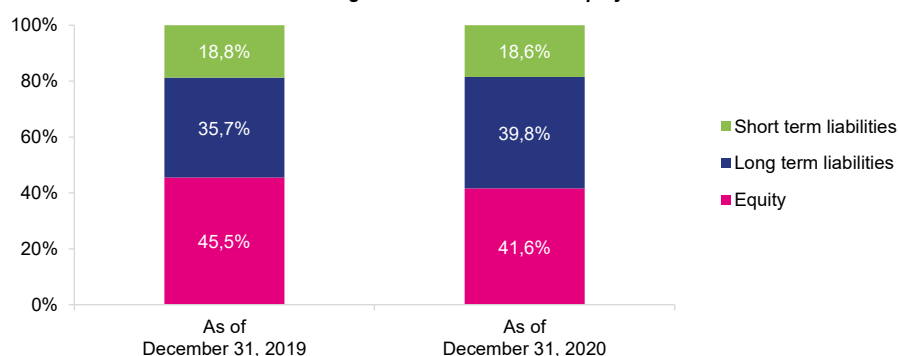


Figure no. 63. Structure of equity and liabilities



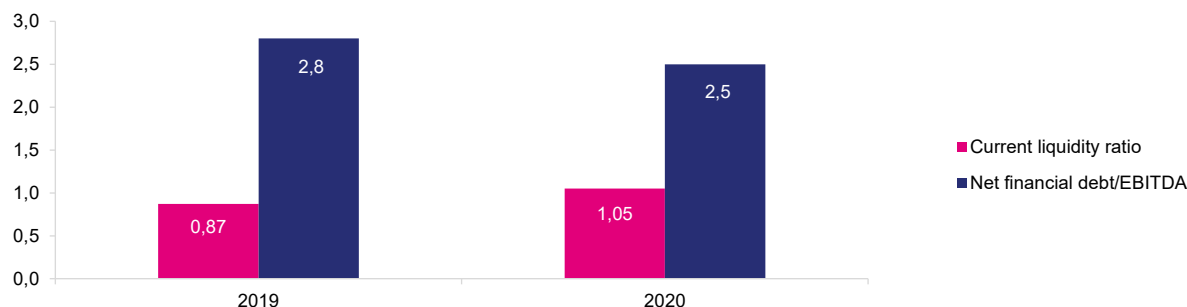
As of December 31, 2020, similar as in 2019, the value of the fixed assets constitutes the largest share in the structure of assets: 80.5%, which is less by 3.1 pp than in 2019.

As of December 31, 2020, the liabilities represent the largest share in the structure of equity and liabilities: 54.5%, with their share rising by 3.9 pp, as compared to 2019.

The level of debt of TAURON Capital Group remains at a safe level, which is indicated by the value of the leverage ratio which is below the value agreed upon with the institutions financing TAURON Group's operations. The current liquidity ratio and the net debt to EBITDA ratio remain at a safe level.

The below figure presents the current liquidity ratio and the net debt to EBITDA ratio in 2019-2020.

Figure no. 64. Current liquidity ratio and the net debt to EBITDA ratio in 2019-2020



The below table presents the annual consolidated statement of financial position – **assets**.

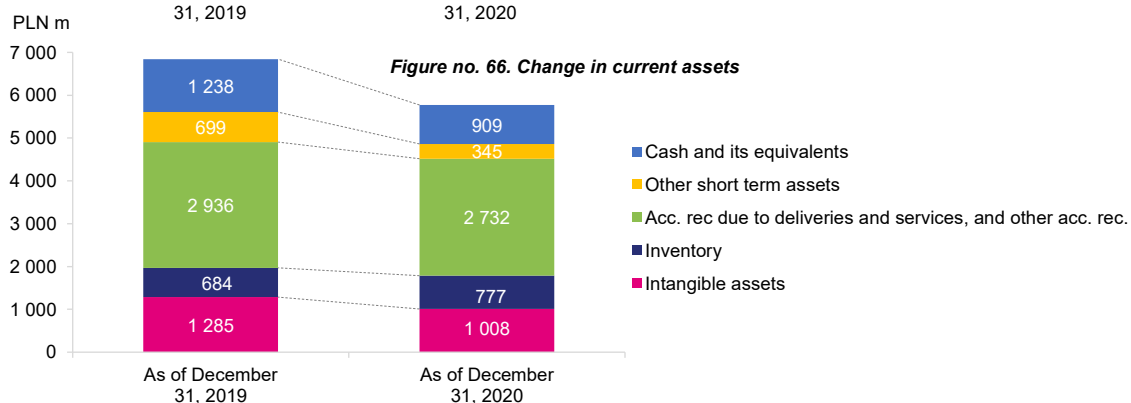
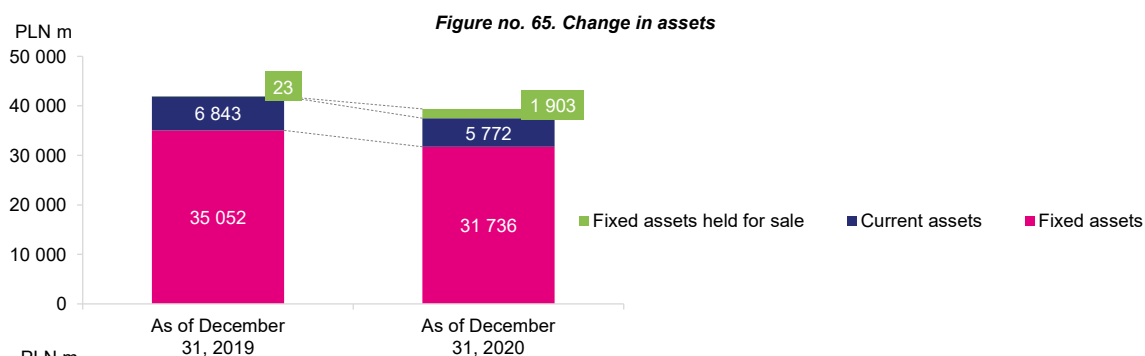
Table no. 44. Annual consolidated statement of financial position - assets (material items)*

| Statement of financial position (PLN '000) | As of December 31, 2019 | As of December 31, 2020 | Change in % (2019 / 2018) |
|--|-------------------------|-------------------------|---------------------------|
| ASSETS | | | |
| Fixed assets | 35 052 287 | 31 736 391 | 91% |
| Tangible fixed assets | 31 099 071 | 27 926 615 | 90% |
| Current assets | 6 865 478 | 7 674 673 | 111% |
| Cash and equivalents | 1 237 952 | 909 453 | 73% |
| Fixed assets classified as held for sale | 22 710 | 1 903 076 | 8 276% |
| TOTAL ASSETS | 41 917 765 | 39 411 064 | 94% |

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

As of December 31, 2020, the statement of the financial position of TAURON Capital Group indicates the balance sheet total lower by 6%.

The below figures present the change in the level of assets and current assets.



In 2020, TAURON Capital Group, having taken into account the following factors:

1. long term (persistent) hovering of the net market value of Company's assets at a level below the net balance sheet carrying amount of the assets,
2. changes to the commodity, electricity and CO₂ emission allowances prices on the worldwide markets;
3. high volatility of electricity prices on the futures market and the continued problems with a lack of liquidity;
4. decline in domestic electricity consumption due to the rising winter temperatures and the impact of the COVID-19 pandemic,
5. regulatory actions aimed at curbing an increase of electricity prices for the final consumers,
6. rising risk related to the commercial coal production,
7. effects of the results of the RES auctions held thus far and the very fast growth of the prosumer and micro-installations subsector in connection with the support programs launched,
8. effects of the implementation of the winter package provisions, including the emissions standard, that have an adverse impact on the ability of the coal fired units to take part in the capacity market after July 1, 2025,
9. tightening of the emissions standards and continued adverse market conditions from the point of view of the conventional power generation's profitability,
10. decrease of the risk free rate,

recognized (booked) impairment charges in the Generation and Mining Segments for the total amount of PLN 3 170 million as a result of the impairment tests conducted as of December 31, 2020 and as of June 30, 2020, of which the Company disclosed information in the regulatory filings (current reports) no. 5/2021 of February 23, 2021, correction of no. 5/2020 of February 26, 2021, and no. 37/2020 of August 5, 2020. It should be mentioned that in 2019 TAURON Capital Group recognized the impairment charges in the Generation and Mining Segments and dissolved (reversed) in part the previously booked write-downs in the Generation segment, which is the result of the impairment tests carried out as of December 31, 2019, and June 30, 2019, in the total amount of PLN 1 305 million.

After excluding the impairment charges, the value of the fixed assets as of December 31, 2020, was lower by PLN 1 450 million, i.e. by 4%, which was a consequence of the changes in the following items of the Statement of the Financial Position:

1. tangible fixed assets (excluding the impact of the impairment charges related to the carrying amount of the fixed assets) - a decline by 4% as a consequence of:
 - 1) classifying of TAURON Ciepło's net assets as held for sale and recognizing them in the financial statements under the current assets item,
 - 2) investment projects implemented by TAURON Capital Group's subsidiaries,
 - 3) depreciation charges related to TAURON Group's assets,
2. right to use the assets – a drop by 2% as a consequence of depreciation charges,
3. certificates of origin of electricity and greenhouse gas emission allowances to be redeemed (retired) – an increase by 7% which is the result of the reclassifying of the certificates of origin of electricity and the CO₂ emission allowances as the current assets in connection with the fulfilment of the conditions for the redemption (retirement) of the said assets and the purchase thereof towards the obligation in the subsequent years.
4. loans granted to the joint ventures – a drop by 60% due to the update of the valuation of the loan valued at fair value (marked to market),
5. other intangible assets – a rise by 15%,
6. other financial assets – a drop by 12%,
7. other non-financial assets – a drop by 58%,
8. deferred income tax assets – an increase by 80%.

The following factors had an impact on the increase in the value of the current assets by PLN 809 million, i.e. by 12%:

1. recognition (booking) of the net assets of TAURON Ciepło classified as assets held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Ciepło subsidiary and the potential continuation of the sale process,
2. balance of cash on hand and its equivalents – a decline by 27%,
3. certificates of origin of electricity and the CO₂ emission allowances to be redeemed (retired) – a drop by 22% which is the result of the postponement of the purchase of the CO₂ emission allowances to be redeemed (retired) in 2020 until March 2021,
4. inventory – an increase by 14% mainly due to the rise of the hard coal inventory,
5. accounts receivable from the consumers – a rise by 3%,
6. accounts receivable due to income tax – a slump by 67% in connection with the inflow, received in 2020, due to the settlement of the corporate income tax for 2019 and the recognition, as of December 31, 2020, of the accounts receivable due to income tax, which is mainly due to the PGK's accounts receivable,

7. accounts receivable due to the other taxes and fees – a fall by 27%, mainly due to the settlement of the VAT which was the result of the transaction to purchase the CO₂ emission allowances by the Generation Segment subsidiaries from the parent entity,
8. other financial assets – a drop by 52%, which is the result of:
 - 1) a decrease in the accounts receivable due to the compensations for the trading companies as a result of the settling by the Manager of the settlements of the accounts receivable recognized as of December 31, 2019, and the recognition, as of December 31, 2020, of the accounts receivable stemming from the applications for an adjustment, submitted on September 28, 2020, by the trading companies, of the amount of the difference between the price and the financial compensation for the entire 2019,
 - 2) lower value of the tender deposits (margins), security deposits (margins, pledges) provided as a result of the lower value of the collaterals provided by the Generation segment's subsidiary to PSE S.A. as a collateral for the proper performance of the contract for the provision of the electricity transmission services and the collaterals provided by the Company as part of the system of guaranteeing the settlements with IRGIT (Warsaw Commodity Exchange Clearing House),
 - 3) a decline of the initial margins – which is mainly due to the Company's positions (exposures) on the exchange as of December 31, 2020, and the changes of the prices of the allowances,
 - 4) a decrease in the value of the variation margins,
 - 5) sale of the investment funds' participation units in 2020.
9. other non-financial assets – a decrease by 22%, under which TAURON Capital Group recognizes accruals and prepayments, the advances towards the fixed assets under construction, the intangible assets and inventory that is not discounted as non-monetary assets, as well as the contract acquisition costs and the discount costs. The contract acquisition costs are capitalized, if TAURON Capital Group expects that they will be recovered.

The below table presents the annual consolidated statement of financial position – **equity and liabilities**.

Table no. 45. Annual consolidated statement of financial position – equity and liabilities (material items)*

| Statement of financial position (PLN '000) | As of December 31, 2019 | As of December 31, 2020 | Change in % (2020 / 2019) |
|--|-------------------------|-------------------------|---------------------------|
| EQUITY AND LIABILITIES | | | |
| Equity attributable to shareholders of the parent entity | 18 192 226 | 15 518 642 | 85% |
| Non-controlling stakes | 900 434 | 893 623 | 99% |
| Total equity | 19 092 660 | 16 412 265 | 86% |
| Long term liabilities | 14 963 274 | 15 687 376 | 105% |
| Liabilities due to debt | 11 830 183 | 13 108 449 | 111% |
| Short term liabilities | 7 861 831 | 7 311 423 | 93% |
| Liabilities due to debt | 2 484 093 | 1 478 550 | 60% |
| Total liabilities | 22 825 105 | 22 998 799 | 101% |
| TOTAL EQUITY AND LIABILITIES | 41 917 765 | 39 411 064 | 94% |

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figures present the change in the amount of liabilities and equity attributable to the majority shareholders.

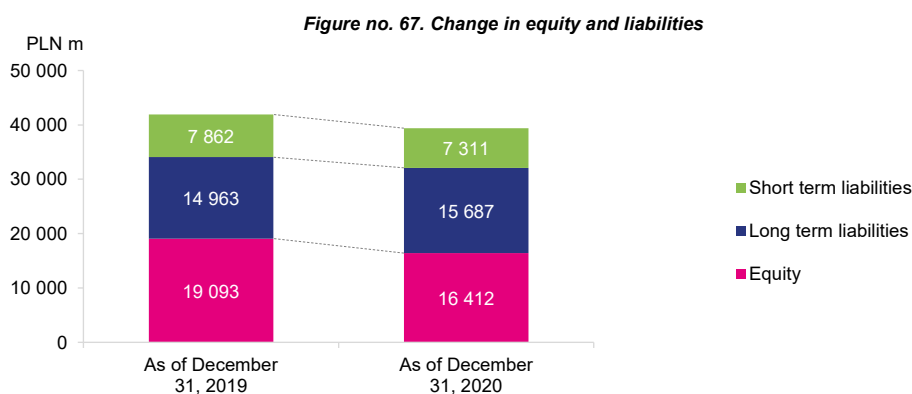
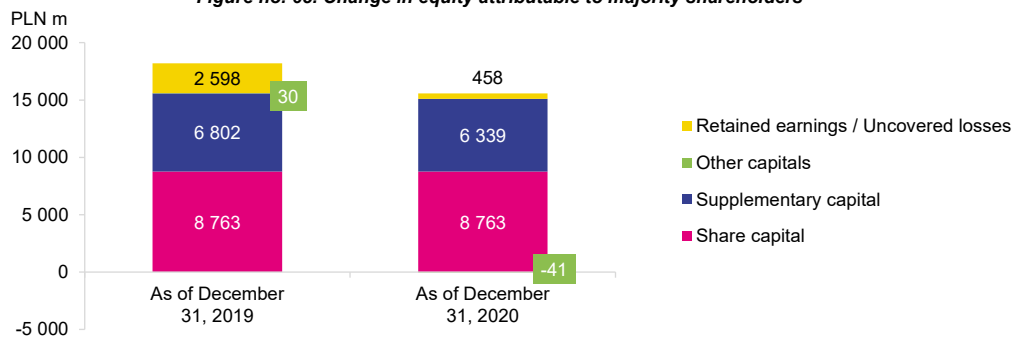


Figure no. 68. Change in equity attributable to majority shareholders



Equity was a material source of financing the assets in 2020 and its share in the total equity and liabilities stood at 41.6%.

The below figures present the change in the amount of short term and long term liabilities.

Figure no. 69. Change in long term liabilities

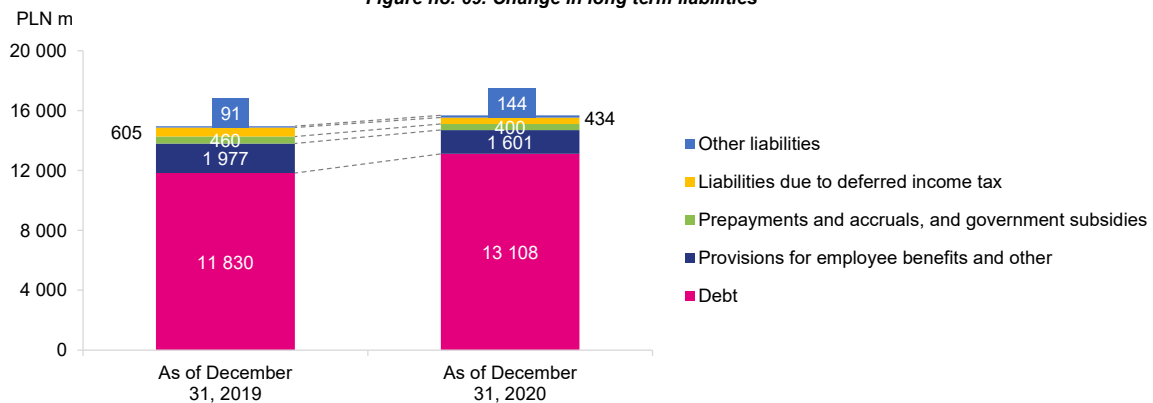
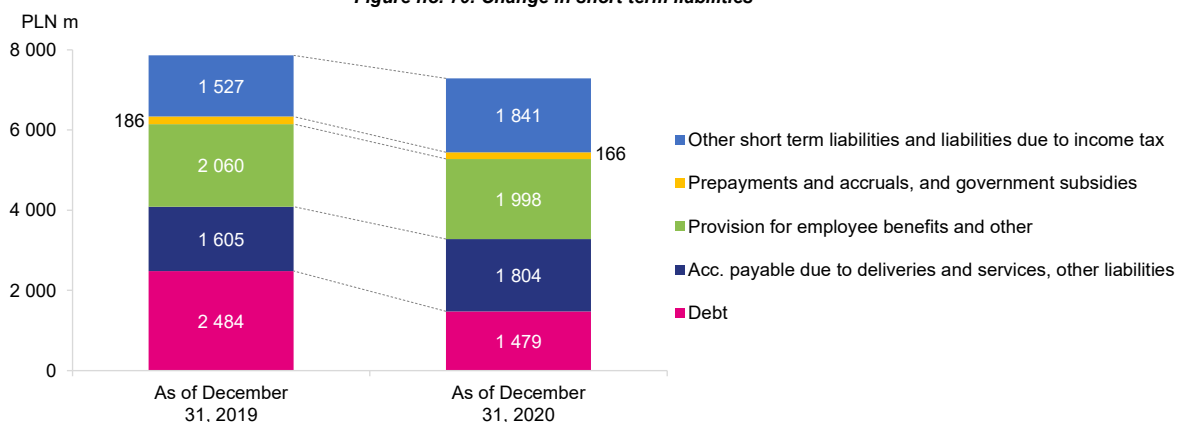


Figure no. 70. Change in short term liabilities



The amount of TAURON Capital Group's long term liabilities went up by PLN 724 million, i.e. by 5%, 2020, which was a consequence of the following factors:

1. reclassifying of some liabilities as liabilities related to the assets classified as the net assets of TAURON Cieplo held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Cieplo subsidiary and the potential continuation of the sale process,
2. liabilities due to debt – an increase by 11% as a result of taking out loans worth PLN 3 369 million in 2020, an issue of the bonds worth PLN 1 billion, an update of the valuation of the bonds issued in a foreign currency as a result of a rise of the FX rate as of December 31, 2020, as compared to the FX rate as of December 31, 2019, as well as reclassifying of some liabilities as short term liabilities,
3. liabilities due to the deferred income tax – a drop by 28%, which is mainly due to the reduction of the difference between the tax value and the balance sheet value (carrying amount) of the tangible fixed assets, intangible assets and the rights to use the assets,
4. provisions for the employee benefits – a drop by 29% in connection with the dissolution (release) of the provisions for the employee tariff which is an effect of the agreement concluded in May 2020 and the signing of the additional protocols between the management boards of the subsidiaries and the workforce that amended the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout

of a cash equivalent due to the discount for the consumption of electricity by the retirees, pensioners and other eligible persons who were no longer employees of the above mentioned subsidiaries.

The amount of TAURON Capital Group's short term liabilities went down by PLN 550 million, i.e. by 7%, which was primarily a consequence of the following factors:

1. reclassifying of some long term liabilities as liabilities related to the assets classified as the net assets of TAURON Ciepło held for sale, which is related to the project conducted by TAURON Capital Group aimed at the market verification of the possibility of the sale of the shares in the TAURON Ciepło subsidiary and the potential continuation of the sale process,
2. liabilities due to debt – a drop by 40%, which is related to the repayment of the loans received in the amount of PLN 4 407 million, reclassifying of some long term liabilities as short term liabilities and an update of the value of the bonds issued in a foreign currency as a result of a rise of the FX rate as of December 31, 2020, as compared to the FX rate as of December 31, 2019,
3. accounts payable towards the suppliers – an increase by 14% and the investment commitments – a rise by 11%,
4. provisions for the employee benefits – a drop by 14% in connection with the dissolution of the provisions for the employee tariff,
5. provisions for the obligations due to the certificates of origin of electricity and the CO₂ emissions – a rise by 18%, which is mainly due to an increase of the prices of the green certificates (PMOZE) and the prices of the CO₂ emission allowances in 2020, as compared to the prices in 2019, as well as an increase of the obligation related to the certificates of origin of electricity, the so-called green certificates (PMOZE) from 18.5% to 19.5%,
6. other provisions – a decrease by 51%, which stems from the consumption of the provision for onerous contracts set up at the end of December 2019 by the Supply Segment's subsidiary, and which was mainly related to the households, including the customers who were using the tariff based prices approved by the President of the ERO ("G tariff") and the individual customers who were using the product based price lists offered by the Company ("GD price lists"). The need to set up the above provision for the G tariff stemmed from the adoption, for the calculation of the sales price for such consumers for 2020, of the parameters specified in the request (summons) of the President of the ERO, the approval of which in December 2019 results in the lack of the ability to generate revenue from the supply of electricity in the amount covering the justified costs of conducting the business operations in this regard. The price level approved by the decision of the President of the ERO for the G tariff group for 2020 was also a significant reason for the losses on the GD price lists, for which the provision was set up. Some of the product based contracts in the household segment link the rates for the electricity with the G tariff price, and therefore also make it impossible to generate sales revenue in the amount that would cover the full variable costs of the business operations conducted. At the same time, the TAURON Sprzedaż subsidiary submitted, on January 7, 2020, an application for the approval of a change of the electricity tariff for the G tariff groups' customers for 2020, which aims to pass on (cover) all of the justified costs that were not accepted in the application approved in December 2019. By way of the decision of July 8, 2020, the President of the ERO refused to approve the change in the electricity tariff for such customers. On July 31, 2020, the Management Board of TAURON Sprzedaż filed an appeal with the Competition and Consumer Protection Court against the Decision of the President of the ERO of July 8, 2020. At the same time, as of December 31, 2020, the Company updated the remaining part of the provision for onerous contracts. This provision is applicable, first and foremost, to the GD price lists. However, as of December 31, 2020, there was no need to set up a provision for onerous contracts in respect of the G tariff. On the basis of the tariff for the households for 2021 approved by the President of the ERO in December 2020, the Company will be generating revenue from the supply of electricity that will fully cover the justified costs of conducting the business operations in this regard,
7. accounts payable due to taxes and fees – a drop by 33%, which is the result of the lower accounts payable due to the VAT tax, the accounts payable due to the social security and the personal income tax. The decrease of the accounts payable due to the VAT tax is primarily the result of the settlement, within the period of the six months ended on June 30, 2020, of the liability due to the VAT tax as of December 31, 2019, stemming from the transaction involving the sale by the Company of the CO₂ emission allowances to the Generation Segment subsidiaries.

5.4. Discussion of the economic and financial figures disclosed in the annual consolidated financial statement

Consolidated statement of comprehensive income

The below table presents the annual consolidated statement of comprehensive income. Due to the changes in the segments and in order to maintain the comparability, the results are presented for 2 years

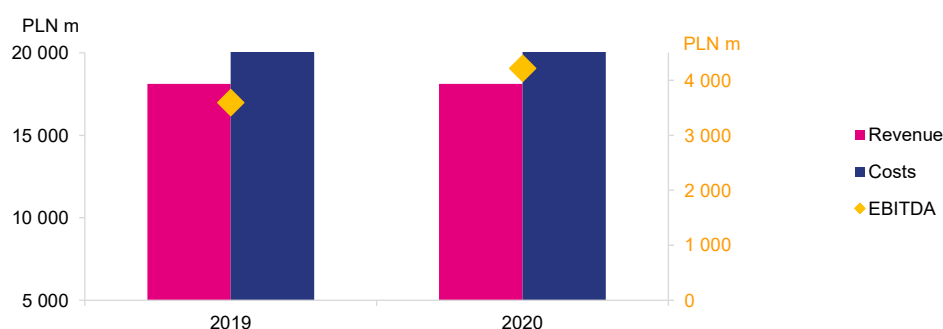
Table no. 46. Annual consolidated statement of comprehensive income for 2019-2020*

| Statement of comprehensive income (PLN '000) | 2019 | 2020 | Change in % (2020 / 2019) |
|--|------------------|--------------------|---------------------------|
| Sales revenue | 19 112 336 | 20 367 400 | 107% |
| Compensations | 952 650 | 66 448 | 7% |
| Own cost of sales | (20 059 039) | (21 802 547) | 109% |
| Other operating revenues and costs | 145 154 | 338 299 | 233% |
| Share in the profits of the joint ventures | 47 947 | 15 765 | 33% |
| Operating profit | 199 048 | (1 014 635) | - |
| Cost of interest on debt | (248 781) | (283 456) | 114% |
| Other financial revenue and costs | (63 011) | (357 577) | 567% |
| Pre-tax profit (loss) | (112 744) | (1 655 668) | 1 469% |
| Income tax | 18 547 | (77 882) | - |
| Net profit (loss) on the continued operations for the period | (94 197) | (1 733 550) | 1 840% |
| Net profit (loss) from the discontinued operations for the period | 82 514 | (754 327) | - |
| Net profit (loss) for the period | (11 683) | (2 487 874) | 21 295% |
| Total income for the period | (113 536) | (2 675 883) | 2 357% |
| Net (profit) attributable to: | | | |
| Shareholders of the parent entity | (10 908) | (2 485 115) | 22 782% |
| Non-controlling stakes | (775) | (2 762) | 356% |
| EBIT and EBITDA | | | |
| EBIT | 295 454 | (1 731 977) | - |
| EBITDA | 3 599 367 | 4 222 717 | 117% |

* Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figure presents TAURON Capital Group's 2019-2020 financial results.

Figure no. 71. TAURON Capital Group's 2019-2020 financial results



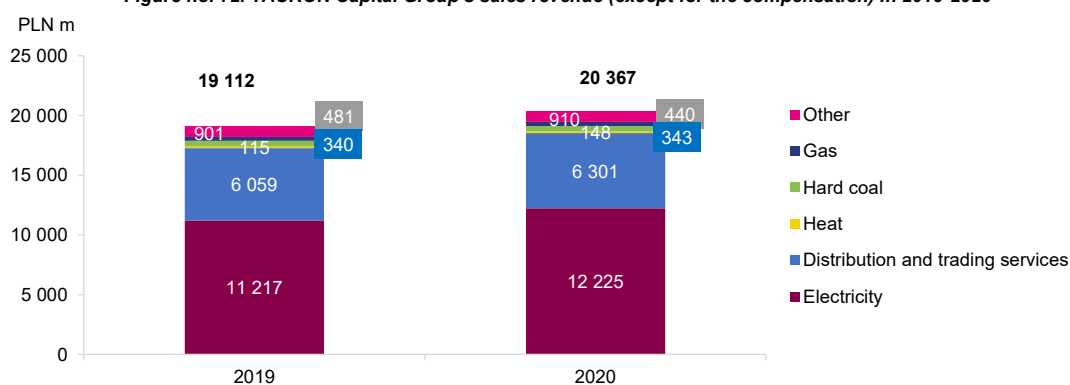
TAURON Capital Group generated PLN 20 367 million of revenue from the continued operations in 2020, i.e. higher by 7% as compared to the amount generated in 2019, which is the result of the following factors:

1. higher revenue from electricity sales by 9%, which is the result of obtaining the higher average electricity sales price as a consequence of an increase of the tariff and the higher electricity sales prices on the market as well as the decline of TAURON Capital Group's electricity supply volume,
2. higher revenue from the distribution and trading services sales by 4% as a consequence of the increase of the distribution service rate along with the simultaneous decline of the distribution service volume,
3. higher revenue from the heat supply by 29% due to the higher sales volume which is related to the implementation of the heat unit no. 10 at the Łagisza Power Plant,
4. lower revenue from the hard coal sales by 8% as a consequence of the lower coal sales volume and obtaining of the lower prices.

In addition, in 2020 TAURON Capital Group recognized the revenues from the compensation in the amount of PLN 66 million as a result of the submitted applications for the correction (adjustment) of the Amount of the Price Difference and the Financial Compensation for the entire 2019, which is a consequence of the recognition of the revenue from the compensations in 2019 in the amount of PLN 953 million based in part on the estimated data. Pursuant to Art. 9 of the amended *Act on amending the Excise Duty Act and certain other acts*, on September 28, 2020, TAURON Sprzedaż and TAURON Sprzedaż GZE submitted applications for the correction (adjustment) of the Amount of the Price Difference and the Financial Compensation for the entire 2019. The corrected (adjusted) Amount of the Price Difference and the Financial Compensation is based on the actual volumes and the prices used in the calculation thereof.

The below figure presents the structure of TAURON Capital Group's sales revenue (except for the compensation) in 2019-2020.

Figure no. 72. TAURON Capital Group's sales revenue (except for the compensation) in 2019-2020*



*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

TAURON Capital Group's continued operations' operating expenses came in at PLN 21 803 million in 2020, i.e. they were higher by 9% than the costs incurred in 2019.

One of the reasons for the increase in the costs was the recognition (booking) of the impairment charges in the Generation and Mining Segments, related to the tangible fixed assets as a result of the impairment tests for the assets' carrying amount carried out as of December 31, 2020 and June 30, 2020, of which the Company disclosed information in the regulatory filings (current reports) no. 5/2021 of February 23, 2021, correction of no. 5/2020 of February 26, 2021, and no. 37/2020 of August 5, 2020. The total impact on the financial result of TAURON Capital Group in 2020 amounted to PLN 3 170 million, while the tests carried out in 2019 showed the legitimacy of recognizing the impairment charges in the amount of PLN 1 305 million (excess of impairment charges taken over the impairment charges reversed).

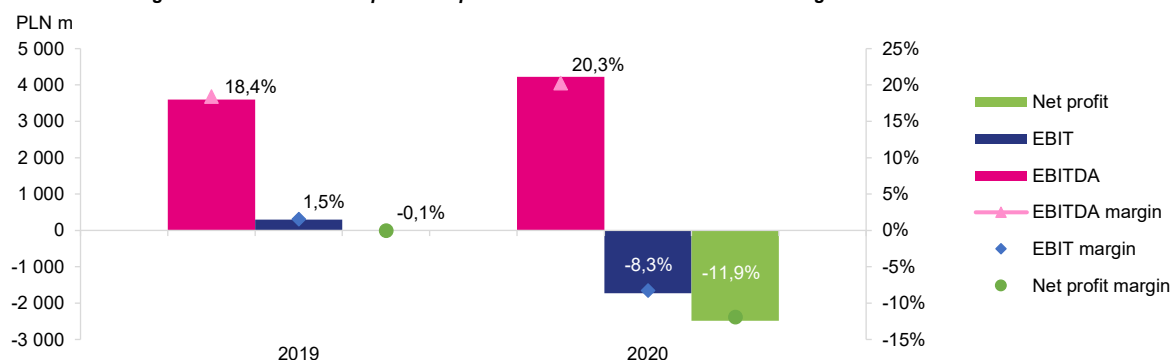
Apart from the above one-off events, the following factors had an impact upon the level of the costs of TAURON Capital Group in 2020:

1. an increase of the depreciation costs, mainly as a result of:
 - 1) an increase in the value of the assets as a result of the transaction to acquire the wind farms in September 2019,
 - 2) an increase in the value of the assets as a result of converting of the auxiliary systems of the 910 MW unit in Jaworzno into assets in March 2020,
 - 3) an increase in the value of the assets as a result of the commissioning, in November 2020, of the 910 MW unit in Jaworzno,
 - 4) updating of the depreciation rates as a result of the booked or updated impairment charges related to the carrying amount of the assets in connection with the impairment tests conducted in 2019 and as of June 30, 2020,

2. higher costs of electricity sold, as a consequence of an increase in the purchase price year on year and, at the same time, the lower volume of electricity purchased on the market,
3. charging the value of goods and materials sold item with the resale transactions of the futures positions with the delivery date in December 2020 held on the power exchange, while at the same time purchasing the same volume in contracts with the delivery date in March 2021 from the counterparties on the OTC market. The above action was a consequence of a change in the hedging strategy involving a change of the method used to secure the Generation Segment's retirement needs. As a result of the above, a one-time swap of the exchange traded contracts with the delivery date in December 2020 to the OTC contracts with the delivery date in March 2021 was made. The decision to change the strategy was made taking into account the current market circumstances, difficult to predict at the time of the transaction, including: the rising costs of maintaining a position on the exchange, significantly higher than at the time of concluding the contracts, which is related to, among others, to the need to make ongoing margin payments; a change of the legal and market circumstances in the area of trading in the CO₂ emission allowances related to Brexit and the COVID-19 virus pandemic. Implementing the above mentioned strategy change, all of the new transactions concluded on the OTC market will be used for the purpose of performing the retirement obligation by TAURON Capital Group's generation subsidiaries,
4. higher costs of the greenhouse gas emission allowances, which is the result of an increase in the price of the allowances and the lower CO₂ emissions by the generating units due to the lower production of electricity from the conventional sources. In addition, in the first quarter of 2019, TAURON Capital Group retired (settled), instead of the CO₂ emission allowances, the certified emission reduction (CER) units in the amount of 883 000, whose purchase price was much lower than the price of EUA,
5. lower labor costs, as a result of:
 - 1) recognition in the current period of the effects of the dissolution (release) of the actuarial provisions by TAURON Capital Group's subsidiaries in connection with the amendment to the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout of a cash equivalent for the discounted use of electricity by the current employees of TAURON Capital Group who would acquire the rights to the tariff upon retirement or upon receiving a disability pension and other entitled persons,
 - 2) lower headcount,
 - 3) reduction of the working time in accordance with the signed agreement with the workforce, as a consequence of the COVID-19 pandemic,
 - 4) change in the discount rate from 2.1% to 1.5%, which led to an increase of the actuarial provisions,
 - 5) increase of the minimum wage,
 - 6) higher costs of the contribution to the Company's Social Benefits Fund, which is related to a 22% increase of the basis for its assessment,
 - 7) dissolution (release) in 2019 of the provision related to the Voluntary Redundancy Program,
6. higher costs of the distribution services, which is due to an increase in the tariff for the distribution services for PSE (TSO), that entered into force on April 6, 2019 and January 1, 2020,
7. lower overhaul costs mainly due to the lower number of the maintenance and support (overhaul) services purchased for the mining assets, which is related to the shorter length of the roadways bored,
8. higher costs of the other external services, which is the result of:
 - 1) higher rates for the purchased postal services, courier services and the multimedia customer service, as well as an increase in the number of calls made as part of customer service,
 - 2) lower costs of the transportation of the production related fuels due to the lower electricity production,
 - 3) lower number of the mining services purchased, which is related to the shorter length of the roadways bored,
9. higher costs of taxes and fees, mainly due to the recognition of the real estate taxes assessed on the wind farms acquired in September 2019, the provision set up for the real estate tax in connection with the judgement of the Constitutional Tribunal of July 2020, an increase in the value of the grid assets as a basis for calculating the real estate tax and the higher real estate tax rates,
10. lower costs of the consumed materials and energy mainly as a result of a decrease in the costs of the consumed fuels, which is due to the lower electricity production in 2020 than in the same period of 2019 and the reduction of the share of the fuel purchased on the market. In addition, TAURON Capital Group booked in the current reporting period the costs of the hard coal used to start up the 910 MW unit in Jaworzno.
11. an increase in the hard coal inventory levels as well as in the prepayments and accruals mainly as a result of a rise of the value of the hard coal inventories at TAURON Wydobywanie and the Generation Segment Subsidiaries as an effect of allocating the costs of the hard coal produced but not consumed to the balance sheet items which is related to the lower demand for the hard coal from the counterparties (contractors) from outside TAURON Capital Group and the lower electricity production due to the COVID-19 epidemic,
12. higher value of the costs of services for in-house needs, which is the result of the recognition of a part of the operating costs of the 910 MW unit in Jaworzno as a capital expenditure in connection with its start-up, and a lower value of the mining costs allocated to the balance sheet, which is the result of the smaller number of reinforced longwall coal faces and the smaller number of meters of the length of the investment and production mining workings completed.

The below figure presents TAURON Capital Group's financial results and the level of margins realized from the continued and discontinued operations.

Figure no. 73. TAURON Capital Group's financial results and the level of margins realized in 2019-2020*



*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The EBITDA margin generated in 2020 came in at 20.3% and it was higher by 1.9 pp than the margin posted in 2019. As a result of the impairment charges taken, the value of which in 2020 was higher than the impairment charges booked in 2019, the EBIT margin and the net profit margin were lower in the reporting period than the figures posted in the previous year and came in at (8.3)% and (11.9)%, respectively. Had the effects of the impairment charges not been taken into account, the EBIT margin and the net profit margin would have clocked in, respectively, at 6.9% and 0.4% in 2020, and, respectively, at 8.2% and 5.3% in 2019.

In accordance with the consolidated statement of comprehensive income presented, the total comprehensive income of TAURON Capital Group, taking into account the net profit increased or decreased by the change in the value of the hedging instruments, the FX differences arising from the conversion of a foreign unit and the other income, after tax, stood at PLN (2 675.9) million in 2020, as compared to PLN (113.5) million generated in 2019.

Statement of cash flows

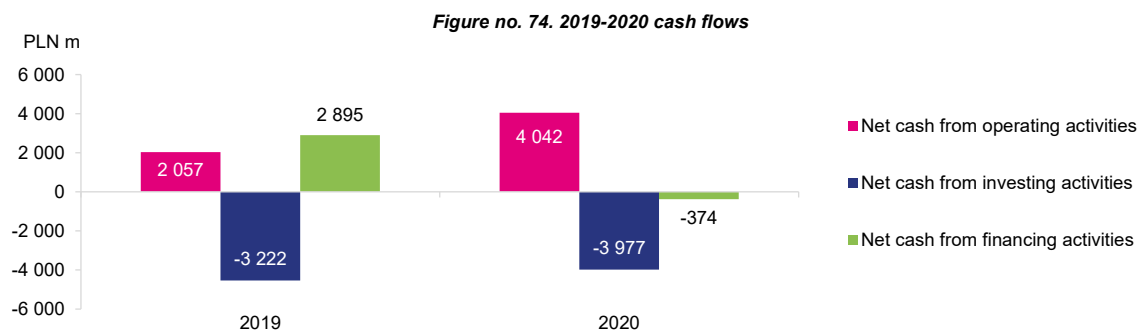
The below table presents the statement of cash flows.

Table no. 47. Statement of cash flows (material items) in 2019-2020*

| Statement of cash flows (PLN '000) | Year ended on December 31, 2019 | Year ended on December 31, 2020 | Change in % (2020 / 2019) |
|---|---------------------------------|---------------------------------|---------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Pre-tax profit / (loss) | (15 368) | (2 374 123) | 15 448% |
| Adjustments | 2 050 943 | 6 416 102 | 313% |
| Net cash from operating activities | 2 035 575 | 4 041 979 | 199% |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchase of tangible fixed assets and intangible assets | (4 035 132) | (3 907 608) | 97% |
| Net cash from investing activities | (4 534 738) | (3 976 568) | 88% |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Redemption of debt securities | (2 420 000) | (60 400) | 2% |
| Issue of debt securities and proceeds from taking out credits / loans | 500 000 | 1 000 000 | 200% |
| Repayment of loans / credits | (867 360) | (4 406 813) | 508% |
| Interest paid | (212 556) | (215 946) | 102% |
| Net cash from financing activities | 2 894 792 | (373 635) | -13% |
| Increase / (decrease) in net cash and equivalents | 395 629 | (308 224) | -79% |
| Cash opening balance | 807 972 | 1 203 601 | 149% |
| Cash closing balance | 1 203 601 | 895 3770 | 74% |

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The below figure presents the 2019-2020 cash flows.



The realized positive value of cash flow from the operating activities in 2020 was higher by PLN 2 006 million than the cash flow realized in 2019. The following factors had an impact on the cash flow from operating activities:

1. EBITDA generated in the amount of PLN 4 223 million,
2. a negative change of the working capital in the amount of PLN 119 million, which is the result of:
 - 1) a positive change of the balance of the accounts receivable in the amount of PLN 200 million, mainly due to the financial accounts receivable as a result of the settling of the margins related to the exchange settlements
 - 2) a negative change of the inventory level, in the amount of PLN 181 million, mainly as a result of an increase in the coal inventories at the storage yards of the Generation and Mining segments' subsidiaries
 - 3) a positive change of the balance of the accounts payable, except for the credits and loans, in the amount of PLN 5 million,
 - 4) negative change in the balance of the provisions in the amount of PLN 456 million, which is the result of:
 - release (dissolving) of the provision for the employee tariff in the amount of PLN 533 million,
 - setting up and consumption of a provision for onerous contracts in the total amount of PLN 157 million,
 - release (dissolving) or use of the provision for the court litigations, claims from the counterparties and other claims in the total amount of PLN 169 million,
 - an increase by PLN 245 million of the amount of the provision for the obligations due to the CO₂ emissions and due to the obligation to present the certificates of origin of electricity, mainly as a result of a rise of the prices of the CO₂ emission allowances and the certificates of origin as well as an increase of the obligation related to the PMOZE certificates of origin from 18.5% to 19.5%,
 - a negative change in the other provisions in the total amount of PLN 156 million.
 - 5) a positive change in the balance of the other long and short term assets in the amount of PLN 361 million, which stems from the postponement of the purchase of the CO₂ emission allowances as a result of a change of the strategy of securing the redemption (retirement) needs of the Generation Line of Business,
 - 6) a negative change in the prepayments and accruals as well as the government subsidies in the amount of PLN 48 million,
3. payment of the income tax in the total amount of PLN 60 million,
4. other factors in the amount of PLN -2 million.

The expenditures related to the purchase of the tangible fixed assets have the biggest impact on the cash flow from investing activities and they came in at PLN 3 908 million in the reporting period and were lower by PLN 128 million than the outlays incurred in 2019. The largest expenditures were incurred by the Distribution Segment and the Generation Segment.

The negative value of cash flow from the financing activities is primarily due to the higher amount of the expenditures realized due to the repayments of the financial liabilities than the inflows received due to obtaining the financing. The amount of the repaid loans and credits as well as the redeemed bonds came in at PLN 4 467 million, while the loans and credits taken out at the same time clocked in at PLN 4 368 million in total. In addition, TAURON Capital Group paid back its liabilities due to leases worth PLN 102 million in 2020. The total amount of the interest paid by TAURON Capital Group, mainly on the financial liabilities, came in at PLN 216 million, while the subsidies and the compensations received amounted to PLN 68 million.

TAURON Capital Group is maintaining its market position. The current liquidity ratio and the net debt to EBITDA ratio continue to stand at a safe level.

The below figure presents TAURON Capital Group's 2020 cash flows.

Figure no. 75. TAURON Capital Group's 2020 cash flows



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pool* mechanism in order to minimize the potential cash flow disruptions and the risk of liquidity loss. TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from the environmental funds, bond issues.

5.5. Material off-balance sheet items

Material off-balance sheet items of TAURON Capital Group, as of December 31, 2020, include:

1. lawsuits related to the termination of the long term contracts,
2. claims against PGE EJ1,
3. claim of Huta Łaziska S.A. (Huta Łaziska),
4. lawsuit brought by ENEA,
5. proceedings initiated by the President of ERO,
6. proceedings initiated by the President of UOKiK,
7. use of the real estate without a contract,
8. claim for the reimbursement of expenses for securing the facility against the effects of mining operations,
9. recognition (inclusion) of the Closed-End Investment Funds' (Fundusze Inwestycji Zamkniętych) involvement in Nowe Jaworzno Grupa TAURON,
10. claim regarding the amendment to the agreement for the construction of the Grzegorz shaft at TAURON Wydobycie.

The detailed information related to the off-balance sheet items both in the subjective and objective terms, as well in terms related to the value thereof is presented in notes 54 and 55 to the *Consolidated financial statements of TAURON Capital Group*.

5.6. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON Capital Group for 2020. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

5.7. Key financial ratios and the Alternative Performance Measures

The below table presents the key financial ratios of TAURON Capital Group, which may constitute an important source of information for the investors about the financial and operational standing of TAURON Capital Group. The Alternative Performance Measures presented below as defined by the ESMA Guidelines on the Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding TAURON Capital Group's financial results. They constitute standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial efficiency, cash flows and debt of TAURON Capital Group.

Table no. 48. Key financial ratios of TAURON Capital Group for the continued and discontinued operations*

| Ratios | Definition | 2019 | 2020 |
|----------------------------|--|--------|---------|
| PROFITABILITY | | | |
| EBIT Margin | Operating profit / Sales revenue | 1.5% | |
| EBITDA Margin | EBITDA / Sales revenue | 18.4% | 20.3% |
| Net Profitability | Net profit/ Sales revenue | (0.1)% | (11.9)% |
| Return on Equity (ROE) | Net profit/ Equity at the end of the period | (0.1)% | (15.2)% |
| LIQUIDITY | | | |
| Current liquidity ratio | Current assets / Short-term liabilities | 0.87 | 1.05 |
| DEBT | | | |
| Total debt ratio | Total obligations/ total liabilities | 0.54 | 0.58 |
| Net financial debt/ EBITDA | (Financial liabilities - Cash)/ EBITDA | 2.8x | 2.5x |
| OTHER RATIOS | | | |
| Earnings per share (EPS) | Net result attributable to shareholders of the parent entity / Number of ordinary shares | (0.01) | (0.12) |

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

TAURON Capital Group's net profitability ratio came in at the level of (11.9)% in 2020, as a consequence of recognizing of the balance of the impairment charges related to the carrying amount of the assets, in the 2020 results, in the amount higher than in 2019 and the higher costs of interest on debt.

The current liquidity ratio was higher as of December 31, 2020, than as of December 31, 2019, which demonstrates that the financial standing of TAURON Capital Group continued to be stable.

The total debt ratio and the net debt to EBITDA ratio illustrate the share of liabilities in financing TAURON Capital Group. The current level of these ratios enables TAURON Capital Group to obtain external financing required to carry out the planned investment (capex) projects. The levels of both ratios confirm the stable financial position of TAURON Capital Group.

The EPS ratio (calculated in relation to the net result attributable to the shareholders of the parent entity) is negative due to the negative net financial result, for the reasons described above.

The below table presents the reconciliation of the net financial debt, the amount of which, along with the EBITDA amount, is the basis for calculating the net debt to EBITDA ratio.

Table no. 49. Net financial debt reconciliation

| Item (PLN m) | 2019 | 2020 |
|--|---------------|---------------|
| Cash and equivalents | 1 265 | 921 |
| Cash and equivalents – balance acc. to balance sheet | 1 238 | 909 |
| Short term investments with the maturity of up to 1 year | 27 | 12 |
| Long term financial debt | 8 982 | 10 162 |
| Long term credits and loans, and other | 4 728 | 4 840 |
| Long term liabilities due to bonds issued | 4 255 | 5 323 |
| Short term financial debt | 2 412 | 1 354 |
| Short term credits and loans, and other | 2 323 | 1 474 |
| Short term liabilities due to bonds issued | 89 | 201 |
| Total financial debt | 11 394 | 11 516 |
| Net financial debt | 10 130 | 10 595 |

The below table presents the reconciliation of the result at the EBITDA level.

Table no. 50. Reconciliation of the result on the EBITDA level

| Item (PLN m) | 2019 | 2020 |
|---|--------------|----------------|
| Net profit (loss) | (12) | (2 488) |
| Net profit (loss) on discontinued operations | (83) | 754 |
| Income tax charged to the financial result | (19) | 78 |
| Financial costs | (95) | (193) |
| Financial revenue | 407 | 834 |
| EBIT | 199 | (1 015) |
| EBIT on discontinued operations | 96 | (717) |
| Depreciation charged to the financial result | 1 992 | 1 954 |

5.8. Most significant financial and operating data for the last 5 years

The below table presents the most significant financial data and operating data of TAURON Capital Group for the last 5 years, i.e. for the 2020 – 2016 period.

Table no. 51. Financial and operating data for 2020-2016*

| Key information | unit | 2016 | 2017 | 2018 | 2019 | 2020 | Change in % (2020 / 2019) |
|---|-------|---------|---------|---------|---------|---------|------------------------------|
| STATEMENT OF COMPREHENSIVE INCOME | | | | | | | |
| Sales revenue | PLN m | 17 646 | 17 425 | 18 122 | 19 558 | 20 850 | 107% |
| Operating profit | PLN m | 802 | 1 879 | 791 | 295 | (1 732) | - |
| Financial revenue (total) | PLN m | 125 | 191 | 83 | 95 | 193 | 203% |
| Financial expenses (total) | PLN m | (418) | (313) | (11) | (407) | (834) | 205% |
| Pre-tax profit (loss) | PLN m | 509 | 1 758 | 505 | (113) | (1 656) | - |
| Income tax | PLN m | (139) | (375) | (298) | 19 | (78) | - |
| Net profit (loss) on continued operations | PLN m | | | | (94) | (1 734) | - |
| Net profit | PLN m | 370 | 1 383 | 207 | (12) | (2 488) | - |
| attributable to shareholders of the parent entity | PLN m | 367 | 1 381 | 205 | (11) | (2 485) | - |
| attributable to non-controlling shares | PLN m | 3 | 2 | 2 | (1) | (3) | - |
| EBITDA | PLN m | 3 337 | 3 618 | 3 492 | 3 599 | 4 223 | 117% |
| STATEMENT OF FINANCIAL POSITION | | | | | | | |
| Fixed assets | PLN m | 29 148 | 31 049 | 32 542 | 35 052 | 31 736 | 91% |
| Current assets | PLN m | 4 309 | 4 786 | 4 556 | 6 865 | 7 675 | 112% |
| Total equity | PLN m | 16 679 | 18 068 | 18 428 | 19 093 | 16 412 | 86% |
| Total liabilities | PLN m | 16 778 | 17 767 | 18 669 | 22 825 | 22 999 | 101% |
| Long-term liabilities | PLN m | 11 969 | 12 740 | 11 382 | 14 963 | 15 687 | 105% |
| Short-term liabilities | PLN m | 4 809 | 5 027 | 7 287 | 7 862 | 7 311 | 93% |
| Net financial debt ² | PLN m | 7 704 | 8 047 | 8 572 | 10 130 | 10 595 | 105% |
| Capital expenditures | PLN m | 3 817 | 3 474 | 3 838 | 4 128 | 4 039 | 98% |
| CASH FLOW ACCOUNT | | | | | | | |
| Net cash from operating activities | PLN m | 3 064 | 3 559 | 2 223 | 2 036 | 4 042 | 199% |
| Net cash from investing activities | PLN m | (3 627) | (3 872) | (3 387) | (4 535) | (3 977) | 88% |

| Key information | unit | 2016 | 2017 | 2018 | 2019 | 2020 | Change in % (2020 / 2019) |
|------------------------------------|-------------|-------|-------|-------|-------|-------|------------------------------|
| Net cash from financing activities | PLN m | 590 | 760 | 1 171 | 2 895 | (374) | - |
| Cash closing balance | PLN m | 355 | 801 | 808 | 1 204 | 895 | 74% |
| RATIOS | | | | | | | |
| EBIT Margin | % | 5% | 11% | 4% | 2% | (8)% | - |
| EBITDA Margin | % | 19% | 21% | 19% | 18% | 20% | 110% |
| Net financial debt/ EBITDA | multiple | 2..3x | 2.2x | 2.5x | 2.8x | 2.5x | 89% |
| Net earnings per share | PLN / share | 0.21 | 0.79 | 0.12 | -0.01 | -1.42 | - |
| OPERATING DATA | | | | | | | |
| Commercial coal production | Mg m | 6.37 | 6.45 | 5.01 | 3.78 | 4.54 | 120% |
| Gross electricity production | TWh | 16.8 | 18.41 | 16.21 | 13.88 | 12.5 | 90% |
| Electricity production from RES | TWh | 1.32 | 1.3 | 0.97 | 1.38 | 1.94 | 141% |
| Heat production | PJ | 11.52 | 12.2 | 11.29 | 10.85 | 11.63 | 107% |
| Retail electricity supply | TWh | 32.04 | 34.94 | 34.52 | 33.73 | 32.43 | 96% |
| Distribution of electricity | TWh | 49.68 | 51.37 | 51.97 | 51.73 | 50.26 | 97% |
| Number of customers (Distribution) | m | 5.47 | 5.53 | 5.60 | 5.65 | 5.71 | 101% |

*The values presented for the years 2016-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments that took place in 2020, i.e. the separation of the RES Segment from the Generation Segment and the presentation of the TAURON Ciepło data as part of the discontinued operations.

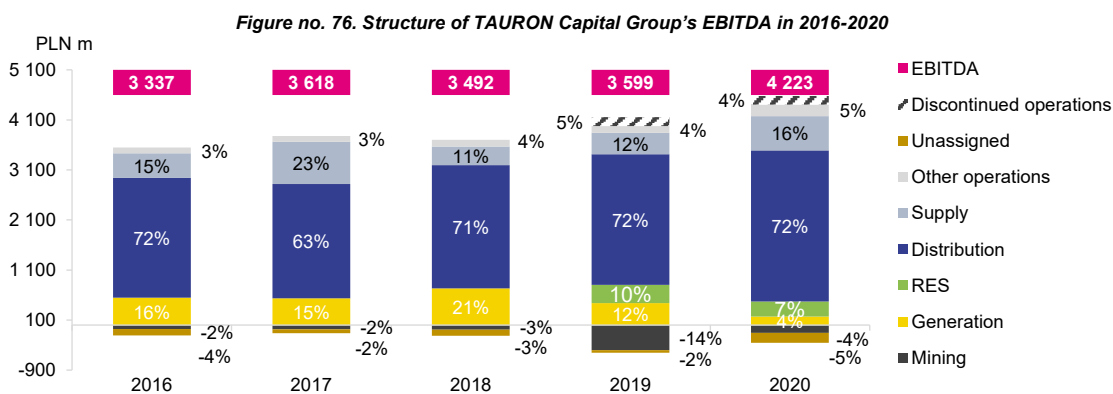
The below table presents TAURON Capital Group's EBITDA for the last 5 years, i.e. for the 2020 – 2016 period.

Table no. 52. TAURON Capital Group's EBITDA, broken down into Segments of Operations (Lines of Business) *

| EBITDA (PLN m) | 2016 | 2017 | 2018 | 2019 | 2020 | Change in % (2020 / 2019) | Change (2020 - 2019) |
|-------------------------|--------------|--------------|--------------|--------------|--------------|------------------------------|-------------------------|
| Mining | (82) | (83) | (90) | (500) | (157) | - | 343 |
| Generation | 545 | 537 | 731 | 438 | 172 | 39% | (266) |
| RES | | | | 368 | 297 | 81% | (71) |
| Distribution | 2 395 | 2 283 | 2 466 | 2 606 | 3 023 | 116% | 417 |
| Supply | 490 | 841 | 372 | 429 | 683 | 159% | 255 |
| Other operations | 115 | 118 | 135 | 136 | 229 | 168% | 93 |
| Unallocated items | (126) | (78) | (122) | (56) | (196) | - | (139) |
| Discontinued operations | | | | 178 | 171 | 96% | (7) |
| Total EBITDA | 3 337 | 3 618 | 3 492 | 3 599 | 4 223 | 117% | 624 |

*The values presented for the years 2016-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments that took place in 2020, i.e. the separation of the RES Segment from the Generation Segment and the presentation of the TAURON Ciepło data as part of the discontinued operations

The below figure presents the structure of TAURON Capital Group's EBITDA in 2016-2020.



Key information for 2016-2020 by Segments

The below figures present the 2016 - 2020 financial data by Segments of Operations (Lines of Business).

Figure no. 77. Mining Segment's 2016 - 2020 data

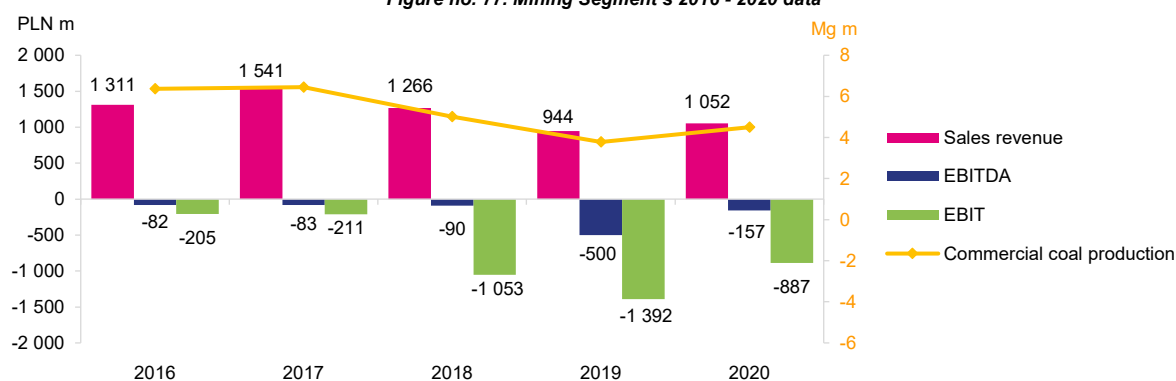


Figure no. 78. Generation Segment's, RES Segment's and Discontinued Operations Segment's 2016 - 2020 data

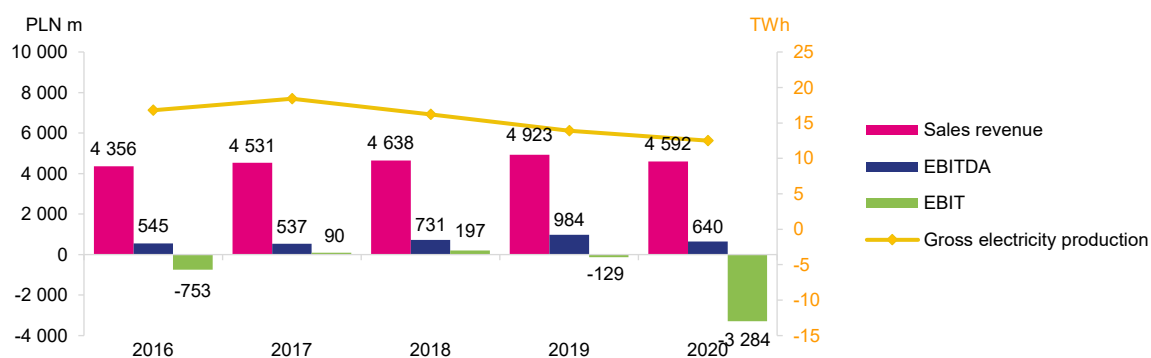


Figure no. 79. Distribution Segment's 2016 - 2020 data

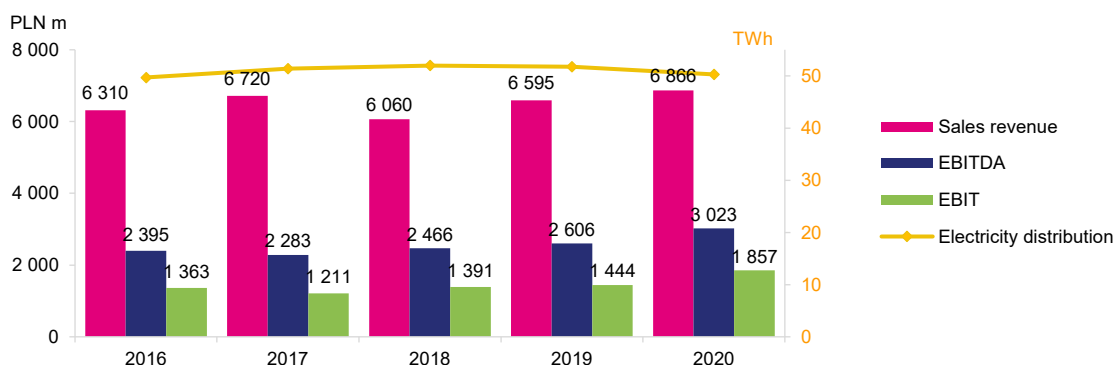


Figure no. 80. Supply Segment's 2016 - 2020 data

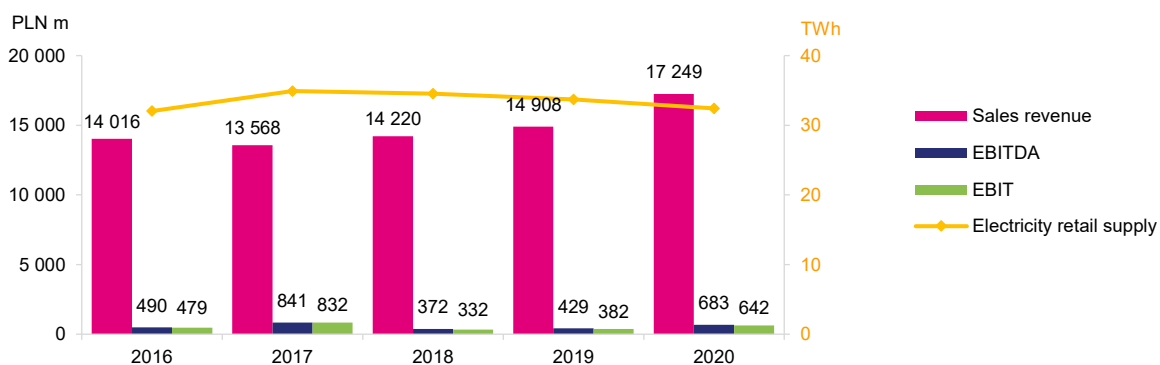
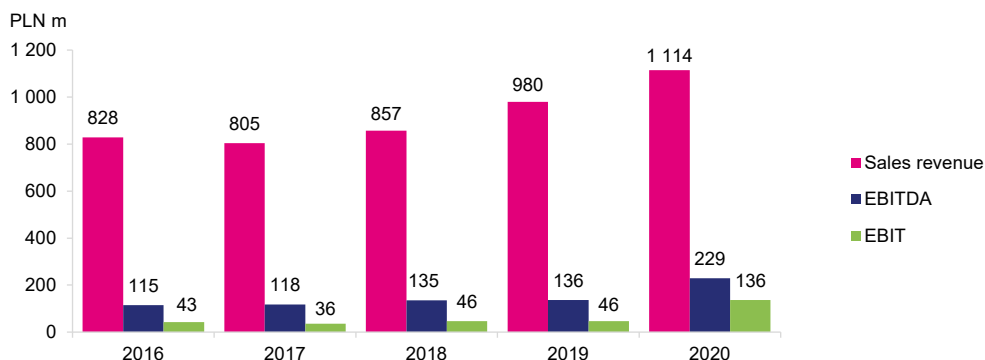


Figure no. 81. Other Operations Segment's 2016 - 2020 data



5.9. What can we expect in 2021

According to the forecasts of the World Bank, published at the end of 2020, the world economies recorded a slowdown of 4.3% in 2020, as a consequence of the COVID-19 pandemic. It is assumed that the recovery from the crisis brought about by the COVID-19 pandemic will take place already in 2021. With respect to Poland the GDP growth rate is forecast to reach 3.6%. Poland's return to the moderate growth will be possible thanks to the easing of the restrictions related to the COVID-19 pandemic, the return to normality of a number of sectors of the economy, government aid programs, as well as a slow recovery of the major trade partners.

According to the forecasts of the NBP, published at the end of 2020, a 3.5% Poland's GDP growth rate decline was recorded in 2020, as a consequence of the COVID-19 pandemic. It is assumed that the GDP will grow at a 4.9% clip in 2021, while the elevated uncertainty and the restrictions on the activities of the companies related thereto will remain a factor hindering the recovery of the demand for investments over the time frame covered by the projection. In the opinion of the NBP believes that the economic recovery in 2021-2022 is conditional upon the assumed, slow normalization of the epidemic situation, the recovery of the economic activity abroad and an improvement in the prospects for the private sector's demand (consumption). The projection scenario assumes a relatively low rate of economic growth in the years 2021-2022, taking into account the significant scale of the decline in the economic activity in 2021. The projections indicate that the pace of the recovery in the domestic economic activity will be curbed by the probably recurring increases in the number of infections resulting in the reintroduction of the temporary constraints on the functioning of the economy and postponing of the lifting of the epidemic restrictions in force. Also, high uncertainty related to the further course of the COVID-19 pandemic will remain a factor curtailing the growth in the household spending and the capital expenditures over the time frame covered by the projection.

The additional information on the forecasts for 2021 is presented in section 2.3. of this report.

5.10. Current and forecast financial and assets situation (financial and assets outlook)

Taking into account the current market situation, it is expected that the results of TAURON Capital Group in the coming years will be affected by both the internal factors as well as the external factors.

The results of the **Mining Segment** in the coming years will, to a large degree, be dependent on the work progress in the implementation of the investment projects and the technical and organizational changes introduced. The Company assumes the implementation of the restructuring initiatives that are aimed at increasing the productivity and efficiency of the production and optimizing the costs.

It is expected that the financial situation of the **Generation Segment** over the next few years will improve, as compared to the current situation, mainly due to the commissioning of the 910 MWe unit in 2020 and due to the revenue from the capacity market. The additional revenue from the capacity market starting from 2021 will allow for compensating the expenditures incurred for the required refurbishments of the generating units in order to adapt them to the **BAT Conclusions**. In order to improve the results of the segment the activities aimed at improving the cost efficiency thereof will be continued throughout the entire line of business. On the other hand, the demanding market situation and the continuing upward trend of the CO₂ emission allowances' prices carry the risk of the degradation of the 1st degree margin on electricity and heat.

It is expected that the financial results of the **RES Segment** will be stable in the coming years. In line with the analysts' forecasts, an increase in the domestic electricity production from the renewable energy sources is assumed, which is related to the observed fast development of the photovoltaics systems underway in Poland, associated, first and foremost, with the launch of the support programs, including the ones addressed to the prosumers. According to SolarPower Europe, Poland was ranked in the fourth place in the EU in 2020 in terms of the growth of the new photovoltaic capacity. It is also estimated that the wind farm and PV capacity will increase and the prosumer sector will grow in the coming years. The strong interest in the RES area will translate into the growth of investments in the renewable generation sources, this will also be applicable, apart from the PV, to the

onshore wind farms, as well as, in the long term, to the offshore wind farms. An additional factor supporting the growth of the renewable energy sources (RES) is the possibility of obtaining funds for the investment projects from the dedicated funds envisaged for the years 2021-2030.

In the **Distribution Segment**, the level of remuneration (return) on the invested capital and the cost efficiency improvement measures undertaken will play a key role in impacting the operating result. The updating of the regulatory model will have a significant impact on the results in the coming years, and in particular the update of the parameters used to determine the weighted average cost of capital, the correction factor used to determine the justified operating expenses and the balancing difference factors used to determine the justified volume of the balancing difference. Undoubtedly, the financial situation of the enterprise will also be affected by the government actions related to supporting the development of the renewable sources and the local energy communities, curbing the emissions of harmful substances to the atmosphere and developing the infrastructure for charging electric vehicles.

Supply Segment - the need to curtail the expansion activities, while focusing on the goal of minimizing the number of customers leaving as well as recovering of the customers lost in the previous years, has to be kept in mind in the coming years, and also the threats (risks) related to the level of the electricity tariffs approved by the ERO. The challenges faced by the Supply Segment subsidiaries include the activities undertaken by the competitors, the growing awareness and expectations of the customers, as well as the growth of the prosumer market. The above factors will have an impact on the increase of the requirements in terms of both, the products offered, as well as the speed and quality of service.

Other operations: the main consumers of the shared services provided include, first and foremost, the Distribution and Supply Segments, for which the projects with respect to customer service are implemented and finalized, while at the same ensuring the highest quality of service. In addition, the services for TAURON Capital Group's subsidiaries are provided, with respect to, among others, financial and accounting services, human resources and payroll services, IT services, property security services, fleet management services and the real estate management services. Such activities enable achieving synergy effects across TAURON Capital Group and improve cost efficiency.

5.11. Principles of preparing annual consolidated financial statements

The Consolidated financial statements of TAURON Capital Group have been drawn up in accordance with the IFRS approved by the EU.

The IFRS comprise standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee.

TAURON Capital Group's subsidiaries and the parent entity keep their accounting books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy that is preparing the financial statements in accordance with the accounting principles applicable in the Czech Republic and the companies TEC1, TEC2, TEC 3, AVAL-1, WIND T1 and the limited partnerships listed in section 1.3.1 of this report, that are keeping their books and preparing their financial statements in accordance with the *Act of September 24, 1994, on accounting*.

The consolidated financial statements contain adjustments which are not included in the ledgers of TAURON Capital Group's entities, introduced in order to bring the consolidated statements into compliance with IFRS.

The Consolidated financial statements of TAURON Capital Group have been drawn up with the assumption of the continuation of business operations by TAURON Capital Group's subsidiaries in the foreseeable future, i.e. over the time frame not shorter than 1 year from the balance sheet date. As of the date of approval of the Consolidated financial statements of TAURON Capital Group for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON Capital Group's subsidiaries.

The accounting principles (policy) adopted for drawing up of the Consolidated financial statements of TAURON Capital Group are presented in note 6 to the Consolidated financial statements of TAURON Capital Group.

6. INFORMATION ON THE AUDIT FIRM

On November 23, 2018, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyt Polska) to conduct an audit of the financial statements and consolidated financial statements of TAURON for the years 2019-2021. On January 11, 2019, TAURON concluded an agreement with Ernst & Young Audyt Polska with the subject of the agreement covering:

1. audit of the financial statements of the Company for the years 2019-2021, drawn up in accordance with the requirements of the IFRS,
2. audit of the financial statements of selected subsidiaries of TAURON Capital Group for the years 2019-2021, drawn up in accordance with the IFRS,
3. audit of the consolidated financial statements for the years 2019-2021, drawn up in accordance with the IFRS,
4. review of the interim, half year financial statements of the Company, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS,
5. review of the interim, half year consolidated financial statements, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS.

In addition, in accordance with the agreement, TAURON may exercise the option to commission other permitted services including: verification of the interim, half-year and annual consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021, required to prepare the consolidated financial statements and to carry out in 2020 and 2021 the agreed procedures regarding the verification of the subsidiary's report on the update of the Regulatory Asset Base (RAB) and the Regulatory Asset Base for the AMI System (AMI RAB) for the purpose of determining a justified return on capital employed by the President of the Energy Regulatory Office (ERO) for the years 2021 and 2022.

In connection with the changes in the organization of TAURON Capital Group that took place last year and were described in the report for the year 2019, resulting in the need to include additional subsidiaries in the consolidated financial statements, on December 5, 2019, TAURON concluded, with Ernst & Young Audyt Polska, Amendment No. 1 to the agreement of January 11, 2019, under which the option to commission other permitted services in the form of the verification of the annual and interim, half-year consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021 was extended to include additional companies covered by the consolidated financial statements of TAURON Capital Group.

Prior to 2019 the services provided for the Company by Ernst & Young Audyt Polska had included the audit of the standalone financial statements and consolidated financial statements of the Company for the years from 2008 until 2012 and the years from 2017 to 2018 as well as the reviews of the interim, half year standalone financial statements and the consolidated financial statements of the Company for the periods ended on June 30 in the individual years from 2010 until 2012 and from 2017 to 2018. The Company had also used, prior to 2018, the advisory and training services provided by Ernst & Young Audyt Polska, to the extent in line with the legal regulations in force and not leading to the curtailment of the level of impartiality and independence of the auditor.

The compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries is presented in the below table.

Table no. 53. Compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries

| Services provided for TAURON Capital Group's subsidiaries | Year ended on December 31, 2020 (PLN '000) | Year ended on December 31, 2019 (PLN '000) |
|--|--|--|
| 1. Mandatory audit, including: | 1 323 | 1 318 |
| 4) consolidated financial statements | 147 | 147 |
| 5) standalone financial statements of the parent entity | 175 | 175 |
| 6) standalone financial statements of the subsidiaries | 1 001 | 996 |
| 2. Other certifying services provided to TAURON Capital Group, including reviews of financial statements | 937 | 967 |
| 3. Tax advisory services | 0 | 0 |
| 4. Other services (including training) provided for TAURON Capital Group | 0 | 0 |
| Total | 2 260 | 2 285 |

7. FINANCIAL RESOURCES AND INSTRUMENTS

7.1. Proceeds from security issues

Series A bond issue

As part of the program Agreement of February 6, 2020, the Company issued, on October 30, 2020, the bonds with the total nominal value (par value) of PLN 1 billion with the redemption date falling on October 30, 2025.

The proceeds from the issue of the bonds are dedicated to finance the costs of developing / acquiring RES projects, finance the distribution operations, as well as TAURON Capital Group's general corporate operations related to RES or energy transition to zero emission, and to refinance TAURON Capital Group's debt taken on in order to finance the above undertakings. The proceeds from the bond issue will not be allowed to be used to finance the new and existing coal fired units, the operations of TAURON Wytwarzanie and the operations of TAURON Wytwarzanie (in case of other undertakings than the ones indicated above)

The detailed information on the bonds issued and unredeemed, as of December 31, 2020, by TAURON Capital Group is presented in note 39.2 to the *Consolidated financial statements of TAURON Capital Group*.

7.2. Financial instruments

Application of financial instruments in order to eliminate price changes, credit risk, material disruptions of cash flows and loss of financial liquidity

The financial risk at TAURON Capital Group is managed by TAURON. The centralizing of the financial risk management function is aimed at optimizing the process, including minimizing TAURON's and TAURON Capital Group's costs in the above mentioned respect. As part of the financial risk management in 2020 TAURON Capital Group continued to hedge the risk of volatility in cash flows resulting from its debt based on the WIBOR reference rate by entering into interest rate swap (IRS) hedging transactions.

Moreover, in 2020 TAURON hedged its FX exposure arising from the trading operations (mainly due to the purchase of the CO₂ emission allowances) by concluding the forward contracts. In 2020 TAURON was also continuing the strategy of hedging its foreign currency exposure generated by the interest payments on the financing obtained in EUR by concluding the forward contracts. The goal of such transactions was to hedge against the risk of cash flow volatility resulting from the FX rate fluctuations.

With respect to hedging the credit risk, TAURON Capital Group did not use any financial instruments.

As part of the efforts aimed at eliminating the price risk (loss of margin), the contracting of the electricity sales is followed by the contracting of the CO₂ emission allowances. Such a method of hedging the positions allows for minimizing the risk of the CO₂ costs not being covered by the contracted electricity price. The basis for determining the CO₂ sales price for the emission allowances volume defined this way is the CO₂ price on the exchange from the time when the CO₂ volume is contracted.

On the other hand, as part of the liquidity loss risk management, the instruments referred to in section 7.3 of this report are used.

Objectives and methods of financial risk management

The detailed information on the objectives and methods of the financial risk management at TAURON and TAURON Capital Group is presented in section 3.3 of this report.

7.3. Assessment of financial resources management

TAURON is conducting centralized financial management policy and as a result of that effective management of the finances of entire TAURON Capital Group is possible. The main tools enabling effective management include adequate internal corporate regulations as well as the *cash pool* service and the intra-Group loans. In addition, the adopted financial management model is supported by the central policy with respect to TAURON Capital Group's financial risk management and the central Insurance policy of TAURON Capital Group. In these areas the Company is performing the function of the management body (manager) and the decision maker with respect to the directions of the measures undertaken, enabling the setting of the relevant limits of the risk exposure.

In accordance with the adopted financing policy the Company is responsible for acquiring the financing for TAURON Capital Group's subsidiaries. The funds acquired both internally (from TAURON Capital Group's subsidiaries generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to TAURON Capital Group's subsidiaries that are reporting the need for the financing.

The conducted policy of acquiring the funding sources enables, first of all, to increase the possibility of obtaining the financing for the general corporate purposes and capital expenditures (CAPEX), decrease the cost of the external capital, curtail the establishing of the number and form of the collaterals (pledges) on the assets of TAURON Capital Group as well as the covenants required by the financial institutions, and also leads to the reduction of the administrative (overhead) costs. The central corporate financing model also enables acquiring the funding sources that are not available for the individual subsidiaries. The Company is also considering implementing the method of acquiring funding using the *project finance* formula with respect to the RES projects. In 2020, the Company obtained approvals from the financial institutions regarding the exclusion of the financing obtained by TAURON's selected special purpose vehicles (SPV) for the implementation of the RES investment projects from the net debt / EBITDA ratio. In case of the *project finance* solutions, the funds will be obtained directly by the companies implementing the investment projects in the field of renewable energy sources (RES) in cooperation with TAURON - TAURON will be performing the arrangement (organizational) functions. The above action should enable greater use of debt financing as part of the green turn strategy implemented by TAURON.

Another key element impacting the financial management efficiency is the financial liquidity management policy, implemented, among others, through the determination of the liquidity position and implementation of the liquidity controlling processes. TAURON Capital Group manages cash flows efficiently, maintains adequate liquidity of TAURON Capital Group by optimizing the level of expenses and cash balances at the subsidiaries. The above activities lead to improving the selection of the moment of fund raising and determining the maturity date, as well as maintaining an adequate level of the liquidity reserve, and also cause the reduction of the financial costs.

In order to optimize TAURON Capital Group's financial liquidity management and the decision making processes, in particular with regard to the total working capital and approving the liquidity position of TAURON Capital Group's subsidiaries for the given year, as well as for the purpose of the ongoing monitoring and developing the management guidelines for the subsidiaries, the Liquidity Committee was set up at TAURON Group.

The liquidity management is supported by the implemented *cash pool* mechanism. Its overarching goal is to ensure TAURON Capital Group's ongoing financial liquidity, while at the same time curbing the costs of the short term external financing and minimizing the financial costs related to maintaining cash surpluses on the bank accounts. Owing to the functioning of the *cash pool* structure TAURON Capital Group's subsidiaries, facing short term funding deficits, may use the funds of the subsidiaries generating the financial surpluses, without the need to acquire the external financing.

Both, the financing policy, as well as TAURON Capital Group's liquidity management policy conducted by TAURON are aimed, apart from increasing the efficiency of managing TAURON Capital Group's finances, first of all, at eliminating threats of curtailment or loss of TAURON Capital Group's financial liquidity. The guaranteed sources of the financing, obtained with an appropriate lead time, effectively eliminate the risk of TAURON Capital Group losing its liquidity. The Company is pursuing a policy of diversifying the financing instruments, but, first and foremost, it is seeking to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet the current and future liabilities in the short and long term.

Moreover, TAURON Capital Group has dedicated agreements in place to provide the collateral for the liabilities towards IRGiT (Warsaw Commodity Exchange Clearing House) and the bank guarantee programs, under which it is possible to issue guarantees to provide the collateral for the liabilities of TAURON Capital Group's subsidiaries within the centralized bank limits. The above mentioned measure curtailed the costs of the guarantees acquired and curbed the total number of actions required to obtain a guarantee.

In 2020 the Company and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.

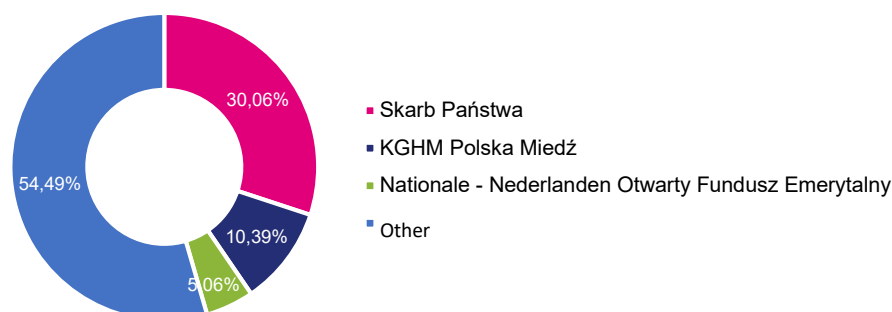
8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

8.1. Shareholding structure

As of December 31, 2020, and as of the date of drawing up this report the Company's share capital, in accordance with an entry in the National Court Register, stood at PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered ordinary BB series shares, which, as of March 1, 2021, were dematerialized under the *Act of August 30, 2019, on amending the Act - Code of Commercial Companies and certain other acts* (Journal of Laws of 2019, item 1798, as amended acc. to Journal of Laws of 2020, item 875).

The below figure presents the shareholding structure as of December 31, 2020 and as of the date of drawing up this report.

Figure no. 82. Shareholding structure as of December 31, 2020 and as of the date of drawing up this report



The detailed information regarding the shareholding structure (composition) is presented in section 9.4. of this report.

8.2. Dividend policy

As part of its Strategy adopted on September 2, 2016 the Company adopted its dividend policy. In the long term TAURON is planning to pay out a dividend of minimum 40 percent of the consolidated net profit. The Company's intention is to provide a dividend yield that would be competitive versus the yield offered by long term debt instruments issued on the Polish market by investment grade rated companies. The final recommendation on the dividend will be impacted by the additional factors, including in particular:

1. TAURON Capital Group's liquidity position,
2. market situation,
3. implementation of the investment policy,
4. cost and ability to obtain financing,
5. legal requirements and provisions of the financing agreements, in particular related to not breaching the defined level of the leverage ratio,
6. ensuring investment grade rating.

The dividend was last time paid out by the Company in 2015, in the amount of PLN 262 882 409.10 for the financial year 2014. As of 2015, the Company has not paid out any dividend.

On March 30, 2020, the Management Board of TAURON recommended to the Ordinary General Meeting (GM) of the Company to cover the loss for the financial year 2019 from the supplementary capital and did not recommend the payout of the dividend in 2020 from the supplementary capital.

8.3. Number and nominal value of TAURON Polska Energia S.A.'s shares, as well as of the shares in the related units, held by the Members of the Management Board and the Supervisory Board

As of December 31, 2020, and as of the date of drawing up this report, the Members of the Management Board and the Members of the Supervisory Board did not hold any TAURON shares, nor they held any shares in the units related to the Company.

From the date of disclosing the previous periodic report, i.e. from November 18, 2020, to the date of disclosing this report, there had been no changes in the ownership of TAURON shares or rights thereto by the Members of the Management Board of the Company and the Members of the Supervisory Board of the Company.

8.4. Agreements related to potential changes to the shareholding structure

The Company has no information on the existence of agreements (including also the agreements concluded past the balance sheet date), as a result of which changes in the proportions of shares held by the existing shareholders and bondholders may occur in the future.

8.5. Share buybacks

In 2020 and as of the date of drawing up this report, TAURON Dystrybucja held its own shares that had been purchased by the company in order to be redeemed (retired) under the procedure of the mandatory buy-back of the company's shares pursuant to Art. 418¹ Code of the Commercial Companies. In 2020 TAURON Dystrybucja purchased for redemption a total of 2 854 680 of its own shares with a total nominal value of PLN 57 093.60, that amounted to 0.01% of the share capital, which, as of December 31, 2020, stood at PLN 560 575 920.52.

The above 2 854 680 of the company's own shares were acquired at the gross price of PLN 0.45 per share, which gave the total payment of PLN 1 284 606. The company's own shares acquired in 2020 have not been redeemed and as of December 31, 2020, and as of the date of this report, they accounted for approx. 0.01% of TAURON Dystrybucja's share capital.

In 2020 and as of the date of drawing up this report, TAURON and the other subsidiaries did not hold their own shares.

8.6. Employee stock award programs

In 2020 no employee stock award programs were implemented by the Company.

8.7. Shares performance on the Warsaw Stock Exchange (WSE)

TAURON shares have been listed on the Main Market of the Warsaw Stock Exchange since June 30, 2010.

TAURON share price fluctuated between PLN 0.82 and PLN 3.26 (at the closing prices) in 2020. During the last session of 2020 the share price stood at PLN 2.72, while as of the end of 2019 the price reached PLN 1.64.

The investors' sentiment on the WSE in 2020 was influenced by the effects of the COVID-19 pandemic, which had a negative impact on most sectors of the economy. This translated into the GDP growth rate achieved by the Polish economy, which, according to the estimates of the Central Statistics Office (GUS), decreased (contracted) by 2.8%.

The WIG index fell by 1.4%, and the WIG20 index by 7.7% in 2020. The negative trend observed in 2020 on the Polish stock market was also a consequence of the external factors, such as the trade restrictions between the United States and China as well as the uncertainty related to the US presidential elections.

On the other hand, the investors had a positive view of the companies operating in the energy sector, which translated into a 4.3% rise of the WIG-Energia index. It should be noted that the rate of return on the investment in TAURON shares in 2020 clocked in at almost 66% (PGE: -18.34%, ENEA: -17.4%, ENERGA: + 11.3%).

The transition towards RES launched by the Company had a positive impact on the performance of TAURON shares' price in 2020. In line with the strategic assumptions, TAURON Capital Group is seeking to increase the share of RES in the generation mix and reduce the CO₂ emissions. As a consequence, by 2030, the reduction of the emissions should exceed 50%. By 2030 TAURON will be producing more than 65% of electricity based on RES.

In 2020, the prices of the energy sector companies were supported by the information about the commencement of the process of the transition of the energy sector and the hard coal mining industry, as part of which it is planned that the coal assets owned by the Polish energy groups will be transferred to a separate entity and a social agreement will be concluded, which would define, inter alia, the shutdown plan for the coal mines. The implementation of such measures would significantly facilitate the financing of the process of the transition of the Polish energy sector towards renewable energy sources (RES).

As of December 31, 2020, TAURON shares were included in the following stock exchange indices:

1. **WIG** – an index that includes all companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in WIG: 0.99 percent,
2. **WIG-Poland** – a national index that groups solely shares of domestic companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in WIG-Poland index: 1.01 percent,
3. **WIG20** – an index calculated on the basis of the value of the portfolio of the shares of 20 largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG20 index: 1.40 percent,
4. **WIG30** – an index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG30 index: 1.29,
5. **WIG-Energia** – a sector based index that comprises companies included in the WIG index and are also qualified to the energy sector. TAURON's share in WIG-Energia: 24.27 percent,

6. **WIG-ESG** – an index that includes the shares of companies considered as socially responsible, i.e. those that comply with the principles of corporate social responsibility, in particular with respect to the environmental, social, economic and corporate governance issues. TAURON's share in WIG-ESG: 0.89 percent.

The below table presents the key data on the Company's shares in 2011-2020.

Table no. 54. Key data on the Company's shares in 2011-2020

| Year | Share price high (PLN) | Share price low (PLN) | Last share price (PLN) | Market capitalization at the end of the period (PLN m) | Market capitalization at the end of the period (%) | Book value (PLN m) | Price / Earnings |
|------|------------------------|-----------------------|------------------------|--|--|--------------------|------------------|
| 2011 | 6.81 | 4.65 | 5.35 | 9 376 | 2,1 | 15 922 | 8.1 |
| 2012 | 5.61 | 4.08 | 4.75 | 8 325 | 1,59 | 16 839 | 5.5 |
| 2013 | 5.39 | 3.85 | 4.37 | 7 659 | 1,29 | 17 675 | 5.5 |
| 2014 | 5.69 | 4.04 | 5.05 | 8 850 | 1,5 | 18 107 | 7.8 |
| 2015 | 5.29 | 2.37 | 2.88 | 5 047 | 0,98 | 18 837 | 4.2 |
| 2016 | 3.19 | 2.31 | 2.85 | 4 995 | 0,9 | 16 349 | - |
| 2017 | 4.12 | 2.75 | 3.05 | 5 345 | 0,8 | 17 880 | 3.02 |
| 2018 | 3.28 | 1.67 | 2.19 | 3 838 | 0,66 | 18 967 | 3.7 |
| 2019 | 2.44 | 1.43 | 1.64 | 2 874 | 0,52 | 19 168 | 13.9 |
| 2020 | 3.26 | 0.82 | 2.72 | 4 770 | 0,89 | 18 071 | - |

| Year | Price / Book Value | Rate of return ytd* (%) | Dividend yield (%) | Trading volume (PLN m) | Trading volume share (%) | Average volume per session (pcs) | Average number of transactions per session (pcs) |
|------|--------------------|-------------------------|--------------------|------------------------|--------------------------|----------------------------------|--|
| 2011 | 0.59 | -16.73 | 2.8 | 5 575 | 2.21 | 3 721 539 | 1 373 |
| 2012 | 0.49 | -5.03 | 6.5 | 3 199 | 1.7 | 2 667 725 | 960 |
| 2013 | 0.43 | -3.64 | 4.6 | 3 104 | 1.41 | 2 793 020 | 1 022 |
| 2014 | 0.49 | 20.07 | 3.8 | 3 135 | 1.53 | 2 489 329 | 1 106 |
| 2015 | 0.27 | -40.78 | 5.2 | 3 063 | 1.5 | 3 190 195 | 1 431 |
| 2016 | 0.31 | -1.04 | - | 3 199 | 1.69 | 4 662 087 | 1 465 |
| 2017 | 0.31 | 7.02 | - | 2 737 | 1.16 | 3 261 765 | 1 323 |
| 2018 | 0.2 | -28.2 | - | 3 104 | 1.52 | 5 622 737 | 1 769 |
| 2019 | 0.15 | -25.11 | - | 2 001 | 1.04 | 4 508 965 | 1 699 |
| 2020 | 0.26 | 65.98 | - | 3 233 | 1.09 | 6 807 622 | 2 523 |

*Rate of return calculated taking into account the investor's income from the dividend and assuming that the additional income realized is re-invested. Methodology in accordance with Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

Source: Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

The below graphs present the historical TAURON share price performance and trading volumes, including against the backdrop of the WIG20 and WIG-Energia indices.

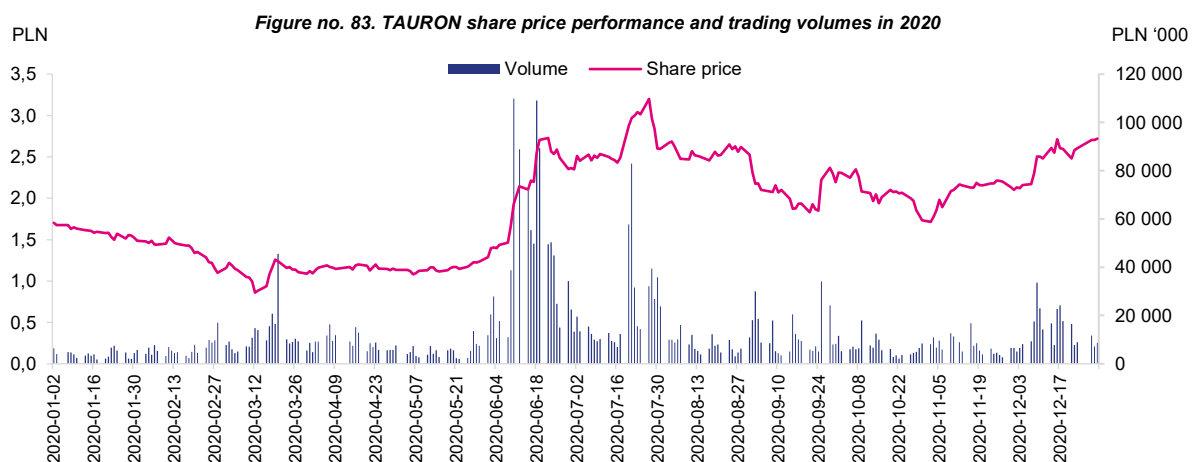


Figure no. 84. TAURON share price and trading volumes since the market debut until December 31, 2020

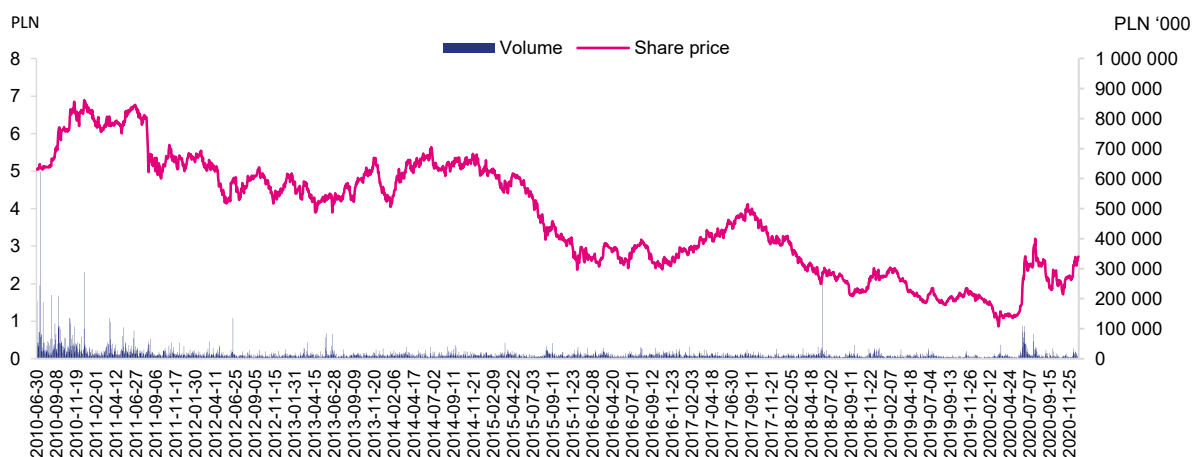
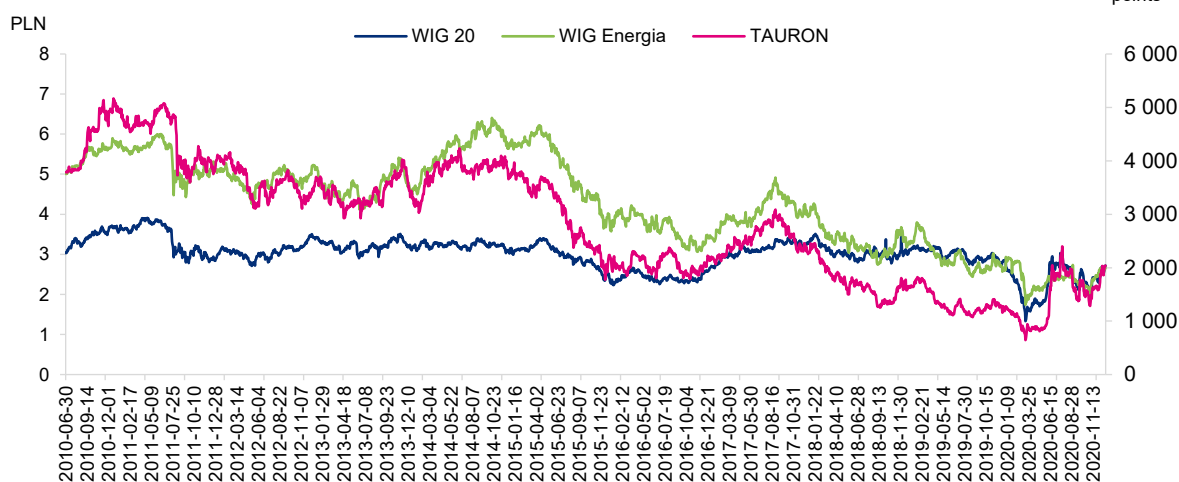


Figure no. 85. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2020



Recommendations for the shares of TAURON Polska Energia S.A.

Analysts from brokerage houses and investment banks issued, in total, 18 recommendations for TAURON shares in 2020, including:



12

"buy" recommendations



2

"hold" recommendations



4

"sell" recommendations

The below table presents a list of recommendations issued in 2020.

Table no. 55. Recommendations issued in 2020

| Date of issuing recommendation | Institution issuing recommendation | Recommendation / target price |
|--------------------------------|--|-------------------------------|
| 05.02.2020 | Societe Generale | Hold / PLN 1.70 |
| 12.02.2020 | Citi | Buy / PLN 1.70 |
| 12.02.2020 | Dom Maklerski (Brokerage House) PKO BP | Sell / PLN 1.38 |
| 13.02.2020 | Santander Biuro Maklerskie (Brokerage House) | Hold / PLN 1.60 |
| 04.03.2020 | Santander Biuro Maklerskie (Brokerage House) | Buy / PLN 1.50 |
| 08.04.2020 | Santander Biuro Maklerskie (Brokerage House) | Sell / PLN 1.00 |
| 06.05.2020 | Societe Generale | Hold / PLN 1.20 |
| 15.05.2020 | Erste | Hold / PLN 1.20 |
| 10.06.2020 | Santander Biuro Maklerskie (Brokerage House) | Buy / PLN 4.30 |
| 25.06.2020 | IPOPEMA | Buy / PLN 4.03 |

| Date of issuing recommendation | Institution issuing recommendation | Recommendation / target price |
|--------------------------------|---|-------------------------------|
| 08.07.2020 | Erste | Buy / PLN 3.11 |
| 17.07.2020 | TRIGON Dom Maklerski (Bokerage House) | Buy / PLN 3.10 |
| 29.07.2020 | Santander Biuro Maklerskie (Bokerage House) | Buy / PLN 4.00 |
| 06.08.2020 | Citi | Buy / PLN 3.20 |
| 01.10.2020 | Dom Maklerski (Bokerage House) PKO BP | Buy / PLN 3.10 |
| 05.10.2020 | Societe Generale | Buy / PLN 2.90 |
| 27.11.2020 | Santander Biuro Maklerskie (Bokerage House) | Buy / PLN 4.20 |
| 14.12.2020 | Santander Biuro Maklerskie (Bokerage House) | Buy / PLN 5.70 |

8.8. Investor relations

Transparent, accurate and regular communications is the foundation of TAURON's investor relations (IR) program. It is provided not only in the form of mandatory activities required by law, i.e. by disclosing information in the current and periodic regulatory filings (current reports), but it is also supplemented via many additional activities and tools addressed directly to all of the stakeholders. As a consequence, high quality communications leads to a higher level of trust among the investors, financing institutions and business partners. Building relationships with the investors is based on both implementing the best practices used around the world as well as setting the highest standards on the Polish capital market.

Analysts, journalists and shareholders had access to a wide spectrum of information about TAURON Capital Group in 2020, using various communication tools. Due to the epidemic related restrictions, the meetings with the journalists, investors and analysts were held online.

In connection with the publication of the periodic reports, the Company organized earnings conferences for investors and analysts, each time attended by several dozen representatives of the capital markets and media. Such events were simultaneously interpreted into English. It was also possible to follow (replay) them at a later date. As a result, all interested parties were guaranteed equal access to the information. Furthermore, the Company organized 4 chats with the representatives of the Management Board, dedicated to the individual investors.

Apart from the meetings accompanying the publication of the periodic reports, the Members of the Management Board and the representatives of the Investor Relations Team took part in more than a dozen conferences in 2020, during which several dozen meetings with investment fund managers and capital market analysts were held. During the meetings with the investors, the Members of TAURON's Management Board and the key managers were presenting TAURON Capital Group's strategy, discussing the key capex projects, the financial situation as well as the current standing and the outlook for the energy sector.

In 2020, similar as in the previous years, TAURON also participated in the events addressed to the individual investors. The Company was, inter alia, a strategic partner of the "WallStreet" conference organized by the Individual Investors Association (Stowarzyszenie Inwestorów Indywidualnych).

In connection with the growing importance of the online channels and the social media, the Company is placing a lot of weight on their development with respect to the communications with the investors. Broadcasts of events important for the investors were provided via the YouTube service, for example, earnings conferences or the GMs. TAURON also has a corporate profile on Twitter where entries related to, among others, the investor relations are posted. Being aware of the fact that the website is a significant source of information for the investors, in particular, the *Investor Relations* tab; the Company takes care of its content and validity of the content provided therein. The *Investor Relations* section contains a lot of useful information on the current events, financial results or TAURON Capital Group's strategy. It also provides presentations and video broadcasts of the conferences summarizing the financial results.

The activities with respect to investor relations are regularly appreciated by the capital market participants and investors.

The detailed information on the awards and accolades (honorable mentions) received by TAURON and TAURON Capital Group's subsidiaries is presented in section 2.7. of this report.

The below table presents a timeline of the investor relations highlights and activities that took place in 2020.

Table no. 56. Timeline of the investor relations highlights and activities that took place in 2020

| Date | Highlight (event) |
|---------------|---|
| 01.04.2020 | Full year 2019 standalone and consolidated earnings reports published |
| 02.04.2020 | Meeting with analysts and fund managers to present FY 2019 earnings |
| 02.04.2020 | Chat for individual investors as part of cooperation with the Individual Investors Association. |
| 13.05.2020 | Q1 2020 consolidated earnings report published |
| 14.05.2020 | Meeting with analysts and fund managers to present Q1 2020 earnings |
| 14.05.2020 | Chat for individual investors as part of cooperation with the Individual Investors Association |
| 15.07.2020 | Company's Ordinary General Meeting. |
| 19.08.2020 | H1 2020 consolidated earnings report published. |
| 20.08.2020 | Meeting with analysts and fund managers to present H1 2020 earnings |
| 20.08.2020 | Chat for individual investors as part of cooperation with the Individual Investors Association |
| 07.09.2020 | Participation in the <i>17th Annual Emerging Europe Investment Conference</i> , Pekao Investment Banking. |
| 30.09.2020 | Participation in the conference <i>Metals & Energy</i> , PKO BP Securities. |
| 07.10.2020 | Participation in the conference <i>The Finest CEElection 2020</i> , Erste Group. |
| 08-09.10.2020 | Roadshow related to the bonds. |
| 18.11.2020 | Q3 2020 consolidated earnings report published |
| 19.11.2020 | Meeting with analysts and fund managers to present Q3 2020 earnings |
| 19.11.2020 | Chat for individual investors as part of cooperation with the Individual Investors Association |
| 03.12.2020 | Participation in the <i>WOOD's Winter Wonderland - Emerging Europe Conference</i> , WOOD&Company. |

9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 70, clause 6, sub-clause 5) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information disclosed by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a non-member state (i.e. Journal of Laws of 2018, item 757), the Company's Management Board presents the statement on the application of corporate governance in 2020.

9.1. Applied set of corporate governance rules

In 2020 the Company was subject to the corporate governance rules, described in the document *Best Practice of WSE (GPW) Listed Companies 2016* (Best Practice 2016), adopted by the Supervisory Board of the WSE (GPW) in resolution no. 26/1413/2015 of October 13, 2015, which came into force on January 1, 2016.

The text of the Best Practice 2016 that the Company is subject to is published on the GPW website at the address: <https://www.gpw.pl/dobre-praktyki>.

9.2. Set of abandoned rules of corporate governance

In 2020 the Company did not apply the following detailed rules provided in the Best Practice 2016:

1. IV.Z.2. – the rule concerning the provision of the publicly available real-time broadcasts of the GM. The Company is monitoring, on an ongoing basis, the shareholding structure (composition) and in case changes take place that would justify the need to provide the publicly available real-time broadcasts of the general meeting, the Company will take relevant actions in order to provide the broadcast,
2. VI.Z.1. – the rule concerning the construction of incentive schemes in a way necessary, among others, to tie the level of compensation of members of the Company's management board and key managers to the actual long term financial standing of the Company and long term shareholder value creation as well as the Company's stability. That rule was not applied due to the compensation and bonus system applicable at TAURON in relation to members of the Management Board of the Company and its key managers that stipulates that the level of compensation will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,
3. VI.Z.2. - the rule concerning tying the compensation of members of the management board and key managers to the Company's long term business and financial goals. The period between the allocation of options or other instruments linked to the Company's shares under the incentive scheme and their exercisability should be no less than 2 years That rule was not applied due to the compensation and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers that does not provide that compensation should be tied to instruments linked with the Company shares.

In 2020 the following rules provided in the Best Practice 2016 did not apply to the Company:

1. I.Z.1.10. concerning posting the financial projections on the Company website - if the company has decided to publish them - published at least in the last 5 years, including information about the degree of their achievement. This principle did not apply to the Company due to the fact that the Company did not publish the financial forecasts,
2. III.Z.6. stating that where the Company has no separate internal audit function in its organization, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated - That rule was not applied to the Company due to the fact that the Company had a separate internal audit unit within its organizational structure.

The detailed description of the manner of applying the above rules is provided in the *Information on the status of applying by the Company of the recommendations and rules provided in Best Practice 2016*, provided on the Company's website at the address: <https://www.tauron.pl>.

Information concerning abandonment of the recommendations provided in Best Practice 2016 for application

In 2020 the Company did not apply only the recommendation provided in Best Practice 2016, designated as IV.R.2 concerning ensuring a possibility to shareholders to participate in the GM using electronic communication means. The Company is monitoring, on an ongoing basis, changes in the shareholding structure (composition) that could affect the way the communication is conducted during the general meeting. In addition, if the Company receives requests from the shareholders to conduct a general meeting using the electronic means of communication, the Company will verify the technical possibilities that would ensure a safe conduct of the general meeting for the shareholders and the Company, and in the absence of any contraindications, the Company will take actions in accordance with this recommendation.

The other recommendations provided in the Best Practice 2016 were applied by the Company in 2020.

9.3. Main characteristics of internal controls and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

The internal audit and risk management system with respect to the process of drawing up the financial statements and consolidated financial statements is implemented on 3 levels:

LEVEL I

General principles of
of the Company's and TAURON
Capital Group's management

Pursuant to the adopted internal regulations TAURON Capital Group's subsidiaries operate based on the organizational regulations and have defined organizational structures where the applicable business units are assigned the responsibility for preparing the financial statements and the consolidated financial statements. Such units are obligated to perform ongoing control of the tasks vested and the functional control of their activities. Based on TAURON Capital Group's Business Model put in place the Process Documentation of Mega-process 3.4 Accounting was implemented, containing, among others, processes associated with the financial reporting of the Company and TAURON Capital Group. The process documentation defines the responsibilities of the business units within the reporting processes.

LEVEL II

Risk management

TAURON Capital Group has put the Risk Area in place, whose role is to oversee and establish TAURON Capital Group's risk management system. These functions are implemented within the Company by the Corporate and Transaction Risk, Market and Credit Risk Management Teams. The purpose of the risk management is to improve the predictability of attaining strategic objectives by TAURON Capital Group, including stable creation of the financial result through early identification of threats allowing preventive activities to be undertaken. Risk management standards applicable at TAURON Capital Group have been defined in *TAURON Group's Corporate Risk Management Strategy* and in the policies for managing the specific risks. The ERM system encompasses all of TAURON Capital Group's lines of business and the business processes carried out within TAURON Capital Group, including the process of drawing up the financial statements. The risks associated with this process are managed, monitored and reported within the ERM System. The goal of the standardization is to ensure consistency in managing the individual risk categories, defining the general principles, standards and tools of the system's architecture. The oversight of the ERM system at TAURON Capital Group is performed by the Risk Committee, which as an expert team, on a permanent basis and continuously, initiates, analyzes, monitors, controls and supports the functioning of TAURON Capital Group's risk management system.

The detailed information on the risk management system is presented in section 3.2. of this report.

LEVEL III

Internal audit

The Audit and Control Area is functioning within TAURON Capital Group, with the goal to plan and implement the audit tasks, including the advisory and opinion (feedback) providing activities as well as the performance of the control tasks, including the ad-hoc inspections commissioned. The audit and advisory activities are carried out by the Internal Audit Team carrying out the audit tasks both on the strategic level, covering TAURON Capital Group, as well as the specialized operational tasks on the level of the individual subsidiaries and lines of business areas of TAURON Capital Group. The control activities are organized in a similar manner, carried out on the group level by the Internal Control Team and on the level of the subsidiaries by the inspectors employed by such subsidiaries. In addition, the Internal Control Team carries out specialist audits (controls) of the IT, OT and security systems. Such organization of the area is aimed at enabling the scope of audits and controls to cover the entire operations of the organization both from the point of view of the needs of TAURON Capital Group and those of the individual subsidiaries. In December 2020, the Audit and Control Area completed the design works aimed at building and developing a model for a periodic assessment of the Internal Control System functioning at the Company as well as at entire TAURON Capital Group. The results of the assessment of the Internal Control System are presented to the Company's Management Board and the Audit Committee of the Company's Supervisory Board.

Most important aspects related to internal audit and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Supervision over application of consistent (uniform) accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statements

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS), approved by the European Union, the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's standalone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Office and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for the Company's Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The detailed information on the composition, competences and description of the operations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. is presented in section 9.11. of this report.

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the consistency (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification.

Due to the integration of the accounting functions and the transfer of TAURON Capital Group's material subsidiaries' financial and accounting services to CUW-R (Shared Services Center – Accounting) TAURON Capital Group's financial and accounting processes were gradually unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments.

TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, *inter alia*, aimed at improving the process of drawing up the financial statements.

Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to an audit by a certified auditor. In 2018, the Company selected an entity authorized to audit and review the financial statements of the Company and of TAURON Capital Group's material subsidiaries, as well as the consolidated financial statements. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2019-2021, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2019, June 30, 2020 and June 30, 2021.

The rule related to changing the audit firm of the Company and TAURON Capital Group

In 2020, the Audit Committee of the Company's Supervisory Board updated, on October 5, 2020, the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.*, which included the following rule:

1. maximum duration of continuous audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. after the 10-year duration of the mandate (engagement) neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit

Until October 5, 2020, the maximum continuous duration of audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, could not have exceeded 5 years.

9.4. Shareholders holding substantial blocks of shares

The below table presents shareholders holding, as of December 31, 2010 and as of the date of drawing up this report, directly or indirectly via subsidiaries, substantial blocks of the Company's shares.

Table no. 57. Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2020 and as of the date of drawing up this report

| Shareholders | Number of shares held | Percentage share in share capital | Number of votes held | Percentage share in the total number of votes |
|---|-----------------------|-----------------------------------|----------------------|---|
| 1. State Treasury | 526 848 384 | 30.06% | 526 848 384 | 30.06% |
| 2. KGHM Polska Miedź (Polish Copper) | 182 110 566 | 10.39% | 182 110 566 | 10.39% |
| 3. Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund) | 88 742 929 | 5.06% | 88 742 929 | 5.06% |

Since the date of publishing the previous periodic report, i.e. since November 18, 2020, until the date of drawing up this report the Company had not received any notifications from its shareholders of any changes in the ownership structure of the substantial blocks of TAURON shares.

9.5. Holders of securities providing special control rights

The Company did not issue securities that would grant special control rights with respect to the Company.

9.6. Restrictions on exercising the voting right

Restrictions on exercising the right to vote are included in § 10 of the Company's Articles of Association which are available on the Company's website: <https://www.tauron.pl>.

The above restrictions on exercising the voting right are formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the company shall be limited so that none of them can exercise more than 10% of the total votes in the company at the General Meeting of Shareholders.
2. The restriction on exercising the voting right mentioned in clause 1 above shall not apply to the State Treasury and entities controlled thereby in the period during which the State Treasury, together with entities controlled thereby, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company.
3. Votes of shareholders who have a parent / subsidiary relationship within the meaning of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
4. A shareholder, in the understanding of § 10 of the Articles of Associations, shall be any party (entity, person), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity, person) that does not hold the company's shares, and in particular to a user, lien holder, party (entity, person) entitled on the basis of a depositary receipt under regulations of the *Act of July 29, 2005 on financial instruments trading*, as well as a party (entity, person) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
5. A parent company and subsidiary company, for the purposes of § 10 of the Company's Articles of Association, shall be understood, accordingly, as a party (entity, person):
 - 1) with a status of a controlling undertaking, controlled undertaking or, at the same time, both the status of a controlling undertaking and controlled undertaking in the understanding of the *Act of February 16, 2007 on the protection of competition and consumers*, or
 - 2) with a status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company, co-controlled company or one that has both the status of a parent company (including a higher level parent company) and the status of a subsidiary (including a lower level subsidiary company and a co-controlled company) in the understanding of the *Act of September 29, 1994 on accounting*, or
 - 3) which has (parent company) or one which is under (subsidiary company) controlling influence in the understanding of the *Act of September 22, 2006 on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or
 - 4) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity, person) or other parties (entities, persons) on conditions defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring substantial blocks of the Company's shares.

6. Aggregation of votes is based on totaling the number of votes held by individual shareholders that are members of the Shareholders' Cluster.
7. Reduction of votes involves decreasing the total number of votes in the Company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the Company. Reduction of the votes shall take place in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the largest number of votes in the company among all shareholders that are members of the Shareholders' Cluster shall be reduced by a number of votes equal to a surplus above 10% of total votes in the company held by all shareholders that are members of the Shareholders' Cluster,
 - 2) if, despite the reduction mentioned in 1) above, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,
 - 3) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
 - 4) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.
8. Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity, person) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Company's Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
10. A party (entity, person) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity, person) shall be null and void.

9.7. Restrictions on transfer of the ownership right to securities

As of December 31, 2020, and as of the date of drawing up this report the Company's Articles of Association do not envisage restrictions on the transfer of the ownership right to the Company's securities.

However, in accordance with the *Act of July 24, 2015 on the control of certain investments* (Journal of Laws of 2020, item 117), an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is, in accordance with the *Regulation of the Council of Ministers of December 23, 2019, on the list of entities subject to protection and their competent control bodies* (Journal of Laws of 2019, item 2501, as subsequently amended), an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – the competent Minister of the State Assets of its intention to do so, unless such obligation rests on other entities.

9.8. Rules on appointing and dismissing the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., and the powers thereof

Management Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing the Members of the Company's Management Board

Management Board of the Company shall be composed of 1 to 6 persons, including the President and Vice Presidents. Members of the Management Board shall be appointed and dismissed by the Company's Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. Each of the Members of the Management Board can be dismissed or suspended in office by the Company's Supervisory Board or the GM.

In order to recruit a person with whom an agreement on providing the management services at the Company, the Company's Supervisory Board announces a competition and conducts a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a member of the Company's Management Board must meet the requirements set forth in § 16, clauses 3 and 4 of the Company's Articles of Association. The announcement of the qualification process is published on the Company's web site at the address: <https://www.tauron.pl>. and in the Public Information Bulletin of the Minister competent to exercise the rights related to the State Treasury's shares. The Company notifies the shareholders of the results of the qualification procedure.

Competence of the Company's Management Board

Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Company's Articles of Association, to the scope of competence of the General Meeting (GM) of Shareholders or the Supervisory Board, shall be within the scope of competence of the Company's Management Board.

In accordance with the Company's Articles of Association, all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Company's Management Board, in particular, the following issues listed in the below table, as of December 31, 2020, and as of the date of drawing up this report.

Table no. 58. Competence of the Company's Management Board as of December 31, 2020, and as of the date of drawing up this report

| Matters that require a resolution of the Company's Management Board | |
|---|--|
| 1. | Company's Management Board by-laws, |
| 2. | Company's enterprise organizational regulations, |
| 3. | establishment and liquidation of branches, |
| 4. | appointment of a proxy, |
| 5. | taking on credits and loans, |
| 6. | approving annual material and financial plans of the Company and of the Capital Group as well as the Capital Group's Corporate Strategy, |
| 7. | assuming contingent liabilities within the meaning of the <i>Act of September 29, 1994 on accounting</i> , including granting guaranties and sureties by the Company as well as issuing bills of exchange, subject to § 20 clause 2 items 3 and 4 of the Company's Articles of Association, |
| 8. | making donations, cancelling interest or releasing from debt, subject to § 20 clause 2 items 12 and 13 of the Company's Articles of Association, |
| 9. | purchase of real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, subject to § 20 clause 2 item 1 of the Company's Articles of Association, |
| 10. | purchase of fixed assets excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 1 of the Company's Articles of Association, |
| 11. | disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association, |
| 12. | defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 4 items 9 and 10 of the Company's Articles of Association, |
| 13. | rules of conducting sponsoring activities, |
| 14. | adoption of the annual plan of sponsoring activities, |
| 15. | matters which the Company's Management Board refers to the Company's Supervisory Board or the Company's General Meeting of Shareholders for review |

Supervisory Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing members of the Company's Supervisory Board

Supervisory Board of the Company shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association members of the Company's Supervisory Board shall be appointed and dismissed by the General Meeting of Shareholders, subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10 clause 5 of Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise at least 25% of the total votes in the Company, the State Treasury shall be entitled to appoint and dismiss Members of the Company's Supervisory Board in the number equal to half of the maximum number of members of the Company's Supervisory Board defined in the Company's Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:
 - 1) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of Members of the Company's Supervisory Board that would correspond to the maximum number of Members of the Company's Supervisory Board defined in the Company's Articles of Association in case such a motion is submitted to the Company's Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
 - 2) shall be excluded from the voting at the General Meeting of Shareholders on appointing and dismissing other members of the Company's Supervisory Board, including independent members of the Company's

Supervisory Board; this shall not, however, apply to the case when the Company's Supervisory Board cannot act due to its membership being smaller than required by the Company's Articles of Association, and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Company's Supervisory Board in accordance with the distribution of seats in the Company's Supervisory Board defined in this section,

2. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10 clause 5 of the Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise less than 25% of the total number of votes in the Company, the State Treasury, represented by the minister competent to exercise the rights related to the State Treasury's shares, shall be entitled to appoint and dismiss one member of the Company's Supervisory Board,
3. appointing and dismissing members of the Company's Supervisory Board by the State Treasury pursuant to the above mentioned clause 1) or 2) shall take place by means of a statement submitted to the Company.

In accordance with the Best Practice 2016 at least two members of the Company's Supervisory Board shall meet the criteria of independence.

Independent Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on compliance with the independence criteria mentioned in the Best Practice 2016.

The detailed information on the independence of the Members of the Company's Supervisory Board is presented in section 9.11. of this report.

Competence of the Company's Supervisory Board

Supervisory Board of the Company shall continuously oversee the Company's activities in all areas of its operations.

In accordance with the Company's Articles of Association the Company's Supervisory Board's tasks and competences shall include in particular the matters listed in the below table, as of December 31, 2020, and as of the date of drawing up this report.

Table no. 59. Competence of the Company's Supervisory Board as of December 31, 2020, and as of the date of drawing up this report

| Matters that require a resolution of the Company's Supervisory Board |
|--|
| <p>Competences related to providing opinions</p> <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 profit distribution or loss coverage, 3. submit a written report to the General Meeting of Shareholders on the outcome of the activities referred to in clauses 1 and 2 above, 4. prepare once a year and submit to the General Meeting: <ol style="list-style-type: none"> 1) evaluation of the Company's situation, including the assessment of the internal control, risk management systems, compliance and the internal audit functions, including all significant control mechanisms, in particular, those related to the financial reporting and operations 2) report on the activities of the Company's Supervisory Board comprising at least information concerning: the composition of the Company's Supervisory Board and its Committees, compliance with the independence criteria by the Members of the Company's Supervisory Board, the number of meetings of the Company's Supervisory Board and its Committees and the completed self-assessment of the Company's Supervisory Board's work, 3) assessment of the method of fulfilment of the information (disclosure) obligations by the Company, in relation to the application of the corporate governance principles defined in the Regulations of the Exchange and the provisions related to the current and periodic information (disclosures) filed by the issuers of securities, 4) assessment of the rationality of the sponsoring, charitable policy, or other similar policy pursued by the Company, or the information concerning the lack of such policy 5. prepare, along with the report on the results of the Company's annual financial statements' evaluation, the Company's Supervisory Board's opinion on the financial viability of the Company's capital (equity) investments in other commercial law entities made in the given financial year, 6. provide opinions on the Capital Group's Corporate Strategy, 7. provide opinions on the rules of conducting the sponsoring activities, 8. provide opinions on the annual plan of conducting the sponsoring activities as well as on the annual report on the implementation thereof, 9. provide opinions on the reports drawn up, by the Company's Management Board, on the entertainment expenses, the expenditures on legal services, marketing services, public relations and social communications services as well as advisory services related to management, 10. provide opinions on the Company's Management Board's motions regarding the matters referred to in § 35 of the Company's Articles of Association, excluding the motions regarding the members of the Company's Supervisory Board 11. provide opinions on the changes of the rules of divesting fixed assets, defined in § 38¹ of the Company's Articles of Association. |
| <p>Competences that include</p> <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 Board 4. adopting the consolidated text of the Company's Articles of Association, drawn up by the Company's Management Board, |

Matters that require a resolution of the Company's Supervisory Board

5. approving the Company's Management Board's by-laws,
6. approving the organizational regulations of the Company's enterprise,
7. approving the capital group's compensation policy,
8. purchasing real estate asset components within the meaning of the *Act of September 29, 1994, on accounting*, with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 5% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,subject to the provisions of § 20, clause 6 of the Company's Articles of Association,
9. disposing of fixed asset components, within the meaning of the *Act of September 29, 1994, on accounting*, classified as intangible and legal assets, tangible fixed assets or long term investments, including making a contribution to a company or cooperative if the market value of such components exceeds PLN 20 000 000 or 5% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 6 of the Company's Articles of Association, as well as handing over these components for use to another entity for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject of the legal transaction exceeds PLN 500 000 or 5% of the total assets, where the handing over of such components for use in case of:
 - 1) lease, tenancy and other contracts for the transfer of an asset for use by other entities for a fee - market value of the subject of legal action shall be understood as the value of services for: one year - if the asset was transferred on the basis of an agreement concluded for an indefinite period, the entire duration of the agreement - in case of contracts concluded for a fixed period,
 - 2) loan contracts and other free contracts for the handing over of an asset for use by other entities - the market value of the subject of legal transaction shall be understood as the equivalent of benefits that would be due if the lease or tenancy agreement were concluded, for: one year - if the asset is handed over under the contract concluded for an indefinite period, the entire duration of the contract - in case of contracts concluded for a definite period,
10. assuming contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of PLN 20 000 000,
11. issuing bills of exchange with the value exceeding the equivalent of PLN 20 000 000,
12. making an advance payment on account of the expected dividend,
13. taking up or purchasing shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 5% of the total assets within the meaning of the *Act of 29 September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
14. selling shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994*, determined on the basis of the last approved financial statements,
15. concluding a material agreement with a shareholder holding at least 5% of the total number of votes in the Company or a related company, with a proviso, that this obligation shall not cover typical transactions and transactions concluded at arm's length as part of the business operations conducted by the Company with entities that are members of the Capital Group,
16. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of the total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
17. amending an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, increasing the compensation above the amount mentioned in section 16 above,
18. concluding an agreement on legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount (cap) is not envisaged,
19. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
20. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
21. granting a permission to establish the Company's branches abroad,
22. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders (Partners) of companies in which the Company holds more than 50% of shares, with respect to the following matters:
 - 1) selling and leasing out the company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon them if their value exceeds the PLN equivalent of EUR 5 000 000,
 - 2) dissolving and liquidating the company
23. defining the manner of exercising the voting right by a representative of TAURON during the GMs of companies (subsidiaries) with respect to which the Company is a dominating entrepreneur within the meaning of art. 4 section 3 of the *Act of February 16, 2007, on competition and consumer protection*, with respect to the following issues:
 - 1) company setting up another company,
 - 2) change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
 - 3) merging, transforming, splitting, dissolving and liquidating the company,
 - 4) increasing or decreasing the company's share capital,
 - 5) selling and leasing out the company's enterprise or its organized part and establishing a limited pledge (property right) thereupon,
 - 6) redeeming (retiring) of shares,
 - 7) setting the compensation of members of the Management Boards and Supervisory Boards,
 - 8) provision related to the claims for remedying damage inflicted when setting up the company or performing the management or supervision,
 - 9) matters mentioned in art. 17 of the *Act of December 16, 2016, on the principles of state assets management*, subject to § 15, clause 4 of the Company's Articles of Association, with the exception of the matters relating to the legal transactions referred to in § 20. clause 6 of the Company's Articles of Association, and with the exception of matters regarding the acquisition or disposal of fixed assets constituting or intended to constitute assets necessary to conduct business operations with respect to the distribution of electricity by a company that is an operator of the power distribution system.

Competences related to the Management Board

1. appoint and dismiss members of the Company's Management Board,
2. establish the rules of compensation and the amounts of compensation for the Members of the Company's Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Company's Management Board from office for important reasons,

Matters that require a resolution of the Company's Supervisory Board

4. delegate members of the Company's Supervisory Board to temporarily perform duties of the Members of the Company's Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Company's Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Company's Management Board shall not exceed the compensation established for the Member of the Company's Management Board to replace whom the Member of the Company's Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Company's Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions (services) in the Company shall be concluded and conclude such agreement to perform the management board functions (services) in the Company,
7. grant a permission to the Members of the Company's Management Board to take positions in governing bodies of other companies

Other competences of the Company's Supervisory Board

1. approve the Company's Management Board's annual report on the supervision over the implementation of investment projects
2. prepare reports on overseeing the implementation of investment projects by the Company's Management Board, including fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of expenditures related thereto
3. approve the reports drawn up by the Company's Management Board on :
 - 1) entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,
 - 2) applying good practices defined by the Chairman of the Council of Ministers (Prime Minister) on the basis of art. 7, clause 3 of the *Act on the principles of state assets management* with respect to corporate governance, corporate social responsibility and sponsorship,
4. pass regulations describing in detail the Company's Supervisory Board's procedures.

Pursuant to the *Act of July 29, 2005 on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies*, the competences of the Supervisory Board of the Company include, in addition, the preparation of a report on the compensation received by the Members of the Management Board and the Supervisory Board of the Company in the last financial year. The report on the compensation of the Members of the Management Board and the Supervisory Board is subject to an assessment (opinion) by a certified auditor with respect to including therein of the information required under art. 90 g, clauses 1-5 and 8 of the above mentioned Act on the public offering and presented to the Ordinary General Meeting of the Company.

Report on the compensation of the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for the years 2019-2020 will be published on the Company's website at the address: <https://www.tauron.pl>.

9.9. Procedure of amending TAURON Polska Energia S.A.'s Articles of Association

Amendments to the Company's Articles of Association shall be made in accordance with the provisions of the Code of Commercial Companies, in particular: an amendment to the Company's Articles of Association shall take place by way of a resolution of the GM, passed by the majority of 3/4 of the votes, and shall, subsequently, require issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including the amendments passed by the General Meeting, shall be adopted by the Supervisory Board by way of a resolution.

In accordance with the Company's Articles of Association, a material amendment to the subject of the operations requires 2/3 of the votes in the presence of persons representing at least half of the share capital.

9.10. General Meeting of TAURON Polska Energia S.A. and the shareholders' rights

General Meeting of TAURON Polska Energia S.A.

The Company's General Meeting of Shareholders' procedures and its empowerments are defined in the Company's Articles of Association and in the *Regulations of the General Meeting of Shareholders of TAURON Polska Energia S.A.* (GM Regulations) which are available on the Company's website at the address: <http://www.tauron.pl/>.

Procedures of the General Meeting of the Company

General Meeting (GM) shall be convened by a notice published on the Company's website and in a manner defined for providing the current information by the public companies. In case the General Meeting (GM) is convened by an entity or a body other than the Management Board on the basis of the regulations of the Code of Commercial Companies, as convening a General Meeting requires the Management Board's cooperation, the Management Board shall be obligated to perform any activities required by law in order to convene, organize and conduct the General Meetings that take place either at the Company's registered office or in Warsaw.

General Meeting shall be opened by the Chairperson of the Company's Supervisory Board, and in case he/she is absent, the following persons shall be entitled to open the General Meeting in the given order: Vice Chairperson of the Company's Supervisory Board, President of the Company's Management Board, a person designated by the Company's Management Board or the shareholder who registered at the General Meeting such a number of shares

that grant the right to exercise the highest number of votes. Subsequently, the chairperson of the General Meeting shall be elected from among the persons entitled to participate in the General Meeting.

General Meeting shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Company's Articles of Association state otherwise. A General Meeting may order a break in the meeting by the majority of two thirds of votes. Breaks shall not exceed 30 days in total.

A break in the GM session may take place only in exceptional situations indicated on a case-by-case basis in the justification to the resolution, prepared based on the reasons presented by a shareholder requesting the announcement of the break.

The GM resolution concerning a break shall clearly indicate the date of the resumption of the session, however, such a date must not create a barrier for participation of the majority of shareholders in the resumed meeting, including the minority shareholders.

Competence of the General Meeting of the Company

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting (GM) of the Company as of December 31, 2020, and as of the date of drawing up this report.

Table no. 60. Competence of the General Meeting of the Company as of December 31, 2020, and as of the date of drawing up this report

| Matters that require a resolution of the General Meeting of the Company |
|---|
| <ol style="list-style-type: none">1. reviewing and approving the financial statements of the Company and the consolidated financial statements of the Capital Group for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of the Capital Group2. granting the acknowledgement of the fulfillment of duties to the members of the Company's corporate bodies,3. profit distribution and coverage of loss,4. appointing and dismissing members of the Company's Supervisory Board,5. suspending members of the Company's Management Board in performance of their duties,6. establishing the amount of compensation for the Members of the Company's Supervisory Board, subject to § 29, clause 4 of the Company's Articles of Association,7. establishing the principles of determining compensation and the amount of compensation of the Members of the Company's Management Board taking into account the provisions of the <i>Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies</i>,8. adopting the compensation policy for the Members of the Management Board and the Supervisory Board of the Company, taking into account the requirements of the <i>Act of July 29, 2005 on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies</i>,9. selling and leasing out the Company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon,10. concluding a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator or for the benefit of any such person,11. increasing and decreasing the Company's share capital,12. issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling the holder thereof to subscribe or acquire the shares,13. purchasing of own shares in cases required by the regulations of the Code of Commercial Companies,14. mandatory buyback of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies,15. setting up, using and liquidating reserve capitals,16. using supplementary capital,17. provisions related to claims to repair damage caused while establishing the Company or performing the management or supervision functions,18. merger, transformation and division of the Company,19. redemptions (retirements) of shares,20. amendment to the Company's Articles of Association and change of the subject of the Company's operations,21. dissolving and liquidating the Company. |

In accordance with the provisions of the Code of Commercial Companies the decision on the issue and repurchase of shares shall be included within the competence of the General Meeting.

Pursuant to the *Act of July 29, 2005 on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies*, the competences of the General Meeting of the Company include, in addition, the preparation of an opinion on the compensation received by the Members of the Management Board and the Supervisory Board of the Company in the last financial year,

Shareholders' rights and the manner of exercising thereof

The below table presents the description of the Company's shareholders' rights related to the General Meeting in accordance with the Company's Articles of Association, Code of Commercial Companies and the Regulations of the General Meeting.

Table no. 61. Description of the Company's shareholders' rights related to the General Meeting of the Company

| Shareholders' rights | Description of shareholders' rights |
|---|--|
| 1. Convene a General Meeting (GM) | Shareholders representing at least 1/20 of the share capital, may request convening of an Extraordinary General Meeting. Such a request should include a concise justification. It may be submitted to the Company's Management Board in writing or in an electronic form, to the Company's e-mail address, provided by the Company on its website under the <i>Investor Relations</i> tab. Shareholders representing at least a half of the share capital or at least half of all of the votes in the Company may convene an Extraordinary General Meeting (GM) and appoint a chairperson of such General Meeting. |
| 2. Include matters (items) in the agenda of the General Meeting | Shareholders representing at least 1/20 of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting. Such a request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Company's Management Board not later than 21 days prior to the set date of the General Meeting in electronic form to the Company's e-mail address or in writing to the Company's address. |
| 3. Become acquainted with the list of shareholders | Shareholders may become acquainted with the shareholders' list at the Company's Management Board's seat for 3 weekdays preceding directly the General Meeting's date. Shareholders may also request that the list of shareholders be sent to them free of charge by electronic mail, providing the address to which the list should be sent. |
| 4. Participate in the General Meeting | Only persons who are Shareholders 16 days before the date of the General Meeting (date of registering to participate in the General Meeting) shall have the right to take part in the General Meeting. In order to participate in the General Meeting shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting to an investment (brokerage) company running their securities account. Such a request should be submitted not earlier than following the announcement on convening of the General Meeting and not later than on the first weekday following the day of registering to participate in the General Meeting. |
| 5. Represent a shareholder by a proxy (power of attorney) | Shareholders may take part in the General Meeting as well as exercise the voting right in person or through a proxy (power of attorney). Shares' co-owners may take part in the General Meeting and exercise the voting right only through a joint representative (proxy). A proxy (power of attorney) may represent more than one shareholder and vote differently based on shares of each shareholder. |
| 6. Elect the Chairperson of the General Meeting | Shareholders shall elect the Chairperson of the General Meeting from among the persons entitled to take part in the General Meeting. Each of the participants of the General Meeting shall have the right to propose one candidate. Chairperson shall be elected by a secret ballot, by an absolute majority of votes. In case there is just one candidate for the Chairperson, election can take place by acclamation. |
| 7. Elect the Returning Committee | Each shareholder may propose no more than 3 candidates for members of the Returning Committee to be elected by the General Meeting, and vote for maximum 3 candidates. |
| 8. Submit a draft resolution | During the General Meeting a shareholder shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting, as part of the given item of the agenda, or put forward his/her own draft of such resolution. Proposals of changes or draft resolutions, including justifications, may be submitted in writing to the Chairperson or verbally to be recorded in the minutes of the meeting. |
| 9. Raise an objection | Shareholders who voted against a resolution and, after the General Meeting has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such an objection is raised later, which however shall not take place later than by the time the General Meeting is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. Shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting. |

9.11. Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof

Management Board of TAURON Polska Energia S.A.

The current 6th term of office of the Company's Management Board began its run on July 15, 2020.

The Company's Supervisory Board dismissed all Members of the Company's Management Board of the 5th common term of office on July 14, 2020, effective as of the end of the day and appointed, as of July 15, 2020, the Members of the Company's Management Board of the 6th common term of office.

In accordance with the Company's Articles of Association the common term of office shall last 3 years.

The composition of the Company's Management Board as of December 31, 2020

1. Wojciech Ignacok - President of the Management Board,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management,
3. Marek Wadowski - Vice President of the Management Board for Finance.

The composition of the Company's Management Board as of the date of drawing up this report

1. Marek Wadowski - acting as the President of the Management Board / Vice President of the Management Board for Finance,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The changes to the composition of the Company's Management Board in 2020 and by the date of drawing up this report

As of January 1, 2020, the Management Board of the 5th common term of office was composed of the following persons: Filip Grzegorzczak (President of the Management Board), Jarosław Broda (Vice President of the

Management Board for Asset Management and Development) and Marek Wadowski (Vice President of the Management Board for Finance).

The Company's Supervisory Board dismissed all Members of the Company's Management Board of the 5th common term of office on July 14, 2020, effective as of the end of the day and appointed, as of July 15, 2020, Wojciech Ignacok, Jerzy Topolski and Marek Wadowski to be the Members of the Company's Management Board of the 6th common term of office.

On February 19, 2021, Wojciech Ignacok submitted a statement of resignation, as of February 28, 2021, from the position of the President of the Company's Management Board of the 6th common term of office for health reasons.

On February 24, 2021, the Company's Supervisory Board entrusted Marek Wadowski with the duties of the President of the Company's Management Board from March 1, 2021, until the appointment of the Company's President of the Management Board.

There had been no other changes to the composition of the Company's Management Board by the date of drawing up this report.

Experience and competences of the Members of the Company's Management Board who continue to hold their positions in the Company's Management Board as of the date of drawing up this report

Marek Wadowski – acting as the President of the Management Board / Vice President of the Management Board for Finance



A graduate of the Faculty of Economics of the University of Economics in Katowice. He also completed post graduate studies at École Supérieure de Commerce Toulouse where he obtained Mastère Spécialisé en Banque et Ingénierie Financière diploma and the Executive MBA studies at the Kozminski University in Warsaw.

He has professional experience in the field of financial, controlling and accounting process management in industry (power sector, mining, steel industry), as well as in financing of investment projects and international commercial transactions.

Since January 29, 2016, he has been holding the position of the Vice President of the Management Board of TAURON Polska Energia S.A. and overseeing the operations of the following business areas: finance management, controlling, accounting and tax policy, analytics, procurement and administration, IT, market operator and trading services, trading, fuel trading, portfolio management, as well as the Personal Data Protection Inspector.

In 2008 - 2015 he had been associated with Jastrzębska Spółka Węglowa S.A. capital group (JSW). In 2008 - 2009, as the Vice President of the Management Board – the Director for Finance of Polski Koks S.A. (a JSW subsidiary), he had been responsible for structuring commercial transactions, implementing the currency risk hedging policy, reducing financial costs, liquidity management. In 2009 - 2012, as the Vice President of the Management Board of JSW for Economic Affairs, he had been involved in the company's IPO (implementation of the International Accounting Standards, modification of the management information system, drafting of the IPO prospectus, talks with investors). In 2012 - 2015, as the Vice President of the Management Board - Director for Economic Affairs of Spółka Energetyczna Jastrzębie S.A. (a JSW subsidiary), he had been involved in the implementation of the Power Sector 2016 (Energetyka 2016) investment program, as part of which he has been dealing with the business plan development as well as structuring and acquisition of financing from the consortium of banks in the form of a bond issue program. He had also been implementing the risk management procedures related to interest rates, CO₂ and prices of certificates of origin, as well as developing and implementing the liquidity management policy.

In 2005 - 2008 he had worked at Huta Cynku Miasteczko Śląskie S.A., where he had held the positions of: the management board's plenipotentiary for restructuring, the Director for Economics and Finance, a Member of the Management Board - the Director for Economics and Finance, the President of the Management Board - General Manager.

In 1999 - 2005 he had worked as a consultant at BRE Corporate Finance S.A., responsible for the due diligence projects and enterprise valuations.

Jerzy Topolski - Vice President of the Management Board



A graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Cracow. He also completed the postgraduate studies in the field of energy enterprise management and new techniques in power engineering management.

He has professional experience with respect to the operations of the power sector, including management of the development of the distribution grid and the provision of electricity distribution services. He was involved in setting up the organization of the electricity market in Poland.

From the beginning of his professional career, he had been associated with the energy industry and TAURON Group or its legal predecessors, i.e. ENION S.A. and Zakład Energetyczny Kraków S.A.

Since 2016, he was the Vice President of the Management Board for Operator at TAURON Dystrybucja S.A. (Issuer's subsidiary), where he was responsible, among others, for the development of the distribution grid, provision of electricity distribution services, metering and grid operation management.

In addition to the above mentioned position, in 2016 he was the Director of TAURON Dystrybucja S.A. Cracow and Tarnów branches. In 2015-2016 he had worked as a coordinator and had been responsible, among others, for customer service quality. From 2013 to 2014 he had been the chief specialist, and in 2011-2012 he had been the head of the Office of Tariffs and the Energy Regulatory Office (URE) Relations.

In 2010 - 2011 he had been holding the position of the Director of the Tariff Department at ENION S.A. and had been responsible in particular for regulated revenue management. In 2007 - 2010 he had been the Director of the Distribution Services Department and had been responsible for ensuring profitability of the distribution services sales. From 2005 to 2007, he had been the President of the Management Board, in 2004 - 2005 - a Member of the Management Board for Trading, and until 2004 - a Member of the Management Board and the Director of Energy Trading.

In 1989 - 2000 he had been holding the following positions at Zakład Energetyczny Kraków S.A.: the director of the high voltage region; deputy head of the high voltage region for technical affairs as well as the grid foreman and engineer.

Description of the procedures of the Company's Management Board

Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice* which are available on the Company's website at the address: <https://www.tauron.pl>. When performing their duties the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2016.

Two Members of the Management Board or one member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one Member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

The meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. The meetings of the Management Board shall also be convened on the motion of the majority of Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's registered office on the date set by the person that convened the meeting. In justified cases the meetings of the Management Board may be held outside the Company's registered office. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board

The Management Board shall vote in an open ballot. The result of the ballot shall be recorded in the minutes of the meeting. President of the Management Board shall order a secret ballot at the request of any Member of the Management Board.

The resolutions of the Management Board shall be passed by an absolute majority of votes in the presence of 3/5 of the Members of the Management Board. In case of an equal number of votes the President of the Management Board shall have a casting vote. The Management Board may pass resolutions by voting in writing or using means of direct remote communications. Voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Vice President of the Management Board designated thereby, including setting the deadline for casting votes by the Members of the Management Board. Submission of a dissenting opinion shall be allowed. Such dissenting opinion shall be recorded in the minutes of the meeting, including the justification thereof. The decisions of the Management Board related to ongoing issues that do not require passing of a resolution shall be recorded solely in the minutes of the meeting.

The internal division, among the Members of the Management Board, of the tasks and responsibilities for the individual areas of the Company's operations, as defined in the *Organizational Regulations of TAURON Polska Energia S.A.* and including the independent work positions as well as the organizational units reporting directly to the Executive Directors, whose work is managed (supervised) by the Members of the Company's Management Board, is defined by the Company's Management Board Resolution No. 351/V/2020 of November 3, 2020 regarding the assignment of individual business areas of the Company and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A. that replaced the Company's Management Board Resolution No. 397/V/2019 of November 13, 2019 regarding the assignment of individual business areas of the Company and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A.

The structure of the Company's business areas reporting to the individual Members of the Company's Management Board is presented on the diagram (flowchart) showing the split of responsibilities of the members of the Company's Management Board, described in section 1.10. of this report and posted on the Company's web site at the address: <https://www.tauron.pl>.

Supervisory Board of TAURON Polska Energia S.A.

The current, 6th term of office of the Company's Supervisory Board, began on July 15, 2020, i.e. on the day of holding the Ordinary GM of the Company approving the financial statements for the last full financial year of the tenure of the Members of the Company's Supervisory Board of the 5th term, i.e. for the financial year 2019.

In accordance with the Company's Articles of Association it shall be a common term of office and it shall last for 3 years

The composition of the Company's Supervisory Board as of December 31, 2020

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Barbara Piontek - Member of the Supervisory Board.

The composition of the Company's Supervisory Board as of the date of drawing up this report

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board.

The changes to the composition of the Company's Supervisory Board in 2020 and by the date of drawing up this report

As of January 1, 2020, the Company's Supervisory Board of the 5th common term of office was composed of the following members: Beata Chłodzińska (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Barbara Łasak – Jarszak (Member of the Supervisory Board), Grzegorz Peczkis (Member of the Supervisory Board), Jan Płudowski (Member of the Supervisory Board), Marcin Szlenk (Member of the Supervisory Board), Katarzyna Taczanowska (Member of the Supervisory Board) and Agnieszka Woźniak (Member of the Supervisory Board).

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Agnieszka Woźniak from the Company's Supervisory Board of the 5th common term of office and appointed Andrzej Śliwka to be a member of the Company's Supervisory Board of the 5th common term of office.

On April 20, 2020, Jacek Szyke and Marcin Szlenk submitted statements on their resignations from the membership of the Company's Supervisory Board of the 5th common term of office, without providing the reasons for their resignations.

On April 27, 2020, Beata Chłodzińska submitted a statement on her resignation from the membership of the Company's Supervisory Board of the 5th common term of office, without providing the reasons for her resignation.

On May 22, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed Andrzej Kania to be a member of the Company's Supervisory Board of the 5th common term of office.

On May 25, 2020, the Company's Supervisory Board appointed Andrzej Kania to be the Chair of the Company's Supervisory Board of the 5th common term of office and Katarzyna Taczanowska to be the Secretary of the Company's Supervisory Board of the 5th common term of office.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płudowski from the Company's Supervisory Board of the 5th common term of office and appointed Barbara Piontek to be a member of the Company's Supervisory Board of the 5th common term of office.

On June 16, 2020, Andrzej Śliwka submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office, without providing the reasons for his resignation.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Company's Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board of the 5th common term of office expired.

On July 15, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed Andrzej Kania, Ryszard Madziar and Barbara Piontek to be Members of the Company's Supervisory Board of the 6th common term of office.

On July 15, 2020, the Ordinary General Meeting (GM) of the Company, acting pursuant to § 22, section 1) of the Company Articles of Association, appointed Grzegorz Peczkis and Katarzyna Taczanowską to be Members of the Company's Supervisory Board of the 6th common term of office.

On August 3, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, appointed Teresa Famulska to be a Member of the Company's Supervisory Board of the 6th common term of office.

On August 3, 2020, the Company's Supervisory Board of the 6th common term of office elected Andrzej Kania to be the Chair of the Company's Supervisory Board of the 6th common term of office, Teresa Famulska to be the Vice-Chair of the Company's Supervisory Board of the 6th common term of office and Katarzyna Taczanowska as the Secretary of the Company's Supervisory Board of the 6th common term of office.

On February 12, 2021, Barbara Piontek submitted a statement on her resignation, as of February 28, 2021, from the membership of the Company's Supervisory Board of the 6th common term of office, in connection with assuming the position of the President of the Management Board of Jastrzębska Spółka Węglowa S.A. from 1 March 2021.

No other changes to the composition of the Company's Supervisory Board had taken place by the date of drawing up this report.

Information on the independence of the Members of the Supervisory Board

In accordance with the Best Practice 2016 at least two members of the Company's Supervisory Board shall meet the criteria of independence.

The phrase "an independent member of the supervisory board" denotes independence of a member of the supervisory board within the meaning of Appendix II to the *Recommendation of the European Commission of February 15, 2005, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC)* and the additional criteria indicated in the Best Practice 2016.

Independent Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on compliance with the independence criteria mentioned in the Best Practice 2016. In case a situation occurs where the independence criteria are not complied with, a Member of the Supervisory Board shall be obligated to inform the Company promptly thereof.

Information on the fulfillment by the Members of the Supervisory Board of the independence criteria is posted on the Company's website at the address: <https://www.tauron.pl>.

The table below presents the information on the fulfillment by the Members of the Company's Supervisory Board of the independence requirements specified in the above mentioned Recommendation and the *Best Practice 2016* as of December 31, 2019 and as of the date of drawing up this report.

Table no. 62. Fulfillment by the Members of the Company's Supervisory Board of the independence requirements, as of December 31, 2020 and as of the date of drawing up this report

| First and last name | Fulfillment of the independence requirements | |
|--------------------------|--|--|
| | as of December 31, 2020 | as of the date of drawing up this report |
| 1. Andrzeja Kania | Does not meet independence requirements | Does not meet independence requirements |
| 2. Teresa Famulska | Meets independence requirements | Meets independence requirements |
| 3. Katarzyna Taczanowska | Does not meet independence requirements | Does not meet independence requirements |
| 4. Ryszard Madziar | Does not meet independence requirements | Does not meet independence requirements |

| First and last name | Fulfillment of the independence requirements | |
|---------------------|--|--|
| | as of December 31, 2020 | as of the date of drawing up this report |
| 5. Grzegorz Peczkis | Meets independence requirements | Meets independence requirements |
| 6. Barbara Piontek | Meets independence requirements | - |

Experience and competences of the Members of the Supervisory Board who continue to hold their seats on the Company's Supervisory Board as of the date of drawing up this report

Andrzej Kania - Chair of the Supervisory Board

A graduate of the Rzeszów University of Technology (Politechnika Rzeszowska), where he completed his studies in 1991. Andrzej Kania is also a graduate of the National School of Public Administration in Warsaw (Krajowa Szkoła Administracji Publicznej) and the doctoral studies that he completed at the Warsaw School of Economics (Szkoła Główna Handlowa)

He has held important positions at public institutions. He was a Department Head at the Energy Regulatory Office and the Director of the Energy Department at the Ministry of Economy. He also held the position of the Office Director of the Polish Electricity Association.

Andrzej Kania has extensive experience with respect to investment project evaluation and implementation based on measurable results in the management of large scale and high risk investment projects.

He also served as a Member of the Supervisory Board at six companies operating in the energy and infrastructure sector. He was a Member of the Supervisory Board of Polimex Mostostal S.A. from November 30, 2017, until March 15, 2020.

He is currently holding the position of the Director of the Department of Security and Crisis Management at the Ministry of State Assets.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since May 22, 2020.

In the Company's Supervisory Board of the 6th common term of office he is the Chair of the Company's Supervisory Board and the Head of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice (currently the University of Economics in Katowice). She holds a title of a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice. She is a professional tax advisor.

Since graduation she has been associated with the University of Economics in Katowice. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998 - 2013 she had been working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of more than 150 domestic and foreign publications in the field of finance, mainly public finance and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducted numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff. In 2007 - 2018 she had worked for three consecutive terms at the State Examination Commission on Tax Advisory Services, where, since 2010, for two consecutive terms based on the Minister of Finance's appointment, she was the Head of the Commission. In 2007 - 2019 a member of the Financial Education Committee of the Polish Academy of Science, where, in 2011 - 2015, she was a member of the Board of the Committee. Furthermore, she is a member of the Polish Finance and Banking Association (since 2004, a member of the Board), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries and Polish Economic Society.

In the period from May 29, 2017, until July 14, 2020, she had been a member of the Supervisory Board of TAURON Polska Energia S.A., holding the position of the Vice Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

She was awarded the following orders and accolades: Silver Cross of Merit, Silver Medal for Long Term Service, Medal of the Commission of National Education, awards of the Minister of National Education and of the President of the University of Economics in Katowice.

In the Company's Supervisory Board of the 6th common term of office she is the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. of the 6th common term of office since August 3, 2020, holding the position of the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

Katarzyna Taczanowska - Secretary of the Supervisory Board

A graduate of the Faculty of Law of the University of Warsaw, registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

Katarzyna Taczanowska has many years of professional experience in providing legal services for business entities that she has been offering since 2003. She was a partner at the GWW Woźny and Partners (GWW Woźny i Wspólnicy) law firm, since 2009 until now she has been a partner at the Kudlak, Taczanowska-Wileńska sp.k. law firm. In 2009 - 2012 she had been the Director of the Legal Office at Towarzystwo Funduszy Inwestycyjnych PZU S.A. (PZU S.A. Investment Funds Company). She was a member of the Supervisory Boards of PZU Życie S.A., LOT Aircraft Maintenance Services sp. z o.o. and IDA Management sp. z o.o.

Since July 2018 Katarzyna Taczanowska has been holding the position of the General Director for Corporate and Legal Affairs at KGHM Polska Miedź S.A.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since May 8, 2019.

In the Company's Supervisory Board of the 6th common term of office she is the Secretary of the Company's Supervisory Board and a member of the Audit Committee of the Company's Supervisory Board.

Ryszard Madziar - Member of the Supervisory Board

A graduate of the faculty of political science of the University of Warsaw. He holds an MBA degree obtained at the Warsaw Management University (Wyższa Szkoła Menedżerska w Warszawie).

He has an extensive experience in public administration. He has held the following positions: the Mayor of Wołomin, the Head of the Political Cabinet of the Vice Chairman of the Council of Ministers, and prior to that, the Deputy Director of the Mazovian Regional Office of the Agency for Restructuring and Modernization of Agriculture (Agencja Restrukturyzacji i Modernizacji Rolnictwa).

He is a member of the Supervisory Board of, among others, Totalizator Sportowy.

Currently, he is the Head of the Political Cabinet of the Vice Chair of the Council of Ministers (Deputy Prime Minister) in the Chancellery of the Prime Minister.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since July 15, 2020.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

Grzegorz Peczkis gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is holding the position of the Vice Chair of the Supervisory Board of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Patent Office of the Republic of Poland.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019.

In the Company's Supervisory Board of the 6th common term of office he is the Head of the Strategy Committee of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board and a Member of the Nominations and Compensation Committee of the Company's Supervisory Board.

Description of the procedures of the Company's Supervisory Board

Supervisory Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its registered office in Katowice* which are available on the

Company's website at the address: <https://www.tauron.pl>. When performing their duties the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2016.

The main form of the Supervisory Board overseeing the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. The meetings of the Company's Supervisory Board shall be convened by the Chairperson of the Supervisory Board or the Vice Chairperson of the Supervisory Board by presenting a detailed agenda:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a written request of each Member of the Supervisory Board,
4. at a written request of the Management Board.

The meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all Members of the Company's Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. Notifications of the Supervisory Board's meeting shall be sent by fax or electronic mail. In the notification of the Supervisory Board's meeting the Chairperson shall define the date of the meeting, venue of the meeting and the detailed draft agenda. The Supervisory Board of the Company shall meet on as needed basis, however not less frequently than once every 2 months. The Supervisory Board may hold meetings without convening a formal meeting if all Members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may occur when all Members of the Company's Supervisory Board are present at the meeting and no one raises an objection against the agenda. An issue not included in the agenda should be included in the agenda of the next meeting.

Participation in a meeting of the Supervisory Board shall be a Supervisory Board Member's duty. A Member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a Member of the Supervisory Board shall require a resolution of the Company's Supervisory Board. Members of the Company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Company's Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

The Supervisory Board may seek opinions of legal counsels who provide regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to seek their opinion and make the right decision. In the above mentioned cases the Supervisory Board shall pass a resolution on commissioning the selected expert to carry out the work, obligating the Company's Management Board to conclude an applicable agreement.

The meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence by the Vice Chairperson of the Supervisory Board. For important reasons, with the consent of the majority of the Members of the Supervisory Board present at the meeting, the person chairing the meeting shall be obligated to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Company's Supervisory Board. The Supervisory Board shall make decisions in the form of resolutions. The Supervisory Board's resolutions shall be passed mainly during the meetings thereof. The Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all of its members have been invited in the appropriate manner defined in the Regulations of the Supervisory Board. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the Company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all Members of the Supervisory Board are present and nobody raises an objection. This shall not apply to the resolutions on excusing a Supervisory Board's member's absence at the meeting. Resolutions shall be voted on in an open ballot. A secret ballot shall be ordered:

1. at the request of at least one member of the Supervisory Board,
2. in personnel related matters.

In accordance with the Company's Articles of Association the Supervisory Board may pass resolutions in writing or using means of direct remote communications. Passing a resolution in such a way shall require a prior notification of all Members of the Supervisory Board of the content of the draft resolution and the participation of at least half of the Members of the Supervisory Board in passing the resolution. The Supervisory Board may pass resolutions this way in the personnel related matters, as well as in other matters the resolution of which requires a secret ballot vote

as long as no Member of the Supervisory Board raises an objection. When voting on a resolution in the above mentioned way a Member of the Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution with a note that it has been passed in writing or by voting using the means of direct remote communications shall be signed by the Chairperson of the Supervisory Board. Resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

Participation in a meeting of the Company's Supervisory Board using the means of direct remote communications, i.e. a conference call or a video conference, shall be allowed. In case the Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using the means of direct remote communications, the resolutions shall be passed if at least half of the Members of the Company's Supervisory Board participate in the vote.

The Members of the Supervisory Board shall take part in the meetings and exercise their rights and responsibilities in person, and while performing their duties they shall be obliged to act with due diligence. The Members of the Supervisory Board shall be obliged to keep confidential information related to the Company's activities that they have acquired in connection with holding their seat or on another occasion.

The Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision actions on their own for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform the duties of the Members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the Member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Company's Supervisory Board, submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

The Company's Supervisory Board may appoint from among its members permanent or temporary (ad hoc) working groups, committees to perform specific actions. The standing committees of the Company's Supervisory Board shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

The composition, tasks and rules (procedures) of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Audit Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2020 the Audit Committee was composed of 3 to 5 members.

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2020, the Company's Supervisory Board also made changes to the membership of the Audit Committee.

Composition of the Audit Committee as of December 31, 2020 and as of the date of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Grzegorz Peczkis - Member of the Audit Committee,
3. Katarzyna Taczanowska - Member of the Audit Committee.

The changes to the composition of the Audit Committee in 2020 and by the date of drawing up this report

As of January 1, 2020, the Audit Committee was composed of the following members: Teresa Famulska (Head of the Audit Committee), Jan Płudowski, Marcin Szlenk, Jacek Szyke and Katarzyna Taczanowska.

On April 20, 2020, Jacek Szyke and Marcin Szlenk submitted statements on their resignations from the membership of the Company's Supervisory Board of the 5th common term of office. This way, they ceased to be the members of the Audit Committee.

On May 25, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Audit Committee by appointing Grzegorz Peczkis and Andrzej Śliwka to be the members thereof.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płudowski from the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Audit Committee.

On June 16, 2020, Andrzej Śliwka submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Audit Committee.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Company's Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board of the 5th common term of office expired. This way, Teresa Famulska, Katarzyna Taczanowska and Grzegorz Peczkis ceased to be the members of the Audit Committee.

On August 3, 2020, in connection with the appointment of the Members of the Company's Supervisory Board of the 6th common term of office, the Company's Supervisory Board appointed, from the members thereof, Teresa Famulska, Grzegorz Peczkis and Katarzyna Taczanowska to be the members of the Audit Committee.

On August 3, 2020, the Audit Committee elected Teresa Famulska to hold the position of the Head of the Audit Committee.

No other changes to the composition of the Audit Committee had taken place by the date of drawing up this report.

Information on the independence of the members of the Audit Committee

Pursuant to the *Act of May 11, 2017, on certified auditors, audit companies and public oversight*, the majority the members of the audit committee, including its head, should be independent and at least one member of the audit committee should have knowledge and skills with respect to accounting or auditing financial statements and at least one member of the audit committee should have knowledge and skills in the industry that the company operating in.

In 2020 the membership (composition) of the Audit Committee was in compliance with the requirements defined in the above mentioned act. The evaluation of the independence and the statutory requirements with respect to the knowledge and skills of the individual members of the Audit Committee was made by the Company's Supervisory Board based on the relevant statements submitted by the members of the Audit Committee.

The below table presents the information on the fulfillment, in 2020, by the Members of the Audit Committee of the independence requirements and the requirements with respect to the knowledge and skills held.

Table no. 63. Fulfillment, in 2020, by the Members of the Audit Committee of the independence requirements and the requirements with respect to the knowledge and skills held

| First and last name | Period of performing the function (tenure) in the Audit Committee | Fulfillment of the independence requirements and the requirements with respect to the knowledge and skills held |
|--------------------------|---|---|
| 1. Teresa Famulska | 01.01.2020 - 15.07.2020 03.08.2020 - 31.12.2020 | <ul style="list-style-type: none"> Meets independence requirements Has knowledge and skills in the field of accounting and auditing of financial statements |
| 2. Grzegorz Peczkis | 25.05.2020 - 15.07.2020 03.08.2020 - 31.12.2020 | <ul style="list-style-type: none"> Meets independence requirements Has knowledge of the industry that the Company is operating in |
| 3. Katarzyna Taczanowska | 01.01.2020 - 15.07.2020 03.08.2020 - 31.12.2020 | <ul style="list-style-type: none"> Does not meet independence requirements |
| 4. Jan Pludowski | 01.01.2020 - 05.06.2020 | <ul style="list-style-type: none"> Meets independence requirements Has knowledge of the industry that the Company is operating in |
| 5. Marcin Szlenk | 01.01.2020 - 20.04.2020 | <ul style="list-style-type: none"> Meets independence requirements Has knowledge and skills in the field of accounting and auditing of financial statements |
| 6. Jacek Szyke | 01.01.2020 - 20.04.2020 | <ul style="list-style-type: none"> Meets independence requirements Has knowledge of the industry that the Company is operating in |
| 7. Andrzej Śliwka | 25.05.2020 - 16.06.2020 | <ul style="list-style-type: none"> Does not meet independence requirements |

The detailed information on the way the Members of the Audit Committee, that continue to hold their seats in the Audit Committee, as of the date of drawing up this report, have gained the knowledge and skills to the extent defined in the *Act of May 11, 2017, on certified auditors, audit firms and public oversight* is presented in section 9.11. of this report.

Tasks and competences of the Audit Committee

In 2020 the Audit Committee was performing the tasks and competences defined in the currently applicable legal regulations and in the *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.* adopted by the Supervisory Board.

The Audit Committee held 9 meetings in total during the period covered by this report.

The tasks and competences of the Audit Committee as of December 31, 2020, and as of the date of drawing up this report, are presented in the below table.

Table no. 64. Competences of the Audit Committee as of December 31, 2020, and as of the date of drawing up this report

| Competences of the Audit Committee |
|--|
| <ol style="list-style-type: none">1. monitoring:<ol style="list-style-type: none">1) Company's financial reporting process,2) effectiveness of the internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting3) performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and findings of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company2. controlling and monitoring of the independence and impartiality of the chartered accountant (certified auditor) and the audit company, in particular in case other services than an audit are provided for the benefit of the Company by the audit company,3. performing the evaluation of the independence of the certified auditor and expressing consent for the performance thereby of the permitted services that do not constitute an audit within the Company,4. developing the policy for selecting the audit company to perform the audit,5. developing the policy for performing by the audit company conducting the audit, entities related to such audit company and the members of the audit company's corporate network, of the permitted services that do not constitute an audit,6. defining the procedure for selecting the audit company by the Company,7. presenting to the Supervisory Board, for the purpose of selecting the audit company responsible for performing the statutory audit or review of financial statements, of the recommendation, referred to in Art. 130, clauses 2 and 3 of the <i>Act of May 11, 2017 on certified auditors, auditing companies and public oversight</i> and in Art. 16, clause 2 of the <i>Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC</i>, in line with the policies referred to above in items 4 and 5,8. informing the Supervisory Board of the audit results and explaining how the audit contributed to the accuracy (fairness) of the Company's financial reporting, and also what the role of the Audit Committee in the audit process was,9. presenting the recommendations aimed at ensuring accuracy (fairness, reliability) of the Company's financial reporting process,10. performing other activities vested with the audit committees pursuant to the <i>Act of May 11, 2017, on certified auditors, auditing companies and public oversight, Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities, repealing the Commission Decision 2005/909/EC and the Act of September 29, 1994, on accounting</i>. |

Permitted non-audit services provided by an audit company

The following permitted non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries in 2020 by an audit firm auditing the financial statements:

1. confirmed in writing verification of the annual and interim standalone consolidation packages of selected TAURON Capital Group's subsidiaries required to prepare the annual and interim consolidated financial statements,
2. completing the agreed procedures for the verification of the report of TAURON Dystyrbucja subsidiary in connection with the requirement to estimate the Regulatory Asset Base (RAB) and the Regulatory Asset Base (RAB) for the AMI System for the needs of determining the justified return on capital employed by the President of ERO.

In connection with the provision of the above services, the Audit Committee performed an evaluation of the threat to and the safeguards of the independence of the audit company Ernst & Young Audyt Polska and expressed its consent for the provision of the above services.

Main assumptions of the policy for appointing an audit company to conduct the audit and the policy of providing the permitted non-audit services by entities related to such audit company and by a member of the audit company's network

The Audit Committee adopted the following regulations on October 16, 2017, prepared in connection with the coming into force of the *Act of May 11, 2017, on certified auditors, auditing companies and public oversight*:

1. *Policy for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,*
2. *Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*
3. *Policy for the provision of the permitted non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to such audit firm and by a member of the audit firm's network.*

On October 5, 2020, the Audit Committee adopted the new version of the *Policy for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*, as well as the *Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*

Policy for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the

selection of the audit firm to conduct the audit and review of the Company's financial statements with the legal regulations. The policy defines, in a clear manner, the principles and rules of the process for the appointment of the audit firm to audit the reports of TAURON as a public interest unit (entity), principles of the procedure for the appointment of the audit firm, principles of preparing the recommendations of the Audit Committee related to the appointment of the audit firm, as well as the principles of the rotation of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of TAURON. The most important assumptions adopted in the policy include the fact that the process for the appointment of the auditor shall be based on the applicable legal regulations, ensuring the transparency and objectivity of the process for the appointment of the auditor and including in the process of the requirements necessary for the timely and correct performance of the audit services for the Company.

Procedure for the appointment of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the process for the appointment of the audit firm with the legal regulations, as well as ensuring that the audit and review of the financial statements are conducted at a high quality level, within a specified time frame, while ensuring independence, objectivity, transparency and credibility of the audit firm and the certified auditors. The procedure defines in detail and accurately the individual stages of the process to select the audit firm, including indicating the corporate authorities (bodies) and organizational units responsible for such stages. Furthermore, the procedure defines the general conditions for the participation in the proceedings and the criteria for the selection of the audit firm as well as the time frame of the auditor selection process. The most important assumptions made in the procedure include adopting a clear and transparent, based on the legal regulations, split of the responsibilities in the process for the appointment of the auditor, as well as defining transparent and non-discriminatory conditions for the participation in the tender procedure and criteria for the appointment of the audit firm that the company may apply.

Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., entities related to such audit firm and by a member of the audit firm's network is aimed at defining clear rules aimed at meeting the requirement of the independence of the audit firm conducting the audit of the Company, in case such firm or entities that are members of its network are providing non-audit services. This policy defines the principles related to the provision for the benefit of TAURON Capital Group's entities, by the audit firm conducting the audit at TAURON, entities related to the audit firm and a member of the audit firm's network, of additional non-audit services or non-review services, in particular the conditions for the admissibility of the provision of the permitted services, the principles of the Audit Committee conducting an assessment of the threats to and safeguards of the independence of the audit firm, as well as the control mechanisms with respect to observing the principles of the independence of the certified auditor at TAURON Capital Group. The most important assumptions adopted in the policy include defining clear rules for the Audit Committee to conduct an assessment of the threats to and safeguards of the independence of the audit firm and expressing consent for the provision of the non-audit services, based on the compliance with the legal regulations and the purposefulness of the provision of such services.

Recommendations of the Audit Committee related to the appointment (selection) of the audit firm

The Audit Committee did not recommend an appointment of the audit firm to the Supervisory Board of TAURON in 2020.

In 2018, the audit firm was selected to audit and review the financial statements and consolidated financial statements of TAURON for the years 2019-2021. The Supervisory Board selected the audit company based on the recommendation of the Audit Committee which met the applicable conditions and was made as a result of the Company's public procurement proceedings, in accordance with the applicable criteria, including an indication of a second alternative entity to perform such activities and providing the justification for the preferences behind the selection of the recommended audit firm.

The detailed description of the activities of the Audit Committee is provided in the Report on the activities of the Supervisory Board submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Nominations and Compensation Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2020 the Nominations and Compensation Committee was composed of 2 to 4 members.

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2020, the Company's Supervisory Board also made changes to the membership of the Nominations and Compensation Committee.

Composition of the Nominations and Compensation Committee as of December 31, 2020

1. Andrzej Kania - Head of the Nominations and Compensation Committee,
2. Ryszard Madziar - Member of the Nominations and Compensation Committee,
3. Barbara Piontek - Member of the Nominations and Compensation Committee.

Composition of the Nominations and Compensation Committee as of the date of drawing up this report

1. Andrzej Kania - Head of the Nominations and Compensation Committee,
2. Ryszard Madziar - Member of the Nominations and Compensation Committee,
3. Grzegorz Peczkis - Member of the Nominations and Compensation Committee.

The changes to the composition of the Nominations and Compensation Committee in 2020 and by the date of drawing up this report

As of January 1, 2020, the Nominations and Compensation Committee was composed of the following members: Beata Chłodzińska (Head of the Nominations and Compensation Committee), Barbara Łasak - Jarszak and Agnieszka Woźniak.

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board of the 5th common term of office. This way, she ceased to be the member of the Nominations and Compensation Committee.

On April 20, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Andrzej Śliwka to be a member thereof.

On April 27, 2020, Beata Chłodzińska submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, she ceased to be the member of the Nominations and Compensation Committee.

On May 25, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Andrzej Kania and Jan Płudowski to be the members thereof.

On May 25, 2020, the Nominations and Compensation Committee elected Andrzej Śliwka to hold the position of the Head of the Nominations and Compensation Committee.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płudowski from the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Nominations and Compensation Committee.

On June 16, 2020, Andrzej Śliwka submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Nominations and Compensation Committee.

On June 18, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Teresa Famulska to be a member thereof.

On June 18, 2020, the Company's Supervisory Board of the 5th common term of office elected Andrzej Kania to hold the position of the Head of the Nominations and Compensation Committee.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Company's Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board of the 5th common term of office expired. This way, Barbara Łasak-Jarszak, Andrzej Kania and Teresa Famulska ceased to be the members of the Nominations and Compensation Committee.

On August 3, 2020, in connection with the appointment of the Members of the Company's Supervisory Board of the 6th common term of office, the Company's Supervisory Board appointed, from the members thereof, Andrzej Kania, Ryszard Madziar and Barbara Piontek to be the members of the Nominations and Compensation Committee.

On August 3, 2020, the Audit Nominations and Compensation Committee elected Andrzej Kania to hold the position of the Head of the Nominations and Compensation Committee.

On February 12, 2020, Barbara Piontek submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 6th common term of office. This way, he ceased to be the member of the Nominations and Compensation Committee.

On February 19, 2020, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Grzegorz Peczkis to be a member thereof.

No other changes to the composition of the Nominations and Compensation Committee had taken place by the date of drawing up this report.

Tasks and competences of the Nominations and Compensation Committee

The tasks and competences of the Nominations and Compensation Committee did not change in 2019.

The tasks and competences of the Nominations and Compensation Committee, as of December 31, 2020 and as of the date of drawing up this report, are presented in the below table.

Table no. 65. Competences of the Nominations and Compensation Committee, as of December 31, 2020 and as of the date of drawing up this report

| Competences of the Nominations and Compensation Committee |
|--|
| <ol style="list-style-type: none">1. recommending to the Supervisory Board a recruitment procedure for the positions of the Members of the Company's Management Board,2. evaluating candidates for the Members of the Management Board and providing the Supervisory Board with opinions in this respect,3. recommending to the Supervisory Board a form and content of the agreements to be concluded with the members of the Management Board,4. recommending to the Supervisory Board a compensation and bonus system for the members of the Management Board,5. recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons,6. recommending to the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of the Members of the Management Board who cannot perform their duties, along with a compensation proposal |

The detailed description of the activities of the Nominations and Compensation Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Strategy Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2020 the Strategy Committee was composed of 2 to 5 members.

Due to the changes to the membership of the Supervisory Board of the Company, introduced in 2020, the Company's Supervisory Board also made changes to the membership of the Strategy Committee.

Composition of the Strategy Committee as of December 31, 2020

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Ryszard Madziar - Member of the Strategy Committee,
3. Barbara Piontek - Member of the Strategy Committee.

Composition of the Strategy Committee as of the date of drawing up this report

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Andrzej Kania - Member of the Strategy Committee,
3. Ryszard Madziar - Member of the Strategy Committee.

The changes to the composition of the Strategy Committee in 2020 and by the date of drawing up this report

As of January 1, 2020, the Strategy Committee was composed of the following members: Jacek Szyke (Head of the Strategy Committee), Beata Chłodzińska, Grzegorz Peczkis, Jan Płudowski and Agnieszka Woźniak.

On March 24, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1 and 3 of the Company's Articles of Association, dismissed Ms. Agnieszka Woźniak from the Company's Supervisory Board of the 5th common term of office. This way, she ceased to be the member of the Strategy Committee.

On April 20, 2020, Jacek Szyke submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Strategy Committee.

On April 27, 2020, Beata Chłodzińska submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 5th common term of office. This way, she ceased to be the member of the Strategy Committee

On May 25, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Strategy Committee by appointing Andrzej Kania to be a member thereof.

On May 25, 2020, the Strategy Committee elected Jan Płudowski to hold the position of the Head of the Strategy Committee.

On June 5, 2020, the Minister of State Assets, acting pursuant to § 23, section 1, clauses 1) and 3) of the Company's Articles of Association, dismissed Jan Płudowski from the Company's Supervisory Board of the 5th common term of office. This way, he ceased to be the member of the Strategy Committee.

On June 19, 2020, the Company's Supervisory Board of the 5th common term of office supplemented the composition of the Strategy Committee by appointing Barbara Łasak-Jarszak to be a member thereof.

On June 26, 2020, the Strategy Committee elected Grzegorz Peczkis to hold the position of the Head of the Strategy Committee.

On July 15, 2020, i.e. on the date of the Ordinary General Meeting (GM) of the Company approving the financial statements for the last full financial year of performing the function of the Members of the Company's Supervisory Board of the 5th common term of office, i.e. for the financial year 2019, the mandates of all Members of the Company's Supervisory Board of the 5th common term of office expired. This way, Grzegorz Peczkis, Andrzej Kania and Barbara Łasak-Jarszak ceased to be the members of the Strategy Committee.

On August 3, 2020, in connection with the appointment of the Members of the Company's Supervisory Board of the 6th common term of office, the Company's Supervisory Board appointed, from the members thereof, Ryszard Madziar, Grzegorza Peczkis and Barbara Piontek to be the members of the Strategy Committee.

On August 3, 2020, the Strategy Committee elected Grzegorza Peczkis to hold the position of the Head of the Strategy Committee.

On February 12, 2020, Barbara Piontek submitted a statement on his resignation from the membership of the Company's Supervisory Board of the 6th common term of office. This way, he ceased to be the member of the Strategy Committee.

On March 1, 2020, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Andrzej Kania to be a member thereof.

No other changes to the composition of the Strategy Committee had taken place by the date of drawing up this report.

Tasks and competences of the Strategy Committee

The tasks and competences of the Strategy Committee did not change in 2020.

The tasks and competences of the Strategy Committee as of December 31, 2020 and as of the date of drawing up this report are presented in the below table.

Table no. 66. Competences of the Strategy Committee as of December 31, 2020 and as of the date of drawing up this report

| Competences of the Strategy Committee |
|--|
| <ol style="list-style-type: none">1. evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board,2. recommending to the Supervisory Board the scope and deadlines for submitting the long term strategic plans by the Management Board,3. evaluating the impact of the planned and currently undertaken strategic investment projects on the Company's assets' position,4. monitoring the implementation of the strategic investment tasks,5. evaluating activities related to the use of the Company's material assets,6. providing opinions on the strategic documents submitted to the Supervisory Board by the Management Board |

The detailed description of the activities of the Strategy Committee in the last financial year is provided in the report on the activities of the Supervisory Board submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Description of the activities of the Committees of the Supervisory Board of TAURON Polska Energia S.A.

The detailed description of the activities of the Committees of the Supervisory Board is provided in the Regulations of the individual Committees of the Supervisory Board.

The Committees of the Supervisory Board are advisory and opinion making bodies acting collectively as a part of the Company's Supervisory Board structure and perform the support and advisory functions for the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements related to the scope of their tasks to the Supervisory Board, by way of the resolutions passed. The Committees of the Supervisory Board are independent of the Management Board of the Company.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of 3 to 5 members, while the Strategy Committee is composed of 3 to 7 members. The activities of the individual Committees are managed by their Chairpersons (Heads).

The meetings of the Committees of the Supervisory Board are convened by the Chairperson (Head) of the specific Committee on his / her own initiative or upon the motion of a member of the Committee or Chairperson of the

Supervisory Board and they are held on as needed basis. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Head of the given Committee may invite the Members of the Company's Supervisory Board, who are not members of the specific Committee, the members of the Management Board and the employees of the Company as well as other persons working or cooperating with the Company to take part in the meetings of the Committees. The Head of the specific Committee or a person appointed by him / her submits motions, recommendations and reports to the Supervisory Board .

The Committees of the Supervisory Board pass resolutions if at least half of their members are present at the meeting and all of the members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using the means of direct remote communication.

The Members of the Committees of the Supervisory Board may also participate in the meetings of the Committees and vote on the resolutions being passed by using the means of direct remote communication, i.e. tele- or videoconferences.

The Company's Management Board shall be informed of the recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, via the Company, on their memberships, the number of meetings held and the participation in the meetings during the year, as well as on their main activities.

The Company's Management Board provides the individual Committees with possibility of using the services of the external advisers to the extent required to perform the obligations of the Committees.

9.12. TAURON Group's Diversity Policy

TAURON Group's Diversity Policy (Diversity Policy), put in place in 2017, was in force at the Company and TAURON Capital Group in 2020, with its goal to strengthen the awareness and organizational culture open to diversity.

In accordance with the above Diversity Policy the diversity and openness are an integral part of TAURON Capital Group's business operations. TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience with respect to all employees, and in particular to the management bodies and its key managers. Also, actions have been undertaken to prevent discrimination by fostering appropriate work atmosphere as well as building and strengthening positive relationships among the personnel and developing organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),

The diversity policy is also applied with respect to the cooperation (relationships) with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, the following regulations are put in place at TAURON Capital Group.

1. *TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination,*
2. *Policy of Respect for Human Rights* defining the principles of respect for human rights and actions taken to prevent the violation thereof and to support the atmosphere of dignity and mutual respect,
3. Training and competence development programs conducive to and supporting the creation of an atmosphere fostering the development of each employee,
4. Regulations ensuring fairness and objectivity with respect to work organization and compensation, including among others:
 - 1) *TAURON Group's Compensation Principles,*
 - 2) *TAURON Group's Human Resources Management Policy,*
 - 3) regulations with respect to benefits (entitlements),
 - 4) flexible forms of work time and ability to work remotely.
5. Programs and regulations dedicated to women, ensuring equal opportunities for them and support in combining professional life with private life, e.g.:
 - 1) reduced working time for pregnant women,
 - 2) *Mum works (Mama pracuje)* program put in place in the distribution line of business, with the goal to build a friendly work environment for mothers,
 - 3) *Magenta meetings (Magentowe spotkania)* program as part of the *Women's Power (Kobieca Moc)* campaign dedicated to women students of the electrical engineering faculties, whose goal is to provide support for girls, among others in selecting a career path.
6. *TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy,*
7. *TAURON Group's Competence Model.*

The detailed data and indicators related to diversity in terms of age, gender and the activities undertaken, as well as the results stemming from the implementation of the Diversity Policy are provided in section 2.8 of this report.

With respect to the members of the corporate authorities of TAURON, i.e. the Management Board and the Supervisory Board, persons acting as the Members of the Company's Management Board are appointed by the Company's Supervisory Board, while the Members of the Company's Supervisory Board are appointed by the Company's GM and the Minister competent to exercise the rights related to the State Treasury's shares, acting within the statutory powers of the State Treasury.

The Members of the Company's Management Board are appointed by the Company's Supervisory Board after conducting a qualification procedure designed to verify and assess their qualifications and select the best candidate. The notice of the qualification process is published on the Company's website at the address: <https://www.tauron.pl> and in the Public Information Bulletin (Biuletyn Informacji Publicznej) of the Minister competent to exercise the rights related to the State Treasury's shares. The competition is open to any person that meets the requirements provided in § 16 clauses 3 and 4 of the Company's Articles of Association. As there are no special requirements related to, among others, gender, education profile, age and professional experience, the Company's Supervisory Board is able to ensure comprehensive and diverse approach when assessing and selecting the candidates for Members of the Company's Management Board.

As of December 31, 2020, the Company's Management Board was composed of 3 men, and the Company's Supervisory Board included 3 women and 3 men. The age structure of the Members of the Company's Management Board was as follows: over 40-50 years - 2 persons, over 50-60 years - 1 person, while in case of the Company's Supervisory Board: over 40-50 years - 4 persons, over 50-60 years - 1 person, above 60 years - 1 person.

Information on the qualifications and professional experience of persons appointed as members of the Management Board and the Supervisory Board of TAURON is published in the applicable securities filings (current reports) and on the Company's website at the address: <https://www.tauron.pl>.

10. STATEMENT ON NON-FINANCIAL INFORMATION

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the *Act of September 29, 1994, on accounting* (Journal of Laws of 2021, item 217), instead of the statement on non-financial information, the Company drew up a Non-financial Report of TAURON Capital Group for 2020, in the form of a separate document posted on the Company's website at the address: <https://www.tauron.pl>.

The above Report was drawn up in accordance with:

1. Article 49b, clauses 1-8 and art. 55, clauses 2b-e of the *Act of September 29, 1994, on accounting* (Journal of Laws of 2021, item 217), which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of June 20, 2019, with the guidelines on non-financial reporting: Supplement on reporting climate related information,
2. Global Reporting Index guidelines - GRI Standards (core level).

11. MANAGEMENT AND SUPERVISORY PERSONNEL COMPENSATION POLICY

11.1. Compensation system for the Members of the Management Board and the key managers

General information on the adopted compensation system for the Members of the Management Board of TAURON Polska Energia S.A.

The principles of compensation for the Members of the Company's Management Board in force at TAURON are in line with the regulation of the *Act of June 9, 2016, on the principles of determining the compensation of persons managing certain companies* (Journal of Laws of 2020, item 1907).

The principles of compensation for the Members of the Company's Management Board defined in the Resolution of the Extraordinary GM of TAURON November 21, 2019, *on the principles of determining the compensation of the Members of the Management Board and waiving resolution no. 5 of the Extraordinary General Meeting of the Company under the name: TAURON Polska Energia S.A. of December 15, 2016, on the principles of determining the compensation of the Members of the Management Board and waiving resolution no. 36 of the Ordinary General Meeting of the Company under the name: TAURON Polska Energia S.A. of May 29, 2017, on the amendment of resolution no. 5 of the Extraordinary General Meeting of December 15, 2016 and waiving resolution no. 26 of the Ordinary General Meeting of the Company under the name: TAURON Polska Energia S.A. of May 8, 2019 on the amendment of resolution no. 5 of the Extraordinary General Meeting of December 15, 2016*, were in force at the Company in 2020.

The principles of determining the compensation were specified in detail in the resolution of the Company's Supervisory Board of December 19, 2016 *on determining the compensation of the Members of the Management Board of TAURON Polska Energia S.A.*, as subsequently amended

The Policy of compensation for the members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A., adopted by the Company's Supervisory Board on October 23, 2017, had been in force at TAURON until July 14, 2020.

With a view to complying with the provisions of the *Act of October 16, 2019, on amending the Act on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies and certain other acts*, the General Meeting of the Company adopted a resolution on July 15, 2020, *on the adoption of the "Policy of Compensation for Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A."* (Compensation Policy).

The Compensation Policy, along with the resolution of the General Meeting of the Company on the adoption thereof has been published on the Company's website at the address: <https://www.tauron.pl>.

The overarching objectives of the Compensation Policy include:

1. ensuring a consistent and motivational compensation system for the Members of the Company's Management Board,
2. linking the compensation rules with the monitoring of the implementation of the adopted strategic plans, long term interests of the Company and the implementation of the financial plans,
3. setting the level of compensation for the Members of the Company's Management Board in connection with the implementation of the management objectives set,
4. increasing the Company's value through the development of the most senior management staff,
5. improving the compensation system translating into the implementation of the Company's business strategy and the directions of its expansion,
6. ensuring the stable growth of the Company.

The model of compensation covered by the Compensation Policy assumes a two-component system for determining the compensation of the Members of the Company's Management Board, where the total compensation of a Member of the Company's Management Board is composed of a fixed part constituting the monthly base compensation and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management objectives (KPI).

The system of compensating the Members of the Company's Management Board assumes linking the variable part of the compensation with the outstanding management objectives stemming from the provisions of the *act of June 9, 2016 on the principles for determining compensation of the management personnel of certain companies*, as subsequently amended, and set, based upon these provisions, by the GM and the Supervisory Board of the Company. The goal of adopting, in the compensation system, of the dependence of the compensation's variable part on achieving the management goals set to be accomplished is aimed, in particular, at implementing the adopted

Strategy, the directions of the Company's expansion and the financial plans taking into account the Company's long term interests. Furthermore, it shapes a new organizational culture of the Company.

Taking into account the applicable regulations, the level of compensation of the Members of the Company's Management Board is determined by the Company's Supervisory Board within the range determined by the Company's GM.

The variable compensation of the Members of the Company's Management Board constitutes up to 60% of the fixed compensation for the financial year, assuming the management objectives, set by the GM and detailed by the Supervisory Board for the given financial year, have been achieved.

The variable compensation for achieving the financial management objectives is granted based on the data from the audited consolidated financial statements of the Company for the given financial year. The variable compensation for achieving the non-financial management objectives is due in connection with achieving specific goals in the given financial year based on the assessment of their achievement by the Company's Supervisory Board.

The overall management objectives set by the GM include:

1. achieving EBITDA at the level approved in the Material and Financial Plan for the given financial year,
2. achieving the Net debt/EBITDA ratio at the level approved in the Material and Financial Plan for the given financial year,
3. maintaining the rating of TAURON Polska Energia S.A. at an investment grade level,
4. achieving of the effects of the implemented restructuring programs or programs aimed at improving the efficiency of TAURON Capital Group,
5. implementation of the Strategy, investment projects in accordance with the optimal schedule and budget from the point of view of project profitability and the condition of TAURON Capital Group,
6. implementation of the key investment projects for energy security, in particular with respect to electricity generation and distribution, including the investment projects related to BAT in 2020-2021,
7. sales of the new products (sales of products that include electricity and products that are synergic with electricity and gas),
8. improving the quality indicators related to customer service or other operational indicators,
9. increase in TAURON Capital Group's innovations through the implementation of research and development works, pilot projects as well as deployments, taking into account the effective use of the funds allocated for this purpose.

The Members of the Management Board of the Company are neither covered by the bonus program based on the capital (equity) of the Company (stock awards), nor do they receive any compensation or bonuses due to the performance of their functions in the governing bodies (authorities) of TAURON Capital Group's subsidiaries.

General information on the adopted System of Compensation for the Members of the Management Board of TAURON Capital Group's Subsidiaries

At all of TAURON Capital Group's subsidiaries for which TAURON is a parent company within the meaning of art. 4, clause 3 of the *Act of February 16, 2017, on the protection of competition and consumers*, (Journal of Laws of 2020, item 1076, as subsequently amended), the principles of compensation for the members of the management authorities (bodies) are applied in accordance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907). The above was defined in the *Policy for determining the compensation for the members of the authorities of the Subsidiaries* adopted by the Management Board of TAURON, and in the *Principles of the compensation for the members of the corporate authorities of the Subsidiaries*.

The principles of compensation for the members of the management bodies (authorities) of the subsidiaries are, similar as at TAURON, based on a two-component system for determining compensation, where the total compensation is composed of a fixed part and a variable part dependent on fulfilling specific, results based criteria, i.e. achieving the management objectives. Linking of the compensation's variable part to achieving the management objectives set to be accomplished is of major importance in TAURON Capital Group's management process and is aimed at prioritizing the directions of the expansion of the individual subsidiaries.

The management objectives that the variable compensation is linked to may, in particular, include:

1. increase of the net profit or EBITDA or a positive change of the growth rate of one of those results;
2. achieving or changing the production or sales volume;
3. amount of the revenue, in particular revenue from sales, from the operating activities, from the other operating or financing activities;
4. cutting down losses, reducing the overhead costs or the costs of the business operations conducted (operating expenses);
5. implementation of the strategy or the restructuring plan;
6. achieving or changing certain indicators, in particular profitability, financial liquidity, management efficiency or solvency;

7. implementing investment projects, taking into account in particular the scale, rate of return, innovations, on-time implementation (delivery);
8. change of the company's market position, calculated as market share or according to other criteria or relationships with the counterparties (business partners, contractors) designated as the key counterparties (business partners, contractors) according to the defined criteria;
9. implementation of the personnel policy conducted and an increase of the workforce commitment.

General information on the adopted System of Compensation for the Key Managers

The principles related to the compensation and bonus system for the key managers and other employees are defined in the *Regulations of the Compensation for the Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

Principles of Compensation at TAURON Group were in force at TAURON Capital Group in 2020, constituting the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for the key managers based on the management by objectives system, consistent throughout TAURON Capital Group, representing a combination of the planning process, efficiency (performance) measurement process and assessment process.

The compensation and bonus system for the key managers in force envisages that the level of compensation should be tied to the financial condition of TAURON Capital Group and the Company over a year's time frame, in connection with the achievement (implementation) of the strategic goals.

The overarching assumption of the compensation system in force is to ensure the optimal and motivating compensation level, based on the value and type of work in the given position as well as the quality of work and effects achieved by the employees.

The structure of the compensation is composed of the following elements:

1. fixed part - constituting the base compensation (salary) determined in accordance with the table of level (tier) categories applicable at the Company and the monthly rates of the personal level (tier). The allocated level of the basic compensation (salary) reflects the value and type of work as well as the quality of the employee's work, defined based on the assessment of the employee's competence level,
2. variable part - which is dependent on the work performance results, defined based on the level of accomplishing the targets and tasks within the MBO bonus system,
3. benefits - which are defined in the internal regulations of the Company.

The MBO bonus system based on the market principles of awarding bonuses ensures focusing of the activities of the key managers on attaining the objectives aimed at implementing the Strategy, as well as the strategic objectives and expansion directions of TAURON Capital Group's individual subsidiaries. Such a system allows for cascading of the objectives defined by the Company's Management Board at TAURON Capital Group level and at the Company level, down to the concrete, parameterized tasks vested with the employees positioned at the lower levels of the organization. In addition, the MBO bonus system has been linked with the process based management system implemented at TAURON Capital Group, inter alia by linking the objectives with the Mega-processes defined within TAURON Capital Group. Therefore, the Management by Objectives culture introduced reflects the specific features of the individual functions implemented by the Company and allows for the use of the mechanisms enabling dialogue between the superior and the subordinate during the process of setting and assessing the objectives, that translate into attaining the overall efficiency throughout the entire organization.

At the same time, this tool enables precise correlating of the KPIs defined for the Members of the Company's Management Board with the objectives set for the given year for the key managers of the Company. An initial assessment of the accomplishment of the objectives takes place after the elapse of the first 6 months, while the Members of the Company's Management Board make the final assessment of the accomplishment of the objectives by the key managers after the year has ended.

In addition, there is a bonus system for the trading area (and the units directly cooperating therewith), the purpose of which is to motivate to achieve higher revenues for TAURON Capital Group. The trading bonus covers the key managers from the trading area, where the bonus mechanism awards them an additional bonus only after exceeding their designated annual trading plans.

11.2. Principles, conditions and amount of compensation for the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group

Compensation of the Members of the Management Board of TAURON Polska Energia S.A.

The compensation of the Members of the Company's Management Board is determined by the Company's Supervisory Board. The total amount of compensation understood as the value of the salaries, bonuses and benefits received in cash, in kind or in any other form, due or paid by the Company to the Members of the Company's Management Board in 2020 reached the gross amount of PLN 2 834 000.

The compensation of the Members of the Company's Management Board in 2020, broken down into components, is presented in the below table.

Table no. 67. Compensation of the Members of the Company's Management Board in 2020, broken down into components

| # | First and last name | Period of holding the position in 2020 | Compensation* (PLN '000) | Variable compensation* (PLN '000) | Other benefits ¹ (PLN '000) | Total (PLN '000) |
|--------------|---------------------|--|--------------------------|-----------------------------------|--|------------------|
| 1. | Wojciech Ignacok | 15.07.2020 - 31.12.2020 | 361 | 0 | 12 | 373 |
| 2. | Jerzy Topolski | 15.07.2020 - 31.12.2020 | 343 | 0 | 12 | 355 |
| 3. | Marek Wadowski | 01.01.2020 - 31.12.2020 | 742 | 443 | 56 | 1 241 |
| 4. | Filip Grzegorzczak | 01.01.2020 - 14.07.2020 | 399 | 0 | 19 | 418 |
| 5. | Jarosław Broda | 01.01.2020 - 14.07.2020 | 427 | 0 | 20 | 447 |
| Total | | | 2 272 | 443 | 119 | 2 834 |

*excluding markups (surcharges)

At the same time, it is indicated that, because of the Company's obligations towards the former Members of TAURON's Management Board, the total amount of PLN 1 320 000 was paid out in 2020 due to the payment of the compensation for refraining from performing competing activities (the non-compete clauses), variable compensation and the other benefits. In addition, the amount of the severance payments came in at PLN 383 000 in 2020.

The Members of TAURON's Management Board did not receive compensation or bonuses for performing the functions in the corporate bodies (authorities) of TAURON Capital Group's subsidiaries in 2020.

All Members of the Company's Management Board received compensation in 2020, in accordance with the applicable contract for the provision of the management services in accordance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907) and the Compensation Policy.

The detailed information on the compensation model for the Members of the Company's Management Board and the Compensation Policy is presented in section 11.1. of this report.

Information on the obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature.

Compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries

The compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries is determined taking into account the scale of the given subsidiary's operations, in particular:

1. average annual headcount,
2. annual net revenue (turnover) from the sales of goods, products and services as well as the financial operations,
3. total assets on the balance sheet at the end of the year..

Based on the above criteria, the categories of subsidiaries are defined, which determine the amount of the fixed compensation of the members of the subsidiaries' management authorities (bodies).

The principles of compensation for the Members of the Management Boards of TAURON Capital Group's subsidiaries are published on the website at the address: <https://www.tauron.pl>.

11.3. Agreements concluded with the management personnel that envisage compensation in case of their resignation or dismissal from the position held, with no important reason, or if their dismissal or resignation takes place as a consequence of the merger of the Company as a result of a takeover

The agreements (contracts) on the provision of the management services concluded both with the Members of TAURON's Management Board as well as with the Members of the Management Boards of TAURON Capital Group's individual subsidiaries, envisage, in case of the termination or renouncement of the agreement by the Company for reasons other than defined therein, a payout of the severance payment in the amount of three times the fixed part of the compensation, on the condition they have performed their function over a period of at least 12 months prior to the termination of the agreement.

Furthermore, due to the Members of TAURON's Management Board, as well as the Members of the Management Boards of TAURON Capital Group's individual subsidiaries having access to confidential information the disclosure of which could expose the Company and TAURON Capital Group's subsidiaries to losses, the agreements on the provision of the management services include the non-compete clauses applicable after the expiry of the term of office. Under the above mentioned agreements the Members of the Management Board are obligated to refrain from conducting competitive activities for a specified period in return for the compensation due thereto.

The Members of the Company's Management Board had not held the positions of the Members of the Management Boards of TAURON Capital Group's subsidiaries prior to being appointed as the Members of the Company's Management Board, except for Jerzy Topolski who had held the position of the Vice President of the Management Board for the Operator's affairs at TAURON Dystrybucja.

11.4. Non-financial components of the compensation due to the Members of the Management Board of TAURON Polska Energia S.A. and the key managers

Non-financial components of the compensation of the Members of the Company's Management Board

Members of the Company's Management Board, in accordance with the agreements on the provision of the management services, are entitled to the reimbursement by the Company of the cost of training up to the net amount of PLN 15 000 in a calendar year.

Starting from February 1, 2020, the Members of the Company's Management Board have been covered by the Employee Pension Program in accordance with the rules applicable to all the Employees of TAURON.

In addition, in the event of the permanent residence at a considerable distance from the registered office of the Company, a Member of the Management Board of the Company is entitled to a housing allowance in the gross amount of PLN 2 500.00 per month, that constitutes an additional benefit.

Non-financial components of the compensation of the key managers

The personnel employed at the key positions by the Company are entitled to take advantage of the following benefits and non-financial components of the compensation offered by the Company:

1. Employee Pension Program operated by the employer (under the condition of being employed by the Company or one of TAURON Capital Group's subsidiaries over a period of at least 1 year),
2. medical package financed with the Company's funds,
3. company car allocated for their exclusive use,
4. housing allowance in the gross amount of PLN 2 500.00 per month in case the availability of the employee is required due to the nature of his / her work and scope of responsibilities.

11.5. Information on the changes to the compensation policy during the last financial year

With a view to complying with the provisions of the *Act of October 16, 2019, on amending the Act on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies and certain other acts*, the General Meeting of the Company adopted a resolution on July 15, 2020, *on the adoption of the " Policy of Compensation for Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A."*.

The description of the Compensation Policy is presented in section 11. of this report.

11.6. Assessment of the functioning of the compensation policy in terms of the fulfilment of its objectives, in particular the long term growth in shareholder value and stability of the company's performance

The applied compensation system for the members of the Management Board is in accordance with the *Act of June 9, 2016 on the principles for determining compensation of the management personnel of certain companies*. The motivational and consistent system is provided, linked with the monitoring of the annual financial plans and the adopted Strategy and the expansion directions.

Policy of compensation for members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A. in force at the Company is in line with the Best Practice 2016 principles and defines, in particular, the form, structure and the manner of determining the compensation of the Members of the Company's Management Board.

The form, structure and level of the compensations correspond to the market conditions and are oriented towards enabling the recruitment and retaining individuals fulfilling the criteria required to manage the Company in a manner that would take into account the shareholders' interests (building the Company's value for the shareholders), as well as prevent arising of conflicts of interest among the Members of the Company's Management Board and the shareholders. At the same time, they are structured in a manner that is transparent for the investors so as to build their confidence in the Company and provide the motivational function for the Company's Management Board.

The disbursement of the variable components of the compensation is linked to the pre-defined, measurable results based criteria that support the long term stability of the Company and TAURON Capital Group and they also include the non-financial criteria, related to the generation of long term value of the Company and TAURON Capital Group.

The criteria the fulfilment of which determines obtaining of the variable components of the compensation and the level thereof are defined in accordance with the SMART methodology, i.e. they display such features as: precision, measurability, achievability, materiality and timing references.

The compensation and bonus system for both the Members of the Management Board of the Company as well as the key managers in force at TAURON supports the accomplishment (implementation) of the strategic goals and takes into account the determination of the compensation depending on the financial condition of the Company and TAURON Capital Group over one year period.

11.7. System of Compensation for the Members of the Supervisory Board

The system of compensation for the Members of the Supervisory Board of the Company defined in the Resolution of the Extraordinary GM of TAURON of December 15, 2016, *on determining compensation for the Members of the Supervisory Board*, as subsequently amended, was in force, adopted as the implementation of the provisions of the *Act of June 9, 2016, on the principles for determining compensation of the management personnel of certain companies*, was in force in 2020.

Policy of compensation for the members of the supervisory and management authorities, including the description of the principles for determining such policy at TAURON Polska Energia S.A., adopted by the Company's Supervisory Board on October 23, 2017, had been in force at TAURON until July 14, 2020.

With a view to complying with the provisions of the *Act of October 16, 2019, on amending the Act on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies and certain other acts*, the General Meeting of the Company adopted a resolution on July 15, 2020, *on the adoption of the "Policy of Compensation for Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A."* (Compensation Policy).

The Compensation Policy, along with the resolution of the General Meeting of the Company on the adoption thereof has been published on the Company's website at the address: <https://www.tauron.pl>.

In accordance with the above mentioned Resolution of the Extraordinary GM the monthly compensation of members of the Supervisory Board is determined as a product of multiplying the assessment base mentioned in art. 1, clause 3, item 11 of the *Act of 9 June 2016 on the principles for determining compensation of the management personnel of certain companies*, and the multiplier:

1. for the chairperson of the Supervisory Board – 1.7
2. for the other members of the Supervisory Board – 1.5

Members of the Supervisory Board are entitled to receive the compensation irrespective of the frequency of the meetings convened.

The compensation is not due for a month in which a member of the Supervisory Board was not present at any of the formally convened meetings, and the absence was not excused. The decision on excusing or a failure to excuse the absence of a Member of the Company's Supervisory Board at its meeting is taken by the Company's Supervisory Board by way of a resolution.

The Company covers the costs incurred in connection with the performance of the functions entrusted with the Members of the Supervisory Board, in particular: the costs of the round trip between the place of residence and the venue of the Supervisory Board's meeting or a meeting of the Supervisory Board's Committee, the costs of the individual supervision and the costs of accommodation and board.

11.8. Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.

The total amount of compensation understood as the value of the compensations due or paid by the Company to the Members of the Company's Supervisory Board in 2020 reached the gross amount of PLN 565 000.

The compensation of the Members of the Company's Supervisory Board in 2020 is presented in the below table.

Table no. 68. Compensation of the members of the Company's Supervisory Board in 2020.

| First and last name | Period of holding the position in 2020 | Compensation (PLN '000) |
|----------------------------|--|-------------------------|
| 1. Andrzej Kania | 22.05.2020 - 31.12.2020 | 54 |
| 2. Teresa Famulska | 01.01.2020 - 15.07.2020 03.08.2020 - 31.12.2020 | 78 |
| 3. Katarzyna Taczanowska | 01.01.2020 - 31.12.2020 | 82 |
| 5. Ryszard Madziar | 15.07.2020 - 31.12.2020 | 37 |
| 5. Grzegorz Peczkis | 01.01.2020 - 31.12.2020 | 82 |
| 6. Barbara Piontek | 05.06.2020 - 31.12.2020 | 45 |
| 7. Beata Chłodzińska | 01.01.2020 - 27.04.2020 | 32 |
| 8. Jacek Szyke | 01.01.2020 - 20.04.2020 | 27 |
| 9. Barbara Łasak - Jarszak | 01.01.2020. - 15.07.2020 | 46 |
| 10. Jan Płudowski | 01.01.2020 - 05.06.2020 | 37 |
| 11. Marcin Szlenk | 01.01.2020 - 20.04.2020 | 27 |
| 12. Andrzej Śliwka | 24.03.2020 - 16.06.2020 | 18 |
| 13. Agnieszka Woźniak | 01.01.2020 - 24.03.2020 | 21 |
| Total | | 565 |

The Members of the Company's Supervisory Board do not perform functions (hold positions) in the authorities of the subordinated units.

Information on the obligations towards the former Members of the Company's Supervisory Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Supervisory Board due to pensions or benefits of similar nature

12. OTHER MATERIAL INFORMATION AND EVENTS

12.1. Material proceedings pending before the court, competent arbitration authority or public administration authority

The below table presents material proceedings pending before the court, competent arbitration authority or public administration authority in 2020.

Table no. 69. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2020

| Parties to the proceedings | Description of the proceedings including the value of the object of litigation and the Company's position |
|--|--|
| Proceedings involving TAURON | |
| 1. Plaintiff: Huta Łaziska S.A. Defendants: TAURON (as a legal successor to GZE) and State Treasury represented by the President of ERO | <p>Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of ERO of October 12, 2001 related to the resumption of electricity supply to the plaintiff.</p> <p>Value of the object of litigation: PLN 182 060 000.00</p> <p>Initiation of the proceeding: the lawsuit of March 12, 2007</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On May 28, 2019, the Regional Court in Warsaw issued a ruling on the dismissal of Huta Łaziska S.A.'s lawsuit in whole and ruled that Huta Łaziska S.A. shall refund each defendant the costs of the proceedings. The ruling is not legally binding.</p> <p>Huta Łaziska S.A. filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole.</p> |
| 2. Authority conducting the investigation: Head of the Mazovian Customs and Tax Office Party: TAURON | <p>Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from April 2013 until September 2014. The main subject of the three investigations carried out by the Head of the Mazovian Customs and Tax Office are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from the following entities: Castor Energy sp. z o.o. and Virtuse Energy sp. z o.o.</p> <p>Value of the object of litigation (deducted VAT amount): PLN 54 371 306.92, including: Castor Energy sp. z o.o. – PLN 52 494 671.92, Virtuse Energy sp. z o.o. – PLN 1 876 635.00</p> <p>Date of initiating the proceeding: October 2014, August 2016, December 2016</p> <p>Company's position: in the Company's opinion during the verification of both counterparties (business partners, contractors), due diligence was adhered to, the Company acted in good faith and should have the right to deduct the tax assessed on the invoices documenting the electricity purchase from the counterparties (business partners, contractors) Castor Energy sp. z o.o. and Virtuse Energy sp. z o.o.</p> <p>On October 7, 2020, the Company received the decision of the Head of the Mazovian Customs and Tax Office as the final result of one of the audit proceedings, specifying the amount of its VAT tax liability for the following months: October, November, December 2013 and the first quarter of 2014, which resulted in the obligation for the Company to pay additional VAT for that period in the total amount of PLN 51 818 354, along with the interest on the tax arrears. The Company filed an appeal against the decision on October 20, 2020.</p> <p>On November 12, 2020, as part of the second audit proceedings, a protocol from the audit of the books was drafted, in which the authority stated that the Company had not been eligible for the deduction of the tax assessed in the invoice issued by Castor Energy sp. z o.o. in April 2014, and thus overestimated the amount of the tax assessed by PLN 677 815.39. On December 10, 2020, the Company submitted its objections to the protocol. On January 15, 2021, a decision was issued in which the Authority stated that the Company had not been eligible to deduct the VAT assessed from the invoice issued by Castor Energia Sp. z o.o. in April 2014, and thus the Company overstated the amount of VAT assessed recognized in the tax statement filing for the second quarter of 2014 by the amount of PLN 677 815.39. On February 12, 2021, the Company filed an appeal against the decision.</p> <p>The third audit proceedings in which the transactions with Virtuse Energy sp. z o.o. were scrutinized, ended on October 27, 2020, with a positive outcome for the Company, i.e. the Authority found no irregularities as a result of the audit.</p> |
| 3. Plaintiff: Enea Defendant: TAURON | <p>Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment (benefit) in connection with the settlements related to the imbalance of the Balancing Market with PSE between January and December 2012</p> <p>Value of the object of litigation: PLN 17 085 846.49</p> <p>Initiation of the proceeding: the lawsuit of December 10, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 22, 2021, the Regional Court in Katowice dismissed Enea's lawsuit in full and ruled on Enea's obligation to reimburse the Company for the costs of the proceedings. The ruling is not final (legally binding).</p> |
| Lawsuits pertaining to the termination, by the PEPKH subsidiary, of the agreements related to the sales of electricity and property rights arising from the certificates of origin | |

| Parties to the proceedings | Description of the proceedings including the value of the object of litigation and the Company's position |
|--|--|
| 4. Plaintiff: Dobięstaw Wind Invest sp. z o.o. Defendant: TAURON | Object of litigation: lawsuit for payment of damages and determination of liability for the future. Value of the object of litigation: PLN 72 217 997.00 Initiation of the proceeding: the lawsuit of June 30, 2017 In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 37 471 305.05 or (a potential claim) PLN 35 969 662.07. Company's position: the Company considers the claims covered by the lawsuit as being without merit. |
| 5. Plaintiff: Gorzyca Wind Invest sp. z o.o. Defendant: TAURON | Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 97 651 840.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit. 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. |
| 6. Plaintiff: Pękanino Wind Invest sp. z o.o. Defendant: TAURON | Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 44 817 060.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit. 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. |
| 7. Plaintiff: Nowy Jarosław Wind Invest sp. z o.o. Defendant: TAURON | Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: PLN 57 763 340.00 Initiation of the proceeding: the lawsuit of June 29, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit. 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. |
| 8. Plaintiff: in.ventus sp. z o.o. Mogilno I sp. k. Defendant: TAURON | Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: EUR 12 286 229.70 (i.e. PLN 53 587 619.46 at NBP's average exchange rate of June 29, 2018). Initiation of the proceeding: the lawsuit of June 29, 2018 Company's position: the Company considers the claims covered by the lawsuit as being without merit. The proceeding was suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding pursuant to art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute. By way of the letter of June 5, 2020, the Plaintiff withdrew the lawsuit and waived the claim. In connection with the withdrawal of the lawsuit, by way of the decision of August 6, 2020, the court discontinued the proceedings in the above mentioned case. The court's ruling is legally binding (final). |
| 9. Co-participation on the plaintiff's side: Amon and Talia Defendant: TAURON | Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition. Value of the object of litigation: Amon – PLN 47 556 025.51; Talia – PLN 31 299 182.52 Initiation of the proceeding: the lawsuit of April 30, 2018 Company's position: the Company considers the claims covered by the lawsuit as being without merit. |
| Proceedings involving TAURON Capital Group's subsidiaries related to the termination, by a subsidiary, of the agreements related to the sale of electricity and property rights arising from the certificates of origin | |
| 10. Plaintiff: Gorzyca Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o., Dobięstaw Wind Invest sp. z o.o. Defendant: PEPKH | Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages. Value of the object of litigation: Gorzyca Wind Invest sp. z o.o.– PLN 112 353 945.05; Pękanino Wind Invest sp. z o.o. PLN 64 116 908.85 Initiation of the proceeding: Gorzyca Wind Invest sp. z o.o. – May 18, 2015, Pękanino Wind Invest sp. z o.o. – May 20, 2018, Dobięstaw Wind Invest sp. z o.o. – May 18, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit. |
| 11. Plaintiff: Dobięstaw Wind Invest sp. z o.o. | Object of litigation: plea to award damages and liquidated damages. Value of the object of litigation: PLN 76 559 461.18 |

| Parties to the proceedings | Description of the proceedings including the value of the object of litigation and the Company's position |
|---|--|
| Defendant: PEPKH | Initiation of the proceeding: the lawsuit of June 14, 2017 Company's position: the Company considers the claims covered by the lawsuit as being without merit. |
| 12. Plaintiff: Nowy Jarosław Wind Invest sp. z o.o. Defendant: PEPKH | Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the sale of electricity and property rights arising from the certificates of origin null and void, and to award damages. Value of the object of litigation: PLN 69 282 649.20 Initiation of the proceeding: the lawsuit of June 3, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit. |
| 13. Plaintiff: Amon Defendant: PEPKH | Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages. Value of the object of litigation: PLN 40 478 983.22 Initiation of the proceeding: the lawsuit of May 22, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit. On July 25, 2019 the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court: <ol style="list-style-type: none">determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties,determined that Amon's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. The ruling is not legally binding. PEPKH disagrees with the ruling and filed an appeal complaint on October 25, 2019. Proceedings regarding the procedural issues are ongoing. The case is pending. |
| 14. Plaintiff: Amon Defendant: PEPKH | Object of litigation: plea to determine awarding of damages due to a failure to perform, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin Value of the object of litigation: PLN 29 009 189.38 Initiation of the proceeding: September 2, 2019 Company's position: the Company considers the claims covered by the lawsuit as being without merit. The case was suspended by a court decision until the Regional Court in Gdańsk has reviewed an appeal against the judgment in the lawsuit brought by Amon against PEPKH, referred to in item 4 above. The court's decision is not legally binding (final). |
| 15. Plaintiff: Talia Defendant: PEPKH | Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the certificates of origin null and void, and to award damages. Value of the object of litigation: PLN 46 078 047.43 Initiation of the proceeding: the lawsuit of May 21, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit. On March 6, 2020 the Regional Court in Gdańsk issued a partial and preliminary ruling, supplemented by the court on September 8, 2020, in the case in which the Court: <ol style="list-style-type: none">determined that PKH's statements on the termination of long term agreements, concluded between PEPKH and Talia, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties,determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. The ruling is not legally binding (final). PEPKH disagrees with the ruling. PEPKH filed an appeal against the ruling with the court. |
| 16. Plaintiff: Mogilno III, Mogilno IV, Mogilno V, Mogilno VI Defendant: PEPKH | Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity null and void, and to award damages. Value of the object of litigation: Mogilno III – equivalent of EUR 3 651 402.56; Mogilno IV – equivalent of EUR 3 765 458.12 EUR; Mogilno V – equivalent of EUR 3 505 331.82; Mogilno VI – equivalent of EUR 2 231 812.61 Initiation of the proceeding: the lawsuit of May 25, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit. The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute. The parties filed a motion for the resumption of the proceedings in order for the plaintiff to withdraw the lawsuit along with the waiver of the claim. By way of the decision of July 3, 2020, the court discontinued the proceedings in the above mentioned cases. The court's decision is legally binding (final). |

| Parties to the proceedings | Description of the proceedings including the value of the object of litigation and the Company's position |
|--|---|
| 17. Plaintiff: Mogilno I, Mogilno II Defendant: PEPKH | <p>Object of litigation: lawsuit for payment of damages for the losses arisen as a result of a failure to perform agreements for the sale of property rights by PEPKH.</p> <p>Value of the object of litigation: Mogilno I – equivalent of EUR 3 583 336.19 EUR; Mogilno II – equivalent of EUR 3 659 538.72</p> <p>Initiation of the proceeding: the lawsuits of November 7, 2018</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>The proceeding suspended by the court as a result of the joint petition filed by the parties to suspend the proceeding under art.178 of the Code of Civil Procedure, indicating that on September 3, 2019, the transaction had been finalized under which TAURON's subsidiaries had acquired all rights and obligations of the partners in the plaintiff company and due to the ownership changes that had occurred the parties intended to work out a solution that would enable ending of the court dispute. The parties filed a motion for the resumption of the proceedings in order for the plaintiff to withdraw the lawsuit along with the waiver of the claim. By way of the decision of July 3, 2020, the court discontinued the proceedings in the above mentioned cases. The court's decision is legally binding (final).</p> |

12.2. Agreements that are material for TAURON Capital Group's operations

Agreements that are material for the operations of TAURON Capital Group in 2020 and by the date of drawing up this report are listed below.

Series A bond issue program established

On February 6, 2020, TAURON concluded, with Santander Bank Polska S.A., a program agreement, pursuant to which a bond issue program was established, under which TAURON has an option to issue bonds up to the maximum amount of PLN 2 000 000 000.

The proceeds from the bond issue are to support the implementation of TAURON Capital Group's energy transition, including increasing the share of the low and zero emission sources in its generation mix, in particular, the proceeds from the bond issue will be used to:

1. finance the costs of developing / acquiring renewable energy sources (RES) projects,
2. finance the distribution, as well as TAURON Capital Group's general corporate operations related to RES or the energy transition to zero emission,
3. finance the costs of developing or acquiring projects where biomass or gas is used as fuel,
4. refinance TAURON Capital Group's debt taken on in order to finance the above undertakings.

The terms of the bond issue, including the purpose of the issue, the maturity date, as well as the amount and manner of paying out interest, will be defined for the specific series of the bonds being issued.

On October 30, 2020, as part of the program agreement TAURON issued series A bearer bonds with the total nominal value (par value) of PLN 1 000 000 000 with the maturity date of October 30, 2025. The bonds were introduced to the alternative trading system operated by the WSE.

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 3/2020 of February 6, 2020, no. 46/2020 of October 5, 2020, no. 49/2020 of October 23, 2020 and no. 51/2020 of October 30, 2020.

Signing of the loan agreement with SMBC BANK EU AG

On March 16, 2020, TAURON concluded a loan agreement with SMBC BANK EU AG worth PLN 500 000 000, the proceeds from which may be used to fund the Company's general corporate purposes, excluding the construction, acquisition, extension of any coal fired power plants and refinancing any financial debt or expenditures incurred for such purposes.

The interest will be calculated based on a fixed interest rate.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 8/2020 of March 16, 2020.

The loan was disbursed in the full amount in March 2020, and its repayment falls in March 2025.

Signing of the syndicated loan agreement

On March 25, 2020, TAURON concluded a syndicated loan agreement worth PLN 500 000 000 with Banca IMI S.P.A., London Branch, Banca IMI S.P.A., Intesa Sanpaolo S.P.A. acting through Intesa Sanpaolo S.P.A. S.A. Oddział w Polsce (Polish Branch), and China Construction Bank (Europe) S.A. acting through China Construction Bank (Europe) S.A. (Spółka Akcyjna) (Joint Stock Company) Oddział w Polsce (Polish Branch).

In accordance with the above agreement the funds obtained may be used to finance the Company's and TAURON Capital Group's general corporate purposes, excluding the financing of any new projects related to the coal assets

The interest rate is calculated based on the variable WIBOR interest rate, applicable to the given interest period, increased by a margin depending, among others, on the degree of loan utilization and the fulfillment of the pro-ecological contractual conditions, i.e. the reduction of emissions and an increase of the share of renewable energy sources (RES) in TAURON Capital Group's generation mix.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 13/2020 of March 25, 2020.

The loan was disbursed in the amount of PLN 160 000 000 in September 2020. The availability of the loan and its repayment date is March 2025, with an option to extend the agreement term, twice, each time by a year, i.e. up to 2027 maximum, agreed between the parties.

Termination of the coal supply agreement

On December 22, 2020, TAURON served the company PGG a notice of the termination of the hard coal sale agreement concluded on January 18, 2018, by TAURON as the buyer and PGG as the seller, with a six month notice, effective as of the end of the calendar month, i.e. as of June 30, 2021.

Pursuant to the above agreement PGG delivers thermal (steam) coal to TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON.

PGG is a strategic partner of TAURON with respect to hard coal supply. TAURON purchased 2.52 million tons of hard coal from PGG in 2019, which accounted for 38 percent of the total purchases of that fuel made by the Company while 44 percent of the supply of hard coal used to produce electricity and heat by TAURON Capital Group was met with the hard coal coming from the coal mines that are part of TAURON Capital Group.

The economic conditions that have a direct impact on TAURON's business operations have undergone a material change. The Company has experienced excessive difficulties with the ongoing receiving of the hard coal deliveries as a consequence of curtailed electricity production and sales stemming from both the market situation as well as the prevailing weather conditions.

The above circumstances and the lack of an agreement between TAURON and PGG with respect to the changes to the terms and conditions of the cooperation, in particular regarding the hard coal unit prices and the annual coal supply quantities, that TAURON had been requesting since December 2019, led to TAURON submitting the above statement

The statement includes a caveat that in case the Company's notice of the termination of the agreement with the six month notice period is ineffective, that statement should be considered as the termination of the agreement submitted with a two year notice period, effective as of the end of the calendar year in which the notice period has expired, i.e. as of December 31, 2022. The action indicated above will enable the Company to avoid the negative financial consequences resulting from the further implementation of the agreement.

In spite of the termination of the agreement, TAURON expressed its intention to continue the long term cooperation with PGG on the jointly defined new terms and conditions, adapted to the current market conditions on the coal contracting market.

The termination of the Agreement should not disturb the business operations of TAURON Capital Group. Any potential additional demand for the coal fuel will be met in particular by the production of the hard coal by the coal mines that are part of TAURON Capital Group.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 55/2020 of December 22, 2020.

Signing of a cooperation agreement with respect to the joint implementation of offshore wind farm projects in the Polish Exclusive Economic Zone on the Baltic Sea

On December 29, 2020, a cooperation agreement was concluded between TAURON and OW OFFSHORE S.L. with its registered office in Madrid, Spain. (OW OFFSHORE), regarding the development of offshore wind farm construction projects in the Polish Exclusive Economic Zone on the Baltic Sea. The above agreement covers the following solutions:

1. TAURON's intention is to acquire 50 percent of the shares in the companies whose sole owner is OW OFFSHORE. The agreement is related to the projects that do not have a permit for the erection and use of artificial islands, structures and devices in the Polish Exclusive Economic Zone, issued by the Minister of Maritime Economy and Inland Navigation, provided that OW OFFSHORE is the only applicant for the permits for the areas where the implementation of the projects referred to above is planned,
2. the intention of OW OFFSHORE is to acquire 50 percent of the shares in special purpose vehicles to which TAURON Capital Group will, having acquired the permits, contribute projects that involve the construction of offshore wind farms in the Polish Exclusive Economic Zone. As of the date of concluding the agreement, TAURON Capital Group does not hold any permits, however, it has filed appropriate applications in order to obtain the permits as a result of the conclusive procedure, i.e. for an area in case of which an application was also filed by another entity (other entities).

3. TAURON and OW OFFSHORE have undertaken to conduct, in good faith, negotiations of the agreements for the sale of the shares in the special purpose vehicles referred to above, along with the investment agreement regulating the obligations of the parties as partners (shareholders). The duration of these negotiations should, as a principle, not exceed six months from the date of concluding the agreement,
4. with respect to the above items 1. and 2., TAURON and OW OFFSHORE have undertaken to act on an exclusive basis. The exclusive cooperation can be expanded to additional areas under the condition that the share purchase agreement and the investment agreement is concluded.

The term of the agreement is 2 years.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 56/2020 of December 29, 2020.

Signing of the subordinated bond issue program agreements with BGK

On March 11, 2021 (an event occurring after the balance sheet date), the documentation of the program of the subordinated bond issue up to the amount of PLN 450 000 000 was signed between the Company and BGK.

The issue of the subordinated bonds may be carried out by the Company in several series, within 24 months from the date of signing the documentation. The period of financing is 12 years from the issue date, and in accordance with the characteristics of the hybrid financing, the first period of financing was defined as 7 years (the so-called non-call period), during which TAURON will not be able to redeem the subordinated bonds early and BGK will not be able to sell them earlier to third parties (in both cases subject to the exceptions specified in the documentation). The agreement also provides for an option to defer the payment of interest on the bonds, until the date of the redemption thereof at the latest. Due to the subordinated nature of the hybrid bonds, in the event of bankruptcy or liquidation of TAURON, the liabilities under the bonds will have priority to be satisfied only over the liabilities of TAURON shareholders. A potential issue of the subordinated bonds will have a positive impact on TAURON's financial stability, as they are excluded from the calculation of the leverage ratio, which is a covenant used in some of TAURON's financing programs.

The Company had not issued any bonds as part of this program by the date of drawing up this report.

Signing of an agreement for the sale of the shares in PGE EJ 1 to the State Treasury.

On March 26, 2021, (an event occurring after the balance sheet date), the Company signed an agreement with the State Treasury for the sale of the shares in PGE EJ 1.

The agreement was signed by all of the entities holding shares in PGE EJ 1, i.e. TAURON, PGE, Enea and KGHM Polska Miedź.

Pursuant to the above agreement, the Company sells to the State Treasury 532 523 shares of PGE EJ 1, constituting 10% of the share capital and representing 10% of the votes at the General Meeting of the shareholders (partners) of PGE EJ 1. After the transaction is closed, TAURON will not be holding any shares in PGE EJ 1.

The sale price for 100% of the shares is PLN 531 362 000, of which PLN 53 136 200 is attributable to the Company. The payment for the shares in PGE EJ 1 will take place no later than on March 31, 2021. The sales price will be subject to an adjustment based on the PGE EJ1 valuation updated as of the transaction closing date. In the opinion of the Company, a potential adjustment will not have a significant impact on the final sale price.

The sale of the shares in PGE EJ 1 is the implementation of one of the strategic directions announced by TAURON on May 27, 2019.

TAURON disclosed the information on the above event in the regulatory filing (current report) no. 10/2021 of March 26, 2021.

12.3. Transactions with related entities on terms other than at arm's length

All transactions with related entities are concluded at arm's length.

The detailed information on the transactions with related entities is provided in note 56 to the Consolidated financial statements of TAURON Capital Group.

12.4. Concluded and terminated credit and loan agreements

TAURON concluded 2 loan agreements for the total amount of up to PLN 1 000 000 000 in 2020.

The detailed information related to the above agreement is provided in section 12.2. of this report.

In 2020, as part of financing its ongoing operations, the Company concluded an amendment to the overdraft agreement for the amount of up to EUR 45 000 000, concluded with BGK in 2015, extending it by 12 months. The term of the above agreement was extended until December 31, 2021. The loan is intended to be used for financing the margin deposit and the transactions related to the purchase/ sale/ exchange of the CO₂ emission allowances, trading in electricity and gas made on the European exchanges,

The following financial agreements were concluded within TAURON Capital Group in 2020:

1. intra-Group loans, which is described more broadly in section 12.5. of this report,
2. loan agreement between TAURON Wytwarzanie and WFOŚiGW for the amount of up to PLN 11 318 000 for the purpose of co-financing the construction of a photovoltaic farm in Jaworzno. The interest rate on the loan is based on a fixed rate and the debt repayment date is November 30, 2025.

The detailed information on the credit and loan agreements is provided in note 39.1 to the Consolidated financial statements of TAURON Capital Group.

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2020.

12.5. Loans and sureties granted as well as sureties and guarantees received

Loans granted

TAURON granted financing to the related companies in the form of the intra-Group bonds in the total amount of PLN 4 102 346 000 in 2020. In addition, as part of the intra-group financing, TAURON extended the maturity dates of the existing loans in the total amount of PLN 1 915 000 000. As of December 31, 2020, the total nominal amount of the intra-group loans granted was PLN 7 907 654 000.

In 2020, TAURON continued the financing, in the form of loans, of the co-subsidiary EC Stalowa Wola and PGE EJ 1. The loans granted to PGE EJ 1 were repaid on November 25, 2020, as a result of a netting agreement and TAURON's acquisition of the newly created shares in PGE EJ 1.

The below table presents a summary of the loans extended to the jointly controlled subsidiaries and associated companies granted by TAURON in 2020 and the level of debt due to such loans as of December 31, 2020.

Table no. 70. Summary of the loans extended to the jointly controlled subsidiaries and associated companies granted by TAURON in 2020 and the level of debt due to such loans as of December 31, 2020 (listed in the order according to the maturity date)

| Parties to the agreement | Interest rate | Date of agreement | Repayment date | Loan principal amount as of December 31, 2020 (PLN '000) |
|-----------------------------|---------------|-------------------|----------------|--|
| 1. PGE EJ 1 - TAURON | Fixed rate | 30.01.2020 | 25.11.2020 | 0 |
| 2. PGE EJ 1 - TAURON | Fixed rate | 03.09.2020 | 25.11.2020 | 0 |
| 3. EC Stalowa Wola - TAURON | Fixed rate | 20.02.2020 | 30.06.2033 | 59 175 |
| 4. EC Stalowa Wola - TAURON | Fixed rate | 16.10.2020 | 30.06.2033 | 22 000 |

As of December 31, 2020, the total nominal amount of the loans extended to the jointly controlled subsidiaries and associated companies came in at PLN 415 186 000.

Apart from the loans mentioned above, the Company did not grant any other loans in 2020.

After the balance sheet date, the intra-group loans for the total amount of PLN 820 000 000 were launched within TAURON Capital Group

Sureties and guarantees granted

TAURON Ekoenergia granted a corporate guarantee (bond) for the trade liabilities of the Wind T1 company towards a third party in the amount of EUR 24 600 000 in 2020, effective until July 2022. After the balance sheet date, the guarantee amount was increased to EUR 30 258 000.

In addition, in 2020 TAURON extended the effective terms of:

1. surety granted to TAURON Sprzedaż for the trade liabilities up to the amount of PLN 20 000 000, until November 30, 2021,
2. surety granted to EC Stalowa Wola up to the amount of USD 3 664 until October 31, 2020, for the financial liabilities that had expired on October 27, 2020.

As of December 31, 2020, the total nominal amount of the sureties and corporate guarantees (bonds) granted came in at PLN 888 031 000.

On January 28, 2021, (an event occurring after the balance sheet date), a guarantee agreement was concluded by the Company, PGNiG and EC Stalowa Wola, under which the Company granted a corporate guarantee of up to PLN 6 750 000 for the liabilities of EC Stalowa Wola under the contracts for the sale of electricity, electricity transmission or distribution services. The guarantee is effective until February 15, 2022.

As part of the framework (master) agreements in force, at the instruction of the Company, bank guarantees were issued in 2020 for the liabilities of TAURON Capital Group's subsidiaries, which, as of December 31, 2020, amounted to PLN 741 808 000.

The detailed information on the sureties and guarantees (bonds) granted is provided in note 55 to the *Consolidated financial statements of TAURON Capital Group* and in note 43 to the *Financial statements of TAURON*.

Sureties and guarantees received

As of December 31, 2020, the Company and its subsidiaries held the transaction collaterals received from the counterparties (contractors) in the form of guarantees granted to TAURON Capital Group's subsidiaries, bills of exchange issued by the counterparties (contractors), pledges on mortgage and freezes (blocks) of the funds on bank accounts. The most important guarantees granted to TAURON Capital Group's subsidiaries were concerned Nowe Jaworzno Grupa TAURON and were related to the construction of the 910 MW unit in Jaworzno.

12.6. The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in 2020

An increase in the number of COVID-19 infection cases was observed in Poland in 2020. Therefore, a number of restrictions aimed at preventing the spread of the SARS-CoV-2 virus causing the COVID-19 infections were introduced in the country. This situation led to the disruptions in the economic and administrative system in Poland and worldwide. As a result, the epidemic significantly curbed the economic activity, affecting the operations of the manufacturing plants and the small and medium sized enterprise segment companies. As a consequence, in the medium and long term it should be expected that the epidemic will continue to affect the condition of the national, the European, as well as the global economy, making a negative impact on the economic growth in Poland in 2021 and in the subsequent years.

The COVID-19 related situation had a material impact upon the level of demand for electricity in the Polish Power System (KSE) and, as a consequence, on TAURON Capital Group's electricity distribution and supply volumes. In the second half of 2020, the impact of the COVID-19 pandemic on the domestic demand was milder than in the first half of 2020. The steepest decline in electricity consumption in Poland took place in the second quarter of 2020, clocking in at as much as 8.5%, while the annual consumption of electricity in the country decreased by approx. 2.3%, as compared to the corresponding period of 2019. The changes in the demand for electricity resulted in a drop of the revenues, mainly in the electricity distribution and supply lines of business. TAURON Capital Group estimates that in the Distribution Segment the negative impact of the pandemic on EBITDA stood at PLN 47 876 000, which was due to the loss of a part of the sales volume to the consumers other than the households. With respect to the Supply Segment, the estimated negative impact of the pandemic on EBITDA came in at PLN 77 179 000, which was due to the loss of margin related to the decline in electricity supply and the need to balance the buy position. The pandemic situation observed also led to a fall of the production volume in the conventional generation line of business and, consequently, to a drop of the demand for hard coal and an increase in its inventory levels. Because of such developments the negotiations with the coal suppliers were undertaken in order to renegotiate the coal purchase contract terms related to the pricing and quantities. In order to curtail the negative impact of the pandemic on TAURON Capital Group, at TAURON Wytobycie subsidiary an agreement was signed between the Management Board of the company and the social partners (workforce) limiting the working time and reducing the compensation of the Management Board and the employees of the company by 20% for the period of three months, starting from May 1, 2020. On the other hand, at TAURON Wytwarzanie subsidiary an agreement signed between the Management Board of the company and the social partners (workforce) reduced the working time and the compensation of the Management Board and the employees of the company by 10% in the same period of time. The above agreements made it possible to cut down the costs and obtain funds under the solutions provided under the anti-crisis shield due to the reduced working time of the employees.

The customers of TAURON Capital Group, i.e. private individuals, small and medium sized enterprises, as well as large entities, can be expected to experience financial disturbances in connection with the effects of the pandemic, which may lead to problems with the payment of their current accounts payable for electricity, heat and gas. In particular, an increase in the number of customer requests for an extension of the payment or splitting the payment into installments can be observed. Also an increase in the overdue accounts receivable is visible, resulting from the introduction of the restrictions in the operations of the businesses in the period from March to May. In order to reduce the above risk, the credit risk management criteria have been tightened and the soft debt collection activities have been intensified.

Disruptions in the economic activity in Poland brought about financial difficulties for the customers and contractors (counterparties, business partners) of TAURON Capital Group. The situation was mitigated by the regulatory actions taken with respect to the introduction of the successive anti-crisis shields, which were aimed at maintaining liquidity and protecting jobs at Polish businesses. In the period from March to December 2020, the changes in the balance of the overdue accounts receivable were observed in the first weeks of the pandemic's spread. Later in the year, the balance of the overdue accounts remained basically constant, with an increased migration of the balance of the accounts receivable to the successive overdue by time frames observed. In order to limit potential credit losses, the

extended credit risk management criteria are applied, the monitoring of the accounts receivables has been enhanced and the debt collection activities have been intensified. The impact of the COVID-19 pandemic on the write down (charge) related to the accounts receivable in 2020 clocked in at 19 628 000. The COVID-19 pandemic also resulted in the need to book additional impairment charges related to the expected losses on the credit related financial instruments and to change the fair value of the loans granted. This led to a rise in the operating expenses of the Company by PLN 5 020 000 and in the financial costs by the amount of 50 526 000.

In terms of the market environment, increased volatility of the prices of the commodity related instruments was observed, in particular with respect to electricity and the CO₂ emission allowances, which translated into an increase in the required margins and, consequently, the level of funds allocated for that purpose. In order to improve its liquidity position, the Company concluded agreements on the guarantee limits allowing it to provide to IRGiT (Warsaw Commodity Exchange Clearing House) the required collateral in a non-cash form instead of cash. The Company also took advantage of the anti-crisis shield package by filing a declaration of voluntary submission to debt recovery with IRGiT (Warsaw Commodity Exchange Clearing House), thus reducing the level of the margins to be deposited, both in the form of cash, as well as the bank guarantees set up (this solution, in accordance with the Act, expired on September 30, 2020). In order to further reduce the liquidity risk, the Company aligned the delivery dates for the concluded futures contracts for the CO₂ emission allowances with the dates of their redemption and decided to conclude new contracts only on the OTC market. A system of capping (curtailing) the expenses of TAURON Capital Group was also introduced,

With respect to the financial instruments, a weakening of the Polish zloty and a decline of the interest rates was observed, including an emergency lowering of the NBP's reference (prime) interest rate.

The change in the FX rates affects the costs of purchasing the CO₂ emission allowances, as well as the valuation of the Company's debt denominated in the foreign currencies. On the other hand, the changes in interest rates may affect the costs resulting from the financing agreements concluded based on a floating (variable) interest rate.

As a result of the outbreak of the COVID-19 pandemic, also certain difficulties in the implementation of the strategic investment projects carried out by TAURON Capital Group have taken place. In case of the 910 MW power generating unit construction project in Jaworzno and the EC Stalowa Wola unit construction project, such disruptions occurred in the initial period of the pandemic as a result of the introduction of strict access control to the infrastructure and the additional security procedures. With regard to the construction of the 910 MW unit, the COVID-19 pandemic was one of the reasons for the amendment of the agreement with the Rafako S.A. and Mostostal Warszawa S.A. Consortium, as well as the contractor's claims related to the additional works, which is also presented in note 59 to the Consolidated financial statements of TAURON Capital Group. In order to minimize the consequences of the disruptions to the projects that have occurred, all of the contractors implementing the investment projects have been cooperating, closely and on an ongoing basis, with TAURON Capital Group's subsidiaries responsible for the investment projects who are monitoring the status of the projects and reacting adequately to the situation, using the tools available.

The situation related to the COVID-19 pandemic has also had an impact upon the operational activities of the lines of business due to the increased employee absenteeism and an increase in the operating costs resulting from the need to meet the epidemiological conditions. In this regard, TAURON Capital Group has taken a number of preventive measures with respect to the organizational and material (tangible) solutions aimed at protecting the employees of TAURON Capital Group's individual subsidiaries and maintaining the continuity of the critical infrastructure operations. In order to coordinate the efforts related to ensuring safety related to the risk (threat) of falling ill with COVID-19, the dedicated Crisis Teams have been established at the level of both the parent company as well as the individual Subsidiaries.

TAURON Capital Group is estimating that the negative impact of the above risk factors on the full year 2020 EBITDA clocked in at approx. PLN 144 683 000.

TAURON Capital Group, being aware of the threats related to the epidemiological situation, was undertaking in 2020 and continues to undertake active measures aimed at minimizing the impact of the current and the expected economic situation, as well as providing protection against the extreme events. It should be emphasized, however, that the situation related to the COVID-19 pandemic is highly volatile and the future effects and the scale of the pandemic are currently difficult to precisely estimate. The duration of the pandemic, its severity and scope, as well as the impact on the economic growth in Poland in the short, medium and long term will be important. The Management Board of the Company, being aware of the threats stemming from the pandemic, is monitoring the impact on an ongoing basis and will be taking all possible steps in order to mitigate any negative effects of the COVID-19 pandemic on TAURON Capital Group.

12.7. Other information that could be material for the evaluation of TAURON Capital Group's personnel, assets, financial position, financial result and changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations

On July 15, 2020, the TSO commenced the consultation process related to the changes to the Balancing Conditions. After the consultation process had been completed on September 9, 2020, the TSO sent the proposed changes for approval by the President of ERO, who finally approved them on December 1, 2020. As part of the changes introduced, starting from January 1, 2021, the services *Intervention Cold Reserve* and *Operational Capacity Reserve* were removed from the system services catalog, which was required by the provisions contained in the pre-notification decision of the European Commission of February 7, 2018, allowing the setting up of the Capacity Market in Poland, provided that other mechanisms considered to be the "capacity" mechanisms and the Operational Capacity Reserve are removed from the system services catalog. In addition, changes aimed at supporting the development of the IDM (Intraday Market) were introduced, requiring the adaptation of the Market Operator's activities in the IT and organizational area.

Apart from the events indicated in this report, no other events occurred in 2020 that were material for the evaluation of the personnel, assets, financial position and the financial result of TAURON Capital Group and the changes thereof, as well as for the evaluation of the ability of TAURON Capital Group to meet its obligations.

Katowice, March 29, 2021

Marek Wadowski - acting as the President of the Management Board / Vice President of the Management Board

Jerzy Topolski - Vice President of the Management Board

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this report is presented below.

Table no. 71. Explanation of abbreviations and acronyms as well as trade terms used in the report

| Abbreviation and trade term | Full name / explanation |
|---------------------------------------|---|
| 1. Abener Energia | Abener Energia S.A. (Joint Stock Company) with its registered office in Campus Palmas Altas (Sevilla). |
| 2. Update of the Strategic Directions | Document entitled the <i>Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on May 27, 2019, constituting a supplement to the document entitled <i>TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on September 2, 2016. |
| 3. Amon | Amon sp. z o.o. (Ltd.) with its registered office in Łebcz. |
| 4. ARA | Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports |
| 5. ARE | Agencja Rynku Energii S.A. (Energy Market Agency) with its registered office in Warsaw. |
| 6. AVAL-1 | AVAL-1 sp. z o. o. (Ltd.) with its registered office in Szczecin. |
| 7. BASE (BASE Contract) | A baseload contract for the supply of electricity at all hours of the period, e.g. the BASE contract for March 2020 is related to the supply of the same amount of electricity during all hours of the month of March 2020. |
| 8. BGK | Bank Gospodarstwa Krajowego with its registered office in Warsaw. |
| 9. Bioeko Grupa TAURON | Bioeko Grupa TAURON Sp. z o.o. (Ltd.) with its registered office in Stalowa Wola. |
| 10. B+R | Research and Development (R&D). |
| 11. B+R+I | Research, Development and Innovations. |
| 12. CAPEX | Capital Expenditures. |

| Abbreviation and trade term | Full name / explanation |
|-----------------------------|--|
| 13. Cash pool | True real time (online) <i>cash pool</i> structure, implemented under the cash management agreement, is based on the daily limits. As a result of the implementation of the <i>cash pool</i> mechanism, cash transfers are made between the accounts of the service participants and the Pool Leader's account. |
| 14. CDS | Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO ₂ emission allowances. |
| 15. CER | Certified Emission Reduction |
| 16. Color certificates | Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: green - certificates of origin of electricity from RES, blue - certificates of origin of electricity generated from agricultural biogas. white - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors) yellow - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, red - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), violet - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing, |
| 17. COVID-19 | Coronavirus Disease 2019 - acute respiratory system contagious disease caused by the SARS-CoV-2 virus infection. The disease was first diagnosed and described in November 2019 in central China in the city of Wuhan, Hubei Province. |
| 18. CRO | Deviation Settlement Price (Cena Rozliczeniowa Odchylenia) - the price at which PSE (transmission system operator) accounts for deviations in the production or consumption of electricity by the electricity balancing market (RB) participants. |
| 19. CSI | Customer Satisfaction Index |
| 20. CSR | Corporate Social Responsibility |
| 21. CUW | Shared Services Center (Centrum Usług Wspólnych - CUW) - separate organizational units responsible for providing a specific range of support services (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services, CUW Insurance, CUW Protection). |
| 22. CVaR | Credit Value at Risk – a measure of risk determining the maximum potential loss due to credit risk with the given probability and within a specified time horizon. |
| 23. CVC | Corporate Venture Capital - Venture Capital (VC) investments carried out by VC funds with the intention of achieving not only financial goals, but also strategic (industry) goals set by a large company (corporation) which is the capital donor for this fund. VC are capital investments made on the OTC market in business ventures that are in the early stages of development. CVC is a development of VC as a way of investing capital and is to have a positive impact on the industry objectives of TAURON Capital Group. |
| 24. DMS | Distribution Management System |
| 25. Best Practices 2016 | <i>Best Practices of WSE Listed Companies 2016</i> , in force as of January 1, 2016 |
| 26. DSM | Demand Side Management |
| 27. DSR | Demand Side Response). A mechanism that involves a temporary reduction of electricity consumption by the consumers or a postponement of its consumption at the request of the transmission system operator. |
| 28. EIB | European Investment Bank with its registered office in Luxembourg. |
| 29. EBIT | Earnings Before Interest and Taxes. |
| 30. EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization. |
| 31. EC Stalowa Wola | Elektrociepłownia Stalowa Wola S.A. with its registered office in Stalowa Wola. |
| 32. EEC Magenta ASI | EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw. |
| 33. EEC Magenta 2 ASI | EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw |
| 34. EEC Ventures | EEC Ventures limited liability company limited joint stock partnership with its registered office in Warsaw |
| 35. EEC Ventures 2 | EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw |
| 36. EEX (EEX exchange) | European Energy Exchange) - European energy exchange in Leipzig, where contracts and derivatives for electricity for various European countries are traded, as well as primary auctions of CO ₂ emission allowances are conducted. |
| 37. ElectroMobility Poland | ElectroMobility Poland S.A. with its registered office in Warsaw. |
| 38. EMAS | EcoManagement and Audit Scheme. |
| 39. ENEA | ENEA S.A. with its registered office in Poznań. |

| Abbreviation and trade term | Full name / explanation |
|--|---|
| 40. ENERGA | ENERGA S.A. with its registered office in Gdańsk. |
| 41. EPCM | Engineering Procurement Construction Management - construction, engineering and procurement management service (Contract Manager). |
| 42. ERM | Enterprise Risk Management. |
| 43. ESG | Environmental, Social and Governance - environmental, social and corporate governance factors used in the investment decision making process. |
| 44. ESS | Energy Store System. |
| 45. EU ETS | European Union Emission Trading System. |
| 46. EUA | European Union Allowance - an allowance to introduce the carbon dioxide (CO ₂) equivalent to the air, within the meaning of Article 2 section 4 of the <i>act of July 17, 2009 on the management system of emissions of greenhouse gases and other substances</i> , which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>Act of April 28, 2011 on the system of greenhouse gases emission allowances trading</i> |
| 47. EUR | Euro - a common European currency introduced in some EU member states |
| 48. EWI | Early Warning Indicator. |
| 49. Finanse Grupa TAURON | Finanse Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 50. FIJK | Fundusz Inwestycji Infrastrukturalnych – Kapitałowy (Infrastructure Investment Fund – Equity). |
| 51. FIP | Feed-in premium - system of subsidies to the market price, which is a form of support for the generation of electricity from renewable energy sources |
| 52. FIT | Feed-in tariff - guaranteed tariff system, which is a form of support for the generation of electricity from renewable energy sources |
| 53. FIZ | Fundusz Inwestycyjny Zamknięty (Closed-end investment fund) |
| 54. FIZAN | Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end private equity investment fund) |
| 55. GAZ-SYSTEM | Transmission Pipelines Operator (Operator Gazociągów Przesyłowych) GAZ-SYSTEM S.A. with its registered office in Warsaw. |
| 56. GPW | Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A.) with its registered office in Warsaw. |
| 57. TAURON Capital Group | TAURON Capital Group Polska Energia S.A. |
| 58. GUS | Central Statistical Office (Główny Urząd Statystyczny) (Statistics Poland) |
| 59. GZE | Górnośląski Zakład Elektroenergetyczny S.A. with its registered office in Gliwice. |
| 60. HEMS | Home Energy Management System. |
| 61. HVAC | Heating, Ventilation, Air Conditioning. |
| 62. ICE (ICE exchange) | InterContinental Exchange - commodity and financial exchange, where, among others, contracts for oil, coal, natural gas and CO ₂ emission allowances are traded. |
| 63. IOS | Flue gas desulphurization installation |
| 64. IRGiT | Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with its registered office in Warsaw. |
| 65. IRS | Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market |
| 66. KGHM Polska Miedź (Polish Copper) | KGHM Polska Miedź S.A. (Polish Copper Mining Company) with its registered office in Lubin. |
| 67. Audit Committee | Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.. |
| 68. Nominations and Compensation Committee | Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. |
| 69. Strategy Committee | Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. |
| 70. BAT Conclusions | Best Available Techniques with respect to large combustion plants (LCP), introduced by way of the Executive Decision of the European Commission (EU) no. 2017/1442 of July 31, 2017 (|
| 71. KPI | Key Performance Indicators – key financial and non-financial indicators used as ways to measure progress of achieving goals of an organization. |
| 72. KRI | Key Risk Indicators. |
| 73. KSE | National Power System (Krajowy System Elektroenergetyczny) |

| Abbreviation and trade term | Full name / explanation |
|--------------------------------|--|
| 74. Ksh | <i>Act of September 15, 2000, Code of Commercial Companies</i> |
| 75. KW Czatkowice | Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. (Ltd.) with its registered office in Krzeszowice. |
| 76. Magenta Grupa TAURON | Magenta Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 77. Marselwind | Marselwind sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 78. Ministry of State Assets | Ministry of State Assets with its registered office in Warsaw. |
| 79. Mg | Mega gram - million grams (1 000 000 g), i.e. a ton. |
| 80. Business Model | Document entitled <i>TAURON Group's Business and Operational Model</i> (which is an update of <i>TAURON Group's Business Model</i> adopted by the Management Board on May 4, 2016). |
| 81. IFRS | International Financial Reporting Standards. |
| 82. NBP | National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw. |
| 83. NCBR | National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw. |
| 84. Nowe Jaworzno Grupa TAURON | Nowe Jaworzno Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Jaworzno. |
| 85. NOx | Nitrogen oxides. |
| 86. Line of Business (Segment) | Seven areas (segments) of TAURON Capital Group's core operations set up by the Company: Trading, Mining, Generation, RES, Heat, Distribution and Supply |
| 87. OCR | Optical Character Recognition - software for recognizing characters and entire texts in a scanned paper or electronic document. |
| 88. OPEC | Organization of the Petroleum Exporting Countries with its registered office in Vienna. |
| 89. DSO (OSD) | Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD) |
| 90. TSO (OSP) | Transmission System Operator (Operator Systemu Przesyłowego - OSP) |
| 91. OTC (OTC market) | Over The Counter Market – European OTC market. |
| 92. OTF (OTF market) | Organized Trading Facility. |
| 93. OW OFFSHORE | OW OFFSHORE S.L. with its registered office in Madrid, Spain - a joint venture in which EDP Renovaveis SA with its registered office in Lisbon, Portugal, and ENGIE SA based in Paris, France, each hold 50% of the shares. |
| 94. RES (OZE) | Renewable Energy Sources (Odnawialne Źródła Energii - OZE) |
| 95. PEAK (PEAK contract) | Peak contract for the supply of electricity during business hours (8-22) on business days, e.g. the PEAK contract for March 2020 is related to the supply of the same amount of electricity on all business days in March 2020 between 8 and 22. |
| 96. PEC Tychy | Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. (Ltd.) with its registered office in Tychy. |
| 97. PEPKH | Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (Ltd.) with its registered office in Warsaw. |
| 98. PFR | Polski Fundusz Rozwoju S.A. (Polish Development Fund) with its registered office in Warsaw. |
| 99. PFR IFIZ | PFR Inwestycje Fundusz Inwestycyjny Zamknięty (PFR Investments Closed-end Investment Fund) |
| 100. PGG | Polska Grupa Górnicza S.A. (Polish Mining Group) with its registered office in Katowice |
| 101. PGE | PGE Polska Grupa Energetyczna S.A. with its registered office in Warsaw. |
| 102. PGE EJ 1 | PGE EJ 1 sp. z o.o. (Ltd.) with its registered office in Warsaw. |
| 103. PGK | Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK). |
| 104. PGNiG | Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil and Gas Company) with its registered office in Warsaw. |
| 105. GDP (PKB) | Gross Domestic Product (Produkt Krajowy Brutto) |
| 106. PLN | Polish zloty currency symbol - zł |
| 107. PMEFS | Property rights related to the energy efficiency certificates |
| 108. PMOZE | Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009 |

| Abbreviation and trade term | Full name / explanation |
|--|---|
| 109. PMOZE_A | Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009 |
| 110. PMOZE-BIO | Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016 |
| 111. POPC | Digital Poland Operational Program.(Program Operacyjny Polska Cyfrowa – POPC). |
| 112. PRO | Partnership, Development, Boldness (Partnerstwo Rozwój Odwaga – PRO) - key corporate values reflecting the way TAURON Capital Group wants to achieve its business goals. |
| 113. PSE | Polskie Sieci Elektroenergetyczne S.A. with its registered office in Konstancin-Jeziorna . |
| 114. RB | Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced. |
| 115. RDB | Intraday Market - a market operating on the POLPX TGE), where trading is carried out in a continuous trading formula, 24 hours a day. Instruments with delivery on the next day are traded, with their trading starting at 14:00 the day before the delivery and gradually exiting the market one hour before the start of the delivery. |
| 116. RDN | Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery. |
| 117. RDNg | Day Ahead Gas Market - a market operating on the POLPX (TGE), where trading is carried out every day and is conducted in the continuous trading system.. |
| 118. REACH | Registration, Evaluation and Authorization of Chemicals - register of chemical substances placed on the market. Regulation of the European Parliament and of the Council governing the use of chemicals through the registration and evaluation thereof and, in some cases, the granting of authorizations and imposing trading restrictions. |
| 119. ROI | Return on Investment - profitability ratio used to measure efficiency. |
| 120. RTT | Futures Commodity Market (Rynek Terminowy Towarowy – RTT) - market operating on the POLPX (TGE), where trading in contracts is carried out in the continuous trading system and in the auction system. |
| 121. SAIFI | System Average Interruption Frequency Index |
| 122. SARS-CoV-2 | Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease. |
| 123. SCE Jaworzno III | Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (Ltd.) with its registered office in Jaworzno. |
| 124. SCR | Selective Catalytic Reduction - flue gas denitrification system. |
| 125. Segment, Segments of Operations (Operating Segments) | TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following 5 main Segments: Mining, Generation, RES, Distribution and Supply, as well as, additionally, Other Operations. |
| 126. SLA | Service Level Agreement |
| 127. SOx | Sulfur oxides. |
| 128. Consolidated Financial Statements of TAURON Capital Group | Document under the title <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020.</i> |
| 129. Financial Statements of TAURON | Document under the title <i>Financial statements of TAURON Polska Energia S.A. in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020.</i> |
| 130. SPOT (SPOT market) | With respect to electricity, it is the place where trade transactions for electricity are concluded with delivery not later than 3 days after the date of the transaction's conclusion (most often it is one day before the date of delivery). The operation of the SPOT market for electricity is strongly tied to the operation of the Balancing Market run by the TSO. |
| 131. Company | TAURON Polska Energia S.A. with its registered office in Katowice. |
| 132. Company's Articles of Association | Document entitled <i>Articles of Association of TAURON Polska Energia S.A.</i> |
| 133. Strategy | Document entitled <i>TAURON Group's Strategy for 2016-2025</i> adopted by the Management Board on September 2, 2016, which is supplemented by the <i>Update of Strategic Directions in the TAURON Group's Strategy for 2016-2025</i> , adopted by the TAURON Management Board on May 27, 2019. |
| 134. Sustainable Development Strategy | Document entitled <i>TAURON Group's Sustainable development strategy for 2017-2025</i> , adopted by the Management Board on August 1, 2017, which is an update of the document entitled <i>TAURON Group's Sustainable development strategy for 2016-2018 with an outlook until 2020.</i> |
| 135. TAMEH HOLDING | TAMEH HOLDING sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza. |
| 136. TAMEH POLSKA | TAMEH POLSKA sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza. |
| 137. TAMEH Czech | TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic). |

| Abbreviation and trade term | Full name / explanation |
|---------------------------------|---|
| 138. TAURON | TAURON Polska Energia S.A. with its registered office in Katowice. |
| 139. TAURON Ciepło | TAURON Ciepło sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 140. TAURON Czech Energy | TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic). |
| 141. TAURON Dystrybucja | TAURON Dystrybucja S.A. with its registered office in Cracow. |
| 142. TAURON Dystrybucja Pomiary | TAURON Dystrybucja Pomiary sp. z o.o. (Ltd.) with its registered office in Tarnów. |
| 143. TAURON EKOENERGIA | TAURON EKOENERGIA sp. z o.o. (Ltd.) with its registered office in Jelenia Góra. |
| 144. TAURON Nowe Technologie | TAURON Nowe Technologie S.A. (formerly: TAURON Dystrybucja Serwis S.A.) with its registered office in Wrocław. |
| 145. TAURON Obsługa Klienta | TAURON Obsługa Klienta sp. z o.o. (Ltd.) with its registered office in Wrocław. |
| 146. TAURON Serwis | TAURON Serwis sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 147. TAURON Sprzedaż | TAURON Sprzedaż sp. z o.o. (Ltd.) with its registered office in Cracow. |
| 148. TAURON Sprzedaż GZE | TAURON Sprzedaż GZE sp. z o.o. (Ltd.) with its registered office in Gliwice. |
| 149. TAURON Ubezpieczenia | TAURON Ubezpieczenia sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 150. TAURON Wydobycie | TAURON Wydobycie S.A. with its registered office in Jaworzno. |
| 151. TAURON Wytwarzanie | TAURON Wytwarzanie S.A. with its registered office in Jaworzno. |
| 152. TCFD (TCFD Guidelines) | Task Force on Climate-related Financial Disclosures - A Task Force on Climate-Related Disclosures established by the G20 Financial Stability Board, which issued recommendations in June 2017 to encourage financial institutions and non-financial companies to disclose information on the climate related risks and opportunities. These recommendations are considered to be the authoritative (credible) guidance on the financial reporting of the climate related information. |
| 153. TEC1 | TEC1 sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 154. TEC2 | TEC2 sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 155. TEC3 | TEC3 sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 156. TGE (POLPX) | Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw. |
| 157. TGEozebio | Property rights that confirm the production of electricity from renewable energy sources using agricultural biogas. |
| 158. TU | Towarzystwo Ubezpieczeń (Insurance Company) |
| 159. EU (UE) | European Union (Unia Europejska - UE) |
| 160. UOKiK | Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK) |
| 161. Unbundling | Separation of the operations with respect to transmission or distribution of electricity from the operations that involve the production and delivery (supply) of this electricity to the final consumers. |
| 162. ERO (URE) | Energy Regulatory Office (Urząd Regulacji Energetyki - URE) |
| 163. USA | United States of America. |
| 164. USD | United States Dollar - US dollar's international acronym |
| 165. VaR | Value at Risk - a measure of risk that determines the maximum possible change in the value of the Portfolio with the given probability and within a specified time frame. |
| 166. WACC | Weighted Average Cost of Capital - the weighted average cost of capital of the company, weighted respectively by the share of debt and equity in the company's capital structure. |
| 167. WFOŚiGW | Regional Environment Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) in Katowice or in Cracow . |
| 168. Wind T1 | Wind T1 sp. z o. o. . z o.o. with its registered office in Pieńków. |
| 169. Wsparcie Grupa TAURON | Wsparcie Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów. |
| 170. GM (WZ/ZW) | General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW) |
| 171. ZG | Coal Mine (Zakład Górniczy - ZG) (Janina Coal Mine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze). |

Appendix B: INDEX OF TABLES AND FIGURES

The list of tables and figures presented in this report is provided below.

Index of tables

| | | |
|---------------|---|-----|
| Table no. 1. | List of material joint subsidiaries as of December 31, 2020 | 9 |
| Table no. 2. | Summary of equity increases in TAURON Capital Group's subsidiaries in 2020 and by the date of drawing up this report | 9 |
| Table no. 3. | Summary of equity increases in the other companies in which TAURON holds an equity stake in 2020 and by the date of drawing up this report | 11 |
| Table no. 4. | Strategic goals and growth prospects in the individual operating Segments | 14 |
| Table no. 5. | Opportunities and threats to TAURON Capital Group's operations | 16 |
| Table no. 6. | TAURON Capital Group's strategic goals realized in 2019 | 18 |
| Table no. 7. | Key strategic investment (CAPEX) projects' work progress in 2020 and by the date of drawing up this report | 22 |
| Table no. 8. | The highest by value capital expenditures incurred by TAURON Capital Group's Lines of Business in 2020 | 28 |
| Table no. 9. | Selected R&D projects implemented in 2020 by TAURON Capital Group's subsidiaries, co-financed from the external sources | 29 |
| Table no. 10. | Projects with the startups carried out in 2020 | 32 |
| Table no. 11. | 2019 - 2020 production and sales volumes | 40 |
| Table no. 12. | Categories of TAURON Capital Group's final customers | 44 |
| Table no. 13. | Volume of retail electricity supplied and the number of customers in 2020 | 45 |
| Table no. 14. | Volumes of Poland's electricity consumption, production and imports and the average electricity prices on the SPOT market, both in Poland as well as in the neighboring countries in 2020 and in 2019 | 49 |
| Table no. 15. | Most important changes in the regulatory environment of TAURON Capital Group in 2020 in terms of the adopted and published legal acts that affect TAURON Capital Group | 54 |
| Table no. 16. | Most important legislative initiatives in the regulatory environment of TAURON Capital Group in 2020 | 56 |
| Table no. 17. | Installed capacity, generation, distribution and supply of electricity by energy groups after the first three quarters of 2020 | 60 |
| Table no. 18. | Sources of competitiveness of TAURON Capital Group in selected Lines of Business (Segments of Operations) | 60 |
| Table no. 19. | Key data on employment at TAURON and TAURON Capital Group as of December 31, 2019 and December 31, 2020 | 72 |
| Table no. 20. | Goals in the area of human capital management | 73 |
| Table no. 21. | Key data on employee training at TAURON and TAURON Capital Group as of December 31, 2018, and as of December 31, 2020 | 75 |
| Table no. 22. | Annual emissions of SO ₂ , NO _x , dust and CO ₂ from thermal combustion of fuel for 2020 | 78 |
| Table no. 23. | Estimated charges for the business use and the water services of the environment due for 2020 | 79 |
| Table no. 24. | Key non-financial efficiency ratios (metrics, performance indicators), related to TAURON Capital Group's operations in 2019-2020 | 82 |
| Table no. 25. | Description of the ERM System participants' roles and responsibilities | 88 |
| Table no. 26. | Main risk categories and sub-categories, in accordance with the Risk Model in place | 90 |
| Table no. 27. | Most material risk categories identified for TAURON Capital Group | 96 |
| Table no. 28. | Classification of risks based on TAURON Capital Group's operating segments | 105 |
| Table no. 29. | Annual standalone statement of comprehensive income in 2019-2020 drawn up in accordance with the IFRS | 107 |
| Table no. 30. | Company's sales revenue in 2019-2020 | 108 |
| Table no. 31. | Level and structure of the costs incurred by the Company in 2019-2020 | 109 |
| Table no. 32. | Company's annual standalone statement of financial position, drawn up in accordance with the IFRS (material items) | 110 |
| Table no. 33. | Statement of cash flows drawn up in accordance with the IFRS (material items) | 111 |
| Table no. 34. | Key financial ratios of TAURON | 112 |
| Table no. 35. | TAURON Capital Group's 2019-2020 EBITDA broken down into individual lines of business (segments) | 113 |
| Table no. 36. | Mining Segment's 2019-2020 results | 114 |
| Table no. 37. | Generation Segment's 2019-2020 results | 116 |
| Table no. 38. | RES Segment's 2019-2020 results | 117 |
| Table no. 39. | Distribution Segment's 2019-2020 results | 119 |
| Table no. 40. | Supply Segment's 2019-2020 results | 120 |
| Table no. 41. | Other Operations Segment's 2019-2020 results | 121 |
| Table no. 42. | Discontinued operations' 2019-2020 results | 122 |
| Table no. 43. | Structure of the annual consolidated statement of financial position | 122 |
| Table no. 44. | Annual consolidated statement of financial position - assets (material items)* | 124 |
| Table no. 45. | Annual consolidated statement of financial position - equity and liabilities (material items)* | 126 |

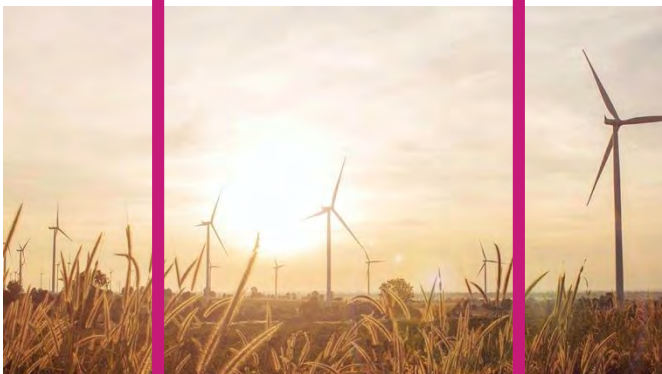
| | | |
|---------------|--|-----|
| Table no. 46. | Annual consolidated statement of comprehensive income for 2019-2020* | 129 |
| Table no. 47. | Statement of cash flows (material items) in 2019-2020* | 132 |
| Table no. 48. | Key financial ratios of TAURON Capital Group for the continued and discontinued operations* | 136 |
| Table no. 49. | Net financial debt reconciliation | 136 |
| Table no. 50. | Reconciliation of the result on the EBITDA level | 137 |
| Table no. 51. | Financial and operating data for 2020-2016* | 137 |
| Table no. 52. | TAURON Capital Group's EBITDA, broken down into Segments of Operations (Lines of Business) * | 138 |
| Table no. 53. | Compensation of the audit firm for the services provided for TAURON Capital Group's subsidiaries | 142 |
| Table no. 54. | Key data on the Company's shares in 2011-2020 | 147 |
| Table no. 55. | Recommendations issued in 2020 | 148 |
| Table no. 56. | Timeline of the investor relations highlights and activities that took place in 2020 | 150 |
| Table no. 57. | Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2020 and as of the date of drawing up this report | 154 |
| Table no. 58. | Competence of the Company's Management Board as of December 31, 2020, and as of the date of drawing up this report | 156 |
| Table no. 59. | Competence of the Company's Supervisory Board as of December 31, 2020, and as of the date of drawing up this report | 157 |
| Table no. 60. | Competence of the General Meeting of the Company as of December 31, 2020, and as of the date of drawing up this report | 160 |
| Table no. 61. | Description of the Company's shareholders' rights related to the General Meeting of the Company | 161 |
| Table no. 62. | Fulfillment by the Members of the Company's Supervisory Board of the independence requirements, as of December 31, 2020 and as of the date of drawing up this report | 165 |
| Table no. 63. | Fulfillment, in 2020, by the Members of the Audit Committee of the independence requirements and the requirements with respect to the knowledge and skills held | 170 |
| Table no. 64. | Competences of the Audit Committee as of December 31, 2020, and as of the date of drawing up this report | 171 |
| Table no. 65. | Competences of the Nominations and Compensation Committee, as of December 31, 2020 and as of the date of drawing up this report | 174 |
| Table no. 66. | Competences of the Strategy Committee as of December 31, 2020 and as of the date of drawing up this report | 175 |
| Table no. 67. | Compensation of the Members of the Company's Management Board in 2020, broken down into components | 182 |
| Table no. 68. | Compensation of the members of the Company's Supervisory Board in 2020 | 185 |
| Table no. 69. | Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2020 | 186 |
| Table no. 70. | Summary of the loans extended to the jointly controlled subsidiaries and associated companies granted by TAURON in 2020 and the level of debt due to such loans as of December 31, 2020 (listed in the order according to the maturity date) | 192 |
| Table no. 71. | Explanation of abbreviations and acronyms as well as trade terms used in the report | 195 |

Index of figures

| | | |
|----------------|---|----|
| Figure no. 1. | TAURON Capital Group TAURON | 4 |
| Figure no. 2. | 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, 2020 | 7 |
| Figure no. 4. | Foundations for the growth of TAURON Capital Group's value | 13 |
| Figure no. 5. | TAURON Capital Group's ultimate energy transition | 17 |
| Figure no. 6. | TAURON Capital Group's ultimate unit emissions level | 18 |
| Figure no. 7. | Assumptions of the Strategic Initiatives and the CAPEX rationalization in the years 2017-2020 | 19 |
| Figure no. 8. | Implementation of the Strategic Initiatives in the years 2017-2020 (cumulatively) | 20 |
| Figure no. 9. | TAURON Capital Group's adopted strategic options | 22 |
| Figure no. 10. | Structure of TAURON Capital Group's Lines of Business | 34 |
| Figure no. 11. | Organizational diagram of TAURON as of December 31, 2020, and as of the date of drawing up this report | 35 |
| Figure no. 12. | Diagram of the division of responsibilities of the Members of the Company's Management Board as of the date of drawing up this report | 36 |
| Figure no. 13. | Structure of TAURON Capital Group's processes (mega-processes) | 37 |
| Figure no. 14. | Summary of the Company's 2020 coal shipments (Mg m) | 41 |
| Figure no. 15. | Structure of the Generation Segment's installed capacity as of December 31, 2020 | 42 |
| Figure no. 16. | Structure of electricity distribution by tariff groups in 2020 | 43 |
| Figure no. 17. | Coal and coal sludge purchased in 2020 (in Mg m) | 46 |
| Figure no. 18. | Average monthly electricity prices on the SPOT and RB markets, as well as the average temperatures in 2020 | 50 |
| Figure no. 19. | BASE Y-21 contract trading price performance | 50 |
| Figure no. 20. | Average monthly SPOT and Y-21 contract prices on TGE in 2020 | 52 |
| Figure no. 21. | Impact of the political actions and the environment on the EUA SPOT product price in 2020 | 53 |

| | | |
|----------------|---|-----|
| Figure no. 22. | Property rights indices..... | 54 |
| Figure no. 23. | TAURON Capital Group's competitive environment (landscape) based on the available Q1-3 2020 data | 57 |
| Figure no. 24. | EBITDA – estimated structure based on the main segments in 2019* | 58 |
| Figure no. 25. | Gross electricity production - estimated market shares in Q1-3 2020 | 59 |
| Figure no. 26. | Installed capacity - estimated market shares in Q1-3 2020 | 59 |
| Figure no. 27. | Electricity distribution - estimated market shares in Q1-3 2020..... | 59 |
| Figure no. 28. | Electricity supply to the final consumers - estimated market shares in Q1-3 2020..... | 60 |
| Figure no. 29. | TAURON's average headcount in FTEs in 2019 - 2020 | 71 |
| Figure no. 30. | TAURON Capital Group's average headcount in FTEs per Segment in 2019 - 2020 | 71 |
| Figure no. 31. | Human capital management structure..... | 74 |
| Figure no. 32. | Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019..... | 80 |
| Figure no. 33. | Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020..... | 80 |
| Figure no. 34. | Structure (composition) and the quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2020..... | 80 |
| Figure no. 35. | Structure of certificates of origin for renewable energy (PMOZE) at TAURON Capital Group in 2020 (MWh) | 81 |
| Figure no. 36. | Basic classification of the enterprise risk..... | 86 |
| Figure no. 37. | Architecture of the ERM system in place at TAURON Capital Group..... | 86 |
| Figure no. 38. | Risk management process..... | 87 |
| Figure no. 39. | Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM System | 88 |
| Figure no. 40. | Flow of information within the key participants of the risk management process | 89 |
| Figure no. 41. | Number of risks monitored, broken down into sub-categories and their impact on TAURON Capital Group | 91 |
| Figure no. 42. | Breakdown of TAURON Capital Group's trading operations | 92 |
| Figure no. 43. | Credit exposure components | 93 |
| Figure no. 44. | Risk management system tools | 94 |
| Figure no. 45. | Regulatory risk life cycle..... | 95 |
| Figure no. 46. | Project risk management model..... | 96 |
| Figure no. 47. | TAURON Capital Group's EBITDA in 2012-2020 | 113 |
| Figure no. 48. | TAURON Capital Group's 2019-2020 EBITDA structure (composition)..... | 113 |
| Figure no. 49. | Change in TAURON Capital Group's EBITDA in 2019-2020 | 114 |
| Figure no. 50. | Mining Segment's 2019-2020 financial data..... | 115 |
| Figure no. 51. | Mining Segment's EBITDA..... | 115 |
| Figure no. 52. | Generation Segment's 2019-2020 financial data..... | 116 |
| Figure no. 53. | Generation Segment's EBITDA..... | 117 |
| Figure no. 54. | RES Segment's 2019-2020 financial data..... | 118 |
| Figure no. 55. | RES Segment's EBITDA | 118 |
| Figure no. 56. | Distribution Segment's 2019-2020 financial data | 119 |
| Figure no. 57. | Distribution Segment's EBITDA | 119 |
| Figure no. 58. | Supply Segment's 2019-2020 financial data | 120 |
| Figure no. 59. | Supply Segment's EBITDA | 121 |
| Figure no. 60. | Other Operations Segment subsidiaries' 2019-2020 financial data..... | 121 |
| Figure no. 61. | Discontinued operations' 2019-2020 financial data | 122 |
| Figure no. 62. | Structure of assets | 123 |
| Figure no. 63. | Structure of equity and liabilities..... | 123 |
| Figure no. 64. | Current liquidity ratio and the net debt to EBITDA ratio in 2019-2020 | 124 |
| Figure no. 65. | Change in assets | 124 |
| Figure no. 66. | Change in current assets | 124 |
| Figure no. 67. | Change in equity and liabilities | 126 |
| Figure no. 68. | Change in equity attributable to majority shareholders | 127 |
| Figure no. 69. | Change in long term liabilities | 127 |
| Figure no. 70. | Change in short term liabilities | 127 |
| Figure no. 71. | TAURON Capital Group's 2019-2020 financial results | 129 |
| Figure no. 72. | TAURON Capital Group's sales revenue (except for the compensation) in 2019-2020* | 130 |
| Figure no. 73. | TAURON Capital Group's financial results and the level of margins realized in 2019-2020* | 132 |
| Figure no. 74. | 2019-2020 cash flows | 133 |
| Figure no. 75. | TAURON Capital Group's 2020 cash flows | 134 |
| Figure no. 76. | Structure of TAURON Capital Group's EBITDA in 2016-2020..... | 138 |
| Figure no. 77. | Mining Segment's 2016 - 2020 data..... | 139 |
| Figure no. 78. | Generation Segment's, RES Segment's and Discontinued Operations Segment's 2016 - 2020 data | 139 |
| Figure no. 79. | Distribution Segment's 2016 – 2020 data..... | 139 |
| Figure no. 80. | Supply Segment's 2016 - 2020 data | 139 |
| Figure no. 81. | Other Operations Segment's 2016 - 2020 data | 140 |
| Figure no. 82. | Shareholding structure as of December 31, 2020 and as of the date of drawing up this report . | 145 |

| | |
|---|-----|
| Figure no. 83. TAURON share price performance and trading volumes in 2020..... | 147 |
| Figure no. 84. TAURON share price and trading volumes since the market debut until December 31, 2020 ... | 148 |
| Figure no. 85. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2020..... | 148 |



NON-FINANCIAL REPORT

of TAURON Capital Group
for the financial year 2020

TABLE OF CONTENTS

| | |
|--|----|
| LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD | 5 |
| 1. INFORMATION ON THE REPORT AND LEGAL BASIS | 6 |
| 1.1. Information on the principles, structure and methodology of the Report | 6 |
| 1.2. Reporting methodology | 6 |
| 1.3. Reporting standard | 7 |
| 1.4. Stakeholder mapping | 7 |
| 1.5. Material aspects of the reporting | 9 |
| 1.6. GRI indices described in this chapter | 12 |
| 2. TAURON CAPITAL GROUP'S VALUE CHAIN AND ITS BUSINESS AND OPERATIONAL MODEL | 13 |
| 2.1. Our capitals and relationships among them | 14 |
| 2.1.1. TAURON Group's financial capital | 14 |
| 2.1.2. TAURON Group's natural capital | 15 |
| 2.1.3. TAURON Group's production capital | 17 |
| 2.1.4. TAURON Group's human capital | 19 |
| 2.1.5. TAURON Group's intellectual capital | 21 |
| 2.1.6. TAURON Group's social capital | 23 |
| 2.1.7. Value creation model and relations among capitals | 24 |
| 2.2. TAURON Group's value levers (drivers) | 25 |
| 2.2.1. Customer-centricity | 26 |
| 2.2.2. New businesses | 26 |
| 2.2.3. Modern infrastructure | 27 |
| 2.2.4. Ability to access and use the natural capital | 27 |
| 2.2.5. Investment and restructuring potential | 28 |
| 2.2.6. Personnel and organizational culture | 28 |
| 2.3. TAURON Capital Group's values | 29 |
| 2.3.1. Mission, vision | 29 |
| 2.3.2. Corporate values | 30 |
| 2.3.3. Corporate Social Responsibility Code of Conduct | 30 |
| 2.4. TAURON Group's Business Model | 33 |
| 2.5. Principles of TAURON Polska Energia S.A.'s management | 35 |
| 2.5.1. Management Board of TAURON Polska Energia S.A. | 36 |
| 2.5.2. Supervisory Board of TAURON Polska Energia S.A. | 37 |
| 2.5.3. General Meeting of TAURON Polska Energia S.A. | 41 |
| 2.5.4. Description of the principles applied to amend the Articles of Association of TAURON Polska Energia S.A. | 41 |
| 2.6. Principles of TAURON Group's management | 41 |
| 2.6.1. Code of TAURON Group | 42 |

| | |
|---|-----------|
| 2.6.2. TAURON Group Business and Operational Model document assumptions | 42 |
| 2.7. TAURON Capital Group's organization | 43 |
| 2.7.1. Process based organization..... | 43 |
| 2.7.2. Organization by Lines of Business..... | 44 |
| 2.7.3. Formal and legal organizational structure..... | 45 |
| 2.8. Changes to the principles of TAURON Polska Energia S.A. and TAURON Capital Group's management. | 46 |
| 2.9. TAURON Capital Group's strategy and business model in the context of climate protection requirements | 49 |
| 2.10. GRI indicators described in this chapter..... | 53 |
| 3. ENVIRONMENT CONDITIONS DETERMINING THE CHOICE OF TAURON CAPITAL GROUP'S STRATEGY AND THE ASSUMPTIONS THEREOF | 55 |
| 3.1. Conditions of the environment determining the choice of TAURON Group's strategy in the long, medium and short term and the assumptions of such strategy..... | 55 |
| 3.1.1. TAURON Group against the backdrop of the world's greatest challenges – coronavirus pandemic..... | 55 |
| 3.1.2. TAURON Group against the backdrop of the world's greatest challenges –climate changes and insufficient resources | 56 |
| 3.1.3. TAURON Group against the market backdrop in the short, medium and long term – Europe..... | 57 |
| 3.1.4. TAURON Group against the market backdrop in the short, medium and long term – Poland..... | 60 |
| 3.2. TAURON Capital Group's strategic determinants related to the external environment..... | 62 |
| 3.3. TAURON Capital Group's Strategy and the Green Turn of TAURON..... | 68 |
| 3.4. Key non-financial capital efficiency ratios (metrics, performance indicators) of TAURON Group with respect to the capitals..... | 70 |
| 3.5. GRI indices described in this section | 73 |
| 4. TAURON CAPITAL GROUP'S POLICIES AND DUE DILIGENCE PROCESSES AND THE PRESENTATION OF THE RESULTS OF THEIR APPLICATION..... | 74 |
| 4.1. TAURON Group's PROClient Social Policy | 74 |
| 4.2. TAURON Group's Diversity Policy | 89 |
| 4.3. TAURON Group's Environmental Policy | 93 |
| 4.4. TAURON Group's Climate Policy | 109 |
| 4.5. TAURON Group's Human Rights Respect Policy | 134 |
| 4.6. TAURON Group's Human Capital Management Policy | 135 |
| 4.7. TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy | 146 |
| 4.8. TAURON Group's Anti-corruption Policy..... | 148 |
| 4.9. TAURON Group's WHS Policy..... | 152 |
| 4.10. Strategic Research Agenda (SAB) | 156 |
| 4.11. TAURON Group's Corporate Purchasing Policy | 161 |
| 4.12. TAURON Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries | 161 |
| 4.13. Personal data protection policy for TAURON Group's entities..... | 162 |
| 4.14. TAURON Capital Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination..... | 164 |
| 4.15. TAURON Group's due diligence procedures | 165 |
| 4.15.1. Internal control and audit procedure | 165 |

| | |
|---|-----|
| 4.15.2. Most important aspects of internal control and risk management with respect to the process of drawing up financial statements and consolidated financial statements | 166 |
| 4.16. GRI indices described in this section | 167 |
| 4. TAURON CAPITAL GROUP'S MAIN RISKS..... | 169 |
| AND THE MANAGEMENT THEREOF..... | 169 |
| 5.1. What TAURON Group expects as a result of the regulatory and market changes | 169 |
| 5.2. Three line defense model | 169 |
| 5.3. TAURON Capital Group's risk management objective and principles..... | 170 |
| 5.4. TAURON Group's risk management strategy..... | 170 |
| 5.4.1. Risk management system architecture..... | 171 |
| 5.4.2. Risk management process | 172 |
| 5.4.3. Roles and responsibilities of the risk management system's participants | 173 |
| 5.4.4. Risk control and monitoring rules..... | 174 |
| 5.4.5. Risk management tools..... | 175 |
| 5.4.6. Risk model | 175 |
| 5.4.7. Assessment of the adequacy and the functioning of the risk management system | 175 |
| 5.5. Risks related to TAURON Group's sustainable development..... | 176 |
| 5.5.1. Social Risk..... | 176 |
| 5.5.2. Risk related to climate change | 177 |
| 5.5.2.1. Physical Risk..... | 177 |
| 5.5.2.1. Climate Risk related to the transition | 179 |
| 5.5.3. Human Capital Management Risk..... | 180 |
| 5.5.4. WHS Risk | 181 |
| 5.5.5. Internal Communication Risk | 182 |
| 5.5.6. Environmental Risk..... | 183 |
| 5.5.7. Purchasing Process Risk | 183 |
| 5.5.8. Legal Risk..... | 184 |
| 5.5.9. Compliance Risk..... | 185 |
| 5.6. GRI profile indices described in this section | 186 |
| 6. GRI INDEX..... | 187 |

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

the past year was extremely intense, important and rich in experiences for us. The recent months have been a time of a number of challenges and changes, but also an opportunity to implement specific goals that we can confidently call today a joint success. We adapted to the new realities quickly and efficiently, and the introduced procedures related to the functioning of companies operating in the conditions of the Covid-19 pandemic allowed us to ensure continuity of production and supply of electricity to our customers.

The development of renewable energy sources has invariably remained our priority. We completed the implementation of the first photovoltaic farm located on the Group's post-industrial land in Jaworzno in December 2020. The electricity generated by this installation will power more than two thousand households.

We are also operating nine onshore wind farms with the total capacity of 381 MW, and by 2025 we want to increase this potential to more than 1000 MW of installed capacity. In line with international trends, we have connected almost 100 000 RES micro-installations with the total capacity of 658 MW to our distribution grid, as a result of our activities with respect to prosumer energy development

Last year, we also completed the construction of our final projects in the conventional energy field - a 910 MW coal-fired unit in Jaworzno and a 450 MW CCGT unit in Stalowa Wola. They are efficient, modern generation units, adapted to meet demanding environmental protection standards, that will constitute an important element of Poland's energy security.

As in previous years, also in 2020 we undertook a number of initiatives aimed at guaranteeing the financial resources required to ensure TAURON Group's sustainable development. At this point, it is worth to mention Poland's first issue of sustainable development bonds, as part of which we issued five-year bonds worth PLN 1 billion, with the proceeds to be spent on the Group's energy transition.

We want the Report that we are submitting to you to be a comprehensive and transparent document presenting the relationships between the Group's business model and the Strategy described by the non-financial indicators as well as the due diligence policies and procedures required for the implementation thereof. The discussion of the risks and methods how to manage them is an important part of the Report.

The layout and content of the publication are based on the structure and guidelines of the international reporting standard GRI (Global Reporting Initiative). The goal of this comprehensive presentation of our operations is to make the stakeholders, especially investors, financial institutions, insurers and customers familiar with TAURON Capital Group's activities and directions of expansion.

Despite the numerous challenges facing the Polish energy sector, I am convinced that that the consistent implementation of the assumptions of the Green Turn of TAURON initiated in May 2019 will have a positive impact upon the TAURON Group's market position and prospects.

In 2021, we are focusing on further expansion and modern solutions, while not forgetting our previous accomplishments. We will strive to maintain financial stability, take into account the interests of stakeholders, provide employees with a sense of security and tangible benefits for investors.

During the past year, I was able to find out multiple times that TAURON's success depends primarily on the people who make up the company - their ability to cope with adverse circumstances, the ability to respond flexibly and make the right decisions. They are the ones who deserve special thanks.

On behalf of the Management Board of TAURON Polska Energia S.A. I would also like to thank all external stakeholders for the trust they place in us and commitment to building TAURON Group's value.

Yours respectfully,



acting as the President of the Management Board
/ Vice President of the Management Board of
TAURON Polska Energia S.A.

1. INFORMATION ON THE REPORT AND LEGAL BASIS

1.1. Information on the principles, structure and methodology of the Report

The 2019 Non-financial Report presented contains data and indicators regarding TAURON Capital Group (hereinafter alternatively referred to as the Group, TAURON Group and TAURON) as well as TAURON Polska Energia S.A., which is the parent company in TAURON Capital Group. (hereinafter referred to as TAURON Polska Energia, Company).

The report was prepared in accordance with:

- Article 49b, clause 1-8 and art. 55, clause 2b-e of the Accounting Act of September 29, 1994, as subsequently amended, which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information;
- Global Reporting Index guidelines - GRI Standards (core level).

Non-financial data was compiled on the basis of a dialogue with the stakeholders carried out according to the AA1000SES standard.

The business model, key non-financial performance indicators, policies and the due diligence procedures applied, as well as the potential risks and the risk management system, are provided in this Report from the point of view of the entire TAURON Capital Group and are presented on a consolidated basis.

The subject matter scope of the Report has not changed significantly as compared to 2019, however it has been extended by adding content related to TAURON Capital in the light of the world's greatest challenges that include the coronavirus pandemic as well as climate change and insufficiency of resources. The Report covers those subsidiaries that are responsible for generating 98% of the Group's revenue. As a result the following subsidiaries are included: TAURON Polska Energia, TAURON Wydobycie, TAURON Wytwarzanie, Nowe Jaworzno Grupa TAURON, TAURON Ciepło, TAURON Ekoenergia, TAURON Dystrybucja, TAURON Nowe Technologie, TAURON Dystrybucja Pomiarów, Bioeko Grupa TAURON, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Obsługa Klienta, Kopalnia Wapienia „Czatkowice”, Spółka Usług Górniczych, TAURON Serwis, the special purpose vehicles set up to manage the wind assets, TAURON Czech Energy, TAURON Ubezpieczenia and Wsparcie Grupa TAURON. This set of companies, also included in the Financial Statements, is representative for all of the Group's lines of business. This approach enables understanding the way they are operated, but also their impact on the environment.

TAURON Capital Group's reporting process takes place on an annual basis (the Non-financial Report of TAURON Capital Group for 2019 was published on April 1, 2020).

Due to the growing importance of non-financial data, the Non-financial Report has been prepared for the second time in the history of TAURON Group, constituting an independent, autonomous document. Earlier the Group had conducted this reporting using a Statement on non-financial data, as a part of the Management Board's Report on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the ended financial year.

As part of the process of drawing up the Report, documents, policies, due diligence procedures, risk management principles and other information materials related to the operations of TAURON Capital Group were analyzed.

An external consultant representing the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków) participated in drawing up the document. All content published in the Report has also been subjected to an internal audit.

1.2. Reporting methodology

The preparation of the content of this Report was performed in the following stages:

- Confirming the map of stakeholders and defining the material aspects of the reporting;
- Conducting a materiality analysis of issues to be covered in the Report;

- Collecting the data illustrating the implementation of the policies with respect to the business model, Strategy and the corporate social responsibility goals, as well as the due diligence and risk management principles and the way they are managed at TAURON Capital Group
- Drawing up his Report based on the collected data in accordance with the Accounting Act of September 29, 1994, as subsequently amended, the European Commission Communication 2019/C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information and based on the reporting standard Global Reporting Index - GRI Standards (core level).

1.3. Reporting standard

Seeing growing interest in non-financial data that allows for understanding of the organization in a broader context, this Report presents the content that can be used by the stakeholders interested in the value creation process by TAURON Capital Group, including, in particular, the investors, analysts and bondholders, employees, customers, suppliers, business partners, local communities, legislators, regulators and decision makers.

This Report is based on the Global Reporting Index standard - GRI Standards (core level). The Report presents indices from the categories of the basic description (Foundation, GRI 101), profile indices (General Disclosures, GRI 102), management approach (Management Approach, GRI 103) and selected topic specific Standards, coming from the economic (Economic, GRI 200), environmental (Environmental, GRI 300) and social (Social, GRI 400) series.

The indices described in this Report are presented in the final part of the document. They are also provided at the end of each of the topic specific parts.

When selecting the materials, we were guided by the principle of materiality and care that the message addressed to our stakeholders should be credible and comprehensive. When drafting the texts we applied the principle of brevity and the principle of linking the information presented. The reporting activities also used the principle of taking into account relations with stakeholders.

1.4. Stakeholder mapping

Each of the Group's stakeholder groups has different expectations and requirements with respect to the Group, and also impacts its operations in a different way. Also, with respect to each of them TAURON has for many years been pursuing a policy of social responsibility, both at the level of the entire Group as well as that of the individual subsidiaries. All these activities are aimed at building the so-called sustainable (balanced) value by combining the shareholder value with the value for the other stakeholders.

Partnership relations, based on mutual understanding and trust, are of key importance for TAURON Capital Group, as an organization exerting a significant impact on its environment, due to the scale of its operations, turnover volume and profile, as well as having full awareness of it and taking full responsibility for it. Therefore, the cooperation with the stakeholders constitutes the foundation for the Group to achieve success in both business operations as well as social activities. For this reason, TAURON is, in a partnership like, fully transparent manner, developing relations with the stakeholders, being aware of their importance for the long term strategy and the sustainable (balanced) approach to the business operations. The basis of this process is a dialogue aimed at getting to know the mutual expectations and possibilities as well as implementing the agreements reached.

With the above purpose as the starting point, the process of identifying and mapping TAURON Capital Group's stakeholders was carried out in December 2019 in cooperation with the experts from the AGH University of Science and Technology and the Institute of Accounting and Taxes. It was considered as the initial and basic stage of developing functionalities related to sustainable development as well as the basis for conducting a comprehensive materiality analysis for the purpose of this Report. Johnson & Scholes methodology was used as part of this step.

Based on that, the following groups of TAURON Capital Group's stakeholders were identified:

- local communities,
- public administration,
- investors, shareholders, analysts,
- suppliers,
- industry organizations
- local government,
- media,
- customers,
- employees,
- banks, capital providers,
- regulators.

The second stage of the stakeholder mapping process, carried out in accordance with the Johnson & Scholes methodology, involved an assessment of the degree of interest - orientation of the stakeholders towards the organization and the degree of the organization's interest - orientation towards the stakeholders, as well as the degree of the impact of the stakeholders on the organization and the degree of the organization's impact on the stakeholders. This way, TAURON Capital Group's internal determinants related to the relations with the stakeholders (the organization's interest in the stakeholders and the impact of the stakeholders on the organization and the impact of the organization on the stakeholders) and the external determinants related to these relations (level and type of the interest of the stakeholders in TAURON Group) were analyzed. The obtained results confirmed the existence of the above identified groups of TAURON Capital Group's stakeholders. As it turned out that, among the responses to the Group's posts or messages, no stakeholders outside the previously identified groups had been found.

Completing the above activities allowed for preparing the final map of TAURON Capital Group's stakeholders. Johnson & Scholes stakeholder matrix was created this way, as shown in Figure no. 1.

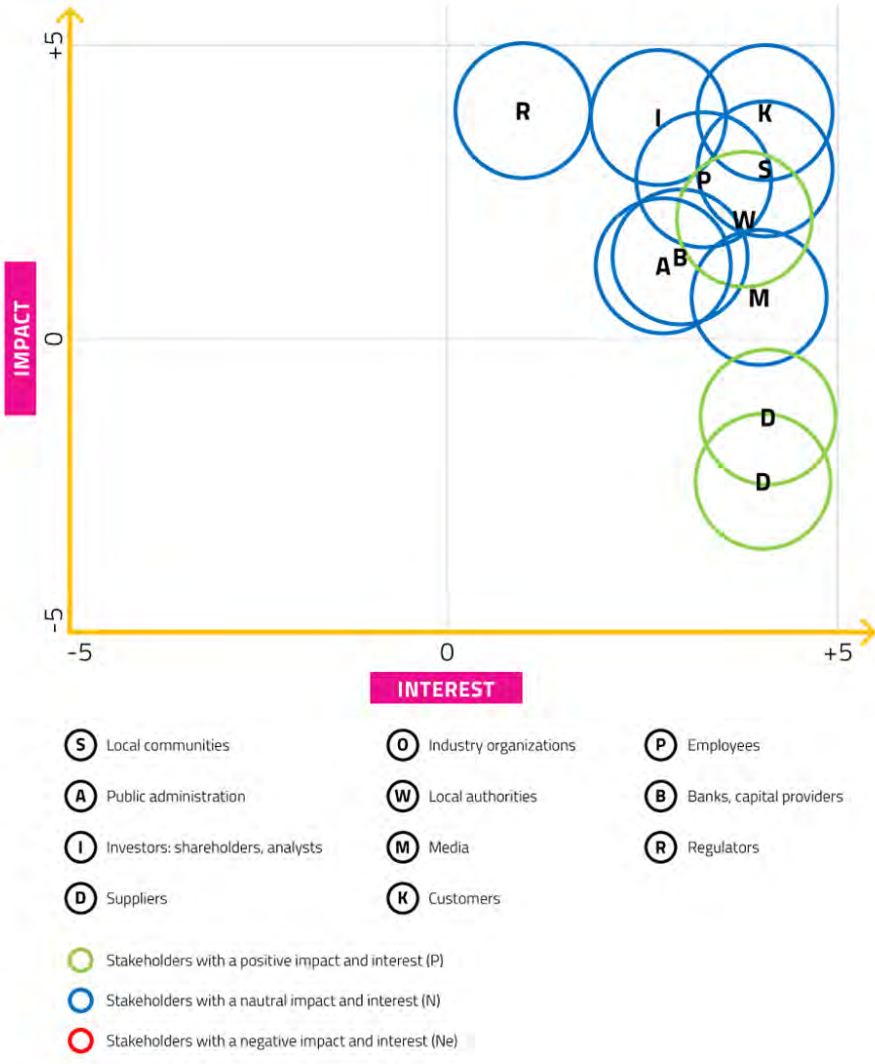


Figure no. 1. Johnson & Scholes matrix illustrating the map of TAURON Capital Group's stakeholders in 2019

When conducting the above mapping process at the end of 2019, it was concluded that the map of stakeholders presented in Figure 1 is also valid for 2020.

1.5. Material aspects of the reporting

The starting point for the process of selecting material aspects of reporting in this Report are:

- Johnson & Scholes matrix (section 1.4) developed as a result of stakeholder mapping, prepared at the end of 2019;
- AA1000 Stakeholder Engagement Standard – 2015 Edition (the co-called AA1000 SES standard).

Based on the above assumptions, in cooperation with the experts from the AGH University of Science and Technology and the Institute of Accounting and Taxes, the process of selecting important reporting aspects was carried out, with the involvement of key stakeholders, identified in the Johnson & Scholes matrix, in the December 2020 - January 2021 time frame.

In accordance with the principles of market analysis and the AA1000 SES standard, the process of defining material reporting aspects was composed of:

- quantitative research - surveys,
- qualitative research – workshops and interviews.

They were implemented in two groups of stakeholders from the key categories:

- internal stakeholders – developing the perspective of TAURON Group,
- external stakeholders – developing the perspective of TAURON Group's environment.

The quantitative research was used for the initial, statistical determination of the importance (weight) of the issues to be reported. Qualitative research, on the other hand, was to obtain the confirmation by stakeholder representatives from key groups of the importance (weight) of the issues identified as a result of the quantitative research.

Due to the epidemic limitations, both types of research were conducted on-line. The quantitative research was based on online surveys, while the qualitative research was based on individual interviews with experts conducted using electronic applications, as well as on-line workshops carried out with the use of Internet platforms. Their preparation and implementation was undertaken by an independent research and development unit - the AGH University of Science and Technology.

In case of the internal stakeholders, the quantitative and qualitative research covered the managerial staff and employees of TAURON Capital Group. The perspective developed this way takes into account the opinions of the entire Group. Therefore, separate points of view of the individual subsidiaries are not specified, as the Group is treated as a whole. Within its framework, however, it is possible to identify individual areas (Mining, Generation, Heat, RES, Distribution, Customer Service and Sales) for which the indicators that are the most important from the point of view of their operations have been selected and reported.

Almost 600 responses from internal stakeholders were collected based on the on-line questionnaire. As part of the qualitative research, on December 18, 2020, several-hour-long workshops with the Group's management were held. The meeting was attended by managers, among others, dealing with strategy, customer, environment, risk, human resource management, compliance and communications.

With respect to external stakeholders, the research process covered the following groups of key stakeholders: public administration, banks and capital providers, suppliers, investors, shareholders and analysts, customers, media, industry organizations (including the ones related to corporate social responsibility and environmental organizations), regulators as well as the local government. The quantitative study was conducted between December 15, 2020 and January 6, 2021. As a result, more than 450 stakeholder responses were obtained. The above was the basis for the stakeholder panel conducted on January 8, 2021, with the representatives of all the above-mentioned key stakeholder groups participating therein, additionally also representatives of the universities (AGH).

The results of the identification by the external and internal stakeholders of the materiality level of non-financial issues for 2020 to be reported by TAURON Capital Group are presented in the materiality matrix, presented in Figure 2.

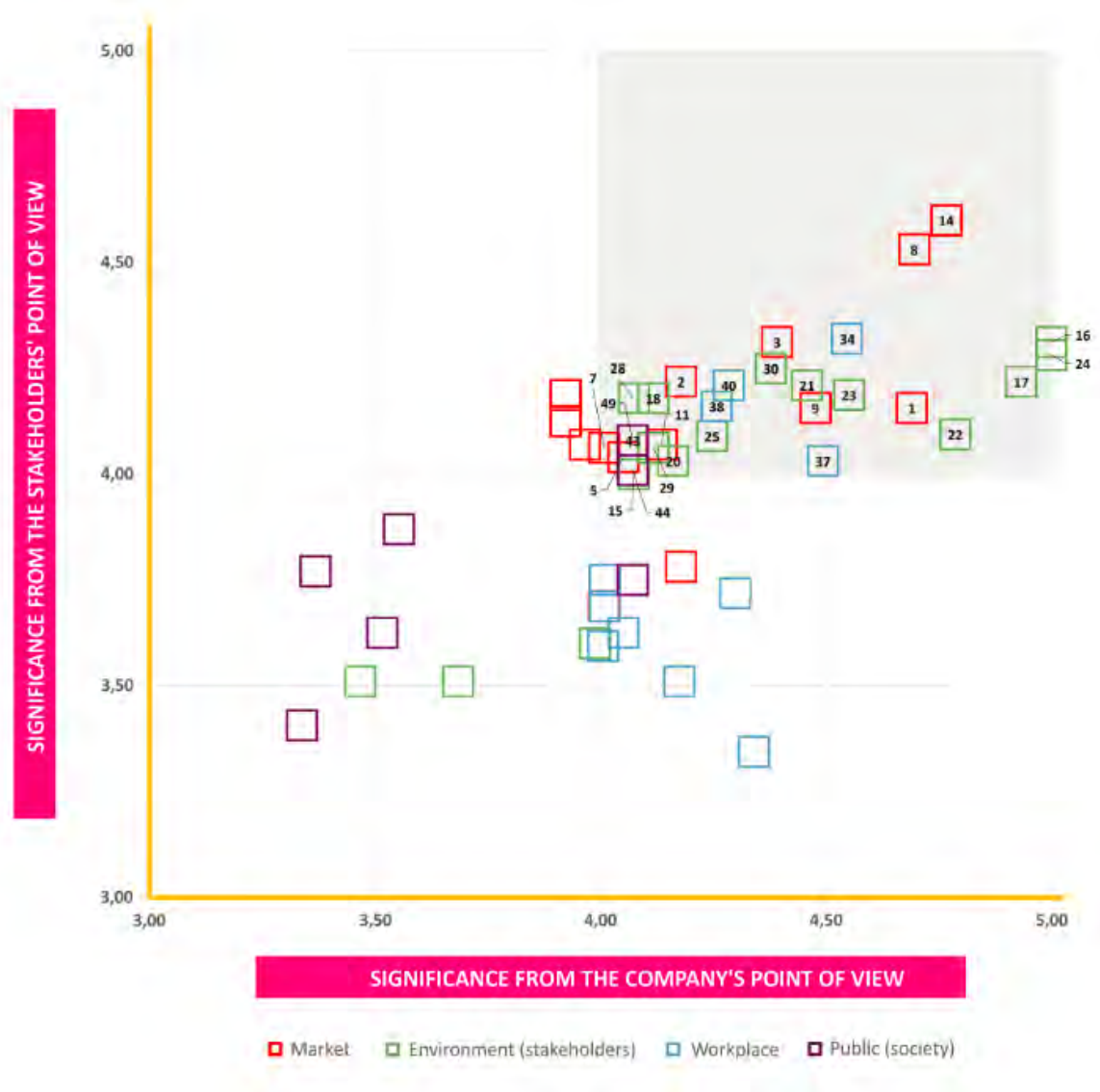


Figure no. 2. The level of significance of the individual non-financial issues for TAURON Capital Group and its environment (stakeholders)

Based on the results of stakeholder indications, material non-financial issues (with a weight of 4 (important) and higher (very important)) to be reported by TAURON Capital Group for 2020 were summarized. They are presented in table no. 1.

Table no. 1. Non-financial issues selected by stakeholders during the materiality analysis to be reported by TAURON Capital Group

| The number in the group of issues considered | Issues selected during the materiality analysis | SUSTAINABLE DEVELOPMENT AREA |
|--|--|------------------------------|
| 1 | Ensuring energy security - efficient provision of access to electricity and heat | MARKET |
| 2 | Investment projects aimed at increasing customer access to electricity supply (capital expenditures on new generation capacity, the refurbishment of the existing assets and the expansion of the RES-based generation capacity portfolio) | MARKET |
| 3 | Transparency of the offering and a responsible sales process (access to the information on the products and services, comprehensible sales language, clear bill / invoice, security of customer data) | MARKET |

| | | |
|----|---|-------------|
| 5 | Ethics in marketing, adherence to high ethical standards in communications | MARKET |
| 7 | Customer service standards, implementation of new customer service channels and significant technological solutions, complaint handling system, consumer service | MARKET |
| 8 | Security of customer data | MARKET |
| 9 | Introduction of the European Green Deal | MARKET |
| 11 | The company's policy towards prosumers | MARKET |
| 14 | The role of coal-based energy in the energy mix and in creating added value | MARKET |
| 15 | Climate change, progressive global warming and weather anomalies related thereto | ENVIRONMENT |
| 16 | Investments aimed at increasing the share of energy produced from renewable sources and energy storage technologies, as well as supporting sustainable development | ENVIRONMENT |
| 17 | Minimizing the negative impact of the company on the natural environment (through the investment projects undertaken, energy and water saving (efficiency) solutions, reduction of the emissions; waste management, etc.) | ENVIRONMENT |
| 18 | Environmental management strategy, environmental management systems and risk management - a comprehensive, integrated approach of the company to the analysis of environmental impact at each stage of the company's operations (adopted policies, strategies, norms, standards, setting environmental targets) | ENVIRONMENT |
| 20 | Investing in environmental protection projects, financing research projects, with respect to reducing the negative impact on the environment, investments to increase the share of energy from renewable sources | ENVIRONMENT |
| 21 | Efficient management of water resources (measuring consumption, reducing consumption, water and sewage management, impacting water reservoirs) and sewage | ENVIRONMENT |
| 22 | Efficient management of the consumption of the raw materials used in the electricity production process | ENVIRONMENT |
| 23 | Efficient management of energy consumption (metering, targets, reduction/optimization of consumption) | ENVIRONMENT |
| 24 | Emissions to the atmosphere (types and quantity of substances emitted - measurements, targets) | ENVIRONMENT |
| 25 | Waste management | ENVIRONMENT |
| 28 | Educational activities for employees, suppliers, customers and local communities, engaging customers in environment protection | ENVIRONMENT |
| 29 | Research and development initiatives as well as innovative solutions related to the natural environment protection and energy saving (efficiency) | ENVIRONMENT |
| 30 | The use of innovative technologies, products and services that are environmentally friendly | ENVIRONMENT |
| 34 | Promotion of occupational health and safety (OHS) rules | WORK PLACE |

| | | |
|----|--|------------|
| 37 | Education and development of the employees at various levels in the organization | WORK PLACE |
| 38 | Internal communication with the employees | WORK PLACE |
| 40 | Maintaining equal opportunities in the workplace, diversity management policy, workforce age and knowledge management, family-friendly company and work-life balance | WORK PLACE |
| 43 | Support for the society in the fight against the SARS CoV-2 virus | SOCIETY |
| 44 | Supporting the local community, developing a good neighborhood policy; activities at the level of individual subsidiaries | SOCIETY |
| 49 | Conducting a dialogue with the stakeholders | SOCIETY |

1.6. GRI indices described in this chapter

- GRI 101 Reporting principles and basics
- GRI 102-14 Statement from senior decision maker
- GRI 102-40 List of stakeholder groups
- GRI 102-42 Identifying and selecting stakeholders
- GRI 102-43 Approach to stakeholder engagement including the frequency of engagement by type and stakeholder group
- GRI 102-44 Key topics and concerns raised by stakeholders and the response from the organization also by reporting them
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-46 Defining report content and topic boundaries
- GRI 102-47 List of material topics
- GRI 102-49 Changes in reporting (significant changes from previous periods covered by the report regarding material topics and topic boundaries)
- GRI 102-50 Reporting period
- GRI 102-51 Date of most recent report (if published)
- GRI 102-52 Reporting cycle
- GRI 102-54 Claims of reporting in accordance with the GRI Standards using Core or Comprehensive option
- GRI 102-56 External assurance (Confirmation of credibility)
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 102-55 GRI Index

2. TAURON CAPITAL GROUP'S VALUE CHAIN AND ITS BUSINESS AND OPERATIONAL MODEL

TAURON Capital Group is a fully integrated energy group with its operations encompassing all elements of the electricity and heat value chain: from mining and procuring raw materials, through generation, distribution and supply to the final consumers,

The Group is made up of autonomous commercial law companies. The Group is led by TAURON Polska Energia S.A. (with its registered office in Katowice) as the parent entity (hereinafter called alternately the Company). TAURON Capital Group is one of Poland's largest electric utilities.

The Group's business model overlaps with the value chain: from mining and procuring thermal fuel, through generation, electricity and heat trading and distribution, up to the supply to the final consumers. In response to the current and future challenges, the value chain has been expanded by adding the innovations ecosystem and the so-called new businesses that are set up at the interface between the innovations ecosystem and the core operations segments (lines of business). They also cover the gradual transition from the operations linear cycle to the closed cycle (circle) operations, which contributes to implementation of the circular economy assumptions. Figure no. 3 presents lines of business as part of the value chain in terms of their contribution to TAURON Group's EBITDA.

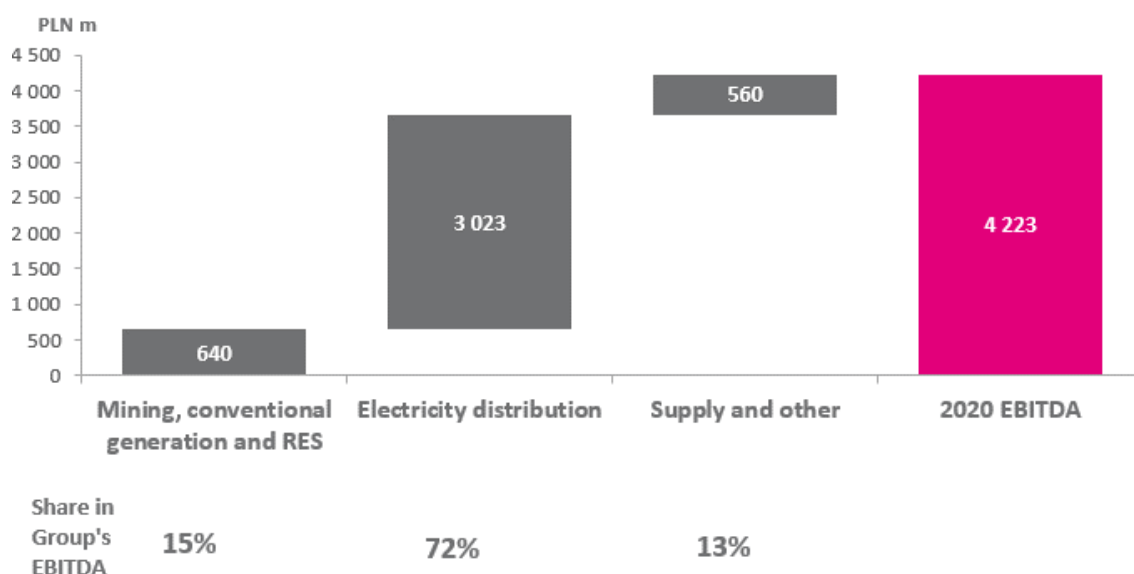


Figure no. 3. EBITDA's share in TAURON Capital Group's value chain in 2020

TAURON Capital Group is Poland's largest electricity distributor. Using its more than 241 000 km long distribution grids, it delivers electricity to more than 5.7 million consumers, in the area that covers approx. 57 900 km², which constitutes more than 18,5 percent of Poland's territory. TAURON's electricity distribution volume came in at 50.26 TWh in 2020. In terms of electricity supply to the final consumers TAURON Group is number two, with its supply volume of approximately 28.5 TWh per annum. On the other hand, in terms of production volume TAURON Group is the third largest electricity generator on the Polish market, with the annual net production of 11.4 TWh and installed capacity of 6.1 GW. To produce electricity the Group's conventional installations are using hard coal and biomass, renewable energy source units are utilizing the energy of wind and the kinetic energy of falling water. TAURON Capital Group is managing 9 wind power plants and 34 hydroelectric power plants, and it is operating 1 180 km of district heating networks. The construction of a 5 MW photovoltaic power plant on TAURON Group's post-industrial land in Jaworzno was completed in 2020 and the construction of solar farms with a total capacity of 6 MW in Choszczno is in the final stage.

The business model is an element of the implementation of the Group's Strategy and through the structuring of the operations, organizing them into logical, interworking business processes, it allows for optimizing the building of the value of TAURON Group as a whole, taking advantage of the economies of scale of the business conducted and the synergies resulting from the collaboration of the individual links of the value chain.

TAURON Group's value is built based on the processes of capital processing and transformation, while taking into account the levers of TAURON Group's value that are discussed in sections 2.1 and 2.2 of this Report, respectively. The implementation of processes based on capital is carried out with strict observance and compliance with the

Group's values, which are presented in sub-chapter 2.3, and with the use of an effective business model, presented in sub-chapter 2.4, and the management principles presented in sub-chapter 2.5. The business model and management principles are, in turn, the starting point for the implementation of the Group's Strategy. By structuring the activities and arranging them into logical, cooperating business processes, it is possible to build the value of TAURON Group as a whole in an optimum manner, taking advantage of the economy of scale of the business operations conducted and synergies resulting from the cooperation among the individual links of the value chain.

2.1. Our capitals and relationships among them

TAURON Group creates value for shareholders, inter alia, by investing in modern energy and shoring up the financial position. Value creation is possible thanks to the processing and transformation of TAURON Group's capitals - financial, natural, production, human, intellectual and social.

2.1.1. TAURON Group's financial capital

Financial capital is extremely important, both for the current operations of TAURON Group, as well as its expansion in the future. The sources of financing are: the Company's equity, funds generated from business operations conducted and liabilities. Currently, the Group is implementing a number of capital-intensive investment projects, mainly in the electricity distribution line of business. The capital expenditures came in at more than PLN 4 billion in 2020.

Investments in the electricity sector and activities aimed at the transition towards a low-emission economy are and will be supported by the EU funds. It is imperative that the support received should enable the development of zero-emission production technologies while maintaining competitiveness. The financial sector is increasingly reducing its involvement in financing activities related to greenhouse gas emissions. This is the result of new regulations supporting the financing of environmentally sustainable activities.

TAURON Group is using external financing in the form of loans and bond issues, as well as special-purpose funds and other instruments supporting modern, environmentally friendly investment projects.

TAURON Group issued bonds worth PLN 1 billion in 2020, with the proceeds to be used for the Group's energy transition. It was the first Sustainable Development bonds issue in Poland. The funds obtained from this operation will be allocated to the implementation of the Green Turn of TAURON.

TAURON is generating financial results that enable its further expansion and implementation of strategic projects. In spite of changes in the business environment, the growing revenues and cost optimization allow the Company to continue to generate a stable result and maintain the net debt to EBITDA ratio at a safe level.

Key data on TAURON Group's financial capital in 2018-2020 is presented in Table no. 2.

Table no. 2. Key data on TAURON Group's financial capital in 2018-2020

| Key capital data | 2020 | 2019 | 2018 |
|------------------------------------|--------|--------|--------|
| Equity [PLN m] | 16 412 | 19 093 | 18 428 |
| Fixed assets [PLN m] | 31 736 | 35 052 | 32 596 |
| Distribution segment's RAB [PLN m] | 18 255 | 17 470 | 16 940 |
| Net debt [multiple] | 2,5x | 2,8x | 2,5x |
| Capital expenditures [PLN m] | 4 039 | 4 128 | 3 838 |

TAURON Group's management of financial capital is performed as follows:

- maintaining financial stability thanks to activities aimed at optimizing expenses and the structure of assets,
- implementation of the investment program and rationalizing the capital expenditures incurred,
- steadfast implementation of the financing optimization plan,
- developing capital (equity) partnership as part of the Corporate Venture Capital initiatives,
- increasing the share of revenue from the regulated market (capacity market),
- cooperation with banks and financial institutions,
- searching for optimal sources of financing,
- preferential loans to finance environmental investment projects,
- financial risk hedging,
- efficient liquidity management through the cash pooling service.

The results achieved as part of TAURON Group's management of financial capital are presented in table no. 3.

Table no. 3. Results achieved by TAURON Capital Group in 2018-2020 as part of the management of financial capital

| Results achieved: | 2020 | 2019 | 2018 |
|---|---------|--------|--------|
| Sales revenue [PLN m] | 20 850 | 19 558 | 18 122 |
| EBITDA [PLN m] | 4 223 | 3 599 | 3 492 |
| EBITDA margin [%] | 20,3% | 18,4% | 19,3% |
| Cash flow from operating activities [PLN m] | 4 042 | 2 036 | 2 223 |
| Net debt/EBITDA ratio [multiple] | 2,5x | 2,8x | 2.5x |
| Net profit (loss) [PLN m] | (2 488) | (12) | 207 |
| Long term rating* | BBB- | BBB | BBB |

* On May 21, 2020, Fitch ratings agency affirmed TAURON Polska Energia's long term foreign and local currency ratings of "BBB-" with a stable outlook

2.1.2. TAURON Group's natural capital

Natural capitals defined by TAURON Group that the Company uses and has an impact upon - minerals (coal, oil, gas, limestone), air, water, solar energy, biomass - are used in the entire chain of its operations. The Group's goal is to use natural capitals while minimizing the negative impact upon the environment and climate. The confirmation of this approach is the continuation of the activities that stem from the Update of the Strategic Directions adopted by the Management Board in 2019, thanks to which the weight of the individual natural capitals used in business processes will be gradually changing in TAURON Group's value chain. The turn towards renewable energy sources will lead to the successive increase in the use of wind energy and solar radiation, while reducing the consumption of non-renewable resources, i.e. solid fossil fuels or limestone.

The changes in the use of natural capital will be implemented gradually, so as to ensure the supply of electricity to the customers.

Currently, TAURON Group has a stable base of raw materials ensuring the supply for the conventional production assets and for the external consumers. The base in the form of fossil fuels is also a guarantee of stable electricity production in periods of intermittent or extreme weather conditions that have a negative impact on the security of the power system.

TAURON Group's natural capital includes renewable and non-renewable natural resources. Non-renewable resources deposits are exploited in a responsible, rational, regulated, systematic and sustainable manner.

The resources and raw materials used by TAURON Group are presented in tables no. 4 and 5.

Table no. 4. Non-renewable resources deposits exploited by TAURON Capital Group in 2020

| Number of deposits | Mineral | Number of coal mines | Total mining area km ² | Recoverable reserves ton m |
|--------------------|---------------------------------|----------------------|--------------------------------------|-------------------------------|
| 8 | Main mineral hard coal | 3 | 218.77 | 340.3* |
| 1 | limestone | 1 | 1.34 | 68.2 |
| 1 | Accompanying mineral methane | 1 | | |

* In case of both TAURON Wydobywanie and Kopalnia Wapienia "Czatkowice", the resources have been determined on the basis of the status as of 31/12/2019, less production for 2020. The level of operable resources as of 31/12/2020 will be known in March this year. after the inventory taking of resources has been completed, which takes into account not only losses related to extraction, but also changes in the deposit resources due to more accurate resource data, losses and resource reclassifications made.

Table no. 5. GRI 301-1. Raw materials used by TAURON Capital Group in 2018, 2019 and 2020

| TOTAL | 2020 | 2019 | 2018 |
|----------------------------------|------------|-----------|--------------|
| NON-RENEWABLE RESOURCES * | | | |
| Net coal [tons] | 4 888 015 | 6 082 657 | 7 271 605 |
| Net coal production [tons] | 4 541 216 | 3 784 980 | Not reported |
| Sludge [tons] | 249 980 | 315 247 | 311 511 |
| Natural gas [m ³] | 12 067 032 | 8 220 614 | 8 413 515 |
| Heating oil [tons] | 26 324 | 26 575 | 30 642 |
| Diesel oil [m ³] | 6 289 | 6 857 | 9 942 |
| Limestone [tons] | 197 288 | 252 865 | 316 793 |
| Limestone production [tons] | 1 722 376 | 1 717 980 | 1 561 433 |
| RENEWABLE RESOURCES | | | |
| Agro biomass [tons] | 124 203 | 88 220 | 71 189 |
| Forest biomass [tons] | 553 537 | 332 592 | 238 742 |

* Includes the consumption and production by the Group's subsidiaries.

With respect to the basic raw materials used in the Group, the principle of proximity is applied, which reduces the carbon footprint associated with transportation.

The renewable natural resources used by the Group include:

- biomass,
- water used by 34 diversion (run-of-river) and impoundment hydroelectric power plants as well as in conventional power generation technological processes,
- wind powering 9 wind power plants,
- solar energy (the construction of a 5 MW photovoltaic power plant on TAURON Group's post-industrial land in Jaworzno was completed in 2020, the construction of photovoltaic farms with a total capacity of 6 MW in Choszczno is in the final stage. Both PV farm locations will be fully reported starting from 2021).

The climate changes observed, including the intensifying hydrological drought in recent years, have a direct impact upon the availability of the resources considered as renewable, such as water. Sustainable use of these resources is carried out in the energy industry, among others, based on the operational limits on the quantity of water taken directly from the environment (surface and groundwater intakes). The results achieved by TAURON Group as part of the above activities in 2020 are presented in Table no. 6.

Table no. 6. Maximum daily limits for direct water intake from the environment in force in 2020

| Source | Maximum daily value m ³ /d | | |
|------------------------------|--|-------------------|---------------|
| | Water from coal mines drainage (incl. underground water to be used for coal mines' needs) | Underground water | Surface water |
| TAURON Wydobycie | 137 348 (11 330) | | |
| TAURON Wytwarzanie | | 14 376 | 555 667** |
| TAURON Ciepło | | | 7 209,6 |
| TAURON Dystrybucja | | 13 | |
| TAURON Ekoenergia | | 3,8 | |
| Kopalnia Wapienia Czatkowice | | 3,5 | 240 |

* The above table does not include the limits of the so-called reverse intakes of water for energy purposes in hydropower plants, or limits stemming from the civil law contracts concluded with external suppliers .

** The value includes the so-called reverse water intake in an open cooling system.

The tools supporting responsible management of the resources that constitute the natural capital of TAURON Group, going beyond the mandatory conditions of administrative decisions, include: TAURON Group's Environmental Policy and TAURON Group's Climate Policy. The policies comprehensively address all types of activities carried out within the Group, related to the impact on the environment and the use of its resources in accordance with the principles of sustainable development.

One of the Group's key expansion directions adopted is to seek to achieve the complete utilization of its waste, which in almost 100% is converted into products and can be used for commercial purposes. The achievement of this goal is implemented, among others, by minimizing the stream of waste generated thanks to product innovation, supply chain management and a conscious process of decommissioning some of the assets from service, as well as by promoting the use of waste generated during the product's life cycle and thus reducing the amount of waste deposited in the environment by placing it on the market for use as substitutes for natural materials.

The results achieved by TAURON Group in 2019-2020 as a result of the above actions are presented in Table no. 7.

Table no. 7. Results achieved by TAURON Capital Group in 2018, 2019 and 2020 as part of the management of natural capital

| Results achieved: | 2020 | 2019 | 2018 |
|--|------------|------------|------------|
| Direct greenhouse gas emissions – CO ₂ (tons) | 10 093 648 | 12 215 945 | 16 604 240 |
| Nitrogen oxides – NO _x (tons) | 7 491 | 10 709 | 16 105 |
| Sulfur dioxide – SO ₂ (tons) | 7 051 | 10 386 | 16 911 |
| Total dust (tony) | 435 | 636 | 1 001 |
| Other (tons) (such as: HCl, HF, carbon monoxide, ammonia, methane, metals) | 34 882 | 33 522 | 37 000 |
| Total quantity of non-hazardous waste (including combustion waste and mineral extraction waste) (tons) | 1 729 672 | 1 366 974 | 3 540 064 |
| Dumpsite waste (tons) | 8 958 | 5 539 | 4 639 |

2.1.3. TAURON Group's production capital

The carrying amount of all of TAURON Group's assets is more than PLN 35 billion. TAURON Group's assets are very diverse, which is due to both the characteristics of the individual segments, as well as the significant differences in the age of the individual machines and devices.

The development of the Group's operations is in line with the European and global trends, and the coming years will be a period of the generation segment's transition. The plan is to retire inefficient coal-fired units and develop new low and zero emission sources. It is assumed that by 2025 their share in the installed capacity will stand at around 30%, and in 2030 reach over 65%. Such actions will allow for reducing the emission of all pollutants by 2030, including CO₂ emissions by more than half. As of the end of 2020, almost all of 120 MW units were shut down, except for two at the Stalowa Wola Branch, whose shutdown date was postponed until February 2021 (970 MW in total). Further units with a total capacity of 2.5 GW, mainly the 200 MW units, will be decommissioned in the years 2026-2030, while at the same time the development of low and zero-emission generation sources will be continued. Two high-efficiency conventional units were commissioned in 2020: a 910 MW coal-fired unit in Jaworzno and a 450 MW CCGT unit in Stalowa Wola. These units have contracts in place as part of the Capacity Market and in the coming years they will play an important role in the functioning of the National Power System. Additionally, the construction of a 5 MW photovoltaic power plant on TAURON Group's post-industrial land in Jaworzno was completed in 2020, and the construction of photovoltaic farms with a total capacity of 6 MW in Choszczno is in the final stage

The largest contribution to TAURON Group's financial result is made by the Distribution Line of Business, in which the largest capital expenditures are also incurred - the region of PLN 2 billion per annum. The changing environment, in particular the development of renewable energy sources, also of the prosumer type, has a large impact on the need to upgrade and expand, as well as adapt the existing grid infrastructure. In addition, the growing expectations of customers and the approach of the Energy Regulatory Office have an impact on the need to improve the quality and reliability of electricity supply. In view of the above, TAURON Dystrybucja in implementing a cable grid construction program, increasing the share of cable lines in the distribution grid and thus improving the quality indicators, security of electricity supply and resistance against weather conditions, including the ever more frequently occurring sudden (freakish) weather conditions associated with climate change.

In 2020, the largest capital expenditures in the Generation line of business were incurred to finalize the construction of a 910 MW power generating unit in Jaworzno and to adapt the generating units to the new environmental standards.

The key data on TAURON Group's production capital in 2018-2020 is presented in Table no. 8.

Table no. 8. Key data on TAURON Group's production capital in 2018-2020

| Key data on the capital | 2020* | 2019 | 2018 |
|--|-------------------|-------------------|-------------------|
| Hard coal extracting coal mines | 3 | 3 | 3 |
| Hard coal fired power plants (quantity) | 6 | 5 | 5 |
| Hard coal fired power plants (installed capacity) | 5.2 GWe; 1,3 GWt | 4.3 GWe; 1.35 GWt | 4.3 GWe; 1.2 GWt |
| Combined heat and power plants (quantity) | 4 | 4 | 4 |
| Combined heat and power plants (installed capacity) | 0.35 GWe; 1.2 GWt | 0.35 GWe; 1.2 GWt | 0.35 GWe; 1.2 GWt |
| Proprietary district heating networks - TAURON Ciepło (length) | 888 km | 857 km | 844 km |
| Heat supply | 11.6 PJ | 12.0 PJ | 12.4 PJ |
| Hydroelectric power plants (quantity) | 34 | 34 | 34 |
| Hydroelectric power plants (installed capacity) | 133 MW | 133 MW | 133 MW |
| Wind power plants (quantity) | 9 | 9 | 4 |
| Wind power plants (installed capacity) | 381 MW | 381 MW | 201 MW |
| Electricity distribution lines (length) | 241 600 km | 237 000 km | 235 000 km |
| Transformers (distribution) | 60 900 | 58 900 | 58 800 |
| MV/LV stations | 59 100 | 60 900 | 59 800 |
| HV/MV stations HV/MV | 493 | 491 | 490 |
| Capital expenditures (PLN billion) | 4 039 | 4 128 | 3 838 |
| Depreciation (PLN billion) | 1 954 | 1 992 | 1 839 |

* As of 31.12.2020

TAURON Group's management of the production capital is performed, first and foremost, through efficient operations, as well as growth and modernization investments, among others:

- connecting new consumers (and producers) to the distribution grid, expanding and upgrading the grid in order to improve the quality and reliability of the power supply for electricity consumers;
- new capacity in renewable technologies and improving the productivity of the existing assets;
- new modern generation capacity, key for energy security;
- adapting the generating units to the operational conditions in force beyond 2021, resulting from the introduction of the BAT conclusions
- expanding and upgrading the district heating network;
- investments aimed at improving the efficiency of coal mining.

The results achieved in 2018-2020 as part of TAURON Group's management of production capital is presented in Table no. 9.

Table no. 9. GRI 301-1, EU2. Results achieved by TAURON Capital Group in 2018-2020 as part of TAURON Group's management of production capital

| Results achieved | 2020 | 2019 | 2018 |
|--|-----------------|-----------------|-----------------|
| Commercial coal production by segment groups: coal dust, medium size lump coal, large size lump coal, eco-pea coal | 4.54 million Mg | 3.78 million Mg | 5.01 million Mg |
| Net electricity production | 11.4 TWh | 12.7 TWh | 14.9 TWh |
| including electricity production from RES | 2.0 TWh | 1.4 TWh | 0.97 TWh |
| Heat distribution | 8.44 PJ | 8.51 PJ | 8.78 PJ |
| Heat generated | 11.63 PJ | 10.85 PJ | 11.29 PJ |
| Electricity distribution | 50.26 TWh | 51.73 TWh | 51.97 TWh |

2.1.4. TAURON Group's human capital

Human capital of TAURON Group includes employees: their knowledge, experience, skills, attitudes and motivation. The future of the Group will depend on many factors, but the employees will have the greatest impact thereupon.

The range of the Group's business operations, both in terms of geography as well as competence areas, employing more than 25 500 employees, has a significant impact upon the complexity of the human capital management process. Depending on the employee's workplace in the Group's value chain, human capital management and organization of personnel policy are adapted accordingly in terms of training and development, improvement of information flow, career development opportunities and ensuring competitive working conditions. Employee satisfaction surveys are conducted periodically and their results are the basis for developing and implementing action plans that aim to increase engagement and create an attractive workplace. It is also extremely important to maintain standards with respect to compliance with the principles of ethics, respect for diversity and counteracting mobbing and discrimination at all of TAURON Group's subsidiaries.

All activities for employees are also important due to projected demographic changes and a falling number of professionally active people. Creating jobs, TAURON Group strives to attract the best employees. In order to achieve that goal patronage classes are created with an offer tailored to the future HR needs of the Group's subsidiaries. A number of initiatives are also undertaken that strengthen the image of TAURON Capital Group as a good and desired employer.

The key data on TAURON Group's human capital is presented in Table no. 10.

Table no. 10. Key data on TAURON Group's human capital in 2019-2020

| Key data | 2020 | 2019 | 2018 |
|---|--------|--------|--------|
| Number of employees (in persons as of 31.12) | 25 572 | 26 086 | 25 829 |
| Share of women among the workforce | 21.5% | 21.4% | 21.5% |
| Share of men among the workforce | 78.5% | 78.6% | 78.5% |
| Share of college graduates among the workforce | 34.8% | 33.8% | 33.2% |
| Share of high school graduates among the workforce | 43.5% | 43.3% | 43.1% |
| Share of vocational and elementary school graduates among the workforce | 21.7% | 22.9% | 23.7% |

| | | | |
|---------------|-------|-------|-------|
| Rotation rate | 6.67% | 6.51% | 6.45% |
|---------------|-------|-------|-------|

TAURON Capital Group's human capital management is performed, first and foremost, through:

- management of employee competences in accordance with TAURON Group's Competence Model,
- career development conversations as a tool supporting the process of Management by Objectives, with the main assumption aimed at developing employee competences through dialogue between the superior and the employee,
- periodic surveys of TAURON Group's employees satisfaction level, the results of which are the starting point for undertaking initiatives aimed at improving job satisfaction and comfort, and thus increasing business efficiency,
- actions aimed at eliminating the risk of a generation gap through active cooperation with the schools,
- implementation of a project under the Knowledge, Education, Development Operational Program (PO WER) entitled: Developing a model of vocational and practical training program in the power sector, and TAURON Group's actively joining the strategy for responsible development in the field of dual education,
- active involvement in shaping academic education paths,
- cooperation with numerous educational institutions and adapting the offering of apprenticeships and internships by the Group's subsidiaries,
- supporting the idea of sharing knowledge and competences through the implementation of such programs as the Internal Coaches or Development Squared,
- activities aimed at developing employees' awareness of cybersecurity in the context of remote work,
- promoting a culture of learning and knowledge sharing through proprietary and innovative development and training programs,
- development of leadership competences through dedicated development programs and post-graduate studies,
- access to the latest expert knowledge and current market trends in various areas of life as part of periodic lectures by TAURON Group Open University,
- Talent Management program, with the goal to support the employee development process and the utilization of the personnel's potential within TAURON Group,
- active use of the e-learning platform to implement training aimed at developing industry knowledge and interpersonal skills,
- taking care of employees' well-being, by undertaking a series of actions promoting a healthy and active lifestyle and making work time more flexible,
- programs for young parents and women returning to work after having a child,
- workshops for employees at pre-retirement age,
- improving efficiency by optimizing the utilization of competences within the Group,
- ensuring the competitiveness of remuneration systems by implementing transparent, motivational (incentive-based) and market-based rules,
- employee benefit packages taking into account the needs of the personnel,
- increasing work efficiency by introducing digital solutions.

Through active management of human capital TAURON Group achieved in 2020-2020 the results presented in Table no. 11.

Table no. 11. Results achieved by TAURON Capital Group in 2018-2020 as part of TAURON Group's management of human capital

| Results achieved | 2020 | 2019 | 2018 |
|---|---------|---------|---------|
| Number of training course hours | 295 000 | 478 000 | 449 000 |
| Number of the participants of TAURON Group Open University (in 2020 the number of Tauronet views) | 7 000 | 2 700 | 785 |
| Number of training courses conducted by Internal Coaches | 84 | 167 | 215 |
| Number of Internal Coaches | 86 | 83 | 76 |
| Number of persons trained by Internal Coaches | 1 100 | 1 800 | 2 100 |

| | | | |
|--|-------|---------|---------|
| Number of interns/apprentices | 263 | 655 | 748 |
| Number of patronage classes | 53 | 47 | 44 |
| Number students in patronage classes | 1 000 | 1 300 | no data |
| Number of participants in the Development Squared initiative | 950 | no data | no data |

2.1.5. TAURON Group's intellectual capital

Using its business experience and employees' competences TAURON Group is developing to meet the challenges of the future energy sector. The key to maintaining competitiveness is modern management, the use of new technologies, digitization, corporate governance and relationships with the stakeholders, with all these elements jointly forming a compatible and consistent system that allows to efficiently conduct operations at every link in the value chain. Fast changing environment also implies the need to focus on innovation as well as research and development activities.

The potential of intellectual capital covers workforce capital, internal structural capital and external structural capital. It is worth emphasizing that the main component of TAURON Group's intellectual capital is the employees' knowledge and their aggregate competences. Internal structural capital is another important component of intellectual capital. This capital includes technologies, methods and processes that enable the Group to function. Furthermore, research, development and innovation activities are carried out as part of internal projects and including the participation of business partners and the academic community. The last component, external structural capital, is related to intangible market factors. This capital includes the company's brand and reputation, the network of associates and relations with the stakeholders, with a particular emphasis on relationships with suppliers and customers. TAURON Group strives to deepen cooperation with the suppliers of technology and know-how, represented both by large industrial conglomerates, as well as by small companies - mainly startups.

Effective intellectual capital management provides a chance to increase adaptive flexibility and carry out transformational activities aligned to changes in the market environment. TAURON Group adopted the Intellectual Property Policy in 2019, which was a set of rules and standards of conduct with respect to intellectual property management and a description of good practices that are expected from counterparties (contractors) and associates, as well as TAURON Group's Regulations of Intellectual Property Management that constitutes internal corporate documentation, superior in relation to the individual processes associated with intellectual property management.

As a result of the adopted documentation, processes related to employee originated technical improvement ideas as well as filing utility models, industrial designs and patents were regulated and implemented.

In 2020 TAURON Wytwarzanie obtained 5 patents (including one jointly with Kopalnia Wapienia "Czatkowice"), and TAURON Dystrybucja obtained a protection right for a utility model. The said solutions are the result of research and development works carried out within the Group and provide the exclusive use of the given solution for commercial or professional purposes on the territory of Poland.

Intangible and legal value, being an important aspect of the enterprise value, translates into building its competitive advantage. TAURON Group, apart from the formal regulation of the said scope of matters, also attaches importance to promoting the idea of employee originated technical improvements among employees, communicates and provides information related to intellectual property rights through contests, webinars and press articles.

The key data on TAURON Group's intellectual capital in 2018-2020 is presented in Table no. 12.

Table no. 12. Key data on TAURON Group's intellectual capital in 2018-2020

Key data on capital – main components of TAURON Group's intellectual capital

- The Group's strategy focused on creating innovations;
- Strategic Research Agenda – a road map for the Group's research and development as well as innovative activities;
- Knowledge and competences of the Group's employees;
- Catalogue of best practices related to the implemented management systems and internal procedures;
- A developed model of cooperation with universities and vocational schools.

TAURON Group's management of the intellectual capital is performed, first and foremost, through:

- implementation of projects with respect to research, development and innovations in the following portfolios: the customer and his/her needs, intelligent grid services, distributed energy, low-emission production technologies,
- use of dedicated NCBiR programs, Horizon 2020, KIC InnoEnergy, the Research Fund for Coal and Steel RFCS
- cooperation with start-ups: accelerator programs (Pilot Maker Elektro ScaleUp, KPT ScaleUp, TAURON PROGRES), CVC EEC Magenta,
- TAURON's participation in the Govtech Program,
- cooperation with the Electric Power Research Institute (EPRI),
- development of the platform called Innovation Zone,
- workshops with the representatives of universities and research institutes,
- cooperation with the leading universities, research units and technology companies from Poland and the EU,
- organization of competitions for the Group's employees aimed at supporting innovation,
- development of IT systems, digitization and robotic automation of selected processes.

The results achieved as part of TAURON Group's management of intellectual capital in 2018-2020 is presented in Table no. 13.

Table no. 13. Results achieved as part of TAURON Group's management of intellectual capital in 2018-2020

| Results achieved | 2020 | 2019 | 2018 |
|--|--|--|-----------------|
| The number of new research and development projects launched in all of the Group's lines of business | 10 (including 8 projects conducted in cooperation with start-ups) | 18 (including 9 projects conducted in cooperation with start-ups) | 16 |
| Number of projects underway in the R&D Area | 52 | 67 | 57 |
| Total value of projects underway | PLN 109 million | PLN 178 million | PLN 261 million |
| Co-financing obtained from external sources for the implementation of the R&D projects | PLN 42 million | PLN 48 million | PLN 45 million |

In 2018, a Corporate Venture Capital (CVC) type fund - EEC Magenta, was established jointly with the Polish Ventures Development Fund, the National Center for Research and Development and EEC Ventures.

In 2019, EEC Magenta's first investment projects were carried out – a PLN 13 million investment in the company Reliability Solutions (RS), specializing in predicting and minimizing the effects of failures. This is the fund's first investment project. Continuing to build the strategic position of TAURON Capital Group with respect to startups, EEC Magenta carried out further investments in 2020, expanding its investment portfolio and currently it has 6 innovative startups therein.

The cooperation with several startups was continued, as part of the ScaleUp acceleration programs, in 2019. TAURON became involved in the government acceleration program dedicated to electromobility (Elektro ScaleUp). As a result of its implementation, 6 pilots were carried out with the involvement of 5 of TAURON Group's subsidiaries.

In 2020, TAURON continued working on projects with startups also as part of the KPT ScaleUp program, which in the second round of recruitment provided 6 innovative solutions, including Nanobots (a platform for collecting and standardizing data from IoT devices (sensors located in urban space) using various protocols, analyzing the collected data using artificial intelligence or machine learning, and sharing data in real time).

As part of the TAURON PROGRES proprietary acceleration program launched in 2019, two pilot projects were implemented in 2020, including one with respect to digitization of service processes.

In 2018, the cooperation with the EPRI Institute (USA) was established.

In 2019 and 2020, as part of the cooperation with EPRI, TAURON participated in two research programs: with respect to energy storage and identifying the needs of electricity consumers.

Patents, inventions, know-how developed as part of R&D projects, increasing the potential to improve the Group's financial result in the coming years - 13 inventions with patent protection in place and another 7 being under registration.

TAURON brand's strong market position and recognition.

Modern IT systems supporting the core operations and customer service.

Licenses for the core operations: coal mining, electricity and heat production, distribution and trading.

2.1.6. TAURON Group's social capital

TAURON Group's social capital is based on developing mutual relations both within the organization as well as towards the external environment (stakeholders). The foundation for developing such relationships is TAURON Group's Strategy, and the main principles are described in TAURON Group's Corporate Social Responsibility Code of Conduct (more on that topic in sub-chapter 2.3.3. of the Report).

Social dialogue, that is related to both the existing production assets as well as the implementation of new investment projects, plays an important role in developing social capital. TAURON Group is conducting a good neighbor policy, under which it aims to improve the living conditions of local communities and cooperates with local government authorities. The Group is also involved in a number of undertakings for the benefit of the stakeholders, such as charity and education activities, cooperation with academic centers, employee volunteering and providing support for many important sports and cultural events.

The Group's involvement in climate protection and counteracting climate change is playing an increasingly important role in the development of social capital. The response to social challenges in this respect is TAURON Group's Climate Policy and TAURON Group's Environmental Policy adopted to be implemented (more on that topic in sub-chapters 4.3 and 4.4 of the Report). at the end of 2019.

An important element shaping the social capital of TAURON Group in the coronavirus era were activities aimed at developing the safety culture - understood as the continuous engraining of knowledge, shaping attitudes and teaching how to behave in practice in a given situation. The Group was involved in a number of educational campaigns addressed to both employees as well as local communities. In 2020, there were also projects aimed at minimizing the social effects of the coronavirus pandemic and supporting the fight against it.

The key data on TAURON Group's social capital is presented in Table no. 14.

Table no. 14. Key data on TAURON Capital Group's social capital in 2020

Key data

- TAURON Group's Corporate Social Responsibility Code of Conduct
 - Developing ethical culture and compliance management among employees
 - Building lasting relationships and active dialogue with the stakeholders
 - Cooperation with responsible suppliers in accordance with the principles of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries
 - Implemented and applied: TAURON Group's Diversity Policy and Respect for Human Rights Policy
 - Continuous promotion of an occupational safety culture
 - Engaging employees in the company's development through special events
 - Personnel education and development
 - Implemented and applied TAURON Group's PROCustomer Social Policy
 - Implemented and applied Personal Data Protection Policy for TAURON Group's entities
 - Support for local initiatives through TAURON Foundation
 - Initiatives related to counteracting COVID-19
-

TAURON Group's management of return on the capital is performed, first and foremost, through:

- promoting the compliance culture, which in combination with TAURON Group's Competence Model, motivates employees to achieve business goals in accordance with the law, internal and intra-corporate regulations, and ethics,
- shaping the work environment based on respect, openness, integrity and justice, and respect for human work through the implementation and application of specific principles of conduct (including, inter alia, Diversity Policy, TAURON Group's Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination, Policy of Respect for Human Rights),
- developing a Work Health and Safety (WHS) culture at all of TAURON Group's subsidiaries
- developing the Purchasing Organization Support System called TAURON Group's Purchasing Platform,
- active cooperation with trade unions,
- Social Dialogue Ombudsman's activities,
- developing procedures for the protection of personal data,
- activities seeking to achieve total transparency of the practices applied in relations with customers implemented as part of PROCustomer Social Policy;
- undertaking initiatives aimed at combating the spread of the COVID-19 pandemic.

The results achieved as part of TAURON Capital Group's management of social capital in 2018-2020 are presented in the below table.

Table no. 15. Results achieved as part of TAURON Capital Group's management of social capital in 2018-2020

| Results achieved | 2020 | 2019 | 2018 |
|--|---|---|---|
| Number of meetings with trade union organizations functioning at the Group's subsidiaries | 334 | 329 | 249 |
| Percentage of employees covered by collective bargaining agreements | 95.6 % | 95.7% | 93.9% |
| Occupational accident frequency rate | 8.3 | 7.8 | 7.7 |
| New key and consolidated categories, in which particular importance is attached to financial optimization of the purchasing | As part of the business operations conducted, as required | As part of the business operations conducted, as required | As part of the business operations conducted, as required |
| Regular meetings with local communities to provide information on the business operations conducted and its impact on the residents | As part of the business operations conducted | As part of the business operations conducted | As part of the business operations conducted |
| Number of local and pro-social initiatives that TAURON Foundation has joined | 144 | 158 | 147 |
| Number of corporate social responsibility projects implemented | 18 | 11 | 9 |
| Number of cases of non-compliance and complaints regarding products and services of TAURON Capital Group with respect to providing information | 0 | 0 | |
| Number of COVID-19 counteracting initiatives implemented for employees and communities | 11 | - | - |

2.1.7. Value creation model and relations among capitals

Capitals as well as their mutual relations are constantly changing due to a number of factors, including, among others, changes in the market and regulatory environment. The implementation of the actions envisaged in the strategy allows for a sustainable transition of the Group and increases the investment potential for the development of renewable energy sources. The effects of such activities are and will be visible in all capitals. The transition towards the zero and low emissions will also have an impact on each segment of the Group's operations.

Financial capital is the basis for the efficient use and development of TAURON Group's other capitals, the production capital in particular, it supports the development of intellectual capital and human capital and improves the efficiency of the use of natural capital. Through the implementation of investment projects, TAURON Group is constantly increasing the potential of its production capital. The development of this capital is carried out using the best available technologies and reduces the impact of the Group's business operations on climate and environment.

The use of modern technological and technical solutions improves and develops new competences in the intellectual capital, which also contributes to the development of the human capital, improves the use of the production capital and strengthens TAURON Group's competitive position. The Group's business operations, primarily coal mining as well as electricity and heat production using conventional sources, consume natural resources. The overall business operations of TAURON Group, the provision of safe and stable electricity and heat supplies for its customers, continuously develops relations with the external environment (stakeholders), including the social stakeholders, which leads to an increase of the Group's value.

The relationships among the capitals as well as the value creation model at TAURON Capital Group in 2020 is presented in Figure no. 4.

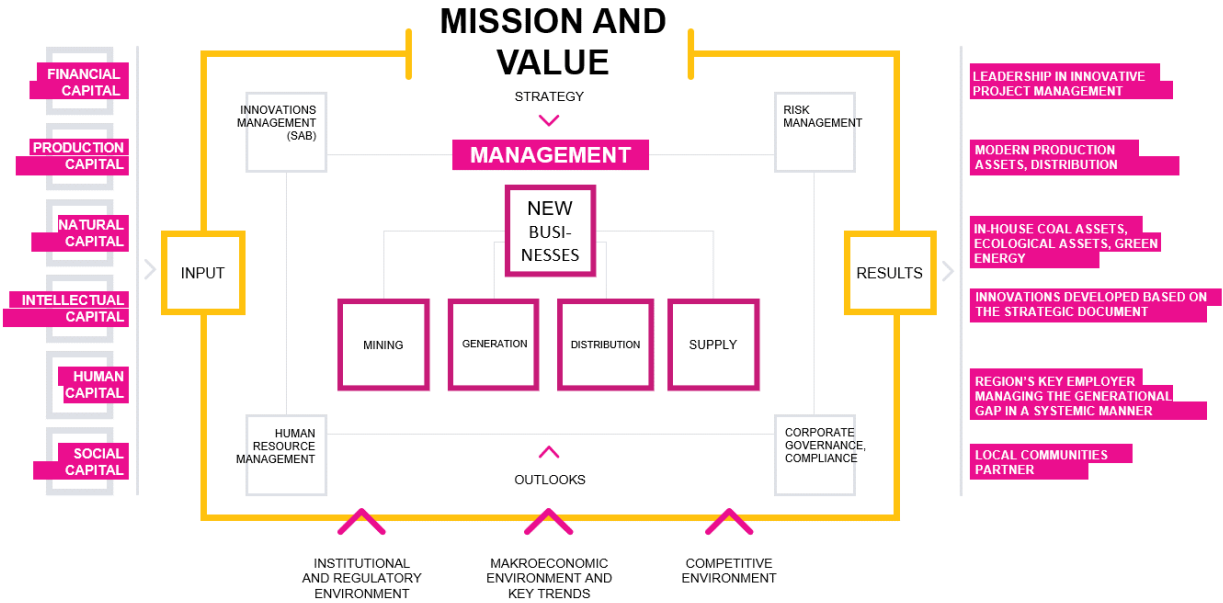


Figure no. 4. Value creation model and relationships among capitals at TAURON Capital Group in 2020

2.2. TAURON Group's value levers (drivers)

TAURON Group's Strategy for 2016-2025 currently in place and the Update of Strategic Directions, defined as the Green Turn of TAURON, adopted in May 2019, takes into account changes in the market and regulatory environment in order to use the resources available in the optimum manner. The activities implemented as part of TAURON Group's Strategy focus on building lasting relationships with the consumers of the products and services and they constitute the basis for the Group's growth, treating customer-centricity as one of the most important value levers.

TAURON Capital Group is operating in all key areas of the energy market, and therefore it is managing each successive element of the energy chain: starting from extraction and acquisition of the thermal fuel, through generation, trading and distribution of electricity and heat, up to the supply thereof to the final consumers. Modern infrastructure is a significant lever of value in order to ensure stable electricity supply at a competitive price, meet stringent environmental standards and reduce the negative impact on the climate. TAURON Group's value chain has also been extended to include the innovation ecosystem, thanks to which one of TAURON Group's value levers include new businesses that are developed at the interface between innovation and key business segments.

As part of the Green Turn of TAURON the Group attaches great importance to investments in renewable energy sources and to replacing exhausted conventional sources with modern solutions. In this respect, significant value levers include natural capital as well as the investment and restructuring potential, which, on one hand, allow for achieving the greatest possible independence from external suppliers, and, on the other hand, provide the potential to respond to changes and adapt thereto.

In order to achieve the goals outlined in TAURON Group's Strategy in the best possible way and to follow the Green Turn of TAURON, it is also necessary to develop competences and strengthen the commitment of the workforce. Organizational culture and employees are therefore an important value lever. Organizational culture and employees enable implementing current as well as future business goals that will constitute a source of competitive advantage.

Analyzing its value levers, the Group is highlighting the market and regulatory changes, progressing climate changes, and is analyzing and implementing preventive measures that would allow for continuing its business

operations in the long run. It is assumed that the transition of TAURON's value levers will be taking place in an evolutionary manner, through the implementation of the Group's Strategy.

2.2.1. Customer-centricity

According to TAURON Group's Strategy and the Update of Strategic Directions, defined as the Green Turn of TAURON, the customer is always at the center of attention. In all of its activities TAURON focuses on developing lasting relationships with the consumer of its products and services, and the strengthening of the customer relations is the basis for the Group's assumed growth. The number of customers - both those who are connected to the distribution grid, as well as those who have chosen the products and services offered by TAURON Group - continues to grow.

In the short and medium term, TAURON Group's priority is to improve its products and services in response to customer needs, also by shaping the offering in accordance with the sustainable development principles. Over the past year, there has been a significant acceleration in the construction of individual, prosumer photovoltaic installations. This is a trend which, in the opinion of TAURON Group, will be continued and should result in expanding the scope of cooperation with the customers. In this aspect, the Group is becoming a partner and the supplier-consumer relationship will evolve towards services sharing.

The next goal is to simplify and optimize the communications processes between the customer and TAURON Group, as well as to continuously improve electronic communications channels. TAURON Group wants to continue activities aimed at improving the quality of the services provided, and an example of this is the launched online platform for the exchange of information with the customer called the Opinion Zone, which is promoting the slogan: "Your voice has power! We will hear. We will improve". This platform enables conducting systematic and extensive research, which is the starting point for introducing improvements in customer service and developing useful products and services.

TAURON Group is offering customers modern products and services to meet the customized expectations of selected groups. For this reason, an innovation ecosystem has been created, which, apart from issues related to continuous improvement of technology and reduction of negative impact on the environment, is equally focused on the tailoring the offering to the needs of the current and future customers in the best possible manner. It is assumed that electricity cost increases are likely to translate into increased interest in the activities aimed at improving energy efficiency, which will amplify the demand for products and services related to the improvement of energy efficiency. This will allow TAURON Group to enrich the range of products and services offered. The improvement of energy efficiency will result, in addition to the financial aspects, also from the growing public awareness of the need to reduce the negative impact on the climate.

In the long run, TAURON Group's priorities with respect to customer centricity will remain unchanged, and the issues related to providing high quality products and services as well as an easy, interactive communications platform will be key to achieving success on the market. The tools of mutual communications will be subject to change, shifting towards an increasing role of interactivity, shortening of the processes and increasing the transparency. It is assumed that a further development of individual power generation installations and the expected digitization of the metering (smart metering) will increase competition on the energy and energy related services market, while deepening TAURON Group's partnership relations with customers.

The topic of customer-centricity is discussed in detail in section 4.1 TAURON Group's PRO Customer Social Policy.

2.2.2. New businesses

In the current model, electricity is produced centrally and distributed to meet the demand of the final consumers. However, this model is undergoing some changes as a result of the growing importance of the prosumer market, the development of renewable energy sources, the evolution of artificial intelligence and the Internet of Things. TAURON Group's new businesses focus on various areas of activity (e.g. e-mobility program, Internet program, energy efficiency, distributed cogeneration, energy storage, smart home, smart city). To this end, in the short term, TAURON Group, using its competences, human, technical and organizational resources as well as customer relations, is conducting extensive research and development as well as innovative activities to pave the way to new revenues.

TAURON Group's new businesses are associated both with the research and development ecosystem, but also with the mergers and acquisitions process. Such an approach not only allows for developing proprietary ideas, but also for taking advantage of the experience of external entities. Income based on the traditional power sector model has limited growth potential, therefore it is necessary to develop new activities.

In the medium and longer run, it is assumed that changes to the operating model of the energy industry will take place as it will be extending its offering by adding new products and services, reducing the share of the traditional product, which is the production of electricity from conventional sources. Technologies related to the use of green

hydrogen for electricity storage are raising high hopes. The new businesses and innovations will prepare TAURON Group for the market challenges.

It is assumed that the share of income from the new businesses will not be of key importance for many years to come, due to the very high value of the core operations related to the fuel-energy-distribution chain, but this value will be gradually rising. TAURON Group's aspiration is for new businesses to bring the Group maximum possible benefits arising from the already appearing and coming changes.

2.2.3. Modern infrastructure

The development of modern infrastructure is extremely important due to the increasing decarbonization and the EU energy and climate policy, the increase in the prices of the CO₂ emission allowances, the progressing process of reducing the financing of the coal investments or changes in the behavior of individual and business customers. As part of the Green Turn of TAURON, the Group's assets are being optimized by potentially making the portfolio of the mining and heating assets more flexible or by shutting down all old coal-fired units (keeping only modern conventional units: Łagisza 460 MW and Jaworzno 910 MW). In 2020, TAURON Group, despite the coronavirus pandemic, completed major investments, such as the construction of a 910 MW unit in Jaworzno and a 450 MW CCGT unit in Stalowa Wola. The resulting infrastructure uses the latest electricity production technology and environment protection installations, allowing it to meet the most stringent standards.

TAURON Group is also continuing an expansion and modernization of its electricity distribution grid. Thanks to the modern infrastructure, TAURON will provide reliable electricity supply and ability to connect distributed energy sources.

In accordance with the Update of the Strategic Directions that assumes an increase in the share of the low- and zero-emission sources in TAURON Group's generation mix to more than 65% in 2030, TAURON Group's subsidiaries are steadfastly developing projects related to new RES capacities. In 2020, TAURON Group completed the construction of a 5 MW photovoltaic farm on the post-industrial land of the decommissioned coal-fired power plant in Jaworzno. In accordance with the assumptions of the Green Turn of TAURON, by 2025 the Group is planning to have approx. 300 MW in photovoltaic farms and approx. 1100 MW in onshore wind energy. Moreover, TAURON Group's ambition is to use offshore wind, which is a large and inexhaustible resource of clean energy, however, any involvement in this type of infrastructure will depend on public support for such projects and the Group's financial capabilities.

2.2.4. Ability to access and use the natural capital

All aspects of TAURON Group's operations take into account the impact on the local environment, as well as the quality and price of the products and services that it is offering to the customers. TAURON Group's customers are also the beneficiaries of the Group's efforts related to protecting the quality of the natural environment and the way its resources are managed. The Group's great assets include its natural resources that constitute a part of the natural capital that it uses to provide customers with its products and services. Water, land and air are resources that are impacted by TAURON Group's business operations. With these resources in mind every effort is made to reduce this impact. TAURON Group strives to convert 100% of its combustion and mining waste into products.

TAURON Group's coal mining assets play an important role in the value chain. They are its first link, and thanks to the investment projects underway, they are to guarantee the supply of suitable quality coal to TAURON Group's generating units. Currently, the Group is taking steps to transition its energy mix, which is associated with the reduction of the share of conventional energy based on coal in favor of the development of renewable energy sources.

Beside the important role of coal, water is an important natural resource for TAURON Group, as it is, among others, widely used in the electricity production processes. By using closed cooling water circuits at TAURON Group's power plants, the consumption of this resource is limited to the necessary minimum. TAURON Group has also taken steps to recover this resource through mine drainage processes and reuse the water recovered from the mines in its technological processes.

In addition to the conventional coal-fired generating units, TAURON Group also uses dropping water's energy and wind energy to produce electricity. TAURON Group is operating 34 hydroelectric power plants located in the south of Poland and 9 wind farms, located mainly in the northern part of the country.

Solar radiation is also an important natural resource. TAURON PV program is being implemented at TAURON Group, under which further installations will be built, among others on land that has been rehabilitated or requires rehabilitation as a result of long-term industrial activity (mainly at the sites of former power plants or furnace waste landfills).

TAURON Group also has a limestone mine in its asset portfolio, where it acquires, among others, sorbent for flue gas desulphurization at conventional power plants. The raw material obtained is also widely used outside the energy sector - it is used in agriculture, steel making, construction, lime, cement, sugar and road building industries.

In the long term, the impact of TAURON Group's business operations on natural resources will be declining, both due to the need to meet the expected tightening of the environmental standards and climate policy, investments in new, low- and zero-emission energy sources, and due to the permanent shutdown of inefficient conventional units.

2.2.5. Investment and restructuring potential

The Group allocates around PLN 3-4 billion per annum for capital expenditures, most of which are investments in the distribution grids. The detailed data on capital expenditures is presented in section 2.1.1 TAURON Group's financial capital.

In 2020, investments in new generation units were completed: the CCGT unit in Stalowa Wola with a capacity of 450 MW and a 910 MW unit in Jaworzno. As part of the Update of the Strategic Directions, new shutdown schedules for 120 MW and 200 MW units were developed and adopted. As of the end of 2020, all 120 MW units were shut down, except for two units at the Stalowa Wola Branch, whose shutdown date was postponed to February 1, 2021 (970 MW in total). Further units with a total capacity of 2.5 GW will be decommissioned, in the years 2026-2030, mainly the 200 MW units,. At the same time, involvement in the development of offshore wind farms is assumed. Apart from investment projects, TAURON Group is also implementing initiatives aimed at optimizing the Group's costs.

Both in the short and medium as well as long term, TAURON Group is planning to increase its capital expenditures related to a change of its energy mix. Successive tightening of the environmental and pro-climatic requirements, combined with the obsolete generation fleet, provides room for the construction of new generating units in renewable and low-emission technologies, as well as for significant changes to the distribution grids, including the ones related to the development of distributed (dispersed) power generation. TAURON Group will be performing its activities in this respect in accordance with the definition of environmentally sustainable investments, based on the provisions of the European Green Deal.

2.2.6. Personnel and organizational culture

TAURON Group's human resources management model allows for efficient and appropriate use of employees' knowledge and skills. TAURON strives to be a responsible employer and one that is creating an organizational culture that takes into account the expectations of various social groups in the creation and implementation of the business strategy. The TAURON Group's business model is based on three key values: Partnership, Development and Boldness (PRO values), on which the organizational culture has been based.

The defined values of TAURON Group are a recommendation of attitudes and rules of behavior when performing everyday work. Values constitute the basis of the organizational culture and are guideposts on the path to the implementation of the Group's Strategy, as well as in relations with colleagues, customers, partners and the environment (stakeholders). For this reason, one of the Group's priorities is to care for safety and increase the professional potential of the workforce, as well as support the employees in developing career paths. TAURON Group has been recognized by the Polish Association of Human Resources Management and received the Highest HR Quality Certificate. This certificate is awarded to companies that apply the best practices and tools for human capital management.

Generational changes visible on the macro scale have also affected the energy industry. The young generation expects not only stable earnings from the place of employment, but also development opportunities in a modern organization. The generational gap is becoming more and more apparent today and steps are being taken to provide the best possible staff for TAURON Group's subsidiaries in the medium and long term. Due to the workforce age and the need to provide appropriate staff in the medium and long term, a number of activities aimed at acquiring suitable, qualified employees in the future are already carried out, which is taking place, for example, through cooperation with schools and launching of classes under patronage.

Value lever (driver) prospects

Some of TAURON Group's value levers are particularly important in the near term, while others will become more and more important as changes expected in the environment materialize and new challenges appear. Regardless, all value levers are complementary and make up TAURON Capital Group's entire business operations. They complement one another and shape the Group's presence and future. We have no doubt, however, that both today as well as in the near and more distant future, TAURON's most important asset will be the customers. Over time, through changes to the energy model, it is assumed that customers will also become partners and, as prosumers, will use natural resources and shape the image of the future power sector.

In the long run, the key capitals, in addition to the social capital of the customer relations - on which TAURON Group will focus, will be the intellectual capital and the natural capital. The ability to offer innovative solutions, ensuring the development of young employees and respect for the environment, including climate, are the most important success factors that will determine TAURON Group's growth in the future.

The prospects of value levers as well as the significance and impact of the individual elements on TAURON Capital Group is presented in Figure no. 5.

| VALUE LEVER (DRIVER) | VALUE LEVER IMPACT/MATERIALITY | | |
|--|--------------------------------|--------------------|-------------------|
| | Short term outlook | Medum term outlook | Long term outlook |
| Customer centricity | ^ | ^ | ^ |
| New businesses | > | ^ | ^ |
| Modern infrastructure | ^ | ^ | ^ |
| Access to natural resources | ^ | > | > |
| Investment and restructuring potential | ^ | > | ^ |
| Employees and organizational culture | ^ | ^ | ^ |

Figure no. 5. Prospects of value levers as well as the significance and impact of the individual elements on TAURON Capital Group

2.3. TAURON Capital Group's values

2.3.1. Mission, vision

Mission

We deliver state-of-the art solutions with passion and commitment to produce energy in a constantly changing world.

Vision

We are the company that responds best to customer needs in the Polish power sector.

The mission and vision of TAURON Capital Group are derived directly from the profile of its operations the basis of which is the efficient functioning in order to ensure security of energy supply for Poland's residents and companies operating in Poland. In the era of intense changes in the market environment, progressing digitization, social mobility and the negative impact of human activities on the environment and climate, there is a visible change customer expectations. They are becoming more and more active and aware of the quality of services provided, and expect a broad and comprehensive offering as well as modern customer service channels, while the highest standards of environmental protection are maintained and the climate impact is minimized.

Providing modern solutions in a constantly changing world and stable conditions for the development of the offering in line with customer expectations has become not only the basis for creating TAURON Capital Group's strategic directions, but also an expression of our social responsibility, including with respect to the environment and climate.

2.3.2. Corporate values

TAURON Capital Group's corporate values are a signpost on the road to the implementation of the assumptions of the Strategy, as well as in relations with employees, customers, business partners and the other stakeholders.

Values are also symbols and determinants of the Group's organizational culture. It is important for us not only what we are doing, but also the way in which we are achieving the set goals together.

TAURON Capital Group's values are described by the acronym PRO (Partnerstwo (Partnership), Rozwój (Development), Odwaga (Boldness)):

PARTNERSHIP

- We are partners for customers and each other in achieving shared goals.
- We are building lasting relationships - based on trust and mutual respect.
- We are getting involved in what is important to our customers and the Group.

DEVELOPMENT

- We are innovative - we break down barriers, set trends and create change.
- We are constantly developing competences, skills and knowledge.
- We are looking for better and better solutions - we meet the current and future needs of customers, continuously improving the quality of our services.

BOLDNESS

- We talk boldly and openly about problems and the most daring ideas.
- We are determined to implement what we believe in, to achieve shared goals.
- We face the challenges of a changing environment with commitment and passion.

2.3.3. Corporate Social Responsibility Code of Conduct

Since 2017 TAURON Capital Group has been applying the principles of the Corporate Social Responsibility Code of Conduct (hereinafter the Code) - a key document on TAURON Capital Group's ethical culture. This set of principles and values, which is an impulse to create our own organizational culture, serves us as the foundation for the functioning of the organization and the implementation of strategic goals.

The document was based on the mission, vision and corporate values of TAURON Capital Group.

The Code defines the most important values and principles of conduct that should be followed by employees and stakeholders of the Group in the areas related to:

- workplace,
- natural environment,
- stakeholders.

It also describes the Fraud Reporting System in place at TAURON Capital Group.

The adoption of the Code by the Management Board of TAURON Polska Energia on April 4, 2017, was related to the Compliance Management System being developed by the Group. Since then, we have been constantly improving the culture of compliance, understood as a set of specific principles of conduct in compliance with the law, internal and intra-corporate regulations, and ethical standards, which, combined with our values, support the achievement of business goals.

Each employee of TAURON Group - regardless of the type of employment contract, seniority, position or function performed - is obliged to comply with the provisions of TAURON Group's Corporate Social Responsibility Code of Conduct.

Due diligence procedures

Due diligence procedures in place under the Corporate Social Responsibility Code of Conduct include a compliance management reporting system, as well as rules related to counteracting conflict of interest and other irregularities (deficiencies).

After the end of every quarter the Compliance Officer (Power of Attorney) prepares a written report for the Audit Committee with respect to the tasks completed, and after the end of each half-year, he/she draws up a written report for the Supervisory Board of TAURON Polska Energia S.A. with respect to the tasks completed.

In addition, after the end of every calendar year, by January 31, the Compliance Officer (Power of Attorney) prepares a written Compliance Report on the functioning of the Compliance Management System at TAURON Group. The report includes, among others, an assessment of the adequacy and effectiveness of the Compliance Management System adopted in the period covered by the report, the degree of the Compliance Plan implementation, indication of measures taken or proposed in cases of non-compliance or the risk of non-compliance.

Document update

The graphic design of TAURON Group's Corporate Social Responsibility Code of Conduct was updated in 2020, in line with the new Visual Identification System.

Conflict of interest

TAURON Group is operating in a transparent manner, respecting the provisions of law, the provisions of internal and intra-corporate regulations as well as the highest ethical standards, which translates into actions aimed at eliminating situations that may lead to a conflict of interest.

The basis for preventing conflicts of interest at TAURON Group is the principle set out in TAURON Group's Corporate Social Responsibility Code of Conduct, according to which: "We avoid situations that could potentially cause a conflict of interest." A conflict of interest in case of an employee of TAURON Group occurs when, acting in his/her own interest or in the interest of any entity, the employee simultaneously carries out activities against the interest of TAURON Group. We openly communicate (in accordance with the rules in force at TAURON Group in this respect) cases that constitute or may constitute a source of conflict of interest, and we take actions aimed at eliminating the adverse consequences of such situations."

In 2020, the Rules for Counteracting Conflict of Interest at TAURON Group were adopted. Their purpose is to: identify circumstances that constitute a conflict of interest or may cause it, define the rules for preventing, identifying and managing a conflict of interest, and increasing the level of awareness among employees in terms of identifying, avoiding and disclosing a conflict of interest.

In the event of receiving a notification of a conflict of interest, the Compliance Officer conducts a fact finding investigation and also answers employee questions based on specific factual status.

Conflict of interest registers are kept in order to document circumstances or events that may result or result in the emergence of a conflict of interest at the subsidiaries.

In addition, it should be noted that a practical manifestation of counteracting conflicts of interest at TAURON Group is the submission by the members of the tender committees and experts, for the needs of the given purchasing procedure, of statements on not having a legal or factual relationship with a contractor, that could raise reasonable doubts as to their impartiality.

What's more, in accordance with the *Labor Regulations* in force at TAURON Polska Energia S.A., one of the employee's basic obligations is to inform the superior about taking up additional employment, commencing business operations or performing specific jobs (orders), the scope of which may lead to a conflict of interest between him/her and the employer.

Information campaign with respect to counteracting a conflict of interest at TAURON Group

In 2020, after the entry into force of the detailed Rules for counteracting a conflict of interest at TAURON Group, an information campaign was carried out via the internal intranet, the purpose of which was to explain the issue of a conflict of interest to employees of TAURON Group's subsidiaries in an understandable manner.

As part of the information campaign, mailing was sent to employees, a message was published and a dedicated tab was created on the intranet. Additionally, the information was published on the official website www.tauron.pl.

Actions taken and results obtained

The year 2020 was characterized by a further growth with respect to building a comprehensive Compliance Management System at TAURON Group. The current epidemiological situation in connection with the SARS-COV-2 virus had a significant impact on the tasks performed. Some of the tasks planned to be performed according to TAURON Group's Compliance Plan for 2020 had to be adapted to the changing environment or postponed to be implemented at another time. The above mentioned the situation had an impact, in particular, on the tasks that required in person meetings with employees, such as training sessions or conducting investigative (fact finding) proceedings. Due to the restrictions on gatherings in place, the role of online media has increased significantly (e.g. Skype, Teams). The tasks performed so far in the classic form have been almost completely replaced by the electronic form. For this purpose, among others, electronic registers (e.g. database of credibility ratings) have been developed.

Due to an increase in the efficiency of the work performed, the above mentioned changes should be viewed as positive.

One of the main tasks of the Compliance Officer and Compliance Coordinators at TAURON Capital Group is to periodically organize and conduct training courses on compliance issues. The above activities are aimed at increasing employee awareness with respect to, among others, preventing fraud, reporting irregularities, rules on accepting and giving gifts, procedures for verifying contractors preventing conflict of interest.

Due to the prevailing pandemic, in addition to e-learning training, TAURON Capital Group conducted a number of online meetings and training sessions in 2020, with approx. 5 300 employees taking part therein.

129 messages related to the operations of TAURON Group's Compliance Area were sent in 2020, via the Group's intranet and mailing sent to the employees, regarding, e.g. the introduction of the Procedure for counteracting money laundering and financing of terrorism at TAURON Group, the introduction of the intra-corporate regulation on counteracting conflict of interest at TAURON Group, the adoption and application of the Rules of conduct during inspections (audits) at TAURON Group and the invitations to this year's Virtual Compliance Day

It should be mentioned that two e-learning training courses on compliance issues have been posted on the e-learning platform dedicated for TAURON Group's personnel, i.e.:

1. training on TAURON Group's Corporate Social Responsibility Code of Conduct,
2. training on TAURON Group's Compliance Management System, covering the following topics:
 - verification of contractors - presentation why the issue of verification of contractors is so important for the security of the Group and when to apply for an assessment of the contractor's credibility,
 - evaluation of external entities when organizing joint undertakings - presentation of the procedure for establishing cooperation with an external entity with respect to, for example, promotion or sponsorship and to whom the application for an external entity evaluation should be submitted,
 - reporting irregularities - presenting the available channels for reporting fraud at TAURON Capital Group and building awareness regarding warning signals about the possibility of a potential fraud being committed,
 - rules on accepting and giving gifts - building awareness about the type of gifts that can be received or given and defining the conditions in which their acceptance or giving is unacceptable,
 - counteracting corruption - showing what corrupt activities and unethical behaviors are, and who TAURON Group's Anti-Corruption Policy is applicable to.

76.16% of employees with access to the e-learning platform were trained on the Corporate Social Responsibility Code of Conduct at TAURON Group as of December 31, 2020, and 75.97% of eligible persons completed the training with a positive result.

79.69% of employees with access to the e-learning platform were trained on the Compliance Management System at TAURON Group as of December 31, 2020. 79.25% of eligible persons completed the training with a positive result.

Virtual Compliance Day 2020

On November 30, 2020, the second edition of the Compliance Day took place at TAURON Polska Energia, this time conducted online. The purpose of this undertaking was to promote knowledge among TAURON Group employees with respect to compliance management.

As part of Virtual Compliance Day 2020, 5 training sessions on the subject of compliance, mobbing and counteracting money laundering and terrorist financing were conducted. In total, 550 employees of TAURON Group's subsidiaries were trained.

As part of the event, 5 panel sessions on specific topics were carried out:

1. "Integrity and changes to the rules of liability of members of corporate authorities (officers) following the amendment to the Code of Commercial Companies" – the panel was dedicated for the Members of the Management Boards of TAURON Group's subsidiaries,
2. "Mobbing – the legal and psychological aspects" – the panel was dedicated for the Members of the Ethics Committee of TAURON Group and the personnel of TPE S.A. Human Resources Area,
3. "News from the compliance industry. Integrated implementation of ISO 37301 (Compliance), 37001 (Anti-Bribery) and 37002 (Whistleblowing) standards in response to the need for a holistic approach to compliance management" - the panel dedicated to TAURON Group's Compliance Coordinators,
4. "Get to know Compliance at TAURON Group ... and find out what we do?" - the panel dedicated for the employees hired by TAURON Group in 2020 as well as for all interested parties.
5. "AML vs. the obligations of TAURON Group's Subsidiaries" - the panel dedicated for the personnel of CUW - R TAURON Obsługa Klienta sp. o.o. and TAURON Ubezpieczenia sp. z o.o.

2.4. TAURON Group's Business Model

TAURON Group's business operations aimed at implementing its mission and vision based on its values and the Corporate Social Responsibility Code of Conduct are conducted based on seven Lines of Business, defined in accordance with the Group's value chain links: Mining, Generation, Heat, Renewable Energy Sources (RES), Trading, Distribution and Supply. Within the structure of TAURON Group, which is a vertically integrated enterprise, the Distribution System Operator (hereinafter DSO) is functioning in the Distribution Line of Business. The Business and Operating Model has been developed taking into account the requirements related to unbundling (i.e. separating the electricity distribution operations from the operations with respect to electricity production and supply of such electricity to the final consumers), set out in the Compliance Program and the generally applicable legal regulations, taking into account the DSO's legal, functional and organizational separation within the structure of TAURON Group.

Additionally, there are other subsidiaries operating as part of the Group, whose operations are focused on providing support services for the Group's other subsidiaries, such as, for example, accounting and human resources services, IT services, security services, insurance services. Customer service is provided by one of the Group's subsidiaries for the Supply Line of Business and, taking into account the independence of the DSO and other unbundling rules, for the Distribution Line of Business.

TAURON Group's business model is presented in figure no. 6.

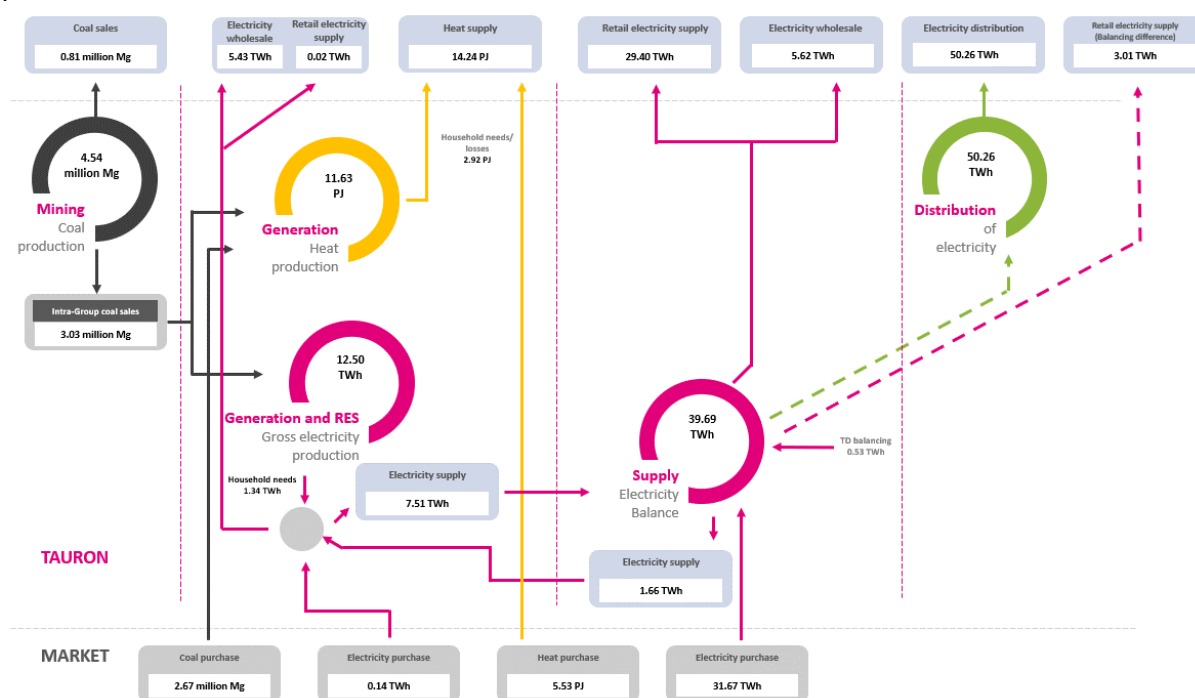


Figure no. 6. TAURON Group's business model in 2020

Mining

It comprises mainly hard coal mining, processing and sales to the utility scale power plants, heating industry and individual customers. Apart from hard coal mining, other mining operations are also conducted, involving open pit extraction of limestone, as well as its processing and sales within the Group and outside the Group.

The operations of this Line of Business are conducted by the following subsidiaries: TAURON Wydobycie S.A., Kopalnia Wapienia "Czatkowice" sp. z o.o. and Spółka Usług Górniczych sp. z o.o.

The current structure of TAURON Wydobycie S.A. is based on the model composed of the Center (Centrum), with its seat in Jaworzno, and three production plants (coal mines): Zakład Górniczy Sobieski (Sobieski Coal Mine) in Jaworzno, Zakład Górniczy Janina (Janina Coal Mine) in Libiąż and Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine) in Brzeszcze. The Center's operations include, among other, shared functions management, planning and sales. The production facilities are mainly dealing with hard coal mining and processing. This Line of Business also includes a subsidiary that provides mining works services – Spółka Usług Górniczych sp. z o.o.

Kopalnia Wapienia "Czatkowice" sp. z o.o. is an open pit mine, extracting high quality carbonate limestone deposits, located in the Krzeszowice municipality.

The limestone from the Czatkowice deposit is used in the power generation, steel making, construction, lime, cement, sugar, road building industries, as well as in agriculture.

Generation

It comprises electricity generation using conventional sources and renewable energy sources, including the biomass burning process. The operations are conducted by TAURON Wytwarzanie S.A. subsidiaries and Nowe Jaworzno Grupa TAURON sp. z o.o., the company responsible for the construction and operation of the new power generation unit in Jaworzno with the capacity of 910 MW. Electricity generation by the conventional units is carried out by 6 power plants with the total capacity of approx. 5.2 GWe and 1.3 GWt and by two biomass-fired generating units with the total capacity of 105 MWe. The total capacity of approx. 5.2 GWe is made up of 5.1 GWe in coal fired units and 0.1 GWe in biomass units. The power plants are located in the following cities: Łaziska Górne, Będzin, Trzebinia, Stalowa Wola and Jaworzno. This Line of Business also includes the TAURON Serwis sp. z o.o. subsidiary that provides technical maintenance (support) services. In addition, a project to build a 5 MW photovoltaic farm was completed in 2020, built on the site of a former coal-fired power plant.

Heat

It comprises heat generation, transmission and distribution as well as supply, using co-generation sources. Heat generation is carried out by 4 combined heat and power plants, with the total capacity of approx. 0.35 GWe and 1,2 GWt, located in the following cities: Katowice, Tychy and Bielsko-Biała, as well as by local boiler houses. The generating units are using hard coal and biomass for their production. The heat operations are conducted by TAURON Ciepło sp. z o.o. and SCE Jaworzno III sp. z o.o. subsidiaries, that are, in total, operating approx. 1 180 km of the distribution heating networks on the territory of, among others, Bielsko-Biała, Czechowice-Dziedzice, Katowice, Dąbrowa Górnicza, Sosnowiec, Chorzów, Siemianowice Śląskie, Jaworzno, Zawiercie and Mysłowice, with 888 km of TAURON Ciepło's own networks, and 121 km of SCE Jaworzno III's networks.

Renewable Energy Sources

It comprises electricity generation using renewable energy sources, except for biomass burning, which, according to the Business Model, is carried out within the Generation and Heat Lines of Business. Electricity production from biomass is also classified as renewable energy at TAURON Group.

This line of business is managing 34 hydroelectric power plants with the total capacity of 133 MW, located primarily in the south of Poland, and 9 wind based power plants with the total capacity of 381 MW, located primarily in the north of Poland. The segment's operations are conducted by TAURON Ekoenergia sp. z o.o., TAURON Ekoserwis sp. z o.o. subsidiaries and the group of special purpose vehicles set up to manage the RES assets.

Distribution

It comprises electricity distribution using the distribution grid located in the south of Poland. TAURON Capital Group distributes electricity on the territory of the following regions: Małopolska, Lower Silesia, Opole and Silesia, and partly also Świętokrzyskie, Podkarpackie, Łódzkie, Wielkopolska and Lubuskie.

The operations are conducted by TAURON Dystrybucja S.A. subsidiary that performs the function of the DSO, including guaranteeing independence and compliance with the unbundling requirements.

The operational functions (activities) are carried out by 11 branches located in Będzin, Bielsko-Biała, Częstochowa, Gliwice, Jelenia Góra, Cracow, Legnica, Opole, Tarnów, Wałbrzych and Wrocław. The operations of TAURON Dystrybucja are supported by the TAURON Dystrybucja Pomiary sp. z o.o. subsidiary.

Trading

It comprises electricity wholesale trading, as well as trading and management of the CO₂ emission allowances and property rights arising from the certificates of origin of electricity, as well as fuels.

Such operations are conducted by TAURON Polska Energia S.A. and TAURON Czech Energy s.r.o. subsidiaries. The Trading Line of Business also includes the procurement of biomass, as well as the utilization of the mining and burning by-products carried out by Bioeko Grupa TAURON sp. z o.o. subsidiary.

Supply

It comprises the supply of electricity and natural gas, as well as related products, to the final consumers. The operations are conducted by TAURON Sprzedaż sp. z o.o. and TAURON Sprzedaż GZE sp. z o.o. subsidiaries.

The supply operations are conducted nationwide and, on a smaller scale, on the Czech and Slovak markets. This Line of Business also includes services related to street lighting, as well as energy efficiency and smart technologies services carried out primarily by TAURON Nowe Technologie S.A. subsidiary. The company is managing approx. 745 thousand street lamps.

The other operations are a part of a separate line of business called Shared Services Centers. It includes such services, provided for TAURON Group's subsidiaries as, among others, accounting and human resources services, as well as IT services, carried out by TAURON Obsługa Klienta sp. z o.o. subsidiary, managing insurance policies for all of the Group's subsidiaries – TAURON Ubezpieczenia sp. z o.o. subsidiary, security and order keeping services – Wsparcie Grupa TAURON sp. z o.o. subsidiary. The goal of such a division of competences is to relieve the Lines of Business from the obligation to carry out the processes that are not directly associated with their core business operations (non-core operations related processes), and also to reduce the costs of performing such processes thanks to the economies of scale and the improvement of operational efficiency. As part of the operations of TAURON Obsługa Klienta sp. z o.o., customer service is also provided for the TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. subsidiaries and, taking into account the independence of the DSO and compliance with other unbundling rules, for TAURON Dystrybucja S.A.

Figure no. 7 presents the structure of TAURON Capital Group's Line of Business.

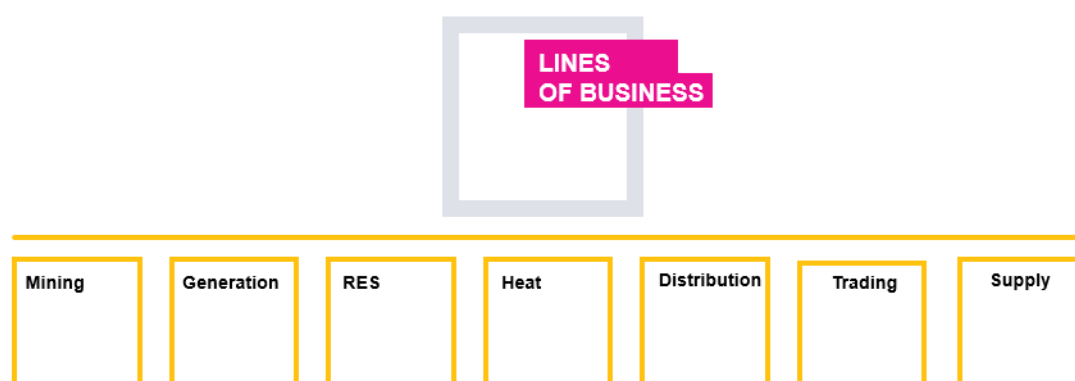


Figure no. 7. TAURON Capital Group's Lines of Business in 2020

2.5. Principles of TAURON Polska Energia S.A.'s management

In accordance with the provisions of the By-laws of the Management Board of TAURON Polska Energia S. A., the Management Board conducts the affairs of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by the legal regulations and the provisions of the Articles of Association of TAURON Polska Energia S.A. to the competence of the General Meeting or the Supervisory Board shall be within the competence of the Company's Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for making statements on behalf of the Company.

In accordance with the Organizational Regulations of TAURON Polska Energia S.A., the Company is managed directly by the Management Board of the Company, as well as through proxies (power of attorneys), Executive Directors or persons holding other positions reporting directly to the Members of the Management Board.

The Company carries out its tasks through:

1. separate organizational units (business units):

- Business areas, comprising independent work positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by members of the Company's Management Board directly,
- Teams, constituting organizational units (business units) reporting to the Executive Directors. The activities of the team are managed by the Team Leader (Manager).

2. independent work positions:

- Executive Directors who manage and lead the work of the subordinate Teams or independent work positions constituting the given business area of the Company,

- other independent work positions that may be entrusted to, in particular, Power of Attorneys, Inspectors, Spokespersons,

3. temporary organizations – Project Teams set up with the goal to implement tasks and projects of the Company.

2.5.1. Management Board of TAURON Polska Energia S.A.

The current sixth term of office of the Management Board of TAURON Polska Energia S.A. began its run on July 15, 2020.

The Supervisory Board of TAURON Polska Energia S.A. dismissed all Members of the Management Board of TAURON Polska Energia S.A. of the 5th joint term of office, on July 14, 2020, effective as of the end of the day and appointed, as of July 15, 2020, the Members of the Management Board of TAURON Polska Energia S.A. of the 6th joint term.

In accordance with the Articles of Association of TAURON Polska Energia S.A. the common term of office shall last 3 years.

The composition of the Management Board of TAURON Polska Energia S.A. as of December 31, 2020 is as follows:

1. Wojciech Ignacok - President of the Management Board,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management,
3. Marek Wadowski - Vice President of the Management Board for Finance.

The composition of the Management Board TAURON Polska Energia S.A. as of the day of drawing up this Report is as follows:

1. Marek Wadowski - acting as the President of the Management Board / Vice President of the Management Board for Finance,
2. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The changes to the composition of the Management Board of TAURON Polska Energia S.A. that took place in 2020 and by the day of drawing up this Report, as well as the descriptions of the experience and competences of the Members of the Management Board of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

Competence and description of the procedures of the Management Board of TAURON Polska Energia S.A.

Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Articles of Association of TAURON Polska Energia S.A., to the competence of the General Meeting of Shareholders or the Supervisory Board, shall be within the competence of the Company's Management Board.

The competences of the Management Board of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

The Management Board of TAURON Polska Energia S.A. is acting pursuant to the Code of Commercial Companies and other legal regulations, the provisions of the Articles of Association of TAURON Polska Energia S.A. and the provisions of the By-laws of the Management Board of TAURON Polska Energia S.A., which is available on the website of TAURON Polska Energia S.A.: <http://www.tauron.pl>. When performing their duties the members of the Management Board of TAURON Polska Energia S.A. are acting in accordance with the principles provided in the Best Practice of WSE Listed Companies 2016.

Two members of the Management Board or one member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of TAURON Polska Energia S.A. In case the Management Board includes one person, one member of the Management Board or a proxy shall be entitled to make valid statements on behalf of TAURON Polska Energia S.A.

Meetings of the Management Board of TAURON Polska Energia S.A. are convened by the President of the Management Board or a Vice President of the Management Board designated by the President of the Management Board. Meetings of the Management Board are also convened at the request of the majority of Vice Presidents of the Management Board, as well as the Chairperson of the Supervisory Board. Meetings are held at the Company's headquarters, on the date set by the person that convened the meeting. In justified cases, meetings of the Management Board may take place outside the registered office of the Company. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair meetings of the Management Board.

The Management Board votes in an open ballot. The result of the ballot is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot at the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the members of the Management Board. In the event of an equal number of votes (a tie), the President of the Management Board has the casting vote. The Management Board may pass resolutions by voting in writing or using means of direct remote communications. Voting in accordance with the above mentioned procedures is ordered by the President of the Management Board or a member of the Management Board designated by the President of the Management Board, along with the setting of the deadline for casting votes by members of the Management Board. A dissenting opinion may be submitted. Such dissenting opinion is recorded in the minutes of the meeting including the justification thereof. The decisions of the Management Board related to ongoing issues that do not require passing of a resolution are recorded solely in the minutes of the meeting.

In accordance with the Articles of Association of TAURON Polska Energia S.A., all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Management Board of TAURON Polska Energia S.A.

The internal split, among members of the Management Board of TAURON Polska Energia S.A., of the tasks and responsibilities for the Company's individual lines of business, as defined in the Organizational Regulations of TAURON Polska Energia S.A. and covering independent work positions and organizational (business) units reporting directly to the Executive Directors whose work is managed (supervised) by the Members of the Management Board, is defined in the Resolution of the Company's Management Board no. 351/VI/2020 of November 3, 2020, on the assignment of the Company's individual lines of business and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A. which replaced the Resolution of the Company's Management Board no. 397/V/2019 of November 13, 2019 on the assignment of the Company's individual lines of business and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A.

The structure of the lines of business of TAURON Polska Energia S.A. reporting to the individual members of the Management Board of TAURON Polska Energia S.A. is defined in the diagram presenting the split of responsibilities of the members of the Management Board of TAURON Polska Energia S.A., discussed in section 2.8 of this Report and published on the Company's website: <https://www.tauron.pl>.

Rules on appointing and dismissing Members of the Management Board of TAURON Polska Energia S.A.

The Management Board of TAURON Polska Energia S.A. shall be composed of 1 to 6 persons, including the President and Vice Presidents. Members of the Management Board shall be appointed and dismissed by the Supervisory Board of TAURON Polska Energia S.A. for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. In accordance with the Articles of Association of TAURON Polska Energia S.A., each of the Members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

In order to recruit a person with whom an agreement on providing the management services at TAURON Polska Energia S.A., the Company's Supervisory Board announces a competition and conducts a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a member of the Company's Management Board must meet the requirements set forth in § 16, clauses 3 and 4 of the Articles of Association of TAURON Polska Energia S.A. The announcement of the qualification process is published on the Company's web site at the address: <https://www.tauron.pl>. and in the Public Information Bulletin of the Minister competent to exercise the rights related to the State Treasury's shares. The Company notifies the shareholders of the results of the qualification procedure.

2.5.2. Supervisory Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Supervisory Board, began its run on July 15, 2020, i.e. on the date of holding the Ordinary General Meeting of TAURON Polska Energia S.A. approving the financial statements for the last full financial year of the tenure of the members of the Supervisory Board of the fifth term, i.e. for the financial year 2019. In accordance with the Company's Articles of Association it is a common term of office and it lasts 3 years.

In accordance with the *Articles of Association of TAURON Polska Energia S.A.* it is a common term of office and it shall last 3 years.

The composition of the Supervisory Board of TAURON Polska Energia S.A. as of December 31, 2020 is as follows:

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,

4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board,
6. Barbara Piontek - Member of the Supervisory Board.

The composition of the Supervisory Board TAURON Polska Energia S.A. as of the day of drawing up this Report is as follows

1. Andrzej Kania - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Ryszard Madziar - Member of the Supervisory Board,
5. Grzegorz Peczkis - Member of the Supervisory Board

The changes to the composition of the Supervisory Board of TAURON Polska Energia S.A. that took place in 2020, as well as the descriptions of the experience and competences of the Members of the Supervisory Board of TAURON Polska Energia S.A are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

Competence and description of the procedures of the Supervisory Board of TAURON Polska Energia S.A.

Supervisory Board shall perform continuous oversight over the Company's activities in all areas of its operations.

The competences of the Supervisory Board of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

The Company's Management Board of TAURON Polska Energia S.A. is acting pursuant to the Code of Commercial Companies and other legal regulations, the provisions of the Articles of Association of TAURON Polska Energia S.A. and the provisions of the By-laws of the Supervisory Board of TAURON Polska Energia S.A., which is available on the website of TAURON Polska Energia S.A.: <http://www.tauron.pl>. When performing their duties the members of the Supervisory Board of TAURON Polska Energia S.A. are acting in accordance with the principles provided in the Best Practice of WSE Listed Companies 2016.

The main form of the Supervisory Board of TAURON Polska Energia S.A. overseeing the Company's operations are the meetings of the Supervisory Board. The Supervisory Board is performing its duties collectively. The meetings of the Supervisory Board of TAURON Polska Energia S.A. shall be convened by the Chairperson of the Supervisory Board or a Vice Chairperson of the Supervisory Board, presenting the detailed agenda:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a written request of each member of the Supervisory Board,
4. at a written request of the Management Board.

The meetings of the Supervisory Board of TAURON Polska Energia S.A. are held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all members of the Company's Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. Notifications of the Company's Supervisory Board's meeting shall be sent by fax or electronic mail. In the notification of the Company's Supervisory Board's meeting the Chairperson shall define the date of the meeting, venue of the meeting and the detailed draft agenda. The Company's Supervisory Board shall meet on as needed basis, however not less frequently than once every 2 months. Supervisory Board may hold meetings without convening a formal meeting if all members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may occur when all members of the Company's Supervisory Board are present at the meeting and no one raises an objection against the agenda. An issue not included in the agenda should be included in the agenda of the next meeting.

Participation in a meeting of the Supervisory Board shall be a Supervisory Board member's duty. A member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a member of the Supervisory Board shall require a resolution of the Supervisory Board. Members of the company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

Supervisory Board may seek opinions of legal counsels who provide regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to seek their opinion and make the right decision. In the above mentioned cases the Supervisory Board shall pass a resolution on commissioning the selected expert to carry out the work, obligating the Company's Management Board to conclude an applicable agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence by the Vice Chairperson. For important reasons, with the consent of the majority of members of the Supervisory Board present at the meeting, the chairperson chairing the meeting shall be obligated to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Company's Supervisory Board. Supervisory Board shall make decisions in the form of resolutions. Supervisory Board's resolutions shall be passed mainly at its meetings. Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all of its members have been invited in the appropriate way defined in the By-laws of the Supervisory Board of TAURON Polska Energia S.A. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the Articles of Association of TAURON Polska Energia S.A., the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all members of the Supervisory Board are present and nobody raises an objection. This shall not apply to resolutions on excusing a Supervisory Board's member's absence at the meeting. Resolutions shall be voted on in an open ballot. A secret ballot shall be ordered:

- at the request of at least one member of the Supervisory Board,
- in personnel related matters.

In accordance with the Articles of Association of Polska Energia S.A., the Supervisory Board may pass resolutions in writing or using means of direct remote communications. Passing a resolution in such way shall require a prior notification of all members of the Supervisory Board of the content of the draft resolution and the participation of at least half of the members of the Supervisory Board in passing the resolution. The Supervisory Board may pass resolutions this way in personnel related matters as well as in other matters the resolutions of which require a secret ballot vote, unless none of the Members of the Company's Supervisory Board raises an objection. When voting on a resolution in the aforementioned way a member of the Company's Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution, with a note that it has been passed in writing or by voting using means of direct remote communications, shall be signed by the Chairperson of the Supervisory Board. Resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

Members of the Company's Supervisory Board may take part in a meeting of the Company's Supervisory Board using means of direct remote communications, i.e. a conference call or a video conference. In case Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using means of direct remote communications, resolutions shall be passed if at least half of the Members of the Company's Supervisory Board members take part in the vote,

Members of the Supervisory Board shall take part in meetings and exercise their rights and responsibilities in person, and while performing their duties they shall be obliged to act with due diligence. Members of the Supervisory Board shall be obliged to keep confidential information related to the Company's activities that they have acquired in connection with performing their duty or on another occasion.

Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision actions on their own for a defined period of time. Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform duties of members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Supervisory Board, submitted on annual basis to the General Meeting of Shareholders and published on the Company's website at the address: <http://www.tauron.pl>.

The Supervisory Board of TAURON Polska Energia S.A. may appoint from among its members permanent or temporary (ad-hoc) working groups, committees to perform specific actions. The standing committees of the Supervisory Board of TAURON Polska Energia S.A. shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.,
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.,
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.

The composition, tasks and principles of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

The information the composition of the committees of the Supervisory Board of TAURON Polska Energia S.A. and the changes thereof that took place in 2020, as well as the descriptions of their competences and activities are provided in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

Rules on appointing and dismissing Members of the Supervisory Board of TAURON Polska Energia S.A.

Supervisory Board shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association of TAURON Polska Energia S.A., the Members of the Supervisory Board of TAURON Polska Energia S.A. shall be appointed and dismissed by the General Meeting of Shareholders, subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10, clause 5 of the Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise at least 25% of the total votes in the Company, the State Treasury shall be entitled to appoint and dismiss members of the Company's Supervisory Board in the number equal to half of the maximum number of members of the Company's Supervisory Board defined in the Articles of Association of TAURON Polska Energia S.A. (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:
 - 1) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of members of the Company's Supervisory Board that would correspond to the maximum number of members of the Company's Supervisory Board defined in the Articles of Association of TAURON Polska Energia S.A. in case such a motion is submitted to the Company's Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
 - 2) shall be excluded from the right to vote at the General Meeting of Shareholders on appointing and dismissing the other Members of the Company's Supervisory Board, including the independent Members of the Company's Supervisory Board; this shall not, however, apply to the case when the Company's Supervisory Board cannot act due to its membership being smaller than required by the Articles of Association of TAURON Polska Energia S.A., and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Company's Supervisory Board in accordance with the distribution of seats in the Supervisory Board defined in this section,
2. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10, clause 5 of the Articles of Association of TAURON Polska Energia S.A., hold a number of the company's shares that entitle them to exercise less than 25% of the total number of votes in the Company, the State Treasury, represented by the minister competent to exercise the rights related to the State Treasury's shares, shall be entitled to appoint and dismiss one member of the Company's Supervisory Board,
3. appointing and dismissing members of the Company's Supervisory Board by the State Treasury pursuant to the above mentioned clause 1 or 2 shall take place by means of a statement submitted to the Company.

In accordance with the Best Practice of WSE Listed Companies 2016 at least two members of the Company's Supervisory Board should meet the criteria of independence. A phrase an "independent member of the Supervisory Board" shall denote an independent member of the Supervisory Board within the meaning of Appendix II to the European Commission's Recommendation of February 15, 2005, related to the role of non-executive directors or members of a supervisory board of publicly listed companies and supervisory board's committees (2005/162/EC) and the additional criteria indicated in the Best Practice of WSE Listed Companies 2016.

In accordance with the Best Practice of WSE Listed Companies 2016 at least two members of the Supervisory Board of TAURON Polska Energia S.A. meet the criteria of independence within the meaning of the above mentioned Recommendation.

Members of the Supervisory Board of TAURON Polska Energia S.A. shall submit to the Company, prior to their appointment as members of the Supervisory Board, a written statement on compliance with the independence criteria mentioned in the Best Practice of WSE Listed Companies 2016. In case a situation occurs where the independence criteria are not complied with a member of the Supervisory Board shall be obligated to inform the Company promptly thereof.

Information on the fulfillment by the Members of the Supervisory Board of TAURON Polska Energia S.A. the independence criteria specified in the above-mentioned Recommendation and in the Best Practice of WSE Listed Companies 2016 is posted on the Company's website at: <https://www.tauron.pl>, and is presented in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

2.5.3. General Meeting of TAURON Polska Energia S.A.

Competence and description of the procedures of the Supervisory Board of TAURON Polska Energia S.A.

The procedures and empowerments of the General Meeting of TAURON Polska Energia S.A. are defined in the Articles of Association of TAURON Polska Energia S.A. and in the Regulations of the General Meeting of Shareholders of TAURON Polska Energia S.A. which are available on the website of TAURON Polska Energia S.A. at the address: <http://www.tauron.pl/>.

The competences of the General Meeting of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

General Meeting of Shareholders shall be convened by a notice published on the website of TAURON Polska Energia S.A. at the address: <http://www.tauron.pl/>, and in a manner defined for providing the current information by public companies. In case the General Meeting is convened by an entity or a body other than the Management Board on the basis of the regulations of the Code of Commercial Companies, as convening a General Meeting of Shareholders requires the Management Board's cooperation, the Management Board shall be obligated to perform any activities defined by law in order to convene, organize and conduct a General Meeting of Shareholders that take place either at the Company's registered office or in Warsaw.

General Meeting of Shareholders shall be opened by the Chairperson of the Supervisory Board of TAURON Polska Energia S.A., and in case he/she is absent the following persons shall be entitled to open the General Meeting of Shareholders in the given order: Vice Chairperson of the Company's Supervisory Board, President of the Company's Management Board, a person designated by the Company's Management Board or a shareholder who registered at the General Meeting of Shareholders such a number of shares that entitle him/her to exercise the highest number of votes. Subsequently, the chairperson of the General Meeting of Shareholders shall be elected from among the persons entitled to participate in the General Meeting of Shareholders.

General Meeting of Shareholders shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Articles of Association of TAURON Polska Energia S.A. state otherwise. General Meeting of Shareholders may order a break in the meeting by the majority of two thirds of the votes. Breaks shall not exceed 30 days in total.

A break in the General Meeting's session may take place only in exceptional situations indicated each time in the justification of the resolution, prepared based on the reasons presented by a shareholder requesting the ordering of a break.

The resolution of the General Meeting on ordering a break shall clearly indicate the date of the session's resumption, however, such a date shall not create a barrier for the participation of the majority of shareholders in the resumed meeting, including the minority shareholders.

Description of the shareholders' rights and the way they are exercised

The description of the shareholders' rights and the way they are exercised is provided in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

2.5.4. Description of the principles applied to amend the Articles of Association of TAURON Polska Energia S.A.

Amendments to the Articles of Association of TAURON Polska Energia S.A. are made in accordance with the provisions of the Code of Commercial Companies, in particular: an amendment to the Articles of Association of TAURON Polska Energia S.A. takes place by way of a resolution of the General Meeting, passed by the majority of three fourths of the votes, and then requires issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Articles of Association of TAURON Polska Energia S.A., including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by way of a resolution.

In accordance with the Articles of Association of TAURON Polska Energia S.A., a material change to the subject of the operations of TAURON Polska Energia S.A. requires two thirds of the votes in the presence of persons representing at least half of the share capital.

2.6. Principles of TAURON Group's management

The management of TAURON Group is carried out based on two internal documents: the Code of the Group and TAURON Group's Business and Operational Model.

2.6.1. Code of TAURON Group

The management of TAURON Group is based on the leading role of the corporate center, i.e. the parent company - TAURON Polska Energia S.A., which manages the subsidiaries that are a part of the Lines of Business and the shared service centers. The relations with respect to making decisions are regulated by the Code of the Group, which is the core regulatory act of TAURON Group. The Code of the Group regulates its operations, ensuring the accomplishment of the goals through tailored solutions with respect to the management of TAURON Group's entities, including, enabling achieving of the effects assumed in the Strategy.

2.6.2. TAURON Group Business and Operational Model document assumptions

TAURON Group's Business and Operational Model in force in 2020 was adopted by the Company's Management Board on January 23, 2018. In recent years, changes taking place in the external and internal environment of TAURON Group resulted in the need to undertake works on updating the document in order to take into account the changes that have occurred. The result of the review completed is the adoption by the Management Board of the Company on February 23, 2021 of the updated Business and Operating Model of TAURON Group.

This document defines the high-level architecture of processes, as well as the functions and tasks of the Corporate Center, Lines of Business and other units. Moreover, in order to provide flexibility, resilience and adaptation of TAURON Group to the changes in the environment, in particular those resulting from climate change, the current Business and Operational Model of TAURON Group takes into account the role of ESG (Environmental, Social Responsibility, Corporate Governance) as an increasingly important tool of the communication with the environment (stakeholders). The Business and Operational Model was developed taking into account the requirements related to the unbundling.

The foundations of the Business and Operational Model include:

- building the value of TAURON Group as a whole (priority of the economic interest of the Group, which does not always have to coincide with the economic interest of individual subsidiaries or Lines of Business),
- environment protection and adaptation to the challenges stemming from climate change,
- focus on customers (internal and external),
- adhering to the Group's values (PRO values),
- accelerating and simplifying the decision making processes,
- taking advantage of TAURON Group's personnel knowledge and qualifications.

To ensure efficient management, the division of the roles and responsibilities was implemented in accordance with the business model (described in sub-chapter 2.4) in force, based on assigning process competences to the Corporate Center, the Lines of Business and the Shared Services Centers. This division is presented in figure no. 8.

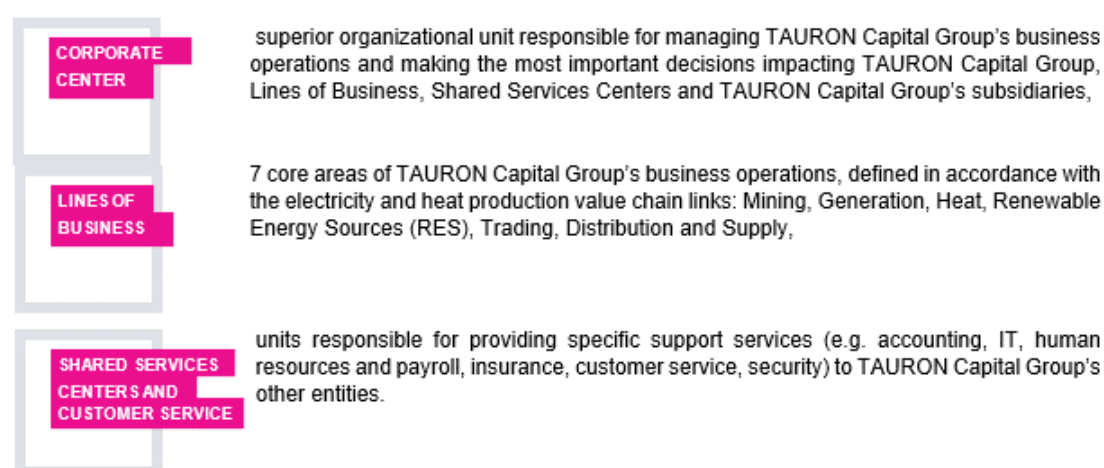


Figure no. 8. The division of obligations (duties) and responsibilities under TAURON Capital Group's business model in 2020

2.7. TAURON Capital Group's organization

TAURON Capital Group's organization, that implements the Group's business model described in sub-chapter 2.4, should be viewed according to three aspects:

- process (business) related aspect – based on the process structure that clearly defines responsibilities and how processes are implemented. The advantages stemming from the way key business processes are conducted build value and impact the competitive position of TAURON Group,
- line of business related aspect – related to the profile of the operations conducted and the place within the Group's value chain,
- equity related aspect – the structure of the formal and legal domination of the Group's subsidiaries.

2.7.1. Process based organization

The regulations implemented in 2018, along with the Business Model, introduced the management by processes within TAURON Capital Group. During the 2020 works on the update of the Business and Operational Model, the functions and tasks performed as part of process management were reviewed.

The process documentation describes the split of competences and recurring actions performed, operational processes, including the descriptions of exchanged products and services. Processes are the superior organization in relation to the organizational structure of the individual subsidiaries and run horizontally across entire TAURON Group.

Based on the main products, TAURON Capital Group's processes were divided into three groups: management, operational and support processes.

The chart presented in figure no. 9 presents mega-processes identified at TAURON Group (the highest process level).



Figure no. 9. TAURON Capital Group's mega-processes in 2020

The owners of the mega-processes (the highest process level) are the indicated TAURON Polska Energia S.A. directors. The process documentation (maps, diagrams and process sheets) defines and describes decision making powers (competences) and actions to be undertaken by the individual organizational units within TAURON Capital Group's various companies. The owners of the mega-processes decompose these into lower level processes and appoint their owners. Each process has its owner and process metrics defined by the higher level process owner. The process documentation defines the course of action (interdependencies) and decision competences for the recurring processes.

The goal of the process based management model implemented was to benefit from the operating synergies among TAURON Capital Group's various companies, share and use best practices, standardize and automate processes, and also to ensure coherence of actions taken within TAURON Capital Group's subsidiaries to support the implementation of the Strategy.

The essence of the management by processes lies in the continuous search for and implementation of efficiencies along with the clear and transparent division of competences and responsibilities. Processes are modified accordingly to improve their efficiencies. The process documentation is published in the intranet and available to all employees of the Group.

The competences and process interdependencies described in the process documentation supplement the competences stemming from the organizational structure of the individual subsidiaries and support the operations of the Group's subsidiaries as a single entity.

2.7.2. Organization by Lines of Business

TAURON Capital Group's operations are implemented, as described in the sub-chapter on the Business model, based on seven Lines of Business (Mining, Generation, Heat, Renewable Energy Sources (RES), Trading, Distribution and Supply).

A Line of Business is a company, several companies or a separate part of a company owned by TAURON Group, responsible for the implementation of specific tasks related to the Group's core business. Lines of Business are responsible for implementing the core processes and support at the Line of Business level and they participate in management processes and support processes implemented at the Group level. They are presented, including the assignment of the individual subsidiaries of TAURON Group thereto, in figure no. 10.

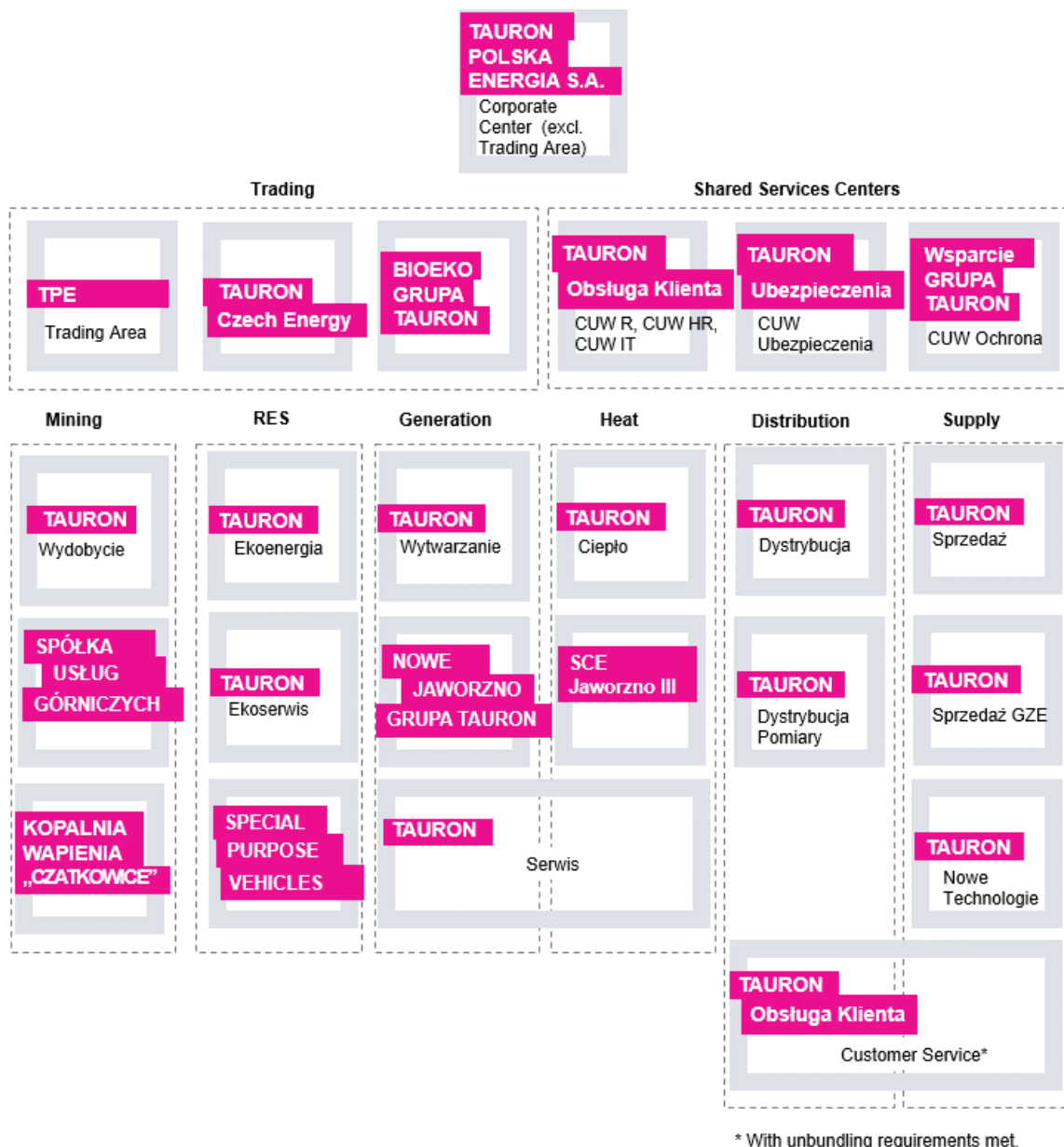
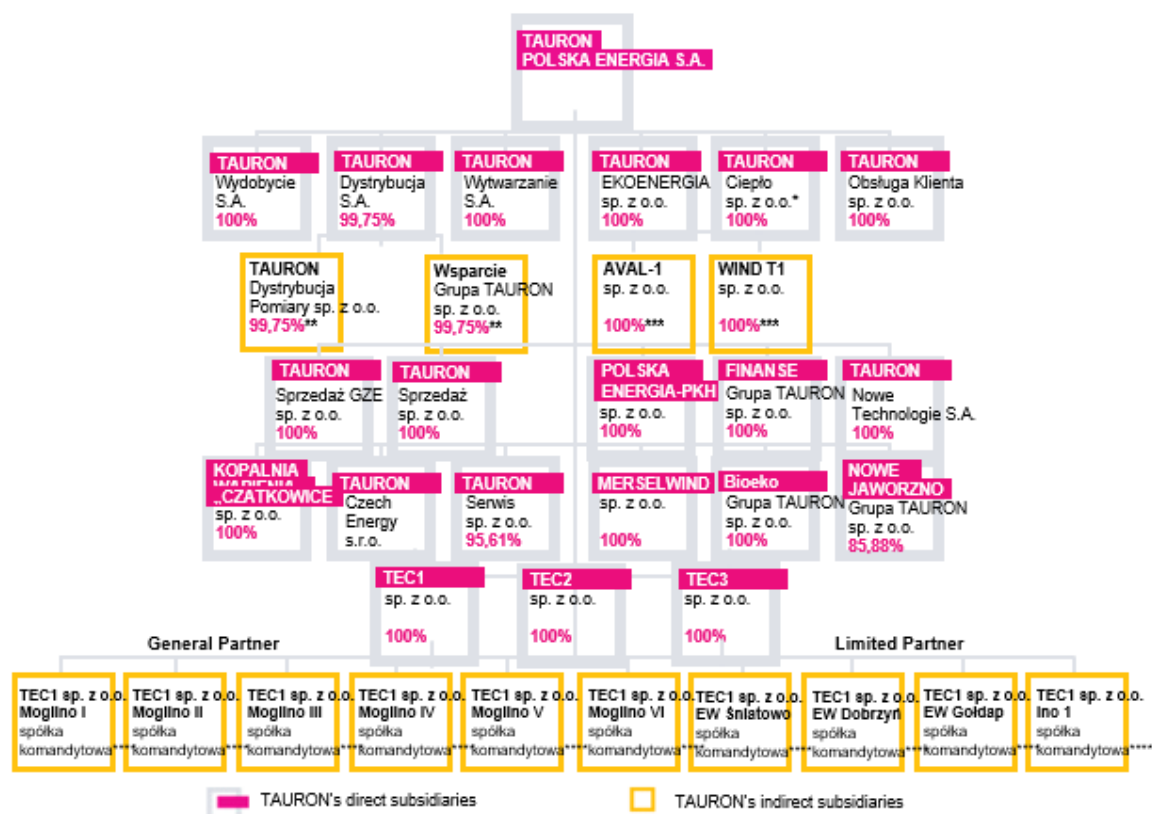


Figure no. 10. Assignment of TAURON Capital Group's subsidiaries to Lines of Business and Shared Services Center (CUW) in 2020

2.7.3. Formal and legal organizational structure

As of December 31, 2020, TAURON Capital Group's subsidiaries, besides the TAURON Polska Energia S.A. parent company, included 34 subsidiaries subject to consolidation and 4 jointly controlled entities (co-subsidiaries) included in the consolidated financial statements as of December 31, 2020 of TAURON Polska Energia S.A. based on the equity method, i.e. Elektrociepłownia Stalowa Wola S.A., TAMEH HOLDING Sp. z o.o., TAMEH POLSKA Sp. z o.o., TAMEH Czech s.r.o.

TAURON Capital Group's structure is presented in figure no. 11.



*As of the balance sheet date, TAURON Capital Group assessed that in relation to the net assets of the TAURON Ciepło subsidiary, the conditions for classifying the above assets as a group for disposal, classified as held for sale were met.

**The shares in TAURON Dystrybucja Pomiarów and Wsparcie Grupa TAURON are held by TAURON Polska Energia S.A. indirectly via TAURON Dystrybucja subsidiary, TAURON Polska Energia S.A. is a user of the shares of TAURON Dystrybucja Pomiarów.

***The shares in AVAL-1 and Wind T1 is held by TAURON indirectly via TAURON Ekoenergia subsidiary.

****In the following limited partnerships: TEC1 is the General Partner, TEC3 is the Limited Partner.

Figure no. 11. Core TAURON Capital Group's subsidiaries in 2020, including the parent company's shareholding therein

Parent company's organizational structure

TAURON Polska Energia S.A is TAURON Capital Group's parent company, performing the role of the corporate center. The company's operations are managed by the Management Board within which the competences for managing the business units were split among the President of the Management Board and the Vice Presidents of the Management Board. Figure no. 13 in section 2.8 presents the current split of competences within the Management Board of TAURON Polska Energia S.A.

2.8. Changes to the principles of TAURON Polska Energia S.A. and TAURON Capital Group's management

Changes to the principles of the Company's management

As a result of the progressing transition of the energy sector, which poses new challenges for the entity operating on this market, the gradual change in the situation in the energy sector, mainly due to the broadly understood policy of decarbonizing the economies of the European Union and the changes taking place in the Company's business environment, on October 20, 2020, the Management Board of TAURON Polska Energia SA adopted the new version of the Organizational Regulations of TAURON Polska Energia S.A., which was approved by the Company's Supervisory Board on October 23, 2020.

The organizational structure of TAURON Polska Energia as of December 31, 2020, and as of the day of drawing up this Report is presented in Figure no. 12.

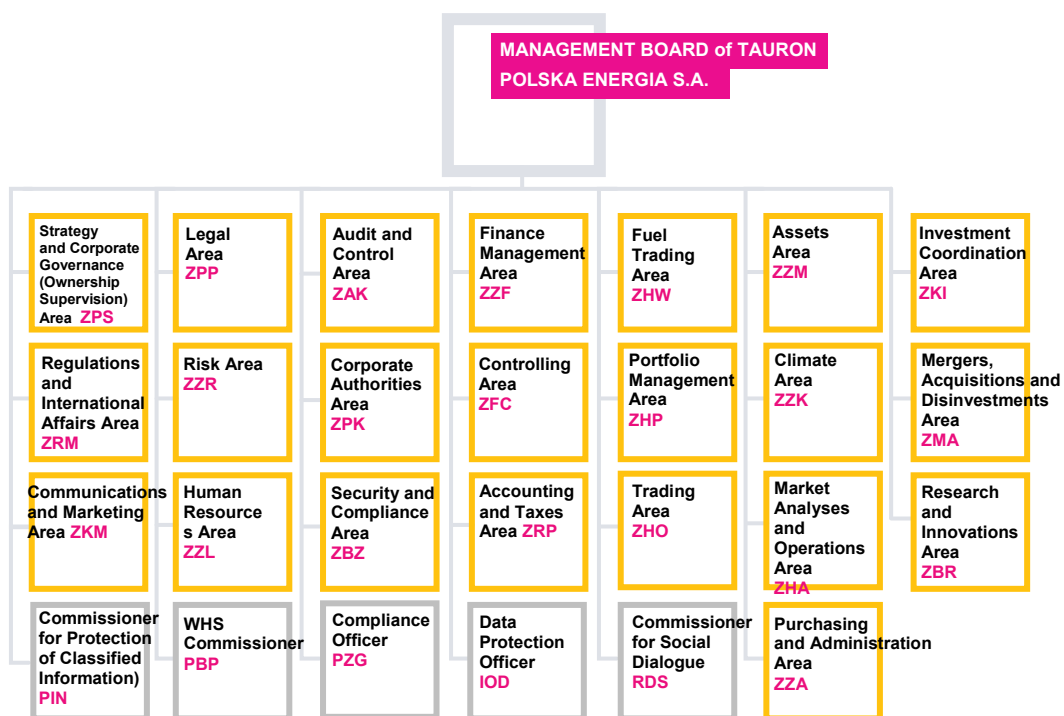


Figure no. 12. Organizational diagram of TAURON Polska Energia S.A. as of December 31, 2020, and as of the day of drawing up this Report.

In connection with the new Organizational Regulations, the required modifications of the scopes of functions of the individual Lines of Business in the Company's organizational structure were also made.

As of November 3, 2020, the Management Board of TAURON Polska Energia S.A., by way of a resolution, assigned to the Members of the Management Board of TAURON Polska Energia S.A., directly, the individual lines of business and the independent work positions.

The diagram showing the division of responsibilities of the Members of the Management Board of TAURON Polska Energia S.A. as of the day of drawing up this Report is presented in Figure no. 13.

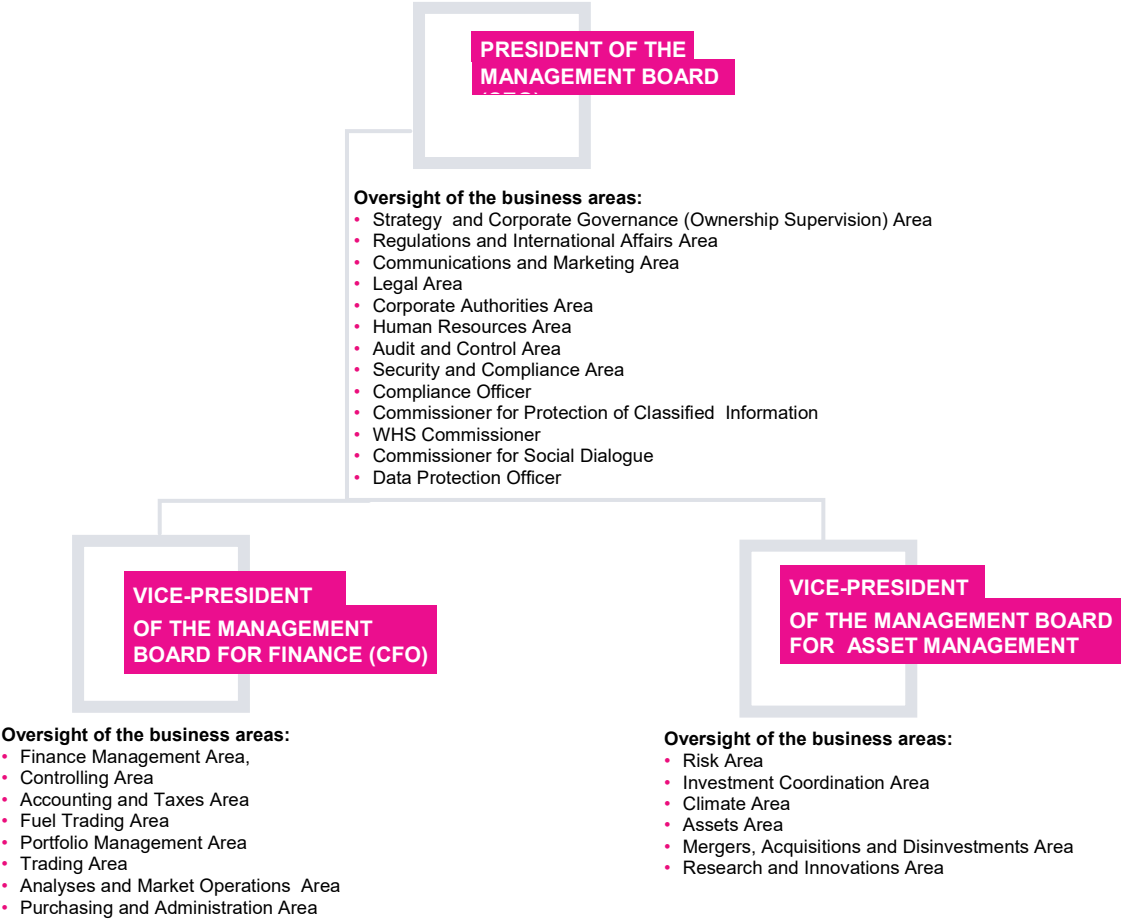


Figure no. 13. The diagram showing the division of responsibilities of the Members of the Management Board of TAURON Polska Energia S. A. as of the day of drawing up this Report

Changes to the principles of TAURON Capital Group’s management

In 2020, works were carried out on updating TAURON Group’s Business and Operational Model in place thus far, which defines TAURON Capital Group’s management model. In order to provide flexibility, resilience and adaptation of TAURON Capital Group to the changes in the environment, in particular those resulting from climate change, the updated Business and Operational Model of TAURON Group emphasizes the role of ESG (Environmental, Social Responsibility, Corporate Governance) as an increasingly important communication tool with the environment (stakeholders).

The updated Business and Operational Model of TAURON Group was developed taking into account the requirements related to the unbundling (i.e. separation of the operations with respect to electricity distribution from the operations involving the generation and supply of such electricity to the final consumers), established in the Compliance Program and generally applicable legal regulations, taking into account the legal, functional and organizational separation of the DSO within the structure of TAURON Capital Group.

Furthermore, the functions and tasks performed within all of TAURON Capital Group’s mega-processes were reviewed, which was done jointly with their owners, and the provisions were updated or the required additional functions and tasks were formulated, appropriately assigning competences to the Corporate Center, Lines of Business and Shared Services Centers.

The process maturity of selected processes of TAURON Capital Group was assessed, using TAURON Capital Group’s Process Maturity Model, in 2020. 555 processes were assessed, which represented 21% of TAURON Capital Group’s processes in place. As a result of the assessment completed, TAURON Capital Group achieved, on average, level IV-V of process maturity on an eight-level scale. The maturity assessment will be continued in 2021, based on the plans defined by TAURON Capital Group’s subsidiaries.

2.9. TAURON Capital Group's strategy and business model in the context of climate protection requirements

Being aware of the progressing climate changes and their effects, as well as of the important role and tasks of the power sector in the broadly understood transition to a low emission economy, TAURON Group is taking actions aimed at reducing the negative impact of TAURON Group on climate and the environment and taking the greatest possible advantage of the opportunities associated therewith. The Group was organized in a long chain of operations covering virtually all of the value building stages: from acquiring fuel, up to supplying the product to the final consumer. Such organization allows to impact the quality of the processes implemented at each stage of value creation, and thus optimize and, if required, change the way of doing business so as to respond to the current and future challenges. TAURON Group is changing towards the implementation of the assumptions of the European Green Deal, which is reflected, inter alia, in the Green Turn of TAURON. For the energy industry, the climate impact includes both, weather related occurrences, as well as regulatory changes and changes in customer attitudes. All of this is not without significance for the business model and Strategy,

In line with the European Green Deal, the transition of the European economy towards a sustainable future takes place on many levels. TAURON Group recognizes the risk of significant changes in the regulatory area, both at the European, as well as the national level, aimed at minimizing the negative impact on the climate by introducing further restrictions for coal based power generation, mainly tightening of the climate regulations and the departure of the financial institutions and insurers from the cooperation with entities operating coal assets. The above is the main determinant for the development of RES at TAURON Group, as well as for the implementation of the principles of the so-called circular economy. However, one should be aware of Poland's current energy mix, including that of TAURON Group, based on fossil fuels, historically associated with the large coal resources held, ensuring energy security. The departure of the energy industry from that model will be a process that must be spread over time and for which funds will be required to provide investment opportunities and activities mitigating the social implications of the changes taking place.

In order to standardize the approach to financing environmentally sustainable investments a framework for financial market participants was created at the European Union level that allows for classifying economic activity as environmentally sustainable. Such an approach, presented mainly in the European Commission Communication 2019/C 209/01 and in the Taxonomy document of June 2019, as well as in the Regulations of the European Parliament and of the Council no. 2019/2088 and 2020/852, allows for a uniform indication which investments and consequently, the revenues, can be qualified as sustainable and thus contribute to the achievement of the environmental objectives. Contributions to mitigating climate change include, among others: generation and distribution of electricity from renewable sources. In this respect, TAURON is gradually increasing the share of production from renewable sources thanks to investments in wind and photovoltaic power plants and the modernization of hydropower plants. TAURON is also implementing a distribution grid modernization and expansion program, thanks to which it is possible to connect more renewable sources, including the prosumer ones. In 2020, nearly 100 thousand prosumer installations were connected to TAURON Dystrybucja's grid with a total capacity of more than 650 MW, the cumulative capacity of prosumer installations connected to TAURON Dystrybucja's grid is more than 970 MW. The use of the best available technologies can also be considered as a contribution to mitigating climate change - such a solution is the 910 MW unit in Jaworzno, commissioned in 2020, which is a unit with a supercritical parameters boiler providing the highest possible efficiency, which will replace the old generation assets with higher emissions.

In accordance with the Update of the Strategic Directions, adopted in May 2019, TAURON Group will reduce its emissions by more than 50% by 2030, as shown in Figure no. 14.

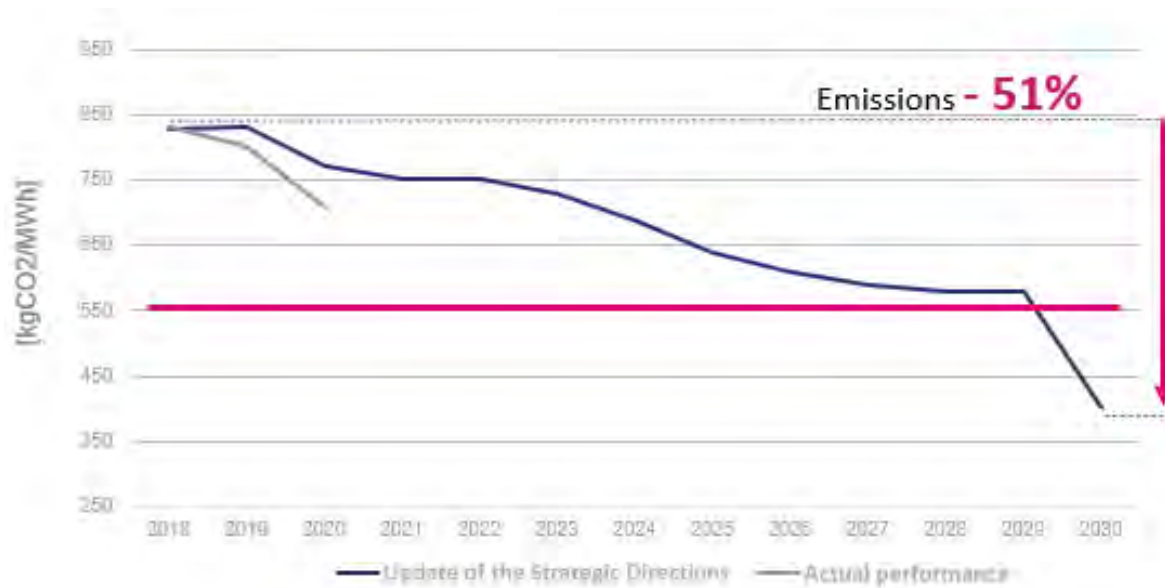


Figure no. 14. Planned CO₂ emissions by TAURON Capital Group in 2018-2030

With respect to the protection of water resources, TAURON places great emphasis on saving water in technological processes, e.g. by using closed cooling circuits in conventional power plants. In case of hydroelectric power plants, environmental requirements are met, e.g. by building and maintaining systems that enable fish migration (the so-called fish passes).

Due to the adopted business model, it is important for TAURON Group is to implement the assumptions of the circular economy. This applies in particular to the initial links of the value chain. In the mining line of business, gangue (barren rock) is mined as a by-product, while ash and slag are produced in the conventional generation segment. TAURON Group strives to convert 100% of its furnace (combustion) and mining waste into products. Thanks to the actions taken, they become products used, for example, in road building, construction industry, or as a material used for the construction of flood embankments.

Another activity related to the achievement of environmental targets, implemented within TAURON Group, is pollution prevention. It is achieved mainly through investment and modernization activities, involving the construction and operation of the technological lines that treat flue gases (e.g. electrostatic precipitators, flue gas desulphurization and denitrification) and wastewater (sewage treatment plants), as well as organizing processes in a manner that minimizes waste generation. Actions taken and results achieved, related to environment protection, including those associated with water consumption and waste management, are presented in chapter 4.3. TAURON Group's Environmental Policy.

Due to the technologies used, business operations in the energy sector may generate a number of negative impacts on the climate, in particular emissions from fossil fuel combustion sources, or drainage and degradation of the land as a result of mining activities. TAURON Group reduces its negative impact on the environment and climate thanks to the continuous modernization of conventional generating units, expansion of capacity in renewable energy sources, capturing and economic use of methane from coal deposits, limiting losses in electricity and heat distribution or retiring ineffective coal-fired units.

Positive effects can also be indicated, such as water damming and its accumulation during periods of heavy rainfall and the release during periods of drought, which not only allows for reducing the effects of drought, but also reduces the risk of inundation or flooding. The expansion of the heating infrastructure makes it possible to replace non-ecological individual coal-fired boilers with district heating. Modernization and expansion of the electricity distribution grid improves the reliability of electricity supply and enables connecting an ever increasing number of distributed electricity producers using renewable sources, including prosumers. As a result of its investment activities TAURON Group's production of electricity from renewable sources is gradually increasing, contributing to the mitigation of climate change. TAURON Capital Group's 2020 electricity production from renewable sources, broken down into generation technologies and from other sources, is presented in subchapter 4.4.

The Group's current Strategy responds to the current market, regulatory, technological and customer relationship challenges. The business model employed by TAURON Group allows for the implementation of strategic assumptions and thus supports the achievement of strategic goals. Referring to the terms of the Paris Accord (COP 21), which included an action plan assuming limiting global warming to a value below 2°C, it should be indicated

that the currently implemented Strategy and the business model of TAURON Group are in line with the implementation of this goal. In case the expected limitation of the temperature increase does not materialize, the measures and actions taken will have to be more radical, and their implementation will have to be significantly accelerated. Table 16 presents our understanding of the current situation and activities with respect to regarding shoring up the resilience of the business model to climate change.

Table no. 16. Changes to TAURON Capital Group's business model in the short, medium and long term

| temperature rise scenario | Short term (until 2025) | Medium term (until 2035) Check point 2030 | | Long term (until 2050) |
|---------------------------|---|--|--|---|
| | | Up to the check point | Past the check point | |
| < 2 °C | <p>We have solutions ready – we are implementing TAURON Group's Strategy:</p> <ul style="list-style-type: none"> • Shutdown of obsolete 120 MW coal fired units (approx. 1 GW). • Participation in implementing system solutions for the coal-fired units, conducted at the government level (NABE). • Prepared plan to change the fuel mix including a plan to invest in low and zero emission sources (approx. 900 MW in wind power plants + 300 MW in solar power plants). The completion of the above activities will allow for increasing the RES share to approx. 28% of the installed capacity. • New high efficiency and lower emission 910 MW unit in Jaworzno has been commissioned | <ul style="list-style-type: none"> • Shutdown of the 200 MW coal fired units • Participation in the off-shore wind farm construction project • Service and product offering for the prosumers • Construction of successive large RES installations. It is assumed that low and zero emissions capacity will increase by further 1.4 GW. The completion of the above activities will allow for increasing the RES share to approx. 66% of the Group's capacity. | <ul style="list-style-type: none"> • Maintaining profitable coal fired units as regulating and intervention sources. • Significant role of the distribution in the local balancing • Building installations that use "green hydrogen" | <p>* Preparation of the development assumptions for the years 2030+</p> |
| > 2°C | <ul style="list-style-type: none"> • Option to sell the Heat Line of Business – including the coal fired generating units. • Option to sell a coal mine / mining company – government works underway on the system-wide solution for the coal mining assets. • Growing role of the distribution and increasing expenditures on adapting the grid to the rapid growth of the RES mini- and micro-installations | <p>Adapting the mining operations to the demand of the Group's coal fired generating units</p> | <p>Limiting the mining operations to the level based on the Group's generating units regulating and intervention operation</p> <ul style="list-style-type: none"> • Maintaining the leading role of the distribution, including the need to commence building energy storage facilities for the local balancing | <p>*Preparation of the development assumptions for the years 2030+</p> |

* The main determining factors (drivers) for formulating the applicable provisions are: 1) Passing of Poland's Energy Policy; 2) Results of the government works on the system-wide solutions for the coal mining and conventional power generation.

Based on the scenario assuming warming at a maximum level of 2°C, changes in the external environment will be rather evolutionary, as a result of the growing awareness of the society and businesses and the ever increasing availability of the new technologies. If the evolutionary activities cannot stop the temperature rise and the forecasts will be clearly indicating that there is a high probability of exceeding the average temperature rise by more than 2 °C above the value from the pre-industrial era, changes in the external environment, in particular with respect to the regulations, organization of the power (energy) system and the power (energy) production model, as well as the customer awareness and behaviors will be very deep and fast. As of today, we can plan counteracting climate change taking into account the available technologies and the best knowledge as well as, very importantly, the availability of financial resources. The potential emergence of modern and breakthrough technological solutions and their commercialization may lead to fundamental changes in the entire energy sector's functioning model.

The growing energy awareness, combined with the rising energy cost, will lead to the ever higher and rising interest in energy efficiency, energy saving and electricity production from the renewable energy sources (RES). More and more customers will accept higher electricity costs as long as it is produced without the negative impact on the climate. Social pressure and the EU regulations are causing Poland to introduce increasingly more stringent environmental standards and a rising taxation of the CO₂ emissions (fees for the CO₂ emissions). The continuous increase in the CO₂ emission allowances prices is also associated with the use of the regulatory mechanisms leading to the reduced supply of the emission allowances, the EU's commitments to reduce the emissions by 55% in 2030 will be implemented through the supply controls – that is why the development of low- and zero-emission energy sources is so important. The next version of the BAT conclusions is expected to be released in the second half of the decade. The adaptation of the coal fired units to the more stringent emission standards may prove to be impossible technologically or very expensive and ultimately economically unjustified for the older generation sources. In response to the above, TAURON Group is already today assuming a gradual decommissioning of the old coal-fired units. The first of such steps was the permanent shutdown of the coal-fired units with a total capacity of 970 MW at the turn of 2020 and 2021. In accordance with the Strategy, further coal-fired units will gradually be retired by 2030.

The improvement of energy efficiency and the levels of greenhouse gas emissions in 2020 are presented in section 4.4 TAURON Group's Climate Policy.

The EU's new requirements imposed on the financial institutions practically cut off the coal technologies from the European funding sources. At the same time, investors and financial institutions are eager to participate in the RES projects. We assume that no European aid funds will be available for the development of the coal-based electricity generation sector, and for the gas fired generation sources such access will be limited. With respect to the power and heat generation sector, aid funds will be allocated solely to the restructuring and mitigation of the social effects as well as the transition of the energy towards electricity generation from RES. TAURON Group acquires financing to support the Green Turn of TAURON, allocating funds for investments that contribute to the implementation of the environmental goals - mainly with respect to electricity distribution and renewable generation sources. The list of funds obtained for pro-climate investments is presented in section 4.4 of this Report.

With respect to renewable energy sources, offshore wind energy is a technology that could play an important role in the current decade. It is assumed that in the first phase support will be granted to projects with a total capacity of approx. 5.9 GW, in the second phase, beyond 2025, as a result of an auction, this capacity may be increased by another approx. 5 GW. It should be mentioned that at the EU level the offshore strategy assumes the construction of more than 300 GW of capacity by 2050 as part of the development of offshore wind energy. In order to take full advantage of this potential, it is necessary to develop technologies that enable energy storage. One of such solutions is the production of hydrogen using electricity from renewable sources. The European hydrogen strategy envisages the construction of approx. 40 MW of capacity in electrolyzers interworking with renewable sources by 2030 and a further development of this technology by 2050. Work is underway in Poland on the "Polish Hydrogen Strategy until 2030". The draft document assumes that these activities will cover both the energy sector, as well as transportation and manufacturing industry. TAURON, acting in line with the indicated trends, both develops energy storage technologies (more about the projects in section 4.10 Strategic Research Agenda), but also carries out activities aimed at developing offshore wind energy – among others, an agreement was signed in 2020 on the cooperation in the joint implementation of offshore wind farm projects in the Polish economic zone. TAURON informed investors of this event in the current report (regulatory filing) no. 56/2020 of December 29, 2020. In January 2021, PGE, Enea and TAURON also concluded a letter of intent regarding cooperation with respect to offshore wind energy.

The rising share of the wind farms in the production mix will lead to the higher price volatility. A similar situation occurs with respect to the PV sources. Prosumer installations and large-scale installations operating today and forecast to be launched cause and will cause a still higher price volatility. Electricity during the peak hours of renewable energy production will be cheap, therefore it is likely to worsen the economic efficiency of such installations. The solution to this issue is technology diversification. TAURON Group does not focus on one renewable energy technology. Another solution to this problem can be energy storage technologies - both using storage facilities based on electrochemical cells as well as based on the production and storage of hydrogen using redundant, cheap electricity. As of today, both of these energy storage technologies are being developed by TAURON Group.

The rising number of the intermittent (non-controllable) renewable energy sources, as well as the growing number of prosumer installations are ever increasingly affecting the power system from the technical and commercial point of view. Rising energy efficiency of the customers and growing production from the prosumer installations lead to a drop of the demand for the electricity generated by the system (utility scale) sources. This trend, combined with the rising prices of the fossil fuels and/or the increase in the environmental and climate costs (CO₂ emission and the costs of the other emissions) related thereto, causes a shift in the role of the system (utility scale) power plants (in particular, the coal fired ones) from the position of primary sources to that of complementary and stabilizing ones.

TAURON Group's Strategy places a strong emphasis on the development of renewable energy sources. The modern 910 MW coal-fired unit in Jaworzno, commissioned in 2020, is the last coal-based generation unit, and the investment plans envisage the expansion of capacity in onshore and offshore wind technologies and the construction of photovoltaic farms. The first effects of implementing such strategy included doubling of the wind farms capacity in 2019.

The nature of the transmission systems and distribution grids is changing. This is mainly due to the development of distributed energy and requires the allocation of significant investment outlays for the expansion and adaptation of the grid to bi-directional flows. The technical solutions and network topologies are also significantly affected by the extreme weather conditions. Their increasing number and intensity makes it necessary to use the solutions resilient against, in particular, strong winds. This leads to the need to build cable and insulated networks (for the medium and low voltage grids) and upgrade the overhead networks, especially in the built-up and forest areas. TAURON Dystrybucja, as the Distribution System Operator, has, for years, been, implementing investment tasks to improve the quality and reliability of electricity supplies, mainly through automation, modernization of the existing grid and its expansion. Such activities improve network management, allow for a faster response to the grid disruptions, enable connecting further renewable energy sources and, inter alia, thanks to cabling, they reduce the possibility of a negative impact of weather and climate phenomena on the grid.

Climate changes observed in recent years do not significantly affect the way TAURON Group uses its natural capitals. Temperature rise associated with climate change has a negative impact on the production from hydroelectric power plants (due to the hydrological drought), but thanks to the development of photovoltaic and wind generation, including off-shore, the Group will be able to use such renewable generation sources even to a larger degree. In the long run, TAURON Group's impact on natural resources will be decreasing, both due to the need to meet the expected tightening of environmental requirements and climate policy, as a result of investments into new, low- and zero-emission energy sources, but also thanks to the permanent shutdown of obsolete conventional units.

Climate change, in particular the rise in temperature, mainly in the winter months, reduces the need for heat and electricity for the heating purposes. When planning the consumption of natural resources, the Group will have to take into account such changes. Being aware of the non-renewable nature of the hard coal sources consumed, the Group uses them in a responsible and efficient manner. The Group's transition towards low- and zero-emission energy will impact the business model, shifting revenue generation place within the value chain. In turn, the implementation of this scenario will have an impact on human capital, causing the need to change the qualifications of some employees and hire people with new skills. Thanks to the transition being implemented, there is also a chance that dedicated and qualified persons might become interested in working at TAURON Group, as they would be offered an opportunity to build career paths in the new renewable technology fields. The challenges associated with therewith and the opportunity to work in a stable industry will become one of the factors changing the perception of the energy sector by young generations, as an industry viewed as modern and climate neutral. More on TAURON Group's capitals in section 2.1 Our capitals and relations among them.

TAURON Group has no significant impact on climate change through deforestation, forest degradation or changes to land use. More information on this topic can be found in section 4.3 and 4.4, describing TAURON Group's Environmental Policy and Climate Policy.

Taking into account the above-mentioned scenarios and TAURON Group's potential responses, the Management Board of TAURON Polska Energia adopted, in May 2019, the Update of the Strategic Directions, supplementing TAURON Group's Strategy for 2016-2025. More on TAURON Group's Strategy in section 3.3 TAURON Capital Group's Strategy and the Green Turn of TAURON.

2.10. GRI indicators described in this chapter

- GRI 102-1 Organization name
- GRI 102-2 Activities, brands, products and services
- GRI 102-3 Location of headquarters
- GRI 102-4 Location of operations - including the number of countries in which the organization operates, along with the names of those countries, where the main operations of the organization are located, or which are particularly important in relation to topics related to sustainable development discussed in the report
- GRI 102-5 Ownership and legal form
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization

- GRI 102-10 Significant changes during the reporting period regarding size, structure, ownership form or value chain
- GRI 102-11 Precautionary principle
- GRI 102-16 Values, ethics code, principles, standards, and norms of behavior
- GRI 102-17 Internal and external mechanisms enabling obtaining advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-18 Governance structure
- GRI 102-22 Composition of the top management authority
- GRI 102-23 Top management authority
- GRI 102-24 Method of selecting the top management authorities
- GRI 102-26 Role of the top management body in the environment, purpose, values and strategy
- GRI 102-28 Evaluation of the results of the top management body
- GRI 102-32 Role of the top management body in reporting
- GRI 102-25 Conflict of interest
- GRI 201-2 Financial implications and other risks and opportunities associated with climate change
- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. Impact of these activities on society,
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area with indication of material topics within the given area
- GRI 102-2 Activities, brands, products, and services
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes to the organization and its supply chain in the reported period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-25 Conflict of interests
- GRI 201-2 Financial implications and other risks and opportunities related to climate change
- GRI 203-1 Supported infrastructure investments and services for the benefit of society through commercial activities, transfer of goods and pro-bono activities. The impact of these activities on society
- GRI 103-2 The management approach and its components in the areas: environmental, social, human rights, anti-corruption, HR, including indicating material topics in the given area

3. ENVIRONMENT CONDITIONS DETERMINING THE CHOICE OF TAURON CAPITAL GROUP'S STRATEGY AND THE ASSUMPTIONS THEREOF

3.1. Conditions of the environment determining the choice of TAURON Group's strategy in the long, medium and short term and the assumptions of such strategy

3.1.1. TAURON Group against the backdrop of the world's greatest challenges – coronavirus pandemic

The greatest challenge of 2020 for all of the world's economies was the emergence of the infectious disease COVID-19. The pandemic led to a series of social and economic disruptions and, as a consequence, to a global recession. At the end of 2019, the World Bank forecast a slowdown in the economic growth of the world economy from approx. 3% to 2.8% in 2020. After the outbreak of the infection, the forecasts for 2020 changed and in 2020 the global economy not only failed to grow, but it even contracted by 4.3%.

The Polish economy has been one of the world's fastest growing economies in recent years. The country's economic growth rate averaged 4.2% in 2019. The rise of COVID-19 infections and the government actions aimed at minimizing the risk of an increase in the number of infections led to a freeze of the national economy. Ultimately, Poland's GDP growth rate came in at -2.8% in 2020.

A decline in production, a halt or delays of investments, a decrease of private consumption, a drop in exports and imports are the effects of a pandemic that affect the functioning of the economy. The outbreak of the coronavirus also resulted in an increase in the prices of goods and services. Poland's inflation rate was approx. 3.4% yoy in 2020. The index was mainly influenced by the observed increase in food prices and health related costs. The registered unemployment rate at the end of the second quarter of 2020 was approx. 6.1% and continued at this level until the end of the year.

ARA spot coal prices in the first half of the year fell from 55 USD/t at the beginning of the year to approx. 40 USD/t and in the second half of the year they gradually returned to the level observed at the beginning of the year. The difficult situation on the coal market in Poland has been observed for a long time and the hard coal production volume has been gradually decreasing year by year. Hard coal extraction in Poland fell by 13% in the January-November 2020 timeframe - more than 7 million Mg less coal was extracted during the 11 months of 2020 than in the previous year.

The coronavirus pandemic has had a significant impact on the country's electricity demand. Lock-down caused that many energy-consuming enterprises shortened their working time, and some companies closed their operations for economic reasons. In the first half of the year, domestic electricity production decreased by about 8%. Throughout 2020, a 4% decrease in production was observed, and a 2.3% decrease in electricity demand. Electricity prices in annual contracts were highly volatile, with a visible downward trend in the first two quarters of the year. The average annual BASE electricity price amounted to approx. PLN 233 / MWh and was almost 13% lower than the average price in 2019.

The coronavirus pandemic has had a significant impact on Poland's electricity demand. Lock-down meant that many energy-consuming enterprises shortened their working time, and some companies shut down their operations for economic reasons. Domestic electricity production decreased by approx. 8% in the first half of the year. For the full 2020, a 4% decline in production was observed, while demand for electricity dropped by 2.3%. Electricity prices under annual contracts were highly volatile, with a visible downward trend in the first two quarters of the year. The average annual BASE electricity price amounted to approx. 233 PLN/MWh and was almost 13% lower than the average price in 2019.

The prices on the CO₂ emission allowances market in the first two months of 2020 were more or less stable, at approx. 26 EUR/Mg. In March, the CO₂ prices dropped sharply, to approx. 15 EUR/Mg. The freezing of the economies resulted in a decrease of industrial production, which in turn led to a drop in demand for the EUA allowances. In the second half of the year, despite the COVID-19 pandemic underway, the prices of the emission allowances rose significantly. In December, the average price stood at 31 EUR/Mg.

3.1.2. TAURON Group against the backdrop of the world's greatest challenges – climate changes and insufficient resources

There is no doubt that humans impact the climate system, and this fact is evidenced by the increase in the concentration of greenhouse gases in the atmosphere and the observed warming. There is also no doubt regarding the relationship between this rise and the increase in the temperature on Earth. The concentration of carbon dioxide in the atmosphere has reached very high value over the recent decades. We are observing successive, shameful records: the highest temperature, the hottest summer, the smallest area of the Arctic ice cover in the history of satellite measurements, etc. Extreme weather conditions are becoming more and more common.

It should be emphasized that energy and climate change issues are closely related, as the manufacturing industry, transportation and energy sectors are responsible for the majority of the EU's greenhouse gas emissions. The assumption is that a reduction of emissions in the energy sector is easier to achieve in a shorter timeframe than in the other sectors mentioned above, due to the focus on solid fossil fuels and the possibility of providing substitution using renewable sources. As a result, transforming electricity generation is of essential importance for tackling climate change. Satisfying energy needs while reducing greenhouse gas emissions is the main challenge for the EU, and especially for Poland.

Climate change and progressing environment degradation pose a threat for Europe and the rest of the world and require an urgent response. To meet these challenges, the European Council called for more efforts to combat climate change and asked the European Commission to accelerate the works on the EU's climate neutrality, in line with the EU's international commitments under the Paris Accord.

As a result, the European Green Deal strategy was announced in December 2019, and the 2050 climate neutrality target was approved. The European Green Deal is a newly proposed EU growth strategy that aims to transform the European Union into a climate-neutral, fair and prosperous society with a sustainable, resource-efficient and competitive economy. The European Green Deal requires a holistic approach, i.e. the participation of all of the EU actions and policies in achieving its goals; all of the current policies related to climate neutrality will be subjected to a review and, if required, revised in line with the greater climate ambitions. It is assumed that reforms will be implemented, first and foremost, in those sectors of the economy that have the greatest impact on climate change and the environment, including the mining and energy sectors.

In addition, the European Council approved a new binding EU target in December 2020, assuming the reduction of the national net greenhouse gas emissions by at least 55% by 2030, as compared to the 1990 levels.

It should be emphasized that achieving climate neutrality by 2050, as a result of the social and economic transition, will be a great challenge for Poland and the Polish energy sector. The regulations stemming from the European Green Deal will have a significant impact on the operations of TAURON Group in the short and long term. More information on the Group's impact on the climate and adaptation to climate change is provided in section 4.4 of TAURON Group's Climate Policy.

Dependence on fossil fuels, in addition to a significant impact on the climate, means that the industrial sector based thereupon must take into account their supply limitations, deterioration of the availability conditions and finally exhaustion, which in the long run leads to the worsening conditions for economic growth. Insufficiency of the resources in the energy sector is controlled using operational limits stemming from the legal mechanisms, e.g. licenses specifying the allowed scope of extraction of a hard coal or limestone deposit, or water law permits specifying limits for the use of water resources in case of activities related thereto. The quantities of water taken directly from the environment (surface and groundwater intakes), as well as the quantities and quality of wastewater that can be discharged into the environment are limited. For these reasons, whenever possible, technical solutions allowing for the so-called closing of the circuits, i.e. reusing water within technology process circuits with lower quality requirements. Also, the use of water to produce electricity in hydropower plants is limited by additional conditions specified individually for each power plant, such as the water damming level or the minimum flow due to the biological requirements

Insufficiency of resources can also constitute an opportunity for the energy and mining industries, as these sectors can be a source of materials that can replace the increasingly limited natural aggregates. The ashes, slag, gypsum from desulphurization processes, produced as by-products for years, or post-mining aggregates that accompany coal processing, are becoming more and more sought after on the market, due to the fact that such substances, produced as integral parts of the energy production process, as a result of burning solid fuels and processing of extracted minerals, can be used without any further processing in an environmentally safe manner as substitutes for natural aggregates.

More information on the Group's use of the environment and the circular economy in section Environmental Policy (4.3) and sub-section Natural capital (2.1.2).

3.1.3. TAURON Group against the market backdrop in the short, medium and long term – Europe

All of the energy groups in Europe are seeing changes taking place in their environment. Currently the main trend is the broadly understood development of renewable energy sources. This is accompanied by decarbonization, electrification of the transportation, energy efficiency or decentralization of electricity generation as well as the improvement of the quality and security of electricity supply. This is reflected in the European energy groups' generation mixes and installed capacity.

Figure no. 15 presents a comparison of the generation mix and installed capacity among selected largest energy groups in Europe.



*RWE's installed capacity as of 31.12.2018 is the installed capacity including innogy (capacity excluding innogy stood at 36.6 GW, including 0.3 GW in RES)

Figure no. 15. Comparison of the generation mix and installed capacity among selected largest energy groups in Europe.

Source: Proprietary compilation based on the annual reports of the European energy groups presented

As compared to the European market, Polish energy groups are characterized by a large share of coal technologies in their generation capacity. Electricity production among the European energy groups presented is much more diversified. Generating units based on coal do not have a majority share in their fuel mix.

Analyzing the installed capacity over the years 2019/2018, the trend of investing in renewable energy sources and departing from coal is clearly visible. An example of this is Endesa or Iberdrola, whose installed capacity based on RES went up. In 2018 declined as compared to the previous year and, additionally, an increase in RES capacity was observed. Structural changes took place on the German market among the main energy companies in 2019, as a result of which the E.On group became a distribution and supply company.

The growing trends associated with capital expenditures in renewable energy sources and a greater focus on the customer and his/her needs are visible in the plans and strategic directions of the energy companies presented, as illustrated in Table no. 17.

Table no. 17. Summary of the plans and strategic directions of selected sixteen of the largest energy groups in Europe

| | | |
|--|--|--|
| Environment protection <small>17 Grup</small> | Development of low and zero emission assets Carbon footprint reduction <small>15 Grup</small> | Climate neutrality <small>10 Grup</small> |
| Generation assets restructuring <small>15 Grup</small> | Customer and his/her needs <small>11 Grup</small> | Electromobility <small>11 Grup</small> |
| Digitization, smart metering <small>14 Grup</small> | Smart activities/products <small>14 Grup</small> | Energy storage <small>11 Grup</small> |
| Development of hydrogen technology <small>5 Grup</small> | Efficiency improvement/financial stability <small>7 Grup</small> | Use of drones, artificial intelligence, robotization <small>4 Grup</small> |

Source: Proprietary compilation based on the annual reports of the European energy groups presented

The main strategic directions of the European groups presented (for 2018) should be supplemented with those that were strongly emphasized in the reports for 2019, namely: environment protection, development of low- and zero-emission assets and a departure from electricity generation based on the coal fuel (carbon footprint reduction) towards achieving climate neutrality.

In Europe, out of 17 analyzed energy groups, 10 of them declare climate neutrality. Vattenfall plans to achieve full decarbonization in 2030, Uniper in 2035, CEZ, RWE and E.On plan to achieve this goal in 2040. The latter company wants to achieve climate neutrality by offering its customers green energy. Further energy groups: Enel, Endesa, EDF, Iberdrola and PGE declare climate neutrality in 2050.

In addition to the development of renewable energy sources, the activities related to the modernization of energy infrastructure through digitization and smart metering are gaining momentum. Currently, a common practice is to link investments in RES with PPAs (i.e. Power Purchase Agreements). The operations of the companies will focus on the customer and his/her needs, as well as electromobility. Along with the increase in the supply of renewable energy sources, including also small prosumer installations, the activity related to electricity storage is becoming more important.

TAURON Group is taking note of the trends in the power sector and taking active efforts in all of the areas presented, making changes and focusing on the challenges of the so-called energy of tomorrow, which was already reflected in the update of the strategic directions announced in May 2019, referred to as the Green Turn of TAURON.

Expansion of Renewable Energy Sources - declarations of energy companies

As the environment is changing, energy companies are updating their plans and strategic goals. Figure 16 presents the declarations of the European power companies regarding capital expenditures and expansion of the RES assets.

Growth of Renewable Energy Sources declarations of selected energy companies in Europe



Figure no. 16. Declarations of the European power companies regarding capital expenditures and expansion, in the coming years, with respect to new generation capacity based on the RES assets

Source: Proprietary compilation based on the annual reports of the European energy groups presented

In 2018, an Italian company Enel had the highest installed RES capacity among the energy companies presented with 39.2 GW. In its strategic plans, it assumes allocating 38% of its capital expenditures in the years 2019-2021 for investments in renewable energy sources (it is approx. EUR 10.6 billion). The second group, whose installed RES capacity was 32.6 GW in 2018, is French EDF, that is planning to increase the installed capacity of its green assets to 50 GW by 2030. ENGIE Group, the second company operating in France, is planning to increase its capacity by 9 GW in 2019-2021 (from 24.8 GW in 2018 to 33.8 GW in 2021) and ultimately the expansion of RES to approx. 48 GW of installed capacity in 2025. Iberdrola, an energy company operating mainly in Spain, is planning to expand RES capacity from 29 GW in 2018 to approx. 38 GW in 2022. Swedish Vattenfall declares another 2.3 GW of installed RES capacity by 2020. Endesa, a Spanish energy group, had 6.5 GW of installed capacity in renewable energy sources in 2018. Its plans include an increase in capacity in wind and solar assets to 10 GW in 2022. By 2050, the group would like to produce 100% of its electricity volume from renewable energy sources. RWE, a company operating on the German market, after the acquisition of new RES assets, which took place in 2019, updated its strategic directions. It is aspiring to be the third company in Europe in terms of RES installed capacity. Therefore, they declared an expansion of their renewable energy generation fleet by 2-3 GW of installed capacity per year. Taking into account the declarations, it is estimated that in 2030 RWE will have at least 26 GW of capacity in green assets. Innogy is planning an additional 7 GW of RES capacity by 2025. Another German energy group, EnBW, has declared an increase to approx. 7.2 GW of capacity in renewable assets by 2025. In 2018, Uniper had 3.6 GW of installed capacity in renewable energy sources and is one of the companies that are not directly declaring an increase in the renewable sources capacity, but it has announced a gradual departure from coal and a reduction of the carbon footprint, and ultimately climate neutrality in 2035. A Czech company CEZ is planning to increase its assets to 2.1 GW by 2025, from 1.7 GW in 2018 to 2.1 GW of installed capacity. FORTUM Group is assuming an increase of the installed capacity in wind energy and photovoltaics in its plans.

On the domestic market, PGE Group had the largest installed capacity in RES in 2018, i.e. 2.2 GW. The Group is seeking to reduce the impact on the natural environment and reduce the emissions of its production by, inter alia, the expansion of the RES portfolio. The Group's activities with respect to RES are mainly focused on the construction of offshore wind farms, photovoltaic farms and onshore wind farms. PGE's ambition is to achieve approx. 8 GW of installed RES capacity, including 2.5 GW of offshore wind capacity by 2030. In 2035, the group is already planning approx. 10 GW of renewable energy capacity, and by 2050 it plans to achieve climate neutrality. According to the new 2019 strategic plan, Enea intends to increase its RES installed capacity to 2.5 GW in 2030 and 3.5 GW by 2035. Energa Group was incorporated into the structure of the PKN ORLEN fuel and energy group

in the first half of 2020. The strategic investment of ORLEN Group in the energy sector is the construction of offshore wind farms on the Baltic Sea with a capacity of approx. 1.7 GW by 2030. With respect to onshore wind farms and photovoltaic installations, ORLEN Group plans to achieve a total installed capacity of 0.8 GW in 2030. By 2030, the total capacity of ORLEN Group's RES assets will top 2.5 GW. The Group assumes achieving emission neutrality by 2050.

In the Update of the Strategic Directions TAURON Group declared an increase of its low and zero emission installed capacity to approx. 1.6 GW by 2025, and to approx. 3 GW by 2030. The Group is also considering its involvement in developing off-shore wind assets.

CO₂ emission reductions – declarations of energy companies

Power sector companies are adapting generating units to the requirements related to decarbonization and the transition to zero-emission electricity generation in their strategic declarations. Figure no. 17 illustrates the declarations of the power companies related to the CO₂ emission reduction targets by 2035.

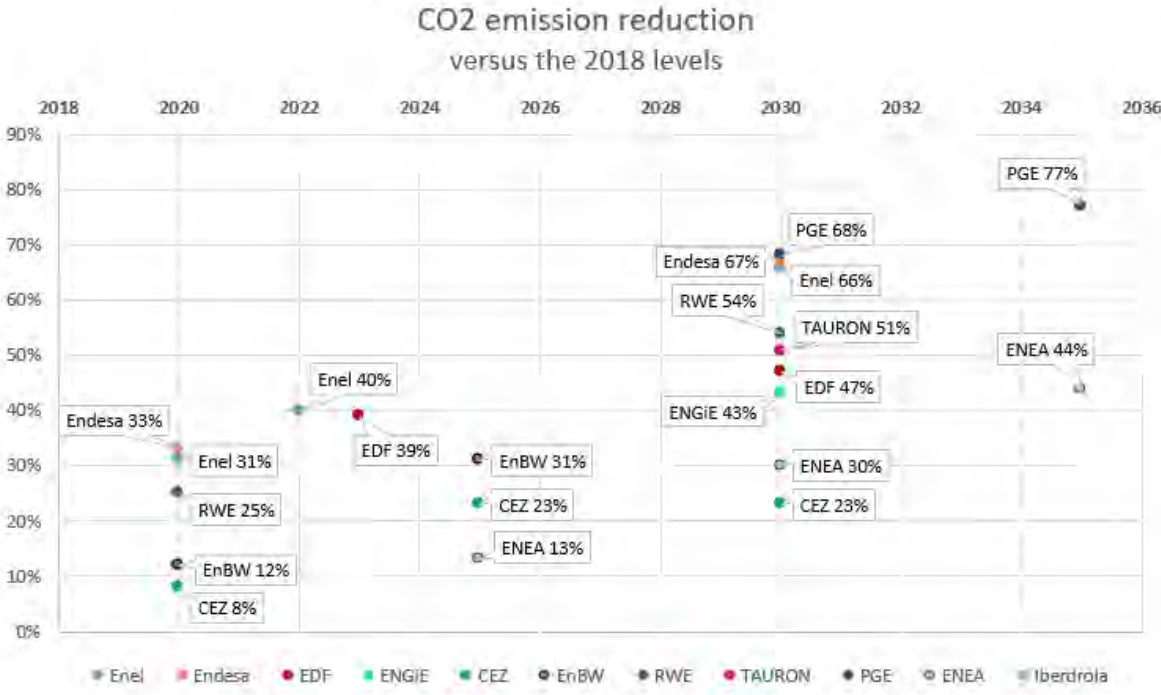


Figure no. 17. CO₂ emission reduction targets of the European energy companies

Source: Proprietary compilation based on the annual reports and presentations of the European energy groups

Endesa Group has the most ambitious plans among the European energy groups, and its goal is to achieve 100% production of electricity with zero emissions by 2050. Pursuing this goal, the group is planning a reduction of CO₂ emissions by 67% (as compared to the 2018 level) by the end of 2030. Another group planning a large reduction of emissions is Enel – a reduction by 66% in 2030.

RWE is planning a 54% reduction in emissions in 2030, and a full decarbonization of its generation assets portfolio in 2040. EDF Group has set itself the goal of achieving a zero-emission level by 2050, planning to reduce emissions by 47% in 2030

Among the Polish energy groups, TAURON Group is planning to reduce emissions by approx. 50% by 2030. PGE has declared a reduction of specific CO₂ emissions by 68% by 2030, and Enea by 30%. ORLEN Group assumes a drop of emission in its energy line of business by 33% by 2030 (versus 2020).

3.1.4. TAURON Group against the market backdrop in the short, medium and long term – Poland

In addition to TAURON Capital Group, 3 large, vertically integrated energy groups: PGE, ENEA and ENERGA as part of Orlen Group, are currently operating on the energy market in Poland. The consolidated energy groups (PGE, TAURON, ENEA, ENERGA) had a 67% market share in the electricity generation sub-sector.

Generation

TAURON Group is one of the main producers of electricity in Poland. The Group's share in the domestic electricity generation market, measured by gross electricity production, came in at approx. 8% after 9 months of 2020. The Group is the third largest electricity generator on the Polish market. The Group's gross electricity production stood at 12.5 TWh in 2019.

Figures 18 and 19 present information on electricity generated in Poland during 9 months of 2020 and installed capacity as of September 30, 2020.

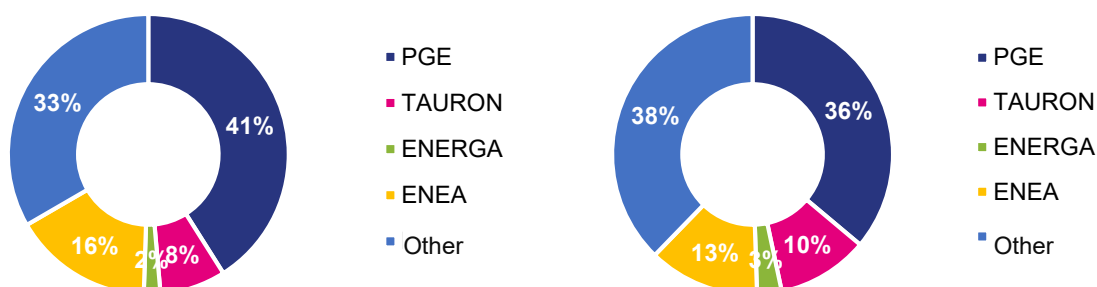


Figure no. 18. Gross electricity production - estimated market shares after 9 months of 2020.

Figure no. 19. Installed capacity - estimated market shares after 9 months of 2020

Source: ARE, information from the energy companies published on their websites

Distribution

TAURON Group is a leader on the Polish market in terms of the number of distribution customers and the volume of electricity distributed. The Group's share in the distribution of electricity to the final consumers stood at approx. 36% (taking into account 5 largest distributors) in the first three quarters of 2020. TAURON Capital Group's distribution grids cover more than 18% of the country's territory. Figure no. 20 presents the estimated market shares of the individual energy groups in the distribution of electricity according to the data for the first three quarters of 2020. TAURON Group's electricity distribution volume came in at 50.26 TWh in 2020.

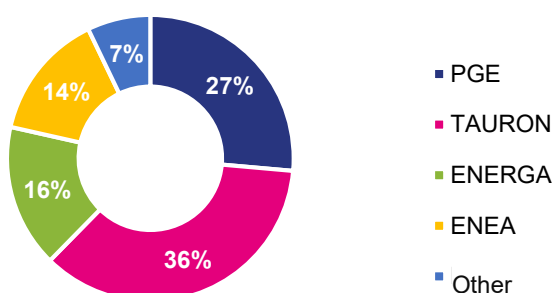


Figure no. 20. Electricity distribution - estimated market shares after 9 months of 2020

Source: ARE, information from the energy companies published on their websites

Supply

When comparing the data after the first three quarters of 2020, TAURON Group was the second, after PGE, largest supplier of electricity in Poland. TAURON Group's retail electricity supply reached 32.4 TWh for the full year 2020. The number of the Supply Segment's customers stood at approx. 5.6 million in 2020.

Figure no. 21 presents the estimated market shares of the individual energy groups in the supply of electricity to the final consumers, according to the data for the first three quarters of 2020.

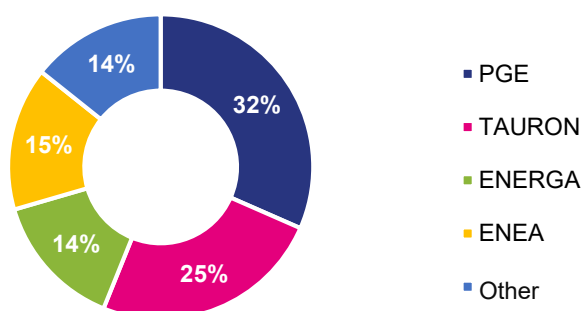


Figure no. 21. Electricity supply to the final consumers - estimated market shares after 9 months of 2020

Source: ARE, information from the energy companies published on their websites

3.2. TAURON Capital Group's strategic determinants related to the external environment

Recent years have brought, and the subsequent years will, as shown in sub-section 3.1 of this Report, bring a lot of significant changes in the external environment of TAURON Capital Group. The most important of them, from the point of view of the Group's business operations, are the climate and environment related regulatory changes. The global warming, increase of the pollution and a serious smog problem in Poland that have been observed for years, are forcing specific actions to minimize the negative impact of business operations on the environment.

Short term outlook

It is assumed that the power sector will focus its efforts on the development of renewable sources. On one hand, this will be the result of an increase in prices on the wholesale electricity market, and on the other hand, it will also be the consequence of the strong support for the development of renewable energy sources and the growing cost competitiveness of such technology as compared to the ever more expensive conventional electricity generation. The noticeable fast growth of photovoltaics in Poland is primarily associated with the cost competitiveness of the technology and the launch of extensive support programs that significantly reduce investment costs. The possibility of achieving at least partial independence of rising electricity prices is also important. Binding national RES targets for 2020 prompted Poland to introduce a system of incentives, among others for the prosumers, that result in increased interest in this technology. The development of prosumer photovoltaics installations is possible, among others, thanks to the funding from the government programs. According to the Polish Energy Policy (PEP), it is assumed that the achievable capacity in PV technologies will reach 4.9 GW in 2025. In the short term, the installed capacity in onshore wind technology will also increase - according to the assumptions of the PEP, the estimated onshore wind power in Poland will stand at approx. 9.6 GW in 2025. The amendment to the distance act (the so-called 10H) can be an impulse spurring further development of wind energy. Offshore wind farms are a new and promising investment direction. According to investors' declarations, the production of electricity from the first wind farm in the Polish zone of the Baltic Sea will start as early as 2025. The most advanced works are carried out by PGE, PKN Orlen and Polenergia, and the grid connection conditions were issued for approx. 10.6 GW of capacity. According to the PEP 2040, offshore capacity will stand at approx. 0.7 GW by 2025.

The pressure to decarbonize the energy sector, observed in recent years, is gaining momentum, which is reflected in the regulations aimed at increasing environmental requirements for the coal-fired units, deepening the decline of their economic profitability, and in many cases resulting in a permanent lack of profitability. The effects of the pandemic lead to a faster loss of competitiveness of the conventional sources than previously assumed and the need to intensify activities allowing for a faster development of renewable electricity generation technologies. Additionally, a change of the approach of the financial sector leading to lending only to environmentally sustainable investments will accelerate the transition of the energy sector. The estimates included in the PEP indicate that approx. 2.6 GW of capacity will be retired from the national system in 2021-2025. Hence, the share of the individual sources in Poland's generation mix will change. It should be emphasized, however, that despite the growing number of renewable energy installations, coal will continue to be the basic fuel in the domestic energy sector until 2025.

Based on the changes observed on the European energy market and the situation of the domestic energy groups, it can be concluded that the energy business model will be modified. The mergers underway and planned - both the domestic as well as the European deals - indicate that fuel companies (e.g. Equinor-Statoil, ORLEN-Energa, PGNiG) are making investments in the energy sector. Efforts are also made to transform the business models of

energy groups, place conventional energy into separate entities and focus activities on RES, distribution and supply of electricity and new products. Changes should also be expected with respect to the functioning of the energy sector on the Polish market, in this regard work is underway on the government programs for mining and coal-based energy.

In terms of the macroeconomics, in the coming years, it is assumed that the growth in demand for electricity will be continued. Despite the expected decline in the energy intensity of the Polish economy, stabilization of the economic growth rate and the improvement of energy efficiency, there will be an increase in electricity consumption per capital. This will be the consequence of the development of electromobility and the wider spreading of the use of electricity, for example, for heating purposes in connection with counteracting low emissions. The electrification of heating (combined with an increase of the importance of district heating) will be rising along with a growth of environmental awareness and the intensification of activities related to smog reduction. In the coming years, the development of new energy storage technologies to a level that would enable their cost efficient implementation on a system-wide scale should not be expected. Significant regulatory restrictions on the use of fossil fuels for electricity production and energy price volatility due to the large share of uncontrollable (intermittent) sources can be an impulse for the wider spreading and use of energy storage facilities for system purposes. The nature of transmission systems and distribution grids is changing from the traditional direction of energy flow from the power plant to the transmission system, and further to the distribution grid and customers, to increasing flows in the opposite direction, i.e. from the low voltage grids to the higher voltage grids. This forces undertaking investment activities aimed at grid metering, including data transmission and IT systems supporting network management in order to maintain stability through flow control (load capacity of network elements), voltage and short-circuit power control. The low and medium voltage networks require large expenditures on modernization, so that they can absorb the avalanche of distributed generation installations. Distribution grids, especially in areas with low electricity consumption density, become a guarantee of stability and security, as well as a kind of "energy storage" for the prosumer sources and the other renewable energy sources.

According to TAURON Group, the most important issues that will affect the energy sector until 2025 include:

- European and national regulations: further reduction of CO2 emissions resulting in increased prices of emission allowances, increased obligation with respect to the share of electricity from renewable energy sources and increased energy efficiency; implementation of Poland's Energy Policy until 2040,
- limitation of financing possibilities for investments in coal assets by the financial sector,
- decommissioning of some conventional generating units due to the high costs of adaptation to the more stringent environmental requirements and their deteriorating competitive position versus other energy sources,
- integration of the European energy market and the reduction of the importance of the local markets in favor of the regional markets related thereto, rising capabilities for physical cross-border flows,
- ability to separate self-balancing areas, e.g. energy clusters, and the ability to provide additional services for them (balancing, aggregation, DSM, capacity reservation, etc.),
- development of technology related to energy storage,
- fast growth of the prosumers and the need to provide services at an appropriate quality level - timely implementation of the PV installation grid connection.

Medium term outlook

In terms of electricity generation, the fast development of renewable energy sources is forecast to continue in the 2025-2030 time frame. A further decrease in the costs of installing renewable energy sources and the development of electricity storage facilities will be of significant importance. Technological changes for wind farms, with favorable regulations, will translate into the repowering of installations, thus increasing the capacity and improving the efficiency of their utilization. The development of energy storage will have a positive effect on the stability of electricity supply. The EU level regulations will continue to support the development of renewable energy sources and at the same time impose the ever higher costs and restrictions on conventional energy, making it permanently unprofitable.

It is estimated that intensive expansion of photovoltaic installations in Poland will continue further. According to the forecasts provided in the PEP 2040, an increase in capacity in PV installations up to more than 7 GW is expected in 2030. As regards the development of wind capacity until 2030, the PEP 2040 indicates an increase in offshore wind installations' capacity to approx. 3.8 GW, and in onshore wind installations' capacity - approx. 9.6 GW. By 2030, further shutdowns of unprofitable coal-fired units will take place. However, there is a chance for large, modern conventional power generating units, the main role of which will be to stabilize the national power system. However, it is assumed that their functioning will be directly dependent on the condition of climate and environment at the end of the third decade of the century. The expansion of flexible gas-fired units is also considered. It is estimated in the PEP that approx. 4 GW of generation capacity will be retired in the 2026-2030 time frame. As a consequence it is forecast that the share of coal in the national energy mix will decrease significantly.

The most important factors affecting the level of electricity demand include a further improvement of energy efficiency and, at the same time, still large potential for electricity consumption growth. Consumer awareness will be increasing further in connection with the digitization processes, access to the prosumer installations and smart grid solutions. An ever broader range of services based on the smart grid infrastructure, in particular smart meters, is assumed. The role of the demand side management services (DSR/DSM) will also increase, which will largely result from the development of smart technologies and market mechanisms. Due to the avalanche growth of prosumer installations, there will be a need to further develop transmission systems and distribution grids in order to adapt them to greater load variability, as well as to support bi-directional flows. A great opportunity is the growing awareness of threats to air quality resulting from low emissions and transportation. The generation sector, with the introduction of appropriate regulations, may become the greatest beneficiary of changes in the way energy is used for heating and transportation. At the same time, it will be a challenge for distribution grids and district heating networks, which will have to take into account an increase in loads. Growing energy awareness in combination with increasing energy costs will cause more and more interest in energy efficiency, energy saving and in-house production of energy from RES. Economic incentives and better technologies will result in the intensification of thermo-modernization activities and increased purchases of less and less energy-consuming devices (including in households). Additionally, the popularity of pro-ecological behavior will grow. More and more customers will accept the higher cost of electricity, provided it comes from ecological generation sources.

Long term outlook

According to available forecasts, the role of the renewable sources will be steadfastly growing at the expense of the conventional ones in the long term. Renewable energy sources are gaining their share in the global energy system faster than any other fuel in history. The British conglomerate BP, in its Annual Energy Outlook 2020, estimates that by 2040 renewable energy sources will be the main source of energy in the world, and in addition, the production of electricity from the wind and PV sources will dominate in all of 3 scenarios for the development of the electricity production market (Rapid, Net Zero, Business-as-usual). Renewable energy will be pushing out coal-based energy over the next two decades and will replace coal as the main source of electricity generation in 2040. In the longer term, there will also be a significant transition of our national energy mix by increasing the share of renewable energy sources to more than 60% by 2040, as well as potentially nuclear energy and a simultaneous further decline in the share of carbon sources. Taking into account the rising costs of coal-based energy as a result of the climate policy, its importance will be marginalized. In the time frame up to 2050, the greatest challenge for Poland will be to ensure stable electricity supplies to support the country's economic growth with increasing wealth levels, with the simultaneous need for energy transition through investments in low-emission technologies. The future of the energy sector will depend not only on its environmental impact, but also on the required adaptations to climate change. Changes in climatic conditions will have an impact on the conditions of electricity distribution or changes in the demand for electricity and heat. Infrastructure will require preparation for the effects of extreme weather and climate related events, which may cause direct damage (e.g. hurricanes, intense storms, hail, rime and snowfall may damage transmission and distribution lines), as well as indirect damage, being the long-term consequences of extreme weather and climate related events (e.g. droughts or floods). In the long term, the possibility of the emergence of breakthrough technologies on the market that can significantly affect the energy business, e.g. fuel cells, should be taken into account. It is forecast that hydrogen technologies will be spreading widely in energy, manufacturing industry and transportation, ammonia will be used on a large scale as one of the hydrogen fuels, energy storage technologies will be significantly developed and new energy transmission technologies will be developed. In the scenario with no breakthrough technologies, the energy sector will most likely expand in an evolutionary manner, based on the already known and commercialized technologies.

It is also possible that the years 2030-2040 will be a period during which a deep review of economic development scenarios, depending on the intensity of climate change, will be required. If the ultimate temperature increase estimated for that time frame exceeds 2 °C, then we are forecasting a further tightening of environmental standards towards a substantial reduction of the CO₂ emissions and extremely stringent emission standards for nitrogen and sulfur oxides as well as mercury and dust. Tightening climate policy will result in a reduction in the supply of the CO₂ emission allowances under the ETS, which will lead to a significant increase in the prices of these allowances. In the event that global temperature forecasts indicate an increase below 2 °C, a scenario where high-efficiency profitable coal assets will be maintained is possible, with a simultaneous reduction of emissions through the development of low and zero-emission generation sources and limited expansion of coal fired assets, conditioned on the demand for coal fuel and the possibility of obtaining it at competitive costs.

With the responsible development of the world in mind, the 2030 Sustainable Development Goals were adopted by all UN member states (193 countries in total, including Poland) in September 2015, setting the framework for an action strategy based on the concept of sustainable development. The agenda presents 17 sustainable development goals, and 169 detailed tasks related thereto, to be achieved by 2030. The following UN goals provide the framework for the formulation of policies for the sustainable development (growth) of economies worldwide:

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Clean and Affordable Energy
8. Economic Growth and Decent Work
9. Innovation, Industry, Infrastructure
10. Reducing Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice and Strong Institution
17. Partnership for the Goals

Figure no. 22 presents the UN Sustainable Development Goals.



Figure no. 22. UN Sustainable Development Goals 2030 (the so-called Agenda 2030)

Source: website

European energy companies place a great weight on the implementation of the UN Sustainable Development Goals, as they emphasize it in their reports and stock market publications. Figure 23 presents the Goals on which selected European energy companies focus most in their activities. They are primarily:





-  Goal 7 – Providing everyone with access to sources of stable, sustainable and modern energy at an affordable price
-  Goal 9 – Build resilient (stable) infrastructure, promote sustainable industrialization and foster innovations
-  Goal 11 – Make cities and residential settlements safe, resilient (stable), sustainable and supporting social inclusion
-  Goal 13 – Take urgent actions to combat climate change and its consequences



Figure no. 23. Implementation of the UN Sustainable Development Goals by selected European energy companies

Source: Proprietary compilation based on the annual reports and presentations of the European energy groups

TAURON Group also wants to contribute and contributes to the implementation of the UN Sustainable Development Goals in its operations, through the activities indicated below, presented in Figure 24.

Sustainable development of TAURON Group



Figure no. 24. 2030 UN Sustainable Development Goals at TAURON Capital Group

Source: Proprietary compilation

TAURON Group is also supporting other UN goals in its operations, through activities for the benefit of the local community, among others, in the fight against low emissions, educational and information campaigns, engagements in natural environment protection projects, by planting trees in forest areas or caring for the life of animals. The Group also attends national and European discussions as well as projects with respect to climate related energy transition. TAURON Group also cares about the highest standards in relations with customers and stakeholders, based on a two-way dialogue, and in its actions meets the needs of disadvantaged customers and sensitive consumer groups. The Group is guided by the principle of equal treatment of employees, respect for human rights and anti-discrimination

Table no. 18. Main external factors that impact the selection and implementation of TAURON Capital Group's strategic directions

| Political and regulatory | Environmental | Economic and market related | Social | Technological |
|---|--|--|--|---|
| <ul style="list-style-type: none"> European Green Deal – EU climate neutrality by 2050 project Further tightening of environmental standards (related to emissions of pollutants, use of water, waste management, etc.), Need to adapt generating units to the BAT conclusions Winter package and limitation of support systems for conventional energy (EPS 550) EU taxonomy and its impact on the possibilities of financing investment projects in the energy sector RES and energy efficiency directives, EU ETS emissions trading system Operation of the capacity market, support for individual RES technologies Funds for the energy transition and post-covid stimulation of the economy (Just Transition Mechanism, Modernization Fund, EU Recovery Fund and others) Poland's Energy Policy Draft, National Plan for Energy and Climate Risk of introducing regulations in the banking sector leading to an increase in capital allocation ratios for loans dedicated to financing coal assets Work on government programs for the mining industry and conventional energy | <ul style="list-style-type: none"> Increase in average global temperature as a result of greenhouse gas emissions High level of dust air pollution in Poland (smog) High level of greenhouse gas emissions - Poland emits 18% more greenhouse gas per capita into the atmosphere and over 3 x more in relation to GDP than the EU average Increasingly frequent occurrence of extreme weather conditions - droughts, hurricanes, severe heat waves, heavy rains and floods (causing not only the destruction of households, but also of the transportation and energy infrastructure) Further rising of sea levels; irreversible changes in river ecosystems and the Baltic Sea (eutrophication, loss of water biodiversity) Depletion of natural resources Increased importance of the circular economy and minimizing of waste generation Increase in the importance of limiting the effects of sewage, biogenic waste, municipal waste and fuels in seas and oceans | <ul style="list-style-type: none"> Rising electricity generation costs (high prices of CO₂ emission allowances), decreasing economic profitability of coal units Reduction or lack of financing for conventional energy, preferential financing for RES Rising RES generation due to continuously increasing RES cost competitiveness and higher electricity prices, Increase in costs of materials, services and labor Limited possibilities of thermal coal mining (deposits getting more and more difficult to access, lack of coal with appropriate parameters), increase of coal imports for power generation purposes Thermal modernization activities, increase of energy efficiency Generational and competence gap problem Threat to stability of production and supply of electricity, risk of power shortage in the system | <ul style="list-style-type: none"> Increase in anti-carbon sentiment among the public Increase in the society's ecological awareness Willingness to incur higher costs of electricity, if it comes from RES Improvement of the image of companies using energy from RES Increased customer awareness and customer requirements in terms of the quality of services provided and customer service, changing customer needs Change in the customer's approach to the way electricity is consumed Negative perception of waste storage | <ul style="list-style-type: none"> Falling prices for renewable and distributed technologies Fast development of prosumer energy, island, off-grid installations Need to adapt the grid to the two-way electricity flow Development of electromobility Development of energy storage facilities Digitization of the energy sector, development of smart metering Technology development with respect to the circular economy Emergence of energy self-sufficient buildings - Near Zero Emission Buildings |

3.3. TAURON Capital Group's Strategy and the Green Turn of TAURON

In accordance with the current Strategy in place and the Update of the Strategic Directions adopted, the increase in the value of the Group will be based primarily on

- regulated and stable Distribution segment,
- development of low and zero emission sources in terms of greenhouse gas emissions,
- conventional generation assets eligible for support,
- sales of energy and energy related products and services tailored to customer need.

In accordance with the Strategy TAURON Group is and will be investing in the development of low emission and zero emission power generation, primarily through investments in renewable energy sources and grid infrastructure. By 2025 the Group is planning to invest in on-shore wind farms, photovoltaic farms and commence the process of engaging in the construction of off-shore wind farms. With respect to conventional power generation, permanent decommissioning of the highest emitting 120 MW units and, after 2025 – the 200 MW units, is planned. As of the end of 2020, all 120 MW power generating units were shut down, except for the two units at the Stalowa Wola Branch, whose shutdown date was postponed until February 1, 2021 (970 MW in total)., TAURON Group will have installed capacity of approx. 5.7 GW in 2025, of which approx. 28% will be low and zero-emission sources (onshore wind approx. 1.1 GW; PV approx. 0.3 GW; hydro approx. 0.1 GW). 5 wind farms with a total installed capacity of 180 MW were acquired in 2019, and as a consequence TAURON Group doubled its installed capacity in wind technology.

Further investments will allow the Group to achieve an approx. 66% share of low and zero-emission capacity by 2030 (additional 1.2 GW in offshore wind and 200 MW in PV). Thus, at the end of 2030, TAURON Group will have a capacity of approx. 4.6 GW, with nearly 2.3 GW in wind technologies and 0.5 GW in PV.

As part of the update of the strategic directions, the implementation of strategic options was assumed, among others, enhancing the flexibility of the Group's asset portfolio by aligning the mining assets with the Group's planned, declining demand for fuel, divesting the heat assets, reorganizing the Generation segment and equity investments portfolio.

More information on the implementation of TAURON Capital Group's strategy and the update of the strategic directions is provided in the Management Board's Report on the Operations of TAURON Capital Group for 2020, Chapter 1.4. TAURON's Strategy and Priorities.

TAURON Group participates in the works on the systemic solutions that would enable the transition of the hard coal and lignite mining sector, conducted at the government level and has high hopes for such works. The solutions developed should provide the possibility to transform and limit mining operations, while ensuring social acceptance for such process.

Works are underway at the government level on the system that would provide demand for the capacity of the conventional units, which, due to their inability to participate in the capacity market (high emissions level) and low production volume, should be retired for economic reasons. TAURON Group's representatives are participating in these works.

The progressing climate change and its projected effects call for fundamental changes to the role and directions of the energy companies' expansion. In view of the most important trend, which is the transition to a low-emission economy, TAURON Group takes into account, in its activities and strategic plans, the fact that long-term success depends on sustainable development and corporate social responsibility. A manifestation of that is the integration, already at the strategic level, of the financial and non-financial factors, including the environmental and climate related aspects, social impact and governance. It stems from the conviction that in order to exist and grow, a business should be run in a way that takes into account both economic aspects as well as the social or environmental interests, and a balance must be struck among them. Business goals, sustainable development and transition of TAURON Group towards Poland's leading low-emission energy group are implemented in accordance with TAURON Group's Strategy for the years 2016-2025 and the Update of the Strategic Directions - the so-called Green Turn of TAURON.

The implementation of business goals is supported by building and continuously improving the management culture, friendly work environment based on the principles of diversity and compliance, as well as maintaining lasting relations with local communities and developing initiatives with respect to social and business partnership. This approach maximizes benefits for both economic as well as social growth. The activities carried out as part of TAURON Group's sustainable development are based on the 3P model - relating to both economic gain (profit), people associated with the company (people) and care for the ecological aspect of the operations (planet). They are in line with the sustainable development goals for 2015-2030 adopted by the United Nations and comply with the CSR standards defined by the International Standardization Organization in the ISO 26000 standard "Guidance on social responsibility". TAURON Group's priority is customer orientation and ensuring the security of energy

supply, as well as developing a product and service offering that will fully reflect customer expectations. As part of its business activities the Group cares about maintaining good relations with customers by striving for the highest customer service standards, comprehensiveness and quality of the offering. This translates into improved efficiency, increased customer loyalty and satisfaction, or a decrease in the number of complaints. TAURON Group has been undertaking a number of initiatives aimed at minimizing the negative impact of its operations on the natural environment for years. The Green Turn of TAURON, i.e. investments in RES and the transition of the Group's energy mix are among the Group's most important strategic activities in this respect. In the environment protection area TAURON Group sets itself goals that include efficient management, recovery and re-use of the resources, implementing environment management systems (ISO, EMAS), investing in modern technologies, continuous modernization of production assets, optimization of production processes, increasing resource utilization efficiency, educating the society and defining requirements for the suppliers. TAURON Group's employees constitute a key group of stakeholders. The aspects related to building long-term relationships based on diversity, ensuring safety in the workplace, creating development opportunities and an appropriate level of ethical culture and values are important in this regard. TAURON Group also attaches importance to establishing long-term relationships with the company's immediate environment, through activities for the benefit of local communities, cooperation with academic centers and promoting the sustainable development subject among stakeholders and encouraging them to be responsible, as well as conducting a transparent policy of communication with the stakeholders.

The Group's strategic activities in three perspectives are presented below.

TAURON Group's Strategy, along with the Update of the Strategic Directions, is in line with the market and regulatory trends identified in the time frame up to 2025. Until 2025 TAURON Group will focus on ensuring financial stability by increasing operational efficiency and optimizing processes as well as on a sustainable transition related to the change of the Group's energy mix towards reducing emissions. This plan will be implemented through the gradual shutdown of obsolete coal-fired units and the development of low- and zero-emission sources. The main result of the Group's activities will be a change in the energy mix so that low and zero emission sources will constitute approximately 28% of the installed capacity in 2025. At the same time, TAURON will work on improving the quality of distribution services and developing the sales offering.

In the medium term TAURON Group will focus on further reductions of emissions through investments in low- and zero-emission sources, while keeping only modern coal-fired units in the production portfolio. The modernization and expansion of the grid will continue to be an important investment area. TAURON Group is planning to gradually shut down 200 MW coal-fired units in the years 2025-2030. In line with the Group's Strategy the electricity generation segment's main expansion area will be investments in low- and zero-emission sources, including involvement in the development of offshore wind energy. Thanks to the investments in new generation installations and a reduction in the number of coal fired units, the Group's generation mix will change in 2030, when more than 65% of assets will be low- and zero-emission installations, which is in line with the climate policy aimed at reducing emissions. Investments in the modernization and development of a modern distribution grid aimed at maintaining the high level of electricity deliveries will be continued. Being aware of the increase in ecological awareness among the public, TAURON Group is also planning activities related to offering products and services in line with this market trend.

In its long-term planning TAURON Group takes into account the major importance of environment and climate protection related issues. We are currently working on the assumptions for developing a new strategy. The main guideline is to prepare development scenarios that will ensure long-term profitable business operations immune to climate change and, at the same time, minimize the impact of the Group's operations on the environment by reducing the emissions of the generation sources. The scenarios taken into account will depend on the intensity of changes taking place in the environment, in particular on the assumptions of Poland's Energy Policy, the decisions taken by the government as part of the climate initiatives and regulatory directions shaped during the global climate summits. The implementation of the European strategy of climate neutrality by 2050 will determine the shape of the Polish energy sector in the long term, which will also be reflected in the strategic decisions of TAURON Group, whose directional goals and actions should be a consistent response to the European and national guidelines regarding the shape and model of the sector's functioning. TAURON Group will be steadfastly striving to further diversify its generation sources in terms of the fuel used and to modernize its generation capacity.

As a summary, Figure 25 illustrates the response of TAURON Capital Group to the changes in the external environment.

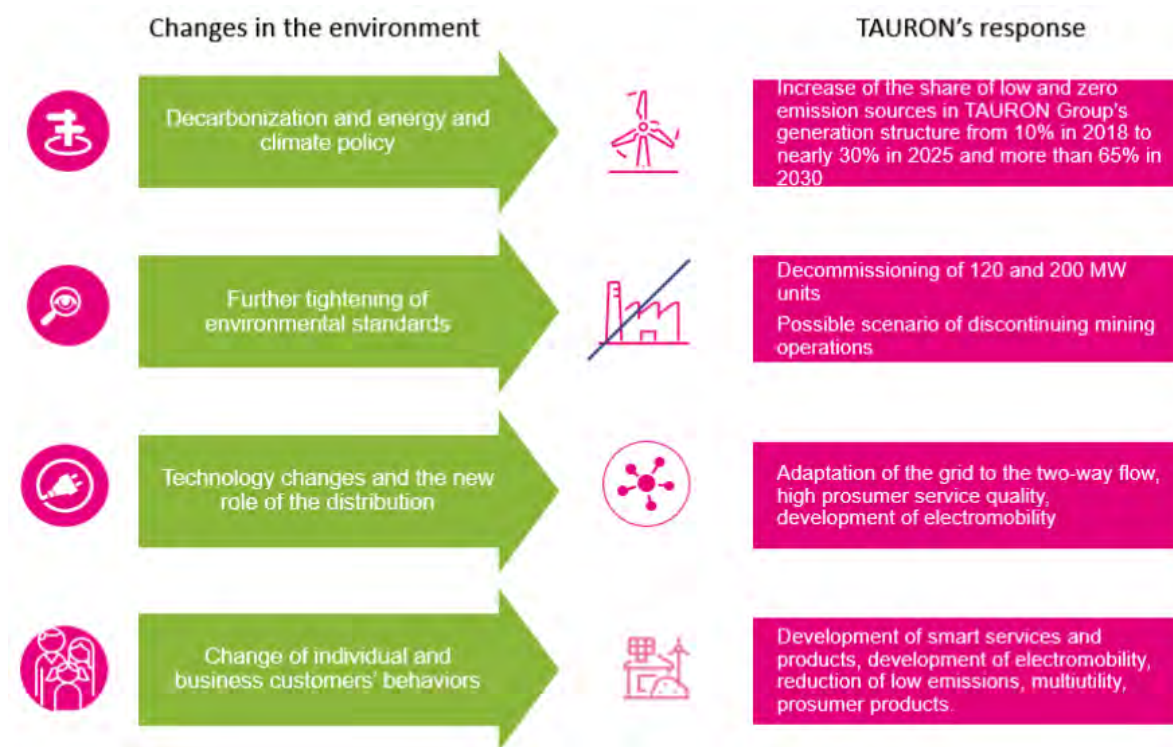


Figure no. 25. TAURON Capital Group's responses to the changes taking place in the external environment

3.4. Key non-financial capital efficiency ratios (metrics, performance indicators) of TAURON Group with respect to the capitals

In order to make the best use of the value levers (drivers) set as part of TAURON Group's Strategy for 2016-2025 (along with the Update of the Strategic Directions of 27 May 2019), as well as to ensure efficient (from the point of view of the individual capitals) implementation of TAURON Capital Group's Sustainable Development Strategy, key non-financial efficiency ratios (metrics, performance indicators) related to the Group's operations are defined.

They are presented in Table no. 19, including their values obtained in 2019 and 2020.

Table no. 19. TAURON Capital Group's key non-financial efficiency ratios (metrics, performance indicators), including their values obtained in 2019 and 2020

| Area of activity defined in TAURON Capital Group's Sustainable Development Strategy | Key non-financial efficiency ratio (performance indicator) | Name of capital / Element related to capital | Ratio (indicator) nature | GRI reference | Value of the ratio (metric, performance indicator) in the year | |
|---|---|---|--------------------------|---------------|--|---------|
| | | | | | 2019 | 2020 |
| Reliability and quality of supply of products and services for the customer | Number of customers of TAURON Capital Group's Distribution Line of Business | Financial capital / Distribution Segment's RAB | Stimulant | EU3 | 221 335 | 216 551 |
| | | Financial capital / Capital expenditures | | | | |
| | | Financial capital / Cash flow from operating activities | | | | |

| | | | | | | |
|--|---|---|-------------|-----------------|------------|------------|
| | Number of cases of non-compliance and complaints related to products and services of TAURON Capital Group with respect to providing information | Financial capital / Cash flow from operating activities | | | | |
| | | Financial capital / Net profit | Destimulant | 417-2 | 0 | 0 |
| | | Financial capital / Long term rating | | | | |
| | Frequency of planned power outages - number of outages / consumer / year | Financial capital / Cash flow from operating activities (minutes) | Destimulant | EU 28 | 0.28 | 0.19 |
| | | SAIFI | | | | |
| Orientation towards the customer and his/her needs | Number of individual and business customers of TAURON Capital Group's Supply Line of Business | Financial capital / Sales revenue | | | | |
| | | Financial capital / EBITDA | | | | |
| | | Financial capital / EBITDA margin | Stimulant | 102-6 102-40 | 5 511 946 | 5 590 108 |
| | | Financial capital / EBITDA margin | | | | |
| | | Financial capital / Net profit | | | | |
| | | Financial capital / Long term rating | | | | |
| | Value of the Customer Satisfaction Index (CSI) for TAURON Capital Group's customers | Social capital / Implemented and applied TAURON Group's PROClient Social Policy | Stimulant | | 83 | 83 |
| | Percentage share of TAURON Capital Group's RES installed capacity in the Group's total installed capacity | Production capital / Installed capacity in hydro, wind, solar and biomass fired power plants and combined heat and power plants | Stimulant | | 12% | 10.5% |
| Environment protection | Percentage share of TAURON Capital Group's electricity production based on RES in the Group's total electricity production | Production capital / Electricity production by hydro, wind, solar and biomass fired power plants and combined heat and power plants | Stimulant | EU2 | 11% | 17% |
| | | Production capital / Heat production by biomass fired combined heat and power plants | | | 6% | 9% |
| | | | | | | |
| | | | | | | |
| | Direct greenhouse gas emissions by TAURON Capital Group – (tCO ₂ e) | Natural capital / Direct greenhouse gas emissions – CO ₂ (tons) | Destimulant | 305-1 | 12 215 945 | 10 093 648 |
| | Total weight of non-hazardous waste (including UPS and UPW) generated by TAURON Capital Group | Natural capital / Total amount of non-hazardous waste (including UPS and UPW) (tons) | Destimulant | 306-2 | 1 366 974 | 1 729 672 |

| | | | | | | |
|--|--|--|-------------|-------|---------|---------|
| | | Intellectual capital / | | | | |
| | Number of meetings with trade union organizations at the Group's subsidiaries | Social capital / Human capital Developing relationships based on dialogue / Organizational culture based on PRO values | Stimulant | | 329 | 334 |
| | | Human capital / Number of employees | | | | |
| | Number of employees at TAURON Capital Group | Human capital / Number of trainings courses conducted by Internal Coaches (Trainers) | Nominant | 102-8 | 26 086 | 25 572 |
| | | Intellectual capital / Knowledge and competences of the Group's employees | | | | |
| | | Social capital / Personnel education and development | | | | |
| Work safety, ethical culture and employee engagement | Accident rate at TAURON Capital Group | Social capital / Organizational culture based on Partnership, Development, Boldness values | Destimulant | 403-9 | 7.8 | 8.3 |
| | | Human capital / Share of women among the workforce | | | | |
| | Share of women among TAURON Capital Group's workforce | Social capital / Diversity Policy and Respect for Human Rights Policy implemented and applied | Nominant | 405-1 | 21.4% | 21.5% |
| | | Human capital / Number of training session hours | | | | |
| | Number of training session hours at TAURON Capital Group | Human capital / Number of training session hours | Stimulant | 404-1 | 478 000 | 295 000 |
| | | Social capital / Support for local initiatives through TAURON Foundation | | | | |
| | Number of local and social initiatives that TAURON Foundation has joined | Social capital / Support for local initiatives through TAURON Foundation | Stimulant | | 158 | 144 |
| | | Social capital / Implemented and applied TAURON Group's PROclient Social Policy | | | | |
| Social and business partnership | Number of projects with respect to corporate social responsibility implemented by TAURON Capital Group | Social capital / Developing lasting relationships and active dialogue with the stakeholders | Stimulant | | 11 | 18 |
| | | Social capital / Support for local initiatives | | | | |

| | | | | |
|---|---|-----------|---|---|
| Number of TAURON Capital Group's meetings with local communities held in order to provide information on the operations conducted and its impact on the residents | Social capital / Implemented and applied TAURON Group's PROClient Social Policy | Stimulant | Continuously, in line with the ongoing operations | Continuously, in line with the ongoing operations |
| | Social capital / Developing lasting relationships and active dialogue with the stakeholders | | | |
| | Social capital / Support for local initiatives through TAURON Foundation | | | |

| | | | | |
|---|---|-----------|---|----|
| Number of initiatives implemented by for the employees and communities, related to counteracting COVID-19 | Social capital / Developing lasting relationships and active dialogue with the stakeholders | Stimulant | - | 11 |
| | Social capital / Support for local initiatives | | | |

3.5. GRI indices described in this section

- GRI 102-2 Activities, brands, products, and services
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes in the organization in the supply chain during the reporting period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 201-1 Value added generated and distributed
- GRI 201-4 Government support - state ownership
- GRI 203-1 Investments w products and services

4. TAURON CAPITAL GROUP'S POLICIES AND DUE DILIGENCE PROCESSES AND THE PRESENTATION OF THE RESULTS OF THEIR APPLICATION

In order to systematize the activities conducted, as well as to precisely define the objectives and periodically monitor the degree of their implementation, the Management Board of TAURON Polska Energia adopted the following Policies for use at TAURON Capital Group:

- TAURON Group's Customer Oriented (PRO-customer) Social Policy (PROClient Social Policy),
- TAURON Group's Diversity Policy,
- TAURON Group's Environmental Policy,
- TAURON Group's Climate Policy,
- TAURON Group's Human Rights Respect Policy,
- TAURON Group's Human Resources Policy,
- TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy,
- TAURON Group's Anticorruption Policy,
- TAURON Group's Work Health and Safety (WHS) Policy,
- Strategic Research Agenda,
- TAURON Group's Corporate Purchasing Policy,
- TAURON Group's Subsidiaries Contractors (Counterparties) Code of Conduct Policy,
- Personal Data Protection Policy for TAURON Group entities,
- TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.

The above mentioned documents ensure compliance of TAURON Capital Group's operations with the requirements specified in art. 49 b, clause 2 and 3 of the Accounting Act. They also represent an important part of conducting a transparent communication policy with the numerous stakeholders of TAURON Capital Group, who may familiarize themselves with the annually published reports on their implementation.

Each of the above documents contains an exhaustive description of actions taken by TAURON Capital Group's subsidiaries to achieve the intended goals in the given area. The following sub-sections present the main principles, methods and tools implemented by TAURON Capital Group under the individual policies and the results of their application in 2020.

4.1. TAURON Group's PROClient Social Policy

Pursuant to TAURON Group's Strategy for 2016-2025 adopted in 2016, the vision according to which TAURON strives to be a company that is best responding to customer needs in the Polish energy industry was defined. Based on the above, in 2017 the Management Board of TAURON Polska Energia S.A. adopted TAURON Group's PRO Client Social Policy for use.

The document is aimed at developing appropriate organizational and business conditions required to achieve the strategic goals of TAURON Capital Group with respect to customer and market environment relations.

The policy is a collection of main assumptions applied in the customer sales and service process. It also defines measures taken by TAURON Capital Group as part of a dialogue with the customers, highlights the importance of developing long lasting relations both with the customers as well as with the market environment, and it also defines the responsibilities lying on the company's side with respect to this very large (the number of TAURON Capital Group's employees is presented in Table no. 20) and extremely significant group of stakeholders.

Table no. 20. GRI EU 3. Number of TAURON Capital Group's individual and business customers as of December 31, 2020

| Supply group type | Supply Line of Business | Transmission and Distribution |
|-----------------------------------|-------------------------|-------------------------------|
| Individual | 5 164 732 | 17 401 |
| Business (including institutions) | 425 376 | 199 150 |
| Total | 5 590 108 | 216 551 |

Due diligence procedures and internal regulations

By implementing the assumptions of the PRO Customer Social Policy TAURON Capital Group is responding in the best possible manner to customer needs, focusing its efforts on the following principal issues:

- making sure the highest standards are met in the relationships with the customers, based on transparency, mutual respect and trust,
- continuous bi-directional communications, based on a dialogue,
- surveying customer opinions (feedback), experiences and expectations,
- responding to customer needs through a clear offering, satisfying their needs and meeting expectations.

Marketing research

Due diligence procedures implemented as part of the PRO Customer Social Policy include primarily periodic surveys. It is important for us to get to know our customers as much as we can and, based on that, to be able to even more fully respond to their needs. The monitoring of the marketing communications is done in cooperation with market analysts. The summary of such surveys conducted in 2020 is presented in Table no. 21.

Table no. 21. Surveys carried out by TAURON Capital Group in 2020 as part of the due diligence procedures

| Subject of the survey | Time when the survey was conducted |
|---|------------------------------------|
| Surveys on products / services: | |
| Service survey: thermal comfort management | 03.2020 |
| Gas potential survey | 03.2020 |
| MOBISTYLE product survey | 03.2020 |
| SME e-invoice service survey | 03.2020 |
| Renewal offering survey | 04.2020 |
| Eco-pea coal survey, purchasing attitudes | 09.2020 |
| Household segment assistance service survey | 09.2020 |
| SME assistance service survey | 10.2020 |
| SME segment CashDirector service survey | 11.2020 |
| Energy storage purchase customer satisfaction survey | 12.2020 |
| Monitoring of coherence and transparency of the marketing communications, including in particular the communications related to the new products and offerings, including: | |
| Survey on effectiveness of the campaign and campaign spots "Service ace from TAURON" („As serwisowy od TAURONA") | 09-12.2020 |
| Mystery shopper research at Customer Service Centers and Partner Outlets (2 waves) | Q3, Q4.2020 |
| Survey on awareness of assistance product possession by customers – household segment | 09.2020 |
| Survey on familiarity with TAURON offering | 12.2020 |

Meeting the needs of disadvantaged customers and sensitive consumer groups

As part of the due diligence procedures also educational activities addressed to the disadvantaged groups, first of all customers sensitive to energy pricing and seniors, were conducted. The summary of such surveys and their quantity conducted in 2019 is presented in Table no. 22.

Table no. 22. Educational activities carried out by TAURON Capital Group in 2020 as part of the due diligence procedures

| Information campaigns | Activities conducted as part of the campaign |
|---|---|
| <p>E-book „Bezpieczeństwo pod kontrolą z TAURONEM” (Safety under control with TAURON)</p> <p>campaign promoting good practices of safe use of the Internet. The e-book was addressed to TAURON's customers, with particular emphasis on the elderly, who are most exposed to cybercrime. The campaign was also to familiarize customers with the new requirements for login passwords to TAURON websites, explaining where the need for this type of security comes from</p> | 4.7 thousand ebook downloads from the My TAURON (Mój TAURON) service |
| | Promotion on industry and local portals |
| | Promotion in social media |
| | 2.3 thousand completed quizzes on safety. |
| | Quiz available on local web portals. |
| <p>E-book „Fotowoltaika dla domu” (Photovoltaics for a house)</p> <p>It is a comprehensive source of information on photovoltaics for individual customers. The publication was aimed at increasing the knowledge and awareness of photovoltaics among household owners. In addition, the guide aimed to highlight the benefits (ecological and economic) of photovoltaic installations for individual customers.</p> | more than 27 thousand unique viewings of article on safety on local web portals |
| | Information printed on payment forms sent to customers |
| | Wide-ranging online campaign |
| | Dedicated landing page – www.tauron.pl/ebook |
| | Promotion of the publication in industry and national media (online and press) |
| <p>REPORT „Naprawiamy czy wyrzucamy” (We repair or throw away)</p> <p>TAURON Sprzedaż published the report "We repair or throw away" in 2020. The document is a compilation of information in a nutshell on Poles' attitudes regarding the purchase of new home electronics/household appliances, repair of devices in the event of a failure, as well as dealing with old devices suitable for disposal. The report was prepared on the basis of a study commissioned by TAURON. 1000 respondents from all over the country took part in it. The report was divided into three areas: Purchase of new equipment, Failures, repairs and Electro-waste. The main purpose of the publication of the report was to educate the company's customers in terms of care for the natural environment. Promoting ecological attitudes among customers.</p> | Promotion in social media |
| | Promotion on industry portals |
| | Paid online campaign |
| | 60 mentions in the media (press, internet TV) |
| | Paid online campaign |
| <p>E-book „Naprawiamy” (We repair)</p> <p>The "We repair" guide is one of the elements of TAURON's campaign promoting ecological attitudes - encouraging to repair broken home electronics/household appliances. The guide includes, among others practical advice on the profitability of repairing various types of devices, as well as information on the global scale of the problem of electro waste and tips on how everyone can contribute to combating this problem.</p> <p>The guide was available to TAURON customers who have an account in the My TAURON service, as well as to those who visited the tauron.pl/servisanci website.</p> | Approx. 15 000 e-book downloads |
| | Creative mailing to 30 editors |
| | Promotion among TAURON's customers (My TAURON service, mailing) |
| | Promotion of the publication in the industry online services |
| | More than 3 000 e-book downloads |

| Information campaigns | Activities conducted as part of the campaign |
|---|--|
| Competition „Świąteczna moc dEKOrowania” (Christmas power of dECOrating) | Information campaign on YT (3 training videos) |
| In December 2020, TAURON organized a nationwide competition called "Christmas power of dECOrating". The competition's task was to make Christmas decorations from waste - waste paper, plastic or metal. Any technique of performing the work was allowed, it was important that the materials used should be given a second life. | Promotional video shown in the VOD service |
| | Almost 4 000 participants |
| | Almost 12 thousand photographs sent |
| The ecological competition was aimed at promoting ecological attitudes - drawing attention to the fact that every person, by changing their habits, can contribute to the fight against the global problem of excess waste and its disposal. The competition is primarily aimed at providing education with respect to recycling, upcycling and appropriate waste management. | 40 laureates |

Customer service through the highest quality sales and service channels

Seniors, pregnant women, persons with young children and the disabled are treated as privileged persons in TAURON Capital Group's stationary contact channel,.

In 2020, for privileged persons, at Customer Service Centers (Punkty Obsługi Klienta - POK):

1. Provision of priority service was continued;
2. Priority service marking was maintained:
 - in the form of internal marking in waiting rooms for customers,
 - in the form of marking on queuing machines at POKs with a queuing system,
 - in the form of marking parking spaces for the disabled, at POKs' parking areas.

In the telephone contact channel for the disabled people and seniors the following services were provided::

1. Telephone support with the filling of the Application to conclude a contract after the death of a party to the contract. A courier was added to the process, who would deliver the completed application to be signed by the new consumer.
2. The number of customer contact numbers was optimized and a new IVR was implemented for the service hotline.

In the online channel:

1. Handover and Acceptance Protocol (PZO) and the Application to conclude or amend a contract (WOZ) were digitized – a customer can conclude / assign the contract without the need to visit the Customer Service Center, as well as without having to download the application from www.tauron.pl, print, scan and ship it.
2. Functionality of the website: www.tauron.pl, on which it is possible to increase the contrast and font size was maintained.

Responsibility towards the customer at the time of the SARS-CoV-2 pandemic

In connection with the COVID-19 pandemic, pro-customer solutions that make it possible to resolve issues without leaving home have been introduced and promoted:

1. Virtual POK has been launched <https://www.tauron.pl/dla-domu/obsługa-i-pomoc/wirtualny-pok>, where all issues that can be resolved by the customers without leaving home are accessible.
2. TAURON's automatic assistant, chats and chatbots, that demonstrate customers how they can resolve their issue, have been implemented.
3. Tools have been implemented that allow the customer to perform, in the self-service mode, popular processes with respect to settlements, such as changing the forecast amount or changing the tariff group.
4. Documents digitized in 2019 have been promoted among customers:
 - Handover and Acceptance Protocol (PZO),
 - Application to conclude or amend a contract (WOZ),

thanks to them, the customer can conclude/transfer the contract without the need to visit a Customer Service Center (POK), as well as without the need to download an application from the website www.tauron.pl, print, scan and send it.

5. The customer service and My TAURON (Mój TAURON) mobile application have been promoted, using which the customer independently resolves issues related to electricity and gas.

In 2020, TAURON Dystrybucja improved the quality of service in the process of accepting micro-installation applications by introducing an online form for submitting micro-installation grid connection applications - ZM forms. The service of sending the grid connection conditions to customers' e-mail addresses was launched, in compliance with the sensitive information protection rules. The forms of applications used in the process of connecting to the grid contain information encouraging to use the possibility of submitting such applications in the electronic version on the website tauron-dystrybucja.pl. New content was published on the tauron-dystrybucja.pl website, describing the connection process, prepared by the language consultant involved in the TAURON speaks the way humans do project (TMPL).

To ensure the safety of its employees and customers, TAURON Group decided to temporarily close its Customer Service Centers (POK). During this time, customer traffic was rerouted to the other customer service channels:

- telephone,
- online (website tauron.pl, customer service channel and mobile application Mój TAURON) and TAURON Dystrybucja website www.tauron-dystrybucja.pl).

After their re-opening the stationary facilities were adapted to all sanitary requirements. Also the requirement to make an appointment by phone via the hotline for the customers with combined contracts 32 606 0 606 and the TAURON Dystrybucja hotline 32 606 0 616 was introduced.

Due to the COVID-19 pandemic, in accordance with the legal regulations introduced TAURON Dystrybucja ceased to suspend electricity supply to customers. The restoration of the right to suspend electricity supply to households and entities for which restrictions on operations or temporary restrictions on the scope of operations were established, took place after 6 months had elapsed from the date of the announcement of the epidemic state or the state of epidemic, i.e. after September 20, 2020.

Temporary restrictions were introduced on the performance of works on the metering systems inside customers' premises (meter readings and maintenance works). The works on the metering systems and related to the rectification of failures that required entry to the premises were carried out with the consent of the customer and with the use of the required personal protective equipment by the relevant personnel.

In order to provide protection against Covid-19, the employees used personal protective equipment, i.e. face masks or face shields covering the mouth and nose, disposable gloves and disinfectants.

When taking readings of the metering systems inside the premises, the representatives of the company first asked for the meter reading without going inside the premises.

In case of premises or persons subject to isolation, quarantine or epidemiological supervision, customers were asked to provide such information upon contact with a TAURON Dystrybucja representative before starting any works. The relevant tasks were carried out at a later, agreed upon date.

Actions taken and results achieved

Among the activities implemented as part of the PRO Client Social Policy, making sure that we provide clear and transparent communication with clients is of key importance. In order to implement this stipulation, we are conducting the "TAURON speaks the way humans do" project, as well as numerous social campaigns.

TAURON speaks the way humans do

"TAURON speaks the way humans do" (TAURON mówi po ludzku - TMPL) is a project implemented for several years, that involves simplifying formal and legal documents, messages and letters addressed to the customers. In 2017, we started cooperation with Tomasz Piekot's Language Workshop, which trained several hundred people, who are in direct contact with customer service, with respect to simplifying the official language used. Language consultants have also been selected who act as ambassadors of simple communication at TAURON Obsługa Klienta, TAURON Sprzedaż and at TAURON Dystrybucja.

As part of the TMPL project in 2020:

- 38 new language consultants were trained - two editions of the online course and the Certification exam conducted by Prof. Piekot,
- requirement to agree upon all documents, messages, and marketing materials with plain language consultants before sending them out to customers or publishing was introduced,
- a website dedicated to the project was updated on the Group's intranet, where users will find: writing style handbook (stylobuk - a handbook of effective communication with customers), information on the consultants and language tips written by the consultants,
- TOK and TS trainers participated in 9-hour workshops: Train the trainer: How to conduct on-line training,

- a two-hour workshop was held - how to use the Teams capabilities in on-line training.

Additionally at TAURON Dystrybucja S.A.:

- 2 training courses for the management personnel were conducted by Prof. Piekot,
- a webinar, preceded by the opportunity to submit questions, was conducted by Prof. Piekot,
- Language Clinic was developed - language consultants write short articles on various aspects of simple language that are published once a month in the TAURON Dystrybucja intranet
- simple language trainers were prepared for online training (train the trainers online),
- 4 stationary training sessions were complete, during which 52 employees were trained,
- 140 templates of letters to customers were linguistically and graphically simplified,
- process of simplifying the content posted on the website www.tauron-dystrybucja.pl has been started

In 2020, TAURON Group also worked on simplifying further letters addressed to customers - nearly 70% of them were changed. Their quantities are shown in Figure no. 26.

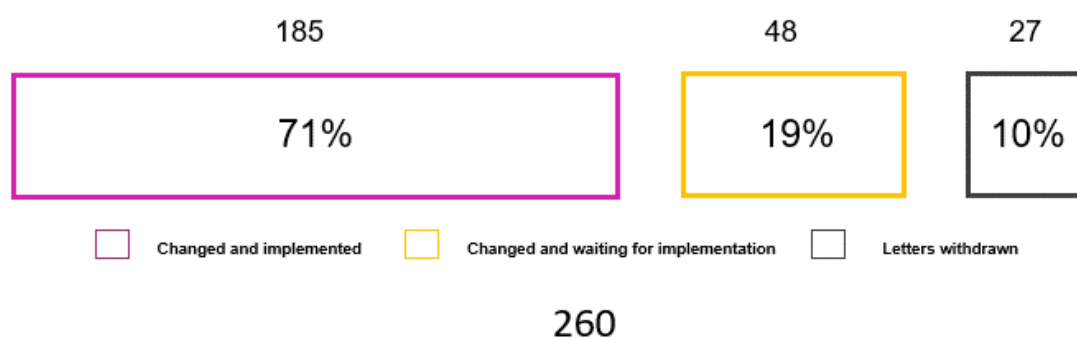


Figure no. 26. Number of simplified letters addressed by TAURON Capital Group to its customers in 2020

The above activities are conducive to the development of processes of reliable and comprehensible information on the products and services offered.

As a result, in 2020, similar as in the previous year, no cases of non-compliance of products and services with respect to the information and labeling thereof, as well as no cases of non-compliance regarding marketing communications were reported in the entire TAURON Capital Group.

In accordance with the principles arising from the PRO Client Social Policy, we are making sure that the marketing message sent by us and our partners should always be not only in line with the law, but also with good practices. The above is illustrated in tables no. 23 and no. 24.

Table no. 23. GRI 417-2. Cases of non-compliance of TAURON Capital Group's products and services with respect to the information and labeling thereof in 2020

| Number of cases of non-compliance with: | TAURON Dystrybucja | TAURON Sprzedaż | TAURON Nowe Technologie | Kopalnia Wapienia „Czatkowice” | Bioeko Grupa TAURON | TOTAL NUMBER OF CASES |
|--|--------------------|-----------------|-------------------------|--------------------------------|---------------------|-----------------------|
| Regulations - resulting in a fine or penalty | 0 | 0 | 0 | 0 | 0 | 0 |
| Regulations - resulting in a warning | 0 | 0 | 0 | 0 | 0 | 0 |
| Internal codes of conduct | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL NUMBER OF CASES | 0 | 0 | 0 | 0 | 0 | 0 |

Table no. 24. GRI 417-3. Cases of TAURON Capital Group's non-compliance regarding marketing communications in 2020

| | TAURON Dystrybucja | TAURON Sprzedaż | TAURON Nowe Technologie | Kopalnia Wapienia „Czatkowice” | Bioeko Grupa TAURON | TOTAL NUMBER OF CASES |
|--|--------------------|-----------------|-------------------------|--------------------------------|---------------------|-----------------------|
| | | | | | | |

| | | | | | | |
|--|----------|----------|----------|----------|----------|----------|
| Regulations - resulting in a fine or penalty | 0 | 0 | 0 | 0 | 0 | 0 |
| Regulations - resulting in a warning | 0 | 0 | 0 | 0 | 0 | 0 |
| Internal codes of conduct | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL NUMBER OF CASES | 0 | 0 | 0 | 0 | 0 | 0 |

Handling of complaints

Complaint handling processes are an effective way of obtaining information on the quality of services provided. Thanks to efficient management, they could be used to improve customer service mechanisms and impact customer satisfaction level.

Complaints addressed to TAURON are coming in by traditional mail, e-mail, telephone, using the forms available on the website www.tauron.pl and via eBOK / My TAURON (Mój TAURON). Subsequently, they are registered in the electronic documentation circulation system (SOD). The complaint handling system in place at TAURON Capital Group in 2019 is shown in Figure no. 27.

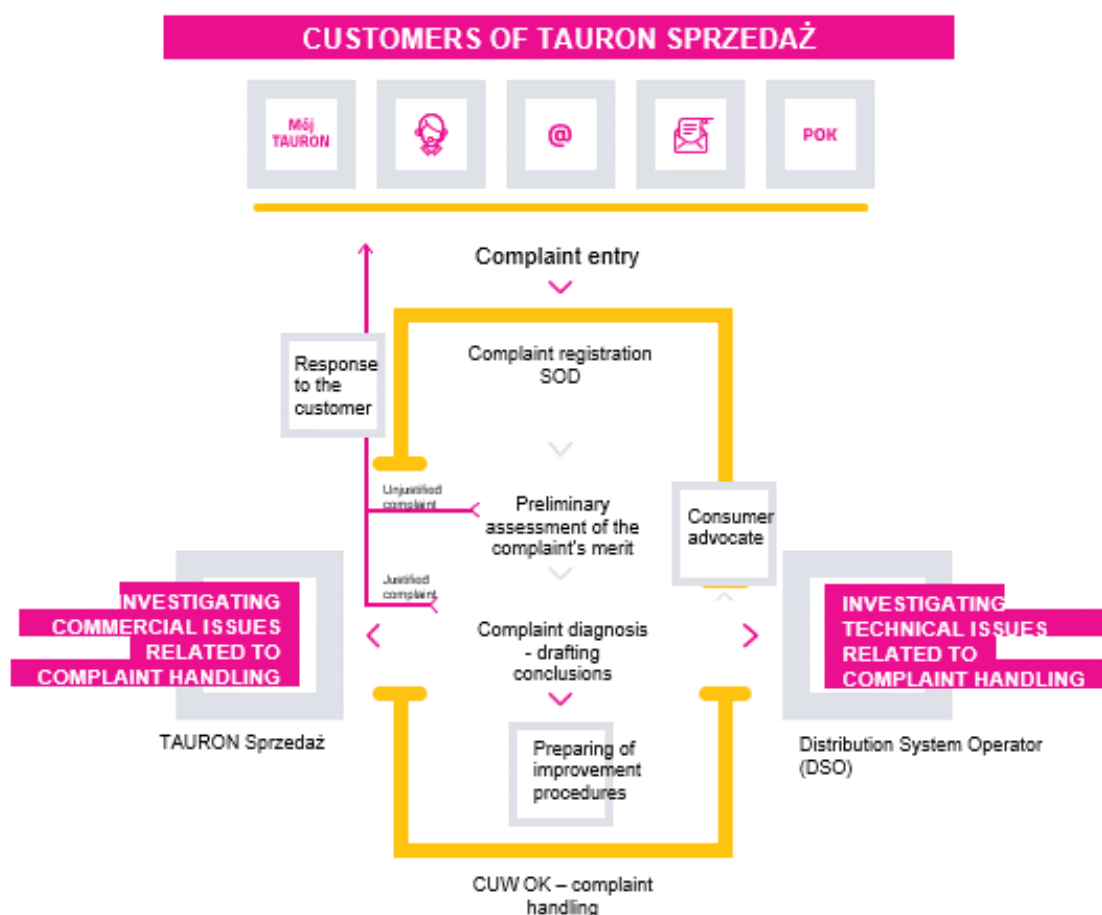


Figure no. 27. Customer complaint handling system in place at TAURON Capital Group in 2019

All comments and complaints are reviewed. The time and manner of response are determined by precise and stringent internal procedures. According to them, each complaint coming from the customer is thoroughly analyzed in order to correctly and effectively identify the causes of non-compliance and determine their place of origin. The fact of an occurrence of irregularities is reported to the owner of the business process who is responsible for implementing corrective actions, for the purpose of an ad hoc review of the complaint and providing an answer. The end result is the introduction of preventive actions in order to eliminate the identified non-compliance in the future. The diagnosed cases, corrective and preventive actions taken are included in the periodically verified, with respect to the repeatability of complaints, Cards of Diagnosis related to the causes of complaints

Establishing of uniform complaint management rules ensures their reliable and timely review, as well as allows to define the principles of cooperation between the Complaint Center and business process owners. The complaint handling system in place at TAURON Dystrybucja since 2019 is shown on Figure no. 28.

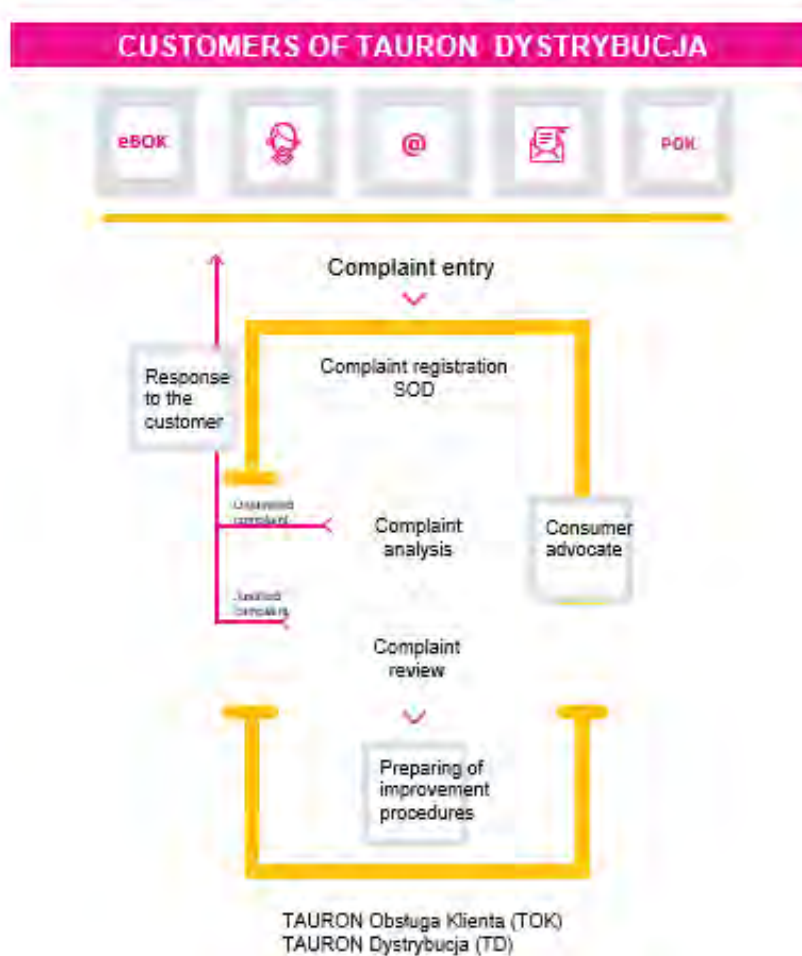


Figure no. 28. Customer complaint handling system in place at TAURON Dystrybucja

In order to best understand the customer's point of view, TAURON Dystrybucja and TAURON Obsługa Klienta (Customer Service) have been conducting periodic workshops, prepared based on the complaints, since 2013. Together with the personnel of the lines of business that the given complaint is applicable to, the causes and potential alternative solutions are analyzed.

This practice contributes to the implementation of a self-learning organization concept.

Customer Satisfaction Index

Customer experience in TAURON Capital Group is understood as the sum of interactions with the customer, not only during customer service, but also at all other points of contact with the company. Experience research in 2020 was carried out each month via online and telephone surveys, and quarterly via the hotline.

They focused primarily on collecting information on the level of customer loyalty (NPS) after going through a given process and on what effort (CES) they put into solving their issue at TAURON.

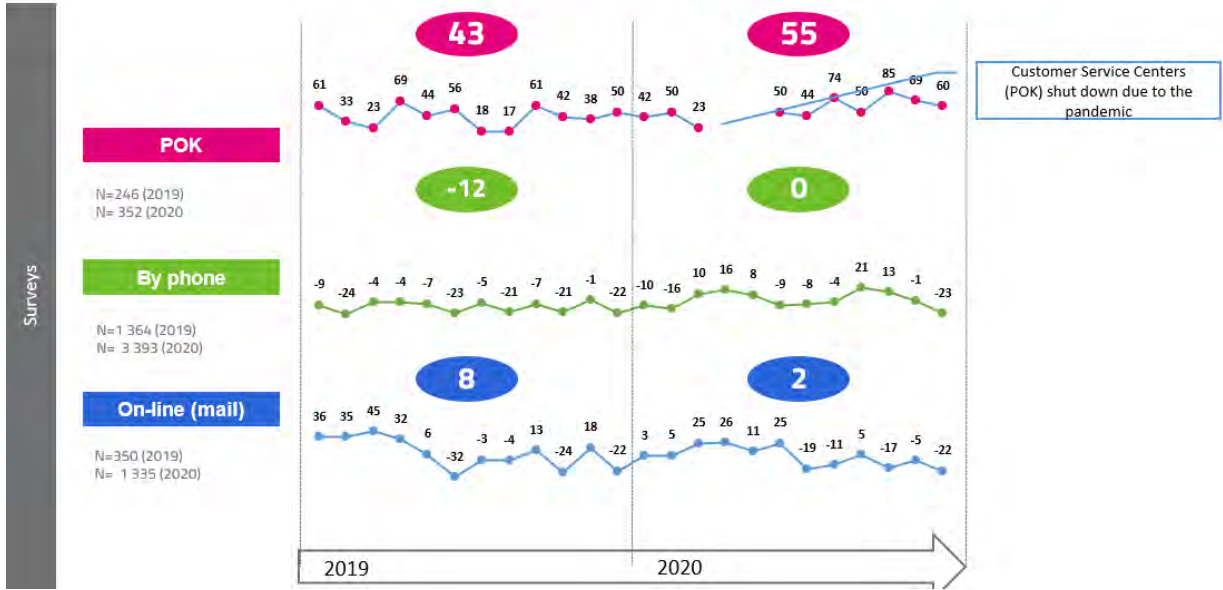
Customer experience surveys are carried out by TAURON Group in two ways:

- 1 Customer experience in areas where the customer is most often dealing with the company directly, i.e. in the process of discussing connections, contracts (agreements), settlements (billing), debt collection and filing a complaint is tested.

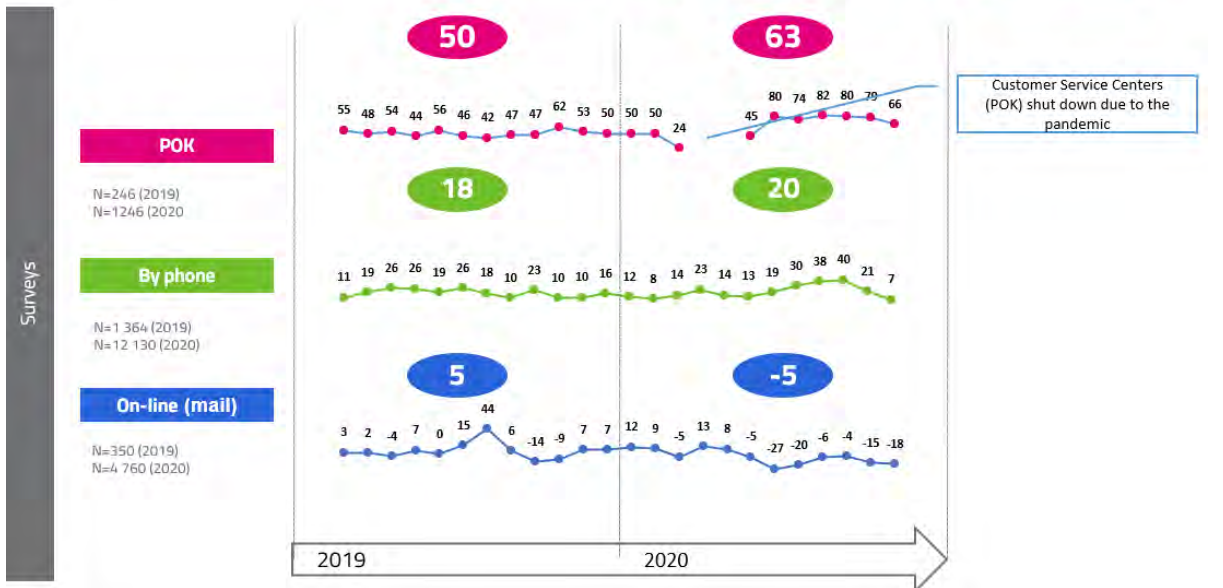
The charts presented on Figures no. 29 and no. 30 show the loyalty level (NPS) of customers following the given process that they have participated in and what effort they put into solving their issue at TAURON (CES).

The results obtained indicate what improvements and changes should be introduced to meet the customers' expectations regarding the customer service provided. The complaint area has been covered by the research since August 2020, hence there is no reference to the previous year.

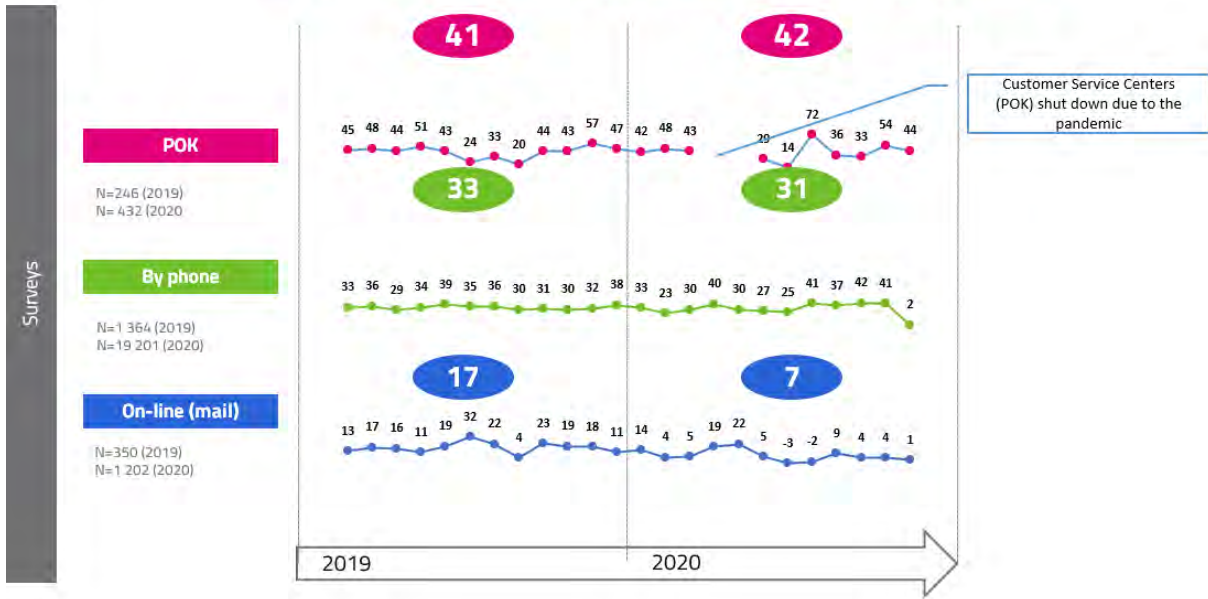
NPS- results with respect to grid connections



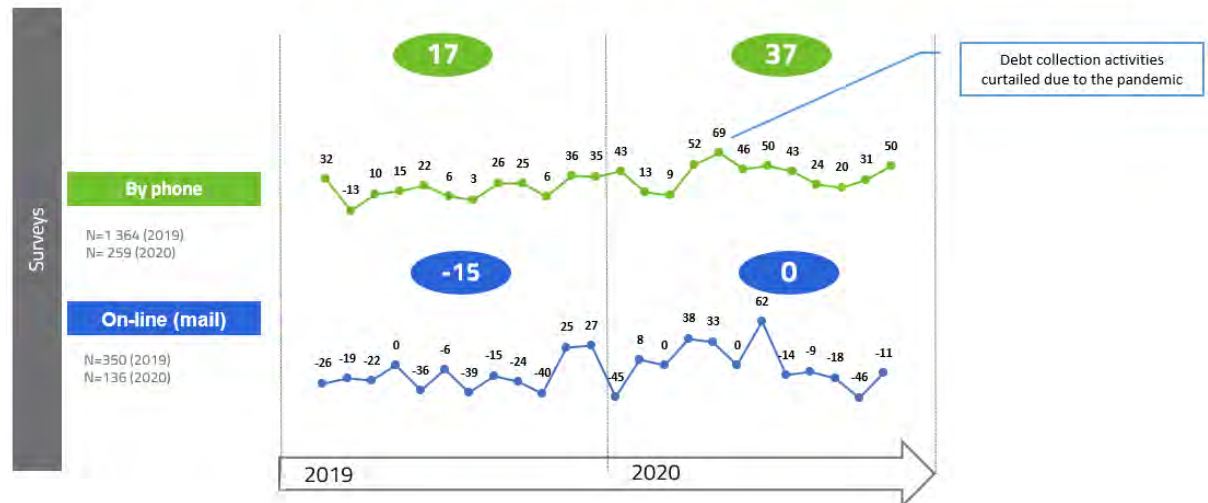
NPS- results with respect to contracts (agreements)



NPS- results with respect to billing and payments



NPS- results with respect to debt collection

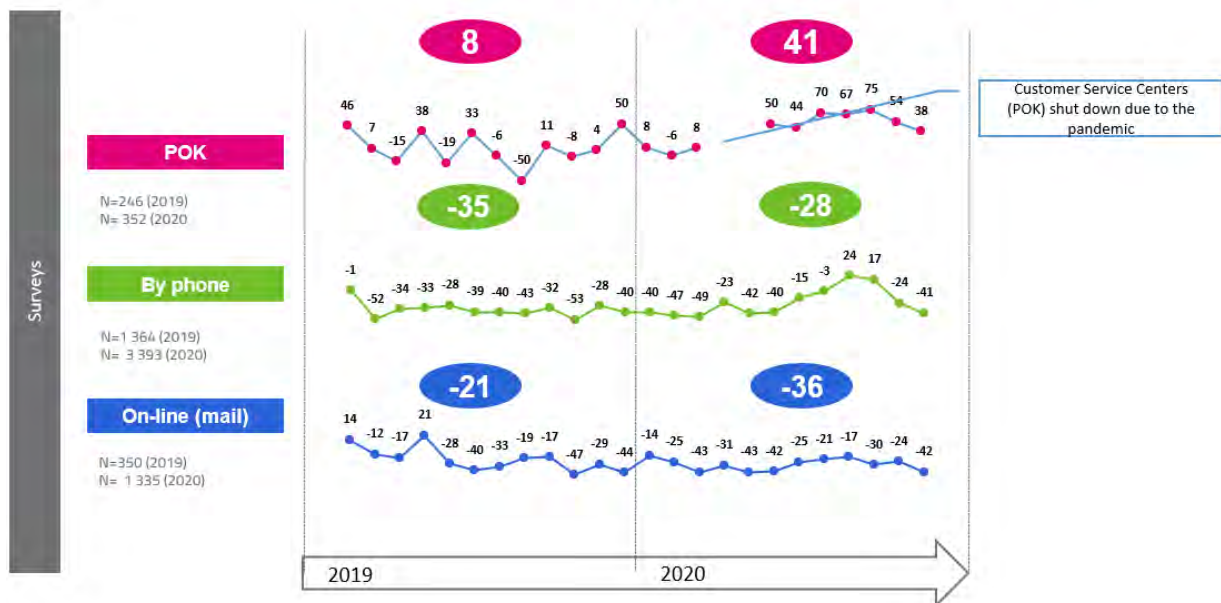


NPS- results with respect to complaint handling

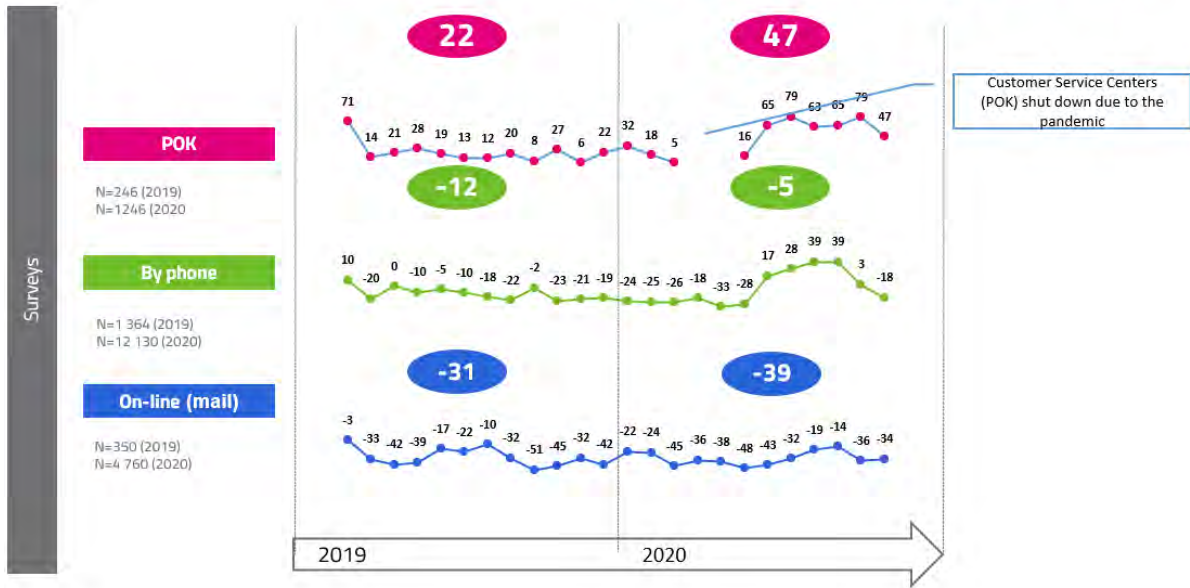


Figure no. 29. Results of the customer loyalty level (NPS) survey among customers from TAURON Capital Group's household segment in 2020, as compared to 2019

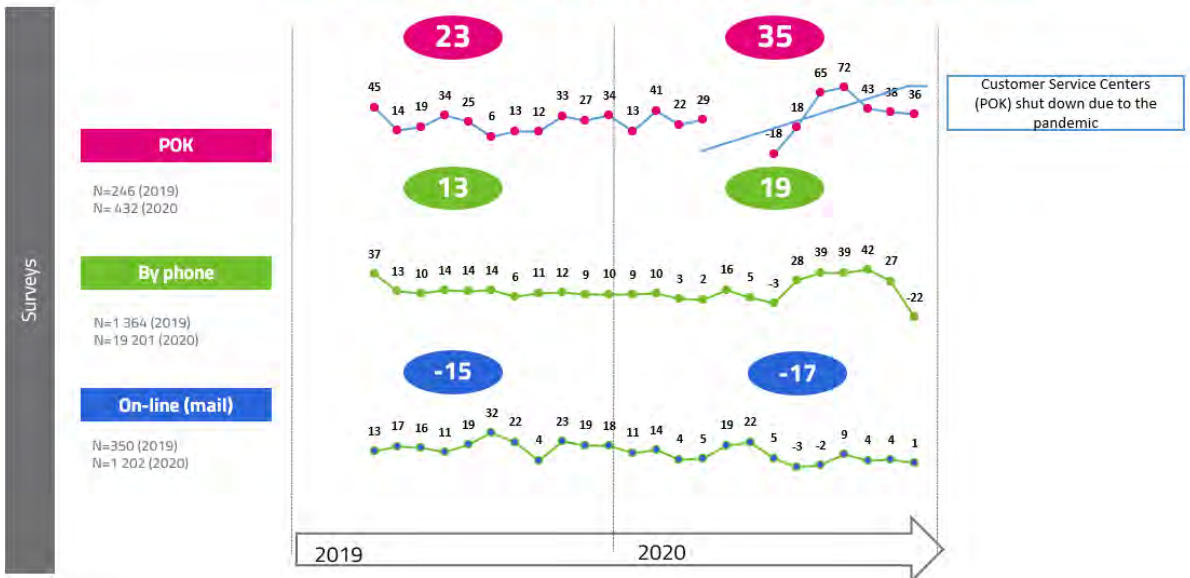
CES- results with respect to grid connections



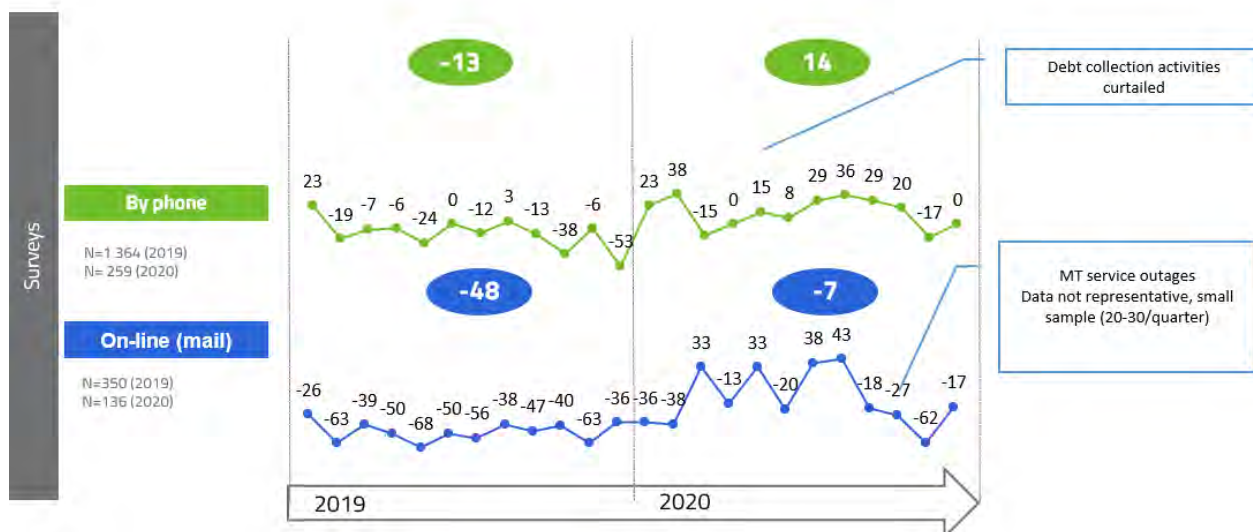
CES- results with respect to contracts (agreements)



CES- results with respect to billing and payments



CES- results with respect to debt collection



CES - results with respect to complaint handling

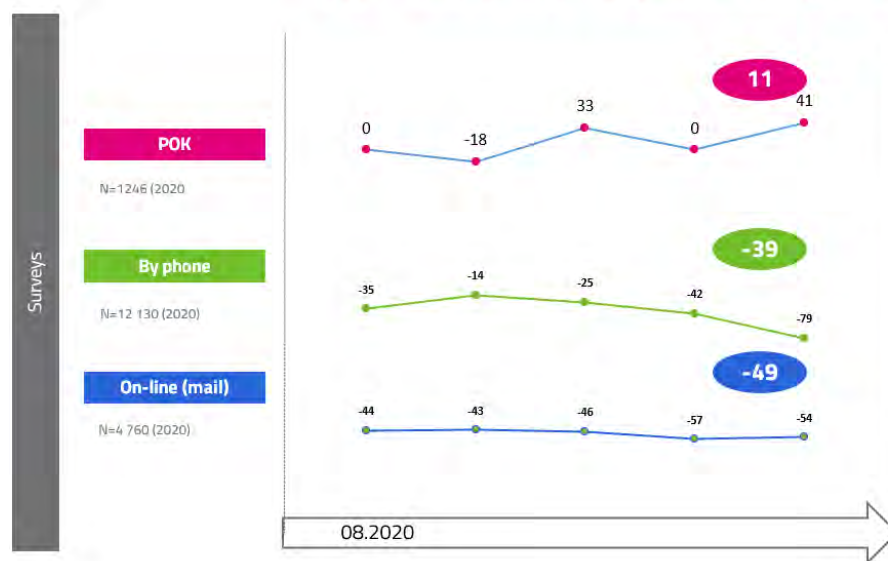


Figure no. 30. Results of the customer effort (CES) survey among customers from TAURON Capital Group's household segment in 2020, as compared to 2019

2

Once a year, through an independent research agency, we also analyze customer satisfaction level in the following segments: households, small and medium enterprises, business. As part of this study, it is also important for us to find out how TAURON Group ranks against the competition

Each time a randomly selected group of TAURON's customers and a group of customers of other energy companies - Enea, PGE, Innogy and Energa, take part in the survey. In accordance with the schedule, the study was conducted in August and September 2020 by PBS sp. z o.o. agency.

Figure no. 31 presents the results of the customer satisfaction survey conducted in the household segment, as compared to the previous years.



Figure no. 31. Results of the customer satisfaction survey conducted among customers from TAURON Capital Group's household segment in 2020, as compared to the previous years.

In the household segment, the overall customer satisfaction level and the loyalty level are relatively stable. TAURON obtained at least the same high marks as in the previous edition of the survey in almost all of the surveyed areas. The exception is customer service, where a slight drop was recorded, mainly due to the slightly lower results of satisfaction with customer service over the online channels. The image of TAURON has not changed significantly, as compared to the previous edition of the survey, except for the aspect related to taking care of the environment, which, after the decline in 2019, is now attributed slightly more often to TAURON Group. Small positive fluctuations in other image aspects are not statistically significant, but indicate the stabilizing of TAURON's image among the customers.

Customer satisfaction indices among business customers

Stabilization of the main indicator for business customers: satisfaction and loyalty, can be observed for another year in a row. All aspects are assessed at a similar level as in the previous edition of the survey. After last year's drop, there was a slight increase in the satisfaction of business customers with respect to prices, primarily in terms of the offering's price to quality ratio and the solutions offered. Noticeable improvements were also observed with respect to failures and outages, mainly in the context of providing information on the failures.

On the other hand, a decline in the survey results can be observed with respect to contracts, which is first and foremost caused by a worse assessment of the aspect related to TAURON's willingness to negotiate non-price terms of the contract, as well as with respect to products. Customers, slightly less frequently than in the previous edition of the survey, are able to spontaneously, or with assistance, indicate specific TAURON products.

TAURON's image has not changed significantly as compared to the previous edition of the survey. TAURON is perceived primarily as a company that is easy to cooperate with, it is trustworthy, keeps its promises and sticks to its declarations and treats customers with respect. Still the lowest rated image aspect is the one regarding the appreciation of regular customers.

Figure no. 32 presents the results of the customer satisfaction survey conducted among TAURON Capital Group's business customers in 2020.

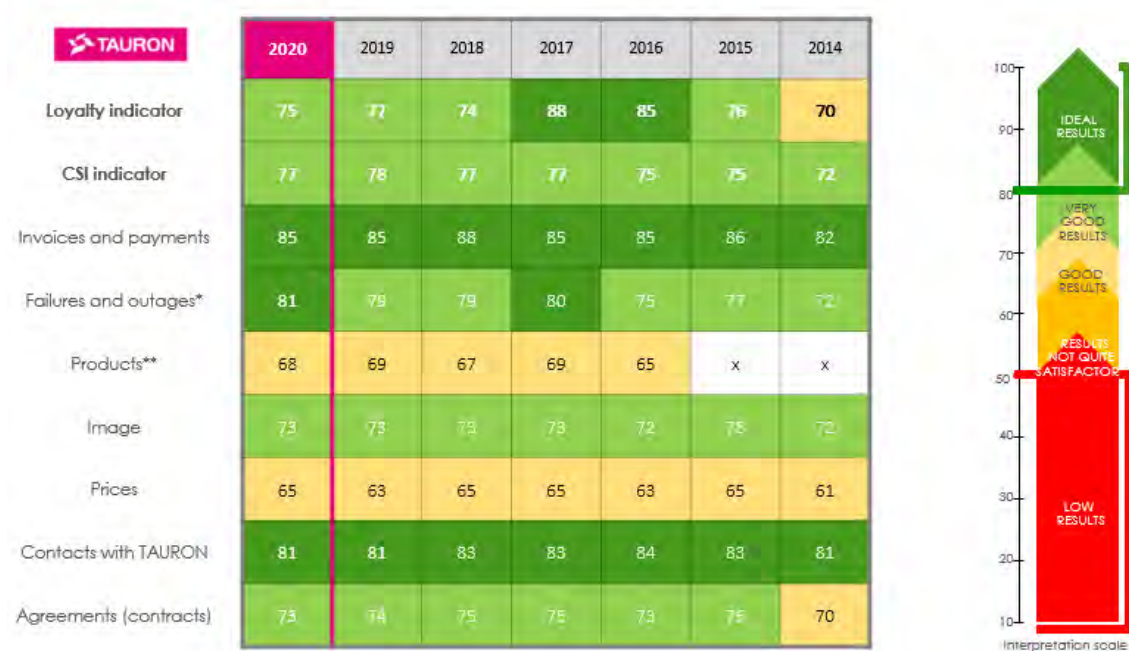


Figure no. 32. Results of the customer satisfaction survey conducted among TAURON Capital Group's business customers in 2020, as compared to the previous years

Customer satisfaction index among small and medium size enterprises (SME)

A slight decrease in the level of general satisfaction and loyalty of TAURON group's customers can be observed in this edition of the survey,. The level of these two main indicators this year is average as compared to the competition. However, it should be remembered that the samples of the competing companies' customers surveyed in the research project were small. Invariably, the most important areas for customers that affect their overall satisfaction and loyalty (directly or indirectly) are failures and outages, prices and tariffs, image and customer service. Prices have the biggest impact on the satisfaction of the SME segment customers and in this edition of the survey they were rated at a similar level as in the previous edition of the survey. The prices that in this wave of the survey were assessed similarly to the previous wave of the survey have the greatest impact on customer satisfaction in the case of SME customers. Another important aspect - according to the analyses - is customer service, including, in particular, telephone contact. This aspect is also rated, another year in a row, higher as compared to the previous edition of the survey. At the same time, the overall customer service satisfaction is slightly lower. Invariably, very important from the point of view of the impact on general satisfaction is also the company's image, which has stabilized at a relatively good level since the previous edition of the survey. Failures are the aspects that have a smaller (but still significant and greater than last year) impact on the overall rating and customer loyalty. With respect to failures the company is assessed by the SME customers at a similar level as in the previous year. At the same time, customers from this segment have most likely experienced unplanned outages less frequently in the last 12 months. The results of the SME customer satisfaction survey are presented in Figure no. 33.



Figure no. 33. Results of the customer satisfaction survey conducted among TAURON Capital Group's customers in the small and medium size enterprises segment in 2020, as compared to the previous years.

4.2. TAURON Group's Diversity Policy

In accordance with TAURON Group's Diversity Policy (hereinafter: Diversity Policy) adopted in 2017, diversity and openness are an integral part of business operations. The Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees. The Diversity Policy is also applied in the cooperation with the external partners of the Group, i.e. companies, universities, schools or other business entities.

Due diligence procedures and internal regulations

The due diligence procedures in place under the Diversity Policy include first and foremost activities aimed at:

- developing the work environment based on respect, openness, reliability and fairness (justice),
- ensuring versatility and diversity, in particular with respect to gender, education, age and professional experience,
- building organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),
- preventing discrimination by fostering appropriate work atmosphere as well as building and strengthening positive relationships among the personnel

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, in combination with the strengthening of the culture of equal treatment regardless of age, gender, appearance, disability, views or beliefs and ensuring equal opportunities in terms of remuneration or professional development, there are regulations ensuring fairness and objectivity with respect to work organization and remuneration, e.g.

- TAURON Group's Compensation Principles,
- applied regulations with respect to benefits (entitlements),
- implemented flexible forms of work time and ability to work remotely,

and solutions dedicated for women, ensuring equal opportunities for them and support in combining professional life with private life, e.g.

- reduced working time for pregnant women.

Actions taken and results achieved

By implementing the Diversity Policy TAURON Capital Group is seeking to provide the work environment based on respect and fairness (justice), within which each employee may fully realize his/her individual potential. The work on the Knowledge and Age Management project began in 2020. It is a process involving intellectual capital management and supporting an organizational culture based on knowledge sharing.

We are accomplishing this goal through the implementation of numerous training programs, supporting the development of the competences of each employee.

The most important among them include:

- Purchasing management in business - a project aimed at improving purchasing, negotiating and commercial qualifications. 32 employees of the Group participated in the project;
- TAURON Group Open University - the goal of creating and continuing the idea of the University is to provide employees with constant access to knowledge and information on current topics, related to both business as well as personal development or the individual passions of employees
- Talent Management Program in place at TAURON Polska Energia S.A., aimed at supporting the employee development process and taking advantage of their potential;
- TAURON Group's Internal Trainers Academy is a form of activities supporting development of competences within TAURON Group;
- Development Squared - is a series of weekly webinars conducted by the HR personnel from selected subsidiaries of TAURON Group. Webinars are conducted in four thematic areas: development, knowledge sharing, cooperation, health
- mentoring program – “Magenta meetings” at TAURON Dystrybucja as part of the KobietaMoc (WomenPower) campaign - for women students of electrical engineering faculties. The program's goal is to provide support for women, among others in selecting a career path;
- "Mum works" program – the program is targeted at women employed at TAURON Group, whose children are under six years of age, and pregnant women. Persons joining the program have the opportunity to perform their job duties outside the place of employment (remotely) as part of a telework arrangement, or take advantage of the individual (customized) scheduling of the working time, depending on the nature of the tasks carried out at a given position. Those mums who are still on a parental or child care leave receive a newsletter containing information on the life of the company, allowing them to keep in touch with the workplace. Pregnant women can take advantage of the individual (customized) scheduling of the working time or telework, and in addition reduce the working time by two hours a day during the period of pregnancy, while maintaining the amount of remuneration. The goal of the "Mum works" program is to increase the comfort of work for future and current mothers. The program is to increase the number of women returning to work after having a child, allowing more flexible adaptation of working time to their needs. It is also to ensure that women do not lose contact with the organization during their absence caused by the maternity or child care leave. The percentage of returns to work after parental leave, as well as the retention rate are presented in Table no. 25;
- Parenting webinars - the goal of the initiative is to provide support for the employees in reconciling various life roles - professional and parental. The topics of the webinars were related to motivation, independence, authenticity, creativity, building self-confidence, or how to support a child in remote learning, balancing screen time with other activities;
- Continuation of activities with respect to creating intergenerational brigades - experienced employees share their professional knowledge, passing on the secrets of the art of mining to younger employees;
- Disseminating knowledge of diversity among employees using the available information channels, i.e.: work health and safety training, management personnel meetings, giant screens, notice boards.

Activities aimed at implementing a new HR process - Development Conversation, have been conducted at TAURON Group since 2019. The goal of the initiative is the development of the organization by building a culture of dialogue between the supervisor and the employee and the possibility of focusing on the employee's development in accordance with his/her needs, as well as the organization's business capabilities and needs. The development conversation is based on TAURON Group's existing Competency Model and assumes the need for continuous development of these competences in relation to changing business challenges. The activities carried out at the Group's selected subsidiaries in 2020 demonstrated a number of benefits brought by open communication and individual approach to the needs of employees, taking into account the directions of development of the organization. As the conversations may concern both the manner of fulfilling professional duties, attitude, motivation, as well as mutual expectations - they can be an opportunity to introduce positive changes in diverse teams.

One of the important activities undertaken as part of the Diversity Policy is also cooperation with the educational community, which translates into the creation of patronage classes in which students have the opportunity to gain practical experience related to the potential future job. The internship and apprenticeship programs support the development of skills of young people, and mentors have the opportunity to share their knowledge and experience, which translates into managing knowledge within the organization. By the end of 2020, TAURON had covered 53 classes with its patronage, including 9 new ones.

TAURON Group organizes numerous apprenticeships and internships. 2020 was different in comparison to the previous years due to the epidemic, which reduced the number of apprenticeships and internships in the Group. 263 people took part in the apprenticeships and internships programs at TAURON Group in 2020. As part of the implementation of the Diversity Policy, there were several foreigners among the interns. The detailed description of the above activities and projects is provided in the section regarding Human Resources Management Policy.

Risks that may have an adverse impact on the application of the Diversity Policy related to the Group's operations

The risk areas related to non-compliance with the principles of the Diversity Policy include:

- occurrence of mobbing and discrimination, in particular due to age, sex, education, origin, race, in particular in terms of equality of the rules of remuneration and promotion, and equal opportunities with respect to access to training
- increase in social unrest related to unequal treatment,
- increasing employee turnover,
- occurrence of a competence gap,
- loss of the external image and confidence in the TAURON brand.

Table no. 25. GRI 401-3. Parental leave at TAURON Capital Group in 2019

| | TAURON Group's total | Women | Men |
|---|----------------------|-------|-----|
| Percentage of returns to work | 80% | 56% | 90% |
| Retention rate following a parental leave | 94% | 82% | 97% |

Being aware of the positive impact of a diverse work environment on the knowledge and experience sharing processes, the breakdown of the workforce and the management board of TAURON Group by age and gender is presented in tables no. 26 and 27.

Table no. 26. GRI 405-1. Composition of TAURON Capital Group's workforce broken down by age and gender as of 31.12.2020

| | MANAGEMENT BOARD AND DIRECTORS | | | HIGHER AND LOWER LEVEL MANAGEMENT PERSONNEL | | | OTHER ADMINISTRATIVE STAFF (WHITE COLLAR POSITIONS) | | | BLUE COLLAR POSITIONS | | | TAURON Group | | |
|--|--------------------------------------|-------------------------------------|------------------|---|-------------------------------------|------------------|---|-------------------------------------|------------------|--------------------------------------|-------------------------------------|------------------|--------------------------------------|-------------------------------------|------------------|
| | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < |
| Number of employees | 174 | | | 2 721 | | | 9 109 | | | 13 568 | | | 25 572 | | |
| | 0 | 82 | 92 | 22 | 1 446 | 1 253 | 774 | 4 929 | 3 406 | 1 444 | 6 686 | 5 438 | 2 236 | 13 183 | 10 153 |
| women | 0 | 24 | 10 | 2 | 318 | 164 | 368 | 2 390 | 1 531 | 28 | 291 | 377 | 396 | 3 009 | 2 069 |
| men | 0 | 58 | 82 | 20 | 1 128 | 1 089 | 406 | 2 539 | 1 875 | 1 416 | 6 395 | 5 061 | 1 800 | 10 002 | 7 854 |
| SHARE IN PERCENTAGE (in reference to all of the company's employees) | 1% | | | 11% | | | 35% | | | 53% | | | 100% | | |
| Share in percentage (in reference to the number of employees in the given employment category) | | | | | | | | | | | | | | | |
| TOTAL | - | 47% | 53% | 1% | 53% | 46% | 8% | 54% | 37% | 11% | 49% | 40% | 9% | 52% | 40% |
| women | - | 14% | 6% | 0% | 12% | 6% | 4% | 26% | 17% | 0% | 2% | 3% | 2% | 12% | 8% |
| men | - | 33% | 47% | 1% | 41% | 40% | 4% | 28% | 21% | 10% | 47% | 37% | 7% | 39% | 31% |

Table no. 27. Composition of the Management Boards of TAURON Capital Group's subsidiaries as of December 31, 2020, broken down by gender and age

| | TAURON Group | | |
|--|--------------------------------------|-------------------------------------|------------------|
| | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < |
| Number of Management Board employees | | 41 | |
| TOTAL | 0 | 20 | 21 |
| women | 0 | 2 | 1 |
| men | 0 | 18 | 20 |
| Composition of the Management Board in percentages broken down by age and gender [%] | | | |
| (percentage share versus entire Management Board) TOTAL | - | 49% | 51% |
| (percentage share versus all women in the Management Board) women | - | 67% | 33% |
| (percentage share versus all men in the Management Board) men | - | 47% | 53% |

4.3. TAURON Group's Environmental Policy

Environment protection is a strictly controlled and regulated area in the energy and mining industry. Notwithstanding the applicable general provisions, TAURON Group, taking responsibility for the consequences of using natural resources and adopting in July 2017 a document entitled TAURON Group's Environmental Policy, and TAURON Group's Climate Policy in November 2019, emphasized that it was ready to take actions that went beyond legal obligations.

TAURON Group's Environmental Policy (Environmental Policy) adopted by the Management Board in 2017, defines TAURON Capital Group's approach to the management of the issues related to the impact made by its operations on the natural environment, including the direction of its environmental activities and the principles it will follow in environment related matters. The Environmental Policy is the benchmark for assessing all of the activities of TAURON Capital Group's subsidiaries in the area of environment protection and environmental management.

The Environmental Policy documents the values and the vision followed by TAURON Capital Group with respect to making an impact on the natural environment. The main principle of the Environmental Policy is to limit both the direct, as well as the indirect impact on the environment and to conduct responsible communications, ensuring the understanding of the operations of TAURON Capital Group that may impact the environment.

TAURON Capital Group, in accordance with the regulations and administrative practices in force on the territory of its operations, takes into account the needs related to environment protection and acts in a way that contributes to accomplishing a broader objective, which is sustainable development, and in particular the implementation of the closed circuit economy (the so-called circular economy).

Due diligence procedures and internal regulations

Due to diverse production and service profiles of TAURON Capital Group's subsidiaries, their impact on the environment varies significantly, therefore the principles of Environmental Policy are addressed in the individual internal documents of the individual subsidiaries in a way corresponding to their role in TAURON Capital Group's value system.

Minimizing negative impacts on the environment is effectively implemented taking into account the specifics of the sector, technological development and access to environmentally friendly technologies. Some of TAURON Capital Group's subsidiaries have implemented a certified environment management system in accordance with the

ISO14001 standard. TAURON Wytwarzanie, representing conventional electricity generation, has additionally received the European Community's Eco-Management and Audit Scheme (EMAS), the EU's environmental certification system, aimed at creating a sustainable development culture in an organization and efficient management of available resources and energy, operating pursuant to Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on voluntary participation by organizations in the European Community's Eco-Management and Audit Scheme.

Nowe Jaworzno Grupa TAURON facility commissioned in November 2020 is characterized by the highest environment management quality standards, high efficiency of fuel energy conversion into electricity and is equipped with the most modern environment protection devices with respect to flue gases treatment, water conditioning and sewage treatment. The fuel for the new unit is one of the best quality fuels on the market.

TAURON Capital Group is monitoring the main aspects of the direct and indirect environment impact of its operations on an ongoing basis. Such types of measures include, for example, monitoring the emissions of NOx, SOx compounds and dusts into the atmosphere presented in Table no. 28, 28-a and 28-b.

Table no. 28. GRI 305-7. Emissions of the NOx, SOx compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2019 and 2020

| TOTAL | | |
|---|-------------------|-------------------|
| | 2020 | 2019 |
| NOx | 7 490 740 | 10 708 789 |
| SOx | 7 050 794 | 10 385 711 |
| Total dust | 435 182 | 636 538 |
| Other (including methane) | 34 881 760 | 33 521 927 |
| Total aggregate emissions into the atmosphere [kg] | 49 858 476 | 55 252 966 |

Table no. 28-a. GRI 305-7. Emissions of NOx, SOx compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2019 and 2020, per individual subsidiaries

| | Kopalnia Wapienia "Czatkowice" | | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Wydobycie | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
|---|--------------------------------|--------------|--------------------|-------------------|------------------|------------------|-------------------|-------------------|--|----------|-------------------|-------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| NOx | 684 | 770 | 6 238 530 | 9 394 343 | 1 102 230 | 1 275 974 | 37 668 | 37 701 | 111 628 | - | 7 490 740 | 10 708 789 |
| SOx | 27 | 32 | 5 392 053 | 8 312 491 | 1 537 689 | 2 017 940 | 55 188 | 55 248 | 65 837 | - | 7 050 794 | 10 385 711 |
| Total dust | 6 507 | 8 440 | 282 085 | 438 670 | 82 311 | 139 994 | 44 372 | 49 434 | 19 907 | - | 435 182 | 636 538 |
| Other | 0 | 0 | 4 551 863 | 6 121 356 | 1 366 787 | 1 755 165 | 28 956 862 | 25 645 406 | 6 248 | - | 34 881 760 | 33 521 927 |
| Total aggregate emissions into the atmosphere [kg] | 7 218 | 9 242 | 16 464 532 | 24 266 861 | 4 089 017 | 5 189 074 | 29 094 090 | 25 787 789 | 203 620 | - | 49 858 476 | 55 252 966 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

Table no 28-b. GRI 305-7. Operating limits of emissions of significant compounds into the air at TAURON Capital Group's individual subsidiaries, applicable in 2020

| SOURCE | Maximum annual number of tons | | |
|------------------------------|-------------------------------|-----------------|---------|
| | NOx | SO ₂ | Dust |
| TAURON Wytwarzanie | 31 198.7 | 43 872.9 | 4 136.0 |
| TAURON Ciepło | 3 037.6 | 4 234.2 | 469.4 |
| Nowe Jaworzno Grupa TAURON | 3 380.6 | 3 380.6 | 227.8 |
| TAURON Wydobywanie | 37.8 | 55.6 | 63.3 |
| Kopalnia Wapienia Czatkowice | Not determined* | Not determined* | 36.2 |

* Emissions are not determined for the substance, the emission of which does not exceed 10% of the reference value (benchmark) or 10% of the permitted levels in the air averaged for the hour.

TAURON Group's 2020 emissions are well below the levels set as maximum permitted annual loads of substances released into the atmosphere according to the permits. The above is due to the fact that all working generating units of TAURON Wytwarzanie and TAURON Ciepło achieve the sulfur dioxide, nitrogen dioxide and dust concentration levels below the current permitted values, and the SO₂ and NO₂ concentration levels for the 200 MW units and biomass fired boilers (RES) reach a similar level to the new lower limits set out in the BAT conclusions that will apply from 2021.

In 2020, despite the COVID 19 pandemic, almost all of the investment tasks related to the modernization of the air protection installation at Łaziska and Jaworzno III Power Plants, scheduled for this period, were completed, and thanks to that the coal units planned for further operation, which are also the participants of the capacity market, will be prepared by August 2021 for the new environmental requirements specified in the BAT conclusions, which will then become effective. TAURON Group's costs and expenditures for projects related to environment protection are presented in Table 29.

Table no. 29. TAURON Group's costs and expenditures for projects related to environment protection (excluding climate-related expenditures)

| | |
|--|-----------------|
| TAURON Group's total costs of environment protection | PLN 307 million |
| including investment outlays related to environment protection | PLN 280 million |
| Share of investment outlays in environment protection costs | approx. 91 % |
| Share of environment protection investments in the Group's total capital expenditures of the Group | approx. 7 % |

TAURON Group's total capital expenditures on projects directly related to environment protection in 2020 came in at nearly PLN 280 million, which represented approx. 91% of TAURON Capital Group's total outlays on environment protection and approx. 7% of expenditures, thus increasing the value of fixed assets used for the protection of the environment.

Actions bringing environmental effects taken and results achieved

The coal power units, modernized ecologically, will meet the requirements of the "BAT conclusions" and, at the same time, will contribute to a further reduction of the emissions of sulfur dioxide, nitrogen oxides and dust to the atmosphere, and to the additional reduction of emissions of other air pollutants, such as hydrogen chloride and hydrogen fluoride as well as mercury.

The program aimed at adapting TAURON Group's generating units to comply with the operational conditions in force beyond 2021 included TAURON Wytwarzanie's following ecological investments:

- Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installations,
- Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment of the existing selective catalytic reduction (SCR) installations,

- Łaziska Power Plant, units no. 9 and 10 – the refurbishment of the wet flue gas desulfurization (FGD) installation, including erecting the additional desulfurization level, connecting the flue gas ducting and construction of the new plastic flue gas ducting in the stack,
- Łaziska Power Plant – the refurbishment of the flue gas desulfurization (FGD) installation's sewage treatment plant.

The total budget of the Program, based on the concluded contracts for the implementation of the above projects, is currently (due to the occurrence of COVID-19 a budget increase is possible) approx. PLN 270 million, of which approximately PLN 234.5 million was spent in 2020.

The program of adapting to the "BAT conclusions", in terms of the pro-ecological investment projects, was mostly completed in December 2020, and its closing is expected, among others due to the COVID-19 impact, in the second half of 2021, after a series of the performance tests, during which the emission limit values compliant with or stricter than the requirements of the "BAT conclusions" will be verified.

TAURON Group's other production units, which will be operated in the subsequent years from 2021 onwards and to which the requirements of the "BAT conclusions" will apply, will also meet them, because they have either been modernized in previous years in such a way that they meet the requirements of the "BAT conclusions" or have obtained appropriate derogations.

The expected ecological effects for the environment stemming from the implementation of the BAT Program and specified solely for TAURON Group's modernized generation units (Łaziska Power Plant and Jaworzno III Power Plant units) will allow, in the coming years, to reduce the emissions of sulfur oxides and nitrogen oxides into the air, as compared to 2019, by the following amounts:

SO₂ emissions reduction – reduction of emissions by a total of approx. 153 tons/year,
(Łaziska Power Plant units no. 9 and 10)

NO_x emissions reduction – reduction of emissions by a total of approx. 697 tons/year,
(Jaworzno III Power Plant, units no. 1, 3, 5 and Łaziska Power Plant, units no. 9-12)

TAURON Ciepło is currently implementing an investment project in Kamienna Góra that involves the construction of a gas-fired cogeneration system with a capacity of approx. 3 MW, which is the next stage of abandoning solid fuels in the process of generating district heat.

As part of the investment and sustainable development program, the tasks related to connecting new facilities to TAURON Ciepło's district heating networks were carried out and the Low Emission Elimination Program was continued by successive connecting of the individual facilities, previously heated using solid fuels.

TAURON Ciepło modernized the water management system at Zakład Wytwarzania Tychy.

TAURON Dystrybucja, by implementing the modernization and replacement of the existing assets on an ongoing basis, especially the tasks related to the alteration of the switchgear switchrooms or transformer/switch substations, directly contributes to the improvement of the soil and groundwater safety.

TAURON Group assumes responsibility for taking care of the natural environment and the consequences of using its resources. The Group's subsidiaries estimate that the amount of charges to be paid for the business use of the environment in 2020 is approximately PLN 30.43 million, which is illustrated in Table no. 30.

Table no. 30. Estimated charges for the business use of the environment by TAURON Capital Group due for 2020

| # | Subsidiary name | Charges ¹ for the business use of the environment due for 2020 (PLN '000) |
|----|-------------------------|---|
| 1. | TAURON Wytwarzanie | 11 520 |
| 2. | TAURON Wydobycie | 14 973.5 |
| 3. | TAURON Ciepło | 2 393 |
| 4. | TAURON Dystrybucja | 199.9 |
| 5. | KW Czatkowice | 60.0 |
| 6. | TAURON Nowe Technologie | < 0.8** |
| 7. | TAURON Obsługa Klienta | 2.2 |
| 8. | TAURON Ekoenergia | 543.3* ** |
| 9. | TAURON Sprzedaż | < 0.8** |

| # | Subsidiary name | Charges ¹ for the business use of the environment due for 2020 (PLN '000) |
|--------------|----------------------------|---|
| 10. | Bioeko Grupa TAURON | 4.4 |
| 11. | Nowe Jaworzno Grupa TAURON | 785 *** |
| 12. | Wsparcie Grupa TAURON | 2.9 |
| Total | | 30 484.2 |

¹Partly estimated data, the annual settlement has not been completed.

* Charge for water consumption for the purpose of running hydropower plants, assessed at the rate of PLN 1.24 per 1 MWh of electricity produced by the hydro power facilities in 2020 is PLN 543.3 thousand.

** extent of using the environment does not generate charges, as their amount is below the threshold starting from which fees are paid.

*** in total for 2020 from the start-up period and after the commissioning.

Following the principle of resource efficiency, TAURON Group is monitoring and optimizing also the consumption of water used for technological process purposes on an ongoing basis. This is done by closing the water circuits and by recirculating water with relatively good parameters to other production processes, with lesser requirements, for reuse.

The Group's energy production facilities with the highest generation efficiency (NJGT's 910 MW unit and TAURON Wytwarzanie's Łagisza Power Plant in Będzin) and the highest quality requirements for the steam and water (combined) cycles, were equipped with water conditioning (treatment) installations based on modern membrane techniques. This means the minimum use of chemicals in the treatment process, which makes the entire process safe for the natural environment. In some water treatment processes, electrolysis processes are used instead of chemicals.

The consumption of water used in the production processes by TAURON Capital Group in 2020 is shown in Tables no. 31 and no. 31-a.

Table no. 31. GRI 303-3. TAURON Capital Group's total water consumption per source in 2019 and 2020

| [m ³ /year] | TOTAL | |
|---|--------------------|--------------------|
| | 2020 | 2019 |
| rivers | 117 712 190 | 143 447 469 |
| wetlands | 0 | 0 |
| ground water | 46 458 181 | 45 969 125 |
| rain water picked up directly and stored | 318 988 | 163 701 |
| water from the city network | 3 613 660 | 5 359 483 |
| Other | 15 941 437 | 17 752 749 |
| Total volume of water consumed from all sources taken into account | 184 044 456 | 212 692 527 |

Table no. 31-a. GRI 303-3. TAURON Capital Group's total water consumption per source broken down by subsidiaries in 2019 and 2020

| [m3/year] | TAURON Wydobycie | | Kopalnia Wapienia "Czatkowice" | | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Ekoenergia | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
|---|-------------------|-------------------|--------------------------------|---------------|--------------------|--------------------|------------------|------------------|-------------------|--------------|--|----------|--------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Surface water (rivers, lakes) including water from wetlands | | | | | | | | | | | | | | |
| rivers | 0 | 0 | 48 465 | 42 556 | 117 350 726 | 142 955 276 | 312 999 | 449 637 | 0 | 0 | 0 | - | 117 712 190 | 143 447 469 |
| wetlands | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | 0 |
| Other: | | | | | | | | | | | | | | |
| ground water | 45 471 280 | 44 883 908 | 92 | 89 | 986 281 | 1 084 646 | 0 | 0 | 528 | 482 | 0 | - | 46 458 181 | 45 969 125 |
| rain water picked up directly and stored | 0 | 0 | 0 | 0 | 318 988 | 163 701 | 0 | 0 | 0 | 0 | 0 | - | 318 988 | 163 701 |
| water from the city network | 792 963 | 159 789* | 22 688 | 13 563 | 1 680 253 | 4 053 940 | 1 116 587 | 1 130 698 | 1 169 | 1 494 | 0 | - | 3 613 660 | 5 359 483 |
| Other | 0 | 0 | 0 | 0 | 14 565 846 | 16 736 118 | 759 936 | 1 016 631 | 0 | 0 | 615 655 | - | 15 941 437 | 17 752 749 |
| Total volume of water consumed from all sources taken into account | 46 264 243 | 45 043 697 | 71 245 | 56 208 | 134 902 094 | 164 993 681 | 2 189 522 | 2 596 966 | 1 697 | 1 976 | 615 655 | - | 184 044 456 | 212 692 527 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

* Zakład Górniczy Janina (Janina Coal Mine) – Initiative "Increase of the consumption of water from own sources in the technological processes". The objective achieved is the reduction of water purchased from Wodociągi Chrzanowskie sp z. o.o.

TAURON Group is continuously optimizing waste water treatment processes. Wastewater treatment methods are also modernized to improve the efficiency of these processes. The quality and quantity of wastewater is subject to ongoing monitoring. The total volume of waste water generated as a result of TAURON Capital Group's operations in 2020, including its utilization method (destination), is shown in Table no. 32 and no. 32-a.

Table no. 32. GRI 306-1. Total volume of TAURON Capital Group's waste water [m3] in 2019 and 2020 by quality and utilization method (destination)

| Waste water dump site taking into account emergency heat dumps | TOTAL m ³ | |
|--|----------------------|--------------------|
| | 2020 | 2019 |
| Waste water discharged into the sewage system (municipal companies) | 815 147 | 842 750 |
| Waste water discharged by means of transportation to the waste water treatment plant | 524 | 515 |
| Waste water discharged to the surface water: | | |
| Rivers | 128 817 551 | 166 320 385 |
| Other | 153 285 | 0 |
| Total waste water volume | 129 786 507 | 167 163 649 |

Table no. 32-a. GRI 306-1. Total volume of TAURON Capital Group's waste water [m³] in 2019 and 2020 by quality and utilization method (destination), per subsidiary

| Waste water dump site taking into account emergency heat dumps | Waste water volume [m ³] | | | | | | | | | | | | TOTAL | |
|--|--------------------------------------|---------------|--------------------|--------------------|-------------------|-------------------|----------------|----------------|-------------------|--------------|--|----------|--------------------|--------------------|
| | Kopalnia Wapienia "Czatkowice" | | TAURON Wytwarzanie | | TAURON Wydobycie | | TAURON Ciepło | | TAURON Ekoenergia | | Nowe Jaworzno Grupa TAURON ¹⁾ | | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Waste water discharged into the sewage system (municipal companies) | 0 | 0 | 114 400 | 109 395 | 287 587 | 291 774 | 412 367 | 440 460 | 793 | 1 121 | 0 | - | 815 147 | 842 750 |
| Waste water discharged by means of transportation to the waste water treatment plant | 0 | 0 | 0 | 0 | 385 | 372 | 0 | 0 | 139 | 143 | 0 | - | 524 | 515 |
| Waste water discharged to the surface water: | | | | | | | | | | | | | | |
| Rivers | 33 605 | 28 672 | 85 205 063 | 123 329 315 | 43 455 515 | 42 801 956 | 122 855 | 159 966 | 513 | 476 | 0 | - | 128 817 551 | 166 320 385 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 153 285 * | - | 153 285 | 0 |
| Total waste water volume | 33 605 | 28 672 | 85 319 463 | 123 438 710 | 43 743 487 | 43 094 102 | 535 222 | 600 426 | 1 445 | 1 740 | 153 285 | - | 129 786 507 | 167 163 649 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

* Discharge of sewage through the company's sewage system to the sewage treatment plant of TAURON Wytwarzanie (civil law agreement) and further after treatment, discharge of sewage to surface waters.

Circular economy - Actions taken and results achieved

TAURON Capital Group is undertaking numerous actions aimed at minimizing the negative impact on the environment. Regarding this aspect it is also actively looking for new directions and areas of activity in order to reuse the by-products of its operations. To this end, in accordance with the principles of the circular economy, it is implementing the combustion and mining by-products management (utilization) processes.

Tables no. 33 and 33-a as well as 34 and 34-a present the total weight of waste by type and utilization (handling) method.

Table no. 33. GRI 306-2. Total weight of hazardous waste [t] in 2019 and 2020, by waste type and waste utilization (handling) method

| | 2020 | 2019 |
|--------------------------------------|------------|--------------|
| Reuse | 101.6 | 6.1 |
| Recycling | 541.4 | 137.7 |
| Recovery (including energy recovery) | 103.0 | 1 086.3 |
| Neutralization | 148.8 | 186.6 |
| Storage | 5.1 | 45.5 |
| Other * | 52.4 | 141.0 |
| TOTAL WASTE WEIGHT | 952 | 1 603 |

* The Group does not generate nuclear waste.

Table no. 33-a. GRI 306-2. Total weight of hazardous waste [t] in 2019 and 2020, by waste type and waste utilization (handling) method, per subsidiary

| | weight of hazardous waste [tons] | | | | | | | | | | | | | | | TOTAL | |
|--------------------------------------|----------------------------------|-------------|--------------------|-------------|------------------|-------------|---------------|-------------|-------------------|-------------|--------------------|----------------|--|----------|------------|--------------|-------|
| | Kopalnia Wapienia "Czatkowice" | | TAURON Wytwarzanie | | TAURON Wydobycie | | TAURON Ciepło | | TAURON Ekoenergia | | TAURON Dystrybucja | | Nowe Jaworzno Grupa TAURON ¹⁾ | | | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | |
| Reuse | 0.0 | 0.0 | 9.3 | 6.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 92.3 | 0.0 | 0.0 | - | 101.6 | 6.1 |
| Recycling | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 541.4 | 137.7 | 0.0 | - | 541 | 138 |
| Recovery (including energy recovery) | 0.0 | 0.0 | 76.6 | 51.9 | 0.0 | 0.0 | 8.0 | 1.1 | 0.0 | 0.0 | 0.0 | 18.4 | 1 033.4 | 0.0 | - | 103 | 1 086 |
| Neutralization | 0.0 | 0.0 | 10.1 | 5.1 | 0.0 | 0.0 | 3.0 | 7.9 | 0.0 | 0.0 | 0.0 | 135.7 | 173.6 | 0.0 | - | 149 | 187 |
| Storage | 0.0 | 0.0 | 0.5 | 12.0 | 3.4 | 1.9 | 1.0 | 1.3 | 0.0 | 0.0 | 0.0 | 0.2 | 30.3 | 0.0 | - | 5 | 46 |
| Other | 26.2 | 27.2 | 0.0 | 0.0 | 26.2 | 38.5 | 0.0 | 0.0 | 0.0 | 0.0 | 75.35 | 0.0 | 0.0 | 0.0* | - | 52 | 141 |
| TOTAL WASTE WEIGHT | 26.2 | 27.2 | 96.5 | 75.1 | 29.6 | 40.4 | 12.0 | 10.3 | 0.0 | 75.4 | 788.0 | 1 375.0 | 0.0* | - | 952 | 1 603 | |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

* Due to the short period of operation of the unit after commissioning, the operational waste that could be a source of hazardous waste was not subject to balancing. This type of waste from the maintenance services is managed by specialized external entities.

Table no. 34. GRI 306-2. Total weight of non-hazardous waste [t] in 2019 and 2020, by waste type and waste utilization (handling) method

| | 2020 | 2019 |
|--------------------------------------|------------------|------------------|
| Reuse | 0 | 0.0 |
| Recycling | 3 606 | 2 200.1 |
| Recovery (including energy recovery) | 1 434 488 | 1 249 574.6 |
| Neutralization | 274 | 1 360.3 |
| Dump (landfill) | 8 958 | 5 539.5 |
| Storage | 30 701 | 104 375.6 |
| Composting | 0 | 0.0 |
| Other | 251 644 | 3 924.2 |
| TOTAL WASTE WEIGHT | 1 729 672 | 1 366 974 |

Table no. 34-a. GRI 306-2. Total weight of non-hazardous waste [t] in 2019 and 2020 by quality and utilization method (destination), per subsidiary

| | weight of non-hazardous waste [tons] | | | | | | | | | | | | | | | |
|--------------------------------------|--------------------------------------|------------|--------------------|----------------|------------------|----------------|---------------|----------------|-------------------|------------|--------------------|--------------|--|----------|------------------|------------------|
| | Kopalnia Wapienia "Czatkowice" | | TAURON Wytwarzanie | | TAURON Wydobycie | | TAURON Ciepło | | TAURON Ekoenergia | | TAURON Dystrybucja | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Reuse | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | 0,0 |
| Recycling | 0 | 0 | 872 | 168 | 0 | 0 | 0 | 0 | 0 | 0 | 2 734 | 2 032 | 4 672 | - | 3 606 | 2 200 |
| Recovery (including energy recovery) | 0 | 0 | 166 308 | 184 172 | 1 231 386 | 846 401 | 36 304 | 218 022 | 0 | 0 | 490 | 979 | 1 374 | - | 1 434 488 | 1 249 575 |
| Neutralization | 0 | 0 | 14 | 169 | 0 | 0 | 9 | 8 | 0 | 0 | 251 | 1 183 | 1 241 | - | 274 | 1 360 |
| Dump (landfill) | 0 | 0 | 8 958 | 5 540 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 8 958 | 5 540 |
| Storage | 0 | 0 | 893 | 436 | 28 485 | 103 463 | 1 323 | 422 | 0 | 0 | 0 | 55 | 0 | - | 30 701 | 104 376 |
| Composting | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | 0 |
| Other | 286 | 178 | 2 005 | 3 065 | 248 883 | 554 | 0 | 0 | 200 | 127 | 0 | 0 | 269 | - | 251 644 | 3 924 |
| TOTAL WASTE WEIGHT | 286 | 178 | 179 050 | 193 550 | 1 508 754 | 950 418 | 37 636 | 218 452 | 200 | 127 | 3 475 | 4 249 | 269 | - | 1 729 672 | 1 366 974 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

4.3 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2020, with as much as 65% of that quantity brought to the market as full value products to be used, among others, in the construction, road building, mining or agricultural sector. This means that in 2020 the share of by-products in waste increased by 14% as compared to 2019. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization, among others in land reclamation, macro-leveling and filling of the post-mining voids in mining.

Figure no. 34 presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019.

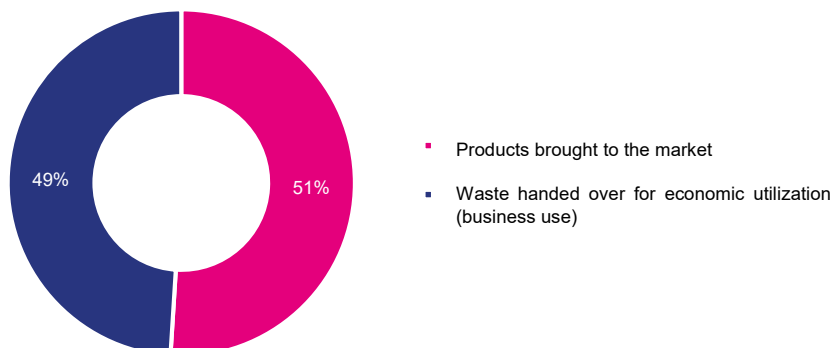


Figure no. 34. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2019.

Figure no. 35 presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020.

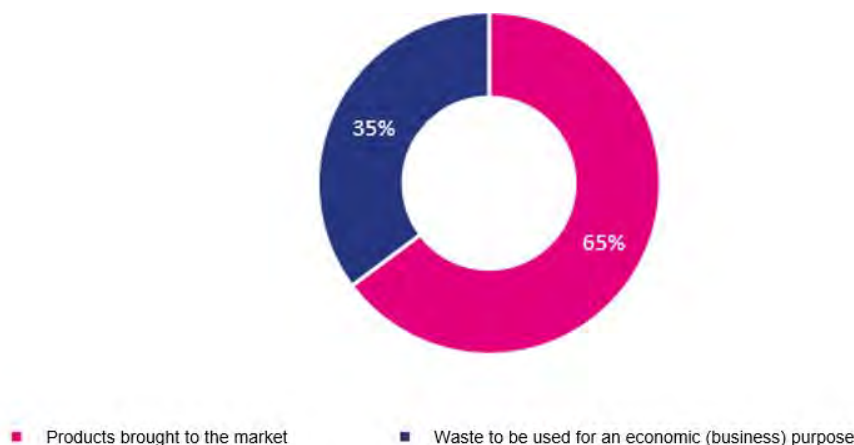


Figure no. 35. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020

TAURON Capital Group is seeking to implement the model of circular economy. It is planned that the maximum quantity of the process waste generated should be used within TAURON Capital Group, thus reducing the consumption of natural resources and the carbon footprint.

TAURON Wytwarzanie brought as much as 100% of ashes and boiler slag coming from 6 system power plants to the market as by-products in 2020. They were used in construction, road engineering (building), mining and agriculture. Fly ash and slag from Nowe Jaworzno Grupa TAURON's new 910 MW unit are of such good quality that they have been introduced to the market as by-products since the unit's commissioning in November 2020, thus obtaining the status of full-value, certified building materials.

TAURON Capital Group's power plants produced 132 thousand Mg of ashes in 2020 that was used as valuable raw material in fire prevention by the coal mines. Ashes from TAURON Capital Group's power plants and combined heat and power plants cover 100% of the demand for ashes to be used for fire prevention at TAURON Wydobycie's coal mines.

100% of TAURON Ciepło's by-products of the combustion of fuels for the energy generation purpose, i.e. 181 000 Mg, is reused in various industries.

Figure no. 36 presents the structure (composition) of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2020.

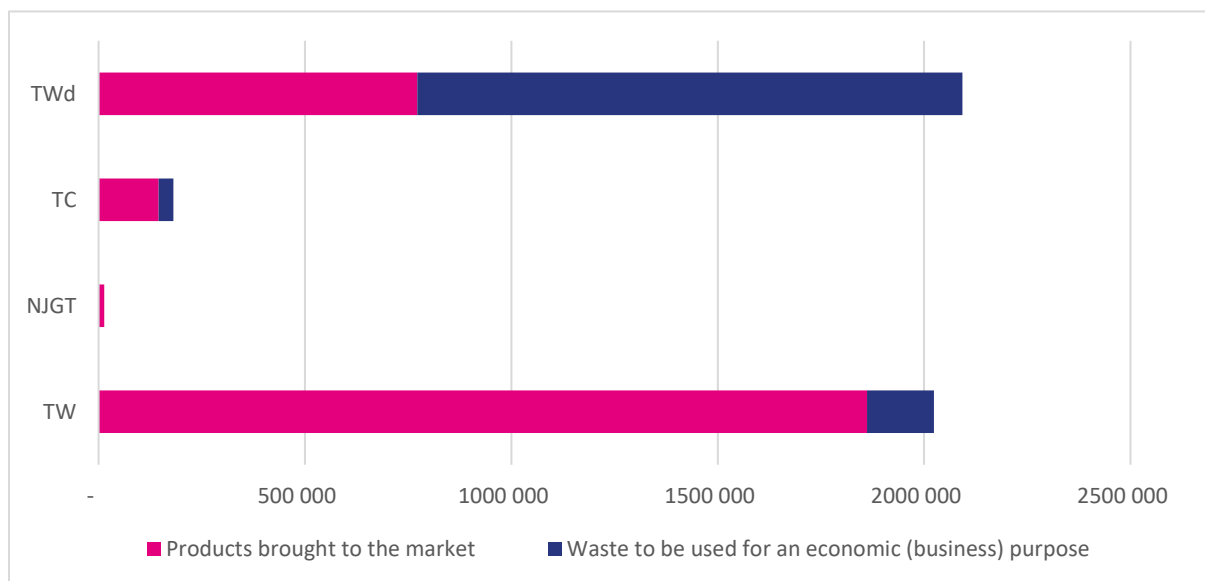


Figure no. 36. Structure (composition) and quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2020

TAURON Wydobycie processes post-mining waste, as a result of which high-quality construction and road aggregates are obtained. 772 thousand Mg of aggregates and materials produced from the post-mining waste were placed on the market in 2020. Very good quality parameters of the aggregates produced from the Brzeszcze Mine allowed for changing the status thereof to by-products without the need to subject them to any additional processing.

The Group focuses on local cooperation and the use of waste materials, using the waste stored in settling tanks and at waste dump (landfill) sites. More than 800 000 tons of ash and slags were delivered to the construction of the S19 expressway near the Stalowa Wola power plant.

All of the above activities contribute to reducing the consumption of natural resources, e.g. sand or gravel.

The reclamation of the energy waste landfill in Kędzierzyn-Koźle, after the former Blachownia Power Plant, was completed in 2020. Accepting of the waste for landfill at this site was discontinued in January 2014, and its final closure process began in 2019. The furnace waste landfill is an above the ground landfill and covers a total area of approx. 74 ha. The reclamation is carried out in two stages: as the technical and biological reclamation.

Biodiversity

The Group has knowledge of the areas that are valuable from the nature point of view, whose locations are subject to the Group's impact, including the NATURA 2000 network areas. One of such areas is even created as part of the industrial infrastructure of Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine), which was established in order to provide the hydrotechnical protection of the Upper Vistula against saline underground waters coming from the drainage of hard coal mines. The "Brzeszcze" underground water retention and dosing reservoir, as well as the place of discharge, is located in the Natura 2000 protected area: Special Bird Protection Area "Stawy w Brzeszcze" (Brzeszcze Ponds) PLB 120009, with an area of 3 065.9 ha. This area covers the breeding pond complexes in the upper Vistula valley, located on both sides of the river. The Vistula river, meandering in its valley, creates small oxbow lakes. There are about 14 species of birds from Annex I of the Birds Directive (out of 180 contained in the directive) and 5 species from the Polish Red Book (PCK) in the nature refuge. During the breeding season, the area is inhabited by at least 1% of the national population of the following bird species from the Polish Red Book: Little bittern, Purple heron, Whiskered tern, Black-crowned night heron, Common moorhen, Gadwall, Common redshank, Black-headed gull, Black-necked grebe. A relatively high numbers are reached by: Eurasian bittern, Black tern and Great crested grebe.

In addition, Kopalnia Wapienia "Czatkowice" is also conducting environmental monitoring pursuant to the legal provisions.

Actions taken and results achieved

Ekoenergia has completed the three-year post-implementation monitoring with respect to avifauna and chiropterofauna, carried out for the Marszewo wind farm (18 MW - Nosalin), located in the vicinity of Nosalin and Pałowo in the Postomino municipality. In February 2020, the results of the post-implementation monitoring, indicating a minor scale collision of the fauna with the turbines of the said wind farm, were approved by the Regional Director for Environmental Protection in Szczecin, who accepted them in full and thus did not raise any objections to the continued operation of the facility.

The main conclusions from the monitoring carried out by Kopalnia Wapienia "Czatkowice" in 2020 are as follows:

- from the chiropterofauna monitoring:

In 2020, as part of the chiropterofauna monitoring, research was carried out in the winter shelters of bats and in their feeding grounds. It was determined that 578 bats from 8 species hibernated in the winter shelters penetrated. The condition of the population of the Horseshoe bat and the Geoffroy's bat (bats from Annex II of the Habitats Directive) in the winter shelters is suitable (FV assessment). In case of the lesser horseshoe bat, the large bed and the crested bed a gradual increase in numbers is observed in the largest winter shelters of the Bat Cave (Jaskinia Nietoperzowa) and the Raclawicka Cave (Jaskinia Raclawicka). In case of the other objects and bats, no negative changes are observed as compared to the previous years, both in terms of the assessment of the number of bats population and the condition of their habitats. The assessment of the habitat conditions at the Raclawicka Cave (Jaskinia Raclawicka), one of the key winter shelters of the Kraków Upland, has not changed as compared to the previous years. Two colonies of breeding bats of the Horseshoe bat and the Geoffroy's bat were found in the monastery in Czerna. In case of both species, the number of colonies was higher than in the previous years. The hunting and field listening activities completed indicate that in the areas where trees were planted, the activity of bats was slightly higher than the activity observed in the previous years.

- from the assessment of the conservation status of the natural habitats and the degree of damage to the trees in the vicinity of the mine:

The field studies conducted did not show any changes in the condition of the natural habitats and stands of trees in the Eliaszkówka nature reserve, in the Natura 2000 "Czerna" and "Dolinki Jurajskie" areas. Although the monitoring of the conservation status of the natural habitats has shown that the condition of the natural habitats in this area is unsatisfactory, but it is a confirmation of the previous assessments made as part of the State Environmental Monitoring.

The lower ratings of the conservation status of the natural habitats are mainly related to the disturbed composition as well as the vertical and spatial structure of the stands of trees, which in turn stems from the earlier forest management. The expansion of *Impatiens parviflora* may also have a significant impact on the deterioration of the condition of the natural habitats. However, these indicators are not related to the exploitation of limestone at Kopalnia „Czatkowice”.

The observed damage to the tree trunks and the degree of defoliation do not differ significantly from the values typical for similar stands of trees in this geographical region. The degree of damage increases with the age of trees and is not significantly dependent on the distance from the mine. The combination of the botanical studies and the data from the measurements of suspended dust also did not show any significant correlations that could result from the negative impact of the concentration of suspended dust on the studied vegetation.

- from the ornithological monitoring in the protection zone (forested by the mine):

A very large biodiversity of birds continued to be observed - 32 species in total, which is comparable to the observations from the previous years. This diversity can be explained by the immaturity (different stages of succession) of the described ecosystem and the impact of the ecotone factor, which is a sharply marked transition zone between different biocenoses. In this case, the area covered by the study is surrounded by arable fields, meadows and forests, which noticeably affect the monitored area.

2 species from Annex 1 of the Birds Directive were found in 2020 - red-backed chrysanthemum and rowan. These species are currently finding optimal conditions for growth in the area covered by the study.

The Kopalnia Wapienia „Czatkowice” protection zone (strip) covered by the study is a very attractive breeding ground for many species of birds, including those that are scarce or endangered in Poland and Europe. Thanks to proper management, the described area provides a shelter and enables breeding of a number of bird species, including many of those that are deprived of breeding habitats year by year.

Due to the protection and restoration of biodiversity, in 2020 TAURON Ekoenergia commenced investment tasks aimed at restoring routes for the migratory fish species in the Bóbr River within the Olszna and Kraszewice hydro-junctions. Salmonids will be taken into account when designing fish passes. It should be noted that the Olszna site

is located within the borders of the Natura 2000 area - bird areas (PLB020005), while the following protected species: Amur bitterling, Common barbel, Common nase, Common dace, Vimba, Crucian carp, Stone loach, Spined loach, Misgurnus fossilis, Brown trout, Sea trout, Thymallus thymallus, Burbot, European bullhead, European river lamprey, Brook lamprey and European eel, currently inhabit the waters of the Bóbr river.

4.4. TAURON Group's Climate Policy

TAURON Group's pro-climatic activities had begun before the announcement of the Communication 2019/C 209/01 and the attachments related thereto (the first documents announcing pro-climate legislation for enterprises in the European Union). The Group introduced the Update of the Strategic Directions in May 2019, as part of which the so-called Green Turn of TAURON is being implemented. With respect to the above the Management Board of TAURON Polska Energia S.A. also adopted to be applied the document entitled: TAURON Group's Climate Policy, in November 2019.

Effectively counteracting the climate change and the sustainable development are the two main objectives of TAURON Group's Climate Policy. This document is also in line with the assumptions of the Green Turn of TAURON strategic concept.

The goal of the Policy is to set the directions for counteracting climate change and the sustainable development of the Group's Lines of Business, through a just transition towards achieving climate neutrality in the future. The Policy constitutes the basis for TAURON Group to manage its operations in such a way so as to mitigate the risks associated with the climate, reduce the Group's negative impact on the climate and maximize the positive effects of the climate change throughout the entire value chain. A comprehensive discussion of the climate-related issues is particularly important due to the diversity of TAURON Group's generation sources (presented in tables no. 35 and 35a as well as 36 and 36a).

Table no. 35. GRI EU1. TAURON Capital Group's installed capacity, broken down into main types of the raw material and the regulatory requirements in 2019 and 2020

| Installed capacity in MW by the type of fuel used | TOTAL | |
|---|---------|-------|
| | 2020 | 2019 |
| Hard coal | 7 157 * | 6 361 |
| Natural gas and coke oven gas | 165 | 165 |
| Biomass | 381 | 381 |
| Heating oil | 269 | 129 |
| Wind based electricity | 381 | 381 |
| Hydroelectricity | 133 | 133 |

* The increase in the installed capacity in coal is related to the commissioning of a high-efficiency 910 MWe unit in 2020, which ultimately is to replace the "old" 120 MWe coal-fired units, which, due to the methodology of disclosing the installed capacity as of December 31, 2020, are still included in the licenses and administrative decisions, however, the actual production from these units is already being replaced by the production from the new unit.

The Group also has photovoltaic micro-installations operated for in-house needs. TAURON Ekoenergia has panels with the capacity of 12.26 kW installed on the roofs of its buildings, operated for the company's in-house needs, while TAURON Dystrybucja has 120 kW of such capacity.

Table no. 35-a. GRI EU1. TAURON Capital Group's installed capacity, broken down into main types of the raw material and the regulatory requirements, per subsidiary in 2019 and 2020

| Installed capacity in MW by the type of fuel used | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Ekoenergia | | Kopalnia Wapienia „Czatkowice” | | New wind based assets Total for 10 companies | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
|--|---------------------|----------------------|--------------------|--------------------|-------------------|------|-----------------------------------|-------|---|------|---|------|-------|-------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2020 | 2019 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Hard coal | 4186 MWe 953 MWt | 4186 MWe 1071 MWt | 307 MWe 796 MWt | 307 MWe 797 MWt | - | - | - | - | - | - | 914.6 MWe | - | 7 157 | 6 361 |
| Natural gas and coke oven gas | - | - | 164 MWt | 164 MWt | - | - | 1 MWt | 1 MWt | - | - | - | - | 165 | 165 |
| Biomass | 105 MWe 166 MWt | 105 MWe 166 MWt | 40 MWe 70 MWt | 40 MWe 70 MWt | - | - | - | - | - | - | - | - | 381 | 381 |
| Heating oil | 140 MWt | - | 129 MWt | 129 MWt | - | - | - | - | - | - | - | - | 269 | 129 |
| Wind based electricity | - | - | - | - | 201 | 201 | - | - | 180 | 180 | - | - | 381 | 381 |
| Hydroelectricity | - | - | - | - | 133 | 133 | - | - | - | - | - | - | 133 | 133 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary according to the license as of December 31, 2020.

Table no. 36. GRI EU1. TAURON Capital Group's installed capacity, broken down into types of generation units in 2019 and 2020

| Installed capacity in MW by the type of generation unit: | TOTAL | |
|--|-------|-------|
| | 2020 | 2019 |
| Power plants (MWe) | 5 720 | 4 805 |
| Power plants (MWt) | 1 259 | 1 237 |
| Combined heat and power plants (MWe) | 347 | 347 |
| Combined heat and power plants (MWt) | 1 014 | 1 014 |
| Heat plants (MWt) | 146 | 147 |

Table no. 36–a. GRI EU1. TAURON Capital Group's installed capacity, broken down into types of generation units, per subsidiary in 2019 and 2020

| Installed capacity in MW by the type of generation unit: | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Ekoenergia | | Kopalnia Wapienia „Czatkowice” | | New wind based assets Total for 10 companies | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
|--|--------------------|-------|---------------|-------|-------------------|------|--------------------------------|------|---|------|--|------|-------|-------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Power plants (MWe) | 4 291 | 4 291 | - | - | 334 | 334 | - | - | 180 | 180 | 914.6 | - | 5 720 | 4 805 |
| Power plants (MWt) | 1 259 | 1 237 | - | - | - | - | - | - | - | - | - | - | 1 259 | 1 237 |
| Combined heat and power plants (MWe) | - | - | 347 | 347 | - | - | - | - | - | - | - | - | 347 | 347 |
| Combined heat and power plants (MWt) | - | - | 1 014 | 1 014 | - | - | - | - | - | - | - | - | 1 014 | 1 014 |
| Heat plants (MWt) | - | - | 145 | 146 | - | - | 1* | 1* | - | - | - | - | 146 | 147 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary according to the license as of December 31, 2020.

* Kopalnia Wapienia „Czatkowice” plant boiler room / heat plant.

One of the most important commitments with respect to climate change is the declaration of support for the measures aimed at reducing the global warming by maintaining the rate of the temperature rise below 2 °C relative to the pre-industrial levels.

TAURON Group's Climate Policy refers to all types of activities and operations carried out within TAURON Group's value chain, the effects of which have an impact upon climate change or constitute the implication thereof, including in particular:

- measures that enable reducing the global warming,
- measures with respect to TAURON Group's adaptation to the climate changes underway.

The Policy is applicable to all of the Group's subsidiaries, although each of them has detailed goals and tasks stemming from the policy.

Due diligence procedures and internal regulations

TAURON's Climate Policy is in accordance with the provisions of the EC Communication 2019/C209/01 and the TCFD Report for the energy sector appended thereto and fulfills the provisions thereof.

The due diligence procedures that accommodate the climate sensitive issues, implemented gradually in 2020, have been included in:

- 1) Risk management - process based management of climate risk in the short, medium and long term (2020 - 2025 - 2030) was implemented starting from 2020.
- 2) Asset management - adaptation to the climate change, aimed at reducing the impact of the physical risks related to the climate, has been included in TAURON Group's asset management policy since 2020.
- 3) Human capital, employee training and recruitment management - the Group does not yet have a policy on the employees that would reference the climate change, but is aware of the need to prepare such a policy in the near future in order to invest in the skills necessary during the transition to the low-emission technologies in the subsequent years.

Due to the fact that three subsidiaries, TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON, are covered by the obligation to participate in the so-called European Emissions Trading System (ETS), the climate related issues are included in the operational decision making processes at such subsidiaries. In 2020, the organizational regulations of TAURON Polska Energia S.A. changes took place as a result of which the Climate Area was established. Changes were introduced to the organizational regulations of TAURON Polska Energia S.A. in 2020, as a result of which the Climate Area was established.

Adaptation to climate change

TAURON Group's Climate Policy defines the basic priorities with respect to the adaptation to the climate change. The gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in case of the Lines of Business sensitive to the volatility of temperature, rainfall and wind strength, is implemented as part of the system-wide approach to Asset Management.

Also with respect to the new operations or investment projects, the risks associated with the climate change are taken into account, as an additional criterion for the assessment thereof, in particular the physical risks, when placing (siting) new investment projects.

Based on the document Poland's Environmental (Ecological) Policy 2030 and the ISOK (National IT Protection System) portal, regions were identified that were more exposed to the physical risk related to climate, in order to prioritize the adaptation of the assets to climate change in the regions potentially more exposed to acute or long-term physical risk related to climate. The Group's assets are mostly located in southern Poland, which, according to the data disclosed in Poland's Environmental (Ecological) Policy 2030 and in the ISOK system, is less exposed to desertification than the areas of central Poland. Due to their location, the Group's assets are also outside the area that may be transforming due to the forecast sea level rise.

Due to the cooling systems used, TAURON Group's conventional power plants are much less exposed to the need to reduce production due to the shortage of water than the power plants with the so-called open cooling systems. The above factor puts TAURON at an advantage as compared to the other energy groups operating in Poland and in Europe.

The consequences of the extreme weather conditions are most strongly felt by TAURON Ekoenergia and TAURON Dystrybucja subsidiaries.

At TAURON Ekoenergia, the hydrological drought and uneven precipitation, resulting in longer periods with no rainfall, intermittent abrupt precipitation (torrential rains) periodically lead to the inability to generate electricity. The number of days on which the electricity production at TAURON Ekoenergia did not take place due to the low water level in the rivers, is presented in Table no. 37.

Table no. 37. The number of days on which the electricity production at TAURON Ekoenergia did not take place in 2020 due to the low water levels in the rivers

| River | Power Plant | The number of days in the month with no production | | | | | | | | | | | | Total |
|--------------|---------------------|--|----------|-------|-------|-----|------|------|--------|-----------|---------|----------|----------|-------|
| | | January | February | March | April | May | June | July | August | September | October | November | December | |
| Odra | Brzeg | | | | | | 10 | 12 | 2 | 6 | 27 | 14 | | 71 |
| | Janowice | | | | | | 5 | | | | | | | 5 |
| | Kopin | | | | | | 4 | 1 | | | 10 | | | 15 |
| | Wały Śląskie | | | | | | 3 | | | | 14 | | | 17 |
| Bóbr | Bobrowice IV | 5 | | | | | | | 2 | 6 | 4 | | | 17 |
| | Bobrowice II | 4 | | | | | | | 2 | 9 | 2 | | | 17 |
| Nysa Kłodzka | Opolnica | | | | 20 | 11 | 1 | 3 | 15 | 17 | 4 | | | 71 |
| | Bystrzyca | | | | 4 | | | 16 | 5 | 5 | 7 | | | 37 |
| | Ławica | | | | | 1 | 1 | | | | 6 | | | 8 |
| | Nysa | | | | | | 1 | | | | 9 | | | 10 |
| Wisła | Dąbie | | | | | | 4 | | | | 7 | | | 11 |
| | Przewóz | | | | | | | | | | 5 | | | 5 |
| Kamienna | Szklarska Poręba II | | | | | | | | 3 | 24 | | | | 27 |

At TAURON Dystrybucja, the increase in the frequency and intensity of hurricanes and strong winds, incidentally accompanied by whirlwinds and lightnings can, in extreme cases, result in mass failures, and as a consequence, breaking of the power lines, as well as periodic and local flooding. The percentage of this type of failures at TAURON Dystrybucja in 2020 is illustrated in Table no. 38.

Table no. 36. Share of mass failures in total failures at TAURON Dystrybucja in 2020

| Share of mass failures in total failures | Number of mass failures |
|--|-------------------------|
| 9.7% | 2 |

Failures often result in interruptions in the supply of electricity, the frequency and duration of which are illustrated in tables no. 39 and 40.

Table no. 39. GRI EU 28. Frequency of the interruptions in the supply of electricity to the consumers of TAURON Dystrybucja in 2020

| Interruption type | SAIFI * (number of interruptions / consumer / year) |
|--|---|
| Scheduled | 0.19 |
| Unscheduled, excluding the disaster type interruptions | 2.00 |
| Unscheduled, including the disaster type interruptions | 2.00 |
| Total | 2.19 |

* SAIFI (System Average Interruption Frequency Index) – the indicator of the average system frequency of long and very long interruptions, representing the number of consumers exposed to the effects of all these interruptions during the year divided by the total number of consumers served

Table no. 40. GRI EU 29. Average duration of the interruptions in the supply of electricity distributed by TAURON Dystrybucja in 2020

| Interruption type | SAIDI* (minutes / consumer / year) |
|--|------------------------------------|
| Scheduled | 26.60 |
| Unscheduled, excluding the disaster type interruptions | 98.02 |
| Unscheduled, including the disaster type interruptions | 98.42 |
| Total | 125.02 |

* SAIDI (System Average Interruption Duration Index) - the indicator of the average system duration of a long and very long interruption, expressed in minutes per consumer per year, which is the sum of the products of its duration multiplied by the number of consumers exposed to the effects of this interruption during the year divided by the total number of consumers served.

Overhead infrastructure is also disadvantaged by the more frequent occurrence of temperatures oscillating around zero degrees Celsius in winter and the weakening of the stands of trees, making trees more susceptible to the damage caused by the wind. This is mitigated by the steps taken, inter alia, aimed at increasing the share of the cable lines as compared to the overhead ones (illustrated in Table no. 41).

Table no. 41. Targets and implementations regarding the adaptation of the distribution assets to climate change by increasing the share of MV cable lines in relation to the total length of the MV lines (%), cables / overhead lines

| Target measure | MV cable length share in relation to the total length of the MV lines (%), unit | |
|----------------|---|----------------|
| Year | Target | Implementation |
| 2019 | - | 38.4 |
| 2020 | 38.65%* | 38.73% |
| 2025 | 41.00%* | - |
| 2030 | 45.00% | - |

* Targets for 2020 and 2025 have been recalculated taking into account the specificity of new connections to the MV grid and the pace of RES development, and in accordance with the forecast of the specificity of the grid load.

The consequences of the more frequent temperature extremes and the occurrence of milder winters are also felt by TAURON Ciepło, however these are not only the adverse effects.

According to our data and analyses, winters have been much milder in the area served by TAURON Ciepło (Silesia-Dąbrowa metropolitan area, and Zawiercie and Olkusz) over the last few years. This fact, of course, translates into a reduction in the demand for heat supply for the purpose of heating apartments and buildings.

An additional factor is the thermo-modernization of buildings, which also has an impact on reducing heat demand. The trends of changes during the heating season are shown in Figures no. 37 and 38.

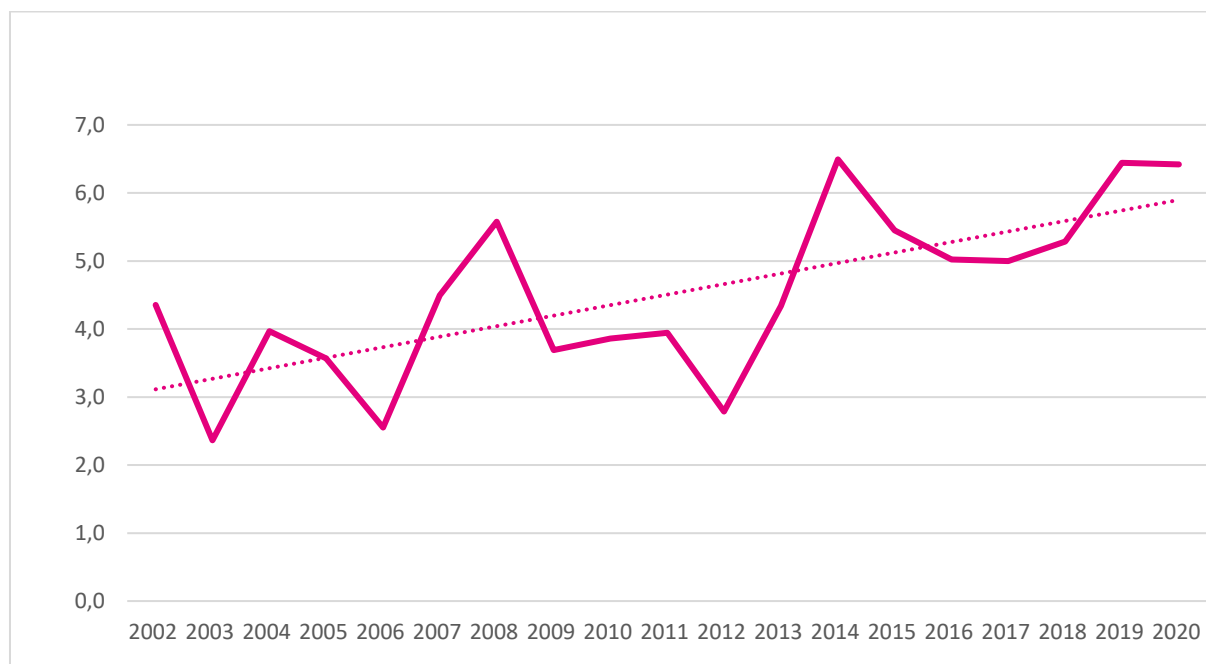


Figure no. 37. Chart of the weighted average air temperature in Poland during the heating season - trend of changes in 2011-2020 [°C].

In the same period of 2002 to 2020, the length of the heating season was extended by 20 days, which somewhat mitigated the difference resulting from an increase in the season temperature. However, this does not make up for an increase in outside temperatures.

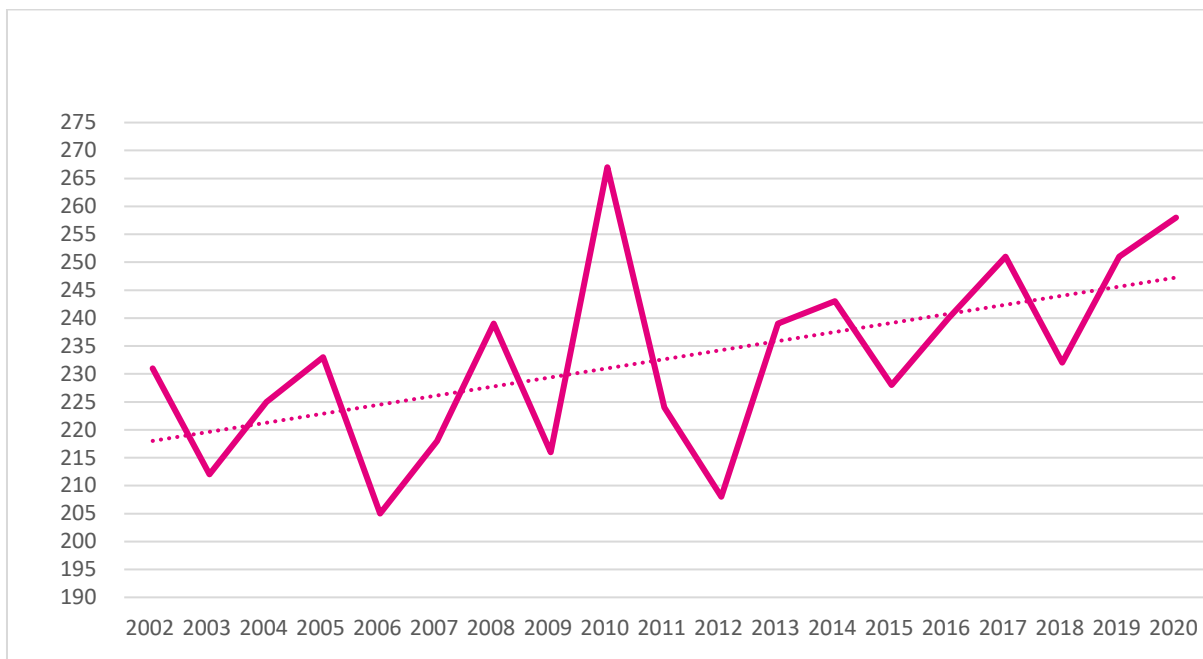


Figure no. 38. Length of the heating season in the years 2002 - 2020. The data is applicable to PEC Katowice in the years 2002-2011 and TAURON Ciepło in the years 2011-2020 [days].

Comparing the 2020 data to the 2019 data, the heat production as well as the demand for heat supplies at TAURON Ciepło, during the heating period were at a very similar level, with a very small difference in heat production (decline) amounting to approximately 0.5%. The length of the season and the average temperature of the heating season were at a very similar level in 2020 and 2019, and the situation related to the coronavirus did not change the preferences of the district heating users.

In addition to the long term reduction plans related to the ultimate change in the Group's fuel mix, the reduction of the greenhouse gas emissions is also achieved through smaller ongoing reduction measures, adequate to the line of business, and such reductions made in 2020 are reflected in Table No. 42.

Table no. 42. GRI 305-5. Reduction of greenhouse gas emissions by TAURON Capital Group in 2020

| Initiative | Nature of the initiative mandatory (stemming from legal provisions) / voluntary | Reduction of greenhouse gas emissions [tCO ₂] |
|---|---|---|
| TAURON Wytwarzanie conversion of types of fuels used - conversion of a biomass-only boiler (Stalowa Wola, Jaworzno II), | voluntary | 535 885 |
| TAURON Ciepło Change in the type of fuels used | voluntary | 199 243 |
| KW "Czatkowice" Modernization of the plant's technological process system and liquidation of the 6 MWt coal fired boiler house | voluntary | 2116 |
| TAURON Dystrybucja Jelenia Góra Branch at ul. W. Pola 47 carried out an investment project consisting in the construction of renewable energy sources in the form of ground source heat pumps interworking with the lower source in the form of vertical wells. In connection with the implementation of the above investment project, the existing boiler house was shut down | voluntary | 248,2 |
| TAURON Dystrybucja Thermo-modernization was implemented at 5 locations (Opole Branch - 3, Częstochowa Branch - 1 and Jelenia Góra Branch - 1). The coal-fired boiler house in Opole was shut down. | voluntary | 123,7* |
| TOTAL REDUCTIONS | | 737 616 |

* Due to the change of the boiler room and the transfer of the heat supply service, the GHG emission from Scope 1 became Scope 2

Actions taken and results achieved

Cooperation with partners to counter climate change

TAURON Group engages in the public discussion on energy transition concerning climate-related issues on an ongoing basis. Despite the COVID-19 pandemic, it also began cooperation with non-business partners in 2020.

A webinar devoted to the Group's Climate Policy was held for TAURON Polska Energia employees in May 2020, as part of the so-called internal trainers program, attended by nearly 40 employees from various organizational units.

TAURON cooperated in the works of the working group on energy as part of the project Zero-emission Polska 2050. A chance for the economy and climate, established of the initiative of WWF Poland. The project ended in September 2020 with the publication of a report, and its aim was to create a different perspective on the issue of climate neutrality in Poland among the representatives of the public sector, business and non-government organizations, outlining the main directions of intervention in the area of construction, energy, agriculture and forestry, as well as transportation.

Matters related to energy transition were also discussed on an ongoing basis during such working groups as the "Regional Energy Council" at the Silesian Union of Municipalities and Counties or the "Regional Team for the Initiative of Mining Regions at the Marshal of Silesia". In 2020, TAURON was also operationally involved in the work on the Regional Just Transition Plans.

TAURON also supported in November 2020 the organization of an event dedicated to climate change, which was the Metropolitan Climathon 2020. This marathon of creativity on climate protection was held on-line in 2020, and was devoted to the issue of drought in the city. The concept of Climathon is to jointly develop solutions responding to specific climate challenges at the given place, during 24-hour events that take place simultaneously in more than 100 cities around the world in 47 countries. This year's metropolitan edition was organized under the slogan: Metropolis in the era of global warming - water retention and drought prevention.

Improving the efficiency of the production processes that have an impact on the climate change

TAURON Group's business model has both a positive as well as a negative impact on the climate. The operations related to the burning of fossil fuels, which are the core business operations of TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON, as well as unorganized emissions of methane into the atmosphere from Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine), owned by TAURON Wydobycie, are important sources of greenhouse gas emissions. Methane emissions come from the mine ventilation, over which the company has no direct influence and cannot control it in a technically justified manner. The emissions constitute the so-called off-balance sheet methane emissions, which are calculated and included in the charges for the use of the environment for the business purposes.

In addition, ZG Brzeszcze is equipped with a mine methane extraction (drainage) plant, in which, in 2020, 100% of methane was obtained and utilized (sold) in the quantity of approx. 40 million Nm³ of methane, thus it was not a source of direct methane emissions to the atmosphere and was used in the combustion processes by external entities as an energy source.

Direct greenhouse gas emissions due to the secondary operations of TAURON Wytwarzanie, TAURON Ciepło, Nowe Jaworzno Grupa TAURON, as well as the Group's other subsidiaries do not account for a significant share and, above all, are related to the combustion of fuels in the engines of the production machines and cars. Direct greenhouse gas emissions by TAURON Capital Group in 2020 are presented in tables 41 and 41-a.

Table no. 43. GRI 305-1. Direct greenhouse gas emissions [tCO₂] by TAURON Capital Group in 2019 and 2020

| | TOTAL AGGREGATE | |
|--|-----------------|------------|
| | 2020 | 2019 |
| Emission related to electricity generation | 8 848 777 | 11 080 519 |
| Emission related to heat generation | 1 227 458 | 1 114 956 |
| Emissions from gas leaks, including those associated with accidents | 460 | 623 |
| Emissions related to the transportation of materials, products and waste | 16 954 | 19 847 |

| | | |
|-------------------------------|-------------------|-------------------|
| Total direct emissions | 10 093 648 | 12 215 945 |
| Biogenic emission | 754 122 | 471 242 |

Table no. 43-a. GRI 305-1. Direct greenhouse gas emissions [tCO₂] by TAURON Capital Group in 2019 and 2020, per subsidiary

| | Greenhouse gas emissions [tCO ₂] | | | | | | | | | | | | TOTAL AGGREGATE | |
|--|---|---------------|--------------------|-------------------|------------------|------------------|--------------------|--------------|--------------------|---------------|---|----------|-------------------|-------------------|
| | Kopalnia Wapienia "Czatkowice" | | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Wydobywanie | | TAURON Dystrybucja | | Nowe Jaworzno Grupa TAURON ¹⁾ | | | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Emissions related to electricity generation | 0 | 0 | 8 007 159 | 10 232 576 | 624 146 | 847 943 | - | - | 0 | 0 | 380 | - | 8 848 777 | 11 080 519 |
| Emissions related to heat generation | 5 291 | 8 449 | 521 536 | 329 447 | 700 251 | 776 801 | - | - | 380 | 258 | 87 | - | 1 227 458 | 1 114 956 |
| Emissions from gas leaks, including those associated with accidents | 0 | 0 | 373,0 | 500,5 | 0 | 0 | 0 | 0 | 87 | 123 | 3 319 | - | 460 | 623 |
| Emissions related to the transportation of materials, products and waste | 3 704 | 3 139 | 1 231 | 2 636 | 1 246 | 0 | 1 876 | 1 370 | 8 884 | 12 701 | 3 786 | - | 16 954 | 19 847 |
| Total direct emissions | 8 995 | 11 588 | 8 530 086 | 10 565 160 | 1 325 643 | 1 624 745 | 1 876 | 1 370 | 9 351 | 13 082 | 0 | - | 10 093 648 | 12 215 945 |
| Biogenic emissions | - | - | 535 361 | 413 089 | 218 761 | 58 152 | 0 | - | 0 | - | 0 | - | 754 122 | 471 242 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 43-b. GRI 305-1. Indirect greenhouse gas (CO₂) emissions by TAURON Capital Group in 2020 in connection with the operations of the subsidiaries (Scope 2)

| Indirect greenhouse gas emissions [tCO ₂ e] | | |
|--|----------------|---|
| | 2020 | Explanations |
| Indirect emissions related to the use of electricity purchased and transmission losses related to electricity distribution | 427 118 | It includes all electricity purchased by the Group's subsidiaries and the volume of electricity related to transmission losses in connection with the operations conducted by TAURON Dystrybucja S.A. ¹⁾ |
| Indirect emissions related to the transportation of fuels (including biomass) | 8 346 | It includes the transportation of hard coal and biomass to the following subsidiaries ²⁾ : TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON ³⁾ |
| Total indirect emissions | 435 464 | - |

¹⁾ The indicators (metrics) used to calculate indirect GHG emissions related to the use of the electricity purchased and transmission losses is assumed based on the underlying data: <https://www.tauron.pl/tauron/o-tauronie/spolki-grupy/tauron-sprzedaz-gze/struktura-paliw>, i.e. in the same value equal to 0.733664 Mg CO₂e / MWh.

²⁾ The indicators (metrics) used to calculate indirect GHG emissions for the related to the transportation of materials are assumed in accordance with the underlying data: „Guidelines for Measuring and Managing CO₂ Emission from Freight Transport Operations. A. McKinnon (UK)” respectively:

- transportation of fuel by trucks on the roads - 62 g CO₂e / ton-km (the mean value for two data sources) and 68 140 298 tkm as the total number of ton kilometers calculated based of the actual weights of fuel loads and the average length of the road routes,
- transportation of fuel by rail - 22 g CO₂e/ton-km and 187 341 015 tkm as the total number of ton-kilometers calculated on the basis of the actual weights of fuel loads and the average length of the railway routes taking into account the routes for the transportation of the coal fuels.

Ton-kilometers take into account the weight of the materials transported from the place of initial fuel loading to the destination (Group's subsidiaries).

Ton-kilometers for the transportation of biomass take into account a rational averaged distance of 70 km for the entire volume of biomass from the producer to the destination and withing the maximum radius of 100 km for at least 90% of the deliveries.

Transports commenced at the end of 2019 were not taken into account.

³⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020).

Actions taken for the climate are also reflected in various types of investment projects carried out by TAURON Capital Group's subsidiaries in 2020 and in the previous years, which have a direct and indirect impact on reducing fuel and energy consumption as well as reducing or avoiding gas emissions to the atmosphere.

The Group's subsidiaries are undertaking a number of activities aimed at improving energy efficiency, which is reflected in the acquisition of energy efficiency property rights in the quantity of 715 toe in 2020. The Group's subsidiaries with the highest primary energy savings potential are getting ready to implement an energy management system.

The number of electric vehicle charging stations connected to the power grid of the Group's subsidiary went up by another 64 stations in 2020.

TAURON Nowe Technologie, a subsidiary dedicated to the operation and maintenance of street lighting in the area of the Group's operations, continued in 2020 the program of replacing the street lights with the energy-saving lighting (approx. 28.4 thousand units), which will allow for annual savings in the final electricity consumption by the consumers (21 municipalities) in the estimated amount of approx. 8 267 MWh/year.

At the end of 2020, TAURON Wytwarzanie completed the construction of a photovoltaic farm in Jaworzno (5 MWe), and the effects of the production from that renewable energy source will be accounted for starting from 2021.

Preparation and adaptation of the infrastructure taking into account the need to adapt to climate change is one of the significant items of TAURON Capital Group's capital expenditures. As part of these activities, among others, the alteration and replacement of the grid (including adaptation to the RES grid connections), modernization of stations in order to increase their efficiency, replacement of lighting with the energy-saving solutions, construction of "e-mobility" and "e-grid" infrastructure were carried out. The expenditures on the projects related to climate change adaptation are presented in Table no. 44.

Table no. 44. Expenditures on the projects related to climate change adaptation

| | |
|---|-----------------|
| Total capital expenditures related to TG's climate change adaptation projects | PLN 197 million |
| Share of the capital expenditures related to climate change adaptation projects in the Group's total investment outlays | approx. 4.9 % |

TAURON Group's total capital expenditures on the projects directly related to climate change measures and the adaptation to climate change came in at nearly PLN 197 million in 2020, which represented approx. 4.9% of the Group's total investment outlays.

The operations of TAURON Ekoenergia, which are based entirely on the production of electricity from renewable sources, have a positive impact on the climate. As a result of the optimization of the wind farms' production assets

and favorable conditions at the locations thereof, very good results were achieved, both in the form of a significant reduction of the in-house needs ratio (efficiency) as well as an increase in the electricity produced from RES. Tables no. 45 and 45-a present the volume of electricity produced by TAURON Group's generation units in 2020, broken down by the main energy sources.

Table no. 45. GRI EU2. Volume of net electricity and heat generated by TAURON Capital Group, broken down into main energy sources in 2019 and 2020

| | Electricity [GWh] | | Heat [GJ] | |
|-------------------------------|-------------------|---------------|-------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Hard coal | 9 179 | 10 921 | 8 261 963 | 7 899 203 |
| Sludge | 163 | 193 | 342 560 | 337 304 |
| Natural gas and coke oven gas | 2,22 | 5,53 | 287 507 | 128 768 |
| Biomass | 628 | 394 | 940 709 | 572 312 |
| Wind | 936 | 644 | 0 | 0 |
| Hydro | 395 | 356 | 0 | 0 |
| Liquid fuels | 74 | 92 | 211 557 | 91 319 |
| TOTAL | 11 377 | 12 604 | 10 044 296 | 9 028 906 |

Table no. 45-a. GRI EU2. Volume of net energy generated by TAURON Capital Group, broken down into main energy sources, per subsidiary in 2019 and 2020

| | TAURON Wytwarzanie | | | | TAURON Ciepło | | | | TAURON Ekoenergia | | | | New wind based assets Total for 10 companies | | | | Nowe Jaworzno Grupa TAURON ¹⁾ | | | | TOTAL | | | |
|-------------------------------|--------------------|---------------|------------------|------------------|-------------------|--------------|------------------|------------------|-------------------|------------|-----------|----------|---|------------|-----------|----------|---|----------|-----------|----------|-------------------|---------------|-------------------|------------------|
| | Electricity [GWh] | | Heat [GJ] | | Electricity [GWh] | | Heat [GJ] | | Electricity [GWh] | | Heat [GJ] | | Electricity [GWh] | | Heat [GJ] | | Electricity [GWh] | | Heat [GJ] | | Electricity [GWh] | | Heat [GJ] | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Hard coal | 8 100 | 9 812 | 3 032 232 | 2 384 473 | 848 | 1 108 | 5 229 731 | 5 514 730 | 0 | 0 | - | - | 0 | 0 | - | - | 230 | - | - | - | 9 179 | 10 921 | 8 261 963 | 7 899 203 |
| Sludge | 108 | 123 | 168 483 | 156 756 | 55 | 71 | 174 076 | 180 548 | 0 | 0 | - | - | 0 | 0 | - | - | 0 | - | - | - | 163 | 193 | 342 560 | 337 304 |
| Natural gas and coke oven gas | 2 | 6 | 3 940 | 5 077 | 0 | 0 | 283 567 | 123 691 | 0 | 0 | - | - | 0 | 0 | - | - | 0 | - | - | - | 2.22 | 5.53 | 287 507 | 128 768 |
| Biomass | 473 | 370 | 669 275 | 409 379 | 154 | 24 | 271 434 | 162 933 | 0 | 0 | - | - | 0 | 0 | - | - | 0 | - | - | - | 628 | 394 | 940 709 | 572 312 |
| Wind | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 472 | 462 | - | - | 464 | 182 | - | - | 0 | - | - | - | 936 | 644 | 0 | 0 |
| Hydro | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 395 | 356 | - | - | 0 | 0 | - | - | 0 | - | - | - | 395 | 356 | 0 | 0 |
| Liquid fuels | 73 | 91 | 102 868 | 35 797 | 1 | 1 | 108 689 | 55 522 | 0 | 0 | - | - | 0 | 0 | - | - | 0 | - | - | - | 74 | 92 | 211 557 | 91 319 |
| TOTAL | 8 757 | 10 401 | 3 976 799 | 2 991 481 | 1 058 | 1 203 | 6 067 497 | 6 037 425 | 867 | 818 | - | - | 464 | 182 | - | - | 230 | - | - | - | 11 377 | 12 604 | 10 044 296 | 9 028 906 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Both the assumption of a warming at the level of at most 2 °C, as well as the assumption of a warming by more than 2 °C will translate into TAURON Group's business model and strategy. However, their expected consequences may be different over time. The so-called energy mix of the electricity produced will have to undergo a gradual change. The Sustainable Development Indices that will reflect the transition process denote: RES Capacity Growth Index (shown in Table no. 46) and the Emission Reduction Index (shown in Table no. 47).

Table no. 46. Targets for the minimum declared average annual increase in RES capacity planned by TAURON Capital Group in 2020-2030

| Sustainable Development Index in the given calendar year | | | | |
|--|-------------|-------------|-------------|-------------|
| Sustainable Development Index | 2020 target | 2025 target | 2027 target | 2030 target |
| RES Capacity Growth Index | 8% | 8% | 8% | 8% |
| Result achieved | 27 % | - | - | - |

RES Capacity Growth Index denotes the index of the average annual increase of installed capacity in RES, calculated as follows:

$$JWZM_{OZE_r} = \frac{WM_{OZE_r}}{(r - 2018)}$$

where:

$JWZM_{OZE_r}$ [%] denotes the unit index of increasing RES capacity in year r;

WM_{OZE_r} [%] denotes the installed capacity change index;

r denotes calendar year;

2018 is the base year (the calculation was adopted following the adoption of the Climate Policy in November 2019, i.e. before the settlement of the year 2019 as defined by the emissions trading scheme).

The installed capacity change index is calculated as follows:

$$WM_{OZE_r} = \frac{M_{OZE_r} - M_{OZE_{2018}}}{M_{OZE_{2018}}}$$

where:

WM_{OZE_r} [%] denotes the installed capacity change index;

M_{OZE_r} [MW_e] denotes the installed capacity of RES units in year r, excluding biomass fired units, and the units of TAURON Ciepło Sp. z o.o.

$M_{OZE_{2018}}$ [MW_e] denotes the installed capacity of RES units in the base year, excluding biomass fired units and the units of TAURON Ciepło Sp. z o.o.

Table no. 47. The minimum declared CO₂ emission reduction rate for gross electricity production planned by TAURON Capital Group in 2018-2030 [Mg CO₂/MWh]

| Sustainable Development Index in the given calendar year | | | | |
|--|------|------|------|------|
| Sustainable Development Index | 2020 | 2025 | 2027 | 2030 |
| Emission Reduction Index | 2% | 2% | 2% | 2% |
| Result achieved | 6% | | | |

Emission Reduction Index denotes the average annual CO₂ emission reduction index for gross electricity production, calculated as follows (excluding the units of TAURON Ciepło):

$$JWRE_r = \frac{WE_{CO_2,2018} - WE_{CO_2,r}}{WE_{CO_2,2018} \times (r - 2018)}$$

where:

JWRE_r [%] denotes the average annual CO₂ emission reduction index in year r;

WE_{CO₂,r} [MgCO₂/MWh] denotes the CO₂ emission index in year r, accounted for under the Community Emission Trading Scheme;

WE_{CO₂,2018} [MgCO₂/MWh] denotes the CO₂ emission index in the base year, accounted for under the Community Emission Trading Scheme;

r denotes a calendar year;

2018 is the base year (the calculation was adopted following the adoption of the Climate Policy in November 2019, i.e. before the settlement of 2019 as defined by the emissions trading scheme).

The CO₂ emission index is calculated as follows:

$$WE_{CO_2,r} = \frac{E_{CO_2(ee)r}}{P_{ee(brutto)r}}$$

where:

WE_{CO₂,r} [MgCO₂/MWh] denotes the CO₂ emission index for gross electricity production

E_{CO₂(ee)r} [MgCO₂] denotes the CO₂ emissions in year r for gross electricity production from fossil fuels and biomass as well as RES in year r

P_{ee(brutto)r} [MWh] denotes gross electricity production from fossil fuels and biomass as well as RES in year r.

The Group's dependence on the natural capital varies in different lines of business. Mining, Generation and Heat Line of Business depends on the fossil fuel resources, which are not very sensitive to the climate change. As their physical availability is not dependent on the rate of the global warming. TAURON Group's dependence on the individual types of the natural capital in 2019 and 2020 is presented in tables no. 48-52.

Table no. 48. GRI 302-1. Total consumption of energy from non-renewable sources (in-house and acquired) in GJ (gross chemical energy of fuels) at TAURON Capital Group in 2019 and 2020

| [GJ] | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Wydobycie | | TAURON Ekoenergia | | Kopalnia Wapienia "Czatkowice" | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
|-------------------------------|--------------------|--------------------|-------------------|-------------------|------------------|---------------|-------------------|--------------|--------------------------------|----------------|--|----------|--------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| hard coal | 87 111 351 | 107 648 968 | 12 732 980 | 15 729 478 | 0 | 0 | 0 | 0 | 0 | 0 | 2 172 985 | - | 102 017 316 | 123 378 446 |
| natural gas and coke oven gas | 27 807 | 65 524 | 351 523 | 159 493 | 0 | 0 | 0 | 0 | 59 962 | 71 295 | 0 | - | 439 292 | 296 313 |
| Sludge | 1 326 569 | 1 510 651 | 662 881 | 853 802 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 1 989 451 | 2 364 453 |
| heating oil | 882 855 | 1 014 513 | 144 724 | 78 864 | 0 | 0 | 0 | 0 | 0 | 0 | 65 839 | - | 1 093 417 | 1 093 377 |
| liquid fuels | 16 606 | 22 209 | 16 822 | 162 316 | 25 315 | 18 493 | 1 344 | 1 960 | 49 990 | 42 355 | 194 | - | 110 270 | 247 333 |
| TOTAL | 89 365 188 | 110 261 866 | 13 908 930 | 16 983 953 | 25 315 | 18 493 | 1 344 | 1 960 | 109 952 | 113 650 | 2 239 017 | - | 105 649 746 | 127 379 922 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 49. GRI 302-1. Total consumption of energy from renewable sources in GJ (gross chemical energy of fuels) at TAURON Capital Group in 2019 and 2020, per subsidiary

| [GJ] | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Wydobycie | | TAURON Ekoenergia | | Kopalnia Wapienia "Czatkowice" | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
|--------------|--------------------|------------------|------------------|----------------|------------------|----------|-------------------|----------------|--------------------------------|----------|--|----------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| biomass | 5 712 043 | 4 478 060 | 2 072 414 | 546 983 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 7 784 457 | 5 025 044 |
| wind | 0 | 0 | 0 | 0 | 0 | 0 | 120 625 | 120 341 | 0 | 0 | 0 | - | 120 625 | 120 341 |
| hydro | 0 | 0 | 0 | 0 | 0 | 0 | 20 383 | 20 155 | 0 | 0 | 0 | - | 20 383 | 20 155 |
| TOTAL | 5 712 043 | 4 478 060 | 2 072 414 | 546 983 | 0 | 0 | 141 008 | 140 496 | 0 | 0 | 0 | - | 7 925 465 | 5 165 540 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 50. GRI 302-1. Total energy consumption (purchased and in-house) by type in GJ (Electricity purchased and generated used for the needs of the organization - heating, cooling, electricity, steam) at TAURON Capital Group in 2019 and 2020, per subsidiary

| [GJ] | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Wydobywanie | | TAURON Ekoenergia | | Kopalnia Wapienia "Czatkowice" | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
|--------------|--------------------|------------------|----------------|------------------|--------------------|------------------|-------------------|----------------|--------------------------------|---------------|--|----------|------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| electricity | 3 744 271 | 4 441 849 | 743 907 | 817 554 | 1 271 330 | 1 283 312 | 145 292 | 152 277 | 71 820 | 82 302 | 109 144 | - | 6 085 764 | 6 777 294 |
| heat | 772 116 | 744 191 | 194 107 | 200 250 | 240 356 | 253 551 | 956 | 984 | 4 962 | 0 | 77 068 | - | 1 289 565 | 1 198 976 |
| TOTAL | 4 516 388 | 5 186 040 | 938 014 | 1 017 804 | 1 511 686 | 1 536 863 | 146 248 | 153 261 | 76 782 | 82 302 | 186 212 | - | 7 375 329 | 7 976 270 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 51. GRI 302-1. Energy supply in GJ (net less in-house needs) at TAURON Capital Group in 2019 and 2020, per subsidiary

| [GJ] | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Wydobywanie | | TAURON Ekoenergia | | Kopalnia Wapienia "Czatkowice" | | Nowe Jaworzno Grupa TAURON ¹⁾ | | TOTAL | |
|--------------|--------------------|-------------------|------------------|-------------------|--------------------|----------|-------------------|------------------|--------------------------------|----------|--|----------|-------------------|-------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| electricity | 30 821 153 | 36 654 304 | 3 809 911 | 4 331 014 | 0 | 0 | 3 120 101 | 2 944 537 | 0 | 0 | 0 | - | 38 579 789 | 43 929 855 |
| heat | 3 976 799 | 2 991 481 | 6 067 497 | 6 037 425 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 10 044 296 | 9 028 906 |
| TOTAL | 34 797 952 | 39 645 785 | 9 877 408 | 10 368 439 | 0 | 0 | 3 120 101 | 2 944 537 | 0 | 0 | 0 | - | 48 624 086 | 52 958 760 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Table no. 52. GRI 302-1. Total energy consumption by the organization in GJ at TAURON Capital Group in 2019 and 2020, per subsidiary

| [GJ] | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Wydobywanie | | TAURON Ekoenergia | | Kopalnia Wapienia "Czatkowice" | | Nowe Jaworzno Grupa TAURON ¹⁾ | | ŁĄCZNIE | |
|--|--------------------|------------|---------------|-----------|--------------------|-----------|-------------------|------------|--------------------------------|---------|--|------|-------------------|-------------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| total energy consumption by the organization | 60 262 672 | 80 280 182 | 7 041 950 | 8 180 302 | 1 511 686 | 1 555 356 | -2 831 501 | -2 648 820 | 131 782 | 195 952 | 1 596 605 | - | 67 713 194 | 87 562 971 |

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period after commissioning (from November 13, 2020 to December 31, 2020)

Due to generating electricity in hydropower plants, the RES Line of Business is highly exposed to the risk of outages or reduction of production as a result of prolonged droughts, which translate into a decrease in surface water resources in river basins, where hydropower plants are located. TAURON Ekoenergia is monitoring such developments on an ongoing basis and has an inventory listing of assets most exposed to such restrictions.

The Group is also monitoring the rate of energy consumption related to its operations on an ongoing basis, as shown in the indices in Table no. 53.

Table no. 53. GRI 302-3. Energy consumption at TAURON Capital Group in 2020, per subsidiary

| | TAURON Wytwarzanie | | TAURON Ciepło | | TAURON Ekoenergia | | TAURON Ekoenergia Nowe Aktywa Wiatrowe | | Nowe Jaworzno Grupa TAURON ¹⁾ | |
|--|--------------------|--------|---------------|---------|-------------------|-------|--|-------|--|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Energy consumption rate [%] (energy consumption for in-house needs / gross energy production) | 11.51% | 11.60% | 8.13% * | 8.24% * | 4.48% | 4.97% | 0.68% | 2.19% | 11.64% ** | - |
| Energy consumption rate - electricity [%] (electricity consumption for in-house needs / gross electricity production) | 11.41% | 11.18% | 16.71% | 16.22% | 4.48% | 4.97% | 0.68% | 2.19% | 11.64% ** | - |
| Energy consumption rate - heat [%] (heat consumption for in-house needs / gross heat production) | 12.31% | 16.51% | 2.74% * | 2.74% * | - | - | - | - | - | - |

* Does not take into account the replenishment of the heat carrier losses in district heating networks.

** It does not take into account the consumption of process steam for the unit's start-up needs. Due to the relatively short period of operation from the unit's commissioning and due to the still ongoing works related to the optimization of the individual systems and installations, the energy consumption index will systematically improve until the value declared at the design stage is reached.

TAURON Group has inventoried, during inventory energy audits, potential tasks related to reducing energy consumption. The targets related to energy consumption were set based on such measures, as shown in Tables no. 54, 54-a and 54-b.

Table no. 54. Targets, and results achieved, with respect to energy consumption set to be achieved by TAURON Capital Group by 2030

| Subsidiary | Target | 2019 | 2020 | 2025 Target | 2030 Target |
|--------------------------------|---------------------------------------|------|-------------|-------------|-------------|
| Kopalnia Wapienia "Czatkowice" | Electricity consumption rate [kWh/t] | 22.7 | 22.7 | 21.1 | 20.0 |
| | Result achieved | | 22.6 | | |
| TAURON Wydobycie | Electricity consumption rate* [kWh/t] | 70.9 | 60.0 | 50.8 | 48.3 |
| | Result achieved | | 60.0 | | |

* excluding the additional consumption due to the construction of the Grzegorz Shaft.

Table no. 54 - a. Targets, and results achieved, with respect to energy consumption set to be achieved by TAURON Capital Group by 2030, per subsidiary

| | TAURON Wytwarzanie | | | TAURON Ciepło | | | Nowe Jaworzno Grupa TAURON | |
|---|--------------------|-------|--------|---------------|---------|--------|----------------------------|---------|
| | 2020 | 2025 | 2030 | 2020 | 2025 | 2030 | 2025 | 2030 |
| Energy consumption rate [%] (energy consumption for in-house needs / gross energy production) | 10.9 % | 11.1% | 8.73%* | 8.88% * | 8.44% * | 9.1% * | 8.63%** | 8.16%** |
| Result achieved | 11.5 % | | 8.13%* | | | | | |
| Energy consumption rate - electricity [%] (electricity consumption for own needs / gross electricity production) | 10.7% | 10.8% | 15.05% | 15.61% | 17.09% | 10.5% | 8.63%** | 16%** |
| Result achieved | 11.4% | | 16.71% | | | | | |
| Energy consumption rate - heat [%] (heat consumption for own needs / gross heat production) | 12.6% | 13.9% | 2.77% | 2.98% * | 2.89% * | 9.2% * | | |
| Result achieved | 12.3% | | 2.74%* | | | | | |

* Does not take into account the replenishment of the heat carrier losses in district heating networks. The fluctuations of the rate for TAURON Ciepło in the 2025 and 2030 time frame result from a change in: planned increase in heat demand by approx. 1.6 TJ and commissioning of the new gas fired heat generation sources that will complement the existing infrastructure of high-efficiency coal fired cogeneration (unit emission indices will be reduced).

** The target set assuming the average annual load of the generating unit above 70% of the nominal rated power

The 2020 targets in terms of energy consumption indicators for TAURON Wytwarzanie and TAURON Ciepło subsidiaries reached values higher than those assumed in terms of energy consumption for electricity production. The reasons for this can be as follows:

- need to operate TAURON Wytwarzanie units as centrally controlled (dispatched) generation units that stabilized the power system in the south of Poland in highly volatile energy flow conditions, also with respect to international trade (imports/exports). This resulted in the operation of the units at sub-optimal operating points (high volatility of the efficiency of the individual generating units);
- much more frequent than assumed number of start-ups and shutdowns of TAURON Wytwarzanie generation units;
- high heat production combined with the reduction of the operation in the condensation mode at TAURON Ciepło translated into a slightly better result of the energy consumption index for heat production and worse than assumed for electricity production.

Table no. 54- b. Target, and result achieved, for transmission losses set to be achieved by TAURON Dystrybucja by 2030

| Subsidiary | Index name | 2020 Target | 2025 Target | 2030 Target |
|--------------------|---|---------------|-------------|-------------|
| TAURON Dystrybucja | Value of the balancing difference index * | 4.14 % | 3.96 % | 3.90 % |
| | Result achieved | 4.45 % | | |

* Index calculated as of 31.12 for the last 12 months, as the quotient of energy lost in the grid to the value of energy fed into the grid

Climate related opportunities

The Group can turn the climate related risk into opportunities by offering products and services that contribute to mitigating climate change or adapting thereto. TAURON Group is observing a clear trend underway that involves a redirection of the consumers' and business customers' choices towards products and services that are less harmful to the climate. This is a key factor leading to the development of the so-called ECO line. Such an offering increases the resilience of the product portfolio against climate change,

EKO product lines (business and individual customers) are products that allow, among others, for the conscious purchase by the Group's customers of electricity produced by renewable energy installations or by low-emission

generation sources and confirmed by the applicable certificates from independent institutions (Polish Energy Certification Society, TUV Sud). The EKO products sales results are presented in Table no. 55.

Table no. 55. Increase in 2020 vs. 2019 of the sales of TAURON Capital Group's products aimed at achieving the climate neutrality target

| Sales of selected EKO Line products and service | | Metric type | Increase |
|---|--------------|---|----------|
| EKO product line | EKO Premium | Increase in the value of issued Certificates of Origin issued | 51.3 % |
| | EKO Biznes | | |
| | EKO Standard | | |
| EKO electricity for an individual customer | | Change in the number of customers choosing the product at the end of the period - y/y | 162.2 % |
| Photovoltaics | | Change in the quantity of installations sold | 567 % |
| Passive Power Compensation | | Change in the quantity of services sold | 81.8 % |
| Enterprise Energy Audit | | Change in the quantity of services sold | 16.7 % |
| Implementation of the replacement of street lighting with low-energy lighting | | pcs. | 28 414 |

As a principle, TAURON does not take on targeted financing, with funds dedicated directly to the given investment task, as it obtains funds that enable financing of TAURON Group's corporate and investment activities. Pursuant to the terms of some of the agreements, TAURON is obliged to implement the indicated investment projects, comply with specific sustainable development indicators, as well as act in accordance with the principles of environmental and social policy, the implementation of which is confirmed by relevant reports submitted to the financial institutions. Additionally, in some financing agreements, TAURON undertakes not to allocate funds from the given financing to finance activities related to the operations of the generation and mining lines of business.

Table no. 56 presents the allocation of funds from TAURON Group's individual sources of financing for investment purposes aimed at minimizing the negative impact of the Group's operations on the climate.

Table no. 56. Summary of financing obtained by TAURON Capital Group for pro-climate investment projects

| Financing entity | financing instrument | loan amount under the contract | debt as of 31.12.2020 r. | financing purpose |
|--------------------------|----------------------|--------------------------------|--------------------------|--|
| European Investment Bank | subordinate bonds | 190 000 000.00 EUR | 190 000 000.00 EUR | financing of investment projects aimed at expanding and upgrading the power grid infrastructure in Poland in 2016-2020 in accordance with its strategic investment plan |
| European Investment Bank | subordinate bonds | 350 000 000.00 PLN | 350 000 000.00 PLN | financing of investment projects in the electricity distribution grid in southern and southwestern Poland in 2018-2020 |
| European Investment Bank | subordinate bonds | 400 000 000.00 PLN | 400 000 000.00 PLN | financing of investment projects in the electricity distribution grid in southern and southwestern Poland in 2018-2020 |
| European Investment Bank | loan | 295 000 000.00 PLN | 191 750 000.00 PLN | financing of an investment project composed of two Components with respect to expanding the electricity distribution grid, implementing a smart metering program as well as modernization and repairs of the existing small hydropower plants |
| European Investment Bank | loan | 900 000 000.00 PLN | 306 818 181.95 PLN | financing of the implementation of a 5-year investment program (2011-2015), aimed at strengthening, modernizing and expanding the electrical grids of Tauron Dystrybucja S.A. |
| European Investment Bank | loan | 300 000 000.00 PLN | 30 000 000.00 PLN | financing of the implementation of the project involving the construction and commissioning of a high-efficiency coal fired cogeneration unit of the latest generation (CHP, combined heat and power plant), including the associated infrastructure, located on the site of the existing power plant in Bielsko-Biala in southern Poland |
| | | 210 000 000.00 | | |
| European Investment Bank | loan | | 21 000 000.00 PLN | financing of the construction of a new biomass-fired circulation fluidized-bed boiler (150 MWt) to replace one of the existing coal-fired boilers that will be decommissioned as obsolete, as well as the overhaul of the existing steam turbine (50 MWe), including the auxiliary infrastructure on the site of Power Plant Jaworzno III (Unit II) in southern Poland |

| | | | | | | | | | |
|---|------------------------|----------|--|----------------|-----|--|----------------|-----|--|
| Intesa Sanpaolo S.P.A. operating via Intesa Sanpaolo S.P.A. Spółka Akcyjna Oddział w Polsce | | | | 750 000 000.00 | PLN | | 750 000 000.00 | PLN | covering the expenses related to the implementation of investment projects or groups of investment tasks of TAURON Group covering (i) broadly understood power generation based on renewable energy sources and (ii) distribution of electricity, among others the expansion and upgrade of the grid and connecting new customers, as well as refinancing of the existing Financial Debt |
| A series bond issue (TPE1025) | | | | 1 000 000 000 | PLN | | 1 000 000 000 | PLN | The proceeds from the Bond issue may be used to: (i) finance the RES projects construction/acquisition costs, (ii) finance the Group's distribution operations as well as the general corporate activities related to RES or the zero-emission energy transition, and (iii) refinance the Group's debt taken on to finance the above projects. |
| WFOŚiGW (Regional Protection and Water Fund) | Environment Management | KWC loan | | 914 000.00 | PLN | | 229 476.60 | PLN | Reduction of limestone dust emissions at the raw material landfill at Kopalnia Wapienia "Czatkowice" sp. z o.o. |
| WFOŚiGW (Regional Protection and Water Fund) | Environment Management | TW loan | | 40 000 000.00 | PLN | | 8 000 000.00 | PLN | Construction of a RES Production Unit at PKE S.A. Jaworzno III Power Plant - Power Plant II |
| WFOŚiGW (Regional Protection and Water Fund) | Environment Management | TW loan | | 11 318 300.00 | PLN | | 8 546 430 | PLN | Construction of a photovoltaic farm in Jaworzno |
| WFOŚiGW (Regional Protection and Water Fund) | Environment Management | KWC loan | | 292 955.60 | PLN | | 170 880.60 | PLN | Thermo-modernization of the Car Service Station at Kopalnia Wapienia "Czatkowice" sp. z o.o. |

4.5. TAURON Group's Human Rights Respect Policy

TAURON Group's Corporate Social Responsibility Code of Conduct indicates that TAURON Capital Group is guided by the principle of equal treatment of employees and does not tolerate discrimination on any basis, in particular due to age, gender, race, nationality, religion, sexual orientation, appearance, fitness or different views. The aim of the Policy of Respect for Human Rights is to present the principles of TAURON Capital Group regarding respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect in the workplace.

The policy defines the principles of TAURON Capital Group dedicated to respecting and protecting human rights, including, among others:

- prohibition of mobbing and discrimination,
- prohibition of slavery and forced labor,
- ban on employing children and minors,
- freedom of association,
- observing employment and remuneration conditions,
- work health and safety (WHS),
- employee engagement (commitment),
- countering cases that involve violations of human rights.

Furthermore, the regulation also defines TAURON Capital Group's rules dedicated to the human rights respect and protection with respect to interacting with the stakeholders, in particular counterparties (contractors) and business partners, as well as with respect to local communities.

Due diligence procedures and internal regulations

The basic regulations related to the Policy of Respect for Human Rights at TAURON Capital Group are TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.

In accordance with the provisions of the Policy of Respect for Human Rights, every employee, counterparty (contractor) and an external entity/business partner is required to:

- respect and promote respect for human rights and ensure their protection,
- refuse to participate in any situations that may involve a violation of human rights, mobbing and discrimination, and unequal treatment.

Each employee should pay attention to signals and circumstances that may potentially suggest the possibility of unequal treatment. If such doubts arise, employees should report them via communications channels defined in TAURON Capital Group's procedures, in particular in the above mentioned TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.

Actions taken and results achieved

The Ethics Committee is operating at TAURON Group in order to consider potential violations of the rules. "*Mobbing - legal and psychological aspects*" training for its members, the personnel of the Human Resource Area of TPE S.A. and the Compliance Team was conducted as part of the Virtual Compliance Day 2020. As part of the event a "*Get to know Compliance at TAURON Group ... and find out what we do*" panel was also held. All of TAURON Group's employees could participate in it.

Anonymous reports of violations submitted by employees to the Ethics Committee are forwarded to the Compliance Officer for investigation. As part of periodic risk monitoring, the Compliance Team verifies the number of notifications received by the Ethics Committee in matters falling within its competence area.

The communications channel enabling employees to provide information in a confidential and anonymous way is the Abuse Reporting Form, available on the website <https://www.tauron.pl/tauron/o-tauronie/formularzggloszenia-naduzycia>.

In addition, issues regarding violations of the principles set out in the Corporate Social Responsibility Code of Conduct can be reported to the Compliance Officer in person or in writing, by phone: +48 32 774 22 22, or to the e-mail address: compliance@tauron.pl.

Several dozen trade union organizations that associate about 71% of employees are operating within TAURON Capital Group. Additionally, in order to ensure proper dialogue and exchange of experience, the Social Council of TAURON Capital Group was established, which represents the trade union organizations

The introduction of the Policy of Respect for Human Rights at TAURON Capital Group contributes to raising awareness of respect for human rights and promoting their protection.

4.6. TAURON Group's Human Capital Management Policy

Due to numerous changes in the environment, both internal as well as external, in 2020 TAURON Group's Human Capital Management Policy was updated. The document focuses on acquiring, developing and maintaining competencies that are key to organizational efficiency and achieving the Group's strategic goals in a specific reality.

The goal of the regulations contained in this policy is the broadly understood support of employees and managers in creating an environment conducive to dialogue, introducing changes and striving for the development of the organization. Among the priorities set by the Policy, there are also issues such as creating an organizational culture based on cooperation and partnership, supporting bottom-up initiatives, independence and development of the personnel.

The policy defines the mission and vision of TAURON Group's human capital management, which are presented in Figure 39.

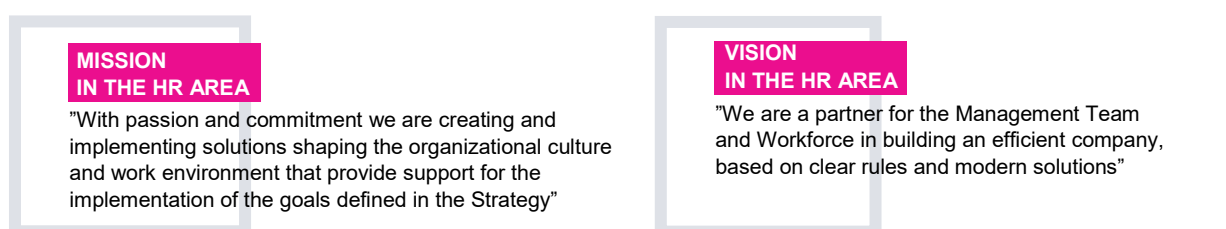


Figure no. 39. TAURON Capital Group's human capital management Mission and Vision

The document also sets out strategic areas of activities related to employee issues. They include:

- organization development,
- efficiency management,
- competences and development management.

In each area, specific goals were set and activities aimed at achieving them were identified. Their comprehensive description is presented in Table no. 57.

Table no. 57. Strategic areas of activities defined by TAURON Capital Group's human capital management

| Area: Organization development | Process |
|--|--|
| Goal: We implement and promote organizational culture that supports TAURON Group's development. | |
| We strengthen employee engagement and create a safe and inspiring work environment; <ul style="list-style-type: none"> • We are open to communication with employees, • We actively obtain and provide feedback, • We engage employees in improving the work environment. | Employee Opinion Survey Employee communication Employer Branding Management by objectives |
| We are building the image of TAURON Group as an attractive employer - both inside and outside the organization: <ul style="list-style-type: none"> • We survey the opinion of employees, • We create tools that allow us to ensure easy and efficient communication with employees, • We cooperate with universities and schools. | Employee Opinion Survey Employee communication Employer Branding Management by objectives |
| We ensure an efficient flow of information and create conditions for a partner dialogue with the workforce: <ul style="list-style-type: none"> • We strengthen cooperation among areas and among generations: • We create an environment that is friendly to the exchange of knowledge and experience, • We promote knowledge sharing | Social dialogue Development initiatives Knowledge and age management |
| We build relationships with customers and strengthen awareness with respect to environment protection, climate change and we are committed to promoting the Green Turn of TAURON | Employer Branding |
| We support TAURON Group in the process of changes through access to knowledge and market solutions: <ul style="list-style-type: none"> • We design development programs and provide knowledge, • We monitor market trends and solutions. | Development initiatives |
| Area: Organization efficiency management | Process |
| Goal: We focus on efficiency management. | |
| We clearly and consistently define roles, tasks and required authorizations at work positions. | Position evaluation system Job description book |

| | |
|--|--|
| We define clear compensation rules, based on market conditions, that motivate people to work efficiently: | Employment, wages and benefits management Management by objectives Social dialogue |
| <ul style="list-style-type: none"> We support the implementation of tasks and goals that stem from the Strategy, We create performance related employee compensation systems, We build tools that support management by objectives. | |
| We minimize the risks associated with human capital management. | TAURON Group's risk management system |
| We care about compliance with the principles of ethics and diversity: | Regulations related to diversity, ethics and counteracting mobbing and discrimination |
| <ul style="list-style-type: none"> We conduct educational activities, We care for an environment free from mobbing and discrimination. | |
| We optimize, standardize and digitize the Human Capital Management Area processes. Owing to this, we increase the flexibility and efficiency of the organization. | Human Capital Management Mega-process |
| Area: Competences and development management | Process |
| Goal: We support the development of competences | |
| We ensure that employees' competences are aligned to the needs of the changing energy sector: | Development initiatives Recruitment |
| <ul style="list-style-type: none"> We develop new competences and prepare for change management, We focus on acquiring new qualifications and improving employees' competences. | |
| We create a culture based on self-development: | Employee Opinion Survey Employee communication Employer Branding Management by objectives |
| <ul style="list-style-type: none"> We support employees through various individual development tools. | |
| We ensure the continuity of competences for the energy sector by educating pupils and students. | Recruitment |
| We take care of employee retention: | Development initiatives Employee induction |
| <ul style="list-style-type: none"> We create opportunities for development for employees and ensure a motivating atmosphere at work, We implement pro-employee solutions. | |
| We provide knowledge transfer between generations: | Knowledge and age management Development initiatives |
| <ul style="list-style-type: none"> We implement development programs, We implement internal training programs, We care about the exchange of experiences between generations. | |
| We care about the development of leadership competences of the Management Personnel. | Competence model Development conversation |
| We create and improve tools for the development, motivation and evaluation of the Employees' potential. | Development conversation |

Tables no. 58-61 present the key data with respect to the area of human resource management, including the number of employees by gender, age and type of labor contract, as well as the percentage of employees covered by the collective bargaining agreements.

Table no. 58. GRI 102-8-a. Number of TAURON Capital Group's employees by type of labor contract and gender as of 31.12.2020, per subsidiary

| NUMBER OF EMPLOYEES | TAURON Polska Energia | TAURON Wydobywanie | TAURON Wytwarzanie | TAURON Ekoenergia | TAURON Dystrybucja | TAURON Nowe Technologie | TAURON Dystrybucja Pomiary | TAURON Sprzedaż | TAURON Sprzedaż GZE | TAURON Czech Energy | TAURON Obsługa Klienta | TAURON Ciepło | Kopalnia Wapienia Czatkowice | Polska Energia Pienwsza Kompania Handlowa | Bioeko Grupa TAURON | Wsparcie Grupa TAURON | TAURON Serwis | Nowe Jaworzno Grupa TAURON | TOTAL | |
|---|--------------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------------|-------------------------------|--------------------|------------------------|------------------------|---------------------------|------------------|---------------------------------|--|---------------------|-----------------------|------------------|-------------------------------|---------------|--|
| LABOR CONTRACTS | | | | | | | | | | | | | | | | | | | | |
| TOTAL NUMBER OF EMPLOYEES UNDER LABOR CONTRACTS, INCLUDING: | 450 | 6 458 | 2 375 | 179 | 7 810 | 105 | 1 459 | 317 | 9 | 15 | 2 582 | 1 440 | 293 | 3 | 148 | 1 318 | 442 | 169 | 25 572 | |
| women | 200 | 566 | 389 | 40 | 1 180 | 36 | 258 | 167 | 6 | 8 | 1 856 | 251 | 44 | 3 | 28 | 428 | 29 | 14 | 5 503 | |
| Men | 250 | 5 892 | 1 986 | 139 | 6 630 | 69 | 1 201 | 150 | 3 | 7 | 726 | 1 189 | 249 | 0 | 120 | 890 | 413 | 155 | 20 069 | |
| INCLUDING: | | | | | | | | | | | | | | | | | | | | |
| FOR A DEFINITE PERIOD OF TIME (including for a trial period and as a substitute): | 33 | 46 | 33 | 17 | 321 | 5 | 10 | 65 | 0 | 0 | 408 | 22 | 36 | 0 | 69 | 372 | 44 | 1 | 1 482 | |
| women | 16 | 6 | 2 | 4 | 62 | 1 | 5 | 27 | 0 | 0 | 299 | 5 | 5 | 0 | 7 | 118 | 6 | 1 | 564 | |
| men | 17 | 40 | 31 | 13 | 259 | 4 | 5 | 38 | 0 | 0 | 109 | 17 | 31 | 0 | 62 | 254 | 38 | 0 | 918 | |
| FOR AN INDEFINITE PERIOD OF TIME: | 417 | 6 412 | 2 342 | 162 | 7 489 | 100 | 1 449 | 252 | 9 | 15 | 2 174 | 1 418 | 257 | 3 | 79 | 946 | 398 | 168 | 24 090 | |
| women | 184 | 560 | 387 | 36 | 1 118 | 35 | 253 | 140 | 6 | 8 | 1 557 | 246 | 39 | 3 | 21 | 310 | 23 | 13 | 4 939 | |
| men | 233 | 5 852 | 1 955 | 126 | 6 371 | 65 | 1 196 | 112 | 3 | 7 | 617 | 1 172 | 218 | 0 | 58 | 636 | 375 | 155 | 19 151 | |

Table no 59. GRI 102-8-d. Number of TAURON Capital Group's employees under other contracts than a labor contract by gender and type of labor contract as of 31.12.2020, per subsidiary

| NUMBER OF EMPLOYEES | TAURON Polska Energia | TAURON Wydobycie | TAURON Wytwarzanie | TAURON Ekoenergia | TAURON Dystrybucja | TAURON Nowe Technologie | TAURON Dystrybucja Pomiaru | TAURON Sprzedaż | TAURON Sprzedaż GZE | TAURON Czech Energy | TAURON Obsługa Klienta | TAURON Ciepło | Kopalnia Wąpienia Czatkowice | Polska Energia Pierwsza Kompania Handlowa | Bioeko Grupa TAURON | Wsparcie Grupa TAURON | TAURON Serwis | Nowe Jaworzno Grupa TAURON | TOTAL |
|--|-----------------------|------------------|--------------------|-------------------|--------------------|-------------------------|----------------------------|-----------------|---------------------|---------------------|------------------------|---------------|------------------------------|---|---------------------|-----------------------|---------------|----------------------------|-------|
| EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT | | | | | | | | | | | | | | | | | | | |
| TOTAL NUMBER OF EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT: | 11 | 193 | 68 | 9 | 33 | 7 | 19 | 20 | 0 | 1 | 128 | 9 | 16 | 6 | 5 | 847 | 47 | 7 | 1 426 |
| women | 5 | 12 | 16 | 3 | 9 | 1 | 10 | 7 | 0 | 1 | 105 | 1 | 7 | 1 | 1 | 219 | 3 | 0 | 401 |
| men | 6 | 181 | 52 | 6 | 24 | 6 | 9 | 13 | 0 | 0 | 23 | 8 | 9 | 5 | 4 | 628 | 44 | 7 | 1 025 |
| PERSONS UNDER MANAGEMENT CONTRACTS: | | | | | | | | | | | | | | | | | | | |
| women | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 3 |
| men | 3 | 3 | 3 | 2 | 5 | 2 | 2 | 3 | 0 | 0 | 2 | 3 | 2 | 1 | 2 | 1 | 0 | 2 | 36 |
| SELF EMPLOYED PERSONS: | | | | | | | | | | | | | | | | | | | |
| women | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| men | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 |

| | | | | | | | | | | | | | | | | | | | |
|---|---|-----|----|---|----|---|----|---|---|---|-----|---|----|---|---|-----|----|---|-------|
| EMPLOYEES UNDER THE GROUP'S SUPERVISION: | 0 | 0 | 0 | 0 | 0 | 0 | 13 | 0 | 0 | 0 | 121 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 135 |
| women | 0 | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 | 0 | 101 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 111 |
| men | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 24 |
| PERSONS ON POSTGRADUATE INTERNSHIPS: | 0 | 16 | 1 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 23 |
| women | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| men | 0 | 16 | 1 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 23 |
| PERSONS PROVIDING SERVICES UNDER A CIVIL LAW AGREEMENT | 2 | 170 | 61 | 3 | 18 | 2 | 0 | 5 | 0 | 0 | 0 | 2 | 10 | 5 | 2 | 842 | 43 | 0 | 1 165 |
| women | 2 | 12 | 16 | 1 | 8 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 6 | 1 | 1 | 216 | 3 | 0 | 271 |
| men | 0 | 158 | 45 | 2 | 10 | 2 | 0 | 0 | 0 | 0 | 0 | 2 | 4 | 4 | 1 | 626 | 40 | 0 | 894 |
| EMPLOYEES OF THE SUPERVISORY BOARD | 6 | 4 | 3 | 4 | 2 | 3 | 4 | 4 | 0 | 1 | 4 | 4 | 4 | 0 | 1 | 3 | 4 | 4 | 55 |
| women | 3 | 0 | 0 | 2 | 0 | 1 | 0 | 0 | 0 | 1 | 3 | 1 | 1 | 0 | 0 | 2 | 0 | 0 | 14 |
| men | 3 | 4 | 3 | 2 | 2 | 2 | 4 | 4 | 0 | 0 | 1 | 3 | 3 | 0 | 1 | 1 | 4 | 4 | 41 |

Table no. 60. GRI 102-8-c. Employment of employees at TAURON Capital Group based on a permanent labor contract type by gender as of 31.12.2020, per subsidiary

| NUMBER OF EMPLOYEES | TAURON Polska Energia | TAURON Wydobycie | TAURON Wytwarzanie | TAURON Ekoenergia | TAURON Dystrybucja | TAURON Nowe Technologie | TAURON Dystrybucja Pomiary | TAURON Sprzedaż | TAURON Sprzedaż GZE | TAURON Czech Energy | TAURON Obsługa Klienta | TAURON Ciepło | Kopalnia Waplenia Czatkowice | Polska Energia Pierwsza Kompania Handlowa | Bioeko Grupa TAURON | Wsparcie Grupa TAURON | TAURON Serwis | Nowe Jaworzno Grupa TAURON | TOTAL |
|---|-----------------------|------------------|--------------------|-------------------|--------------------|-------------------------|----------------------------|-----------------|---------------------|---------------------|------------------------|---------------|------------------------------|---|---------------------|-----------------------|---------------|----------------------------|---------------|
| WORKING UNDER A LABOR CONTRACT, INCLUDING: | | | | | | | | | | | | | | | | | | | |
| FULL TIME: | 440 | 6 456 | 2 361 | 177 | 7 785 | 105 | 1 457 | 315 | 6 | 14 | 2 567 | 1 438 | 292 | 3 | 146 | 1 282 | 439 | 169 | 25 452 |
| women | 192 | 565 | 385 | 40 | 1 164 | 36 | 257 | 166 | 4 | 7 | 1 846 | 250 | 44 | 3 | 28 | 400 | 28 | 14 | 5 429 |
| men | 248 | 5 891 | 1 976 | 137 | 6 621 | 69 | 1 200 | 149 | 2 | 7 | 721 | 1 188 | 248 | 0 | 118 | 882 | 411 | 155 | 20 023 |
| PART TIME: | 10 | 2 | 14 | 2 | 25 | 0 | 2 | 2 | 3 | 1 | 15 | 2 | 1 | 0 | 2 | 36 | 3 | 0 | 120 |
| women | 8 | 1 | 4 | 0 | 16 | 0 | 1 | 1 | 2 | 1 | 10 | 1 | 0 | 0 | 0 | 28 | 1 | 0 | 74 |
| men | 2 | 1 | 10 | 2 | 9 | 0 | 1 | 1 | 1 | 0 | 5 | 1 | 1 | 0 | 2 | 8 | 2 | 0 | 46 |

Table no. 61. GRI 102-41. Percentage of TAURON Capital Group's employees covered by collective bargaining agreements as of 31.12.2020, per subsidiary

| | TAURON Polska Energia | TAURON Wydobycie | TAURON Wytwarzanie | TAURON Ekoenergia | TAURON Dystrybucja | TAURON Nowe Technologie | TAURON Dystrybucja Pomiaru | TAURON Sprzedaż | TAURON Sprzedaż GZE | TAURON Czech Energy | TAURON Obsługa Klienta | TAURON Ciepło | Kopalnia Wapienia Czatkowice | Polska Energia Pierwsza Kompania Handlowa | Bioeko Grupa TAURON | Wsparcie Grupa TAURON | TAURON Serwis | Nowe Jaworzno Grupa TAURON | TOTAL |
|---|--------------------------|---------------------|-----------------------|----------------------|-----------------------|----------------------------|-------------------------------|--------------------|------------------------|------------------------|---------------------------|------------------|---------------------------------|--|---------------------|-----------------------|------------------|-------------------------------|---------------|
| Total number of persons employed (from table 102-8-a) | 450 | 6 458 | 2 375 | 179 | 7 810 | 105 | 1 459 | 317 | 9 | 15 | 2 582 | 1 440 | 293 | 3 | 148 | 1 318 | 442 | 169 | 25 572 |
| Total number of employees covered by collective bargaining agreements | 0 | 6 444 | 2 375 | 177 | 7 795 | 92 | 1 455 | 317 | 9 | 0 | 2 582 | 1 421 | 292 | 0 | 0 | 1 318 | 0 | 169 | 24 446 |
| Percentage of employees covered by collective bargaining agreements | 0% | 99.8% | 100% | 98.9% | 99.8% | 87.6% | 99.7% | 100% | 100% | 0% | 100% | 98.7% | 99.7% | 0% | 0% | 100% | 0% | 100% | 95.6% |

Due diligence procedures and internal regulations

The documents supporting the implementation of the goals of TAURON Capital Group's Human Capital Management Policy include:

- TAURON Group's compensation principles;
- Policy of Recruitment, Selection and Adaptation of Employees of TAURON Group's Subsidiaries
- Regulations for improving the qualifications of the employees, in place at TAURON Group's individual subsidiaries;
- TAURON Group's competency model;
- TAURON Group's regulations of the Internal Trainers Academy;
- Regulations of the Investment Project Management Academy Program - TAURON Group's PM Academy;
- TAURON Group's Principles of Cooperation with Schools and Universities as well as Internships and Apprenticeships Program;
- Regulations of the "Join" Program – TAURON's internship PROgram;
- Regulations of TAURON Group's Ambassador Program.

Actions taken and results achieved

Initiatives undertaken with respect to the human resources management at TAURON Group focus on the continuous improvement of the processes in order to adapt them to the changing business environment. A permanent element of the above changes is developing and strengthening such attitudes among employees that are in line with the values of TAURON Group. This basic premise allows for building an organizational culture that enables the employees to take on and implement new challenges, search for innovation, increase efficiency as part of their daily tasks and increase the level of job satisfaction.

In 2020, TAURON Group faced the challenge of quickly identifying potential problems, to which it had to respond equally quickly. Remote work using online tools, virtual meetings and teleconferences has become a necessity today, and not, as before, a choice that was given to employees. All this entailed not only the need to redefine the ways of functioning in the new reality, but above all to define the crisis management system, which is aimed at taking appropriate steps to limit or minimize the negative effects of the epidemic

One of the due diligence procedures implemented as part of the Human Capital Management Policy is the ongoing monitoring of the metrics related to the human resources management area at all of TAURON Group's subsidiaries. Particular emphasis was placed on constructive and open dialogue with the workforce. TAURON Group's subsidiaries held 334 meetings of the employers with the trade union organizations in 2020. In total, the trade union organizations had about 18.1 thousand members among TAURON Group's employees (i.e. 71% of the total number of employees) at the end of 2020.

During regular meetings and consultations the representatives of the workforce are informed about issues related to:

- TAURON Group's economic and financial situation,
- implementation of the strategic initiatives,
- Voluntary Redundancy Programs implemented at TAURON Group's Subsidiaries,
- issues related to employee matters at the Group.

In addition, steps are taken to raise business awareness and promote pro-efficiency and engaging attitudes.

Employee satisfaction surveys

The due diligence procedures also include employee satisfaction surveys conducted every two years. In the second edition of the survey, conducted at the Group's key subsidiaries in April 2019, each of more than 26 000 employees had an opportunity to express his/her opinion on how they assess the individual aspects of work at the subsidiary and at TAURON Group, answering 39 questions in an anonymous survey. In 2020, the activities of the Capital Group focused on the implementation of initiatives stemming from the analysis of the research results. They include:

- periodic meetings summarizing the implementation of current tasks and future tasks carried out by the Team/Area;
- training in the development of soft skills, with particular emphasis on the area of efficient communication and coping with stress;
- verification of the procedures functioning in the Area in terms of supporting efficient implementation of tasks;
- communication of the Group/Company strategy along with its translation into individual areas of the Company.

Moreover, in 2019, as a result of updating the strategic directions of TAURON Capital Group and introducing the Green Turn of TAURON program, the challenges and objectives of the human resource management area were verified. At that time, priority areas were designated for the development of the Capital Group's organization and human capital:

- recruitment and onboarding,
- training, age and knowledge management,
- development conversation,
- potential management,
- cooperation with the education sector,
- outplacement and employer branding;

As the next step the tasks were assigned to these priorities, aimed at improving the most important processes and strengthen the organization's ability to create and respond quickly to the business changes by ensuring the optimal number and quality of the competences. The direction to the activities planned for 2020-2023 was also given.

Highest Quality HR Certificate for TAURON Polska Energia

TAURON Polska Energia participated in 2020 in the study organized by the Polish Association of Human Resources Management entitled Top Quality HR. As part of the study, the Association verified and gave the highest marks to the individual areas of human capital management, among others: motivation and compensation systems, employee development, recruitment and competence management, employee communication and building the employer's brand. The Group's new initiative - Development Squared (Rozwój do Kwadratu), under which more than 960 employees took part in various types of webinars, was particularly appreciated. The positive result of the study led to obtaining the Highest Quality HR Certificate.

Development and training

Current market trends and technological development, changes taking place both globally as well as locally, a competitive market and increasing requirements force much faster pace and flexibility in terms of development activities. Employee development and improvement is permanently inscribed in TAURON Group's strategy, and the implementation of the development activities takes place on the basis of the Regulations for improving the qualifications of the employees, in place at the Group's individual subsidiaries. All the development activities at TAURON Capital Group are implemented according to the 70-20-10 principle (effective learning principle), according to which:

70% of the development activities should be related to gaining experience in the position, among others by delegating new or additional tasks and empowerments to the employee, broadening the scope of his/her responsibility, participation in the task or project teams,

20% of the development activities are based on learning from others, including the ongoing support and regular feedback from your direct superior and colleagues,

10% of the development activities involve participation in various forms of educational and training activities (internal and external).

TAURON Capital Group's employees can choose from a wide range of internal training and external development opportunities, among others, in the form of participation in industry conferences, seminars, workshops, specialist training, e-learning training or language courses.

Table no. 62 presents the key data on employee training at TAURON Capital Group as of December 31 in 2018-2020.



Table no. 62. Key data on employee training at TAURON Polska Energia and TAURON Capital Group as of December 31, 2018, December 31, 2019, December 31, 2020.

| # | Key data on employee training | TAURON Polska Energia | | | TAURON Capital Group | | |
|----|---|-----------------------|-------------------|-------------------|----------------------|-------------------|-------------------|
| | | December 31, 2018 | December 31, 2019 | December 31, 2020 | December 31, 2018 | December 31, 2019 | December 31, 2020 |
| 1. | Average number of training hours per employee by job (position) group, including: | 177 | 176 | 57 | 125 | 109 | 62 |
| | Management Board and Directors | 85 | 88 | 10 | 63 | 45 | 26 |
| | Management positions | 53 | 51 | 15 | 33 | 32 | 14 |
| | Administrative staff (white collar positions) | 30 | 28 | 16 | 12 | 14 | 9 |
| | Blue collar positions | 9 | 9 | 1 | 17 | 18 | 13 |
| 2. | Number of training hours per employee by gender, including: | 16 771 | 16 766 | 6 801 | 456 179 | 477 618 | 294 945 |
| | Women | 6 961 | 6 624 | 2 996 | 77 305 | 79 871 | 49 704 |
| | Men | 9 810 | 10 142 | 3 806 | 378 874 | 397 747 | 245 240 |

Key statistics on the training carried out at TAURON Group in 2020 are presented in figure no. 40.

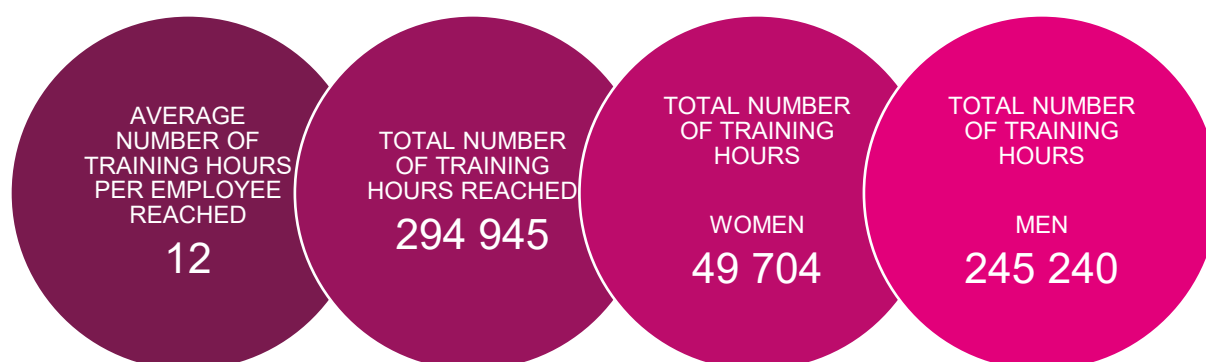


Figure no. 40. GRI 404-1 - The number of training hours per employee at TAURON Capital Group in 2020

Development Conversation

One of the more important projects carried out as part of TAURON Group's human capital management is the Development Conversation process. Based on the Group's Competence Model in place, the initiative assumes the need for the continuous development of the employees' competences in line with the changing business challenges. Development Conversations carried out in 2020 at the Group's selected subsidiaries demonstrated a number of benefits that open communication and individual approach to the employees' needs, in combination with the directions of the organization's development, bring.

Purchasing Studies

The successive, third edition of the postgraduate studies, organized in cooperation with the Jagiellonian University, entitled Purchasing management in business, was continued in 2020. The main assumption of the program is to improve the purchasing, negotiating and commercial (trading) qualifications of the Purchasing Area staff. Participation in the dedicated studies is an offering addressed to the outstanding employees of TAURON Group. 32 participants took part in the completed edition.

TAURON Group Open University

TAURON Group's employees have continuously had the opportunity to participate in lectures conducted as part of the TAURON Group Open University since 2014. The initiative constitutes a platform enabling an exchange of views and experiences, it also gives the opportunity to gain knowledge and additional competences.



Due to the epidemic situation the initiative was moved online in 2020. 5 lectures were carried out online, attended by almost 7 thousand employees.

Internal Trainers (Coaches) Academy

The goal of the initiative is to provide support for the development of employees using the internal resources. An Internal Trainer is an employee of TAURON Capital Group who willingly shares expert knowledge with others, and at the same time develops his/her coaching potential. TAURON supports activities aimed at facilitating appropriate selection and didactic (pedagogical) preparation of the internal trainers to conduct training courses. The trainer is personally involved in the study of the training needs, designs the training and supports the process of implementing the new competences in the organization. 86 internal trainers completed a total of 84 training sessions for more than 1 100 of TAURON Group's employees in 2020.

Activities undertaken in response to the epidemic situation

Development Squared

A new initiative, launched in June 2020, is Development Squared - a series of weekly webinars conducted in four thematic areas: development, knowledge sharing, cooperation, health. The project was developed as a response to the difficult situation related to the COVID-19 pandemic that made it impossible to conduct training in a classic form. Thanks to Skype and Office 365 technology, fully interactive meetings are possible, that make participants more active. The project's participants include all of TAURON Group's employees with access to the intranet (approximately 17 000 persons).



24 webinars were held in 2020, on 14 different topics, conducted by 10 trainers. More than 950 of TAURON Group's employees took part in the initiative.

E-learning

In addition to the training courses carried out using the traditional method, TAURON Capital Group provides its employees with continuous access to training on the e-learning platform, which is particularly important during the pandemic and the restrictions related thereto. The undisputed advantages of this form of education include the flexibility of its implementation and the ability to adjust it to the individual pace of knowledge absorption of the given employee. The e-learning training formula also significantly reduces the costs of the training courses, while at the same allowing them to be attended by a larger number of employees. On a daily basis, TAURON Group's employees have constant, unlimited access to training available on the special e-learning platform. It includes both training courses on the group-wide regulations, specialist training courses on IT systems, as well as training courses developing leadership and interpersonal competences.



In 2020, TAURON Group's employees, thanks to the e-learning training courses, got to know, inter alia, the latest rules related to cybersecurity, details of the anti-money laundering and terrorist financing prevention procedures. In total, nearly 16 000 employees participated in 41 000 e-learning training courses in 2020.

Manager's zone and "#wzMOCnij się" (power up yourself)

A space dedicated to managers was created on the TAURON Group intranet in 2020. The managerial staff can constantly read specialist articles on the subject of broadly understood management. Tools to support team management, interesting on-line events (Mediateka) and recommended books are available.

As part of the zone, a special initiative "#wzMOCnij się" (power up yourself) was launched and webinars on change management, an on-line training platform and tools to support the development conversation process were made available.

Articles were published on issues particularly important for team management while working remotely or in a hybrid mode, for example:

- Remote reality - how to overcome the distance - how to break the barrier of distance in a team that works online,
- How to keep employees engaged in a remote work situation,
- VUCA - how to cope in the changing reality,
- Manager=Mentor,
- Return to the office - practical advice related to the gradual return of employees to the office after a period of long-term remote work,
- Appreciation as a tool for motivating employees.

#wzMOCnij się

ODPORNOŚĆ
POSTAWY EMOCJE
GRANICE SPRAWCZOŚĆ
TRUDNE DECYZJE
ZMIANA ENERGIA
SKUTECZNOŚĆ

Support for the employees

TAURON Group's employees were able to use a dedicated telephone support line and talk to an external advisor in 2020. What's more, the Group's selected subsidiaries held training sessions with respect to mental resistance, among others, entitled "Effective action in a stressful time of a pandemic", "Stress, how to deal with it", which were developed to identify the psychological mechanisms responsible for the emergence and persistence of negative consequences of stress and the techniques to deal with them

Quick Tips

Communication and constant contact with the employee became extremely important during the pandemic. The entire Capital Group undertook preventive and informational activities aimed at raising awareness and understanding of the current regulations and the applicable rules of counteracting COVID - 19. Quick tips is a series of weekly short cards on the homepage of TAURON Group's intranet - Tauronet for employees of the entire Capital Group. In 2020, 32 cards were posted in 2020. The advice pieces included those concerning: micro breaks during work or building relationships when working remotely. Information campaigns were also carried out at individual companies, such as "Safe at work - remember about the new habits", "Quarantine or isolation", "Take care of yourself and others", "Support children during the pandemic".

Two hours for the Family



Also this year, TAURON Group organized the Family Week for its workforce. Due to the pandemic, it was run under the slogan "Rodzinną MegaMoc. Trzymajmy się razem!" (Family MegaPower. Let us stick together!) All events were held virtually and were primarily aimed at providing support for TAURON employees during the difficult lockdown period.

Almost 15 000 employees with access to the intranet, were able to actively participate in all the events.

This way company was reducing the feeling of isolation and alienation, and emphasizing the importance of staying at home so that others would be safe and healthy. As part of the campaign, among others, competitions, on-line workshops on recording, directing and editing videos, and an on-line lecture on strengthening immunity were held.

4.7. TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy

TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy regulates the standards of the process of recruitment and induction (onboarding, orientation) of TAURON Group's new employees.

The policy also specifies the rules related to filling both vacant as well as the newly created jobs with people with the desired professional qualifications and competences. The policy sets out assumptions regarding the selection of employees, understood as all actions taken to fill the vacancy: from the moment of defining the staffing needs until the moment of completing the adaptation of a newly recruited employee. 938 employees were hired by TAURON Group in 2020. The detailed data on TAURON Group's employment structure is provided in section 4.6 of this Report. TAURON Group's human resources management policy.

Due diligence procedures and internal regulations

Due diligence procedures employed under the Policy include, first of all, the following structured forms of recruitment:

- open internal recruitment (announcements in TAURON Group's intranet, recommendations (referrals) by employees of other employees as potential candidates, e-mail to all employees),
- closed internal recruitment (recommendations (referrals) by employees of other employees as potential candidates, employees with a development potential),
- external recruitment (advertisements in the press, online, at universities, recommendations (referrals) by employees of persons from outside TAURON Group's subsidiaries as potential candidates, recruitment agencies).

Priority is given to internal recruitment at TAURON Group, which has a positive effect on the development of human resources within the Group, creates opportunities for promotion or taking an equivalent position in another business unit, and creates natural career paths and encourages employees to further their improvement and development.

Every employee selection process requires an individual approach, depending on the specifics of the given position. The selection of the given recruitment method is preceded by the examination of the internal or external labor market (depending on the selected recruitment form), as well as the analysis of the budget allocated to the given recruitment process.

In order to achieve the best recruitment results with the most optimal cost approach possible, an efficient selection of employees at TAURON Group is based on the following assumptions and principles:

- selecting employees based on the long-term employment and staff development plans, taking into account planned personnel changes (promotions, transfers, layoffs, etc.),
- integration with TAURON Group's Human Resources Management Policy in place,
- focus on creating choice opportunities through searching for at least several candidates for one job position to be filled,
- standardization of the criteria used in the selection of employees for specific positions and the application of methods, principles and procedures allowing for an objective comparison of individual candidates within one recruitment process,
- reliability, impartiality and professionalism applicable to all participants in the selection process without any exceptions;
- every time maintaining high standards of contact and communication with the candidates (specific rules, among other with respect to inviting the candidates for interviews, forms and scope of providing feedback),
- maintaining standards related to the use of the selection tools,
- ethical behavior towards the candidates, including, for example, meeting deadlines, providing information on the results of the recruitment process,
- ensuring the confidentiality of the recruitment process for the candidates at all the stages thereof.

Due to the COVID-19 pandemic underway in 2020, the processes of recruitment as well as induction and adaptation of new employees were carried out online, in accordance with the highest standards and with the use of modern technologies.

Actions taken and results achieved

In order to adapt to the changes taking place on the labor market, a number of initiatives that enhance the image of TAURON Capital Group as a good and desirable employer are undertaken at TAURON Group.

Job (Career) Fairs

Participation in Job (Career) Fairs organized by the universities is a regular element of the activities promoting TAURON Group in the academic community. TAURON Capital Group promoted its job offers during the 22nd edition of the Engineering Job and Entrepreneurship Fair in Gliwice and the 4th Dual Education Conference - EDUAL in 2020. Participation in the above initiatives enabled promoting the current job offers, apprenticeships and internships coming from all of the Group's subsidiaries. This form of the employer branding activities also provides an opportunity to conduct an initial interview with the potential candidates, as well as to promote the organizational culture, attitudes and values that the Group follows.

Employee Referral Program

The Employee Referral Program was continued at TAURON Group in 2020. This is an additional recruitment activity that allows for reaching more candidates through the involvement of the Group's employees in the search process. The goal of the program is to acquire candidates with the required potential, i.e. with the desired professional qualifications and competences, based on the referrals of the people who are already employed by the organization.

The document regulating the implementation of the activities in this area are the Rules for making employee referrals in the recruitment process at TAURON Group. The main benefits of implementing the Program include, among others, the optimization of the recruitment costs, shortening of the duration of the recruitment, as well as strengthening of the involvement of the Group's employees and of the awareness of their impact on shaping the human resources at TAURON Group.

Cooperation with the education sector

The cooperation of TAURON Capital Group with the education sector focuses primarily on the process of joint practical (hands-on) training of future professionals. The projects undertaken with schools, universities (TAURON Group cooperates with 12 partner universities) or local governments are also aimed at promoting TAURON Group and the energy industry among pupils, students and graduates. As part of cooperation with the educational community in 2020, internship and apprenticeship programs were organized, cooperation with student organizations, career offices and research clubs was undertaken, numerous lectures and profession teaching lessons were organized.

The educational offer dedicated to the energy industry is supported by TAURON Group through, among others:

- scholarships for the best students of patronage classes;
- modeling of the didactic processes, organization of training courses, educational meetings both for students of the school as well as its teaching staff
- participation of TAURON's Employees in conducting qualification exams, e.g. for the profession of a miner; exploitation of deposits and underground mining techniques;
- possibility for students to participate in subject matter lectures/workshops conducted by TAURON's employees;
- possibility of students to participate in lectures/workshops aimed at developing students' interpersonal skills;
- organizing practical classes as well as apprenticeships and internships in real working conditions;
- equipping laboratories with the equipment required to conduct experiments related to electricity.
- establishing, in cooperation with secondary schools, of the project entitled TAURON Laboratories. As part of that project, classrooms for teaching science and vocational subjects at schools covered by the Group's patronage are furnished in a comprehensive manner.

GrEnFin Project

TAURON Polska Energia is taking part in an international project entitled GrEnFin - Greening Energy Market and Finance, which was prepared by the University of Bologna. The project was financed by the European Commission as part of the Erasmus + program, KA2 - Knowledge Alliances. Its goal is to provide energy sector stakeholders (electricity suppliers, private companies, research institutes, etc.) with the training of a sustainable energy specialist on the labor market. The result of the project will be the development of a master's degree program for EU students in green energy and finance, as well as the development of a training program for the employees from the energy sector already active on the labor market. The academy made up of students and professionals will be conducting summer schools together to test the pilot training module. Additionally, a university pilot class will be launched to test the new path of the master's degree program studies. Thanks to the participation in the project, TAURON Group will be able to contribute to the process of sustainable transition of the European Union's economy by investing in knowledge and competences with respect to higher education and vocational training.

As part of the project the following activities were carried out:

- 10 educational visits to TAURON Group's facilities, attended by nearly 300 persons;
- 8 workshops on interpersonal skills, conducted by TAURON Group's employees for pupils and students (330 persons);
- 7 innovative projects, conducted both with the universities as well as other companies.

4.8. TAURON Group's Anti-corruption Policy

The basic document regulating the area of preventing corruption at TAURON Capital Group is TAURON Group's Anti-corruption Policy. The overriding goal that guided the creation and implementation of the Policy was to define uniform rules and standards of conduct that allow for the identification, countering and mitigation of the risk of corruption activities as well as other fraud (abuse) at the subsidiaries.

The implementation and compliance with the Anti-corruption Policy is to ensure the compliance of the operations of TAURON Capital Group's subsidiaries with the applicable law, the internal and intra-corporate regulations, as well as the ethical principles, thus ensuring proper protection of the interests, reputation and image of the subsidiaries and TAURON Capital Group, as well as the transparency of actions towards the external entities.

The Policy applies to all of the employees, members of the management board and supervisory bodies of the subsidiaries, as well as the proxies and the powers of attorney. The Group also requires compliance with the standards of behavior set out in the Policy by the external entities.

The goal of the Policy is to counteract not only corruption activities, but also other abuse (fraud), which include, for example:

- theft or misappropriation of company assets (cash, materials, products, tools, equipment) or the property of external entities with which the employee has business relations,
- deliberate falsifying of company documents or entering false information and data into their content,
- managing the company's documentation in an unreliable (inaccurate) or untruthful manner, in particular destroying, deleting, concealing, altering or falsifying documents regarding the company's operations,
- deliberate disclosing of information inconsistent with the facts in the financial statements,
- using the company's resources for private purposes.

The areas susceptible to the risk of corruption or other fraud related to the operations of TAURON Capital Group include in particular:

- purchasing (procurement) proceedings,
- cooperation with the external entities,
- implementation of the investment processes,
- transactions with related entities,
- expenses related to business trips or entertainment,
- representation and advertising expenses, including invitations and gifts,
- expenditures on the marketing and consulting services,
- cash transactions
- donations and sponsorship agreements.

The following ways of implementing the Anti-corruption Policy by TAURON Capital Group are defined:

1. The Group exercises due diligence to ensure that contacts with the external entities are open and transparent, so as to exclude the possibility of corruption and other abuse.
2. The Group undertakes to take appropriate (in particular lawful), adequate and proportionate actions in relation to the occurrences of corruption activities and other abuse. In particular, the company shall notify law enforcement authorities of any potential violations of the legal regulations in the event of a justified suspicion of such violations.
3. Employees and external entities are encouraged to provide information on the violations of the Policy as well as other irregular behaviors.
4. Raising of the employees' awareness with respect to the possibility of identifying corrupt activities and other abuses is ensured through information activities, training, initiatives related to the elimination of corruption events, enabling proper understanding of the Policy and the application of its principles by employees in their daily work.
5. Cooperation with the external entities in order to eliminate corruption activities and other abuse (fraud).

Due diligence procedures and internal regulations

The standards recommended for the compliance management system with respect to counteracting corruption and protecting whistleblowers at the companies listed on the Warsaw Stock Exchange of 08.10.2018 contain the recommendations on how to shape the Compliance function at an organization, as well as on the introduction of solutions that minimize the risk of the emergence of unethical behavior, conducive to corruption and conflict of interest. In addition, these standards indicate what actions exhaust the features of the concept of due diligence with respect to shaping the organization's procedures and processes aimed at preventing corruption.

The activities of the Compliance Officer and the Compliance Coordinators at TAURON Capital Group are based on the guidelines presented in the standards set out by the Best Practice of WSE Listed Companies.

TAURON Capital Group's due diligence can be demonstrated based on, among others:

- adoption and application of TAURON Group's Corporate Social Responsibility Code of Conduct,
- adoption and application of TAURON Group's Compliance Policy,
- regulating the compliance management function at TAURON Group,
- adoption and application of TAURON Group's Anti-Corruption Policy,
- adaptation to the recommendations regarding the ban on creating mechanisms to finance property and personal gains,

- conducting compliance training,
- starting the process of implementing anti-corruption clauses to be included in the contracts,
- adoption and application of the TAURON Group's Rules for accepting and giving gifts,
- regulating of the sponsorship issues,
- regulating and implementing of TAURON Group's Fraud (Abuse) Reporting System and conducting of the fact finding investigations,
- implementation and application of TAURON Group's Contractors (Counterparties) Credibility Assessment (Vetting) Procedure,
- implementation and application of the Principles (Code) of Conduct for controls at TAURON Group's subsidiaries.
- implementation and application of the TAURON Group's Procedure for counteracting money laundering (anti-money laundering) and financing of terrorism.

The intra-corporate regulations in force at TAURON Group regarding standard clauses and contract templates (draft contracts) were reviewed in 2020, in particular aiming to introduce the so-called anti-corruption clauses and other compliance clauses. Anti-corruption clause samples, prepared together with the Legal Area of TAURON Polska Energia S.A., were inserted into TAURON Group's contract templates (draft contracts).

In addition, the compliance risks were monitored on an ongoing basis. As part of the monthly risk monitoring, the risk of internal fraud, the risk of external abuse, the risk of unethical behavior, the risk of non-compliance due to a breach of the law and the risk of corruption are reported.

Actions taken and results achieved

Among the activities undertaken as part of TAURON Group's Anti-corruption Policy, the functioning of the system for reporting, investigating and probing corruption activities and other abuse (fraud) is of key importance.

Each employee is obliged to study the provisions of the Policy, to strictly comply with its content and to sign an appropriate statement on having familiarized himself/herself with the Policy. Such statements, in a hard copy, are stored in the employee's personal files.

Newly hired employees are also familiarized with the Policy. They confirm this fact by signing the statement.

In addition, at the beginning of 2020, the staff of the compliance departments//areas at Spółka Usług Górniczych and TAURON Wydobycie took steps aimed at extending the scope of the periodic WHS training in order to include the topics related to compliance and GDPR. From September 2020, as part of the mandatory work health and safety (WHS) training, the personnel of the above subsidiaries are familiarized with the following compliance issues:

- TAURON Group's Compliance System,
- Basic concepts of compliance at TAURON,
- TAURON Group's Anti-Corruption Policy,
- Counteracting mobbing and discrimination at TAURON Group.

Employees are also required to promptly provide information on any justified suspicion of corruption or other fraud (abuse). To this end, TAURON Capital Group provides:

- appropriate communication channels allowing employees and external entities to securely (including anonymously) report potential violations,
- confidentiality of the data of the reporting person and the information provided,
- protection against all forms of retaliation for the individuals who report corrupt activities and other abuse (fraud) in good faith.

The following communication channels have been identified at TAURON Group, through which any type of irregularity can be reported:

- in person: to the immediate superior or the Compliance Officer or the Compliance Coordinator,
- in writing, to the following address: Compliance Officer, ul. Ks. Piotra Ściegiennego 3, 40 -114 Katowice,
- by phone: + 48 32 774 22 22,
- via e-mail: compliance@tauron.pl,
- using Abuse (Fraud) Report form available at:
<https://www.tauron.pl/tauron/o-tauronie/formularz-zgloszenia-naduzycia/>

used to report behavior inconsistent with the applicable law, internal or intra-corporate regulations of TAURON Capital Group or ethical standards set out in TAURON Group's Corporate Social Responsibility Code of Conduct.

External entities, in particular the contractors (counterparties) and other stakeholders of TAURON Group's Subsidiaries, in case of identifying irregularities within the operations of TAURON Group, also have the option of using the Abuse (Fraud) Report Form.

In special cases, notifications can be sent in writing directly to the Company's Supervisory Board.

Specific notification channels comply with the requirements set out in the Public Offering Act.

Superiors who receive reports of potential corrupt activities or other abuse (fraud) should immediately inform the Compliance Officer of this fact, and in case of a company (subsidiary) other than TAURON Polska Energia - the Compliance Coordinator.

Upon receipt of the notification, the Compliance Officer, and in a company (subsidiary) other than TAURON Polska Energia S.A. the Compliance Coordinator, confirms its receipt to the person submitting the report, with the exception of anonymous reports, and he/she verifies its accuracy and undertakes, with due diligence, follow-up actions to investigate the circumstances indicated in the report in accordance with TAURON Capital Group's procedures in force in this respect.

The Compliance Officer, and in a company (subsidiary) other than TAURON Polska Energia S.A. the Compliance Coordinator informs the person submitting the report about the final result of the fact finding investigation or about its extension due to the ongoing analysis of the factual situation described in the notification.

All the reports received are subject to entry in the Fraud Register, and an explanatory protocol is drawn up for each fact finding investigation.

In the event corruption actions or other abuse (fraud) have been confirmed, the subsidiaries take corrective actions aimed at preventing similar events in the future. The Compliance Officer, and at companies (subsidiaries) other than TAURON Polska Energia S.A. the Compliance Coordinators undertake educational and information activities in order to provide understandable and easily available information on the rules of reporting corrupt activities or other abuse (fraud) at TAURON Capital Group.

TAURON Polska Energia S.A. provides monitoring of the procedures as well as the internal and intra-corporate regulations in force at TAURON Capital Group, also with a view to make improvements and develop a system of counteracting corruption and other abuse (fraud).

A total of 63 potential cases of abuse (fraud) were reported at TAURON Group in 2020, including 33 notifications via the Abuse (Fraud) Report Form.

Due diligence procedures functioning as part of the Anti-Corruption Policy also include TAURON Group's Rules of accepting and giving gifts introduced in January 2019. The rules supplement the applicable TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Anti-Corruption Policy with respect to giving and accepting gifts by persons performing work for TAURON Capital Group's subsidiaries.

The purpose of the described document is to develop awareness among the employees of TAURON Capital Group's subsidiaries regarding the type of gifts (including invitations) that can be received or handed in connection with the performance of official duties, and to define the conditions in which their acceptance or handing is unacceptable. The implementation and compliance with the Rules is to eliminate situations where accepting gifts could affect the business decisions taken by the Group's subsidiaries.

The general rule obligates all of the employees to refrain from accepting gifts from customers or other employees that could result in exerting an influence on the recipient or could give rise to the obligation to take or forego a specific action with respect to the official duties entrusted thereto, or affect current or future business decisions of TAURON Capital Group's subsidiaries.

An employee of TAURON Capital Group may accept a gift only if the criteria specified in the above-mentioned Rules are collectively met. Any doubts regarding the appropriateness of accepting a gift should be consulted with an immediate superior or the Compliance Officer at TAURON Polska Energia.

TAURON Group's Rules for accepting and giving gifts are adapted to the requirements set out in the "Standards recommended for the compliance management system with respect to countering corruption and the whistleblower protection system in place at companies listed on the markets organized by the Warsaw Stock Exchange" adopted on October 8, 2018 by the Warsaw Stock Exchange.

Anti-trust activities

TAURON Capital Group implemented TAURON Group's Procedure for Countering Bid Collusion in July 2018. The purpose of the document is to define uniform rules of conduct to be applied during the purchase order (contract) award procedure, which will allow for the detection, notification and prevention of bid collusion among contractors entering into procedures organized by the contracting authority (employer).

TAURON Capital Group's purchasing cells are required to take part in training sessions on bid collusion and detection of cartels organized in cooperation with entities dealing with anti-trust protection at least once a year.

Verification (vetting) of contractors (counterparties)

In order to ensure protection against the risk of establishing cooperation with entities operating not in accordance with the provisions of law, good customs and commercial practices, and in particular to reduce the risk of participation in the tax fraud and money laundering schemes, TAURON Capital Group has introduced TAURON Group's Contractors (Counterparties) Credibility Assessment (Vetting) Procedure.

The contractor's credibility is assessed (vetted) by TAURON Capital Group based on the following information:

- legal and financial characteristics,
- thus far operations,
- contract terms,
- equity (capital) and personal ties.

In addition, TAURON Group has been applying the co-called split payment mechanism since July 2018. It is one of the methods used to combat VAT fraud and scams. The application of the split payment mechanism has been indicated by the Ministry of Finance as one of the prerequisites of the due diligence process to be applied by the buyers of goods in domestic transactions.

1230 contractor (counterparty) credibility (vetting) reports were issued throughout TAURON Group in 2020.

In addition, the process of assessing (vetting) external entities with which TAURON Group's subsidiaries were planning to implement projects with respect to communication, promotion, sponsorship, marketing, HR or other types of financial involvement that could give rise to reputation risk, was conducted in 2020. A total of 203 external entities were verified (vetted) by TAURON Group.

Counteracting money laundering and financing of terrorism

TAURON Group adopted TAURON Group's Procedure for counteracting money laundering and financing of terrorism.

The purpose of the document is to ensure TAURON Capital Group's compliance with the requirements of the Act of March 1, 2018, on counteracting money laundering and financing of terrorism. The procedure regulates issues related to the exchange and protection of information within the Group and covers with its scope all of the Group's subsidiaries.

The internal procedure regulates, inter alia, issues related to customer identification, transaction registration, risk assessment, financial security measures, ongoing monitoring of customer business relations, rules for providing information to the General Inspector of Financial Information and training.

In a situation where the company also acts as an obligated institution (specified in Article 2, clause 2 of the above-mentioned Act), it is obligated to introduce an internal procedure for counteracting money laundering and financing of terrorism.

It should be emphasized that TAURON Group does not accept any business relations with entities involved in money laundering or financing of terrorism, including those subject to financial sanctions or specific restrictive measures in force on the territory of Poland.

4.9. TAURON Group's WHS Policy

TAURON Group's Work Health and Safety (WHS) Policy is a set of regulations aimed at continued improvement of work (occupational) health and safety standards. By applying the provisions provided therein TAURON Capital Group steadfastly seeks to eliminate work related accidents as well as minimize the occurrence of occupational diseases and the number of potentially accident prone incidents.

The safety of employees, customers, contractors, guests and the other stakeholders is an absolute priority that has a significant impact on the decisions and actions taken by TAURON Capital Group's subsidiaries.

The policy defines the principles of operation, as well as the rules of conduct that serve the implementation of TAURON Capital Group's four basic goals with respect to work health and safety (WHS), i.e.:

- eliminating accidents at work of all persons employed by and working for the benefit of TAURON Capital Group's subsidiaries and any other persons in the area where the subsidiaries are conducting their operations,
- ensuring optimal working conditions for all persons employed by and working for TAURON Capital Group
- raising the qualifications of the employees of TAURON Capital Group, aimed at increasing competences with respect to improving their safety and the safety of other employees as well as persons who find themselves in the area of their work,
- improving an effective work health and safety (WHS) management system.

Due diligence procedures and internal regulations

Work Health and Safety (WHS) Policy is the overarching, binding for all entities present on TAURON Capital Group's sites, document describing the Group's uniform system of occupational health and safety.

As part of the Group's Work Health and Safety (WHS) Policy, each of the subsidiaries, due to the specifics of its operations, has its own regulations in this area, which are fully compliant with the requirements and applicable laws. In addition, the work health and safety (WHS) regulations are adapted to the nature of the work and tasks performed. At the subsidiaries whose operations profile involves production and distribution, i.e. TAURON Wydobycie, TAURON Wytwarzanie, TAURON Ciepło, Kopalnia Wapienia „Czatkowice”, TAURON EKOENERGIA and TAURON Dystrybucja – the issues related to the protection of the health and life of employees are of particular importance, which is expressed in extensive safety systems, as well as inspections of working conditions, compliance with the work health and safety regulations and rules at the individual work stations.

The most important documents regulating the work health and safety (WHS) issues include TAURON Wydobycie's Integrated Work (Occupational) Safety and Health Management System, TAURON Ciepło's Work (Occupational) Health and Safety Management Procedures or TAURON Wytwarzanie's Quality, Environment Protection and Work Safety Policy.

External entities that carry out work at the Group's subsidiaries are also obliged to comply with the applicable procedures, including with respect to health and safety of employees. The employees of external companies (contractors and subcontractors) are also required to have up-to-date medical examinations (clearances) as well as appropriate qualifications and authorizations for the works performed. Some of TAURON Capital Group's subsidiaries (especially those where working conditions are particularly dangerous) also introduce additional requirements and training for external entities.

Actions taken and results achieved

Due to the steadfast pursuit of an improvement of work safety, information and educational activities are intensified at TAURON Group. They include the campaigns conducted in 2020:

- "TWOJE bezpieczeństwo w TWOICH rękach" ("YOUR safety in YOUR hands")(TAURON Ciepło): During the project, the employees repeated appropriate behaviors and correct rules of conduct at a given position multiple times. All of the actions undertaken as part of the Campaign were to lead to the elimination of the threats at source, developing safe work habits in employees and shaping a safety culture at the company,
- "Wróćmy szczęśliwi do domu" ("Let us come back home happy") (TAURON Serwis) – information campaign,
- Work Health and Safety Knowledge Competition conducted on-line (at Tauron Ciepło),
- Modular training for people managing employees with respect to safe work organization and fire safety (TAURON Ciepło),
- Implementation of the Work Health and Safety (WHS) Improvement (TAURON Ciepło, TAURON Wytwarzanie, TAURON Ekoenergia, TAURON Obsługa Klienta, TAURON Wydobycie, Wsparcie Grupa TAURON),
- Thematic campaigns (TAURON Obsługa Klienta) related to:
 - Ergonomics Day,
 - Road Traffic Safety Day,
 - World Day without a mobile phone,
 - World Safety Day,
 - World Eyesight Day,
 - World Diabetes Combating Day,
- 10 main rules of work health and safety (WHS) (TAURON Wytwarzanie),
- Continuation of activities undertaken as part of the "4Z" program - raising the employees' awareness of safety when operating belt conveyors, expanding knowledge with respect to threats occurring at work stations and developing the ability to identify them, along with the introduction of elements aimed at improving the safety culture of the employees (TAURON Wydobycie);
- "5 minut dla bezpieczeństwa" ("5 minutes for safety") (TAURON Wydobycie),

- Launching the "1 Minuta na BHP" ("1 Minute for WHS") series (TAURON Polska Energia);
- Promoting the "Zero wypadków" ("Zero accidents") idea (Wsparcie Grupa TAURON),
- Searching for and implementing new technologies and working methods in terms of work health and safety (WHS) (Wsparcie Grupa TAURON).

An important element in promoting the work health and safety (WHS) rules is continued raising of the awareness of the employees and subcontractors, mainly through dedicated training courses, which in 2020 were conducted in the form of online meetings and workshops, as well as via an interactive e-learning platform.

Accident frequency rates

214 accidents occurred at TAURON Group's subsidiaries in 2020, leading to the total of 218 persons getting injured. There was 1 fatal accident among them. The total number of accidents increased by 12 incidents in 2020 as compared to 2019. The number of the most tragic accidents, i.e. fatalities, decreased from 2 incidents in 2019 to one case in 2020. However, the number of minor accidents increased from 200 in 2019 to 211 accidents in 2020. As compared to 2019, when 4 larger scale (group) accidents were recorded, in which the number of persons injured was 8, in 2020, there were 2 such accidents in which 4 persons were injured. As compared to the previous year, no major (severe) accidents were recorded in 2020. The accident frequency rate was 8.3 in 2020. The accident frequency rate was 7.8 in 2019. The employee accident rate (accident frequency rate) broken down by gender (Injury rate - IR) is presented in Table no. 63.

Table no. 63. GRI 403-9. Employee accident rate (accident frequency rate) broken down by gender at TAURON Capital Group in 2020

| | |
|--|-------------|
| TOTAL NUMBER OF ALL ACCIDENTS | 214 |
| Women | 12 |
| Men | 206 |
| NUMBER OF FATAL ACCIDENTS AT WORK | 1 |
| Women | - |
| Men | 1 |
| NUMBER OF MINOR ACCIDENTS AT WORK | 211 |
| Women | 12 |
| Men | 201 |
| NUMBER OF MAJOR ACCIDENTS AT WORK | - |
| Women | - |
| Men | - |
| NUMBER OF GROUP ACCIDENTS | 2 |
| Women | - |
| Men | 4 |
| ACCIDENT FREQUENCY RATE | 8.3 |
| Accident frequency rate = (number of accidents at work x 1000) / average employment in 2020 | |
| Women | 0.5 |
| Men | 8.0 |
| ACCIDENT SEVERITY RATE | 64.0 |
| Accident severity rate = Total number of days of inability to work of victims of accidents at work / Number of persons injured in accidents at work (excluding fatalities) | |
| Women | 53.3 |

Due to the steadfast pursuit of a decrease in the number of accidents, activities promoting safe behavior at the workplace are continuously intensified. They include numerous training courses, covering both the employees as well as external entities performing work for TAURON Capital Group's subsidiaries. The percentage of TAURON Group's employees trained in 2020 is presented in Table no. 64.

Table no. 64. GRI EU18. Percentage of TAURON Capital Group's employees, contractors and subcontractors that have undergone WHS training in 2020

| 2020 | Nowe Jaworzno Grupa TAURON | TAURON Ciepło | TAURON Wydobycie | TAURON Wytwarzanie | TAURON Dystrybucja Pomiary | TAURON Serwis |
|--|----------------------------|---------------|------------------|--------------------|----------------------------|---------------|
| Percentage of employees employed by contractors who underwent the above WHS training | 100% | 51% | 100% | 16% | 70% | 100% |

TAURON Wytwarzanie has in place an applicable internal normative act regarding the hiring of external companies, with respect to the application of the provisions and rules of Work Health and Safety, which includes, inter alia, the requirements for training the employees of external companies. Pursuant to those provisions TAURON Wytwarzanie conducts training for the supervision personnel of the external companies with respect to threats to safety and health occurring at workplace, as well as aimed at familiarizing them with the internal regulations in force at the company, with regard to work health and safety as well as fire safety.

Contractors, on the other hand, are obliged to train persons performing the subject of the contract/order with respect to threats to safety and health occurring at workplace and during the performance of the works, as well as familiarize themselves with the internal normative acts in force at TAURON Wytwarzanie, with regard to work health and safety as well as fire safety, in accordance with the scope of work. Every time in case of subcontractors, the Contractor is obliged to fulfill the obligations described above. Conducting the above mentioned trainings is confirmed in writing.

At TAURON Wydobycie all employees of external companies, i.e. contractors and subcontractors, attend additional WHS training under the Geological and Mining Law Act, before starting work at the company's coal mines. The above-mentioned trainings are conducted with respect to work health and safety, running coal mine operations as well as fire safety, occurring threats, work order and discipline, rescue plan, communication and alerting rules, knowledge of the work area, as well as reporting accidents and threats.

Procedures for counteracting SARS-CoV-2

TAURON Group's obligation to ensure safe and hygienic work conditions during the SARS-CoV-2 virus pandemic led to the establishment on March 11, 2020, of the Team for monitoring the impact of the epidemiological situation on TAURON Group's operations. Similar dedicated crisis management teams were set up at the Group's individual subsidiaries. Their main tasks included and include:

- monitoring of the state of the epidemiological threat and the ongoing monitoring of the availability of the employees and services provided by TAURON Group's subsidiaries,
- developing and recommending solutions aimed at reducing the risk and their effects on TAURON Group's resources,
- keeping the employees informed on an ongoing basis by means of adequate messages distributed throughout the organization or at the individual subsidiaries.

Preventive actions - SARS-CoV-2

TAURON Capital Group has undertaken a number of preventive organizational and tangible actions aimed at protecting the employees of the individual subsidiaries and maintaining the continuity of the operations of the critical infrastructure. Due to the emergence of the epidemic threat, all of TAURON Group's subsidiaries have introduced new solutions, depending on the specifics of their operations. The most important of them include:

- introducing lists of key and critical employees for the operations of the given subsidiary and the ongoing monitoring of their availability,
- preparatory actions in the event of the need to lodge (accommodate) the employees operating the critical infrastructure on site;
- broader (frequently even unlimited) introduction of remote work opportunities based on providing adequate security and the development of the IT infrastructure and VPN connections,

- restricting the movement of the employees to the necessary minimum, as well as face to face (direct) meetings with the customers and contractors (counterparties), and recommending the use of videoconferencing (also by restricting the use of company cars),
- providing the employees with personal protective equipment such as masks, disposable gloves and hand disinfectants, and additionally at the entrances to TAURON Group's facilities, an obligation to measure the body temperature of people entering was introduced,
- from the beginning of the epidemic, where possible, multiple disinfections of premises and offices,
- introduction of the rules of conduct (procedures) at all of TAURON Group's subsidiaries in the event of the appearance of infected people or persons required to quarantine.

4.10. Strategic Research Agenda (SAB)

TAURON Capital Group is carefully analyzing changes in the environment that affect its entire value chain. Its individual elements determine or are likely to have a significant impact on that chain in the foreseeable future. We see an intense development and potential importance of distributed power generation sources, advancing digitization of the distribution grids and the change in the role of the electricity consumer, who, from being a passive market participant, is turning into its active player or even the so-called prosumer. We do not perceive the technological progress as a threat, but as an opportunity to become the sector's leader of innovation.

Due diligence procedures and internal regulations

R&D and innovation activities that TAURON Capital Group is placing a strong emphasis on in its Strategy, are reflected in the Strategic Research Agenda (SAB) adopted in 2018 and steadfastly implemented in 2020. Portfolio based management of research and development projects has been introduced by TAURON Capital Group as part of the Research and Development Area, in line with the priority directions of innovative as well as research and development activities.

SAB is a document that precisely describes the directions for the development of innovations and provides a more detailed elaboration of the Strategy. A separate project portfolio has been created for each direction, in which key challenges, development goals and research areas have been identified. Such a structure of the SAB supports the selection of specific projects and rejection of others, as well as allows for an optimal allocation of the financial resources. SAB includes the following portfolios:

- Customer and His/Her Needs;
- Intelligent Grid Services;
- Distributed Power Generation;
- Low Emission Generation Technologies.

This way TAURON Capital Group's research and development as well as innovation activities are implemented and expanded based on the complete and detailed strategic assumptions - with the clearly defined goals and results set on the time horizon.

SAB is consistent with and complementary to the other strategic documents, developed or adopted by TAURON Capital Group, including, first and foremost, with respect to the investment (capex) projects or asset management.

Actions taken and results achieved

The implementation of SAB takes place on several levels, forming the so-called innovation ecosystem, including in the pro-climate context. In addition to the traditionally understood research and development activities (research and development projects, cooperation with the scientific units and innovative business partners), the cooperation with start-ups, implemented through the accelerator programs and the Corporate Venture Capital (CVC) - EEC Magenta fund, has also gained significant importance at TAURON Capital Group.

Research and investment projects aimed at ensuring the reliability of electricity supply and promoting sustainable development within the Group and by TAURON Group are illustrated in Table no. 65.

Table no. 65. GRI EU DMA. Research and investment projects in 2020 aimed at ensuring the reliability of electricity supply and promoting sustainable development within the Group and by TAURON Capital Group

| INVESTMENT PROJECT CATEGORIES | Investment project type – investment project name (broken down into categories in the table) | Investment project description | Costs (incurred in conjunction with the implementation of the investment project) PLN |
|------------------------------------|--|---|---|
| Renewable energy technologies | Developing a platform that aggregates the generation and control (adjustment) potential of the distributed renewable energy sources and energy storage facilities (units) as well as selected categories of consumers whose demand can be controlled (managed) | The implementation works related to an innovative Virtual Power Plant platform (hereinafter referred to as "VPP"), developed in 2017-2021, - allowing for the aggregation of the generation and control (adjustment) potential of the distributed renewable energy sources, energy storage facilities (units) and selected categories of controllable loads. Adaptation of the Lubachów Hydroelectric Power Plant (Elektrownia Wodna Lubachów) infrastructure to operate in the Virtual Power Plant mode. | 2 581 652.72 |
| TOTAL COSTS IN THE CATEGORY | | | 2 581 652.72 |
| Electricity distribution | Distributed energy 2.0 operating model - self-balancing power grid areas | The goal of the Project is to verify the technologies that would enable setting up of local power sub-grids, called micro grids. As part of the Project, a pilot micro grid installation will be built and tested in terms of: maintaining the balance and continuity of power supply, quality of electricity, operational safety from the perspective of the consumers, devices and networks, as well as economic aspects of the entire solution. Based on that, guidelines will be developed enabling the interoperation of microgrids with the electricity distribution grid. The result of the Project will be a fully functional and tested pilot installation (operating in the actual conditions) as well as the detailed technical documentation of the solution, that would allow for its implementation both on the Polish as well as the foreign market. | 516 397.96 |
| | MV/LV station monitoring system with a functionality enabling detecting events in the medium voltage grid | The goal of the project is to verify the technical assumptions and evaluate the business usefulness of the metering system provided by the company iGrid, selected as part of the startup support accelerator program: Pilot Maker. The system allows for a faster detection of some events occurring in the medium voltage grid, based on the measurements on the 0.4 kV side, as compared to the solution based on the balancing meters, as a result of which it is possible to locate faults in the MV distribution grid faster. | 32 823.78 |
| | System for assessing the propagation and improving the electricity quality parameters in the distribution grids (SOPJEE) | The project's goal is to develop a system for assessing the propagation and improving the electricity quality parameters (SOPJEE) in the distribution grids. TAURON Dystrybucja's existing metering infrastructure (more than 220 stationary and more than 200 mobile measurement points) will be used for this purpose, as well as a new, extended system for the monitoring and evaluation of the propagation of electricity quality parameters (JEE) will be built. | 141 819.60 |

| | | | |
|---|---|---|---------------------|
| TOTAL COSTS IN THE CATEGORY | | | 691 041.34 |
| Transmission and distribution technologies | Distribution grid operation automation | Development of an innovative system for effective monitoring and support of the protection devices that meet the DMS (Distribution Management System) assumptions, along with the development of the protection controller prototype (including sirens) in the MV network. | 861 333.27 |
| | Integrated Grid Diagnostics System | The goal of the project is to conduct R&D works aimed at developing a prototype of an IT system supporting the process of managing the population of HV/MV transformers based on the multi-parameter analysis of the measurement results (ZSDS for short). | 1 367 442.27 |
| TOTAL COSTS IN THE CATEGORY | | | 2 228 775.54 |
| Advanced technologies (storage, recovery, etc.) | Hybrid system for reducing the emissions of acid components and fly ash in the flue gases | The goal of the project is to test, in the conditions of a demonstration installation, a hybrid filter installed to replace an electrostatic precipitator. The hybrid filter responds to the market demand for a universal and flexible solution enabling the modernization of the existing dust removal and treatment systems or the construction of the new ones. In addition, the compactness of the solution allows for the installation of the device in places where the local conditions or the existing infrastructure prevents expansion or modernization. | 115 641.20 |
| | Flexibility of the existing power generating units with limited capital expenditures | The project focuses on developing an improved flexibility control and monitoring system (IFCAMS) that impacts the flexible use of the coal-fired generating units. It is expected that the technology developed will allow the power plants to be operated efficiently, taking into account the new requirements for power ramp up/ramp down. The use of IFCAMS will shorten the power ramp up/ramp down time and will reduce the operating costs related to numerous unit failures (thanks to the reduction of the current technical minimum). | 165 468.64 |
| | Development of the industrial design of carbonate fuel cells and ceramic electrolyzers enabling the integration with the power-to-gas installations | The goal of the project is to improve the chemical energy storage process (a substitute for natural gas, SNG), mainly based on the higher efficiency of the high temperature electrolysis and the use of the carbonate fuel cells for CO ₂ capture from the flue gases, which does not require the supply of electricity from the power plant to the capture system. In addition, both of the innovations introduced enable their integration on the heat and electricity generation side. | 1 354 135.05 |
| | Energy storage systems for the DSO needs | Demonstration project involving the use of the stationary energy storage system as the grid operation stabilization element, Smart Grid element (ESS Cieszanowice), | 6 263 305.49 |

| | | | |
|--|--|---|---------------------|
| | Development and implementation of a technological process for reducing the HCl emissions in the flue gas from the fluidized bed boilers | The goal of the project is to adapt TAURON Wytwarzanie's Generating Units in an optimal manner to the new environmental and market requirements, in force beyond 2021, related to the Commission Implementing Decision (EU) 2017/1442 of July 31, 2017 establishing the best available techniques (BAT) conclusions for large combustion plants. The works were carried out at the Siersza power plant. | 69 863.36 |
| | Developing and testing an adaptive electricity storage system based on the second life of the batteries coming from electric vehicles | The goal of the project is to develop a prototype of a battery storage in two capacity variants, based on the reuse of the lithium-ion batteries from the electric transportation, and to test it, in 3 use cases, including the preliminary definition of the model of the production accompanying processes related to the transformation of the batteries for a new application and supply chain model. | 158 229.69 |
| | Development and implementation of a technological process for the processing of waste from the fluidized bed boilers, using CO ₂ for the production of a cement substitute | The goal of the project is the construction and commissioning of a demonstration installation for the processing of waste from the fluidized bed boilers, using CO ₂ in the production process of the composites for applications in the construction industry and/or in the geo-engineering applications, to fill the post-mining voids in hard coal mining. The project is in line with the assumptions of the Circular Economy. | 415 003.57 |
| TOTAL COSTS IN THE CATEGORY | | | 8 541 647.00 |
| | Development of advanced technology for the monitoring and predictive analysis of the technical condition of the boiler to increase the reliability of the boiler unit | The origin of the project is associated with the need to improve the availability (dispatchability) of the 460MWe unit. The technologies being developed should definitely increase the efficiency and reduce the costs of the diagnostics of the heat exchange surface inside the boiler, improving its availability and increasing the economic efficiency of its operation. The goal of the project is to develop two complementary technologies/tools for the advanced diagnostics of the wear of the heat exchange elements inside the boiler. The first solution would be used for the precise (detailed) monitoring of the technical condition of the heat exchange elements inside the boiler, which could operate at high temperatures, the second solution would be used for the analysis and interpretation of the results obtained in the context of the prediction of the erosive wear of the heating surfaces of the boiler's furnace chamber and the required repairs (overhauls). | 938 333.84 |
| Innovative related services (e.g. remote meters) | Development and demonstration of a computer system for operation control and management of the availability (dispatchability) and reliability of the industrial infrastructure based on artificial intelligence algorithms | The goal of the project is to create a prototype modular computer system based on artificial intelligence algorithms to increase the reliability of Tauron Group's generation infrastructure. The goal will be achieved through the creation of a hybrid IT infrastructure, which will include adaptive predictive/prescription models interoperating with the control systems, optimization algorithms, numerical models, databases, and algorithms controlling the health of the energy devices. | 4 008 000.00 |
| | Internet of Things (IOT) | Developing the Internet of Things technology in cooperation with the city of Wrocław. The project's goal is to develop and implement an IT architecture for collecting and managing data from the selected areas of a smart city, the deployed solution assumes scaling up with respect to the number of sensor devices and the functional areas supported. In the first phase, the project focuses on air quality monitoring, waste management, smart street lighting and parking areas management, subsequently the city road traffic monitoring functionality was added. The IT environment developed, along with the recommendations, will be the basis for creating and offering the ultimate product to the cities and municipalities. | 1 116 700.00 |

| | | |
|--------------------------------------|--|----------------------|
| HEMS (Home Energy Management System) | The goal of the Program, addressed to a retail customer, is to prepare TAURON Group to acquire a new revenue stream for the Group's subsidiaries, by developing a strategy, organization and model for the provision of the services and selling products under HEMS, based on the existing as well as the new products and services. Activities related to HEMS focus on maximizing the energy potential of houses and devices, customer convenience and smart use of ecological products. To achieve these goals, modern solutions are used, i.e. artificial intelligence, smart home technology, etc. | 115 163.20 |
| TOTAL COSTS IN THE CATEGORY | | 6 178 197.04 |
| TOTAL AGGREGATE COSTS | | 20 221 313.60 |

4.11. TAURON Group's Corporate Purchasing Policy

TAURON Group's Corporate Purchasing Policy, which has been in force since 2010, implements the priorities set out in the Group's Strategy regarding ensuring financial stability.

The main goal of implementing the Corporate Purchasing Policy was the need to create a transparent, competitive and efficient purchasing organization operating within the entire TAURON Capital Group.

TAURON Group's Corporate Purchasing Policy enables the implementation of strategic goals of the Purchasing Area, in particular with respect to:

- improving the efficiency of purchasing processes by implementing efficiency metrics,
- increasing the use of electronic tools in the purchasing, by developing and implementing the assumptions for the functioning and further development of the Purchasing Organization Support System,
- further centralization of the purchasing processes by defining, in the Corporate Purchasing Policy, the rules for determining the consolidated categories as well as the key competences and responsibilities of the purchasing category manager, the rules for developing and creating the Purchase Strategy and accounting for the achievement of the purchase objectives.

Due diligence procedures and internal regulations

Due diligence procedures with respect to the Corporate Purchasing Policy include all actions aimed at the continuous improvement of the purchasing processes, both with regard to acquiring goods as well as the operational purchase order processing. To be able to more fully achieve the above objective, the Purchase Order (Contract) Award Regulations and Purchase Strategies have been implemented.

Purchase Order (Contract) Award Regulations

A single common purchasing regulation was implemented for all of the Group's Subsidiaries in 2015., along with the tender documentation templates. Regulations define the principles of planning, preparation and the manner of proceeding and awarding Purchase Orders. As a result, the purchasing process in the entire Capital Group is transparent and uncomplicated from the point of view of potential contractors.

Purchasing Strategies

Thanks to the prepared Purchasing Strategies, it is possible to develop a Knowledge Base in the Purchasing Organization Support System (SWOZ) with respect to purchasing optimizations used for the given purchasing category.

The above actions are primarily aimed at reducing the risk in the supply chain area and gaining access to solutions and innovations used by the suppliers.

The management of categories is inseparably connected with the centralization of purchases, which allows, among others, for strengthening of the purchasing position of the ordering (contracting) party, the ability to directly communicate with the suppliers at the strategic level, standardization of the purchasing processes throughout the organization, unifying the conditions of cooperation with the suppliers across the individual subsidiaries and efficient planning of the needs.

Purchasing strategies also facilitate an exchange of knowledge in the event of a potential rotation of the purchase category managers and enable long-term collection of knowledge and experience among them.

Actions taken and results achieved

All of the above activities are aimed at simplifying and standardizing the purchasing process. Increasing competitiveness is a key task for the purchasing area. Competitiveness is a guarantee of the cost reduction, risk reduction in the area of supply chain and gaining access to the best solutions on the market. Higher competitiveness of offers (bids) is also projecting a positive image of the ordering (contracting) party on the market as a transparent and professional entity.

4.12. TAURON Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries

An important initiative implemented at TAURON Capital Group as part of a responsible supply chain is the inclusion of the sustainability criteria into the purchasing process management standard. TAURON Group promotes the idea of social responsibility among its suppliers. It expects cooperation with the contractors (counterparties) who respect human rights and act in accordance with the legal regulations, ensure safe and dignified working conditions and apply not only the highest ethical standards, but also take care of the environment and the climate.

The criteria regarding corporate social responsibility with respect to TAURON Group's contractors (counterparties) were defined and collected in a single document, i.e. the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries. It has been a mandatory criterion used in the process of qualifying contractors (counterparties) since December 2017. The Code is an applicable standard in the Capital Group, promoting responsibility among stakeholders and encouraging the implementation of responsible practices among the suppliers.

Due diligence procedures and internal regulations

The goal of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries is to define uniform standards and transparent rules of conduct as part of the business operations conducted by the subsidiaries, in particular with respect to the contractors (counterparties). The Code also includes the rules related to the employee (among others work health and safety, discrimination, personnel policy, forced labor, hiring children and minors), the natural environment (environment protection, responsible resource management, taking care of the climate), interactions with the stakeholders (among others, fair competition, combating fraud (abuse), security and protection of information, investor relations).

The Code is applied in relations with the contractors (counterparties) of TAURON Group's subsidiaries and is applicable to all employees, members of the management board and supervisory bodies of the subsidiaries, as well as proxies and powers of attorney.

The Code is associated with TAURON Capital Group's other policy documents:

- TAURON Group's Corporate Social Responsibility Code of Conduct,
- TAURON Group's Policy of Respect for Human Rights,
- TAURON Group's Anti-Corruption Policy,
- The procedure for assessing (vetting) the credibility of TAURON Polska Energia S.A.'s contractors,
- TAURON Group's rules for organizing ventures in cooperation with external entities,
- TAURON Group's Purchase Order (Contract) Award Regulations.

Actions taken and results achieved

A contractor (counterparty) who takes part in the proceedings organized by TAURON Capital Group's subsidiaries is obliged to submit a statement confirming that he has studied TAURON Group's Corporate Social Responsibility Code of Conduct and compliance with its provisions. The above statement was posted on the Company's website at:

https://swoz.tauron.pl/swoz2/platform/application?MP_action=publicFilesList&folder=000f0003&MP_module=main

4.13. Personal data protection policy for TAURON Group's entities

General Data Protection Regulation (GDPR) has been applicable in the European Union since May 25, 2018. The entry into force of this regulation changed the approach to the protection of personal data, imposing a number of new obligations on data controllers, such as the introduction of new data security procedures or informing the Polish supervisory authority (PUODO) and GDPR rights entities (e.g. TAURON Group's customers) of personal data breaches. As part of the GDPR (RODO) project, TAURON Group has undertaken a number of actions aimed at implementing the requirements of the Regulation due to the need to:

- ensure the protection of personal data regardless of the place of its processing,
- appoint a Personal Data Protection Officer at TAURON Group's subsidiaries (IOD),
- ensure mandatory notification of personal data breaches,
- ensure the default protection of personal data and the protection of privacy at the design stage (privacy by design),
- implement the rights of the customers and contractors (counterparties) that the data is applicable to (e.g. "the right to be forgotten"),
- update the content of the information clauses and consents regarding the processing of personal data,
- adapt the IT systems to the new security requirements for personal data processing.

The following principles are enforced at TAURON Capital Group:

- Legality (lawfulness) of personal data processing: we process personal data in accordance with the generally applicable law, based on an established legal basis;
- Reliability: personal data is processed in a fair, adequate, appropriate and required manner for the purposes of its processing;
- Purposefulness: personal data is processed for specific purposes;
- Accountability: TAURON Group effectively documents the handling of the given data in order to be fully accountable and prove the fulfillment of the legal obligations regarding its processing;

- **Minimization:** TAURON Group minimizes the processing of personal data, we disclose it only for the required purposes, of which we inform in advance;
- **Correctness:** we take care of the correctness of data with the utmost diligence, verifying it and enabling its owners (entities subject to GDPR), for example, to update the data;
- **Security:** we place particular emphasis on the security of personal data processing using IT systems, implementing tools and procedures aimed at increasing cyber security. We implement and update procedures, optimizing the security of personal data, and train staff in this regard.

TAURON Capital Group applies the Personal Data Protection Policy for TAURON Group's entities. Taking into account the processing of personal data, the document sets out the principles and obligations related to the security and confidentiality of such data, as well as regarding access to the information on its processing for the data subjects (persons that the given personal data is applicable to). In the event that, despite the security measures applied, a breach of personal data protection (e.g. data leakage or loss) has occurred, the Data Protection Controllers (Administrators) at TAURON Group, using the specially prepared forms, inform persons that the given personal data is applicable to (data subjects), of such an occurrence, doing it in manner in accordance with the legal regulations.

Due diligence procedures and internal regulations

Due diligence procedures provided in the described Policy include in particular:

1. General principles for the processing of personal data specified in art. 5 of GDPR. 2. Rules ensuring that data is processed in accordance with the law - art. 6-11 of GDPR. 3.
2. Obligations of the Data Controllers (Administrators) to comply with the rights of persons whose data is processed - art. 12-23 of GDPR.
3. Regulations on the fulfillment of the general obligations with respect to the data processing entrusted with the Data Controller (Administrator) and the Processing Entity (e.g. a template of the agreement for entrusting the processing of personal data) - art. 24-31 of GDPR.
4. The necessary security measures for data processing, taking into account the nature of the scope, context and purposes of data processing - Art. 32- 36 of GDPR.
5. Control mechanisms over data processing in the form of monitoring the compliance with the regulations and the accepted processing procedures by the Data Protection Officer - art. 27-43.
6. Requirements for the transfer of data to third countries and international institutions - Art. 44 - 49 of GDPR.

In the Policy, in accordance with art. 24 and art. 32 of the GDPR, while performing the above mentioned obligations with respect to ensuring the compliance, measures taking into account the state of technical knowledge, costs, nature, scope, context, purposes of processing, as well as the risks to which the processed data is exposed, have been implemented.

Actions taken and results achieved

TAURON Capital Group undertook further intensive activities in 2020 to demonstrate its care for the security of the personal data processed, by:

1. Ensuring the update of the internal regulations, including the Policy, to the extent related to the changing environment.
2. Keeping the inventory of equipment and software used for processing the information, including their type and configuration, up to date.
3. Performing periodic analyses of the risk of a loss of integrity, availability (accessibility) or confidentiality of the information and taking measures to minimize this risk, pursuant to the results of the analysis completed.
4. Undertaking actions to ensure that the persons involved in the information processing process hold the applicable authorizations and participate in this process to an extent adequate to the tasks and duties carried out by them to ensure the information security.
5. Promptly changing the authorizations in the event of a change in the tasks of the persons referred to in item 4.
6. Providing training for the people involved in the information processing process, with particular regard to such issues as:
 - threats to information security,
 - consequences of violating information security rules, including the legal liability,
 - using measures to ensure information security, including devices and software that minimizes the risk of human errors.
7. Ensuring the protection of the information processed against theft, unauthorized access, damage or interference, by:
 - monitoring access to the information,
 - activities aimed at detecting unauthorized information processing activities,

- providing measures to prevent unauthorized access at the level of operating systems, network services and applications.
8. Establishment of and compliance with the basic principles guaranteeing security of work in case of mobile processing and remote work.
 9. Securing the information in a manner that prevents its unauthorized disclosure, modification, deletion or destruction.
 10. Including, in the support services contracts signed with third parties, provisions guaranteeing an appropriate level of information security.
 11. Setting the rules for dealing with the information that minimize the risk of a theft of information and the information processing means, including mobile devices.
 12. Implementation of an appropriate level of security in the ICT systems, involving, in particular:
 - taking care of software updates,
 - minimizing the risk of information loss as a result of a failure,
 - protection against errors, loss, unauthorized modification,
 - using cryptographic mechanisms in a manner adequate to the threats or the requirements of a legal provision,
 - ensuring the security of system files,
 - reducing the risks arising from the use of the published technical vulnerabilities of the ICT systems,
 - taking prompt action after noticing the undisclosed vulnerabilities of IT systems to the possibility of security breaches,
 - checking the compliance of ICT systems with the relevant security standards and policies, including the data retention implementation.
 13. Implementation of a system for promptly reporting incidents of the information security breaches in a specific and pre-defined manner, enabling taking of corrective (remedial) actions quickly.
 14. Internal audit with respect to the information security, including in particular the audit of IT systems in which personal data is processed.

The increase in the total number of identified leaks, thefts or cases of loss of customer data (+ 39.2%) is due to the increase in the scale of processing personal data of customers in 2020 during the pandemic time. The number of substantiated (justified) complaints regarding breaches of customer privacy received from the regulatory authorities fell (by 250%).

Table No. 66 presents material complaints regarding breaches of customer privacy and loss of customer data at TAURON Group in 2020.

Table no. 66. GRI 418-1. Material complaints regarding breaches of customer privacy and loss of customer data at TAURON Group in 2020

| | |
|--|-----|
| Total number of data leakage, theft or loss of customer data cases found | 341 |
| Number of substantiated (justified) complaints regarding breaches of customer privacy received from third parties and recognized by the organization | 63 |
| Number of substantiated (justified) complaints regarding breaches of customer privacy received from the regulatory authorities | 1 |
| Total number of substantiated (justified) complaints regarding breaches of customer privacy | 64 |

TAURON Sprzedaż, TAURON Sprzedaż GZE and TAURON Dystrybucja S.A., are the centers for the arising of material complaints regarding breaches of customer privacy and loss of customer data in 2020, they account for 100% of all the detected data leaks, complaints at TAURON Group.

A detailed analysis of the subject structure and growth factors of the said indicators (rates) will be completed in 2021, along with the recommendations on how to arrest the growth thereof.

4.14. TAURON Capital Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination

TAURON Capital Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination was implemented in May 2019, replacing TAURON Group's Policy of Counteracting Mobbing and

Discrimination in place since 2017. This Policy defines the rules for reporting the violations of the Ethics, Mobbing and Discrimination Rules as well as the tasks, empowerments and obligations of the Ethics Committee. Additionally, in 2020, due to the epidemic situation, the provisions governing the functioning of the Ethics Committee were changed by introducing the possibility of remote (on-line) processing of reports submitted thereto. The introduction of such a solution allowed for ensuring the proper functioning of the Ethics Committee at TAURON Group's individual subsidiaries and the provided the possibility of reviewing the reports on an ongoing basis.

There are two sub-committees within TAURON Group's Ethics Committee:

- Internal Sub-committee, whose members are appointed and dismissed by the Management Board of the given subsidiary, that at the same time appoints the Chair of the Subcommittee;
- Group's Sub-committee, composed of eight members, appointed from among the representatives of the trade unions operating at TAURON Group and eight representatives of the employers, appointed by the Management Board of TAURON Polska Energia S.A.

An employee is given a choice of which Subcommittee he/she would like to turn to in order to have his/her notification (report) reviewed.

Due diligence procedures and internal regulations

The main assumptions used as part of TAURON Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination include:

- ensuring compliance with the Principles of Ethics with respect to preventing employee rights violations and conflicts among employees,
- defining the principles of counteracting mobbing and discrimination cases at the workplace and in connection with the performance of work, ensuring the implementation of the labor law provisions,
- undertaking intervention measures and mitigating the effects of identified cases of violations of the Principles of Ethics, in particular the cases of mobbing and discrimination,
- taking disciplinary measures against persons committing violations of the Principles of Ethics, in particular regarding mobbing or discrimination,
- strengthening positive relations among employees.

TAURON Group's Corporate Social Responsibility Code of Conduct is a regulation supporting the Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination, and it includes the Group's corporate values and the principles of conduct in three areas: employee, natural environment and stakeholders. They provide a guidepost on conduct for all employees.

Actions taken and results achieved

TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination is implemented through the e-learning training courses aimed at developing and strengthening positive relations among the employees and preventing the cases of mobbing or discrimination, as well as educating the employees. The e-learning training dedicated to these topics is a mandatory training for all of the newly hired employees. The other employees are reminded of the Policy rules through information campaigns and content available on the Group's intranet website.

In 2020, training was conducted for all members of TAURON Group's Ethics Committee (both the internal Subcommittees of the individual subsidiaries as well as the Group's Subcommittee) and the personnel of the human resources management area and the compliance area. The purpose of that training, entitled "Mobbing - legal and psychological aspects", was to expand and update the knowledge of the employees involved in the activities aimed at counteracting mobbing and discrimination at TAURON Group.

4.15. TAURON Group's due diligence procedures

4.15.1. Internal control and audit procedure

TAURON Capital Group's internal audit and internal control process is organized in such a way as to ensure broadly understood security of the Group's operations, while supporting the implementation of the Strategy's objectives. As part of its control and audit activities, the Group strives to increase the predictability of achieving strategic goals - including stable achievement of the assumed financial result - by also focusing on the potential risks that may threaten the value levers (drivers) that are key for the implementation of the Strategy.

The main goals of the Audit and Control Area at TAURON Polska Energia S.A. include: planning and implementation of the audit tasks, including the advisory and opinion forming activities, as well as the control tasks, including the performance of the ad hoc controls commissioned. As part of the audit activities, the correctness of the audited processes and the effectiveness of the control mechanisms are also verified. If any irregularities are

identified, the auditors recommend taking appropriate corrective (remedy) actions. The implementation of the recommendations is the responsibility of the management of the audited entities, and the degree of the implementation of the audit recommendations is monitored on an ongoing basis. The above tasks are implemented by the Internal Audit Team, performing the audit tasks both in the strategic area, covering the Capital Group with its scope, as well as specialized operational tasks at the level of TAURON Capital Group's individual subsidiaries and its lines of business.

The control (inspection) activities are organized similarly at the Group level - carried out by the Internal Control Team, and at the level of the subsidiaries – carried out by the controllers employed by such subsidiaries. In addition, the Internal Control Team carries out the specialized controls (audits) of the area of IT, OT and security systems. The tasks carried out by these units include both the scheduled controls (audits) as well as the ad hoc controls (audits) commissioned on an ongoing basis.

The goal of the Area's organization is to enable covering the entire operations of the organization with the scope of the audits and controls, both from the point of view of the needs of TAURON Capital Group as well as those of the individual subsidiaries. The direct reporting to the President of the Management Board allows the Audit Area to maintain the required independence and objectivity.

The Audit and Control Area conducted 36 scheduled and ad hoc tasks in 2020. In addition, works were carried out aimed at building and developing a model for the periodic assessment of the Internal Control System in place at TAURON Polska Energia S.A. as well within entire TAURON Capital Group. The project works were completed in December 2020. The results of the assessment of the Internal Control System are presented to the Management Board and the Audit Committee of the Company's Supervisory Board.

4.15.2. Most important aspects of internal control and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Supervision over application of consistent (uniform) accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statement

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS), approved by the European Union, the *Accounting Policy of TAURON Polska Energia S.A. Capital Group (Accounting Policy)* was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's standalone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Office and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on TAURON Polska Energia's financial statements and TAURON Capital Group's consolidated financial statements

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for the Company's Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. The detailed information on the composition, competences and description of the operations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. is presented in section 9. of the Management Board's Report on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2020.

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the coherence (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification.

Due to the integration of the accounting functions and the transfer of TAURON Capital Group's material subsidiaries' financial and accounting services to CUW-R (Shared Services Center – Accounting) TAURON Capital Group's financial and accounting processes were gradually unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments. TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.

Subjecting TAURON Polska Energia's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to a review by a certified auditor. In 2018, the Company selected an entity authorized to audit and review the financial statements of the Company and of TAURON Capital Group's material subsidiaries, as well as the consolidated financial statements. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2019-2021, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2019, June 30, 2020 and June 30, 2021.

The rule related to changing the audit firm of the Company and TAURON Capital Group

In the year ended on December 31, 2020, the Audit Committee of the Company's Supervisory Board updated, on October 5, 2020, the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.*, which included the following rule:

1. maximum duration of continuous audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. after the 5-year duration of the mandate (engagement) neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

Until 5 October 2020, the maximum continuous duration of audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, could not have exceeded 5 years.

4.16. GRI indices described in this section

- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. The impact of these activities on society
- GRI 103-2 The management approach and its components in the areas: environmental, social, human rights, anti-corruption, HR, including indicating material topics within the given area
- GRI 102-17 Internal and external mechanisms enabling advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-32 Role of the top management authority in reporting
- GRI 205-1 Operations assessed for risks related to corruption
- GRI 205-2 Communication and training about anti-corruption policies and procedures
- GRI 205-3 Confirmed incidents of corruption
- GRI 403 Occupational health and safety management system
- GRI 403-9 Rates of injury, occupational diseases, lost days and absenteeism, and the number of work-related fatalities by region and gender
- GRI 416-1 Number of accidents
- GRI EU18 Percentage of employees, contractors and subcontractors who underwent health and safety training
- GRI 417 The management approach in marketing and labeling
- GRI 417-2 Cases of non-compliance of products and services regarding information and labeling
- GRI 417-3 Cases of non-compliance regarding marketing communications
- GRI EU 3 Number of individual and business customers
- GRI 418 The management approach to customer privacy
- GRI 418-1 Material complaints regarding breaches of customer privacy and loss of customer data
- GRI EU-DMA The management approach in research and development
- GRI EU DMA Research and investment to ensure reliability of energy supply and promote sustainable development
- GRI 405 The management approach to equality and diversity
- GRI 406-1 Incidents related to discrimination and corrective actions
- GRI 203-1 Investments in products and services

- GRI 206-1 Legal actions for anti-competitive (anti-trust) behavior
- GRI 401 The management approach to employment
- GRI 102-8 Information on employees and other workers
- GRI 405-1 Composition of staff broken down by age and gender and minority
- GRI 401-3 Parental leave
- GRI 102-41 Collective bargaining agreements
- GRI 404-1 Number of training hours per employee
- GRI 404-2 Competence enhancement programs
- GRI 403-1 Number of employees associated in trade unions
- GRI 305-1 Direct greenhouse gas emissions
- GRI 302-1 Total consumption or production of energy from renewable and non-renewable sources
- GRI EU2 Net volume of energy produced, broken down into main energy sources
- GRI 305-7 NOx, SOx and other significant air emissions
- GRI 303-1 Total water consumption by source
- GRI 306-1 Total sewage volume by quality and destination
- GRI 306-2 Total weight of waste by type of waste and methods of waste management
- GRI EU-DMA The management approach in waste management
- GRI 302-3 Energy consumption
- GRI EU18 Percentage of employees, contractors and subcontractors of TAURON Capital Group who underwent work health and safety training
- GRI 305-5 Greenhouse gas emissions reduction
- GRI EU1 Installed generation capacity broken down into main types of raw material and regulatory requirements
- GRI EU 28 Frequency of interruptions in the energy supply to customers
- GRI EU 29 Average duration of interruptions in the supply of distributed energy

4. TAURON CAPITAL GROUP'S MAIN RISKS AND THE MANAGEMENT THEREOF

5.1. What TAURON Group expects as a result of the regulatory and market changes

Due to the changes taking place in the European climate policy as well as social and economic transformations (including in terms of resource efficiency), the energy sector is experiencing a fast rise in the impact of the broadly understood environment on its results and operations. The most important factors affecting the functioning of TAURON Group include regulatory transformations taking place at both the European as well as the national law levels.

Intense legislative processes on the part of the European Union bodies have been observed in recent years. The energy and the natural environment sectors are among the competence areas that are shared between the European Union and the Member States. Therefore, the majority of the EU's activities in this area will have a significant impact on the operations of TAURON Group.

Recent years have demonstrated a very rapid pace of changes taking place not only in the regulatory environment, but also in the Group's economic, macroeconomic or market environment. In particular, the following factors are observed:

- introducing further and tightening the existing regulations and requirements with respect to the environment protection and counteracting climate change (among others, Winter Package, Grid Codes, ETS Directive, BAT conclusions, European Green Deal, European Commission guidelines on climate impact reporting),
- increase in the volatility of the prices of electricity and related products,
- steadfast change of the energy mix towards low or zero emission electricity generation sources,
- development of the distributed and prosumer energy sector model,
- advancing integration of the European electricity markets,
- increase of the awareness of TAURON Group's stakeholders regarding the environment protection and climate impact.

TAURON Group assumes that the above mentioned trends will continue, aiming at a further transition towards an innovative and low-emission economy, and achieving, in the long run, climate neutrality as well as implementing circular economy in the European Union.

Due to the above, TAURON Group is actively monitoring both the regulatory environment, as well as the market environment, in order to prepare an action plan corresponding to the changing conditions for conducting market operations. In particular, the risk management system functioning in this respect at TAURON Group is geared towards implementing adequate and effective responses to possible threats, as well as towards the possibility of taking advantage of emerging market opportunities.

5.2. Three line defense model

In order to ensure safe functioning of the organization, the so-called three line defense model is in place at TAURON Capital Group and it constitutes an internal control system. It includes:

as part of the first line of defense - functional control performed by:

- lower and middle level management,
- the Group's other personnel,

as part of the second line of defense - independent control performed by the following functions:

- risk management,
- compliance assurance
- safety assurance,

as part of the third line of defense: institutional control performed by the internal audit.

The results of the Internal Audit Team's activities are reported directly to the senior management and the Audit Committee/Board. The way the so-called Three Line Defense Model is organized is illustrated in Figure no. 41.



Figure no. 41. TAURON Capital Group's three line defense model

5.3. TAURON Capital Group's risk management objective and principles

At TAURON Capital Group risk is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both negatively (threat), as well as positively (opportunity).

In line with its Strategy TAURON Polska Energia is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, risk management is to ensure increased predictability of TAURON Capital Group achieving its strategic goals, including sustainable generation of its financial results and protection of the Group's current economic value (preventive function), as well as supporting decision-making processes.

TAURON Capital Group's risk management:

1. It is based on the risk management process that provides comprehensive and consistent rules for identifying, measuring and responding to risk.
2. Covers all elements of the value chain.
3. Provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and consistent risk management principles.
4. Ensures independence of the risk taking function from its control and monitoring.
5. Ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function.
6. Is an active process, focused on an appropriately early identification of threats, allowing for taking preventive measures.
7. Is a systematic and continuously improved process which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment.
8. Places a strong emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities.
9. Co-creates TAURON Capital Group's internal audit system, constituting, along with the compliance and security management functions, an element of the Three Line Defense Model.

5.4. TAURON Group's risk management strategy

The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring safety (security) of TAURON Capital Group's operations. This system is governed by the document entitled Enterprise Risk Management Strategy at TAURON Group (ERM Strategy) that defines TAURON Capital Group's enterprise risk management framework and rules. The objective of the ERM Strategy is to ensure the consistency of managing the individual risk categories that were detailed in separate regulations, aligned to the specifics of the individual threat groups.

As part of the ERM System, the following Specific Risks are identified within TAURON Group, for which separate Policies tailored to the nature and specifics of the given group of threats are defined:

- trading (commercial) risk,
- credit risk,
- financial risk,
- operational risk,
- regulatory risk,
- project risk.

The description of TAURON Capital Group's specific risks in the ERM system is presented in Figure no. 42.



Figure no. 42. Description of TAURON Capital Group's specific risks in the ERM system

The detailed rules for managing TAURON Capital Group's specific risks are described in the Report of the Management Board on the Operations of TAURON Capital Group for 2020.

5.4.1. Risk management system architecture

The center of the ERM System is a risk management process that includes ongoing activities such as risk identification, risk measurement, and developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including

- 1) Organization of the ERM System.
- 2) Risk control and monitoring rules.
- 3) Risk model.
- 4) Risk management tools.
- 5) Assessment of the adequacy and functioning of the ERM system.

Figure no. 43 presents TAURON Capital Group's ERM System Architecture. The detailed description of its individual elements is provided in the Report of the Management Board on the Operations of TAURON Capital Group for 2020.

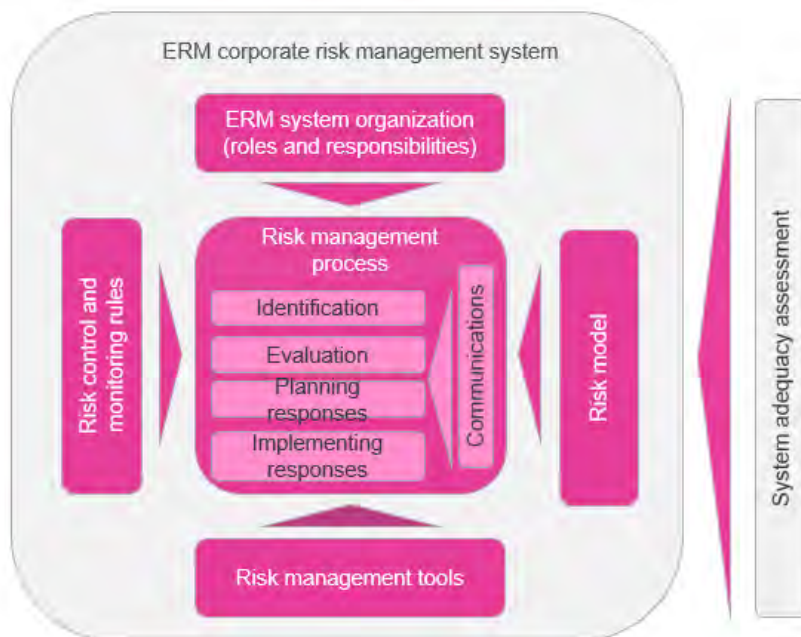


Figure no. 43. TAURON Capital Group's ERM System Architecture

The rest of the section provides brief descriptions of the elements of the risk management system architecture. The extended descriptions are provided in the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for 2020.

5.4.2. Risk management process

The process of enterprise risk management ensures the comprehensive and consistent risk management rules linked with one another in terms of methodology and information. The process of enterprise risk management means taking continuous measures comprising risk identification, risk assessment, planning of risk response, implementation of the adopted risk response and communication among the risk management process participants.

Figure no. 44 presents TAURON Capital Group's risk management process.

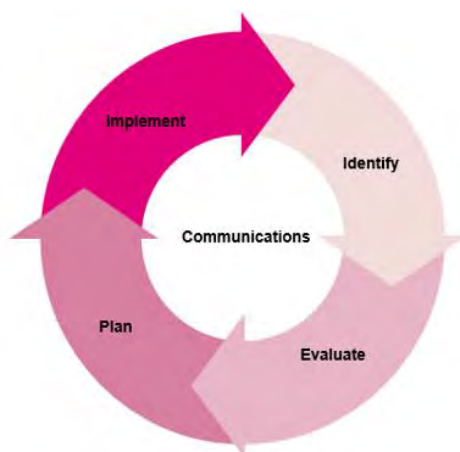


Figure no. 44. TAURON Capital Group's risk management process

Risk identification consists in determining the potential events that may affect the implementation of business goals of TAURON Capital Group. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated responses to the risk identified in order to achieve the desirable results. The planned actions constituting the prepared risk response are dependent and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in practical implementation of the response to the identified risk, prepared in the planning process. The defined set of actions as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, inform whether the activities carried out thus far are effective and if risk management is bringing the assumed effect of maintaining the value of the EWI indicators within the acceptance range.

Communication consists in a continuous flow of information among the participants of the process, which is to ensure full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodical risk reporting is also an element of this process.

5.4.3. Roles and responsibilities of the risk management system's participants

The key assumption of TAURON Group's risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest. In particular, the system guarantees independence of the risk taking function from risk control and monitoring. This is achieved through the centralization of the control function at TAURON Polska Energia S.A. level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the Risk Owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system is placed at TAURON Polska Energia S.A., in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee, as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and oversight of the risk management process effectiveness. Within the Risk Committee two separate teams are set up, one for the trading (commercial) risk area and the other for the financial and credit risk area. Oversight of the enterprise (corporate) risk management system is performed directly by the Risk Committee.

Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail. The detailed description of the roles and responsibilities is provided in table no. 67.

Table no. 67. Description of TAURON Capital Group's ERM System participants' roles and responsibilities

| PARTICIPANT | PARTICIPANT'S ROLES AND RESPONSIBILITIES |
|--|--|
| TAURON Supervisory Board | <ol style="list-style-type: none"> 1) Assessment of the ERM System, especially of its adequacy and effectiveness. 2) Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, supervisory and regulatory authorities. |
| TAURON Supervisory Board's Audit Committee | Monitoring the ERM System's effectiveness. |

| | |
|---------------------------------------|---|
| TAURON Management Board | <ol style="list-style-type: none"> 1) Assessment of the ERM System's adequacy, effectiveness and efficiency. 2) Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Management Board will be performing the Risk Owner's function. 3) Approving TAURON Capital Group's Risk Appetite and Risk Tolerance, including the global limits for the specific risks. 4) Managing the risks of special importance for TAURON Capital Group's operations. 5) Providing adequate resources for the needs of the ERM System. |
| Risk Committee | <ol style="list-style-type: none"> 1) Overseeing the correctness of TAURON Capital Group's risk management process flow. 2) Control of (auditing) TAURON Capital Group's risk exposure. 3) Providing opinions and recommending to the Management Board the shape of the individual elements of the risk management infrastructure. 4) Defining TAURON Capital Group's Risk Appetite and Risk Tolerance, including the global limits for the specific risks, and also applying to the Management Board for the approval or change thereof. 5) Overseeing the preparation of the information for the Management Board on all important issues related to TAURON Capital Group's risk. |
| Executive Director for Risk | <ol style="list-style-type: none"> 1) Coordinating the risk management process on all levels and in all areas (lines of business) of the organization's operations. 2) Responsibility for the development of the ERM System (risk identification methods, processes and procedures, evaluation, monitoring and control). 3) Support and oversight of the system's participants in the risk management implementation and evaluation of its efficiency. 4) Risk monitoring and control at TAURON Group level, including control of the consumption of the Operating Limits, Global Limits and Risk Tolerance. 5) Preparing and providing the risk reports to authorized risk management process participants. 6) Actions aimed at developing supportive organizational culture and raising awareness with respect to TAURON Capital Group's risk management. |
| Executive Director for Internal Audit | Periodic review of the correctness of designing and implementing as well as the effects of actions taken within the ERM System. |
| Management Board of a subsidiary | <ol style="list-style-type: none"> 1) Responsibility for risk management within a subsidiary. 2) Promoting risk management culture at a subsidiary. 3) Responsibility for the adequate reactions to risks and the effectiveness thereof. 4) Appointing Risk Owners at the given subsidiary. 5) Approving, in justified cases, plans of response to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded). 6) Taking ongoing decisions related to dealing with risk in case the established risk values are exceeded. |
| Risk Owner | <ol style="list-style-type: none"> 1) Responsibility for actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in the context of an impact on the ongoing operations, as well as on the implementation of the strategic, operational and financial goals of the unit. 2) Responsibility for preparing a plan and for implementing a reaction to risk, and also for the communication and reporting within the risk management implemented. 3) Responsibility for adherence to the imposed Operating Limits. |

5.4.4. Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to factors that may have an adverse impact on its functioning. The basic risk control tool is the Risk Appetite, approved by the Company's Management Board, that defines the basic framework used by TAURON Capital Group for risk management. In accordance with the adopted approach, TAURON Capital Group's priority is to maintain the maximum security at the level allowing for the implementation of TAURON Capital Group's strategic goals.

Based on the Risk Appetite, the Risk Tolerance is approved, that specifies TAURON Capital Group's maximum permitted risk exposure value, in particular taking into account the specifics and scope of the operations thereof. The Risk Tolerance is expressed in the form of a set of metrics and boundary conditions limiting the risk exposure. The Risk Tolerance is a practical translation of the Risk Appetite, in particular taking into account the division into key categories of the Specific Risks and the Global Limits related thereto.

A supplementary tool used for risk monitoring and control comprises the Early Warning System based on the catalogue of Key Risk Indicators (KRI) and Early Warning Indicators (EWI). The system functioning based on the KRI and EWI indicators enables an adequately early identification of threats by measuring the causes of the individual threats. At the same time, that system allows for an adequately early taking of remedy actions, before the individual threats actually materialize.

5.4.5. Risk management tools

Risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group uses, in particular, the following tools:

- 1) Risk identification/review questionnaire, i.e. a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
- 2) Risk card, i.e. a document containing the detailed information on the identified risk.
- 3) Risk register, i.e. a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations.
- 4) Risk response plan, i.e. a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to a given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization
- 5) Risk assessment form, which is a tabular summary of detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of risk measurement parameters (KRI / EWI).

5.4.6. Risk model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories. The main risk categories and sub-categories, in accordance with TAURON Capital Group's Risk Model in place, include:

- 1) Operational risk, within which the following risks are identified:
 - Environment - risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Group's goals,
 - Technology, infrastructure and security - all events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure,
 - Employees and organizational culture - risks related to employee issues and organizational culture as well as the pandemic risk,
 - Compliance Risk - risks related to non-compliance, internal and external abuse (fraud), as well as unethical behavior,
 - Customers and contractors (counterparties) - risks related to the volatility of the supplies/services market, failure of the customer/contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin.
- 2) Financial and credit risk, within which the following risks are identified:
 - Finance and credit – risks related to changes in exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on contractual obligations.
- 3) Trading (commercial) risk, within which the following risks are identified:
 - Trading - risks determining the market volatility of electricity and related products market prices to which the enterprise is exposed.
- 4) Regulatory risk, within which the following risks are identified:
 - Regulations - risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Group

5.4.7. Assessment of the adequacy and the functioning of the risk management system

TAURON Group's risk management is a systematic process subject to continuous improvement which allows for aligning it, on an ongoing basis, to TAURON Capital Group's specifics and organizational structure, as well as to the fast changing environment. That process is also subject to a periodic, internal and independent assessment of adequacy and reviews, in particular based on:

- ongoing assessment by the Executive Director for Risk and the Risk Committee with respect to its adequacy and alignment with the changes to the structure and specifics of TAURON Capital Group's operations, as well as with the changing environment,
- periodic evaluation conducted by the Executive Director for Risk who, not less seldom than once a year, prepares a report on the assessment of adequacy of the ERM System's architecture for the members of the Risk Committee,
- periodic evaluation conducted by the Executive Director for Audit and Control, as part of performing the institutional (third line of defense), conducts an independent audit of TAURON Capital Group's risk management with respect to the appropriate implementation of the rules by the process participants, as well as its adequacy and effectiveness.

5.5. Risks related to TAURON Group's sustainable development

Risks related to TAURON Group's sustainable development are classified in accordance with the Risk Model described in section 5.4.6. The following categories of risks related to the development of TAURON Group have been identified:

- 1) Social risk
- 2) Risk related to climate change
- 3) Human capital management risk
- 4) Work Health and Safety (WHS) risk
- 5) Internal communication risk
- 6) Environmental risk
- 7) Purchasing process risk
- 8) Legal risk
- 9) Compliance risk

Each of the risks is also assigned a trend and a materiality level, as indicated below:





5.5.1. Social Risk

Table no. 68 presents Social Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Social Risk is classified in the category: Operational risk/Employees and organizational culture

Table no. 68. Social Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-------------|---|----------------------------|---|
| 1. | Social risk | The risk includes the risk of non-compliance with customer service standards, implementation of sales contracts, external communications and marketing activities, as well as the risk related to the protection of personal data. The risk materialization results in a loss of reputation and the customers' trust, disputes with customers, a failure to achieve goals, including sales goals, and possible penalties for non-compliance with the legal requirements regarding personal data protection. | → | <ul style="list-style-type: none"> • Adoption and implementation of the PRO Client Social Policy. • Conducting of the dialogue with customers, including customer satisfaction surveys, tailoring the product offering to their needs, ensuring high quality of customer service. • Developing relationships with customers and the market environment. • Responsibility for the product, including for the quality and security of supply, tailoring the product offering to customer expectations. • Protection of privacy and security of the customers' personal data. • Deploying tools supporting the implementation of the client social policy. |

| | | | | |
|----|--|---|--|---|
| | | | | <ul style="list-style-type: none"> Standardization of the draft contracts (contract templates) with customers and their adaptation to the changes in legal regulations as well as the optimization of the sales and service processes. Implementation of the promotional activities in accordance with the adopted TAURON Brand Strategy and TAURON Group's Sponsorship Strategy for 2018-2025, including respect for human rights and conducting responsible marketing activities. |
| 2. | Corporate social responsibility area management risk | Risk related to the involvement of TAURON Capital Group in activities that do not respond to the needs of stakeholders resulting in a loss of confidence on the part of various stakeholder groups, loss of credibility and messages generated by the company in society. | →  | <ul style="list-style-type: none"> Implementation and performance of the CSR project plan, which specifies all activities, including the justification thereof. Implementation and application of the document entitled TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects. Approval of the key activities by authorized areas. |
| 3. | Risk of reputation management by shaping the brand image | The risk associated with the use of the TAURON brand in combination with adverse, controversial activities that have a negative impact on the Group's image, which in effect projects an inadequate image of the company. | →  | <ul style="list-style-type: none"> Supervising the process of establishing the methodology for conducting promotional and sponsorship campaigns, approving of the key activities by authorized areas. Implementing the Visual Identification System, appointing a Team responsible for assessing and approving the image building projects. |

5.5.2. Risk related to climate change

Effective fight against climate change and sustainable development are one of the main assumptions implemented as part of the Green Turn of TAURON concept. Taking the above into account and being aware of climate change underway, the risks associated with climate change have also been identified as part of the Risk Model. They include:

- physical risk - resulting from the physical effects of climate change adversely affecting the operations of TAURON Group's subsidiaries, in particular as a consequence of specific weather related events (storms, floods, heat waves), climate changes leading to temperature changes or hydrological drought,
- risk related to the transition - including risks resulting from the transition to the low emission economy, resilient against climate change; for example, regulatory, financial, social, technological.

5.5.2.1. Physical Risk

Table no. 69 presents the Physical Risk related to climate change identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Physical Risk related to climate change is classified in the category: Operational Risk/Environment; Operational Risk/Technology and infrastructure; Operational Risk/customers and contractors (counterparties); Trading (commercial) Risk/Trading.

Table no. 69. Physical Risk related to climate change identified at TAURON Capital


| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|---------------------------------------|--|----------------------------|--|
| 1. | Short-term physical risk (acute risk) | <p>The risk is related to:</p> <ul style="list-style-type: none"> - frequent occurrence of extreme temperatures, greater rainfall intensity that can cause floods at any time of the year, uneven rainfall resulting in longer periods of no rainfall, intermittent abrupt rainfall (torrential rain), - increase in the frequency and intensity of hurricanes, strong winds, incidentally accompanied by tornadoes and lightnings causing machinery and equipment failures, distribution grid failures (electricity, heat), more frequent drought occurrences and water restrictions related thereto, as well as an increased risk of fires. <p>The risk materialization also results in:</p> <ul style="list-style-type: none"> - increased costs of maintaining transmission systems resulting from the costs of fixing failures, a decrease in the volume of electricity and heat supply, a decrease in the volume of production, a deterioration of the electricity distribution quality indicators affecting the regulated revenue, - sharp fluctuations of market prices due to the occurrence of extreme temperatures affecting the levels of demand and the ability to satisfy such demand by the supply side. - the need to shut down individual power generating units due to the too low water level in rivers, the water from which is used to cool the units, <p>The risk includes the risks identified and managed by TAURON Group: environmental risk (in the context of excessive impact on the climate), weather risk, company assets related risk and market risk.</p> | <p>→</p> <p>■</p> | <ul style="list-style-type: none"> • Adoption and implementation of TAURON Group's Climate Policy. • Conducting business operations that affect the climate in accordance with the sustainable development principles. • Maintaining the required level of the pollution reduction devices' efficiency (performance). • Frequent assessment of compliance of the activities with the legal requirements regarding climate impact. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's activities on climate change, gradual adaptation of the production assets to the consequences of extreme weather occurrences and the volatility of weather conditions, in particular in the lines of business sensitive to these factors. • Optimization of investment outlays allocated for asset replacement, active monitoring of the condition of the machinery, equipment and installations. • Increasing of the professional qualifications and work culture of employees by organizing courses and training sessions. • Responding to an emergency situation by the technical operational personnel and the automated protection systems. • Property insurance against fortuitous events (excluding the underground assets). • Introduction of IT tools with respect to improving the monitoring and management of failure rates. • Gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in the Distribution Line of Business. |
| 2. | Long-term physical risk | <p>The risk is related to:</p> <ul style="list-style-type: none"> - decrease in the volume of sales of the products offered by TAURON Group's subsidiaries, in particular as a result of a temperature deviation from the planned values, resulting primarily in a loss of revenues in the individual segments of TAURON Group's operations as a consequence of reduced demand, - reduction, especially in summer, of the water levels in rivers and water reservoirs, and an increase in their temperature, which generates a decrease in the efficiency of the generating units and a decline in the dispatchability of the units during the peak electricity demand periods. The above may lead to a blackout in an extreme scenario, - change of the market conditions for the operations of TAURON Group's subsidiaries, in particular as a result of changes in the weather | <p>→</p> <p>■</p> | <ul style="list-style-type: none"> • Ongoing offering updates, launching of the multi-packet products for sale. • Conducting marketing activities, acquiring new customers. • Activities focused on retaining current customers and recovering the lost ones. • Daily measuring and reporting of the portfolio positions. • Trading (commercial) risk management through a system for assigning and controlling the risk limits (e.g. VaR and stop loss). • Adoption of an optimal trading strategy and implementation of mechanisms used to hedge the trading |

| | | | |
|--|---|--|---|
| | <p>conditions resulting in a drop of the margin in the Generation Line of Business (CDS / volume) and, in general, an increase of the costs and a decrease of the revenues,</p> <ul style="list-style-type: none"> - increased failure rate of the machines and devices constituting the assets of TAURON Group's subsidiaries due to permanent climate changes - such as prolonged droughts, global warming, for example. <p>The risk includes risks identified and managed by TAURON Group: volume and margin risk, company assets related risk and market risk.</p> | | <p>position.</p> <ul style="list-style-type: none"> • Optimization of investment outlays for asset replacements, active monitoring of the condition of the machinery, equipment and installations. • Gradual adaptation of the production assets to the climate change. |
|--|---|--|---|

5.5.2.1. Climate Risk related to the transition

Table no. 70 presents the Climate Risk related to the transition identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Climate Risk related to the transition is classified in the category: Operational Risk/Environment; Regulatory Risk/Regulations; Operational Risk/Customers and Contractors (Counterparties); Trading (commercial) risk/Trading; Financial and Credit Risk/Finance and Credit.

Table no. 70. Risk related to the transition identified at TAURON Capital Group


| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|--------------------------------|--|--|---|
| 1. | Risk related to the transition | <p>Risk related to the tightening of the European Union's climate policy, the tightening of the environmental requirements resulting from the climate change, the growing awareness of the customers with respect to the climate change, the activities supporting energy efficiency (growth of prosumers, support for thermal insulation, construction of in-house electricity and heat sources, departure from the coal use as fuel), a change in the conditions of TAURON Group's operations (the need to adapt the company to the challenges of changes resulting from the climate change, including the technological adaptation to the global low-emission solutions).</p> <p>The consequences of the risk include the reputation, technology, policy and regulatory issues, as well as the market issues. In particular, the effects of the risk may include:</p> <ul style="list-style-type: none"> - decrease in the volume of sales of the products offered by TAURON Group's subsidiaries, in particular as a result of the development of energy efficiency, insulation of buildings, growth of prosumers, resulting primarily in a loss of revenue in the individual segments of TAURON Group's business operations resulting from the reduced demand, - change of the market conditions for the operations of TAURON Group's subsidiaries, in particular as a result of the tightening of the European Union's climate policy, the growing ecological awareness of the public, the activities supporting energy efficiency (departure from the use of coal as fuel, growth of prosumers, support for thermal insulation, construction of in-house electricity and heat sources) resulting in a drop of the margin in the Generation Line of Business (CDS/volume) and, in general, an increase of the costs and a decrease of the revenues, - difficulties or an increase in the cost of raising capital to finance operations based on fossil fuels, - loss of reputation due to involvement in fossil fuels, - the need to transform the assets and, as a consequence, the need to incur additional expenses as a result of the climate change, |  | <ul style="list-style-type: none"> • Applying of TAURON Group's Climate Policy. • Defining and updating as well as implementing of TAURON Group's Strategy. • Update of TAURON Group's Strategic Research Agenda. • Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from the Climate Policy and the Investment Strategy. • Ongoing analysis of the draft ordinances (regulations) and acts. • Active participation in the work of teams providing opinions on projects and proposing optimal solutions. • Gradual adaptation of TAURON Group's production assets and energy mix to the production of renewable energy and zero and low-emission electricity generation technologies. • Gradual withdrawal of the anthropogenic sources of greenhouse gas emissions coming from fossil fuels through the development of renewable energy and zero and low-emission electricity generation technologies. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on the climate change. |

| | | | |
|--|--|--|--|
| | <ul style="list-style-type: none"> - difficulty or an increase in the insurance costs for the assets based on fossil fuels, - an increase in the costs of the environmental fees and the need to incur additional investment outlays to adapt the assets to the environmental requirements, - an increase in the price of the CO₂ emission allowances and, as a consequence, a decrease in the margin in the conventional electricity segment, - a decrease in demand for electricity as a result of energy efficiency and growth of the prosumers segment, - a decrease of the demand for the products offered thus far by TAURON Group's subsidiaries, - limiting or discontinuing the operations based on fossil fuels and carbonates, - the need to restructure employment resulting from a change in the business operations profile, - impediments to administrative procedures involving the public by non-government organizations, - a decline in the company value, - inability to meet market expectations due to the lack of the expected products in the portfolio. <p>The risk includes risks identified and managed by TAURON Group: climate change, reputation, regulatory, volume and margin, market, obtaining of the financing, company assets, human resources related risks.</p> | | |
|--|--|--|--|

5.5.3. Human Capital Management Risk

Table no. 71 presents the Human Capital Management Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Human capital management risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 71. Human Capital Management Risk identified at TAURON Capital Group





| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-------------------------------|---|---|---|
| 1. | Human Capital Management Risk | Risk related to the employee issues, including diversity, participation, employment and working conditions, relations with the trade unions and respect for the right of freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to climate change, forcing a change of the business operations profile. The materialization of the risk may result in the interruptions or disruptions in the operational work, employee complaints, collective labor disputes, strikes, loss of specialized staff and difficulties in reproducing it. |  | <ul style="list-style-type: none"> *Adoption and implementation of the Employee Recruitment, Selection and Adaptation Policy. • Adoption and implementation of the Policy of Compliance with Ethics Principles and Counteracting Mobbing and Discrimination. • Care for the development of the employees' competences, including through the participation in training courses. • Conducting consultations with social organizations operating at TAURON Capital Group. • Implementation of the HR policy based on the Competence Model and the applicable compensation and labor law regulations (Compensation Regulations, ZUZP, Labor Regulations). • Adoption and implementation of the Diversity Policy. |

| | | | | |
|--|--|--|--|---|
| | | | | <ul style="list-style-type: none"> • Adoption and implementation of the Human Rights Respect Policy. |
|--|--|--|--|---|

5.5.4. WHS Risk

Table no. 72 presents the WHS risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the WHS Risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 72. WHS Risk identified at TAURON Capital Group


| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|---------------|--|--|---|
| 1. | WHS Risk | Risk related to ensuring health and safety at work. The materialization of the risk results in an employee injury, loss of health or excessive exposure of an employee to factors harmful to health, compensation paid out for damage to health. |   | <ul style="list-style-type: none"> • Prioritizing the safety of employees, customers, contractors and stakeholders in the business operations undertaken. • Adoption and implementation of TAURON Group's Work Health and Safety Policy. • Ensuring optimal working conditions. • Conducting active monitoring of the working conditions and the correctness of work organization. • Raising employees' qualifications with respect to improving work safety. • Conducting training courses, implementing and improving the WHS management system. |
| 2. | Pandemic risk | Risk related to the persistence of the pandemic causing disruptions to Poland's economic and administration and bringing about material changes in the market environment, impacting the operating conditions of TAURON Group's subsidiaries. The increase in the number of infection cases leads to a reduction of the business activity, which affects the level of demand for the products offered by TAURON Group's subsidiaries, including, in particular, the electricity distribution and supply volumes. |   | <ul style="list-style-type: none"> • Monitoring of the epidemiological threat at TAURON Group. • Collecting information on threats and identifying potential threats to the safety of employees of TAURON Group's subsidiaries. • Developing and recommending solutions aimed at reducing the level of threat to TAURON Group's resources. • Ongoing monitoring of the risk of the availability of employees and services provided by TAURON Group's subsidiaries. • Recommending solutions aimed at reducing the effects of the materialization of the threat on TAURON Group's resources. • Preparing and providing feedback on the content of messages disseminated at the level of TAURON Group level and TAURON Polska Energia S.A. • Use of screening tests. • Preparing contingency plans in the event of a loss of the Group's key employees. |

| | | | | |
|--|--|--|--|--|
| | | | | <ul style="list-style-type: none"> • Development of backup business continuity plans. • Undertaking trading activities in order to balance, on an ongoing basis, the buy position versus the observed drops in the volume of electricity sales. • Taking advantage of market opportunities to secure the position in the Generation line of business (buy-backs). • Use of the anti-crisis shield mechanisms (facilities). • Increasing the frequency of monitoring overdue accounts receivable. • Introducing additional credit risk-taking guidelines and extending the scope of testing (vetting) customer financial condition. • Introduction of a mechanism to monitor and cap (limit) spending. |
|--|--|--|--|--|

5.5.5. Internal Communication Risk

Table no. 73 presents the Internal Communication Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Internal Communication Risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 73. Internal Communication Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-----------------------------|---|---|--|
| 1. | Internal Communication Risk | Risk related to providing incorrect or unverified information within the organization, formulating an unclear / incomplete message, a failure to provide employees with the information of significant importance, resulting in misleading the recipients of the information or a failure to comply with the disclosure obligations resulting in the wrong business decisions being made as a result of a lack of reliable (accurate) information, a loss of trust in the employer or administrative penalties (fines). |  | <ul style="list-style-type: none"> • Developing relationships with TAURON Capital Group's workforce and close cooperation with the Social Dialogue Ombudsman. • The use and development of the available communication tools to provide relevant information to the employees of TAURON Capital Group. • When providing relevant information - organizing face to face (direct) meetings of the management team with the workforce. • Ongoing monitoring of the situation and events taking place at TAURON Capital Group's subsidiaries that may cause social concerns. • Regular periodic meetings with the representatives of the subsidiaries, that deal with the internal communication, in order to exchange information • Development of a communication strategy for TAURON Group. |

5.5.6. Environmental Risk

Table no. 74 presents the Environmental Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Environmental Risk is classified in the category: Operational Risk/Technology and infrastructure.

Table no. 74. Environmental Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|--------------------|--|----------------------------|--|
| 1. | Environmental Risk | <p>Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would make it impossible to prevent excessive (above the applicable standards) pollution, damage, disruptions or failures of installations or equipment that would have a negative impact on the environment.</p> <p>The risk also involves the possibility of:</p> <ul style="list-style-type: none"> - a lack of valid environmental decisions, - depositing waste in places not intended for this purpose or not in accordance with the operating conditions of the facilities designated for such purpose, - occurrence of a crisis situation: e.g. fire, displacement of earth masses, extreme weather events, - use of waste not in accordance with the authorized intended purpose, - a lack of adequate safeguards reducing the negative impact of TAURON Group's operations on the environment, - release of hazardous substances to the environment, - social protests. <p>The consequence of the materialization of the risk is the degradation of the natural environment and penalties for a failure to comply with the environmental requirements, the need to fix the deficiencies, curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that prevents their use, destruction of a valuable natural habitat, site or area - environmental compensation, restrictions on further business development, damage to TAURON Group's image, limitation of the use of financial assistance programs. The risk also includes an increase in the environmental requirements stemming from the tightening of the European Union's climate policy.</p> | <p>→</p> <p>■</p> | <ul style="list-style-type: none"> • Adoption and implementation of TAURON Group's Environmental Policy. • Conducting business operations that affect the environment in accordance with the sustainable development principles. • Conducting and intensifying activities aimed at increasing the utilization of the UPS/UPW waste. • Striving to maximize the management (utilization) of the post-production waste generated at all of TAURON Group's coal mines. • Striving for the optimum management of water resources. • Ongoing supervision over compliance with the conditions of the environmental decisions. • Maintaining the required level of the pollution reduction devices' efficiency (performance). • Frequent assessment of compliance of the activities with the legal requirements with respect to the environment protection. • Implementation of the investment projects with respect to the environment protection in order to minimize the consequences of an adverse impact of mining and processing operations on the environment and climate. • Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on climate change. |

5.5.7. Purchasing Process Risk

Table no. 75 presents the Purchasing Process Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Purchasing Process Risk is classified in the category: Operational Risk/Customer and contractors.

Table no. 75. Purchasing Process Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-------------------------|---|----------------------------|---|
| 1. | Purchasing Process Risk | Risk related to the procurement proceedings conducted, their erroneous implementation, unplanned increase in the purchase costs, taking into account methods employed to prevent violation of human rights by business partners, counteract corruption and abuse in the purchasing process as well as ensure compliance with the ethical and moral standards during the implementation thereof. The consequences of the materialization of the risk include unfavorable purchase agreements, the need to cancel the tender procedures, damage to the image of TAURON Capital Group and a loss of credibility with the stakeholders. | → ■ | <ul style="list-style-type: none"> • Adoption and implementation of the Code of Conduct for the Contractors (Counterparties) of TAURON Group. • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of the Policy of Respect for Human Rights. • Standardization of the rules of conducting proceedings in the purchasing process and the transparency thereof. • Developing lasting relationships with the contractors (counterparties) based on trust and mutual respect. • Expecting the contractors (counterparties) to comply with the legal regulations, ethical standards and good commercial practices, including work health and safety rules, principles of discrimination and unequal treatment, respect for human rights and dignity of employees, transparent personnel policy, environment protection, fair competition, prevention and countering of fraud, as well as information security and protection. • Applying of the standard contract forms (drafts, templates) and standard clauses in the contracts regarding compliance with human rights by TAURON Capital Group's business partners. |

5.5.8. Legal Risk

Table no. 76 presents the Legal Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Legal Risk is classified in the category: Operational Risk/Environment.

Table no. 76. Legal Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|------------|---|----------------------------|--|
| 1. | Legal Risk | Risk related to the non-compliance with the legal regulations, wrong interpretation of the new laws and regulations, requirements imposed by the regulator and the oversight authorities. The consequences of the materialization of risk may result in financial penalties, criminal and civil law liability, damage to the Group's image. | → ■ | <ul style="list-style-type: none"> • Continuous monitoring of the legal environment and changes to the legal regulations, including social issues, respect for human rights, anti-corruption, environment protection and employee issues. • Implementation of the required changes to the internal regulations. • Establishing working groups to prepare and implement the changes required due to the legal environment. • Continuous cooperation with the authorities performing oversight of the energy market and the capital market. • Consultations with the organizational units with respect to the planned key regulations for the area of compliance. |

| | | | | |
|--|--|--|--|--|
| | | | | <ul style="list-style-type: none"> • Employee training with respect to the knowledge of the legal regulations and the internal regulations. |
|--|--|--|--|--|

5.5.9. Compliance Risk

Table no. 77 presents the Compliance Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section 5.4.6, the Compliance risk is classified in the category: Operational Risk/Compliance risk.

Table no. 77. Compliance Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-----------------------------|---|----------------------------|--|
| 1. | Internal abuse (fraud) risk | Risk related to the appropriation or use of the Company's assets, its devastation, theft, use of official position for personal gain resulting in financial losses, penal and administrative sanctions, criminal and civil law liability. | → ■ | <ul style="list-style-type: none"> • Education and training activities among employees, including mandatory e-learning training with respect to TAURON Group's Compliance Management System. • Effective use of the whistleblowing system in the organization, enabling TAURON Group's employees to report potential cases of abuse to their immediate superior, the Ethics Committee, the Compliance Officer/Compliance Coordinator, or via the abuse (fraud) notification (reporting form at http://www.tauron.pl/). • Conducting fact finding investigations by the Compliance Officer or Compliance Coordinators. • Building an organizational culture based on TAURON Group's values and policies (principles). • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Adoption and implementation of TAURON Group's Corporate Social Responsibility Code of Conduct. • Adoption and implementation of TAURON Group's Rules for accepting and giving gifts. |
| 2. | External abuse (fraud) risk | Risk related to an occurrence of external abuse (fraud) that affects the operations of TAURON Group through: disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attempt and hacker attacks, tax fraud, theft, vandalism, counterfeiting, dirty money laundering, terrorist attack. | → ■ | <ul style="list-style-type: none"> • Raising employee awareness through training and information campaigns on the existing threats of external abuse (fraud). • Adoption and implementation of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries. • Implementation of anti-corruption clauses in the contracts with the contractors (counterparties). • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Effective use of a whistleblowing system in the organization, enabling reporting of the potential cases of abuse, the system also allows for reporting of abuse (fraud) by the |

| | | | | |
|----|-------------------------------------|--|------------|---|
| | | | | <p>external entities through the abuse (fraud) reporting form at http://www.tauron.pl/.</p> <ul style="list-style-type: none"> • Monitoring the cooperation with the contractors (counterparties) and testing (vetting) their credibility at TAURON Group. • Promoting best practices, improving procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct, Code of Ethics and functioning of the abuse (fraud) reporting system. • Building an organizational culture based on TAURON Group's values and policies (principles). |
| 3. | Unethical behavior and mobbing risk | The risk includes an occurrence of unethical behavior resulting, in particular, in a lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of employees. | → ■ | <ul style="list-style-type: none"> • Raising employee awareness through training and information campaigns on the existing threats of external abuse (fraud). • Adoption and implementation of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries. • Implementation of anti-corruption clauses in the contracts with the contractors (counterparties). • Adoption and implementation of TAURON Group's Anti-Corruption Policy. • Effective use of a whistleblowing system in the organization, enabling reporting of potential cases of abuse (fraud), the system also allows for reporting of abuse (fraud) by the external entities through the abuse (fraud) reporting form at http://www.tauron.pl/. • Monitoring the cooperation with the contractors (counterparties) and testing (vetting) their credibility at TAURON Group. • Promoting best practices, improving procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct, Code of Ethics and functioning of the abuse (fraud) reporting system. |

5.6. GRI profile indices described in this section

- GRI 102-15 Key impact, risks and opportunities
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area

6. GRI INDEX

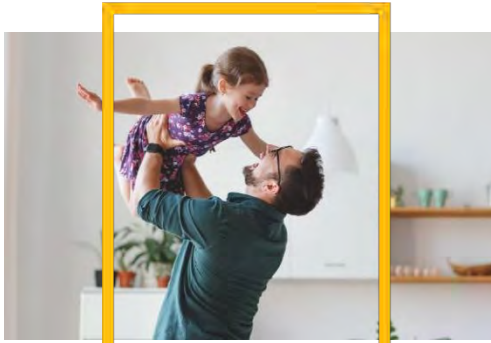
- GRI 101 Reporting principles and basics
- GRI 102-14 Statement from senior decision maker
- GRI 102-40 List of stakeholder groups
- GRI 102-42 Identifying and selecting stakeholders
- GRI 102-43 Approach to stakeholder engagement including the frequency of engagement by type and stakeholder group
- GRI 102-44 Key topics and concerns raised by stakeholders and the response from the organization also by reporting them
- GRI 102-45 Entities included in the consolidated financial statements
- GRI 102-46 Defining report content and topic boundaries
- GRI 102-47 List of material topics
- GRI 102-49 Changes in reporting (significant changes from previous periods covered by the report regarding material topics and topic boundaries)
- GRI 102-50 Reporting period
- GRI 102-51 Date of most recent report (if published)
- GRI 102-52 Reporting cycle
- GRI 102-54 Claims of reporting in accordance with the GRI Standards using Core or Comprehensive option
- GRI 102-56 External assurance (Confirmation of credibility)
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 102-55 GRI Index
- GRI 102-1 Organization name
- GRI 102-2 Activities, brands, products and services
- GRI 102-3 Location of headquarters
- GRI 102-4 Location of operations - including the number of countries in which the organization operates, along with the names of those countries, where the main operations of the organization are located, or which are particularly important in relation to topics related to sustainable development discussed in the report
- GRI 102-5 Ownership and legal form
- GRI 102-6 Markets served
- GRI 102-7 Scale of the organization
- GRI 102-10 Significant changes during the reporting period regarding size, structure, ownership form or value chain
- GRI 102-11 Precautionary principle
- GRI 102-16 Values, ethics code, principles, standards, and norms of behavior
- GRI 102-17 Internal and external mechanisms enabling obtaining advice on behavior in ethical and legal issues as well as matters related to the integrity of the organization
- GRI 102-18 Governance structure
- GRI 102-22 Composition of the top management authority
- GRI 102-23 Top management authority
- GRI 102-24 Method of selecting the top management authorities
- GRI 102-26 Role of the top management body in the environment, purpose, values and strategy
- GRI 102-28 Evaluation of the results of the top management body
- GRI 102-32 Role of the top management body in reporting
- GRI 102-25 Conflict of interest
- GRI 201-2 Financial implications and other risks and opportunities associated with climate change
- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. Impact of these activities on society,
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area
- GRI 102-2 Activities, brands, products, and services
- GRI 102-7 Scale of the organization
- GRI 102-9 Supply chain
- GRI 102-10 Significant changes to the organization and its supply chain in the reported period
- GRI 102-12 External initiatives
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 103-1 Explanation of the material topic and its boundary
- GRI 201-1 Value added generated and distributed
- GRI 201-4 Government support - state ownership
- GRI 203-1 Investments in products and services

- GRI 205-1 Operations assessed for risks related to corruption
- GRI 205-2 Communication and training about anti-corruption policies and procedures
- GRI 205-3 Confirmed incidents of corruption
- GRI 403 Occupational health and safety management system
- GRI 403-9 Rates of injury, occupational diseases, lost days and absenteeism, and the number of work-related fatalities by region and gender
- GRI 416-1 Number of accidents
- GRI EU18 Percentage of employees, contractors and subcontractors who underwent work health and safety training
- GRI 417 The management approach in marketing and labeling
- GRI 417-2 Cases of non-compliance of products and services regarding information and labeling
- GRI 417-3 Cases of non-compliance regarding marketing communications
- GRI EU 3 Number of individual and business customers
- GRI 418 The management approach to customer privacy
- GRI 418-1 Material complaints regarding breaches of customer privacy and loss of customer data
- GRI EU-DMA The management approach in research and development
- GRI EU DMA Research and investments to ensure reliability of energy supply and promote sustainable development
- GRI 405 The management approach to equality and diversity
- GRI 406-1 Incidents related to discrimination and corrective actions
- GRI 206-1 Legal actions for anti-competitive behavior
- GRI 401 The management approach to employment
- GRI 102-8 Information on employees and other workers
- GRI 405-1 Composition of staff broken down by age and gender and minority
- GRI 401-3 Parental leave
- GRI 102-41 Collective bargaining agreements
- GRI 404-1 Number of training hours per employee
- GRI 404-2 Competence enhancement programs
- GRI 403-1 Number of employees associated in trade unions
- GRI 305-1 Direct greenhouse gas emissions
- GRI 302-1 Total energy consumption or production from renewable and non-renewable sources
- GRI EU2 Net volume of energy produced, broken down into main energy sources
- GRI 305-7 NOx, SOx and other significant air emissions
- GRI 303-3 Total water consumption by source
- GRI 306-1 Total sewage volume by quality and destination
- GRI 306-2 Total weight of waste by type of waste and methods of waste management
- GRI EU-DMA The management approach in waste management
- GRI 302-3 Energy intensity (consumption)
- GRI EU18 Percentage of TAURON Capital Group's employees, contractors and subcontractors who underwent work health and safety training
- GRI 305-5 Direct greenhouse gas emissions
- GRI EU1 Installed generation capacity broken down into main types of raw material and regulatory requirements

Katowice, March 29, 2021

Marek Wadowski - acting as the President of the Management Board
Vice President of the Management Board

Jerzy Topolski - Vice President of the Management Board



REPRESENTATIONS OF THE MANAGEMENT BOARD

of TAURON Polska Energia S.A.



REPRESENTATION

**of the Management Board of TAURON Polska Energia S.A.
on the accuracy of the annual consolidated financial statements of
TAURON Capital Group and
of the Management Board's report on the operations of
TAURON Polska Energia S.A. and TAURON Capital Group**

Management Board of TAURON Polska Energia S.A. represents that, to the best of its knowledge, the annual consolidated financial statements of TAURON Capital Group and comparable figures were prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of TAURON Capital Group.

Management Board of TAURON Polska Energia S.A. also certifies that the Management Board's annual report on the operations of TAURON Polska Energia S.A and TAURON Capital Group includes a fair review of the development and performance of the business and the position of TAURON Polska Energia S.A and TAURON Capital Group, together with a description of the principal risks and uncertainties that TAURON Polska Energia S.A and TAURON Capital Group face.

Members of the Management Board:

1. Marek Wadowski - acting President of the Management Board / Vice President of the Management Board
2. Jerzy Topolski - Vice President of the Management Board

March 29, 2021
date



INFORMATION

**of the Management Board of TAURON Polska Energia S.A. on the appointment of
the audit firm to conduct the audit of the annual
consolidated financial statements of TAURON Capital Group in accordance with the applicable
regulations**

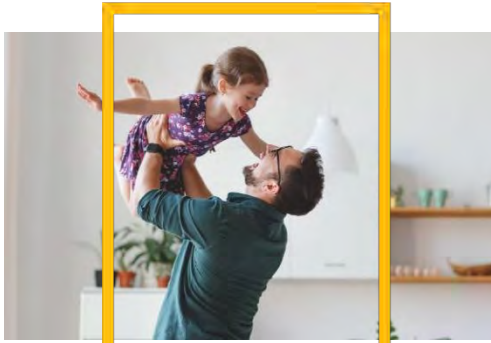
Management Board of TAURON Polska Energia S.A., pursuant to the representation of the Supervisory Board, informs of the appointment of the audit firm to conduct the audit of the annual consolidated financial statements of TAURON Capital Group in accordance with the applicable regulations, including the regulations related to the appointment and the procedure for appointment of auditor and indicates that:

- a) the audit firm and members of the team performing the audit met the conditions for preparing an impartial and independent report (opinion) on the audit of the annual consolidated financial statements of TAURON Capital Group in accordance with the applicable regulations, professional standards and professional code of ethics,
- b) applicable regulations related to the rotation of the audit firm and the key certified auditor as well as the mandatory rotation periods (engagement term limits) are complied with,
- c) TAURON Polska Energia S.A. has a policy in place with respect to the appointment of the audit firm and a policy with respect to the provision, for the benefit of TAURON Polska Energia S.A., by the audit firm, an entity related to the audit firm or a member of its network, of additional non-audit services, including services that are conditionally exempt from the ban on the provision of non-audit services by the audit firm.

Members of the Management Board:

1. Marek Wadowski - acting President of the Management Board / Vice President of the Management Board
2. Jerzy Topolski - Vice President of the Management Board

March 29, 2021
Date



REPRESENTATION OF THE SUPERVISORY BOARD

of TAURON Polska Energia S.A.



REPRESENTATION

of the Supervisory Board of TAURON Polska Energia S.A. on the Audit Committee

Supervisory Board of TAURON Polska Energia S.A. represents that the regulations related to the appointment, composition and operations of the Audit Committee are complied with, including the regulations related to the fulfillment by the members thereof of the independence criteria and of the requirements with respect to the knowledge and skills (qualifications) related to the industry TAURON Polska Energia S.A. is operating in, as well as in the field of accounting or auditing financial statements.

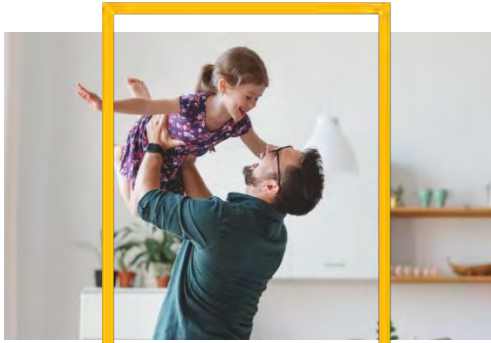
Supervisory Board of TAURON Polska Energia S.A. also certifies that the Audit Committee performed the tasks of an audit committee as set forth in the applicable regulations.

Members of the Supervisory Board:

1. Andrzej Kania - Chair of the Supervisory Board
2. Teresa Famulska - Vice Chair of the Supervisory Board
3. Katarzyna Taczanowska - Secretary of the Supervisory Board
4. Ryszard Madziar - Member of the Supervisory Board
5. Grzegorz Peczkis - Member of the Supervisory Board

March 30, 2021
Date

This is a translation of the document originally issued and signed in Polish



ASSESSMENT BY THE SUPERVISORY BOARD

of TAURON Polska Energia S.A.



**Assessment by the Supervisory Board of TAURON Polska Energia S.A.,
including the justification thereof,
of the financial statements and
the Management Board's report on the operations of
TAURON Polska Energia S.A. and TAURON Capital Group
for the financial year 2020**

The Supervisory Board of TAURON Polska Energia S.A., pursuant to the requirement of art. 382 § 3 of the Code of Commercial Companies and § 70, clause 1, sub-clause 14 and § 71, clause 1, sub-clause 12 of the Ordinance of the Minister of Finance of March 29, 2018 on the current and periodic information to be disclosed by security issuers and the conditions of recognizing as equivalent the information required by the legal regulations of a non-member state, issued a positive assessment of the following documents presented by the Company's Management Board and determined that they were in compliance with the books, documents and the actual status of:

- 1) Financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2020, prepared in accordance with the International Financial Reporting Standards approved by the European Union,
- 2) Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2020, prepared in accordance with the International Financial Reporting Standards approved by the European Union,
- 3) Management Board's report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020.

The Supervisory Board of TAURON Polska Energia S.A. made an assessment of the financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2020, including: the statement of comprehensive income, the statement of financial position, the statement of the changes in equity, the statement of cash flows and the principles (policy) of accounting and the additional explanatory notes.

The Supervisory Board of TAURON Polska Energia S.A. made an assessment of the consolidated financial statements of TAURON Capital Group for the year ended on December 31, 2020, including: the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of the changes in equity, the consolidated statement of cash flows and the principles (policy) of accounting and the additional explanatory notes.

The Supervisory Board of TAURON Polska Energia S.A. made an assessment of the Management Board's report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020, that was prepared in accordance with the applicable regulations of the act of September 29, 1994 on accounting and of the Ordinance of the Minister of Finance of March 29, 2018 on the current and periodic information disclosed by security issuers and the conditions of recognizing as equivalent the information required by the legal regulations of a non-member state.

The above statements were the subject of verification, analysis and evaluation by the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. that recommended to the Supervisory Board of TAURON Polska Energia S.A. issuing of a positive assessment (opinion).

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the act of September 29, 1994 on accounting, TAURON Polska Energia S.A. drew up a Non-financial Report of TAURON Capital Group for 2020 in the form of a separate document.

The above Report was drawn up in accordance with Article 49b, clause 1 and art. 55, clause 2b-e of the accounting act of September 29, 1994, as subsequently amended, which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95/EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019/C 209/01 of June 20, 2019, including the guidelines on non-financial reporting: Supplement on reporting climate-related information and the Global Reporting Index guidelines - GRI Standards (core level).

The Audit Committee, performing its statutory obligations defined in the act of May 11, 2017, on certified auditors,

audit companies and public oversight, oversaw the process of financial reporting, of the effectiveness of the internal control systems and the risk management systems as well as of the internal audit, including performing tasks aimed at ensuring the accuracy of the financial reporting process.

As part of the process related to auditing the financial statements the Audit Committee was attending regular meetings with the representatives of the audit firm conducting the audit of the financial statements of the Company and TAURON Capital Group, monitoring and discussing the course of the audit processes. Furthermore, the Audit Committee studied the reports (opinions) presented by the audit firm on the audits of the financial statements and the additional report for the financial year 2020 prepared for the Audit Committee and the Company's management, in accordance with the regulations of Ordinance 537/2014, and also of the Act of May 11, 2017 on certified auditors.

The basis for the issuing by the Supervisory Board of a positive assessment (opinion) of the Financial statements of TAURON Polska Energia S.A. and the Consolidated financial statements of TAURON Capital Group for the financial year 2018 were the reports (opinions) of the independent certified auditor on the audit of the above statements according to which:

- 1) financial statements give a true and fair view of the assets, liabilities and the financial position of TAURON Polska Energia S.A. and TAURON Capital Group as of December 31, 2020, and their financial results for the financial year from January 1, 2020 until December 31, 2020, in accordance with the International Accounting Standards, International Financial Reporting Standards and the interpretations related thereto, published in the form of the regulations of the European Commission and the adopted principles (policy) of accounting,
- 2) financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2020, were prepared based on the properly kept accounting records (ledgers),
- 3) financial statements are in compliance, with respect to their form and content, with the legal regulations applicable to TAURON Polska Energia S.A. and TAURON Capital Group, as well as with the Articles of Association of TAURON Polska Energia S.A.

Furthermore, in the opinion of the certified auditor the Management Board's Report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2020 was prepared in accordance with the applicable legal regulations and is in compliance with the financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2020, and with the consolidated financial statements of TAURON Capital Group for the year ended on December 31, 2020.

The above mentioned financial statements were prepared by the deadline specified in the regulations and they are in line with the International Financial Reporting Standards that were approved by the European Union. The accuracy of the said financial statements, with respect to their compliance with the accounting records (ledgers), documents and the actual status, does not give rise to any objections and is confirmed by the information included in the Report of the independent certified auditor on the audit of the above statements.

Members of the Supervisory Board:

1. Andrzej Kania - Chair of the Supervisory Board
2. Teresa Famulska - Vice Chair of the Supervisory Board
3. Katarzyna Taczanowska - Secretary of the Supervisory Board
4. Ryszard Madziar - Member of the Supervisory Board
5. Grzegorz Peczkis - Member of the Supervisory Board

March 30, 2021
date