



CONSOLIDATED ANNUAL REPORT

of TAURON Polska Energia S.A.
Capital Group for the year 2021

March 2022

TAURON.PL

Ladies and Gentlemen,

On behalf of TAURON Capital Group I have the pleasure to present to you the Consolidated Annual Report of TAURON Polska Energia S.A. Capital Group for 2021, that presents our financial and operating results, as well as the most important events (highlights) of last year.

TAURON Capital Group successfully took advantage of the economic situation and posted very good financial results in 2021. The consolidated sales revenues climbed to PLN 25 614 million (i.e. 23 percent more versus the previous year), while the EBITDA came in at PLN 4 152 million. The generated financial results are - on the one hand - a consequence of an increase in the electricity production and distribution volumes, and on the other hand – the revenues received from the capacity market as well as an increase in the profitability of the RES segment. TAURON's position as a stable and strong entity operating on the domestic energy market is confirmed by the rating at the BBB- level with a stable outlook awarded by the Fitch agency.

In order for TAURON Capital Group to continue on its growth trajectory, activities focused on increasing the volumes of electricity produced from renewable sources, such as wind and sun, are intensified. From the beginning of 2021, some of the electricity we were generating came from our first photovoltaic farm in Jaworzno. We have also completed the construction works on a solar farm with a total capacity of 14 MW in Choszczno. Furthermore, we have begun the construction of two wind farms - Piotrków and Majewo, with a total capacity of 36 MW, and a photovoltaic farm with a capacity of 100 MW in Mysłowice. In addition, we have concluded a number of framework agreements aimed at securing the rights to the further RES generation units construction projects.

The development of renewable energy sources is our response to the challenges associated with the progressing climate change. Before we implement the assumptions of the energy transition, we will first be facing a transition period during which the most advantageous solution for TAURON Capital Group will be to build gas-fired generation sources and, at the same time, develop renewable capacity projects. In the case of the offshore wind farms, we will be actively taking part in their construction in cooperation with national energy groups.

From the point of view of the entire energy sector, one of the most important news was the announcement of the implementation of the program of spinning off of the coal assets and lignite mines outside the structures of energy groups and their consolidation within an entity wholly owned by the State Treasury, the so-called National Energy Security Agency (NABE). I believe that this solution is necessary and optimal for the Polish energy groups, also for TAURON Capital Group. Such an approach will make it easier to raise capital for the transition of the generation mix towards zero- and low-emission energy sources, unlock the Group's growth potential and improve its perception on the financial market. TAURON Capital Group is actively participating in the discussion on the setting up of NABE and preparing for the planned changes. In order to improve the implementation of this plan, we have bought back shares in Nowe Jaworzno Grupa TAURON from the Polish Development Fund and have thus taken full ownership control over the 910 MW unit in Jaworzno, which will ultimately be spun off to NABE.

Last year, we also signed a letter of intent with the Ministry of State Assets, which envisages the planned sale of TAURON Group's coal mines to the State Treasury.

We have also taken a decision to keep the district heating assets within the Group's structures with the intention of converting them from coal to the gas fuel by 2030, which will allow us to shore up the leading district heating supplier position in the Upper Silesia and Zagłębie Metropolitan Area and generate stable, regulated revenues.

Similar as in the previous years, also in 2021 we acquired funds that will be used to finance the sustainable development. We will be spending the funds obtained to modernize and expand the

electricity distribution grid, finance the development of renewable energy sources, improve energy efficiency and expand the infrastructure related to e-mobility.

2021 was a period of uncertainty and turbulences stemming from the ongoing coronavirus pandemic, and the mitigation of its effects had a significant impact on all spheres of economic life. Poland's economy was performing very well under such extraordinary conditions and posted the highest GDP growth rate in more than a decade, clocking in at 5.7 percent. The condition of the Polish economy in the coming years, and in 2022 in particular, will be strongly impacted by two factors. On the one hand, active steps are being taken to minimize the impact of the pandemic, while on the other hand - the spreading conflict between Ukraine and Russia will largely affect global trade flows and the investment climate.

The changing regulatory and geopolitical environment, rising prices of the CO₂ emission allowances and accelerating climate change make us systematically verify assumptions and adjust to the growing expectations of the stakeholders as well as take further actions aimed at minimizing the impact of our operations on the planet. This is why we are working on updating the strategic assumptions, while at the same continuing the implementation of the Green Turn of TAURON, which was unveiled in 2019.

We hope that in 2022 we will be able to expand the options for acquiring further financing and intensify our expansion towards increasing the share of zero- and low-carbon assets in the Group's generation portfolio.

I believe that the high competences and extensive experience of TAURON Capital Group's workforce will be effectively used to shore up the key segments of our business operations, while 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 you all for your commitment to building TAURON Capital Group's value.

Yours respectfully,

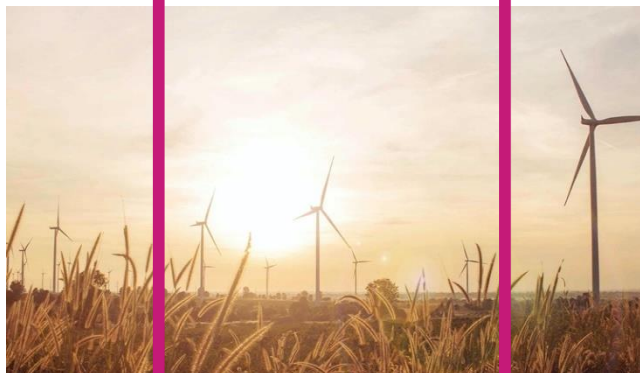
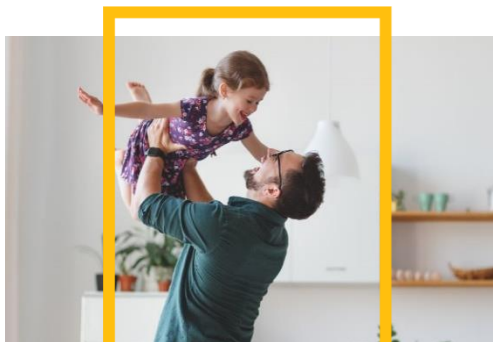
Artur Michałowski

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

SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	2021 from 01.01.2021 to 31.12.2021	2020 from 01.01.2020 to 31.12.2020 (adjusted data)	2021 from 01.01.2021 to 31.12.2021	2020 from 01.01.2020 to 31.12.2020 (adjusted data)
Selected consolidated financial data of TAURON Polska Energia S.A. Capital Group				
Sales revenue	25 614	20 850	5 596	4 660
Compensations	(9)	66	(2)	15
Operating profit (loss)	916	(1 537)	200	(344)
Pre-tax profit (loss)	675	(2 179)	147	(487)
Net profit (loss)	385	(2 173)	84	(486)
Net profit (loss) attributable to shareholders of the parent entity	338	(2 170)	74	(485)
Net profit (loss) attributable to non-controlling stakes	47	(3)	10	(1)
Other net comprehensive income	480	(189)	105	(42)
Total comprehensive income	865	(2 362)	189	(528)
Total comprehensive income attributable to shareholders of the parent entity	818	(2 359)	179	(527)
Total comprehensive income attributable to non-controlling stakes	47	(3)	10	(1)
Profit (loss) per share (in PLN / EUR) (basic and diluted)	0,19	(1,24)	0,04	(0,28)
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
Net cash flow from operating activities	5 002	4 042	1 093	903
Net cash flow from investing activities	(3 103)	(3 977)	(678)	(888)
Net cash flow from financing activities	(2 003)	(374)	(438)	(84)
Increase/(decrease) in net cash and equivalents	(104)	(309)	(23)	(69)
	As of 31.12.2021	As of 31.12.2020 (adjusted data)	As of 31.12.2021	As of 31.12.2020 (adjusted data)
Fixed assets	33 855	33 585	7 361	7 278
Current assets	6 220	6 111	1 352	1 324
Total assets	40 075	39 696	8 713	8 602
Share capital	8 763	8 763	1 905	1 899
Equity attributable to shareholders of the parent entity	16 491	15 834	3 586	3 431
Equity attributable to non-controlling stakes	33	893	7	194
Total equity	16 524	16 727	3 593	3 625
Long term liabilities	13 634	15 867	2 964	3 438
Short term liabilities	9 917	7 102	2 156	1 539
Total liabilities	23 551	22 969	5 120	4 977

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, 2021 – 4.5994 PLN/EUR (as of December 31, 2020 – 4.6148 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, 2021 to December 31, 2021 – 4.5775 PLN/EUR (for the period from January 1, 2020, to December 31, 2020 – 4.4742 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 2021

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 2021 to 31 December 2021, the consolidated statement of financial position as at 31 December 2021, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2021 to 31 December 2021 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 2021 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2021 to 31 December 2021 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- comply in respect of the form and content with laws applicable to the Group and the Parent Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 29 March 2022.

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 EU Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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
Impairment of assets analysis <i>Why the issue is a key audit matter</i> As at December 31, 2021, the Group, in the consolidated financial statements, presented within significant asset items: • fixed assets including property, plant and equipment with a carrying amount of approximately PLN 29 174 million; • right of use assets with a carrying amount of approximately PLN 1 946 million; • goodwill with a carrying amount approximately PLN 26 million; • other intangible assets with a carrying amount of approximately PLN 540 million; • investments in joint ventures with a carrying amount of approximately PLN 597 million; • loans receivable from joint ventures with a carrying amount of approximately PLN 99 million; constituting in total approximately 80% of the Group's consolidated balance sheet. 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 assets, right of use assets, goodwill, other intangible assets and investments in joint ventures as a result of the identified	<i>Audit approach</i> Our procedures, in relation to the key audit matter described, included, among others: • 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: - 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 - 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

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*.

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.

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;
 - Analysis of the audit documentation regarding the validity of 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;
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- Assessment of the completeness of disclosures, in accordance with the International Accounting Standard 36

<i>A reference to disclosure in the consolidated financial statements</i> 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, 2021. The disclosure regarding the valuation of loans receivables from joint ventures and investments in joint venture was included by the Group respectively in note 24 and 25 of the explanatory notes to the consolidated financial statements for the year ended 31 December 2021.	<i>Impairment of assets, the International Accounting Standard 1 Presentation of financial statements and the International Financial Reporting Standard 7 Financial instruments - disclosure of information</i> in the Group's consolidated financial statements regarding impairment and valuation of assets.

Claims, lawsuits and contingent liabilities <i>Why the issue is a key audit matter</i> 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. 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 Holding Company's control. 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.	<i>Audit approach</i> Our procedures, in relation to the key audit matter described, included, among others: • 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; • Obtaining detailed statements of the Parent Company Management Board

<i>A reference to disclosure in the consolidated financial statements</i> 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, 2021.	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.

Changes to the planned sales of significant assets of the Group and other plans that may result in changes to the Group's structure

Why the issue is a key audit matter

Following the events and decisions described in Note 9.2 of the additional explanatory notes to the consolidated financial statements for the year ended 31 December 2021, the Parent Company's Management Board assessed that in relation to the assets and liabilities of the subsidiary TAURON Ciepło sp. z o.o. sp. z o.o. recognized as at 31 December 2020 as a disposal group held for sale, the criteria of International Financial Reporting Standard 5 Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5") are no longer met in relation to the classification of these assets and liabilities as a disposal group held for sale.

As a result, the Group ceased to classify the assets and liabilities of the subsidiary TAURON Ciepło sp. z o.o. as held for sale in the consolidated financial statements for the year ended 31 December 2021 and restated the comparable data in respect of presentation and valuation of the assets and liabilities of the subsidiary TAURON Ciepło sp. z o.o.

Our audit approach

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

- analysis of the accounting policies relating to the classification of non-current assets as held for sale and the presentation of discontinued operations in accordance with IFRS 5, the related significant judgements and estimates;
- understanding of the process and control environment for identifying non-current assets (disposal groups) held for sale and discontinued operations, including an understanding of the procedures to ensure completeness of identification of such events and transactions;
- understanding of the business aspects of the withdrawal from the planned sale of shares in the subsidiary TAURON Ciepło sp. z o.o. and of the sale of shares in TAURON Wydobycie S.A. and assets in Elektrociepłownia Stalowa Wola S.A., as well as of the signed agreement on cooperation in separation of coal assets;
- assessment of the Management Board's judgement with respect to non-fulfilment of the criteria for classification of assets and liabilities as held for sale as at the end of the reporting period;
- analysis of the correctness of the restatement of comparable data in the scope of presentation and valuation of assets and liabilities of the subsidiary TAURON Ciepło sp. z o.o. in the consolidated financial statements;
- analysis of documentation presented for the audit with respect to planned changes in the Group's structure;

During 2021 the Group signed and concluded the following agreement and letters of intent:

- agreement on cooperation regarding the separation of coal assets from the Group's structure and their integration within the framework of the National Energy Security Agency;
- letter of intent on the sale of shares in the subsidiary TAURON Wydobycie S.A.
- letter of intent on the sale of equity participation and receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. Stalowa Wola S.A.

As at 31 December 2021, the Parent Company's Management Board assessed that, with respect to the assets and liabilities subject to the above agreement and the above letters of intent, the criteria for classifying these assets and liabilities as a disposal group held for sale are not met.

The issue was identified as key audit matter in the audit of the consolidated financial statements due to materiality of assets and liabilities being the subject of the concluded agreement and signed letters of intent, an element of the professional judgment of the Management Board of the Parent Company in the classification of assets and liabilities being the subject of the above mentioned decisions and the agreement and letters of intent, as not meeting the criteria set out in IFRS 5 in terms of presentation of discontinued operations and classification of assets and liabilities as a disposal group held for sale and other necessary disclosures.

- obtaining detailed statements of the Management Board of the Parent Company as to the completeness of the data and significant assumptions provided to us;
- inquiries to the Management Board of the Parent Company with respect to the status of planned divestments as at the end of the reporting period, including uncertainties related to them;
- analysis and assessment of the adequacy and completeness of the disclosures in the consolidated financial statements in relation to the changes to the sales plan of TAURON Ciepło sp. z o.o. and other planned changes in the Group's structure, including disclosures regarding key judgments and estimates made by the Group in this respect.

A reference to disclosure in the consolidated financial statements

Disclosures concerning changes in the sales plan of TAURON Ciepło sp. z o.o., ceasing to classify the assets and liabilities as a disposal group held for sale and restatement of comparable data in connection with non-compliance with the conditions of IFRS 5 in respect of assets and liabilities of the subsidiary TAURON Ciepło sp. z o.o. regarding classification of these assets and liabilities as a disposal group held for sale were presented in Note 9.2 of the additional explanatory notes to the consolidated financial statements for the year ended 31 December 2021.

Disclosures concerning material information with respect to the signed agreement and letters of intent were presented in Notes 24 and 59 of the additional explanatory notes to the consolidated financial statements for the year ended 31 December 2021.

Provisions for onerous contracts <i>Why the issue is a key audit matter</i> As at 31 December 2021, the Group disclosed provisions for onerous contracts at the total carrying amount of approximately PLN 416 million, which represents approximately 1% of the Group's total assets. The provision in question was created for contracts concluded by the Group, under which the estimated achievable revenues from electricity sales will not cover the estimated costs of electricity purchase or production. 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, as well as due to a complex element of professional judgement of the Management Board of the Parent Company regarding identification, in accordance with the provisions of International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), of an onerous contract and estimation of unavoidable costs exceeding benefits resulting from execution of the onerous contract. Estimating the costs and benefits of these onerous contracts requires the Parent Company's Management Board to make a number of assumptions about future market and economic conditions, including, but not limited to, future changes in electricity prices and future revenues, costs and cash flows.	<i>Our audit approach</i> Our procedures, in relation to the key audit matter described, included, among others: • analysis of the accounting policies relating to identification, recognition and measurement of provisions for onerous contracts; • understanding the process and control environment for accounting treatment of provisions for onerous contracts under IAS 37, including understanding the procedures to ensure completeness of identification of potentially onerous business relationships; • understanding of the business aspects of entering into an onerous contract, including an understanding of the basis for unavoidable costs exceeding the obtainable benefits of the onerous contract; • analysis of documentation presented for the audit, constituting the basis for recognition of provisions for onerous contracts; • assessment of key judgments and estimates of the Parent Company's Management Board as regards valuation and recognition of provisions for onerous contracts; • conducting reliability tests in relation to provisions for onerous contracts in order to assess the correctness of valuation, recognition and presentation of these provisions in the consolidated financial statements; • analysis of the consistency of assumptions used in the valuation of provisions for onerous contracts with the assumptions used in impairment tests; • analysis of arithmetic correctness of the model used for valuation of provisions for agreements resulting in impairment charges;

<i>A reference to disclosure in the consolidated financial statements</i> Disclosures regarding provisions for onerous contracts were presented in Note 41 of the additional explanatory notes to the consolidated financial statements for the year ended 31 December 2021.	• obtaining detailed statements of the Management Board of the Parent Company as to the completeness and correctness of the data and significant assumptions provided to us; • inquiries to the employees of the financial department and the Management Board of the Parent Company regarding the status of implementation of the adopted assumptions, including the validity of key estimates; • analysis and assessment of the adequacy of the disclosures in the consolidated financial statements with regard to the guidelines in IAS 37, including the disclosures concerning the key judgements and estimates made by the Parent Company's Management Board in this regard.

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

The Company's Management Board 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 applicable International Financial Reporting Standards adopted by the European Union, the applied accounting policies, other applicable laws, as well as the Parent Company's Statute, and is also responsible for such internal control as the Company's Management Board determines 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 Board 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 Board 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 a 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 they, individually or in the aggregate, could be reasonably expected to influence the economic decisions of the users taken on the basis of these consolidated financial statements.

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 opinions 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 efficiency or effectiveness of conducting business matters now and in the future by the Parent Company's Management.

As part of an 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 consolidated 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 consolidated management report of the Group for the period from 1 January 2021 to 31 December 2021 („Directors' Report") together with the consolidated statement on corporate governance, which is a separate section of the Directors' Report, the consolidated statement on non-financial information and the Consolidated Annual Financial Report for the financial year ended 31 December 2021 ('Consolidated Annual Report') (jointly 'Other Information'). The Other Information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Auditor's responsibilities

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 consolidated statement on non-financial information and to issue an opinion on whether the Parent Company has included the required information in the consolidated statement on 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 statement

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

We have not performed any assurance procedures on the separate report on non-financial information and do not provide any assurance thereon.

Report on other legal and regulatory requirements

Opinion on the compliance of marking up 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 a reasonable assurance engagement to express an opinion on whether the consolidated financial statements of the Group as at and for the year ended 31 December 2021, prepared in the single electronic reporting format, included in the file named „GKTAURON-SprFinan-2021-12-31-PL.zip” (‘consolidated financial statements in ESEF format’), was marked up in accordance with the requirements stipulated 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’).

Identification of the applicable 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 marking up of consolidated financial statements in ESEF format with 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.

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 Management also includes the design, implementation and maintenance of such internal control as Management determines is necessary to enable the preparation of the consolidated financial statements in ESEF format that are free from any material incompliances with the ESEF Regulations.

The members of the Company’s Supervisory Board are responsible for overseeing the Company’s financial reporting process, which include also the preparation of financial statements in the format required by applicable regulations.

Auditor’s responsibilities

Our objective is to express an opinion, based on the performed reasonable assurance engagement, that the consolidated financial statements in ESEF format have been tagged in accordance with ESEF Regulations.

We have performed our assurance engagement in accordance with the National Standard on Assurance Engagements Other than Audit and Review 3001 PL on audit of financial statement prepared in the single electronic reporting format (‘NSAE 3001PL’) and when applicable in accordance with 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’ (‘NSAE 3000 (R)’).

The standard requires us to design and perform procedures to obtain reasonable assurance that the consolidated financial statements in ESEF format have been prepared in accordance with the applicable criteria.

Reasonable assurance is a high level of assurance, but it is not a guarantee that the assurance engagement conducted in accordance with NSAE 3001PL and, when appropriate, in accordance with NSAE 3000 (R), will always detect material misstatement when it exists.

The selection of procedures depends on the auditor's professional judgment, including the auditor's assessment of risks of material misstatements, whether due to fraud or error. When performing risk assessment the auditor takes account of internal controls related to preparation of the consolidated financial statements in ESEF format, to design procedures responsive to those risks in order to obtain evidence that is sufficient and appropriate. The assessment of internal control was not performed for the purpose of expressing an opinion on its operational effectiveness.

Summary of work performed

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 process of selection and application of XBRL markups and maintaining compliance with the ESEF Regulations, as well as obtaining an understanding of internal controls related to this process;
- reconciling the tagged information in 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 with the use of specialistic IT tools and IT expert;
- assessment of the completeness of tagging of information in the consolidated financial statements in ESEF format with XBRL tags with the use of specialistic IT tools and IT expert;
- assessment whether XBRL tags from the taxonomy specified by the ESEF Regulations have been applied appropriately and whether extension taxonomy elements have been used when there are no appropriate elements in the core taxonomy specified in the ESEF Regulations;
- evaluating of the anchoring of the extension taxonomy elements to the core taxonomy elements 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 compliance of marking up with ESEF Regulations.

Ethical requirements, including independence

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

Quality control requirements

The audit 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 ('NSQC').

In accordance with NSQC, 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 on compliance with the ESEF Regulations

Our opinion has been formed on the basis of the matters outlined in this report and therefore should be read in conjunction with these matters.

In our opinion, the consolidated financial statements in ESEF format have been marked up, in all material respects, in accordance with the requirements of the ESEF Regulations.

Statement on the provision of non-audit services

To the best of our knowledge and belief, we represent that services, which we have provided to the Group, are compliant with the laws and regulations applicable in Poland, and that non-audit service, which are prohibited under article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors, were not provided. 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 five consecutive years

Warsaw, 29 March 2022

Key Certified Auditor

Leszek Lerch

certified auditor

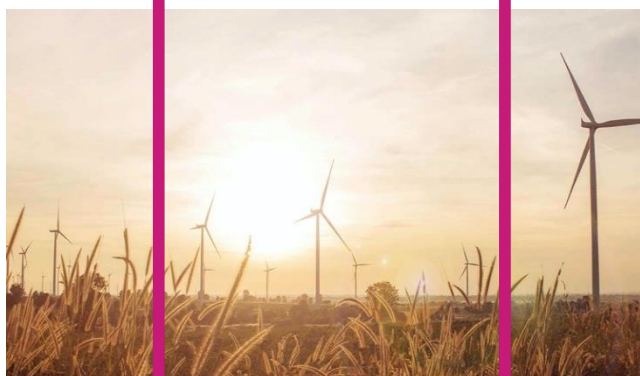
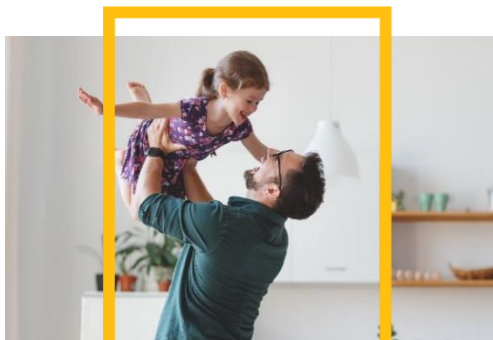
no in the register: 9886

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 2021

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements

compliant with the International Financial Reporting Standards

approved by the European Union

for the year ended 31 December 2021

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Sales revenue	12	25 614	20 850
Recompensation revenue		(9)	66
Cost of sales	13	(23 623)	(21 708)
Profit (loss) on sale		1 982	(792)
Selling and distribution expenses	13	(562)	(497)
Administrative expenses	13	(635)	(637)
Other operating income and expenses	14	99	373
Share in profit/(loss) of joint ventures	24	32	16
Operating profit (loss)		916	(1 537)
Interest expense on debt	15	(368)	(286)
Finance income and other finance costs	15	127	(356)
Profit (loss) before tax		675	(2 179)
Income tax expense	17	(290)	6
Net profit (loss)		385	(2 173)
Measurement of hedging instruments	35.4	455	(103)
Foreign exchange differences from translation of foreign entity		16	12
Income tax	17	(88)	19
Other comprehensive income to be reclassified in the financial result		383	(72)
Actuarial gains (losses)	38	118	(144)
Income tax	17	(21)	27
Other comprehensive income not to be reclassified in the financial result		97	(117)
Other comprehensive income, net of tax		480	(189)
Total comprehensive income		865	(2 362)
Net profit (loss):			
Attributable to equity holders of the Parent		338	(2 170)
Attributable to non-controlling interests		47	(3)
Total comprehensive income:			
Attributable to equity holders of the Parent		818	(2 359)
Attributable to non-controlling interests		47	(3)
Basic and diluted earnings per share (in PLN):	18	0.19	(1.24)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2021	As at 31 December 2020 (restated figures)
ASSETS			
Non-current assets			
Property, plant and equipment	19	29 174	29 505
Right-of-use assets	20	1 946	1 876
Goodwill	21	26	26
Energy certificates and CO ₂ emission allowances for surrender	22.1	444	501
Other intangible assets	23	540	552
Investments in joint ventures	24	597	587
Loans granted to joint ventures	25	99	97
Derivative instruments	26	532	36
Other financial assets	27	215	209
Other non-financial assets	28.1	159	63
Deferred tax assets	29	123	133
		33 855	33 585
Current assets			
Energy certificates and CO ₂ emission allowances for surrender	22.2	157	1 039
Inventories	30	543	874
Receivables from buyers	31	3 322	2 473
Income tax receivables	46	415	84
Receivables arising from other taxes and charges	32	292	295
Loans granted to joint ventures	25	-	2
Derivative instruments	26	465	123
Other financial assets	27	89	143
Other non-financial assets	28.2	112	83
Cash and cash equivalents	33	815	921
Assets classified as held for sale	34	10	74
		6 220	6 111
TOTAL ASSETS		40 075	39 696

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2021	As at 31 December 2020 (restated figures)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Issued capital	35.1	8 763	8 763
Reserve capital	35.3	2 749	6 339
Revaluation reserve from valuation of hedging instruments	35.4	299	(68)
Foreign exchange differences from translation of foreign entities		43	27
Retained earnings/(Accumulated losses)	35.5	4 637	773
		16 491	15 834
Non-controlling interests			
	35.6	33	893
Total equity		16 524	16 727
Non-current liabilities			
Debt	37	10 947	13 171
Provisions for employee benefits	38	789	952
Provisions for disassembly of fixed assets, land restoration and other provisions	39	436	669
Accruals, deferred income and government grants	42	568	495
Deferred tax liabilities	29	741	434
Derivative instruments	26	116	74
Other financial liabilities	48	33	64
Other non-financial liabilities		4	8
		13 634	15 867
Current liabilities			
Debt	37	2 143	1 481
Liabilities to suppliers	43	1 242	1 021
Liabilities due to the acquisition of non-controlling interests	44	1 061	-
Capital commitments	45	616	857
Provisions for employee benefits	38	104	104
Provisions for liabilities due to energy certificates and CO ₂ emission allowances	40	1 890	1 750
Other provisions	41	619	304
Accruals, deferred income and government grants	42	177	181
Income tax liabilities	46	4	3
Liabilities arising from other taxes and charges	47	629	410
Derivative instruments	26	379	102
Other financial liabilities	48	483	458
Other non-financial liabilities	49	570	423
Liabilities directly related to assets classified as held for sale		-	8
		9 917	7 102
Total liabilities		23 551	22 969
TOTAL EQUITY AND LIABILITIES		40 075	39 696

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent					Non-controlling interests	Total equity	
		Issued capital	Reserve capital	Revaluation reserve on valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (Accumulated losses)			Total
As at 1 January 2020		8 763	6 802	16	15	2 598	18 194	900	19 094
Coverage of prior years loss		-	(463)	-	-	463	-	-	-
Dividends		-	-	-	-	-	-	(2)	(2)
Transactions with non-controlling shareholders		-	-	-	-	(1)	(1)	(2)	(3)
Transactions with shareholders		-	(463)	-	-	462	(1)	(4)	(5)
Net loss		-	-	-	-	(2 170)	(2 170)	(3)	(2 173)
Other comprehensive income		-	-	(84)	12	(117)	(189)	-	(189)
Total comprehensive income		-	-	(84)	12	(2 287)	(2 359)	(3)	(2 362)
As at 31 December 2020 (restated figures)		8 763	6 339	(68)	27	773	15 834	893	16 727
Coverage of prior years loss	35.3	-	(3 590)	-	-	3 590	-	-	-
Dividends		-	-	-	-	-	-	(3)	(3)
Acquisition of non-controlling interests	35.6	-	-	-	-	(158)	(158)	(903)	(1 061)
Other transactions with non-controlling shareholders		-	-	-	-	(3)	(3)	(1)	(4)
Transactions with shareholders		-	(3 590)	-	-	3 429	(161)	(907)	(1 068)
Net profit		-	-	-	-	338	338	47	385
Other comprehensive income		-	-	367	16	97	480	-	480
Total comprehensive income		-	-	367	16	435	818	47	865
As at 31 December 2021		8 763	2 749	299	43	4 637	16 491	33	16 524

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 2021	Year ended 31 December 2020 (restated figures)
Cash flows from operating activities			
Profit (loss) before taxation		675	(2 179)
Share in (profit)/loss of joint ventures		(32)	(16)
Depreciation and amortization		2 100	2 017
Impairment losses on non-financial non-current assets		1 129	3 746
Impairment losses on loans granted		(1)	221
Exchange differences		(10)	246
Interest and commissions		367	283
Other adjustments of profit before tax		(90)	(87)
Change in working capital	50.1	1 256	(129)
Income tax paid	50.1	(392)	(60)
Net cash from operating activities		5 002	4 042
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	50.2	(3 255)	(3 908)
Purchase of financial assets		(28)	(33)
Loans granted		(1)	(105)
Total payments		(3 284)	(4 046)
Proceeds from sale of property, plant and equipment and intangible assets		76	18
Sale of shares	50.2	53	-
Dividends received		47	6
Other proceeds		5	45
Total proceeds		181	69
Net cash used in investing activities		(3 103)	(3 977)
Cash flows from financing activities			
Redemption of debt securities		(170)	(60)
Repayment of loans and borrowings	50.3	(3 466)	(4 407)
Interest paid	50.3	(343)	(216)
Repayment of lease liabilities		(117)	(102)
Other payments		(24)	(25)
Total payments		(4 120)	(4 810)
Proceeds from contracted loans and borrowings	50.3	2 003	3 369
Subsidies received	50.3	114	67
Issue of debt securities		-	1 000
Total proceeds		2 117	4 436
Net cash from financing activities		(2 003)	(374)
Net increase/(decrease) in cash and cash equivalents		(104)	(309)
Net foreign exchange difference		(3)	3
Cash and cash equivalents at the beginning of the period	33	895	1 204
Cash and cash equivalents at the end of the period, of which :	33	791	895
restricted cash	33	314	211

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 2021.

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 and heat generation), Renewable Energy Sources (the segment comprising generation of electricity from renewable 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 2021 and contain comparative information for the year ended 31 December 2020.

These financial statements were approved for publication by the Management Board on 29 March 2022.

Composition of the Management Board

As at 1 January 2021, the composition of the Management Board was as follows:

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

In the period from 1 January 2021 to the date of approval of these consolidated financial statements for publication, the following changes occurred in the composition of the Management Board:

- Mr Wojciech Ignacok resigned from his function of the President of the Management Board with the effect as of 28 February 2021,
- The Supervisory Board of the Company adopted a resolution to appoint Mr Marek Wadowski as the acting President of the Management Board of the Company from 1 March 2021 until the date of appointment of the President of the Management Board of the Company, while on 1 April 2021 it appointed Mr Paweł Strączyński to the Management Board of the Company and entrusted him with the function of the President of the Management Board,
- Mr Marek Wadowski resigned from his position of Vice-President of Management Board for Financial Affairs, with the effect as of the end of the day on 17 May 2021,
- Mr Paweł Strączyński resigned from his position of President of the Management Board of the Company, with the effect as of 4 August 2021,
- As of 5 August 2021, the Supervisory Board of the Company appointed the following members of the Management Board:
 - Mr Artur Michałowski for the position of Vice-President of the Management Board for Trade,
 - Mr Patryk Demski for the position of Vice-President of the Management Board for Strategy and Development,
 - Mr Krzysztof Surma for the position of Vice-President of the Management Board for Finance.

At the same time, the Supervisory Board of the Company adopted a resolution concerning the assignment of the duties of the President of the Management Board of the Company to Mr Artur Michałowski as of 5 August 2021 until the date of appointment of the President of the Management Board of the Company.

- The Supervisory Board of the Company appointed Mr Artur Warzocha to the Management Board of the Company as of 21 January 2022 and nominated him to the position of Vice-President for Corporate Affairs.

As at the date of approval of these consolidated financial statements for publication, the Management Board consisted of:

- Artur Michałowski - Acting President of the Management Board, Vice-President of the Management Board,
- Patryk Demski - Vice-President of the Management Board,
- Krzysztof Surma - Vice-President of the Management Board,
- Jerzy Topolski – Vice-President of the Management Board,
- Artur Warzocha - Vice-President of the Management Board.

2. Composition of TAURON Group and joint ventures

As at 31 December 2021, TAURON Polska Energia S.A. held, directly and indirectly, shares in the following key subsidiaries:

TAURON Polska Energia S.A. Capital Group

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(in PLN million)

Item	Company name	Registered office	Interest in the share capital by TAURON Polska Energia S.A.	Company holding direct equity interests / general partner
MINING				
1	TAURON Wydobycie S.A.	Jaworzno	100.00%	TAURON Polska Energia S.A.
GENERATION				
2	TAURON Wytwarzanie S.A.	Jaworzno	100.00%	TAURON Polska Energia S.A.
3	Nowe Jaworzno Grupa TAURON Sp. z o.o.	Jaworzno	100.00%	TAURON Polska Energia S.A.
4	TAURON Ciepło Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
5	TAURON Serwis Sp. z o.o.	Katowice	95.61%	TAURON Polska Energia S.A.
6	Łagisza Grupa TAURON Sp. z o.o.	Katowice	100.00%	TAURON Wytwarzanie S.A.
RENEWABLE ENERGY SOURCES				
7	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	100.00%	TAURON Polska Energia S.A.
8	Marselwind Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
9	TEC1 Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
10	TAURON Zielona Energia Sp. z o.o. ¹	Katowice	100.00%	TAURON Polska Energia S.A.
11	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
12	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
13	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
14	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
15	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
16	TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
17	TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
18	TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
19	TEC1 spółka z ograniczoną odpowiedzialnością EW Gołdap sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
20	TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k.	Katowice	100.00%	TEC1 Sp. z o.o.
21	WIND T1 Sp. z o.o.	Jelenia Góra	100.00%	TAURON Ekoenergia Sp. z o.o.
22	AVAL-1 Sp. z o.o.	Jelenia Góra	100.00%	TAURON Ekoenergia Sp. z o.o.
23	Polpower Sp. z o.o.	Połczyn-Zdrój	100.00%	TAURON Ekoenergia Sp. z o.o.
DISTRIBUTION				
24	TAURON Dystrybucja S.A.	Kraków	99.76%	TAURON Polska Energia S.A.
25	TAURON Dystrybucja Pomiary Sp. z o.o. ²	Tarnów	99.76%	TAURON Dystrybucja S.A.
SALES				
26	TAURON Sprzedaż Sp. z o.o.	Kraków	100.00%	TAURON Polska Energia S.A.
27	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	100.00%	TAURON Polska Energia S.A.
28	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	100.00%	TAURON Polska Energia S.A.
29	TAURON Nowe Technologie S.A.	Wrocław	100.00%	TAURON Polska Energia S.A.
OTHER				
30	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	100.00%	TAURON Polska Energia S.A.
31	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	100.00%	TAURON Polska Energia S.A.
32	Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o.	Warszawa	100.00%	TAURON Polska Energia S.A.
33	Finanse Grupa TAURON Sp. z o.o.	Katowice	100.00%	TAURON Polska Energia S.A.
34	Bioeko Grupa TAURON Sp. z o.o.	Stalowa Wola	100.00%	TAURON Polska Energia S.A.
35	Wsparcie Grupa TAURON Sp. z o.o.	Tarnów	99.76%	TAURON Dystrybucja S.A.

¹ On 1 July 2021 the merger of companies through acquisition of the company took place: TEC3 Sp. z o.o. (the acquiring company) with TEC2 Sp. z o.o. (the acquired company) pursuant to Article 492(1)(1) of the Code of Commercial Companies. On 8 October 2021, the company name was changed from the previous TEC3 Sp. z o.o. to TAURON Zielona Energia Sp. z o.o.

² As at the balance sheet day, TAURON Polska Energia S.A. was the user of shares in TAURON Dystrybucja Pomiary Sp. z o.o.

As at 31 December 2021, TAURON Polska Energia S.A. held direct and indirect interest in the following key jointly-controlled entities in Generation Segment:

TAURON Polska Energia S.A. Capital Group

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(in PLN million)

Item	Company name	Registered office	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	50.00%
4	TAMEH Czech s.r.o. ²	Ostrawa, Czech Republic	50.00%

¹ TAURON Polska Energia S.A. 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 TAURON Group

- Changes in the share of TAURON Polska Energia S.A. in the capital and in the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 13 January 2021, an increase in the share capital of Nowe Jaworzno Grupa TAURON Sp. z o.o. by the amount of PLN 2 million was registered pursuant to the resolution of the Extraordinary Meeting of Shareholders of 3 December 2020. All shares were acquired by the Company for the total amount of PLN 190 million. As a result of this transaction, the Company shareholding in the capital and in the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o. increased from 85.88% to 86.29%.

On 22 December 2021 the agreement was signed between Fundusz Inwestycji Infrastrukturalny - Kapitałowy Fundusz Inwestycji Zamknięty Aktywów Niepublicznych managed by PFR Towarzystwo Funduszy Inwestycyjnych S.A. and the Company for the acquisition of 176 000 shares in the company Nowe Jaworzno Grupa TAURON Sp. z o.o., which is described in more detail in Note 35.6 to these consolidated financial statements. As a result of this transaction, the Company shareholding in the capital and in the governing body of Nowe Jaworzno Grupa TAURON Sp. z o.o. increased from 86.29% to 100%.

- Decrease in the share capital of TAURON Dystrybucja S.A.

On 21 May 2021, a decrease in the share capital of the subsidiary, TAURON Dystrybucja S.A. was registered in connection with the statutory redemption of shares acquired by the company from shareholders representing no more than 5% of the share capital. As at the balance sheet day, the share of the Company in the capital and in the governing body amounted to 99.76% (as at 31 December 2020 - 99.75%).

As a result of the change in the Company share in TAURON Dystrybucja S.A., the share in subsidiaries held indirectly through TAURON Dystrybucja S.A., i.e. in TAURON Dystrybucja Pomiary Sp. z o.o. and Wsparcie Grupa TAURON Sp. z o.o., also changed.

- Acquisition of shares in Polpower Sp. z o.o.

On 10 June 2021, TAURON Ekoenergia Sp. z o.o. acquired 100% of the shares of Polpower Sp. z o.o. Consequently, TAURON Polska Energia S.A. holds an indirect share of 100% in the company Polpower Sp. z o.o. The total amount of cash disbursed in connection with the transaction reached PLN 4 million. In the opinion of the Company, taking into account in particular the preliminary stage of the project implementation and the lack of business operations at the time of acquisition, the transaction does not constitute a business acquisition within the meaning of IFRS 3 *Business Combinations* and therefore the transaction has been settled as the acquisition of assets that do not constitute a business.

- Decrease in the share capital of TAURON Wytwarzanie S.A.

On 23 November 2021, the reduction of the share capital of the subsidiary, TAURON Polska Energia S.A. by amending the Company Articles of Association through the redemption of a part of the shares belonging to the sole shareholder, TAURON Polska Energia S.A., was registered. The share of the Company in the capital and in the governing body of TAURON Wytwarzanie S.A. did not change and amounts to 100%.

As at 31 December 2021, 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 2020.

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 accordance with accounting policies applicable in the Czech Republic and the companies: Łagisza Grupa TAURON Sp. z o.o., AVAL-1 Sp. z o.o., WIND T1 Sp. z o.o., Polpower Sp. z o.o., TEC1 Sp. z o.o., TAURON Zielona Energia Sp. z o.o., 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 condensed consolidated financial statements have been prepared with the assumption of continuation of activities by the Group as a going concern in the foreseeable future, i.e. in the period not shorter than one year following the balance sheet day. As at the date of approving these consolidated financial statements for publication no circumstances have been detected that could put the going concern operation of the Group at risk.

The Group identifies and actively manages liquidity risk, understood as the possibility of losing or limiting the capacity to settle current expenses. The Group has the full capacity to settle its liabilities as they become due and payable. As at the balance sheet day, the Group has financing available under concluded financing agreements.

In the area of liquidity, financing and securing the continuity of operational activities, the Management Board, having analysed the financial position of the Company and the Group, does not identify any risk to the continuity of operations in the foreseeable future, i.e. within a period of not less than 1 year from the balance sheet day, taking into account the description of the impact of the aggression of the Russian Federation against Ukraine as well as the COVID-19 outbreak on the Group's operations, as further discussed in Notes 59 and 60 to these consolidated 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 are presented in the Polish zloty ("PLN") while all figures are provided in PLN million, 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 and measures them 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

In the process of applying the accounting policy, professional judgement of the management, along with accounting estimates, has been of key importance; it has an impact on the figures disclosed in these consolidated financial statements. The assumptions underlying these estimates are based on the best knowledge of the Management Board related to the 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 below or 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. Significant estimates relate to write-downs on non-financial assets recognised as a result of impairment tests (Note 11) and provisions created (Notes 38-41).

Besides the foregoing, the Group makes significant estimates as regards the contingent liabilities recognised, in particular in the scope of legal proceedings where the Group companies are parties (Note 54).

As at 31 December 2021, the Group assessed that in relation to the assets and liabilities of TAURON Ciepło recognised as at 31 December 2020 as a disposable group held for sale, the conditions of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* for the classification of the above assets as a disposal group held for sale are not met. In order to ensure comparability of the data in the consolidated financial statements for the year ended 31 December 2021, the Group restated the comparative data accordingly in terms of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. for the year ended 31 December 2020 and as at 31 December 2020 (Note 9.2).

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

The Group did not choose earlier application of any standards or amendments to standards which were published but have not entered into force by 31 December 2021.

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

According to the Management Board, the following standards and 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 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 a contract</i>	1 January 2022
Changes to various standards: <i>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 Policies</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

- 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 a revolving credit agreement under which the drawing period of the credit tranches may be shorter than one year, while the period of availability of funding exceeds 12 months from the balance sheet day and the Company has the right to defer the settlement of the liability by at least 12 months from the end of the reporting period to the date of termination of the agreement. In the case of this credit agreement, 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 2021, under this agreement, the Company has a liability of PLN 160 million classified as non-current liabilities, taking into account the intentions of the Company. Under the agreement, the Company has the right to defer the settlement of the 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*
Amendments 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 IAS 12 <i>Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to IFRS 17 <i>Insurance contracts: Initial Application of IFRS 17 Insurance contracts and IFRS 9 Financial Instruments - Comparative Information</i>	1 January 2023

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

9. Changes in accounting policies used and restatement of comparable data

The accounting principles (policy) adopted for the preparation of these consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2020, except for the application of the amendments to the standards specified below. The Group has also restated the comparable data as described below.

9.1. Application of amendments to standards

According to the Management Board, the following amendments 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)
Amendments to IFRS 4 <i>Insurance Contracts: deferral of IFRS 9 Financial Instruments</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
Amendments to IFRS 16 <i>Leases: Covid-19-Related Rent Concessions beyond 30 June 2021</i> (apply for financial years which starts at the latest on 1 January 2021 and later)	1 April 2021

9.2. Restatement of comparable data

Change in the plan concerning the sale of shares in TAURON Ciepło Sp. z o.o.

As at 31 December 2021, the Group assessed that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o., the conditions resulting from IFRS 5 *Non-current assets held for sale and discontinued operations* were no longer met in the scope of classification of the aforementioned assets as held for sale. In the framework of the project aimed at market verification of the possibility to sell shares and the potential continuation of the sales process, the Company conducted negotiations on an exclusivity basis with Polskie Górnictwo Naftowe i Gazownictwo S.A. On 29 January 2021, Polskie Górnictwo Naftowe i Gazownictwo S.A. expressed its intention to discontinue the negotiations aimed at acquiring shares in TAURON Ciepło Sp. z o.o. After the market verification of the possibility to dispose of TAURON Ciepło Sp. z o.o. and taking into account the current development prospects of the domestic district heating sector, on 22 December 2021 the Company decided to keep TAURON Ciepło Sp. z o.o. within the TAURON Group structures.

As at 30 June 2020 the Company estimated that in relation to the assets and liabilities of TAURON Ciepło Sp. z o.o. the conditions resulting from IFRS 5 *Non-current assets held for sale and discontinued operations* have been fulfilled in the scope of classification of the aforementioned assets as a group held for sale, accordingly, as at 30 June 2020, the Group reclassified the assets and liabilities of TAURON Ciepło Sp. z o.o. as a disposable group of assets classified as held for sale and liabilities related to assets classified as held for sale, respectively, and the activities of TAURON Ciepło Sp. z o.o. were presented as part of discontinued operations. The measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. (net assets) as at 30 June 2020 to the fair value conducted by the Company based on the information gathered in the course of the ongoing market sale process of shares in TAURON Ciepło Sp. z o.o. amounted to PLN 1 343 million. As at 31 December 2020, the fair value estimate did not change significantly and amounted to PLN 1 342 million.

Based on paragraph 28 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, in view of the fact that the disposable group for which the sale plan was changed was the subsidiary, the Group assesses that it is necessary to restate the comparable data in these consolidated financial statements accordingly. The comparable data were restated as if the assets and liabilities of TAURON Ciepło Sp. z o.o. in the previous reporting periods had not been classified as a disposable group held for sale and had not been measured to the fair value.

In order to ensure comparability of the the data in the consolidated financial statements for the year ended 31 December 2021, the Group restated the comparative data accordingly in terms of presentation and measurement of assets and liabilities in TAURON Ciepło Sp. z o.o. for the year ended 31 December 2020 and as at 31 December 2020. Assets and liabilities of TAURON Ciepło Sp. z o.o. after restatement are presented in relevant items of the consolidated statement of financial position. The value of assets and liabilities was based on the recoverable value of individual cash-generating units of TAURON Ciepło Sp. z o.o. ("CGU"), which is the value in use of the aforementioned CGU as at 31 December 2020, as estimated within the recent impairment tests performed by the Group as at 31 December 2020. The key assumptions of the tests performed, in particular with regard to the adopted price paths for coal, electricity and CO₂ emission allowances, are described in Note 11 of the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2020. Moreover, the feed-in tariff revenue of heat companies has been assumed, ensuring the coverage of justified costs and gaining a reasonable level of return on the capital employed. For the individual CGUs related to heat and electricity generation, the lifetime of the generating units was assumed until 2049. For the CGU related to heat transmission, a detailed forecast within a 10-year period was adopted including the residual value.

The table below presents the recoverable amount of individual cash-generating unit, the carrying amount of these units after an impairment loss in accordance with IAS 36 *Impairment of Assets* and the amount of the impairment loss recognized as part of the change in presentation and valuation of assets and liabilities of TAURON Ciepło Sp. z o.o.

CGU	Company	Discount rate (after tax) assumed in tests as at:	Recoverable amount	Carrying amount according to restated figures	Impairment loss
		31 December 2020	As at 31 December 2020	As at 31 December 2020	Year ended 31 December 2020
CGU ZW Katowice	TAURON Ciepło Sp. z o.o.	8.52%	405	351	-
CGU ZW Bielsko-Biała			134	134	(250)
CGU ZW Tychy			328	328	(310)
CGU ZW OCL		6.87%	29	29	(11)
CGU Transmission			738	685	-
Total			1 634	1 527	(571)

Restatement of comparative data for the year ended 31 December 2020 and as at 31 December 2020

The restatement of comparable data in the scope of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o. resulted in an increase of the net financial result for 2020 and, consequently, the Group's retained earnings as at 31 December 2020 by the amount of PLN 315 million. The aforementioned increase arises from:

- lack of the necessity to recognise under the restated financial result a write-down of net assets of TAURON Ciepło Sp. z o.o. to the fair value in the amount of PLN 826 million,
- charge to the net financial result for 2020 with the amount of PLN 462 million as a result of the necessity to recognise an impairment loss on TAURON Ciepło Sp. z o.o. assets in the total amount of PLN 571 million, based on the recoverable amount estimated in the framework of the impairment tests performed as at 31 December 2020,
- charge to the net financial result with the amount of PLN 49 million as a result of the recognition of depreciation and other changes in non-financial non-current assets for the second half of 2020.

Change in the presentation of assets and liabilities on account of derivative instruments

In connection with its operations, the Group is a party to transactions of a derivative nature aimed, to a significant extent, at hedging the Group against risks associated with its operations. The types of derivative instruments concluded and further information on these transactions are presented in Note 26 to these consolidated financial statements.

Taking into account the scale of the transactions concluded, their importance in terms of hedging material aspects of the Group's operations as well as the significance of measurement of the transactions concluded as at the balance sheet day, the Group decided to present derivative assets and liabilities separately in the statement of financial position. Prior to the change in presentation, derivative assets and liabilities were presented under other financial assets and other financial liabilities of the Group. In the Group's opinion, the separate presentation of derivative assets and derivative liabilities will enable it to present information about the structure and nature of the Group's financial assets and financial liabilities to its customers in a clearer manner.

The impact of the changes described above on the consolidated statement of comprehensive income for the year ended 31 December 2020 and the statement of financial position as at 31 December 2020 is presented in the tables below:

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(in PLN million)

	Year ended 31 December 2020 (approved figures)	Change of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o.	Year ended 31 December 2020 (restated figures)
Sales revenue	20 367	483	20 850
Recompensation revenue	66	-	66
Cost of sales	(20 697)	(1 011)	(21 708)
Loss on sale	(264)	(528)	(792)
Selling and distribution expenses	(492)	(5)	(497)
Administrative expenses	(613)	(24)	(637)
Other operating income and expenses	338	35	373
Share in profit/(loss) of joint ventures	16	-	16
Operating loss	(1 015)	(522)	(1 537)
Interest expense on debt	(283)	(3)	(286)
Finance income and other finance costs	(358)	2	(356)
Loss before tax	(1 656)	(523)	(2 179)
Income tax expense	(78)	84	6
Net loss on continuing operations	(1 734)	(439)	(2 173)
Net loss on discontinued operations	(754)	754	-
Net loss	(2 488)	315	(2 173)
Measurement of hedging instruments	(103)	-	(103)
Foreign exchange differences from translation of foreign entity	12	-	12
Income tax	19	-	19
Other comprehensive income on continuing operations to be reclassified in the financial result	(72)	-	(72)
Actuarial losses	(141)	(3)	(144)
Income tax	27	-	27
Other comprehensive income on continuing operations not to be reclassified in the financial result	(114)	(3)	(117)
Other comprehensive income on discontinued operations	(3)	3	-
Other comprehensive income, net of tax	(189)	-	(189)
Total comprehensive income	(2 677)	315	(2 362)
Net loss:			
Attributable to equity holders of the Parent	(2 485)	315	(2 170)
Attributable to non-controlling interests	(3)	-	(3)
Total comprehensive income:			
Attributable to equity holders of the Parent	(2 674)	315	(2 359)
Attributable to non-controlling interests	(3)	-	(3)
Loss per share (in PLN):			
basic and diluted net loss for the period attributable to shareholders of the parent company	(1.42)	0.18	(1.24)
basic and diluted net loss from continuing operations for the period attributable to shareholders of the parent company	(0.99)	(0.25)	(1.24)

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	As at 31 December 2020 (approved figures)	Change of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o.	Change of presentation of assets and liabilities due to derivative instruments	As at 31 December 2020 (restated figures)
ASSETS				
Non-current assets				
Property, plant and equipment	27 927	1 578	-	29 505
Right-of-use assets	1 739	137	-	1 876
Goodwill	26	-	-	26
Energy certificates and CO ₂ emission allowances for surrender	501	-	-	501
Other intangible assets	549	3	-	552
Investments in joint ventures	587	-	-	587
Loans granted to joint ventures	97	-	-	97
Derivative instruments	-	-	36	36
Other financial assets	207	38	(36)	209
Other non-financial assets	63	-	-	63
Deferred tax assets	40	93	-	133
	31 736	1 849	-	33 585
Current assets				
Energy certificates and CO ₂ emission allowances for surrender	1 008	31	-	1 039
Inventories	777	97	-	874
Receivables from buyers	2 363	110	-	2 473
Income tax receivables	84	-	-	84
Receivables arising from other taxes and charges	283	12	-	295
Loans granted to joint ventures	2	-	-	2
Derivative instruments	-	-	123	123
Other financial assets	266	-	(123)	143
Other non-financial assets	80	3	-	83
Cash and cash equivalents	909	12	-	921
Assets classified as held for sale	1 903	(1 829)	-	74
	7 675	(1 564)	-	6 111
TOTAL ASSETS	39 411	285	-	39 696

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	As at 31 December 2020 (approved figures)	Change of presentation and measurement of assets and liabilities of TAURON Ciepło Sp. z o.o.	Change of presentation of assets and liabilities due to derivative instruments	As at 31 December 2020 (restated figures)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Parent				
Issued capital	8 763	-	-	8 763
Reserve capital	6 339	-	-	6 339
Revaluation reserve from valuation of hedging instruments	(68)	-	-	(68)
Foreign exchange differences from translation of foreign entities	27	-	-	27
Retained earnings/(Accumulated losses)	458	315	-	773
	15 519	315	-	15 834
Non-controlling interests	893	-	-	893
Total equity	16 412	315	-	16 727
Non-current liabilities				
Debt	13 108	63	-	13 171
Provisions for employee benefits	932	20	-	952
Provisions for disassembly of fixed assets, land restoration and other provisions	669	-	-	669
Accruals, deferred income and government grants	400	95	-	495
Deferred tax liabilities	434	-	-	434
Derivative instruments	-	-	74	74
Other financial liabilities	137	1	(74)	64
Other non-financial liabilities	8	-	-	8
	15 688	179	-	15 867
Current liabilities				
Debt	1 479	2	-	1 481
Liabilities to suppliers	965	56	-	1 021
Capital commitments	838	19	-	857
Provisions for employee benefits	101	3	-	104
Provisions for liabilities due to energy certificates and CO ₂ emission allowances	1 623	127	-	1 750
Other provisions	274	30	-	304
Accruals, deferred income and government grants	166	15	-	181
Income tax liabilities	3	-	-	3
Liabilities arising from other taxes and charges	393	17	-	410
Derivative instruments	-	-	102	102
Other financial liabilities	550	10	(102)	458
Other non-financial liabilities	423	-	-	423
Liabilities directly related to assets classified as held for sale	496	(488)	-	8
	7 311	(209)	-	7 102
Total liabilities	22 999	(30)	-	22 969
TOTAL EQUITY AND LIABILITIES	39 411	285	-	39 696

BUSINESS SEGMENTS

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

The organisation and management of the Group is carried out on a segment basis, 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. TAURON Group recognises write-downs on non-financial assets of entities consolidated using the full method and share in write-downs on non-financial assets of entities measured using the equity method as write-downs on non-financial assets. EBIT is defined by the Group as the profit/(loss) before tax, financial income and costs, i.e. operating profit/(loss).

10. Information on operating segments

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
Mining		
	Hard coal mining	TAURON Wydobycie S.A.
Generation		
	Generation of electricity using conventional sources, including combined heat.	TAURON Wytwarzanie S.A. Nowe Jaworzno Grupa TAURON Sp. z o.o. TAURON Ciepło Sp. z o.o. TAURON Serwis Sp. z o.o. Łagisza Grupa TAURON 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
	Generation, distribution and sales of heat	
Renewable Energy Sources		
	Generation of electricity using renewable sources	TAURON Ekoenergia Sp. z o.o. Marselwind Sp. z o.o. TEC1 Sp. z o.o. TAURON Zielona Energia 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. Polpower Sp. z o.o. TAURON Wytwarzanie S.A. ²
Distribution		
	Distribution of electricity	TAURON Dystrybucja S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales		
	Wholesale trading in electricity, trading in CO ₂ emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity	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.

¹ Entities recognized with the equity method.

² TAURON Wytwarzanie S.A. classifies activity related to photovoltaic power generation in the Renewable Energy Sources 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.

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In connection with the discontinuation of the classification of assets and liabilities of the subsidiary company, TAURON Ciepło Sp. z o.o. as a disposable group, as described in more detail in Note 9.2 of these consolidated financial statements, the data as at 31 December 2020 and for the year ended 31 December 2020 were restated accordingly.

10.1. Operating segments
Year ended 31 December 2021

	Operating segments						Unallocated items / Eliminations	Total
	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other		
Revenue								
Sales to external customers	689	3 504	159	3 446	17 639	177	-	25 614
Inter-segment sales	778	6 315	502	3 653	6 495	1 000	(18 743)	-
Total segment revenue	1 467	9 819	661	7 099	24 134	1 177	(18 743)	25 614
Recompensation revenue	-	-	-	-	(9)	-	-	(9)
Profit/(loss) of the segment	(458)	(57)	224	1 767	(564)	92	(29)	975
Share in profit/(loss) of joint ventures	-	32	-	-	-	-	-	32
Unallocated expenses	-	-	-	-	-	-	(91)	(91)
EBIT	(458)	(25)	224	1 767	(564)	92	(120)	916
Finance income (costs)	-	-	-	-	-	-	(241)	(241)
Profit/(loss) before income tax	(458)	(25)	224	1 767	(564)	92	(361)	675
Income tax expense	-	-	-	-	-	-	(290)	(290)
Net profit/(loss) for the period	(458)	(25)	224	1 767	(564)	92	(651)	385
Assets and liabilities								
Segment assets	899	8 252	2 470	21 117	4 508	891	-	38 137
Investments in joint ventures	-	597	-	-	-	-	-	597
Unallocated assets	-	-	-	-	-	-	1 341	1 341
Total assets	899	8 849	2 470	21 117	4 508	891	1 341	40 075
Segment liabilities	857	2 713	195	2 038	2 015	591	-	8 409
Unallocated liabilities	-	-	-	-	-	-	15 142	15 142
Total liabilities	857	2 713	195	2 038	2 015	591	15 142	23 551
EBIT	(458)	(25)	224	1 767	(564)	92	(120)	916
Depreciation/amortization	(143)	(453)	(151)	(1 203)	(41)	(110)	-	(2 101)
Impairment	(185)	(947)	(1)	3	1	(6)	-	(1 135)
EBITDA	(130)	1 375	376	2 967	(524)	208	(120)	4 152
Other segment information								
Capital expenditure *	276	240	90	2 044	82	200	-	2 932

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

Year ended 31 December 2020 (restated data)

	Operating segments						Unallocated items / Eliminations	Total
	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other		
Revenue								
Sales to external customers	327	2 869	147	3 310	14 054	143	-	20 850
Inter-segment sales	725	1 653	469	3 556	3 196	971	(10 570)	-
Total segment revenue	1 052	4 522	616	6 866	17 250	1 114	(10 570)	20 850
Recompensation revenue	-	-	-	-	66	-	-	66
Profit/(loss) of the segment	(887)	(3 254)	146	1 857	642	136	(96)	(1 456)
Share in profit/(loss) of joint ventures	-	16	-	-	-	-	-	16
Unallocated expenses	-	-	-	-	-	-	(97)	(97)
EBIT	(887)	(3 238)	146	1 857	642	136	(193)	(1 537)
Finance income (costs)	-	-	-	-	-	-	(642)	(642)
Profit/(loss) before income tax	(887)	(3 238)	146	1 857	642	136	(835)	(2 179)
Income tax expense	-	-	-	-	-	-	6	6
Net profit/(loss) for the period	(887)	(3 238)	146	1 857	642	136	(829)	(2 173)
Assets and liabilities								
Segment assets	1 116	9 467	2 439	20 079	4 614	776	-	38 491
Investments in joint ventures	-	587	-	-	-	-	-	587
Unallocated assets	-	-	-	-	-	-	618	618
Total assets	1 116	10 054	2 439	20 079	4 614	776	618	39 696
Segment liabilities	1 048	2 102	239	1 814	1 781	559	-	7 543
Unallocated liabilities	-	-	-	-	-	-	15 426	15 426
Total liabilities	1 048	2 102	239	1 814	1 781	559	15 426	22 969
EBIT	(887)	(3 238)	146	1 857	642	136	(193)	(1 537)
Depreciation/amortization	(170)	(393)	(151)	(1 166)	(44)	(93)	-	(2 017)
Impairment	(560)	(3 189)	-	-	3	-	-	(3 746)
EBITDA	(157)	344	297	3 023	683	229	(193)	4 226
Other segment information								
Capital expenditure *	345	1 437	40	1 908	61	248	-	4 039

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

The increase in EBITDA of the Generation segment in relation to the comparable period results mainly from the effects of restructuring the portfolio of CO₂ emission allowances and the commencement of the operation of the Capacity Market from 1 January 2021 (without including the Operational Capacity Reserve and Intervention Cold Reserve services in the catalogue of system services from 2021, from which the revenues were received in 2020), which is described in more detail in Note 12 to these consolidated financial statements as well as from generating margins on electricity sales in the current reporting period, including on the electricity contract between Nowe Jaworzno Grupa TAURON Sp. z o.o. and the Company. The positive effect of the factors presented above was partially offset by the recognition in the results of the Generation segment of costs a provision for onerous contracts in the amount of PLN 289 million in relation to electricity sales contracts in connection with the effects of the shutdown of the 910 MW unit in Jaworzno until 29 April 2022.

The decline in EBITDA of the Sales segment in relation to the comparative period results mainly from the lower margin obtained on the sales of electricity, which is a result of higher electricity purchase costs, including under the execution of the contract for the purchase of electricity from the 910 MW unit in Jaworzno at a higher electricity sales price, higher volume and higher revenue from fixed commercial charges.

The most significant reason for the increase in sales revenues between segments achieved by the Generation segment in relation to the comparable period is the performance of electricity sales by the Nowe Jaworzno Grupa TAURON Sp. z o.o. company to the Company under the long-term electricity sales agreement concluded between the above-mentioned entities.

In the year ended 31 December 2021, revenues from sales to Izba Rozliczeniowa Giełd Towarowych S.A. constituted 11% of the Group's total revenues in the Sales segment and amounted to PLN 2 798 million. In the year ended 31 December 2020, the Group did not identify individual customers that would generate sales revenue in excess of 10% of the total sales revenue of TAURON Group.

Restructuring of the hard coal mining sector in Poland

In 2020, works commenced on transforming the coal mining industry in Poland. As agreed between representatives of the Government and representatives of TAURON Wydobycie S.A., this company participated in negotiations on the preparation of the social agreement concerning the transformation of the hard coal mining sector and selected transformation processes in the Silesian Voivodeship ("Social Agreement"). The Social Agreement covers, among others, a schedule for the liquidation of the mines belonging to Polish mining companies, a financing mechanism for companies in the coal mining sector as well as employment guarantees and a social protection package for mine workers. On 28 May 2021, the agreement was signed by the government party, trade union representatives, representatives of mining municipalities and mining companies (employers). Signing of the agreement made it possible to launch the process of negotiating with the European Commission as part of the prenotification of granting state aid for the liquidation of the hard coal (power) sector in Poland.

After the balance sheet day, on 3 February 2022, the Act of 17 December 2021 amending the Act on the functioning of the hard coal mining industry (the "Act"), establishing a system of public aid for hard coal mining. The Act provides for the value of subsidies in the amount of over PLN 28.8 billion for the years 2022-2031, while the value of subsidies for the following years has not been specified. The Act clarifies, among others, the rules for granting public aid in the form of subsidies to reduce the production capacity of coal mines, stipulates the suspension of the repayment and ultimate redemption of a part of the mining companies' liabilities towards the Social Insurance Institution (ZUS) and defines the possibility of increasing their capital by issuing Treasury securities. On 4 February 2022, the Regulation of the Minister of State Assets on capacity reduction subsidies for mining companies entered into force, setting out the detailed conditions of the support system regarding capacity reduction subsidies. The support system adopted in the Act constitutes state aid and is subject to notification to the European Commission. As at the date of approval of these consolidated financial statements for publication, it was not notified.

Extending the subsidy scheme to TAURON Wydobycie S.A., as referred to in the Act, will have a significant impact on the operations of the company and its current financing (enabling it to cover financial losses related to its production activities and liquidation costs over the entire lifetime of the company, as provided for in the Social Agreement). Accession of TAURON Wydobycie S.A. to the subsidy scheme requires the preparation of documents in the form of a business program until 2049 and a technical and economic plan as well as the application for a subsidy. The operational program and the application for granting the subsidy have to be approved by the Minister of State Assets. The above plans and the application for a subsidy for 2022 were submitted by the company to the Minister of State Assets on 25 February 2022. On 15 March 2022, the Minister of State Assets approved the operational program submitted by TAURON Wydobycie S.A. As at the date of approval of these consolidated financial statements for publication, the company has not received information about the approval of the request for subsidy. As part of the impairment tests, the Group took into account the proceeds from the projected subsidies until 2049.

The above events may materially affect the shape and financial data of the Mining segment in future reporting periods.

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 2021	Year ended 31 December 2020
Sales to foreign customers, including:	859	174
Czech Republic	416	172
United Kingdom	271	-
Germany	169	-
Other	3	2

Sales to overseas customers in the year ended 31 December 2021 mainly related to the sales of electricity, and the restructuring of the portfolio of CO₂ emission allowances which accounted for 44% and 35% of revenue to overseas customers, respectively. For the year ended 31 December 2020, sales to overseas customers included predominantly electricity sales and accounted for 92% of revenue to overseas customers.

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 21.

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 day 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.

In the year ended 31 December 2021, the Group recognised impairment losses related to non-financial fixed assets as a result of impairment tests of assets performed as at 30 June 2021 and 31 December 2021.

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(in PLN million)*

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

The impairment loss recognised as a result of the tests performed in the year ended 31 December 2021 is related to the following cash generating units:

CGU	Company	Discount rate (after tax) assumed in tests as at:			Recoverable amount	Impairment loss recognized
		31 December 2021	30 June 2021 (unaudited)	31 December 2020	As at 31 December 2021	Year ended 31 December 2021
Mining	TAURON Wydobycie S.A.	14.19%	13.98%	13.12%	-	(185)
Generation - Coal	TAURON Wytwarzanie S.A. / Nowe Jaworzno Grupa TAURON Sp. z o.o.	8.96%	8.23%	8.52%	4 996	(924)
Generation - Biomass					164	-
CGU ZW Katowice					561	-
CGU ZW Bielsko-Biala					182	-
CGU ZW Tychy	TAURON Ciepło Sp. z o.o.	8.96%	8.23%	8.52%	306	(15)
CGU ZW OCL					14	(14)
CGU Transmission		6.89%	6.49%	6.87%	735	-
Distribution	TAURON Dystrybucja S.A.	5.23%	5.03%	5.09%	22 251	-
Total						(1 138)

As at 31 December 2021, impairment tests were performed on property, plant and equipment, taking into account the following indications:

- the Group's capitalization remaining below the net asset carrying amount for a long period;
- changes in global prices of energy resources, energy and CO₂ emission allowances;
- publication and adoption by the European Commission of the "Fit for 55" package to guide the European Union towards ambitious levels of net emission reduction by 2030 and towards becoming the first climate-neutral continent by 2050;
- high volatility of energy prices on the forward market (including the persistent low liquidity) and persistently high prices on the spot market;
- results of the RES auctions to date and a very dynamic development of the prosumer and micro installation sub-sector in connection with the aid 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 and persisting unfavourable market conditions from the point of view of profitability for the conventional power industry;
- failure of the 910 MW unit in Jaworzno;
- persistent losses of the Mining segment and increased risks in the production of commercial coal;
- adoption by the Council of Ministers of the Polish Energy Policy until 2040, setting out the directions for the transformation of the energy sector;
- limited availability of fuels causing their price increases;
- an increase in inflation;
- a decrease in the risk-free rate.

The tests conducted as at 31 December 2021 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 property, plant and equipment and intangible assets (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 ("CGUs") 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 unit was identified: CGU Wytwarzanie-Biomasa. The key premises 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 - the capacity obligation; the strategy of joining the Capacity Market consisting in the portfolio approach, where maximising the total revenue from the Capacity Market is significant, as well as 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 Farmy wiatrowe i CGU Fotowoltaika. Consolidation of wind farms 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 2031 and the estimated residual value, excluding power generating and mining units for which detailed projections cover the entire period of their operation.

The assumptions concerning the life of the generation and mining units are consistent with those adopted for the impairment tests carried out as at 31 December 2020, including in particular:

- the operation of TAURON Wytwarzanie S.A. generation units was assumed until 2035, including: the unit in Jaworzno III Branch until 2025; two units in Jaworzno III Branch until 2028; two units in Jaworzno II Branch until 2030; the unit in Łagisza Branch until 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 operation of the mining units was assumed until 2049, including ZG Sobieski and ZG Janina until 2049 and ZG Brzeszcze until 2040;
- the operation of TAURON Ciepło Sp. z o.o. generation units was assumed until 2049. In the case of Zakład Wytwórczy EC2 in Czechowice-Dziedzice, due to the depletion of the production assets and the climate policy, it was assumed that coal-fired units would be put out of service, and thus switch to gas fuel.

The reliance on projections covering a period longer than 5 years results mainly from the long-lasting investment processes in the power industry. 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 2021

Category	Description
Coal	The projected prices of hard coal in the next 3 years (in fixed prices) remain at higher levels than before, which results from the observed upward trends in the domestic mining cost and the current situation in the world coal market. 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 gradual reduction of the share of coal in the energy mix of individual countries (including Germany, the Czech Republic and Poland), which is associated with an increase in the share of energy from RES in the energy balance of the European Union Member States. After 2025, the prices of coal in Poland will begin to fall, as a result of decreased 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 16.1% was assumed in the years 2022-2040.
Electricity	The adopted forecast of wholesale electricity prices for the period 2022-2040 has been updated and adjusted in the first three years (2022-2024) to current levels recorded in the market, taking into consideration the contracting level. In 2023, a continued increase in energy prices of around 8% compared to 2022 has been assumed, which results, among others, from a sharp rise in the prices of CO ₂ emission allowances in 2021. In 2024, the price is approximately 19.9% higher compared to 2022. In 2025-2040, the wholesale electricity price (in fixed prices) will decrease by approx. 6.2%. The forecast of wholesale electricity prices is affected by the current and expected balancing situation in the national power system, forecasts of fuel prices and the costs of purchasing CO ₂ emission allowances. The observed change in the structure of electricity generation and increase in the share of renewable energy sources reduces the level of margins achieved when selling electricity from coal-fired sources - this effect is partially compensated by assuming the impact of the <i>Scarcity Pricing</i> mechanism after 2025 on wholesale electricity prices. The increase in prices from 2029 to 2032 results from the projected difficult balancing situation in Europe caused by the integration of conventional sources with a direct impact on the level of the interchange balance. The electricity retail price path has been adopted based on the wholesale price of black energy, taking into

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Category	Description
	account the costs of excise duty, the obligation to redeem energy certificates of origin as well as the expected level of margin.
CO ₂	CO₂ 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 CO₂ emission allowance price growth path has been adopted throughout the forecasting horizon. In 2023, a 18.6% higher price of CO₂ emission allowances was assumed compared to the average price in 2022. In 2024, compared to 2022, the price of CO₂ emission allowances is 37.7% higher. In the period 2024-2030, a price increase to the level of approx. 70 EUR/Mg in constant prices (approx. 90 EUR/Mg in current prices) has been assumed due to the assumption of an increase in the Linear Reduction Factor (LRF) to the level of 4.2% proposed by the European Commission (from the current 2.2%). The level of CO₂ emission allowances projected for 2030 is consistent with the assessment of the impact of the EU ETS revision on the CO₂ price level published with the "Fit for 55" package (SWD(2021) 601 final). A further increase in the price of CO₂ emission allowances is assumed in the years 2031-2040, compared to 2030, which results from the assumed increase in the decarbonisation rate of the economy and the target of achieving climate neutrality of Europe in 2050. The price of CO₂ projected for 2040 amounts to approx. 86 EUR/Mg (approx. 123 EUR/Mg in current prices).
Certificates of energy origin	The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the provisions of the RES Act and the system balance forecast.
Capacity market	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 received 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	As regards the RES Area, the existing support systems were taken into account (the system of certificates of origin, the auction system, the FIT/FIP guaranteed tariff system, the guarantee of origin system, the Capacity market), of which the most important is the system of certificates of origin. As part of this system, for green energy, limited support periods were included, in line with the provisions of the RES Act defining new mechanisms for granting the support for electricity generated from this type of sources. The support period was limited to 15 years counted from the moment of first injection to the grid of electricity eligible to receive the energy origin certificate.
Natural gas	Natural gas prices for the assumptions adopted as at 31 December 2021 were raised in relation to the previous assumptions as at 30 June 2021 over the entire forecast horizon. The main reason for the projected increases in gas prices are higher estimates concerning the forecast of the demand for natural gas presented by GAZ-SYSTEM S.A. in the horizon up to 2040. 2022 is the effect of a significant price increase on the annual contract that took place in the second half of 2021. The decline in prices in the years 2023-2025 results from the normalisation of the stock situation in Europe. On the other hand, in Poland, we assume the commissioning of the Baltic Pipe, the expansion of the LNG terminal in Świnoujście, the Poland-Lithuania Interconnector (GIPL) as well as the commissioning of the floating LNG terminal in the Gulf of Gdańsk and the gas units in the Dolna Odra Power Plant by 2028 at the latest. The key factor of the projected price increase is the decline in gas production in Europe, with a simultaneous increase in its consumption. After 2025, a decline in raw material extraction from the Norwegian Continental Shelf is assumed. In the years 2026-2030, further growth in the number of natural gas-fired sources in Poland is assumed, which is determined by the continued growth in demand. Beyond 2030, the demand for gas in Europe and Asia will grow significantly.
WACC	The weighted average cost of capital (WACC) during the projection period for individual CGUs has been adopted in the range of 5.23%-14.19% in nominal terms after tax, taking into account the risk-free rate corresponding to the yield on 10-year Treasury bonds (at a level of 1.78%) and the risk premium for operations relevant 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 WACC level as at 31 December 2021 compared to the level as at 31 December 2020 increased in individual segments, mainly due to an increase 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 2022-2031, 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 2022-2023. 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.

The mechanism of subsidies and the period of operation of production units of mining enterprises was presented in the Social Agreement document of 28 May 2021 in the Act of 17 December 2021 amending the Act on the Operation of Coal Mining and the regulation on subsidies for capacity reduction of mining enterprises of 3 February 2022 ("Regulation"). The tests as at 31 December 2021 assumed the acquisition of capacity reduction subsidies for mining units until 2049. The amount of the subsidies was set at a level which would cover the difference between the eligible costs and the eligible revenues in accordance with the Regulation associated with the operation of the enterprises subject to the support scheme.

In terms of the failure of the 910 MW unit in Jaworzno, it was assumed that the unit would be commissioned from 29 April 2022, that tests would be conducted and that the unit would operate at full capacity starting from November 2022.

On 14 March 2019, Tempus Energy Germany GmbH and T Energy Sweden AB companies filed a complaint with the Court of Justice of the European Union ("CJEU") against the aid decision of the European Commission concerning the Polish Capacity Market. The complaint aimed to revoke the decision on the waiver of objections concerning the Polish Capacity Market. The complainants' allegations refer to the European Commission's failure to initiate a formal investigation procedure and the allegedly discriminatory treatment of demand management units within the Polish Capacity Market. On 6 October 2021, the Court of the European Union, CJEU, dismissed the appeal of Tempus Energy Germany GmbH and T Energy Sweden AB against the decision of the European Commission approving the Polish capacity market mechanism.

The assumptions were also used to estimate the value in use of other intangible assets and rights to use assets.

The need to write down the assets of CGU Generation-Coal and CGU ZW Area of Local Heating Plants resulted in particular from the following factors:

- an increase in the prices of CO₂ emission allowances resulting from more stringent climate policy of the European Union strongly targeted at accelerating the pace of decarbonisation in pursuit of the climate neutrality of Europe,
- a change in the energy mix in Poland towards low- and zero-emission sources, resulting in lower electricity production volumes from conventional sources, in particular coal-fired power plants,
- a projected decline in market margins in the medium- and long-term perspective as a result of an increase in the variable costs of production from conventional sources, mainly due to the increase in the price of CO₂ emission allowances and the growth in the share of renewable energy sources and new natural gas-fired sources,
- downtime of the 910 MW unit in Jaworzno in the period from June 2021 to, in accordance with the assumptions adopted in the tests, 29 April 2022.

The need to write down the assets of the CGU Mining resulted in particular from the reduced projected demand for steam coal as a result of the proceeding decarbonisation in Europe and rising extraction costs..

The need to write down the assets of the ZW Tychy CGU results from the recognition of higher biomass prices, which is related to the provisions of Commission Implementing Regulation (EU) 2020/2085 of 14 December 2020 *amending and correcting Implementing Regulation (EU) 2018/2066 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council*, pursuant to which biomass used for energy purposes should meet sustainability criteria for the purposes of the requirements of the EU ETS.

Sensitivity analysis for mining and generation assets

The estimated changes in impairment losses on mining and generation assets as at 31 December 2021 and the impact on the Group's assets as a result of changes in the key assumptions, are presented below.

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Parameter	Change	Impact on impairment loss				Assets of the Group Impact on impairment loss	
		Mining assets		Generation assets		Increase of impairment loss (net)	Decrease of impairment loss (net)
		Increase of impairment loss (net)	Decrease of impairment loss (net)	Increase of impairment loss (net)	Decrease of impairment loss (net)		
Change of electricity prices in the forecast period	+1%	9	-	-	381	-	372
	-1%	-	9	381	-	372	-
Change of heat prices in the forecast period	+1%	-	-	-	29	-	29
	-1%	-	-	29	-	29	-
Change of CO ₂ emission allowances prices in the forecast period	+1%	-	-	236	-	236	-
	-1%	-	-	-	236	-	236
Change of WACC (net)	+0.1 p.p.	-	-	30	-	30	-
	-0.1 p.p.	-	-	-	30	-	30
Change of coal prices in the forecast period	+1%	-	49	95	-	46	-
	-1%	49	-	-	95	-	46
No subsidies for coal mining until 2032 ¹	-100%	754	-	-	-	754	-
No scarcity pricing mechanism ²	-	-	-	1 227	-	1 227	-

¹ Write-down on non-current assets to the carrying amount of land and perpetual usufruct of land corresponding to fair value.

² In accordance with Article 16(e) of the Commission Decision "State aid No. SA.46100 (2017/N) – Poland – planned Polish capacity mechanism", by 1 January 2021, Poland should introduce an administrative scarcity pricing mechanism as referred to in Article 44(3) of the Electricity Balancing Guideline. In the first quarter of 2021, PSE S.A. presented a rescheduling plan to be included in the new Implementation Plan, in which the deadline for implementing the mechanism was postponed to 2023. The failure to include the scarcity pricing mechanism in the above analysis means lower revenues from sales of energy from own production throughout the period analysed by PLN 8.8 billion in nominal terms.

Sensitivity analysis for the Distribution segment

The table below presents the estimated inflows to the impairment loss on assets of the Distribution segment as at 31 December 2021.

Parameter	Change	Value tested	Recoverable amount	Impact on recoverable amount	
				Increase	Decrease
Change of WACC (net)	+0.1 p.p.	19 894	22 251	-	959
	-0.1 p.p.			1 037	-
Change in the WACC adopted for the calculation of regulated income in 2023-2031 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 each operating segment. The recoverable amount in each company was determined based on the value in use.

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 client. The asset transfer takes place when a client 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. Where the Company acts as an agent, the amount recognised as revenue is the commission payable to it and does not include amounts received on behalf of the principal. Examples of this type of revenue include:

- the transitional fee, the RES fee, the capacity charge and the cogeneration fee collected from the end user of electricity and transferred to the System Operator;
- revenue from maintenance services under contracts for the sales of products and services combined with additional services.

For goods and materials, the revenue is recognised when the Group ceases to be permanently involved in the management of the goods and materials 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 day, 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.

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 prices on the Polish Power Exchange or the balancing market	The additional assessment includes buyers whose sales of the electricity are priced in line with the Polish Power Exchange or 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 Distribution System 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.

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As at 31 December 2021, additionally assessed revenue from sales of electricity and distribution services in the Sales segment amounted to PLN 959 million and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2021 amounted to PLN 222 million.

As at 31 December 2021, the additional assessment of revenue from sales of gaseous fuel and distribution services in the Sales segment amounted to PLN 100 million and, when reversed estimations from the previous year have been accounted for, the impact on the profit or loss for 2021 amounted to PLN 57 million.

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Sale of goods for resale, finished goods and materials without elimination of excise	17 654	14 066
Excise	(109)	(104)
Sale of goods for resale, finished goods and materials	17 545	13 962
Electricity	14 878	12 224
Heat energy	763	669
Gas	576	338
Coal	628	296
CO ₂ emission allowances	204	6
Energy certificates and similar	245	232
Other goods for resale, finished goods and materials	251	197
Rendering of services	7 695	6 818
Distribution and trade services	6 672	6 502
Capacity Market	652	-
Maintenance of road lighting	123	121
Connection fees	83	83
Other services	165	112
Other revenue	70	70
Total revenue from contracts with customers	25 310	20 850
Restructuration in the portfolio of CO ₂ emission allowances	304	-
Total sales revenue	25 614	20 850

Revenues in compliance with IFRS 15 Revenue from contracts with customers

In the year ended 31 December 2021, sales revenues increased in relation to the comparable period while the major changes were related to the revenue from sales of the following products, goods and services:

- Electricity – the increase results mainly from a higher retail electricity sales volume (both in the business and mass segment), a higher volume of electricity sold from own production, higher electricity prices obtained mainly in the balancing and exchange market and higher revenue obtained from trade fees,
- Heat – the increase results from sales of a higher volume (affected by lower temperatures in the current period compared to the corresponding period) and achieving higher heat sales prices,
- Gas – increase mainly due to sales of higher volumes at higher prices due to lower temperatures in relation to the comparable period and the acquisition of new customers,
- Coal – the increase in revenue from coal sales results from the sale of a higher volume simultaneously achieving higher sales prices,
- CO₂ emission allowances – the increase in revenues results mainly from the recognition of the effects of actions taken to manage the surplus of CO₂ emission allowances. In connection with the delayed commissioning of the 910 MW unit and the resulting lower production, a significant surplus of allowances contracted for the purpose of meeting the redemption obligation for 2020 over the actual demand was generated in the portfolio of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. Consequently, the Group has undertaken twofold measures to manage the resulting surplus. One of the measures taken was the resale of a volume of 691 000 CO₂ emission allowances held, with a carrying value of PLN 76 million, generating revenue amounting to PLN 135 million. As the second measure, the Group restructured its portfolio of CO₂ emission allowances in terms of forward contracts, as discussed below,
- Capacity Market – from 1 January 2021, pursuant to the *Act of 8 December 2017 on the Capacity Market*, introducing the service of capacity obligation, consisting in keeping the preparedness of the capacity market unit to supply electrical capacity to the system and the obligation to supply a certain capacity to the system during a period of emergency, the Capacity Market started operating. In connection with the foregoing, the Group recognises the revenue related to the fulfilment of the capacity obligation performed by the Capacity Market units of the Group by the

Group companies operating as suppliers of capacity to PSE S.A. In the year ended 31 December 2021, the revenue on this account amounted to PLN 652 million.

Restructuring of the portfolio of CO₂ emission allowances

In March 2021, the Company restructured the portfolio of CO₂ emission allowances of its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., with respect to the volume of 3 258 000 CO₂ emission allowances concluded under forward contracts with the acceptance date in March 2021. As a result of the analysis of new premises and circumstances, the Group changed its intention regarding the above-mentioned CO₂ emission allowances and decided to perform their rollover including the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024. In connection with the fact that the original contracts were not settled by physical delivery, the Group recognised the contracts in accordance with IFRS 9 *Financial Instruments* at a fair value under the date of the change in the judgement, i.e. in March 2021 and subsequently recognised the result from the settlement of instruments, which resulted in an increase in the sales revenue and the operating profit in the amount of PLN 304 million (i.e. EUR 66 million). New contracted transactions with delivery dates between 2022 and 2024 were concluded and are held in accordance with the Group's expected redemption requirements and will be settled by physical delivery and are therefore excluded from the scope of IFRS 9 *Financial Instruments* and are not measured at a fair value. At the same time, these transactions were performed at prices higher than the purchase originally contracted and will therefore increase the cost of creating the provision for CO₂ emission liabilities for 2021 and for subsequent financial years. As a result of the foregoing, the Group estimates that the cumulative impact of the restructuring in terms of rollover of the forward contracts on its operating profit in 2021-2023 will not be significant.

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

Year ended 31 December 2021

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	664	2 495	152	2	14 081	151	17 545
Electricity	-	1 644	1	-	13 203	30	14 878
Heat energy	-	763	-	-	-	-	763
Gas	-	-	-	-	576	-	576
Coal	628	-	-	-	-	-	628
CO ₂ emission allowances	-	-	-	-	204	-	204
Energy certificates and similar	-	83	151	-	1	10	245
Other goods for resale, finished goods and materials	36	5	-	2	97	111	251
Rendering of services	24	691	6	3 406	3 554	14	7 695
Distribution and trade services	-	241	-	3 233	3 198	-	6 672
Capacity Market	-	442	5	-	205	-	652
Maintenance of road lighting	-	-	-	-	123	-	123
Connection fees	-	-	-	83	-	-	83
Other services	24	8	1	90	28	14	165
Other revenue	1	14	1	38	4	12	70
Total revenues from contracts with customers	689	3 200	159	3 446	17 639	177	25 310
Restructuration in the portfolio of CO ₂ emission allowances	-	304	-	-	-	-	304
Total sales revenue	689	3 504	159	3 446	17 639	177	25 614

Year ended 31 December 2020 (restated data)

	Mining	Generation	Renewable Energy Sources	Distribution	Sales	Other	Total
Sale of goods for resale, finished goods and materials	312	2 626	145	3	10 754	122	13 962
Electricity	-	1 871	5	-	10 332	16	12 224
Heat energy	-	669	-	-	-	-	669
Gas	-	-	-	-	338	-	338
Coal	296	-	-	-	-	-	296
CO ₂ emission allowances	-	-	-	-	6	-	6
Energy certificates and similar	-	83	140	-	1	8	232
Other goods for resale, finished goods and materials	16	3	-	3	77	98	197
Rendering of services	13	229	1	3 271	3 296	8	6 818
Distribution and trade services	-	213	-	3 134	3 155	-	6 502
Maintenance of road lighting	-	-	-	-	121	-	121
Connection fees	-	2	-	81	-	-	83
Other services	13	14	1	56	20	8	112
Other revenue	2	14	1	36	4	13	70
Total sales revenue	327	2 869	147	3 310	14 054	143	20 850

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

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Revenue from sales of electricity	14 878	12 224
Retail sale	9 294	8 399
Strategic clients	1 031	993
Business clients	4 399	3 960
Mass clients - Group G	2 971	2 708
Mass clients - SME	912	785
Other	90	57
Excise duty	(109)	(104)
Wholesale	4 941	3 022
Operational capacity reserve	-	195
Other	643	608

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

SELECTED ACCOUNTING PRINCIPLES

The Group presents costs by function.

Costs by function 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.

13.1. Costs by type

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Depreciation and amortization	(2 101)	(2 017)
Impairment of non-financial assets	(1 129)	(3 746)
Materials and energy	(1 444)	(1 387)
Maintenance and repair services	(280)	(245)
Distribution services	(1 508)	(1 610)
Other external services	(876)	(794)
Cost of obligation to remit the CO ₂ emission allowances	(2 147)	(986)
Other taxes and charges	(755)	(728)
Employee benefits expense	(3 123)	(2 760)
Allowance for trade receivables expected credit losses	(33)	(60)
Other	(147)	(96)
Total costs by type	(13 543)	(14 429)
Change in inventories, prepayments, accruals and deferred income	(179)	80
Cost of goods produced for internal purposes	801	936
Selling expenses	562	497
Administrative expenses	635	637
Cost of goods for resale and materials sold	(11 899)	(9 429)
Cost of sales	(23 623)	(21 708)

In the year ended 31 December 2021 compared to the comparative period, the main changes in the cost of goods, products, materials and services sold involved:

- a lower cost of impairment losses on non-financial non-current assets, which in the current period results mainly from the recognition of impairment losses as a consequence of impairment tests performed as at 31 December 2021 and 30 June 2021 in the amount of PLN 1 138 million, as described more broadly in Note 11 to these consolidated financial statements;

- an increase in the cost of the obligation to redeem CO₂ emission allowances, which mainly results from the increase in the price of CO₂ emission allowances included in the calculation of the provision and the increase in emission due to higher electricity production from conventional sources;
- an increase in the cost of employee benefits, resulting mainly from the recognition in the comparative period of the effects of the partial release of provisions for the employee tariff on current employees as future retired persons, which reduced operating expenses by PLN 299 million;
- a change in the value of sold goods and materials related to the cost of electricity sold, mainly as a result of an increase in the purchase price of electricity in relation to the comparable period. In addition, in the comparable period, the value of goods and materials sold in the Group was charged with the amount of PLN 124 million as a result of a change in the strategy for securing the depreciation needs related to CO₂ mission allowances of the Generation area. In addition, the cost of electricity sold in 2021 includes the cost of the provision for an onerous contract recognized as at the balance sheet day in the amount of PLN 416 million (Note 41.2).

13.2. Employee benefit expenses

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Wages and salaries	(2 383)	(2 285)
Social security costs	(471)	(453)
Post-employment benefit expenses, of which:	(106)	194
Provision for retirement, disability and similar benefits	(28)	(28)
Coal allowances and special electricity rates and charges	-	293
Social Benefits Fund	(7)	(5)
Contributions to employee retirement plans	(71)	(66)
Social Fund	(66)	(68)
Jubilee bonuses	12	(47)
Voluntary termination scheme	-	(6)
Other employee benefit expenses	(109)	(95)
Total	(3 123)	(2 760)
Items included in cost of sales	(2 057)	(1 811)
Items included in selling expenses	(255)	(196)
Items included in administrative expenses	(412)	(372)
Items included in cost of goods produced for internal purposes	(399)	(381)

13.3. Depreciation and amortisation charges and impairment losses

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Amortization, included in item:	(2 101)	(2 017)
Cost of sales	(1 981)	(1 906)
Selling expenses	(51)	(44)
Administrative expenses	(42)	(43)
Cost of goods produced for internal purposes	(27)	(24)
Impairment allowance, included in item:	(1 129)	(3 746)
Cost of sales	(1 133)	(3 700)
Selling expenses	1	-
Administrative expenses	(6)	(46)
Cost of goods produced for internal purposes	9	-
Total	(3 230)	(5 763)

In the year ended 31 December 2021, as a result of impairment tests performed as at 31 December 2021 and as at 30 June 2021, the Group recognised impairment losses in the Generation and Mining segments in the total amount of PLN 1 138 million. 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 2021, the Group companies created and released 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 9 million.

The total impairment loss on property, plant and equipment, intangible assets and rights-of-use assets in the year ended 31 December 2021 amounted to PLN 1 129 million.

14. Other operating revenues and costs

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Penalties, fines, compensations received or receivable	35	59
Surplus of other provisions (recognized)/derecognized	34	13
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges from subsidies to or free of charge received fixed assets	36	38
Result on the disposal of non-financial fixed assets and costs of damages to non-current assets	22	(17)
Write-off for abandoned investments and production	(15)	(2)
Costs of court proceedings, fines and damages	(8)	(12)
Surplus of reversal of actuarial provisions for the employee tariff for the pensioners	-	234
Income from co-financing the costs of compensation benefits under the crisis shield	-	65
Other operating income	45	51
Other operating expenses	(50)	(56)
Total	99	373

15. 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 financial assets measured 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;
- other items related to financing activities.

Transactions expressed in a foreign currency are converted to functional currency at initial recognition according to the average exchange rate determined for a given currency by the National Bank of Poland as at the day preceding such a day. As at the balance sheet day, monetary items expressed in foreign currency are converted applying the closing exchange rate (the average exchange rate determined for a given currency by the National Bank of Poland on that day is deemed the closing exchange rate for entities whose functional currency is PLN).

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

Currency	31 December 2021	31 December 2020
EUR	4.5994	4.6148
USD	4.0600	3.7584
CZK	0.1850	0.1753

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

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Income and costs from financial instruments	(222)	(635)
Interest costs	(368)	(286)
Commission relating to borrowings and debt securities	(25)	(18)
Gain/loss on derivative instruments	116	125
Interest income	25	27
Exchange differences	15	(246)
Dividend income	10	6
Remeasurement of loans granted	1	(221)
Other	4	(22)
Other finance income and costs	(19)	(7)
Interest on employee benefits	(11)	(21)
Interest on discount of other provisions	(7)	(10)
Other finance income	8	36
Other finance costs	(9)	(12)
Total, including recognized in the statement of comprehensive income:	(241)	(642)
Interest expense on debt	(368)	(286)
Finance income and other finance costs	127	(356)

An increase in interest expenses in the amount of PLN 82 million results mainly from the decline in the amount of interest capitalised in the value of investment tasks. In the year ended 31 December 2021, interest expenses were capitalised in the amount of PLN 14 million and in the comparative period - in the amount of PLN 169 million. The decline mainly results from the commissioning of the 910 MW unit in Jaworzno in November 2020. At the same time, a decline in interest expenses occurred due to changes in the use of financing instruments and changes in interest rates.

16. Costs arising from leases

The table below presents the total charge to profit or loss due to lease agreements where Group companies are the lessee.

	Year ended 31 December 2021	Year ended 31 December 2020
Cost arising from leases recognized in accordance with MSSF 16 Leases, including:	(159)	(154)
Depreciation of right-of-use assets	(106)	(104)
Cost of interest on lease liabilities	(53)	(50)
Cost arising from leases for which practical exclusion from MSSF 16 Leases has been applied, including:	(14)	(17)
Cost of short-term leases	(11)	(15)
Variable lease charges not included in the measurement of lease liabilities	(3)	(2)
Total	(173)	(171)

17. 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.

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 day.

The Group recognizes an allowance for a deferred tax asset of the company from the Mining segment, due to the lack of forecasts justifying the possibility of its realization. As at the balance sheet day, the Group assessed that there is no risk of non-realization of the deferred tax asset of the companies forming the TCG.

17.1. Tax expense in the statement of comprehensive income

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Current income tax	(82)	(229)
Current income tax expense	(48)	(218)
Adjustments to current income tax from previous years	(34)	(11)
Deferred tax	(208)	235
Income tax expense in profit/(loss)	(290)	6
Income tax expense relating to other comprehensive income, including:	(109)	46
reclassified to profit or loss	(88)	19
not reclassified to profit or loss	(21)	27

17.2. Reconciliation of the effective tax rate

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Profit/(loss) before taxation	675	(2 179)
Tax at Poland's statutory tax rate of 19%	(128)	414
Adjustments to income tax from previous years	(34)	(11)
Non-tax revenue and fixed costs	(7)	(45)
Changes in deferred tax estimates	(151)	(293)
Other	30	(59)
Tax at the effective rate of 43.0% (2020: 0.3%)	(290)	6
Income tax (expense) in the financial result	(290)	6

The changes in the estimate in deferred tax relate mainly to the companies of the Mining segment and are related to the increase in the write-down of the value of deferred tax assets and the failure to recognize the deferred tax asset on the company's tax loss for 2021.

18. 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 2021	Year ended 31 December 2020 (restated figures)
Net profit (loss) for the year attributable to equity holders of the Parent	338	(2 170)
Number of ordinary shares	1 752 549 394	1 752 549 394
Basic and diluted earnings per share (in PLN):	0.19	(1.24)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

19. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

The Group's key fixed assets by segment include:

- 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 reinforcement of longwalls;
- 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, switching stations, 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 area of Renewable Energy Sources:
 - wind turbines, photovoltaic farms, hydroelectric power stations, hydroelectric power station buildings and weirs, dams and hydroelectric equipment.
- in the Distribution Segment:
 - power lines located in an area of 57 thousand square kilometres, with the total length of approximately 247 thousand kilometres;
 - electrical substations (approximately 62 thousand units);
 - transformers (approximately 59 thousand units).

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 39 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 Group 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 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 are 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 day 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	12 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 2021 had the most significant impact on depreciation and amortisation expense in the Distribution segment - a decline in depreciation and amortisation expenses of PLN 28 million and in the Generation segment - an increase in depreciation and amortisation expenses of PLN 11 million.

Year ended 31 December 2021

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Mine workings	Other	Assets under construction	Property, plant and equipment, total
COST							
Opening balance	143	29 748	25 206	258	976	1 888	58 219
Direct purchase	-	-	-	2	-	2 487	2 489
Borrowing costs	-	-	-	-	-	14	14
Transfer of assets under construction	2	1 702	994	-	38	(2 736)	-
Sale	(1)	(38)	(137)	-	(6)	(4)	(186)
Liquidation	-	(46)	(140)	(149)	(17)	-	(352)
Received free of charge	-	43	-	-	-	-	43
Overhaul expenses	-	-	-	-	-	94	94
Items generated internally	-	-	-	169	-	48	217
Cost of disassembly of wind farms and decommissioning of mines	-	(159)	(14)	-	-	-	(173)
Other movements	-	(29)	39	-	(13)	(18)	(21)
Closing balance	144	31 221	25 948	280	978	1 773	60 344
ACCUMULATED DEPRECIATION							
Opening balance	-	(13 010)	(14 570)	(138)	(704)	(292)	(28 714)
Depreciation for the period	-	(887)	(850)	(83)	(59)	-	(1 879)
Impairment	-	(484)	(674)	(33)	(1)	71	(1 121)
Sale	-	36	135	-	6	3	180
Liquidation	-	41	136	149	17	-	343
Other movements	-	28	(17)	-	13	(3)	21
Closing balance	-	(14 276)	(15 840)	(105)	(728)	(221)	(31 170)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	143	16 738	10 636	120	272	1 596	29 505
NET CARRYING AMOUNT AT THE END OF THE PERIOD	144	16 945	10 108	175	250	1 552	29 174
<i>of which operating segments:</i>							
Mining	3	201	176	169	3	117	669
Generation	42	2 513	3 651	-	24	114	6 344
Renewable Energy Sources	-	791	1 172	-	3	93	2 059
Distribution	81	12 851	4 939	-	196	1 065	19 132
Other segments and other operations	18	589	170	6	24	163	970

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union
(in PLN million)

Year ended 31 December 2020 (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	141	25 481	20 297	265	958	7 777	54 919
Direct purchase	-	-	-	1	-	3 247	3 248
Borrowing costs	-	-	-	-	-	227	227
Transfer of assets under construction	1	4 284	5 301	-	44	(9 630)	-
Sale	-	(14)	(108)	-	(8)	-	(130)
Liquidation	-	(76)	(310)	(147)	(15)	-	(548)
Overhaul expenses	-	-	-	-	-	216	216
Items generated internally	-	-	-	139	-	193	332
Cost of disassembly of wind farms and decommissioning of mines	-	72	8	-	-	-	80
Revenue from start-up	-	-	-	-	-	(162)	(162)
Other movements	1	1	18	-	(3)	20	37
Closing balance	143	29 748	25 206	258	976	1 888	58 219
ACCUMULATED DEPRECIATION							
Opening balance	-	(10 757)	(12 008)	(116)	(655)	(283)	(23 819)
Depreciation for the period	-	(857)	(804)	(93)	(68)	-	(1 822)
Impairment	-	(1 481)	(2 160)	(76)	(6)	(10)	(3 733)
Sale	-	13	105	-	8	-	126
Liquidation	-	68	303	147	15	-	533
Other movements	-	4	(6)	-	2	1	1
Closing balance	-	(13 010)	(14 570)	(138)	(704)	(292)	(28 714)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	141	14 724	8 289	149	303	7 494	31 100
NET CARRYING AMOUNT AT THE END OF THE PERIOD	143	16 738	10 636	120	272	1 596	29 505
<i>of which operating segments:</i>							
Mining	3	311	188	115	4	187	808
Generation	42	2 896	4 290	-	22	203	7 453
Renewable Energy Sources	1	885	1 259	-	1	30	2 176
Distribution	80	12 127	4 773	-	222	1 028	18 230
Other segments and other operations	17	519	126	5	23	148	838

In the year ended 31 December 2021, the Group purchased property, plant and equipment (including capitalised borrowing costs) in the amount of PLN 2 503 million. The major purchases were made in connection with investments in the following operating segments:

Operating segment	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Distribution	1 988	1 845
Generation	116	1 187
Mining	95	191

The average capitalisation rate of borrowing costs was 2.8% for the year ended 31 December 2021 and 4.14% for the year ended 31 December 2020.

The main investment tasks implemented by the Group in the financial year 2021 are described in section 1.5. of the Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021.

The impairment losses on property, plant and equipment had an impact on the results of the following operating segments:

Year ended 31 December 2021

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(942)	(181)	(1)	(1)	(1 125)
Decrease of impairment	1	-	3	-	4
Total impact on the profit (loss) for the period	(941)	(181)	2	(1)	(1 121)

Year ended 31 December 2020 (restated data)

	Generation	Mining	Distribution	Other	Total
Increase of impairment	(3 191)	(545)	(4)	-	(3 740)
Decrease of impairment	4	-	3	-	7
Total impact on the profit (loss) for the period	(3 187)	(545)	(1)	-	(3 733)

20. 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.

The Company classifies as leases rights of perpetual usufruct of land and easements for the use of energy and heat transmission facilities (transmission easement).

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.

The Company does not apply the requirements of IFRS 16 Leases to the asset class to short-term leases that have a lease term of 12 months or less at inception. The Group applies the exemption from the application of IFRS 16 Leases to leases where the underlying asset has a value not exceeding PLN 20 thousand. The Group may select the exemption for leases where the underlying asset is of low value on a lease by lease basis, in particular the Group does not apply the exemption for low value assets in the case of perpetual usufruct of land.

PROFESSIONAL JUDGEMENT AND ESTIMATES

At the date of commencement of the lease, the Group measures an right-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. The Company applies the portfolio approach in particular to leases, tenancies and other contracts that meet the criteria for recognition as leases relating to premises and land for the purpose of installation of thermal and electrical infrastructure.

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

Year ended 31 December 2021

	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	548	1 162	196	89	8	133	6	2 142
Increase due to a new lease contract	66	1	13	34	5	-	-	119
Increase(decrease) due to lease changes	4	27	4	9	-	-	-	44
Liquidation	(5)	(1)	(1)	(20)	(2)	-	-	(29)
Other movements	5	11	-	-	-	17	-	33
Closing balance	618	1 200	212	112	11	150	6	2 309
ACCUMULATED DEPRECIATION								
Opening balance	(45)	(92)	(32)	(62)	(5)	(30)	-	(266)
Depreciation for the period	(27)	(33)	(19)	(20)	(1)	(6)	-	(106)
Impairment	-	(1)	-	(4)	-	(1)	-	(6)
Liquidation	1	-	-	20	2	-	-	23
Other movements	-	(8)	-	-	-	-	-	(8)
Closing balance	(71)	(134)	(51)	(66)	(4)	(37)	-	(363)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	503	1 070	164	27	3	103	6	1 876
NET CARRYING AMOUNT AT THE END OF THE PERIOD	547	1 066	161	46	7	113	6	1 946

Year ended 31 December 2020 (restated data)

	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	476	1 076	176	65	7	121	6	1 927
Increase due to a new lease contract	55	-	12	31	-	-	-	98
Increase/(decrease) due to lease changes	3	78	9	(1)	-	-	-	89
Other movements	14	8	(1)	(6)	1	12	-	28
Closing balance	548	1 162	196	89	8	133	6	2 142
ACCUMULATED DEPRECIATION								
Opening balance	(20)	(60)	(15)	(35)	(2)	(21)	-	(153)
Depreciation for the period	(25)	(34)	(17)	(19)	(3)	(6)	-	(104)
Impairment	-	10	-	(14)	-	(3)	-	(7)
Other movements	-	(8)	-	6	-	-	-	(2)
Closing balance	(45)	(92)	(32)	(62)	(5)	(30)	-	(266)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	456	1 016	161	30	5	100	6	1 774
NET CARRYING AMOUNT AT THE END OF THE PERIOD	503	1 070	164	27	3	103	6	1 876

21. 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.

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. Each cash-generating unit or group of cash-generating units to which goodwill has been assigned corresponds to the lowest level in the TAURON Group, at which the goodwill is monitored for internal management needs and is not larger than one operating segment of the TAURON Group.

PROFESSIONAL JUDGEMENT AND ESTIMATES

Goodwill is tested for impairment annually and as at each balance sheet day 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 31 December 2021	As at 31 December 2020
Distribution	26	26
Total	26	26

22. Energy certificates and CO₂ emission rights**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 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 on the last day of the month in which qualified energy was produced or in which energy efficiency certificates were granted	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")

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 40.

22.1. Long-term energy certificates and CO₂ emission rights

	Year ended 31 December 2021			Year ended 31 December 2020		
	Energy certificates	CO ₂ emission allowances	Total	Energy certificates	CO ₂ emission allowances	Total
Opening balance	234	267	501	306	162	468
Direct purchase	113	-	113	217	141	358
Reclassification	(147)	(23)	(170)	(289)	(36)	(325)
Closing balance	200	244	444	234	267	501

22.2. Short-term energy certificates and CO₂ emission rights

	Year ended 31 December 2021			Year ended 31 December 2020 (restated figures)		
	Energy certificates	CO ₂ emission allowances	Total	Energy certificates	CO ₂ emission allowances	Total
Opening balance	705	334	1 039	595	690	1 285
Direct purchase	281	1 360	1 641	190	385	575
Generated internally	239	-	239	227	-	227
Surrendered	(1 221)	(1 635)	(2 856)	(596)	(777)	(1 373)
Reclassification	147	(53)	94	289	36	325
Closing balance	151	6	157	705	334	1 039

Reclassification of CO₂ emission rights includes:

- reclassification of allowances worth PLN 222 million acquired in previous years and intended for redemption of 2021 from long-term to short-term CO₂ emission allowances,
- reclassification of allowances worth PLN 76 million held by the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. and constituting a surplus over the redemption needs for 2020, from short-term CO₂ emission allowances to inventories, due to the change of intention regarding the use of these allowances and their resale, which is described in more detail in Note 12 to these consolidated financial statements. Revenues on this account amounted to PLN 135 million,
- reclassification of allowances worth PLN 199 million, originally acquired by the Group in December 2021 for Nowe Jaworzno Grupa TAURON Sp. z o.o., from short-term to long-term CO₂ emission allowances, in connection with the surplus of allowances for 2021 in the portfolio of Nowe Jaworzno Grupa TAURON Sp. z o.o., as a result of the failure of the unit and the shutdown of the 910 MW unit in Jaworzno in the second half of 2021 and the allocation of this surplus for the installation of TAURON Wytwarzanie S.A. for the redemption year 2022.

22.3. Balance of CO₂ emission allowances in the European Union Registry

Balance of emission allowances	Year ended 31 December 2021	Year ended 31 December 2020
Allowances recorded at the beginning of the financial year	6 732 596	13 784 891
Allowances surrendered:		
previous year's emissions	(10 047 653)	(12 161 904)
current year's emissions	(5 871 051)	-
Allocation of free-of-charge allowances	131 815	223 609
Allowances purchased on the secondary market	17 673 672	12 555 500
Allowances sold on the secondary market	(6 431 379)	(7 669 500)
Allowances recorded at the end of the financial year	2 188 000	6 732 596

In 2021, TAURON Group companies were allocated free emission allowances in the amount of 131,815 EUA for heat production. The remaining allowances, necessary to balance the 2021 emissions needs, have been purchased and contracted for purchase on the secondary market.

23. 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 acquisition cost or 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. Amortisation is calculated by reference to the initial value less the residual value. Residual value is included in determining the basis for calculation of amortisation 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 day 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 amortisation 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 amortisation charges is performed with the effectiveness as of the beginning of the reporting period, not shorter than the year 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 2021

	Development expenses	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST					
Opening balance	12	945	219	120	1 296
Direct purchase	-	-	-	106	106
Transfer of intangible assets not made available for use	5	143	7	(155)	-
Sale/Liquidation	-	(43)	(3)	-	(46)
Closing balance	17	1 045	223	71	1 356
ACCUMULATED AMORTIZATION					
Opening balance	(7)	(624)	(113)	-	(744)
Amortization for the period	(1)	(105)	(10)	-	(116)
Impairment	-	-	(2)	-	(2)
Sale/Liquidation	-	43	3	-	46
Closing balance	(8)	(686)	(122)	-	(816)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	5	321	106	120	552
NET CARRYING AMOUNT AT THE END OF THE PERIOD	9	359	101	71	540

Year ended 31 December 2020 (restated data)

	Development expenses	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets total
COST					
Opening balance	9	822	200	114	1 145
Direct purchase	-	-	-	168	168
Transfer of intangible assets not made available for use	5	144	19	(168)	-
Sale/Liquidation	(2)	(21)	-	-	(23)
Other movements	-	-	-	6	6
Closing balance	12	945	219	120	1 296
ACCUMULATED AMORTIZATION					
Opening balance	(6)	(563)	(98)	-	(667)
Amortization for the period	(1)	(80)	(10)	-	(91)
Impairment	-	(2)	(5)	-	(7)
Sale/Liquidation	-	21	-	-	21
Closing balance	(7)	(624)	(113)	-	(744)
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	3	259	102	114	478
NET CARRYING AMOUNT AT THE END OF THE PERIOD	5	321	106	120	552

24. 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). Payments due to sharing of profit generated by the joint venture reduce the carrying amount of the investment. When the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group ceases to recognise its share in further losses.

If the Group contributes or sells assets to the joint venture which retains such assets, the Group recognises only such part of the profit or loss which is attributable to shares of other investors in the joint venture, unless the contribution or sales of assets indicates a decline in the achievable net value of current assets or occurrence of the impairment. If the Group acquires assets from the joint venture, it does not recognise the part of profits attributable to it due to this transaction, until such assets are resold to an independent third party.

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.

TAURON Polska Energia S.A. Capital Group

*Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union
(in PLN million)*

	Elektrociepłownia Stalowa Wola S.A.	TAMEH HOLDING Sp. z o.o.	As at 31 December 2021 or for the year ended 31 December 2021	Elektrociepłownia Stalowa Wola S.A. ¹	TAMEH HOLDING Sp. z o.o. ²	As at 31 December 2020 or for the year ended 31 December 2020
Non-current assets	980	2 033	3 013	941	2 118	3 059
Current assets, including:	554	1 428	1 982	165	652	817
cash and cash equivalents	24	251	275	2	159	161
Non-current liabilities (-), including:	(1 813)	(672)	(2 485)	(1 897)	(840)	(2 737)
debt	(1 792)	(577)	(2 369)	(1 844)	(743)	(2 587)
Current liabilities (-), including:	(1 282)	(1 514)	(2 796)	(731)	(675)	(1 406)
debt	(108)	(185)	(293)	(6)	(184)	(190)
Total net assets	(1 561)	1 275	(286)	(1 522)	1 255	(267)
Share in net assets (50%)	(781)	638	(143)	(761)	628	(133)
Investment in joint ventures	-	597	597	-	587	587
Sales revenue	1 004	2 779	3 783	125	1 690	1 815
Net profit (loss), including:	(41)	64	23	(1 039)	32	(1 007)
Depreciation	(32)	(194)	(226)	(21)	(186)	(207)
Interest income	-	3	3	-	-	-
Interest expenses	(109)	(21)	(130)	(38)	(23)	(61)
Income tax	-	(14)	(14)	-	(8)	(8)
Share in profit/(loss) of joint ventures	-	32	32	-	16	16

¹ The consolidated financial statements for the year ended 31 December 2020 include unapproved data of Elektrociepłownia Stalowa Wola S.A., available as at the date of approval of the consolidated financial statements for publication.

² The information presented relate to the TAMEH HOLDING Sp. z o.o. Capital 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 with the gross electrical capacity of 450 MWe and the net heat capacity of 240 MWt. On 30 September 2020, Elektrociepłownia Stalowa Wola was commissioned.

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 has receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. in the carrying amount of PLN 99 million, as further discussed in Note 25 to these consolidated financial statements.

Judgement of the Court of Arbitration at the Polish Chamber of Commerce concerning the claims of Abener Energia S.A. against Elektrociepłownia Stalowa Wola S.A. and the 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 ("Judgement") was issued in the case filed by Abener Energia S.A. ("Abener") against Elektrociepłownia Stalowa Wola S.A. ("ECSW"), which is a joint venture of TAURON Group.

The case pending before the Court of Arbitration referred to the 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 (the "Contract") which has been rescinded. Pursuant to the Judgement, ECSW was obligated to pay to Abener the amount of PLN 334 million including the statutory interest for delay and costs of the arbitration proceedings. On 22 September 2020, the Court of Appeals in Rzeszów dismissed the appeal of ECSW to repeal the Judgement, while on 20 November 2020 it issued a decision suspending the execution of the Judgement until the completion of the cassation proceedings or the expiry of the time limit for filing the cassation appeal. As a consequence, on 21 December 2020, ECSW filed a complaint in cassation. Elektrociepłownia Stalowa Wola S.A. recognised the liability for the effects of the above Judgement in the last financial statements for 2020.

On 20 December 2019, ECSW received another statement of claim lodged by Abener with the Arbitration Court. The subject of the lawsuit is the payment by ECSW to Abener of the total amount of PLN 156 million and EUR 0.5 million including the 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 the payment from the performance bond.

On 19 October 2020, ECSW lodged 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 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 aforementioned contract. The current value of the subject of the dispute amounts to PLN 188 million and EUR 0.5 million.

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

On 31 December 2021, ECSW and Abener (the "Parties") signed a settlement agreement to set out the terms on which ECSW and Abener will perform mutual settlements arising out of any litigation or arbitration pending between the Parties and arising out of the Contract. Pursuant to the settlement, ECSW agrees to pay the amount of EUR 93 million to Abener in accordance with the Judgement and other settlements, of which the amount of EUR 32 million was settled in the form of the release of funds previously deposited in the escrow account in connection with the trial won by ECSW in 2017 with the guarantee of the proper performance of the contract with Abener. Upon the entry into force of the terms provided for in the settlement agreement, the Parties agree to discontinue all pending litigation and arbitration proceedings between them and acknowledge the absence of any further or future claims under the Contract. The entry into force of the settlement agreement was subject to termination prerequisites, i.e. Abener was obliged to present documents enabling the execution of the settlement agreement by 28 February 2022 and ECSW was obliged to present a resolution of the Supervisory Board approving the conclusion of the settlement agreement.

After the balance sheet day, on 28 February 2022, ECSW and Abener signed an annex to the settlement agreement extending the deadline for the fulfilment of Abener's obligations, which failure to perform would constitute a termination condition of the settlement agreement, to 7 March 2022. As at the date of approval of these consolidated financial statements for publication, the terms of the settlement agreement were met and the parties began to implement it.

After the balance sheet day, in connection with the settlement agreement concluded on 31 December 2021, all court proceedings and arbitration proceedings between ECSW and Abener were suspended at the joint request of the Parties. On 9 and 10 March 2022, the Parties filed motions to resume suspended proceedings, to withdraw claims and a cassation appeal, and to discontinue all proceedings. The Parties are awaiting decisions of the Supreme Court and the Court of Arbitration at the Polish Chamber of Commerce in the above cases.

Signing the Letter of Intent concerning Elektrociepłownia Stalowa Wola S.A.

On 2 August 2021, the Company, a subsidiary of TAURON Wytwarzanie S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") and PGNiG TERMIKA S.A. signed a letter of intent concerning the potential transaction of sale by TAURON Wytwarzanie S.A. to PGNiG Group of its equity interest in Elektrociepłownia Stalowa Wola S.A. and receivables on account of loans granted to Elektrociepłownia Stalowa Wola S.A. by TAURON Polska Energia S.A. Signing of the letter of intent does not imply a commitment by the parties to conclude the above-mentioned potential transaction. The decision to proceed with the transaction will depend on the outcome of negotiations in this regard and the fulfilment of other conditions stipulated by law or in corporate documents.

As at 31 December 2021, in the Group's opinion, the criteria of IFRS 5 *Non-current assets held for sale and discontinued operations* in the classification of the above assets as held for sale have not been met.

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 7 July 2021, the Shareholders' Meeting of TAMEH Holding Sp. z o.o. decided to allocate the amount of PLN 74 million for the payment of dividends to shareholders. The Group's share in the TAMEH Holding Sp. z o.o. joint venture was reduced by the value of the dividend attributable to the Group in the amount of PLN 37 million.

25. 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 day, 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 measures 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 day 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.

	As at 31 December 2021				As at 31 December 2020				Maturity date	Interest rate
	Repayable principal amount and interest contractually accrued	Gross value	Impairment loss	Carrying amount	Repayable principal amount and interest contractually accrued	Gross value	Impairment loss	Carrying amount		
Loans measured at fair value	409	74	n.a.	74	385	73	n.a.	73	30.06.2033	fixed
Loans measured at amortized cost	116	28	(3)	25	111	27	(1)	26		
Total	525	102	(3)	99	496	100	(1)	99		
Non-current		102	(3)	99		98	(1)	97		
Current		-	-	-		2	-	2		

After the balance sheet day, on 2 March 2022, the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A. up to PLN 120 million, in order to settle the liability of Elektrociepłownia Stalowa Wola S.A. resulting from the settlement agreement with Abener Energia S.A. concluded on 31 December 2021, as further described in Note 24 to these consolidated financial statements. In accordance with the agreement, the loan including the interest accrued will be repaid by 30 June 2033 and, if the subordinated nature of the loan is waived, by 31 December 2022. The loan bears interest at a fixed rate and the repayment, accrued interest and costs and other amounts due to the Company under the agreement are secured by a blank promissory note of the borrower together with a promissory note declaration. On 8 March 2022, the Company paid out the full amount of the loan to the borrower.

26. 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 acquired and held for internal purposes as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the balance sheet day.

Derivatives classified as "financial assets/financial liabilities measured at fair value through profit or loss" are measured at a fair value, taking into account their market value as at the balance sheet day. Changes in the fair value of these instruments are recognised in the result of the period (commodity derivatives in operating income/expenses, other derivatives in financial income/expenses). Derivatives are disclosed as assets if their value is positive or as liabilities if their value is negative.

As at the end of the reporting period, Interest Rate Swaps (IRS) acquired and held to hedge the interest rate risk relating to indebtedness are subject to hedge accounting. Other derivative instruments held by the Company as at the balance sheet day are not subject to hedge accounting.

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 current period.

The gains/losses on the measurement of a hedging instrument recognised in other comprehensive income are recognised directly in the profit or loss of the current period when the hedged item affects profit or loss of the current period or is included in the initial cost of the assets (capitalisation of external financing costs). For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

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As a result of the delayed commissioning of the Jaworzno power unit, as at 31 December 2020, the Company held a significant surplus of CO₂ emission allowances contracted to be purchased on account of redemption by the subsidiary in connection with the emission for 2020. In the first quarter of 2021, as a result of the analysis of new premises and circumstances which emerged after 31 December 2020, the Company changed its intention regarding the above-mentioned CO₂ emission allowances and decided to perform their rollover including the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024 (as further discussed in Note 12).

Instrument	Methodology of determining fair value	As at 31 December 2021
Derivative instruments subject to hedge accounting		
IRS	The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Refinitiv interest rate curve is the input data.	IRS (Interest Rate Swap) instruments are used to hedge a portion of the interest rate risk on the cash flows associated with the exposure to WIBOR 6M designated under the dynamic risk management strategy, i.e.: • interest on a loan with a nominal value of PLN 750 million, for periods commencing respectively from July 2020 and expiring in December 2024; • interest on bonds with a total nominal value of PLN 3 090 million, for periods beginning in December 2019 and 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 floating interest rate in PLN.
Derivative instruments measured at a fair value through the profit and loss other than subject to hedge accounting		
CCIRS	The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Refinitiv are the input data.	CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivatives involve an exchange of interest payments on a total nominal amount of EUR 500 million. 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 EUR. CCIRS derivatives aimed at securing the currency flows generated by interest payments on Eurobonds issued.
Commodity forward/future	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.	Derivative instruments (future, forward) comprise forward transactions for the purchase and sale of CO ₂ emission allowances and other commodities.
FX forward	The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Refinitiv are the input data.	FX forward derivative instruments aimed at hedging currency flows generated due to the activities conducted.

The measurement of derivatives as at the respective balance sheet days is presented in the table below:

	As at 31 December 2021				As at 31 December 2020			
	Charged to profit or loss	Charged to other comprehensive income	Assets	Liabilities	Charged to profit or loss	Charged to other comprehensive income	Assets	Liabilities
Derivatives subject to hedge accounting								
IRS	-	371	371	-	(6)	(84)	-	(90)
Derivatives measured at fair value through profit or loss								
CCIRS	25	-	26	(1)	3	-	5	(2)
Commodity forwards/futures	(9)	-	485	(494)	2	-	86	(84)
Currency forwards	115	-	115	-	68	-	68	-
Total			997	(495)			159	(176)
Non-current			532	(116)			36	(74)
Current			465	(379)			123	(102)

Due to changes in prices of the underlying instruments, i.e. interest rates, currencies and commodities, mainly CO₂ emission allowances, a significant increase in the valuation of derivative assets and liabilities was recorded.

27. 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, 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.

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The measurement of financial assets at a fair value requires the Group to estimate the fair value at each balance sheet day. 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 day. 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 2021	As at 31 December 2020 (restated figures)
Shares	141	122
Deposits and term deposits for Mining Decommissioning Fund	56	53
Other financial receivables, <i>including</i> :	107	177
Bid bonds, deposits and collateral transferred	65	56
Initial and variation margin deposits arising from stock exchange transactions	32	49
Receivables due to financial compensation for trading companies	-	61
Other	10	11
Total	304	352
Non-current	215	209
Current	89	143

28. 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 of the transfer of goods or provision of services. If the costs are related to more than one contract, depreciation should include both current and projected contracts.

28.1. Other non-current non-financial assets

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Prepayments for assets under construction and intangible assets, <i>including</i> :	115	14
<i>related to the construction of wind farms</i>	102	-
Contract acquisition costs and costs of discounts	8	7
Prepayments for debt charges	5	8
Property and tort insurance	3	3
Other prepayments	28	31
Total	159	63

28.2. Other current non-financial assets

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Costs settled over time	101	73
Property and tort insurance	54	27
IT and telecom services	22	24
Contract acquisition costs and costs of discounts	15	13
Prepayments for debt charges	8	6
Other prepayments	2	3
Other current non-financial assets	11	10
Total	112	83

29. Deferred income tax

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Deferred tax liabilities		
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	1 858	1 828
different timing of recognition of sales revenue for tax purposes	399	327
difference between tax base and carrying amount of financial assets	297	42
difference between tax base and carrying amount of energy certificates	25	22
other	80	74
Total	2 659	2 293
Deferred tax assets		
difference between tax base and carrying amount of property, plant and equipment, intangible assets and right-of-use assets	892	852
difference between tax base and carrying amount of financial assets and financial liabilities	547	389
provisions and accruals	537	731
different timing of recognition of sales revenue and cost of sales for tax purposes	367	270
tax losses	16	9
power infrastructure received free of charge and received connection fees	6	7
other	28	27
Total	2 393	2 285
Impairment of deferred tax assets	(352)	(293)
Deferred tax assets after impairment	2 041	1 992
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	123	133
Deferred tax liability	(741)	(434)

The deferred tax assets and deferred tax liabilities of the companies forming the Tax Capital Group in 2021 have been offset as at 31 December 2021. The applied allowance for deferred tax asset refers to the company from the Mining segment.

Change in deferred tax liability and assets

	Year ended 31 December 2021		Year ended 31 December 2020 (restated figures)	
	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets
Opening balance	2 293	1 992	2 341	1 758
<i>Change in the balance:</i>				
corresponding to profit/(loss)	295	87	(44)	191
corresponding to other comprehensive income	71	(38)	(4)	42
other changes	-	-	-	1
Closing balance	2 659	2 041	2 293	1 992

30. 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 day.

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.

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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 2021	As at 31 December 2020 (restated figures)
Gross value		
Coal, of which:	338	658
Raw materials	166	278
Semi-finished goods and work-in-progress	171	377
CO ₂ emission allowances	-	18
Other inventories	216	209
Total	554	885
Measurement to net realisable value		
Other inventories	(11)	(11)
Total	(11)	(11)
Net realisable value		
Coal, of which:	338	658
Raw materials	166	278
Semi-finished goods and work-in-progress	171	377
CO ₂ emission allowances	-	18
Other inventories	205	198
Total	543	874

31. Receivables from customers**SELECTED ACCOUNTING PRINCIPLES**

Receivables from customers include amounts invoiced and receivables accrued to revenue, including estimated revenues, 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 or estimated, including in accordance with the methodology described in Note 51 to these consolidated financial statements (taking into account the effect of discounting, if material), taking into account the revaluation allowance.

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 separated a portfolio of strategic counterparties (a counterparty with credit exposure exceeding PLN 1 million) 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 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.

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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 2021	As at 31 December 2020 (restated figures)
Value of items before allowance/write-down		
Receivables from buyers, of which:	3 363	2 512
<i>Additional assessment of revenue from sales of electricity and distribution services</i>	1 094	814
Receivables claimed at court	217	222
Total	3 580	2 734
Allowance/write-down		
Receivables from buyers	(65)	(63)
Receivables claimed at court	(193)	(198)
Total	(258)	(261)
Value of item net of allowance (carrying amount)		
Receivables from buyers	3 298	2 449
Receivables claimed at court	24	24
Total, of which:	3 322	2 473
Current	3 322	2 473

Ageing of receivables from customers as at 31 December 2021

	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	3 012	286	38	20	32	192	3 580
Allowance/write-down	(28)	(4)	(6)	(20)	(32)	(168)	(258)
Net Value	2 984	282	32	-	-	24	3 322

Ageing of receivables from customers as at 31 December 2020 (restated data)

	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	2 216	222	53	33	36	174	2 734
Allowance/write-down	(14)	(9)	(20)	(32)	(36)	(150)	(261)
Net Value	2 202	213	33	1	-	24	2 473

Change in allowances on receivables from customers

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Opening balance	(261)	(229)
Recognised	(6)	(39)
Utilized	7	6
Reversed	2	1
Closing balance	(258)	(261)

32. 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 2021	As at 31 December 2020 (restated figures)
VAT receivables	285	271
Excise duty receivables	1	12
Other	6	12
Total	292	295

33. 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 day 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.

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Cash at bank and in hand	811	668
Short-term deposits (up to 3 months)	-	250
Other	4	3
Total cash and cash equivalents presented in the statement of financial position, of which :	815	921
restricted cash, including:	314	214
collateral of settlements with Izba Rozliczeniowa Gield Towarowych S.A.	168	121
cash on VAT bank accounts (split payment)	102	52
bank accounts related to subsidies received	43	32
Bank overdraft	-	(2)
Cash pool	(24)	(21)
Foreign exchange	-	(3)
Total cash and cash equivalents presented in the statement of cash flows	791	895

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.

34. Fixed assets classified as held for sale

SELECTED ACCOUNTING PRINCIPLES

The Group classifies a non-current asset (or disposable group) as held for sale when the following criteria are met:

- 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 present condition subject only to terms that are usual and customary for sales,
- 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 disposable group) 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

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

The decline in the value of assets classified as held for sale results mainly from the sale by the Company to the State Treasury on 26 March 2021, under the concluded agreement, of all its shares held in PGE EJ 1 Sp. z o.o., classified as assets held for sale. Pursuant to the agreement, the Company sold 532 523 shares in PGE EJ 1 Sp. z o.o. constituting 10% of the share capital and representing 10% of votes at the Meeting of Shareholders of PGE EJ 1 Sp. z o.o. for the price of PLN 53 million. The agreement was concluded by the State Treasury with all entities holding shares in PGE EJ 1 Sp. z o.o., i.e. PGE Polska Grupa Energetyczna S.A., Enea S.A. and KGHM Polska Miedź S.A., while the total sales price for 100% of shares amounted to PLN 526 million.

Moreover, on 26 March 2021, the Shareholders concluded with PGE EJ 1 Sp. z o.o. the annex to the agreement of 15 April 2015 concerning the case of WorleyParsons with PGE EJ 1 Sp. z o.o., regulating the principles of Shareholders' liability for potentially arising liabilities or benefits due as a result of the settlement of the dispute between PGE EJ 1 Sp. z o.o. and WorleyParsons, which is described in more detail in Note 54 to these consolidated financial statements.

On 15 June 2021 an amendment to the articles of association of PGE EJ 1 Sp. z o.o. was registered which, inter alia, changed the the company enterprise name (following the conclusion of the shares sales agreement described above) to Polskie Elektrownie Jądrowe Sp. z o.o.

35. 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.

Supplementary capital

Supplementary capital is created, to which at least 8% of profit for each financial year is appropriated in order to offset the loss of the Company, which is joint stock company, until its amount equals at least one-third of the issued capital.

Hedging instruments revaluation reserve

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 day,
- 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 Financial 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.

35.1. Issued capital

Issued capital as at 31 December 2021

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	cash/in-kind contribution
BB	registered shares	163 110 632	5	816	in-kind contribution
Total		1 752 549 394		8 763	

Shareholding structure as at 31 December 2021 and 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	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	911	10.39%	10.39%
Nationale - Nederlanden Otworthy Fundusz Emerytalny	88 742 929	444	5.06%	5.06%
Other shareholders	954 847 515	4 774	54.49%	54.49%
Total	1 752 549 394	8 763	100%	100%

As at 31 December 2021, to the best of the Company's knowledge, the value of issued capital, the number of shares, the nominal value of shares and the shareholding structure, have not changed as compared to the status as at 31 December 2020.

35.2. 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 of the Company. 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. of the Management Board's report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021.

35.3. Supplementary capital

	As at 31 December 2021	As at 31 December 2020
Amounts from distribution of prior years profits	2 749	4 887
Decrease in the value of issued capital	-	1 217
Settlement of mergers with subsidiaries	-	235
Total supplementary capital	2 749	6 339

The decrease in the value of supplementary capital in the period ended 31 December 2021 results from the coverage of the net loss of the Company for the financial year 2020 in the amount of PLN 3 590 million. On 29 March 2021, the Management Board of TAURON Polska Energia S.A. adopted the resolution concerning the submission of the motion to the Ordinary General Meeting of TAURON Polska Energia S.A. requesting covering the net loss of the Company for the financial year 2020 in the amount of PLN 3 590 million from the supplementary capital of the Company. On 24 May 2021 the Ordinary General Meeting of Shareholders of the Company adopted the resolution in compliance with the recommendation of the Management Board.

The supplementary capital of the Company does not exceed the level of one-third of the Company share capital, i.e. PLN 2 921 million, therefore, it may be used to cover losses only.

35.4. Revaluation reserve from the measurement of hedging instruments

	Year ended 31 December 2021	Year ended 31 December 2020
Opening balance	(68)	16
Remeasurement of hedging instruments	449	(97)
Remeasurement of hedging instruments charged to profit or loss	6	(6)
Deferred income tax	(88)	19
Closing balance	299	(68)

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, which has been discussed in more detail in Note 26 to these consolidated financial statements. For concluded hedging transactions the Group applies hedge accounting.

As at 31 December 2021, the Group recognised the amount of PLN 299 million of the revaluation reserve from the measurement of hedging instruments. This amount represents an asset on account of the measurement of IRS instruments as at the balance sheet day in the amount of PLN 371 million, adjusted by the portion of the measurement relating to debt interest accrued at the balance sheet day, including the deferred tax.

The increase in the revaluation reserve from the measurement of hedging instruments during the year ended 31 December 2021 results from the increase in the positive valuation of IRS instruments, which is mainly related to the increase in the level of market interest rates.

35.5. 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.

Due to the fact that the supplementary capital of the Company does not exceed one-third of the share capital, the Company is obliged to transfer at least 8% of the net profit for a given financial year to the supplementary capital until this capital reaches at least one-third of the share capital.

As at 31 December 2021 and as at the date these consolidated financial statements were authorised for issue, there are no other restrictions on the payment of dividends.

35.6. Non-controlling shares

	Year ended 31 December 2021	Year ended 31 December 2020
Opening balance	893	900
Acquisition of non-controlling interests by the Group	(903)	-
Share in subsidiaries' net profit or loss	47	(3)
Dividends for non-controlling interests	(3)	(2)
Other transactions with non-controlling shareholders	(1)	(2)
Closing balance	33	893

The acquisition of non-controlling interests results from the purchase by the Company on 22 December 2021 from Fundusz Inwestycji Infrastrukturalnych - Kapitałowy FIZAN of 176 000 shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. representing 13.71% of the total number of votes at the general meeting of shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o. for the amount of PLN 1 061 million, as described in more detail in Note 44 to these consolidated financial statements. Following the transaction, the Company holds 100% of the votes at the general meeting of shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o. As at the acquisition date, the Company derecognised the value of non-controlling interests in Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of PLN 903 million.

The non-controlling interests remaining as at the balance sheet day refer mainly to the TAURON Dystrybucja S.A. company.

36. Dividends paid and proposed for disbursement

	Year ended 31 December 2021	Year ended 31 December 2020
Dividends paid by subsidiaries	(3)	(2)

In the year ended 31 December 2021 and the comparative period, the Company did not propose to pay or paid any dividends to the shareholders of the Company.

37. Debt liabilities

SELECTED ACCOUNTING PRINCIPLES

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

- bank loans, borrowings, bonds issued

Upon initial recognition 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 a repayment date at the end of the interest period, when 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 possibility 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.

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Unsubordinated bonds	5 348	5 524
Subordinated bonds	1 972	1 998
Loans and borrowings	4 535	5 992
Lease liabilities	1 235	1 138
Total	13 090	14 652
Non-current	10 947	13 171
Current	2 143	1 481

37.1. Bonds issued

Issuer	Investor	Interest rate	Currency	As at 31 December 2021			As at 31 December 2020		
				Bonds issued at nominal value in currency	Maturity date	Carrying amount	Bonds issued at nominal value in currency	Maturity date	Carrying amount
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	700	2022-2028	700	800	2021-2028	800
				560	2022-2029	560	630	2021-2029	630
	A series bonds (TPE 1025)	floating, based on WIBOR 6M	PLN	1 000	30.10.2025	1 002	1 000	30.10.2025	1 000
	Eurobonds	fixed	EUR	500	5.07.2027	2 316	500	5.07.2027	2 322
Finanse Grupa TAURON Sp. z o.o.	International investors	fixed	EUR	168	3.12.2029	770	168	3.12.2029	772
Unsubordinated bonds						5 348			5 524
TAURON Polska Energia S.A.	Bank Gospodarstwa Krajowego	floating, based on WIBOR 6M	PLN	400	29.03.2031 ²	401	400	29.03.2031 ²	400
	European Investment Bank	fixed ¹	EUR	190	16.12.2034 ²	847	190	16.12.2034 ²	865
			PLN	400	17.12.2030 ²	386	400	17.12.2030 ²	391
			PLN	350	19.12.2030 ²	338	350	19.12.2030 ²	342
Subordinated bonds						1 972			1 998
Total bonds						7 320			7 522

¹ In the case of bonds covered by the European Investment Bank (hybrid subordinated financing), 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, includes earlier redemption in connection with intention of bonds redemption is after end of first period of financing.

The Eurobonds have been admitted to trading on the regulated market of the London Stock Exchange, while the TPE1025 bonds are listed in the Catalyst alternative trading system operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Subordinated hybrid bonds

The bonds subscribed by the European Investment Bank ("EIB") with a nominal value of EUR 190 million and PLN 750 million and by Bank Gospodarstwa Krajowego ("BGK") with a nominal value of PLN 400 million are subordinated, which means that in the event of bankruptcy or liquidation of the issuer, the liabilities arising from the bonds will have priority of repayment only over the receivables of the Company shareholders. This, in turn positively affects the financial stability of the Company, since the bonds are excluded from the net debt / EBITDA ratio calculation, a covenant in national 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.

In the case of hybrid bonds, two financing periods are distinguished:

- EIB subscribed bonds in PLN - maturity of 12 years from the issue date (17 and 19 December 2030) with two financing periods: 7 and 5 years.
EIB subscribed bonds in EUR - maturity of 18 years from the issue date (16 December 2034) with two financing periods: 8 and 10 years.
In the first period, the interest rate is fixed, while in the second period, it is floating and based on the base rate (WIBOR for bonds issued in PLN and EURIBOR for bonds issued in EUR) increased by an agreed margin.
- Bonds with a nominal value of PLN 400 million subscribed by BGK - maturity of 12 years from the issue date (29 March 2031). In the first 7-year period, the interest rate is variable, based on WIBOR 6M increased by a fixed margin, whereas the margin is further increased in the second 5-year financing period.

In the case of hybrid bonds during the first financing period, early redemption of the bonds by the Company is also not possible and early sale of the bonds by the bank to third parties is not possible either (subject to exceptions specified in the documentation).

On 11 March 2021, TAURON Polska Energia S.A. concluded the agreement with Bank Gospodarstwa Krajowego on the subordinated bond issue scheme up to the amount of PLN 450 million. The scheme provides for a possibility to conduct the issue within a period of two years from the moment of signing the documentation. The financing period is 12 years

from the date of issue. In the period of the first 7 years following the issue, the interest rate is floating, based on WIBOR 6M increased by a fixed margin, whereas the margin is further increased after the 7-year financing period. Until the date of approval of these consolidated financial statements for publication, no bonds have been issued.

37.2. Loans and borrowings

Loans and borrowings as at 31 December 2021

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	3 646	3 646	1 726	5	3	850	363	699
	fixed	880	880	35	75	109	89	557	15
Total PLN		4 526	4 526	1 761	80	112	939	920	714
Total			4 526	1 761	80	112	939	920	714
Interest increasing carrying amount			9						
Total			4 535						

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	4 942	1 022	3	2 008	2	1 109	798
	fixed	1 036	1 036	35	123	109	109	616	44
Total PLN		5 978	5 978	1 057	126	2 117	111	1 725	842
EUR	floating	-	2	2	-	-	-	-	-
		-	2	2	-	-	-	-	-
Total EUR									
Total			5 980	1 059	126	2 117	111	1 725	842
Interest increasing carrying amount			12						
Total			5 992						

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Specification of loans and borrowings drawn as at 31 December 2021 and 31 December 2020

Borrowing institution	Purpose	Interest rate	Currency	Maturity date	As at 31 December 2021	As at 31 December 2020
Consortium of banks I ¹	Redemption of bonds, investment expenditures and general expenses of the Group	Floating	PLN	14.04.2021 ³	-	602
				30.04.2021 ³	-	200
				29.06.2021 ³	-	1 100
				10.09.2021 ³	-	100
				25.01.2021	-	300
				28.01.2021	-	600
				29.01.2021	-	100
				17.01.2022	300	-
				20.01.2022	400	-
				24.01.2022	350	-
				31.01.2022	650	-
Bank Gospodarstwa Krajowego	Group's capital expenditures and refinancing of a portion of debt	Floating	PLN	20.12.2033	999	998
European Investment Bank	Construction of a boiler fired with biomass at Jaworzno III Power Plant and renovation of a steam turbine	Fixed	PLN	15.12.2021	-	20
	Construction and start-up of a co-generation unit at EC Bielsko - Biala			15.12.2021	-	29
	Modernization and extension of power grid			15.06.2024	100	138
				15.09.2024	54	72
				15.09.2024	68	90
	Modernization and extension of power grid and improvement of hydropower plants			15.03.2027	162	191
	Intesa Sanpaolo S.p.A.			Group's investment expenditure, except for financing or refinancing projects related to coal assets	Floating	PLN
SMBC BANK EU AG	Group's general corporate expenses, excluding financing and refinancing of coal-fired power plants	Fixed	PLN	23.03.2025	499	499
Consortium of banks II ²	Group's general corporate expenses, excluding financing of any new coal assets-related projects	Floating	PLN	10.03.2022 ³	161	161
Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	PLN	15.12.2022	4	8
Regional Fund for Environmental Protection and Water Management	Construction of the photovoltaic farm	Floating	PLN	30.11.2025	12	9
Other loans and borrowings					24	23
Total					4 535	5 992

¹ The 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 The 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 non-current liability.

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 possibility to maintain financing under the aforementioned agreement for a period exceeding 12 months from the balance sheet day, the drawdown used in the amount of PLN 160 million is classified as a non-current liability as at the balance sheet day.

Loan tranches drawn under the agreement of 19 June 2019 concluded with the consortium of banks (Consortium of Banks I) are classified in a similar way. Pursuant to the provisions of the loan agreement of 19 June 2019 concluded with the consortium of banks (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 falls as of 31 December 2022. Consequently, as at 31 December 2020, part of the tranches was classified as a long-term liability in line with the Company's intention and the possibility to maintain the financing. In connection with the agreement termination date in 2022, as at 31 December 2021, all tranches with the aggregate nominal value of PLN 1 700 million are classified as short-term.

In the year ended 31 December 2021, the Group carried out the following transactions relating to loans and borrowings (at a nominal value), excluding overdraft facilities:

Lender	Description	Year ended 31 December 2021	
		Drawdown	Repayment
Consortium of banks I	Drawdown of new tranches and repayment of tranches according to agreement deadline	8 150	(9 450)
Consortium of banks II	Drawdown of new tranches and repayment of tranches according to agreement deadline	320	(320)
European Investment Bank	Repayment of capital instalments according to schedule	-	(162)
Other borrowings		3	(4)
Total, including:		8 473	(9 936)
Cash flows		2 003	(3 466)
Net settlement (without cash flow)		6 470	(6 470)

After the balance sheet day, under the agreement:

- of 19 June 2019 (Consortium of Banks I), the Company has drawn tranches with an aggregate total nominal value of PLN 6 800 million and repaid tranches in accordance with the repayment term in the aggregate amount of PLN 5 050 million,
- of 25 March 2020 (Consortium of Banks II), the Company has drawn a tranche (renewal) under the facility in the amount of PLN 160 million by 10 September 2022.

Loan agreements concluded by the Company in 2021:

- **Facility agreement with the European Investment Bank**

On 29 October 2021, the Company concluded the facility agreement with the European Investment Bank for the amount of PLN 2 800 million, to be used to cover the capital expenditure of TAURON Group related to the modernisation and expansion of the electricity distribution network scheduled for 2022-2026. In accordance with the agreement, the Company may use the funds within three years from the date of its conclusion. The loan repayment will take place within eighteen years from the date of disbursement of funds. Depending on the decision of the Company, the interest rate will be based on a fixed interest rate or a floating interest rate (plus the bank's margin) and will be determined at the date of drawdown.

After the balance sheet day, on 24 February 2022, the Company drew down PLN 800 million with a repayment term of 18 years.

- **Facility Agreements with Erste Group Bank AG**

On 15 December 2021, the Company concluded a PLN 500 million facility agreement with Erste Group Bank AG, the proceeds of which will be used to cover the Group's expenses related to financing or refinancing the development in the area of renewable energy sources, energy efficiency improvements and the development of e-mobility-related infrastructure.

In accordance with the agreement, the Company may use the funds within 18 months from the date of conclusion of the agreement. The loan will be repaid within 5 years from the date of conclusion of the agreement while the interest rate will be based on a floating interest rate plus the Bank's margin.

After the balance sheet day, on 16 February 2022, the Company drew down PLN 96 million with a repayment term in December 2026.

37.3. 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 examined 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 2021, the net debt/EBITDA ratio amounted to 2.44, therefore the covenant was not exceeded.

37.4. Lease liability

The lease liability primarily relates to the perpetual usufruct of land, contracts for occupation of the road lane, land lease and rental agreements, transmission easements, rental agreements of mining machinery and the lease of office and warehouse premises.

Ageing of the lease liability

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Within 1 year	136	125
Within 1 to 5 years	355	330
Within 5 to 10 years	367	337
Within 10 to 20 years	650	578
More than 20 years	907	863
Gross lease liabilities	2 415	2 233
Discount	(1 180)	(1 095)
Present value of lease payments	1 235	1 138
Lease agreements that do not meet the conditions for recognition as a finance lease as defined in the financing agreements	1 235	1 138

38. Provisions for employee benefits

SELECTED ACCOUNTING PRINCIPLES

In accordance with the company 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 day 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 information and employee turnover data are based on historical data.

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.

PROFESSIONAL JUDGEMENT AND ESTIMATES

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

	31 December 2021	31 December 2020
Discount rate (%)	3.60%	1.20%
Estimated long-term inflation rate (%)	2.50%	2.50%
Employee rotation rate (%)	0.99% - 8.60%	0.95% - 8.79%
Estimated salary increase rate (%)	5.8% in 2022, 3.6% in 2023, 2.5% in the following years	2.50%
Estimated increase rate for contribution to the Social Fund (%)	3.50%	3.50%
Remaining average employment period	11.93 - 20.92	12.06 - 21.62

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	As at 31 December 2021	As at 31 December 2020 (restated figures)
Provision for post-employment benefits and jubilee bonuses	874	1 034
Provision for employment termination benefits and other provisions for employee benefits	19	22
Total	893	1 056
Non-current	789	952
Current	104	104

Provisions for post-employment benefits and jubilee bonuses
Year ended 31 December 2021

	Provision for retirement, disability and similar benefits	Social Fund	Jubilee bonuses	Provisions total
Opening balance	403	172	459	1 034
Current service costs	28	7	34	69
Actuarial gains and losses, of which:	(59)	(59)	(47)	(165)
arising from changes in financial assumptions	(67)	(55)	(59)	(181)
arising from changes in demographic assumptions	-	1	4	5
arising from other changes	8	(5)	8	11
Benefits paid	(24)	(4)	(47)	(75)
Interest expense	4	2	5	11
Closing balance	352	118	404	874
Non-current	309	114	358	781
Current	43	4	46	93

Year ended 31 December 2019 (restated data)

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Jubilee bonuses	Provisions total
Opening balance	378	450	119	450	1 397
Current service costs	28	6	5	39	78
Actuarial gains and losses, of which:	15	79	50	8	152
arising from changes in financial assumptions	34	76	24	29	163
arising from changes in demographic assumptions	-	-	1	1	2
arising from other changes	(19)	3	25	(22)	(13)
Benefits paid	(25)	(6)	(4)	(46)	(81)
Past-service costs	-	(533)	-	-	(533)
Interest expense	7	4	2	8	21
Closing balance	403	-	172	459	1 034
Non-current	361	-	168	413	942
Current	42	-	4	46	92

Sensitivity analysis

As at 31 December 2021, 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 2021	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 post-death benefits	352	368	16	339	(13)	340	(12)	367	15
Costs of appropriation to Social Benefits Fund	118	126	8	110	(8)	109	(9)	126	8
Jubilee bonuses	404	418	14	392	(12)	395	(9)	416	12
Total	874	912	38	841	(33)	844	(30)	909	35
effect on profit/loss			14		(12)		(9)		12
effect on other comprehensive income			24		(21)		(21)		23

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
2022	43	4	46	93
2023	24	5	41	70
2024	27	5	38	70
2025	21	5	33	59
2026	21	5	32	58
Other years	216	94	214	524
Total	352	118	404	874

39. 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%.

In estimating the level of provisions as at 31 December 2021, the Group adopted an estimate of the discount rate at a level of 3.6% and the expected long-term inflation rate of 2.5%.

	Year ended 31 December 2021			Year ended 31 December 2020		
	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	375	208	583	306	194	500
Unwinding of the discount	5	2	7	6	4	10
Discount rate adjustment	(123)	(42)	(165)	63	24	87
Recognition/(reversal), net	-	(17)	(17)	-	(12)	(12)
Utilisation	-	(6)	(6)	-	(2)	(2)
Closing balance	257	145	402	375	208	583
Non-current	257	129	386	375	196	571
Current	-	16	16	-	12	12
Other provisions, long-term portion			50			98
Total			436			669

39.1. 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 financial assets, while the balance of the MDF is recognised under the provision for future costs of mine decommissioning.

As at 31 December 2021, the balance of the provision amounted to PLN 257 million 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 - an increase in the discount rate from 1.2% to 3.6%.

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 2021	Year ended 31 December 2020
Assets as at 1 January	53	50
Contributions made	6	4
Use	(3)	(1)
Assets as at 31 December	56	53
Transfers made to the MDF in the period	(5)	(5)

Provision for mine decommissioning costs

	As at 31 December 2021	As at 31 December 2020
Mine Decommissioning Fund	60	57
Surplus of discounted estimated decommissioning costs	197	318
Total	257	375

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

	Year ended 31 December 2021				Year ended 31 December 2020			
	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	20	158	30	208	31	133	30	194
Interest cost (discounting)	-	2	-	2	1	2	1	4
Discount rate adjustment	(3)	(38)	(1)	(42)	1	22	1	24
Recognition/(reversal), net	1	(17)	(1)	(17)	(12)	1	(1)	(12)
Utilisation	-	-	(6)	(6)	(1)	-	(1)	(2)
Closing balance	18	105	22	145	20	158	30	208
Non-current	14	105	10	129	20	158	18	196
Current	4	-	12	16	-	-	12	12

40. 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 financial year indicates the expected deficit of emission allowances awarded free of charge, including allocation of free emission allowances to facilities belonging to individual Generation companies. The Group companies covered by 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 day:
 - 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 day:
 - 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 day, 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 enterprises trading in electricity and reselling it to the final consumer shall be obliged to purchase and present for redemption certificates of origin for electricity and energy efficiency certificates or to pay a substitution fee. 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 origin of electricity generated in renewable sources for redemption and certificates of energy efficiency is recognised:

- in the part covered by certificates of origin and certificates of energy efficiency held as at the balance sheet day - at the value of the certificates held,
- in the part not covered by certificates of origin and certificates of energy efficiency held as at the balance sheet day – in the first instance, at values arising from concluded forward transactions, for the purchase of certificates allocated for the fulfilment of the obligation for the current year, and subsequently - at a market value of certificates required to fulfil the obligation as at the balance sheet day, or at a level of the substitution fee – in accordance with the intention of the entity concerning the method of fulfilment of the obligation,

taking into account the Group's intention to allocate certificates of origin and energy efficiency certificates for redemption purposes for a given financial year at the time of their production or purchase.

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 basis of the decision issued by the President of the Energy Regulatory Office on redemption of certificates of origin of electricity submitted by the company or in connection with the payment of the substitute fee.

	Year ended 31 December 2021			Year ended 31 December 2020 (restated figures)		
	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	981	769	1 750	772	606	1 378
Recognition	2 148	859	3 007	986	762	1 748
Reversal	(1)	(10)	(11)	-	(3)	(3)
Utilisation	(1 635)	(1 221)	(2 856)	(777)	(596)	(1 373)
Closing balance	1 493	397	1 890	981	769	1 750

The increase in the cost of creating the provision for CO₂ emission liabilities in the year ended 31 December 2021 compared to the comparative period is described in Note 13 to these consolidated financial statements.

In the year ended 31 December 2021, the Group has already made partial redemptions resulting from the obligation for 2021.

41. 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, that will be obtained under the agreement, 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 from 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 2021				Year ended 31 December 2020 (restated figures)			
	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	77	85	228	390	88	242	397	727
Recognition/(reversal), net	-	385	(33)	352	(15)	38	(80)	(57)
Utilisation	(3)	(54)	(32)	(89)	-	(195)	(63)	(258)
Other movements	-	-	-	-	4	-	(26)	(22)
Closing balance	74	416	163	653	77	85	228	390
Non-current	-	8	42	50	-	28	70	98
Current	74	408	121	603	77	57	158	292
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions				16				12
Total				619				304

41.1. Provision for the non-contractual use of real estate

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 2021, the provision on this account amounted to PLN 74 million and was related to the segments:

- Generation – PLN 36 million;
- Distribution – PLN 34 million;
- Renewable energy sources – PLN 4 million.

In 2012, the third party applied to TAURON Ciepło S.A. (currently TAURON Ciepło Sp. z o.o.) demanding the settlement 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 took legal action to enforce 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*.

41.2. Provisions for onerous contracts

As at 31 December 2021, the Group has identified contracts for the sale of electricity in future reporting periods where the sales revenue generated will not fully cover the costs to be incurred in connection with the necessity to either purchase electricity or produce electricity required to implement the sales contracts. In connection with the foregoing, the Group recognised provisions for onerous contracts in the total amount of PLN 416 million.

Within the Sales segment, the Group recognised a part of the provisions related to electricity sales contracts in the amount of PLN 127 million, relating in particular to:

- customers using the ERO G tariff in connection with the adoption, for the calculation of the sales price for these customers for 2022, of the parameters set out in the call of the ERO President approved in December 2021 resulting in the impossibility of generating revenues from the sales of electricity in a value that would cover the justified costs of conducting activities in this field,
- customers who use the product price lists offered by the companies, including in the area of individual customers ("GD price lists"). The need to create provisions for GD price lists is significantly affected by the ERO G tariff due to the fact that some product contracts in the household segment link electricity rates with the ERO G tariff price,
- business customers with individually negotiated contracts who benefited in 2022 from the option to be billed at prices resulting from the companies' tariffs, in connection with an increase in the cost of purchasing electricity to secure the volume of sales to these customers under the guarantee of fixed electricity sales prices to these customers throughout 2022.

Within the Generation segment, the Group recognised a part of provisions in the amount of PLN 289 million, created in connection with the shutdown of the 910 MW unit in Jaworzno planned until 29 April 2022, which is described in more detail in note 59 to these consolidated financial statements. The provision created in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* was calculated based on the assumption that the Group will purchase the volume of 1.7 TWh of electricity which will not be produced within own production due to the shutdown of the 910 MW unit in Jaworzno. Due to the shutdown of the 910 MW unit and the need to fulfil contracted supplies to customers, the Group purchases electricity on the wholesale market at current prices and then resells it through the companies of the Sales segment to the end customer. The calculation of the provision was based on the price difference between the estimated purchase price of electricity by the Group on the wholesale market and the estimated achievable price of electricity sales by the companies of the Sales segment to the end customer taking into account the unit cost of certificates of origin and excise tax per 1 MWh of energy sold. The key assumptions underlying the calculation of the provision, i.e. the purchase price of electricity on the wholesale market, the sales price of electricity to the end customer and the cost of redemption of energy certificates of origin, are consistent with those used for the asset impairment tests and are described in Note 11 to these consolidated financial statements.

As at 31 December 2020, companies in the Sales segment of the electricity trading business recognised the provision for onerous contracts in the amount of PLN 76 million relating to customers who use the product price lists offered by the companies, including within GD price lists in the amount of PLN 69 million. The need to create the provision resulted from the lack of possibility of generating revenues from the sale of electricity in the value covering the costs of operations in this area, mainly as a result of the increase in the cost of purchasing electricity or production of electricity by the Group for price lists with a fixed sales price. Throughout 2021, as a result of the application of the aforementioned price lists, the companies generated a loss on the sales of electricity to customers and therefore utilised the provision in the amount of PLN 53 million.

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

Material provisions recognised within other provisions are described below:

Operating segment	Description	Status as at 31 December 2021	Status as at 31 December 2020
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, Katowice and Cracow 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 2021, the company from the Distribution segment created the provision in the amount of PLN 7 million, released the provision of PLN 22 million and used the provision of PLN 11 million.	33	59
Provision for real estate tax			
Distribution	Provision for the economic risk in the scope of real estate tax relating to power grid assets.	39	39
Renewable Energy Sources	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.	17	17

42. Accruals and governmental 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 borrowings 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.

42.1. Deferred income and government grants

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Deferred income	41	45
Donations, subsidies received for the purchase or fixed assets received free-of-charge	36	40
Other	5	5
Government grants	561	479
Subsidies obtained from EU funds	485	394
Measurement of preferential loans	29	31
Forgiven loans from environmental funds	24	29
Other	23	25
Total	602	524
Non-current	567	494
Current	35	30

42.2. Accrued expenses

	As at 31 December 2021	As at 31 December 2020 (restated figures)
Bonuses	60	63
Unused holidays	35	50
Environmental protection charges	26	22
Other accrued expenses	22	17
Total	143	152
Non-current	1	1
Current	142	151

43. 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 from 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 45) 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 2021 and as at 31 December 2020 are presented in the table below:

Operating segment	As at 31 December 2021	As at 31 December 2020 (restated figures)
Mining	164	138
Generation	168	163
Renevabe Energy Sources	14	13
Distribution, including: liability to Polskie Sieci Elektroenergetyczne S.A.	409	242
Sales	331	183
Other	389	372
Total	1 242	1 021

44. Liabilities due to acquisition of non-controlling shares

On 22 December 2021, the agreement ("Agreement") was concluded between the Company and Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN (hereinafter: "PFR Fund") under which the Company acquired 176 000 shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. representing 13.71% of the total number of votes at the shareholders' meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. for the amount of PLN 1 061 million. The transfer of title to the shares took place upon the conclusion of the Agreement. Following the transaction, the Company holds 100% of the votes at the general meeting of shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o. In accordance with the agreement, the deadline for payment of the sales price is 90 days from the date of conclusion of the agreement, i.e. 22 March 2022. On 22 March 2022, the Company repaid the liabilities arising from this Agreement.

The parties agreed that, upon payment of the sales price, the shareholders' agreement and the investment agreement concluded in 2018 between the Company, Nowe Jaworzno Grupa TAURON Sp. z o.o. and the PFR Fund, determining the terms and conditions of the PFR Fund capital investment in Nowe Jaworzno Grupa TAURON Sp. z o.o., would be terminated. At the same time, the parties agreed that from the moment of conclusion of the Agreement until the full payment of the sales price (whichever occurs first), withdrawal from the Agreement by the PFR Fund (which is possible only in the cases specified in the Agreement, related to the lack of timely payment of the sale price by TAURON) or its expiry for any other reason, the shareholders' agreement and the investment agreement, to the extent to which they relate to the corporate rights of the PFR Fund as a partner of Nowe Jaworzno Grupa TAURON Sp. z o.o. specified in the Agreement, shall not apply, i.e. they shall be suspended in accordance with the rules set forth in the Agreement.

In order to secure the Fund's claims under the Agreement, the Company established a registered and ordinary pledge on the acquired shares and provided a security in the form of a declaration of submission to enforcement, which is described in more detail in Note 55 to these consolidated financial statements.

As at the balance sheet day, the Group recognised a contractual liability in the amount of PLN 1 061 million and derecognised the value of non-controlling interests in Nowe Jaworzno Grupa TAURON Sp. z o.o. for the acquisition in the amount of PLN 903 million. The difference of PLN 158 million was charged to the Group's retained earnings.

The conclusion of the Agreement and reducing of the period of the PFR Fund's capital commitment is related to the change of circumstances resulting from the governmental programme involving the separation of assets related to energy generation in conventional coal units from companies with the State Treasury share and their ultimate integration within the National Energy Security Agency.

45. Investment liabilities

Short-term investment liabilities as at 31 December 2021 and as at 31 December 2020 are presented in the table below:

Operating segment	As at 31 December 2021	As at 31 December 2020 (restated figures)
Mining	30	102
Generation	110	372
Renevabe Energy Sources	19	4
Distribution	345	254
Sales and Other	112	125
Total	616	857

Long-term investment liabilities are presented in the consolidated statement of financial position under other financial liabilities. As at 31 December 2021, the related liability did not occur, while as at 31 December 2020, it amounted to PLN 23 million.

Commitments to incur capital expenditure

As at 31 December 2021 and as at 31 December 2020, the Group committed to incur expenditure of PLN 2 844 million and PLN 3 309 million, 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 2021	As at 31 December 2020 (restated figures)
Distribution	Construction of new electrical connections	1 342	1 426
	Modernization and reconstruction of existing networks	556	709
Generation	Construction of 910 MW Power Unit in Jaworzno	166	232
	Expansion of heat sources in new capacities	141	2
Mining	Construction of the "Grzegorz" shaft with the accompanying infrastructure and excavations	96	126
Renewable Energy Sources	Construction of wind farms	82	202
Other	Construction of a broadband Internet network under the Operational Programme Digital Poland	62	154

46. Settlements due to income tax

Income tax receivables in the amount of PLN 415 million relate to:

- The Tax Capital Group ("TCG") which, as at 31 December 2021 had income tax receivables of PLN 373 million, representing the surplus of advances paid in the amount of PLN 401 million over the tax burden of the TCG in the amount of PLN 28 million.
- the company TAURON Ciepło Sp. z o.o., which is not part of the current TCG, in the amount of PLN 42 million.

Income tax liabilities of PLN 4 million relate to companies outside the TCG.

The Tax Capital Group Agreement for 2021-2023 was registered on 14 December 2020. Main companies forming the TCG since 1 January 2021 include: 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., TAURON Zielona Energia Sp. z o.o. (formerly: TEC3 Sp. z o.o.) and Kopalnia Wapienia Czatkowice Sp. z o.o.

On 24 March 2022, the tax declaration of the TCG for 2021 was submitted. In accordance with the submitted declaration, the condition required by law to maintain the TCG in subsequent years, regarding the minimum profitability of the TCG for 2021 at the level of 2%, was not met. In the Group's opinion, failure to meet the minimum profitability ratio of the Tax Capital Group for 2021 results in the loss of the taxpayer status of the Tax Capital Group with effect from 1 January 2022 and is an event after the balance sheet day that does not require correction of financial data in the consolidated financial statements for the year ended 31 December 2021 and does not affect the tax settlement of the tax group for 2021.

47. Liabilities arising from other taxes and charges

	As at 31 December 2021	As at 31 December 2020 (restated figures)
VAT	263	97
Social security	231	230
Personal Income Tax	69	62
Excise	15	13
Tax on civil law transactions	11	-
Other	40	8
Total	629	410

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 interim condensed 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.

PROFESSIONAL JUDGEMENT AND ESTIMATES

As at each balance sheet day, 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 2021	As at 31 December 2020 (restated figures)
Wages, salaries	220	232
Margin deposits arising from stock exchange transactions	102	73
Bid bonds, deposits and collateral received	64	86
Other	130	131
Total	516	522
Non-current	33	64
Current	483	458

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 2021	As at 31 December 2020 (restated figures)
Payments from customers relating to future periods	568	421
Amounts overpaid by customers	392	337
Prepayments for connection fees	107	44
Other	69	40
Other current non-financial liabilities	2	2
Total	570	423

EXPLANATORY NOTE 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

Changes in working capital

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Change in receivables	(786)	146
Change in receivables from buyers in statement of financial position	(849)	(182)
Change in other financial receivables	71	319
Adjustment due to change in receivables due to disposal of property, plant and equipment and financial assets	(8)	-
Other adjustments	-	9
Change in inventories	313	(196)
Change in inventories in statement of financial position	331	(190)
Adjustment related to transfer of inventories to/from property, plant and equipment	(18)	(6)
Change in payables excluding loans and borrowings	543	24
Change in liabilities to suppliers in statement of financial position	221	171
Change in payroll, social security and other financial liabilities	17	(6)
Change in non-financial liabilities in statement of financial position	143	55
Change in liabilities arising from taxes excluding income tax	219	(179)
Adjustment of VAT change related to capital commitments	(45)	14
Adjustment of other financial liabilities for guarantee valuation	12	(13)
Other adjustments	(24)	(18)
Change in other non-current and current assets	915	347
Change in other current and non-current non-financial assets in statement of financial position	(125)	106
Change in receivables arising from taxes excluding income tax	3	90
Change in non-current and current CO ₂ emission allowances	351	251
Change in non-current and current energy certificates	588	(38)
Change in advance payments for property, plant and equipment and intangible assets	99	(64)
Other adjustments	(1)	2
Change in deferred income, government grants and accruals	(87)	(47)
Change in deferred income, government grants and accruals in statement of financial position	69	30
Adjustment related to property, plant and equipment, intangible assets and right-of-use assets received free of charge	(47)	(13)
Adjustment related to subsidies received and refunded	(111)	(60)
Other adjustments	2	(4)
Change in provisions	358	(403)
Change of short term and long term provisions in statement of financial position	59	(258)
Adjustment related to actuarial gains/losses from provisions for post-employment benefits charged to other comprehensive income	118	(144)
Adjustment related to provisions recognized in correspondence with property, plant and equipment and other non-financial assets	170	(9)
Other adjustments	11	8
Total	1 256	(129)

Income tax paid

In the year ended 31 December 2021, income tax paid amounted to PLN 392 million, of which the amount of PLN 329 million related to the Tax Capital Group. The Tax Capital Group paid income tax in the amount of PLN 433 million on account of advance income tax payments for the first three quarters of 2021 and for December 2020 and received a refund of the surplus of income tax for 2020 in the amount of PLN 104 million.

In the year ended 31 December 2020, income tax paid amounted to PLN 60 million, of which the amount of PLN 43 million related to the Tax Capital Group. The Tax Capital Group paid advance income tax payments for 2020 in the amount of PLN 287 million and received a net inflow from income tax settlements for previous years in the amount of PLN 244 million.

In 2021, the Tax Capital Group makes quarterly advance payments for income tax, whereas in 2020 the Tax Capital Group made fixed monthly advance payments established in a simplified manner assessed on the basis of the tax return for 2018.

50.2. Cash flows from investment activities

Purchase of tangible fixed assets and intangible assets

	Year ended 31 December 2021	Year ended 31 December 2020
Purchase of property, plant and equipment	(2 514)	(3 371)
Purchase of intangible assets	(106)	(167)
Change in the balance of capital commitments (VAT-adjusted)	(221)	82
Change in the balance of advance payments	(99)	64
Costs of overhaul and internal manufacturing	(305)	(514)
Other	(10)	(2)
Total	(3 255)	(3 908)

Sale of shares

	Year ended 31 December 2021	Year ended 31 December 2020
Sale of shares in PGE EJ1 Sp. z o.o. (currently: Polskie Elektrownie Jądowe Sp.z o.o.)	53	-

50.3. Cash flows from financial activities

Repayment of credits/loans

	Year ended 31 December 2021	Year ended 31 December 2020
Repayment by the Company of tranches of loans to the Consortium of banks I	(3 300)	(4 240)
The repayment of the loan installments by the Company to the European Investment Bank	(162)	(162)
Other	(4)	(5)
Total	(3 466)	(4 407)

Interest paid

	Year ended 31 December 2021	Year ended 31 December 2020
Interest paid in relation to debt securities	(249)	(200)
Interest paid in relation to loans	(101)	(178)
Interest paid in relation to the lease and other	(7)	(7)
Total	(357)	(385)
investment expenditure	(14)	(169)
financial expenditure	(343)	(216)

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 2021, paid interest representing external financing costs subject to capitalisation in the value of fixed assets and intangible assets amounted to PLN 14 million, whereas in the comparable period, it amounted to PLN 138 million. The decline in capitalised external financing costs results mainly from the commissioning of the 910 MW unit in Jaworzno in November 2020.

Loans taken

	Year ended 31 December 2021	Year ended 31 December 2020
The launch of financing by the Company under loan agreements		
Banks Consortium I (launch of loan tranches)	2 000	1 950
Intesa Sanpaolo S.p.A. (activation of all available financing)	-	750
SMBC BANK EU AG (launch of all available funding)	-	500
Banks Consortium II (launch of loan tranches)	-	160
Other	3	9
Total	2 003	3 369

Subsidies received

Subsidies received in the year ended 31 December 2021 in the amount of PLN 114 million result mainly from the receipt by TAURON Obsługa Klienta Sp. z o.o. of instalments of the grant awarded by the European Regional Development Fund in the framework of the "Digital Poland" competition in the amount of PLN 76 million.

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 day, 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 day.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Group makes judgements regarding classification of financial instruments.

As at each balance sheet day, 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 includes mostly receivables from customers and loans granted. The measurement methodology is presented in Notes 31 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 2021		As at 31 December 2020 (restated figures)	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial assets measured at amortized cost	3 440		2 661	
Receivables from buyers	3 322	3 322	2 473	2 473
Deposits	56	56	53	53
Loans granted	26	26	26	26
Other financial receivables	36	36	109	109
2 Financial assets measured at fair value through profit or loss (FVTPL)	1 726		1 396	
Derivative instruments	626	626	159	159
Shares	141	141	122	122
Shares classified as fixed assets held for sale	-	-	53	53
Loans granted	74	74	73	73
Other financial receivables	70	70	68	68
Cash and cash equivalents	815	815	921	921
3 Derivative hedging instruments	371	371	-	-
4 Financial assets excluded from the scope of IFRS 9	597		587	
<i>Financial Instruments</i>				
Investments in joint ventures	597		587	
Total financial assets, of which in the statement of financial position:	6 134		4 644	
Non-current assets	1 443		929	
Investments in joint ventures	597		587	
Loans granted to joint ventures	99		97	
Derivative instruments	532		36	
Other financial assets	215		209	
Current assets	4 691		3 715	
Receivables from buyers	3 322		2 473	
Loans granted to joint ventures	-		2	
Derivative instruments	465		123	
Other financial assets	89		143	
Cash and cash equivalents	815		921	
Assets classified as held for sale	-		53	

TAURON Polska Energia S.A. Capital Group

Consolidated financial statements for the year ended 31 December 2021 compliant with the IFRS, approved by the European Union
(in PLN million)

Categories and classes of financial liabilities	As at 31 December 2021		As at 31 December 2020 (restated figures)	
	Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities measured at amortized cost	15 290		15 914	
Preferential loans and borrowings	15	15	17	17
Arm's length loans and borrowings	4 520	4 471	5 973	6 005
Bank overdrafts	-	-	2	2
Bonds issued	7 320	7 500	7 522	7 939
Liabilities to suppliers	1 242	1 242	1 021	1 021
Other financial liabilities	250	250	247	247
Liabilities due to the acquisition of non-controlling interests	1 061	1 061	-	-
Capital commitments	616	616	880	880
Salaries and wages	220	220	232	232
Insurance contracts	46	46	20	20
2 Financial liabilities measured at fair value through profit or loss (FVTPL)	495		86	
Derivative instruments	495	495	86	86
3 Derivative hedging instruments	-	-	90	90
4 Financial liabilities excluded from the scope of IFRS 9				
Financial Instruments	1 235		1 146	
Liabilities under leases	1 235		1 146	
Total financial liabilities, of which in the statement of financial position:	17 020		17 236	
Non-current liabilities	11 096		13 309	
Debt	10 947		13 171	
Derivative instruments	116		74	
Other financial liabilities	33		64	
Current liabilities	5 924		3 927	
Debt	2 143		1 481	
Liabilities to suppliers	1 242		1 021	
Liabilities due to the acquisition of non-controlling interests	1 061		-	
Capital commitments	616		857	
Derivative instruments	379		102	
Other financial liabilities	483		458	
Liabilities associated with assets classified as held for sale	-		8	

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 hierarchy level	Fair value measurement methodology
Financial assets/liabilities measured at fair value		
Derivatives, including:		
IRS and CCIRS	2	Derivatives have been measured in line with the methodology presented in Note 26 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 loans, i.e. applying market interest rates.

The fair value of other financial instruments as at 31 December 2021 and 31 December 2020 (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 following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the 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 2021		Year ended 31 December 2020	
	Not quoted shares	Loans granted	Not quoted shares	Loans granted
Opening balance	175	73	141	216
Gains/(losses) for the period recognized in financial revenue/expenses	(4)	1	(1)	(143)
Purchased	20	-	47	-
Sold (liquidation)/repaid	(53)	-	-	-
Other changes	3	-	(12)	-
Closing balance	141	74	175	73

In the year ended 31 December 2021 and 31 December 2020, no 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 2021

	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	10	-	-	-	-	10
Interest income / (expense)	-	23	(286)	(25)	(55)	(343)
Currency translation differences	(5)	1	19	-	-	15
Impairment / revaluation	67	(2)	12	-	-	77
Commission relating to loans and debt securities	-	-	(25)	-	-	(25)
Gain/(loss) on disposal of investments	(1)	(2)	-	-	-	(3)
Gain/(loss) on exercised derivative instruments*	47	-	-	-	-	47
Net financial income (revenues/costs)	118	20	(280)	(25)	(55)	(222)
Revaluation	(11)	(33)	-	-	-	(44)
Gain/(loss) on exercised derivative instruments*	114	-	-	-	-	114
Net operating income/(revenues/costs)	103	(33)	-	-	-	70
Remeasurement of IRS	-	-	-	455	-	455
Other comprehensive income	-	-	-	455	-	455

*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 2020 (restated data)

	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	-	-	-	-	6
Interest income / (expense)	4	22	(206)	(29)	(50)	(259)
Currency translation differences	(5)	8	(249)	-	-	(246)
Impairment / revaluation	110	(223)	(14)	-	-	(127)
Commission relating to borrowings and debt securities	-	-	(18)	-	-	(18)
Gain/(loss) on disposal of investments	2	(5)	-	-	-	(3)
Gain/(loss) on exercised derivative instruments*	12	-	-	-	-	12
Net financial income (costs)	129	(198)	(487)	(29)	(50)	(635)
Revaluation	(2)	(60)	-	-	-	(62)
Gain/(loss) on exercised derivative instruments*	(136)	-	-	-	-	(136)
Net operating income/(costs)	(138)	(60)	-	-	-	(198)
Remeasurement of IRS	-	-	-	(103)	-	(103)
Other comprehensive income	-	-	-	(103)	-	(103)

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

52. Objectives and principles 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) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).	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. 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. 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. 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.	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.	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. 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. 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 12 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.	Liquidity management policy for the TAURON Group

Risk exposure	Risk management	Regulation
Market risk - interest rate and currency risks		
The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.	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 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. For interest rate hedging transactions and wherever possible and commercially viable, the Company uses derivative instruments whose characteristics allows for the application of hedge accounting. 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.	Financial risk management policy for the 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

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 2021	As at 31 December 2020
Receivables from buyers	3 322	2 473
Derivative instruments	997	159
Cash and cash equivalents	815	921
Loans granted	100	99
Deposits	56	53
Other financial receivables	106	177

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 2021	As at 31 December 2020
Institutional clients	68.96%	64.45%
Individual clients	31.04%	35.55%
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 12.61% as at 31 December 2021 and 8.06% as at 31 December 2020, 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.

The ageing of receivables from customers and information on impairment losses on receivables from customers is presented in Note 31 to these consolidated financial statements.

52.1.2 Credit risk related to other financial receivables

The Group's other financial receivables at 31 December 2021 and as at 31 December 2020 mainly relate to institutional customers (share of 94.34% and 99.69%, respectively).

A significant item of other financial receivables are initial and margin deposits and other collaterals provided in respect of transactions entered into on stock exchange markets. In the opinion of the Company, the mechanisms of the stock exchange and the applied security measures materially mitigate 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 day, the Group estimates the impairment loss.

Ageing of other financial receivables measured at amortised cost as at 31 December 2021

	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	40	1	76	2	2	90	211
Allowance/write-down	(4)	(1)	(76)	(2)	(2)	(90)	(175)
Net Value	36	-	-	-	-	-	36

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	115	3	9	8	6	80	221
Allowance/write-down	(8)	(1)	(9)	(8)	(6)	(80)	(112)
Net Value	107	2	-	-	-	-	109

Change in allowances/write-downs on other financial receivables measured at amortised cost

	Year ended 31 December 2021	Year ended 31 December 2020
Opening balance	(112)	(116)
Recognised	(73)	(2)
Utilized	3	-
Reversed	7	6
Closing balance	(175)	(112)

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 82% as at 31 December 2021.

Derivatives

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, appropriately restated to account for the probability of default. The expected credit loss is calculated based on the time value of money. 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 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 2021 and 31 December 2020 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 a fair value through profit or loss, with the carrying amount of PLN 74 million takes into consideration the credit risk impact. 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 a policy of diversification of financing instruments but first of all it seeks to secure financing and maintain the ability of the TAURON 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 in the Group and in each company from the TAURON Group as well as financial expenses. 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 Group has financing available under concluded financing agreements. Agreements with funding available as at the balance sheet day and the use of funds are shown in the table below.

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	Borrowing institution	Funds availability termination date	As at 31 December 2021	
			Available limit according to the agreement	Carrying amount
Hybrid bond issuance scheme	Bank Gospodarstwa Krajowego	11.03.2023	450	-
loan	Consortium of banks I	31.12.2022	5 570	1 700
	Consortium of banks II	25.03.2025	500	160
	European Investment Bank	29.10.2024	2 800	-
	Erste Group Bank AG	15.06.2023	500	-
overdraft facility	Bank Gospodarstwa Krajowego	30.08.2022	250	-

Available financing agreements can be used for corporate-wide 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 2021, 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.

Financial liabilities as at 31 December 2021

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	11 855	(13 777)	(1 780)	(613)	(680)	(2 381)	(3 844)	(4 479)
Liabilities to suppliers	1 242	(1 242)	(1 241)	(1)	-	-	-	-
Liabilities due to the acquisition of non-controlling interests	1 061	(1 061)	(1 061)	-	-	-	-	-
Capital commitments	616	(616)	(595)	(21)	-	-	-	-
Other financial liabilities	516	(516)	(450)	(37)	(10)	(7)	(7)	(5)
Obligations under finance leases	1 235	(2 415)	(88)	(48)	(107)	(92)	(156)	(1 924)
Derivative financial liabilities								
Derivate instruments - commodity	494	(185)	(84)	(26)	(75)	-	-	-
Derivate instruments - CCIRS	1	(13)	-	(2)	(2)	(2)	(4)	(3)
Total	17 020	(19 825)	(5 299)	(748)	(874)	(2 482)	(4 011)	(6 411)

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	(15 318)	(1 075)	(561)	(2 542)	(590)	(5 319)	(5 231)
Liabilities to suppliers	1 021	(1 021)	(1 019)	(1)	(1)	-	-	-
Capital commitments	880	(880)	(832)	(25)	(23)	-	-	-
Other financial liabilities	499	(499)	(428)	(29)	(20)	(6)	(8)	(8)
Obligations under finance leases	1 146	(2 263)	(77)	(49)	(99)	(84)	(149)	(1 805)
Derivative financial liabilities								
Derivate instruments - commodity	84	(18)	-	(13)	(5)	-	-	-
Derivate instruments - IRS	90	(90)	(2)	(31)	(31)	(22)	(3)	(1)
Derivate instruments - CCIRS	2	(14)	-	(2)	(2)	(2)	(4)	(4)
Total	17 236	(20 103)	(3 433)	(711)	(2 723)	(704)	(5 483)	(7 049)

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 Elektrociepłownia 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 26 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 Group 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.

Financial instruments by interest rate type

Financial instruments	As at 31 December 2021			As at 31 December 2020		
	Fixed interest rate	Floating interest rate	Total	Fixed interest rate	Floating interest rate	Total
Financial assets						
Deposits	26	30	56	53	-	53
Loans granted	100	-	100	97	2	99
Cash and cash equivalents	-	766	766	-	788	788
Derivative instruments-CCIRS	26	-	26	5	-	5
Derivative instruments-IRS	371	-	371	-	-	-
Financial liabilities						
Bank overdrafts	-	-	-	-	2	2
Preferential loans and borrowings	-	15	15	-	17	17
Arm's length loans and borrowings	2 634	1 886	4 520	2 789	3 184	5 973
Bonds issued	6 750	570	7 320	6 782	740	7 522
Obligations under finance leases	1 235	-	1 235	1 146	-	1 146
Derivative instruments-CCIRS	1	-	1	2	-	2
Derivative instruments-IRS	-	-	-	90	-	90

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 Group identifies its exposure to the risk of changes in WIBOR, EURIBOR, ESTRON and LIBOR USD interest rate, whereas as at 31 December 2021 and 31 December 2020, its exposure to changes in EURIBOR, ESTRON and LIBOR USD rates was insignificant.

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The table below presents sensitivity of the gross profit/loss as well as other comprehensive income (gross) of the Group 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	31 December 2021		Sensitivity analysis for interest rate risk as at 31 December 2021		31 December 2020		Sensitivity analysis for interest rate risk as at 31 December 2020 (restated figures)	
	Carrying amount	Value at risk	WIBOR +64 bp	WIBOR -64 bp	Carrying amount	Value at risk	WIBOR +69 bp	WIBOR -69 bp
			Profit/(Loss) / Other comprehensive income*				Profit/(Loss) / Other comprehensive income*	
Financial assets								
Derivatives	997	397	82	(82)	159	5	9	(9)
Cash and cash equivalents	815	766	4	(4)	921	788	5	(2)
Loans granted	100	74	(4)	5	99	75	(5)	5
Financial liabilities								
Bonds issued	7 320	2 663	(17)	17	7 522	2 830	(20)	20
Arm's length loans	4 520	3 638	(23)	23	5 973	4 934	(34)	34
Derivatives	495	1	-	-	176	92	128	(128)
Total			42	(41)			83	(80)

* Refers to Interest Rate Swap financial derivatives covered by hedge accounting, as further discussed in Note 26 to these consolidated financial statements.

The risk exposure as at 31 December 2021 and as at 31 December 2020 is representative of the Group's risk exposure during the preceding one-year period.

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.

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 currency 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 2021					As at 31 December 2020				
	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	3 322	5	22	49	9	2 473	2	9	61	11
Derivatives	997	100	460	-	-	159	18	81	-	-
Other financial receivables	106	7	32	25	5	177	11	51	20	4
Cash and cash equivalents	815	22	101	24	5	921	27	124	29	5
Total		134	615	98	19		58	265	110	20
Financial liabilities										
Issued bonds	7 320	855	3 933	-	-	7 522	858	3 959	-	-
Liabilities to suppliers	1 242	4	21	7	1	1 021	12	57	8	1
Capital commitments	616	5	22	-	-	880	15	64	-	-
Derivatives	495	102	469	-	-	176	17	79	-	-
Other financial liabilities	250	22	102	-	-	247	16	73	-	-
Total		988	4 547	7	1		918	4 232	8	1
Net currency position		(854)	(3 932)	91	18		(860)	(3 967)	102	19

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.

CO₂ emission allowances are purchased to meet the redemption obligation by the Group's installations. In connection with CO₂ emissions for a given reporting period, the Group creates a provision for the obligation to redeem CO₂ emission allowances in the amount of CO₂ emission allowances held and contracted to purchase in EUR. Thus, the value of the provision is exposed to the risk of a change in the EUR/PLN exchange rate. Currency contracts related to the purchase of CO₂ emission allowances secure the Group's cash flows resulting from the purchase of allowances.

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 day.

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.

Classes of financial instruments	31 December 2021		Sensitivity analysis for currency risk as at 31 December 2021		31 December 2020		Sensitivity analysis for currency risk as at 31 December 2020	
	Carrying amount	Value at risk	EUR/PLN		Carrying amount	Value at risk	EUR/PLN	
			exchange rate EUR/PLN +5.88%	exchange rate EUR/PLN -5.88%			exchange rate EUR/PLN +5.78%	exchange rate EUR/PLN -5.78%
Financial assets								
Receivables from buyers	3 322	22	1	(1)	2 473	9	1	(1)
Derivatives	997	601	285	(285)	159	154	161	(161)
Other financial receivables	106	32	2	(2)	177	51	3	(3)
Cash and cash equivalents	815	101	6	(6)	921	124	7	(7)
Financial liabilities								
Bonds issued	7 320	3 933	(231)	231	7 522	3 959	(229)	229
Liabilities to suppliers	1 242	21	(1)	1	1 021	57	(3)	3
Capital commitments	616	22	(1)	1	880	64	(4)	4
Derivatives	495	470	(24)	24	176	81	(1)	1
Other financial liabilities	250	102	(6)	6	247	73	(4)	4
Total			31	(31)			(69)	69

The risk exposure as at 31 December 2021 and as at 31 December 2020 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 2021, 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 CO₂ 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 report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021. The Group manages its commercial risk following the developed and adopted *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. 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	2021		2020	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	2 414 222	559	2 814 471	703
Gas	MWh	4 720 343	572	3 965 153	331
Electricity	MWh	32 316 552	9 640	32 036 767	8 093
Heat energy	GJ	5 193 627	249	4 769 991	209
Total			11 020		9 336

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 belonging to the Polenergia and Wind Invest groups 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 or submit separate claims for compensation.

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 116 million (including Amon Sp. z o.o. – PLN 70 million, Talia Sp. z o.o. – PLN 46 million); Wind Invest group companies – PLN 402 million.

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. z 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. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. filed a complaint against the judgements. The judgement in the Amon Sp. z o.o. case is not final. In the case brought by Talia Sp. z o.o., on 20 December 2021 the Court of Appeals in Gdańsk announced a judgement dismissing the appeals of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The judgement of the Court of Appeals and consequently the preliminary and partial judgements and the supplementary judgement indicated above are final, however, it is possible to apply for the judicial review. These judgements do not award any damages from Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to the claimant, i.e. Talia Sp. z o.o.

The above-mentioned final, partial and preliminary judgements in the Talia Sp. z o.o. lawsuit do not change the Group's assessment that the chances of ultimately losing the case for damages in favour of Talia Sp. z o.o. are not higher than the chances of winning it, and therefore no provision is created for the related costs. The partial and preliminary judgement in the Amon Sp. z o.o. lawsuit does not change the Group's assessment that the chances of losing the case resulting in the necessity to pay compensation are not higher than the chances of winning it and therefore no provision is created for the related costs.

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 implement the security provision referred to above, Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. created a provision for onerous contracts. During the year ended 31 December 2021, the provision was fully released as a result of gaining profits due to the performance of framework agreements for the purchase of electricity and property rights with Pękanino Wind Invest Sp. z o.o.

Other cases are held at first instance courts (including one remanded for re-examination to the first-instance court by a second-instance court).

Taking into account the current status of the lawsuits and the circumstances surrounding them, the Group believes that the chances of losing the remaining lawsuits related to both declarations of ineffectiveness of termination of agreements and claims for damages are not higher than the chances of winning the lawsuits in question, and therefore it does not recognise a provision for related costs.

Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.

In 2017 and 2018, companies belonging to the Polenergia and Wind Invest groups filed actions against TAURON Polska Energia S.A. regarding payment of damages and determining 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 damages claimed in the lawsuits amount to: Polenergia Group companies – PLN 131 million, Wind Invest group companies – PLN 272 million.

Moreover, in their claims, the plaintiff companies indicate the following values of estimated damages that may arise in the future: Polenergia Group companies – PLN 265 million, Wind Invest Group companies – PLN 1 119 million.

The District Court in Katowice has jurisdiction to hear the lawsuits. All cases are held before the first instance courts. The proceedings 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.

Claim against PGE EJ 1 Sp. z o.o. (currently Polskie Elektrownie Jądrowe 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. (hereafter: "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 million. 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 then 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 November 2015, the District Court in Warsaw served PGE EJ 1 Sp. z o.o. with the claim lodged by the WorleyParsons consortium for the amount of approx. PLN 59 million, then extended in 2017 and 2019 to the amount of approx. PLN 128 million.

On 26 March 2021, the Company and other entities holding shares in PGE EJ 1 Sp. z o.o. signed an agreement with the State Treasury for the sale of shares in PGE EJ 1 Sp. z o.o., which is described in more detail in Note 34 to these consolidated financial statements. Moreover, the Company and PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded an annex to the WorleyParsons agreement of 15 April 2015 with PGE EJ 1 Sp. z o.o., regulating the issues of the parties' potential liabilities and benefits resulting from the settlement of the dispute with the WorleyParsons consortium following the sale of the shares in PGE EJ 1 Sp. z o.o. In accordance with the annex signed, the shareholders in proportion to their previously held number of shares in PGE EJ 1 Sp. z o.o. are liable for liabilities or proportionally entitled to benefits potentially arising as a result of the settlement of the dispute with the WorleyParsons consortium up to the maximum level of claims with interest set as at 26 March 2021, amounting respectively to PLN 140 million for claims raised by the WorleyParsons consortium against PGE EJ 1 Sp. z o.o. and PLN 71 million for claims raised by PGE EJ 1 Sp. z o.o. against the WorleyParsons consortium.

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.

On 15 June 2021 an amendment to the articles of association of PGE EJ 1 Sp. z o.o. was registered which, among others, changed the name of the company (following the conclusion of the share purchase agreement described above) to Polskie Elektrownie Jądrowe Sp. z o.o.

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. company 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 million including interest accrued 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 ERO President of 12 October 2001 concerning the resumption by GZE 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 lodged an appeal (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. After the balance sheet day, by the judgment of 9 February 2022, Huta's appeal was dismissed, and, inter alia, reimbursement of the costs of the appeal proceedings be awarded for the benefit of the Company. The judgment is final.

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. Consequently, 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, and currently before the Court of Appeal in Katowice refers to the payment of the amount of PLN 17 million including the statutory interest accrued 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 million, including the statutory interest, was lodged by the claimant in the event the action against TAURON Polska Energia S.A. is dismissed.

On 22 March 2021, the Regional Court in Katowice dismissed the claim of ENEA in its entirety and ruled on ENEA's obligation to reimburse the costs of the proceedings to the Company. The judgement is not legally binding. ENEA has filed an appeal against the above ruling. Until the date of approval of these consolidated financial statements for publication, no notice was delivered to the Company on the date of the appeal hearing.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions for costs were created by subsidiaries, TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. In the year ended 31 December 2021, the provisions were fully released due to the position of the companies and the assessment of the chances of positive outcome of the proceedings that ended with a non-final judgement favourable to the companies.

Proceedings initiated by the President of the Office of Competition and Consumer Protection and the President of the Energy Regulatory Office

Administrative and explanatory proceedings are pending against companies in the Sales segment. The companies provide clarifications in the respective cases on an ongoing basis and undertake 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.

As regards proceedings initiated to impose fines against companies from the Sales segment, for which the President of the Energy Regulatory Office issued decisions imposing fines, the company created provisions for pending proceedings in the total amount of PLN 3 million.

Non-contractual use of the real estate

The companies belonging to Group do not hold legal titles to all plots of land on which the distribution grids, heating installations 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 creates the provision for all court disputes filed in this respect. The provision is not established for unreported potential claims by 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 record of the reported claims and the costs incurred in this respect in previous years, the risk of the necessity to incur significant costs due to such claims can be considered as remote.

As at the balance sheet day, provisions in the amount of PLN 74 million were created for reported court disputes, which are recognised in the statement of financial position under other provisions (Note 41.1).

Claim for reimbursement of expenses incurred to protect a facility against the effects of mining operations

In December 2017, the subsidiary, TAURON Wydobycie 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 23 million as reimbursement of expenses for protecting the facility located in Jaworzno against the effects of mining exploitation. In addition, on 5 April 2018, the 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 Wydobycie S.A. 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).

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, the company does not create a provision for the above event.

Claim for amendment to the agreement for the construction of the Grzegorz Shaft in TAURON Wydobycie S.A.

The general contractor for TAURON Wydobycie 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 Wydobycie 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 Wydobycie 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 the company, in order to execute the investment in a manner consistent with the agreement concluded with 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.

In February 2021, the company filed a request for mediation with the Court of Arbitration at the General Counsel to the Republic of Poland. On

17 March 2021, the first mediation meeting was held as a starting point of the mediation process continuing to date.

The Group assesses that there is no basis to create provisions for the effects of the above events as at the balance sheet day. The case is not subject to legal proceedings.

55. Collaterals for repayment of liabilities

As part of its operations, the Group uses a number of instruments to hedge its own liabilities and liabilities of joint ventures under the concluded agreements and transactions. The major types of collaterals are presented below.

Collateral	Collateral amount as at	
	31 December 2021	31 December 2020
Declarations of submission to enforcement*	19 189	18 734
Pledges on shares	1 796	416
Corporate and bank guarantees	1 526	1 651
Bank account mandates	600	1 408
Blank promissory notes	499	682
Surety contracts	62	37

*As at 31 December 2021, the item comprises collaterals relating to agreements for which, as at the balance sheet day, the liabilities expired, were repaid or replaced by others, in the total amount of PLN 580 million.

The most significant items of collaterals include:

- The declaration of submission to enforcement up to PLN 7 284 million established for the bank facility agreement with the Consortium of Banks I of 19 June 2019, described in more detail in Note 37.2 to these consolidated financial statements.
- Collaterals for the repayment of liabilities due to the acquisition of non-controlling interests, as discussed in more detail in Note 44 to these consolidated financial statements.

As part of collaterals, pursuant to the agreement of 22 December 2021 concluded with Fundusz Inwestycji Infrastrukturalnych–Kapitałowy Fundusz Inwestycyjny Aktywów Niepublicznych (the "Fund"), the Company established pledges on 176 000 shares in the share capital of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., i.e. a registered pledge with the first priority of satisfying on the shares up to the maximum amount of security of PLN 1 380 million and an ordinary pledge with the first priority of satisfying equal to the priority of the registered pledge. Moreover, the Company assigned the rights to receive dividends or other profit distributions in respect of the pledged shares and granted the Fund an unconditional and irrevocable power of attorney to exercise the voting rights of the pledged shares in the subsidiary. The pledges were valid until the secured receivables were fully satisfied. In addition, the Company signed a declaration of submission to enforcement for the benefit of the Fund up to the amount of PLN 1 380 million, with the deadline of 22 September 2023. After the balance sheet day, on 22 March 2022, the Company repaid its obligations under the agreement to acquire shares in the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o.

- The registered pledge and the financial pledge established under the agreement concluded in 2015 on the shares held, representing 50% of the shares in the share capital of TAMEH HOLDING Sp. z o.o., in favour of RAIFFEISEN BANK INTERNATIONAL AG. The registered pledges are pledges with the highest priority of satisfaction on shares up to the highest amount of security in the amount of CZK 3 950 million and PLN 1 370 million, respectively. The agreement for the establishment of registered pledges and financial pledges was concluded in order to secure the transaction involving the agreement for term and working capital loans, which was concluded between TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as the original borrowers, TAMEH HOLDING Sp. z o.o. as the parent company and guarantor and RAIFFEISEN BANK INTERNATIONAL AG as the agent and collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment of secured receivables 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.
- The corporate guarantee was granted by the Company in 2014 to secure the bonds of Finanse Grupa TAURON Sp. z o.o. (the so-called NSV). The guarantee shall be effective until 3 December 2029, i.e. the redemption date of the bonds and amounts to EUR 168 million (PLN 773 million), while the beneficiaries of the guarantee are the private placement investors who purchased the bonds issued.
- The liability to MUFG Bank, Ltd. arising from the issuance of a bank guarantee at the request of the Company by MUFG Bank, Ltd. as a collateral for the receivables of Bank Gospodarstwa Krajowego (BGK) arising from the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and PGNiG S.A. As at the balance sheet day, the amount of the security granted is PLN 518 million, with the effective term to 11 April 2022. The receivables of the bank against the Company are secured by a declaration on submission

to enforcement up to the amount of PLN 621 million with a validity period until 31 October 2022. In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which amounted to PLN 16 million as at 31 December 2021 (PLN 28 million as at 31 December 2020).

After the balance sheet day, the following events took place:

- bank guarantees were issued in favour of Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT") to secure the liabilities of the Company in the total amount of PLN 150 million, with expiry dates from 14 February to 24 April 2022;
- on 4 January 2022, a declaration of submission to enforcement was signed up to the maximum amount of PLN 600 million with the expiry date of 15 December 2029, in connection with the conclusion of the facility agreement up to the maximum amount of PLN 500 million by the Company on 15 December 2021, as further described in Note 37.2 to these financial statements.
- on 4 March 2022, the Company concluded the annex to the agreement with BGK for the provision of bank guarantees under the line, extending its term by one year, i.e. until 13 March 2023. The agreement is secured by a declaration on submission to enforcement up to the amount of PLN 300 million with a period of effectiveness until 14 March 2025;
- on 14 March 2022, the Company concluded the agreement with Intesa Sanpaolo S.p.A. for a guarantee line of up to PLN 518 million, with a period of effectiveness until 11 October 2022, under which, at the Company request, a bank guarantee was issued to secure BGK receivables under the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and PGNiG S.A. The guarantee line is secured by a declaration on submission to enforcement up to the amount of PLN 621 million with a validity period until 14 March 2025;
- on 24 March 2022, the Company granted to the subsidiary TAURON Czech Energy s.r.o. security in the form of a corporate guarantee in the amount of EUR 3 million, as security for commercial agreements concluded by the company, valid until 31 January 2024 and in the form of a patronage declaration up to the amount of CZK 180 million, as security for a framework agreement for granting bank guarantees for the period of its validity.

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 day have been presented in the table below.

	As at 31 December 2021	As at 31 December 2020
Other financial receivables	29	49
Real estate	4	8
Cash	-	8
Total	33	65

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 2021 and as at 31 December 2020, the related collaterals amounted to PLN 29 thousand and PLN 49 million, respectively.

Collateral for transactions concluded on the Polish Power Exchange [Towarowa Giełda Energii S.A.]

The Company secures transactions concluded on the Polish Power Exchange [Towarowa Giełda Energii S.A.], among others, in the form of bank guarantees issued to IRGiT. As at 31 December 2021 and 31 December 2020, bank guarantees totalling PLN 70 million and PLN 180 million, respectively, were in force.

Pursuant to the agreement defining the principles for the establishment of financial collateral for the energy Group concluded with the IRGiT, TAURON Group applies a mechanism for setting off the margins. In terms of the transactions performed, the margins required by the IRGiT are calculated against the positions offset within the Group, which translates into the reduction in the funds involved on a Group-wide basis in maintaining the collateral required by the IRGiT.

Provision of funds to cover future decommissioning costs

In order to secure funds to cover future decommissioning costs, the Group's subsidiaries, i.e. TAURON Wydobycie S.A. and Kopalnia Wapienia Czatkowice Sp. z o.o. create the Mine Decommissioning Fund, as described in detail in Note 39.1 to these consolidated financial statements.

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 24 to these consolidated financial statements.

The total value of transactions with jointly-controlled entities is presented in the table below.

	Year ended 31 December 2021	Year ended 31 December 2020
Revenue	412	296
Costs	(488)	(118)

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 25 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 costs

	Year ended 31 December 2021	Year ended 31 December 2020
Revenue	3 344	2 473
Costs	(4 457)	(2 747)

Receivables and liabilities

	As at 31 December 2021	As at 31 December 2020
Receivables*	573	320
Payables	506	388

*As at 31 December 2021 and as at 31 December 2020, the receivables item in the table above comprises advance payments for the purchase of fixed assets in the amount of PLN 2 million and PLN 3 million, respectively.

Among the State Treasury companies, the largest customers of TAURON Polska Energia S.A. Group in the year ended 31 December 2021 included KGHM Polska Miedź S.A., PSE S.A. and Polska Grupa Górnicza S.A. The largest purchase transactions were performed by the Group with PSE S.A., Polska Grupa Górnicza S.A. and Węgłokoks S.A.

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Costs from State Treasury companies include the costs of charges to Polskie Sieci Elektroenergetyczne S.A., which are ultimately collected by the Group from electricity consumers and for which the Group acts as an intermediary, reducing in the consolidated statement of comprehensive income the revenue received from consumers by the costs incurred to Polskie Sieci Elektroenergetyczne S.A. The growth of costs in the current period in relation to the comparable period results mainly from the launch of operation of the Capacity Market from 1 January 2021 and the related cost of purchasing the capacity fee from Polskie Sieci Elektroenergetyczne S.A.

The Capital Group conducts material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. Due to the fact that this entity only arranges stock exchange trading, the purchase and sale transactions performed through it are not treated 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.

The above tables do not include transactions with banks controlled by the State Treasury, which, in accordance with IAS 24 *Related Party Disclosures*, are not considered related parties as funding institutions.

Transactions with the State Treasury

On 22 March 2021, an agreement was concluded between the State Treasury represented by the Minister of State Assets and the Company, under which the Company is authorised to receive reimbursement of the costs incurred in connection with the implementation of the activities commissioned to it pursuant to the decision of the Prime Minister of 29 October 2020 in the scope of counteracting COVID-19, consisting in organising and establishing a temporary hospital in Krynica - Zdrój and maintaining the operation of this hospital. The total costs incurred for this task amounted to PLN 9 million, and by the balance sheet day the Company had received reimbursement of the costs incurred in the total amount of PLN 7 million. In the year ended 31 December 2021, the costs incurred amounted to PLN 4 million. In principle, the settlement of the task has no impact on the financial results of the Company due to the entitlement of the Company to receive reimbursement of the reasonable costs incurred.

On 26 March 2021, the Company signed the agreement with the State Treasury concerning the sale of the shares in PGE EJ 1 Sp. z o.o. (currently: Polskie Elektrownie Jądrowe Sp. z o.o.), as further described in Note 34 to these consolidated financial statements.

56.3. Remuneration 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 2021 and in the comparative period has been presented in the table below.

	Year ended 31 December 2021		Year ended 31 December 2020	
	Parent	Subsidiaries	Parent	Subsidiaries
Management Board	4	22	5	24
Short-term benefits (with surcharges)	4	22	4	23
Employment termination benefits	-	-	1	1
Supervisory Board	1	-	1	1
Short-term employee benefits (salaries and surcharges)	1	-	1	1
Other key management personnel	16	47	17	45
Short-term employee benefits (salaries and surcharges)	14	47	15	44
Employment termination benefits	1	-	1	-
Other	1	-	1	1
Total	21	69	23	70

In accordance with the accounting policy adopted, the Group creates provisions for benefits due to members of the Management Board on account of termination of their management contracts and to other key executives on account of termination of their employment, which may be paid or payable in subsequent reporting periods. The table above takes into account the amounts paid and due to be paid until 31 December 2021.

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 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 2021.

In 2021, 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 Company primarily monitors the debt ratio of the Group, defined as the ratio of net financial debt to EBITDA. The TAURON Group's net financial debt is defined in individual financing agreements and generally represents the obligation to pay or reimburse the money on account of loans, borrowings and debt securities and on account of financial leases (within the meaning of the provisions of the IAS 17 standard), excluding: subordinated bond liabilities 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. In addition, the Company has the option, at its own discretion, to resign from including in the calculation the debt ratio the financing contracted by special purpose vehicles under the project finance formula (as long as such debt has no recourse to the Company), while excluding the

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(in PLN million)

EBITDA value of the relevant special purpose vehicle. In addition, sustainability indicators in the form of a RES capacity growth indicator and the CO₂ emission reduction indicator are monitored for some financing agreements.

The value of the indicators is monitored by the institutions financing the Group and rating agencies and affects the possibility and cost of fund-raising as well as the Company credit rating.

As at the balance sheet day, the debt ratio stood at 2.44, which is acceptable to financial institutions.

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Loans and borrowings	2 685	4 795
Unsubordinated bonds	5 145	5 322
Non-current debt liabilities	7 830	10 117
Loans and borrowings	1 850	1 197
Unsubordinated bonds	203	202
Liabilities due to the acquisition of non-controlling interests	1 061	-
Short-term debt liabilities	3 114	1 399
Total debt	10 944	11 516
Cash and cash equivalents	815	921
Net debt	10 129	10 595
EBITDA	4 152	4 226
Operating profit (loss)	916	(1 537)
Depreciation/amortization	(2 101)	(2 017)
Impairment	(1 135)	(3 746)
Net debt / EBITDA	2.44	2.51

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(in PLN million)

The change in debt liabilities is shown in the table below.

	Year ended 31 December 2021	Year ended 31 December 2020 (restated figures)
Opening balance	14 652	14 314
subordinated bonds	(1 998)	(1 913)
lease indebtedness (except for those meeting the conditions of IAS 17 Leases)	(1 138)	(1 007)
Opening balance - debt in the calculation of debt ratio	11 516	11 394
Proceeds arising from debt taken out	2 002	4 360
financing received	2 003	4 369
transaction costs	(1)	(9)
Interest accrued	409	426
charged to profit or loss	395	257
capitalized to property, plant and equipment and intangible assets	14	169
Debt related payments	(4 110)	(4 954)
debt securities redemption	(170)	(60)
principal repaid	(3 466)	(4 407)
lease instalments paid	(117)	(102)
interest paid	(343)	(216)
interest paid, capitalized to investment projects	(14)	(169)
Recognition of liabilities due to the acquisition of non-controlling interests	1 061	-
Change in the balance of overdraft facility and cash pool	1	(16)
Recognition of new lease agreements and change of lease agreements	163	187
Change in debt measurement	(25)	339
Other non-monetary changes	(2)	(4)
Closing balance	14 151	14 652
subordinated bonds	(1 972)	(1 998)
lease debt (except for debt meeting the conditions of IAS 17 Leases)	(1 235)	(1 138)
Closing balance - debt in the calculation of debt ratio	10 944	11 516

58. Fee of the certified auditor or the entity authorized to audit financial statements

Information on the auditor's remuneration is presented in section 6. of the Management Board's reports on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021.

59. Other material information

Signing the agreement concerning the cooperation in the field of unbundling of coal assets

On 23 July 2021, the Company, PGE Polska Grupa Energetyczna S.A., ENEA S.A., Energa S.A. (collectively, the "Energy Companies") and the State Treasury concluded the agreement on cooperation in the scope of unbundling of coal assets and their integration into the National Energy Security Agency (the "Agreement"). The conclusion of the Agreement is related to the document published by the Ministry of State Assets "Transformation of the electricity sector in Poland. Separation of coal assets from the companies with State Treasury shareholding". The above document presents the concept of unbundling of assets related to generation of electricity in conventional coal units from capital groups of individual Energy Companies, which stipulates, among others, integration of the aforementioned assets within a single entity, i.e. PGE Górnictwo i Energetyka Konwencjonalna S.A. - a subsidiary of PGE Polska Grupa Energetyczna S.A., which will ultimately operate under the name of National Energy Security Agency. Taking into account the foregoing and recognising the need to coordinate the cooperation in the planned process of unbundling coal assets, the parties declared the mutual exchange of necessary information under the Agreement, which will allow for the efficient and effective implementation of the process aimed at creating the National Energy Security Agency. After the balance sheet day, on 1 March 2022, the document "Transformation of the electricity sector in Poland. Separation of coal production assets from companies with the share of State Treasury" was adopted by the Government.

As at 31 December 2021, in the Group's opinion, the criteria of IFRS 5 *Non-current assets held for sale and discontinued operations* in the classification of the above assets as held for sale have not been met.

Shutdown of the 910 MW unit in Jaworzno

In the year ended 31 December 2021, the 910 MW unit in Jaworzno, operating as part of the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. (the "Unit") was shut down. The planned date of synchronization with the Unit's network is on 29 April 2022.

The key events that took place with regard to the Unit's shutdown are described below:

- On 2 August 2021, TAURON Polska Energia S.A. received a letter from its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. indicating that E003B7 Sp. z o.o. (a subsidiary of RAFAKO S.A.) submitted to Nowe Jaworzno Grupa TAURON Sp. z o.o. the schedule of works to be conducted on the Unit. The schedule comprising the date indicated by E003B7 Sp. z o.o. for the re-synchronisation of the Unit with the grid, i.e. 25 February 2022, resulted from the need to carry out work on certain elements of the Unit that were identified by internal equipment inspections during the Block downtime.
- On 8 September 2021, RAFAKO S.A., which is one of the members of the consortium RAFAKO S.A. - MOSTOSTAL WARSZAWA S.A. (the "Consortium") which performs the execution works related to the Unit, provided the Company with a statement that the condition to ensure efficient continuation of works on the Unit is the capital engagement by the Company in RAFAKO S.A. The Company did not take any decisions or actions aimed at acquiring a block of RAFAKO S.A. shares, including no negotiations with RAFAKO S.A. on this matter.
- On 8 September 2021, Nowe Jaworzno Grupa TAURON Sp. z o.o. received a call from RAFAKO S.A. to immediately clarify the causes of the fire incidents that occurred at the Unit, under the pain of withdrawal from the agreement concluded on 17 April 2014 for the construction of the Unit. In the opinion of the Company, any activities undertaken by Nowe Jaworzno Grupa TAURON Sp. z o.o., including in the framework of the execution of the investment and the operation of the Unit, including those related to the fire incidents mentioned above, were and are compliant with the highest standards and legal regulations, including fire protection regulations as well as with the operating documentation prepared by RAFAKO S.A. under the agreement for the construction of the Unit.
- On 3 November 2021, the Company was notified by its subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. of a new date declared by RAFAKO S.A. for re-synchronisation of the Unit with the grid, scheduled for 29 April 2022. A new date for re-synchronisation of the Unit with the grid was indicated in the minutes of the mediation of 3 November 2021, conducted with the participation of the Mediators of the Court of Arbitration at the General Counsel to the Republic of Poland.
- On 2 December 2021, Nowe Jaworzno Grupa TAURON Sp. z o.o., E003B7 Sp. z o.o. and the Consortium signed a settlement before the Court of Arbitration at the General Counsel to the Republic of Poland's Office. As part of the settlement, the date of the synchronisation of the Unit with the grid, scheduled for 29 April 2022, was confirmed. Moreover, the settlement regulates issues related to, among others, the performance by the Consortium of additional services and works reducing the costs of the future operation of the Unit, the principles and conditions regarding the waiver of contractual penalties accrued by the Parties and the pursuit of claims, the principles of calculating additional contractual penalties and withdrawal from the agreement in the event of a delay in the synchronisation of the Unit with the grid.
- In connection with the conclusion of the settlement, on 2 December 2021, Nowe Jaworzno Group TAURON Sp. z o.o. and the Consortium concluded annexes to the agreement for the construction of the Unit, which regulate in detail the mediation arrangements of the Parties. The total remuneration of PLN 91 million was agreed for the performance of additional services and works, the acquisition of the licence to the boiler workshop documentation, and the repair of the Unit. Furthermore, Nowe Jaworzno Grupa TAURON Sp. z o.o. conditionally undertook to entrust the Consortium with other works increasing the efficiency of the Unit if the Consortium performs the synchronisation of the Unit on time and presents a statement of the financial institutions securing the execution of the agreement, containing a consent to release additional financing for RAFAKO S.A. The value of the works referred to above was determined at a level of PLN 23 million. The settlement and the annexes referred to above shall enter into force upon the fulfilment of conditions precedent. The parties also agreed that the settlement concluded before the mediator would be referred to the competent common court with a request for its approval by the court. Upon final approval of the settlement concluded before the mediator by the court, the settlement shall acquire legal force of a court settlement. On 9 March 2022 Nowe Jaworzno Grupa TAURON Sp. z o.o. received a court decision of 1 March 2022 approving the settlement. On 24 March 2022, the deadline for lodging an appeal against the decision approving the settlement expired. Nowe Jaworzno Grupa TAURON Sp. z o.o. did not contest the settlement and, to the best of its knowledge, the settlement was also not contested by the Consortium.

Signing of the letter of intent concerning the sale of shares in the subsidiary, TAURON Wydobycie S.A.

On 15 September 2021, the Company signed a letter of intent with the State Treasury concerning the acquisition of 100% of the shares in TAURON Wydobycie S.A. by the State Treasury. The Company and the State Treasury have unanimously declared that they will undertake any measures necessary to prepare and execute the transaction and will in good faith conduct discussions, negotiations and take actions related to the transaction, including taking actions related to the selection of an appraiser for the valuation of TAURON Wydobycie S.A. The aforementioned letter of intent does not entail a commitment to conclude the transaction. The decision to proceed with the transaction will depend on

the outcome of the negotiations in this regard and the fulfilment of other conditions stipulated by law or corporate documents.

As at 31 December 2021, in the Group's opinion, the criteria of IFRS 5 *Non-current assets held for sale and discontinued operations* in the classification of the assets and liabilities of TAURON Wydobycie S.A. as held for sale have not been met.

Impact of the COVID-19 pandemic on the operations of the Group

2021 saw a continuing COVID-19 pandemic with an increase in cases resulting in record levels of registered SARS-CoV-2 infections, followed by a gradual decline in the second and third quarters of 2021 and the development of another wave of infections in the fourth quarter of 2021. In connection with the foregoing, depending on the current epidemiological situation, restrictions were in place in the country aimed at containing the spread of the pandemic. This situation triggered turbulences in the economic and administrative system in Poland and worldwide. As a consequence, mainly in the first and second quarter of 2021, the pandemic continued to contain the economic activity, affecting in particular the performance of companies in sectors such as tourism, trade and transport. Consequently, in the medium and long term, it should be expected - taking into account the continuing high level of infections and the emergence of new waves - that the COVID-19 pandemic will continue to affect the national, European and global economic situation, potentially having an impact on macroeconomic factors, i.e. on economic growth in Poland in the current year and in subsequent years, as well as on inflation. Material issues relating to the impact of the pandemic on the TAURON Group are set out below:

- Despite the applicable restrictions, an increase in demand for electricity of TAURON Group customers was observed in the period of 2021.
- No significant changes or permanent trends in the level of overdue receivables and volatility of electricity and related products prices resulting from the COVID-19 pandemic were observed in the reporting period.
- The persistent state of the COVID-19 pandemic in 2021 triggered some difficulties in the implementation of certain TAURON Capital Group's strategic investment projects, affected, among others, by disruptions in the supply of materials and equipment and by the occurring problems related to the functioning of public administration, which had an impact on the extension of the duration of administrative proceedings.
- The situation related to the COVID-19 pandemic continued to affect the operations of individual business areas through increased employee absenteeism and the growth of operating costs resulting from the requirement to ensure the epidemiological safety.

In 2021 the TAURON Group, being aware of the risks related to the epidemiological situation, continued to undertake active measures to mitigate the impact of the current and expected economic situation as well as to protect against extreme events. It should be stressed that the COVID-19 pandemic situation is highly volatile and the future impact and scale of the pandemic are currently difficult to estimate precisely. The duration of the pandemic, its severity and range, vaccination rate and the impact on the Polish economic growth in the short, medium and long term will be significant.

The Management Board of the Company, 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 TAURON Group.

60. Events after the balance sheet day

Release of credit tranches

Subsequent to the balance sheet day, the Company has released tranches under agreements concluded in October and December 2021:

- On 16 February 2022, the Company drew down funds in the amount of PLN 96 million under the loan agreement dated 15 December 2021 with Erste Group Bank AG;
- On 24 February 2022, a tranche of PLN 800 million was drawn down under the loan agreement of 29 October 2021 with the European Investment Bank.

The facility agreements mentioned above are further described in Note 37.2 to these consolidated financial statements.

Sale of 1 717 000 CO₂ emission allowances held by the Group for redemption purposes for 2022

Due to the failure of the 910 MW unit in Jaworzno in the middle of 2021, CO₂ emissions in 2021 at the subsidiary Nowe Jaworzno Grupa TAURON Sp. z o.o. were significantly lower than the volume of contracted and accepted CO₂ emission allowances secured by the Group for the planned energy production. Part of the resulting surplus of 1 717 000 EUAs

from the settlement of contracts in December 2021 was allocated for redemption purposes of another Group installation for 2022. With a view to aligning the delivery of allowances and the cash outlay, the Group after the balance sheet day decided to sell its surplus of CO₂ emission allowances (1 717 000 Mg CO₂) and simultaneously buy back this volume in the EUA MAR'23 forward product for the redemption purposes of emission allowance for 2022.

The transaction is one-off and incidental in nature and is a direct result of an unplanned, one-off event such as the failure of the 910 MWe unit. The Group physically accepted the allowances subject to sales and plans the physical acceptance of the allowances repurchased for redemption. The sale of EUAs results from the mismatch between the timing of contracts (deliveries) and redemption needs, as a consequence of an extraordinary event such as a unit failure. Accordingly, the transactions are excluded from the scope of IFRS 9 *Financial Instruments*.

The activities described above were carried out in the first quarter of 2022. The Group estimates, that the Group's result on account of resale will amount to PLN 400 million. At the same time, the repurchase of the volume in the EUA MAR'23 forward product at prices higher than the average price of resold allowances will increase the cost of the Group's provision created for CO₂ emission liabilities for 2022. As a result of the foregoing, the Group estimates that the cumulative impact of the measures described on its operating profit will not be significant.

Impact of the armed aggression of the Russian Federation against Ukraine on the current and future operations of the TAURON Group

In February 2022, the aggression of the army of the Russian Federation against Ukraine began what has triggered geopolitical tensions both in Europe and worldwide. In response to the situation, the European Union is introducing successive packages of sanctions against the Russian Federation, which take a wide and varied range of forms, including diplomatic and financial measures, individual sanctions and restrictions on economic relations.

TAURON Group identifies a surge in volatility and price levels of commodities listed in commodity markets (including oil, gas and coal), as well as electricity prices and CO₂ emission allowances. Major changes have been also recorded in foreign exchange quotations, including a significant depreciation of the PLN exchange rate against the EUR as well as an increase in market interest rates and an intervention increase in the NBP reference rate by 75 bps. Moreover, the third alert level CHARLIE-CRP was introduced on the territory of Poland, indicating an increased risk related to the possibility of terrorist events. It should also be noted that there are difficulties in accessing agro biomass, which is mainly imported from the territory of Ukraine.

In other areas, at the moment TAURON Group has not identified any direct effects of the aggression on its own operational and business activities so far, while the continuity of business processes is not at risk. The Group does not have any assets located in Ukraine, Russia or Belarus, and there were no significant transactions related to the sale or deliveries of the Group in these directions. It should be stressed that the situation related to the aggression of the troops of the Russian Federation against Ukraine is highly volatile and its future impact and scale are currently difficult to estimate precisely. They will depend, in particular, on the scale and duration of the aggression, as well as the impact on the condition of the Polish and global economies. The impact on TAURON Group will also depend on the scope of sanctions targeted at the Russian Federation and their impact on local and global political and economic relations.

Potential risks that could be a future consequence of this situation with an elevated risk of materialisation on TAURON Group include:

- increased cybersecurity risk (potential attacks on IT and OT systems and consequent disruption of its critical infrastructure),
- potential turbulences on the fuel market in the European Union and consequently high volatility of gas, hard coal and biomass prices, which may translate into the level and volatility of electricity prices, as well as the risk of ensuring sufficient supply of energy fuels in the Group,
- increased volatility of electricity prices, prices of CO₂ emission allowances and other related products, which may affect the market risk related to the Group's trading activities and may also influence the level of trading deposits resulting from transactions concluded on the TGE commodity exchange market,
- changes in the energy balance of the European Union and, as a consequence, the potential of increased operation of units located in the territory of Poland, which may cause disruptions in the operation of the power grid as well as increased load on the generating units in TAURON Group and escalation of the risk of energy fuel supply and the risk of maintaining strategic reserves,
- volatility of prices of raw materials and electricity and related products, which may affect the profitability of ongoing and planned investment processes,
- potential impact on the interference/disruption of supply chains of goods and services, which may affect, inter alia, potential delays in ongoing investment and restructuring processes,

- potential disruptions in the availability of liquid fuels may cause difficulties in road transport, which may translate into the lack of UPS and UPW receiving capacity and, consequently, into limitations in the operation of the TAURON Group generating units,
- increase in prices of raw materials and goods and services, which may have a negative impact on the condition of the economy, triggering further increase in inflation in Poland and other European Union countries,
- as a result of the potential deterioration of the economic situation, further increases in the level of interest rates (impact on the costs of financing based on a floating interest rate and impact on the future level of return on capital employed in the Distribution segment) and fluctuations in the exchange rate of the national currency against key foreign currencies can be expected,
- if the economic situation in the country deteriorates, it can be expected a decrease in the level of domestic demand for electricity, which may have an impact on the profitability of the Distribution segment and the Sales segment,
- as a result of the increased immigration of Ukrainian citizens to Poland, an increased demand for electricity in the household segment can be expected, which may translate into an increase in the cost of purchasing electricity in the Sales segment,
- possible disruptions in the operation of enterprises and possible reallocation of production plants capacity may affect the level of domestic electricity demand in the business customer segment, which may translate into profitability of the Distribution segment and the Sales segment,
- due to the potential reduction in trade exchange between Poland and the Russian Federation, as well as the potential economic slowdown, financial difficulties may be expected at some of the TAURON Capital Group's customers and counterparties, which may translate into an increase in credit risk at the Group,
- unfavourable perception of TAURON Group by financial institutions in the context of Poland's geographic location as a neighbouring country to Ukraine,
- potential restrictions in the access to IT infrastructure, internet and GSM networks, which may cause disruptions to operational processes and business continuity.

The aforementioned risks represent the effects of the situation observed, identified as at the date of preparation of the information, which may affect the operations of the TAURON Group in the future and therefore do not constitute an exhaustive catalogue.

Recognising the extent of the risk associated with the current situation, TAURON Group monitors the impact of the war on the territory of Ukraine on an ongoing basis and takes measures to mitigate the potential effects in TAURON Group risk materialisation as well as to maintain the continuity of critical infrastructure operations. The coordination of the works related to the identification of effects and response to risks is managed by dedicated Crisis Teams established both at a level of the Company and at a level of individual TAURON Capital Group subsidiaries.

Management Board of the Company

Katowice, 29 March 2022

Artur Michałowski – acting President of the Management Board / Vice-President of the Management Board

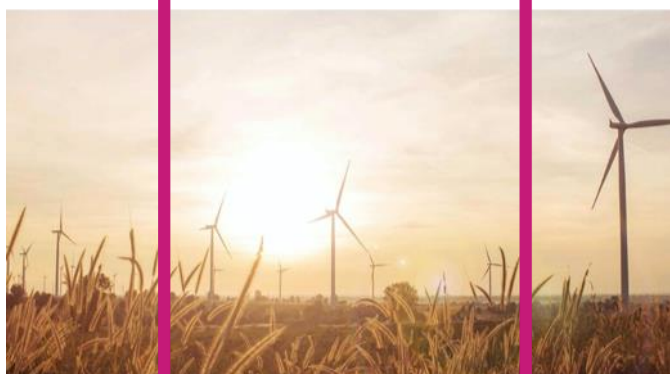
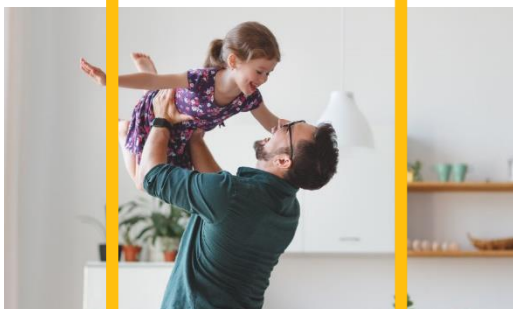
Patryk Demski – Vice-President of the Management Board

Krzysztof Surma – Vice-President of the Management Board

Jerzy Topolski – Vice-President of the Management Board

Artur Warzocha – Vice-President of the Management Board

Oliwia Tokarczyk – Executive Director for Accounting and Taxes



REPORT OF THE MANAGEMENT BOARD

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

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

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

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

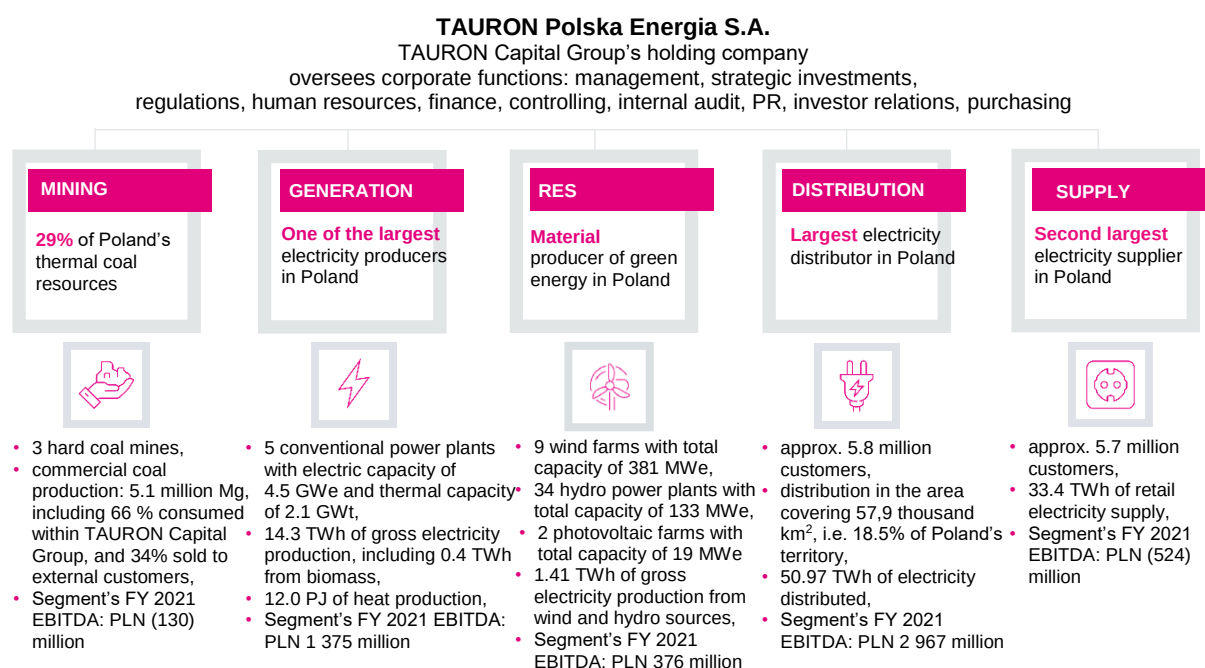
1.1. Basic information

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

The Company does not have any branches (plants).

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

Figure no. 1. TAURON Capital Group



OTHER OPERATIONS

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

1.2. Segments of operations (lines of business)

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

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

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



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



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



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

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



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

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

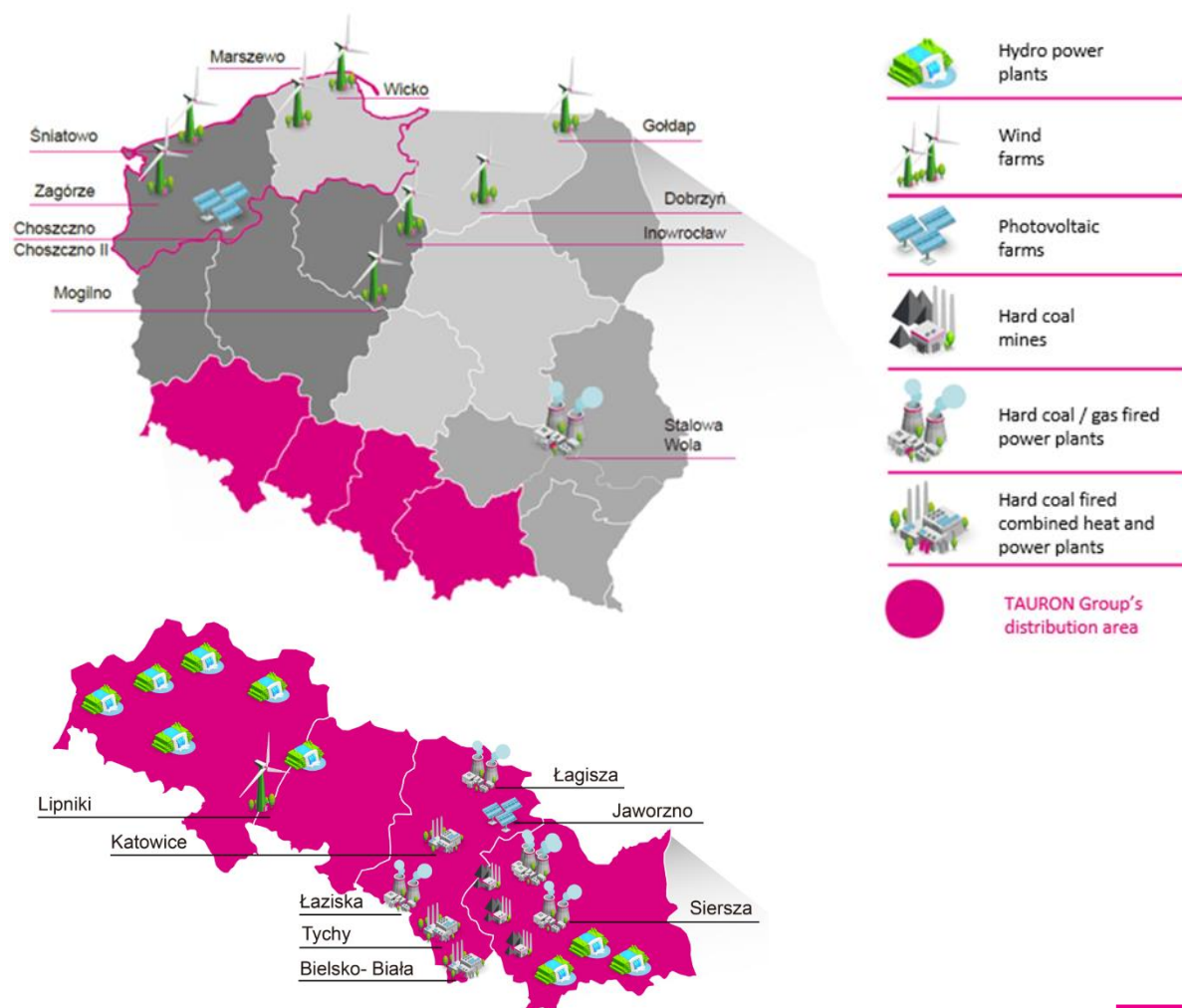


Supply Segment, comprising electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of the CO₂ emission allowances, property rights arising from the certificates of origin that confirm electricity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

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

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

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



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

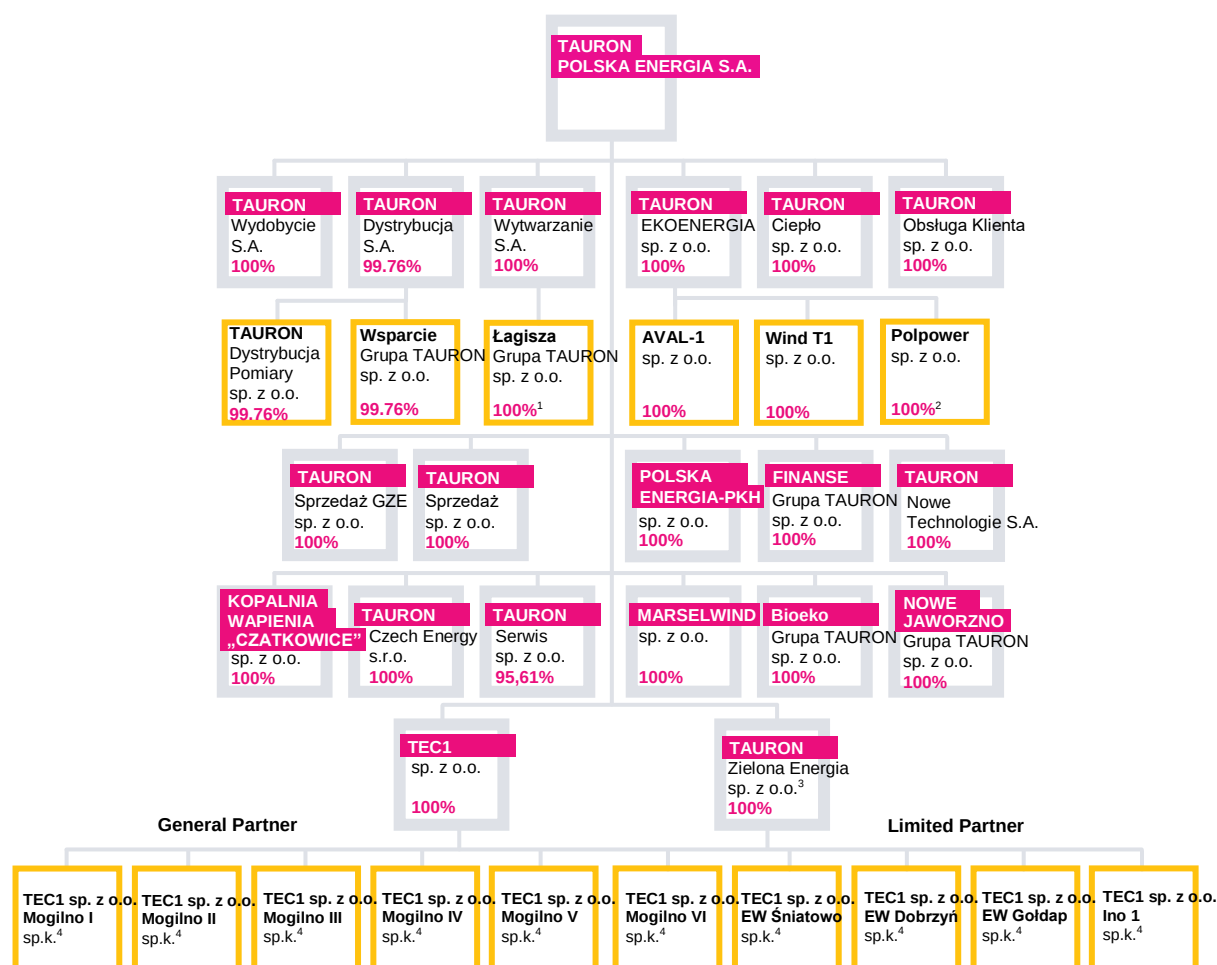
As of December 31, 2021, and as of the date of drawing up this report, TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 35 subsidiaries subject to consolidation, that are listed below.

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

Entities subject to consolidation

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

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



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

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

³Formerly: TEC3 sp. z o.o. (LLC)

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

Changes to the organization

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Change in the classification of TAURON Ciepło net assets

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

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

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

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

1.4. Organizational or equity ties with other entities

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

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

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

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

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

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

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

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

Taking up or acquiring share securities in TAURON Capital Group companies

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

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

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

Making additional contributions to the share capital of PEPKH

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

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

Acquisition of the shares in Nowe Jaworzno Grupa TAURON

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

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

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

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

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

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

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

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

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

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

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

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

Investments in the financial assets

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

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

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

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

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

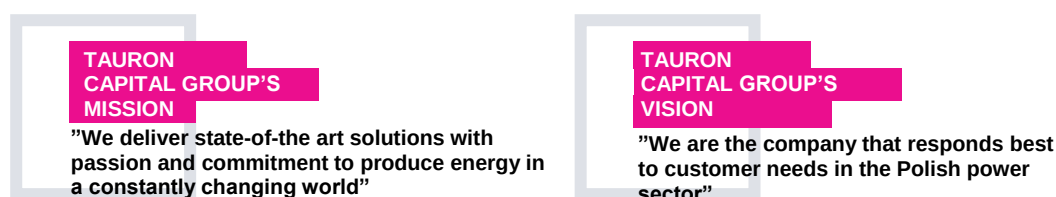
1.6. TAURON Group's Strategy for the years 2016-2025 and the implementation thereof

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

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

Mission, Vision and values

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



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

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



TAURON Capital Group's Strategy

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

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

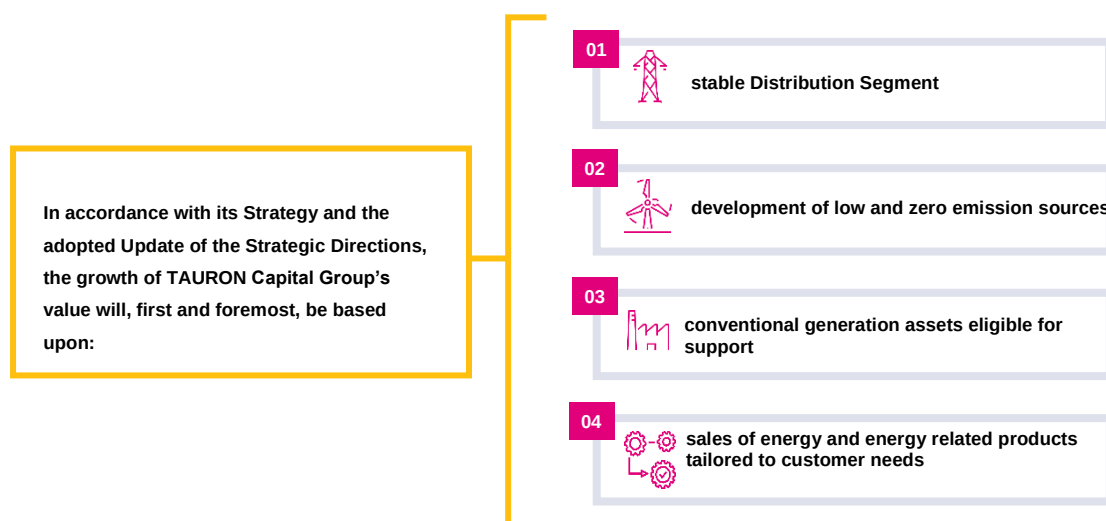
The Strategy sets out three priorities that assume the transition of TAURON Capital Group into a developing energy company adjusted to the needs of the market and the customer, ultimately providing its shareholders with a return on the invested capital:



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

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

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



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

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

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

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

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

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

Strategic goals	Growth prospects
RES Segment	
The main goal for the RES Segment is the profitable growth of this line of business based on the wind and PV technologies as well as improving the profitability of its hydro power generation assets. The activities undertaken are focused on improving the operational efficiency, while preparing and implementing the investment and expansion projects at the same time. The options for expanding the RES installations are being prepared by building the in-house sources as well as acquiring the existing installations and ready-made projects. The Update of the Strategic Directions has reinforced the importance of the clean energy development. The involvement in the low and zero emission energy is implemented through: 1. investments in the on-shore wind farms – the ultimate (target) level of the wind based capacity in 2025: approx. 1.1 GW, which represents an increase by approx. 900 MW as compared to the level as of the end of 2018, 2. investments in the photovoltaic farms: the ultimate (target) level of PV based capacity in 2025: approx. 0.3 GW, 3. readiness to take part in off-shore wind farm projects.	A strong growth of the RES sources has been observed over the last few years, in particular with respect to the photovoltaics installations. Poland almost doubled its PV installed capacity in 2021. According to the generally available sources, as of the end of 2021, Poland's PV installed capacity stood at 7.7 GW, having grown by more than 93% year over year. The environmental, economic and commercial benefits will continue to further drive the development (expansion) of the renewable energy sources. In the coming years, the growth of the RES line of business will focus on the investments in the photovoltaic farms and wind farms onshore, and in the longer term – the offshore wind farms. The technological changes related to the wind farms and the favorable regulations (the potential amendment of the so-called distance act) will translate into the growth of the line of business as well as the repowering of the installations. On the other hand, the opportunities for the emergence of the large scale offshore renewable energy sources are provided for by the Act on promoting electricity generation in the offshore wind farms adopted in 2021. An additional factor supporting the growth is the possibility of obtaining funds for investments from the dedicated funds.
Distribution Segment	
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. The capital expenditures are mainly allocated to the tasks related to connecting the new customers to the grid, as well as upgrading and expanding of the grid. The activities underway are aimed at ensuring the flexibility of the grid and simplifying the procedures related to connecting the new customers to the grid. The investment projects underway are adapting the distribution assets to the growing volume of electricity generated by the renewable sources, are aimed at ensuring the timely implementation of the process of connecting the micro-installations to the grid and are also preparing the grids to interoperate with the infrastructure for charging electric vehicles. The <i>Single Distribution Program</i>, that was made up of the projects aimed at optimizing the company's operational processes, including; the activities leading to raising customer satisfaction and improving the company's image, was completed. The Update of the Strategic Directions confirmed the legitimacy of TAURON Capital Group's growth based on, among others, the stable Distribution Segment.	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 the smart grids and smart meters will allow for introducing additional functionalities, both on the part of the distributor, as well as the customer. The Distribution Segment's growth will be significantly affected by the ability to obtain aid funds, both with respect to improving the grid security, as well as the research and development (R&D) activities. The above mentioned challenges will be dealt with on the regulated market that makes the Distribution Segment's operations dependent on the new elements of the regulatory policy towards the Distribution System Operators (DSOs), introduced by the President of ERO, and the risks related thereto. The potential changes to the energy law may have a material impact on the level of the financial results of this line of business.
Generation Segment	

Strategic goals	Growth prospects
The main goals for the Generation Segment include: 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. The goals set in the Strategy are to be accomplished by: 1. optimizing the costs and capital expenditures as well as streamlining employment level (headcount), 2. optimizing production assets, 3. selling redundant non-production assets, 4. investment projects that lead to the upgrading of the generation fleet The Update of the Strategic Directions indicated that the priority was to decommission all of the obsolete coal fired 120 MW units by the end of 2020. The further obsolete coal fired units (first of all the 200 MW units) will be retired in the years 2025-2030 – in total approx. 2.5 GW of installed capacity. Ultimately, the modern conventional units will remain a part of the production portfolio: Łagisza 460 MW and Jaworzno 910 MW. As part of the Update of the Strategic Directions, a market verification of the TAURON Ciepło subsidiary sale (divestment) option and the sale of the shares in EC Stalowa Wola and PGE EJ1 were assumed. In December 2021, the decision was made to keep the district heating assets within the structures of TAURON Capital Group. <i>The detailed information on the above topics is presented in sections 1.3. and 2.6. of this report.</i>	The tightening decarbonization policy as well as the energy and climate policy of the European Union (EU), combined with the increase in the prices of the CO₂ emission allowances set the direction of the development of the energy sector. In accordance with the main target of the European Green Deal, the EU is to reach climate neutrality by 2050. The curtailment of the support systems for the conventional energy as well as the prospect of a lack of the option to take advantage of the ETS derogations for the modernization of the coal assets are the further factors that have a negative impact on the profitability of such units. The curbing of the financing for the coal installations and for the capital groups that own such coal assets, as well as the narrowing group of the coal asset insurers reduce the economic sense of maintaining the conventional assets. With respect to the heat generation, distribution and trading, the material measures include the liquidation of the low emission sources, searching for the co-generation solutions as well as improving the rate of utilization of the existing infrastructure. The trends in the energy sector also indicate the need to engage in the development of the hydrogen technologies and the investments in the large scale gas fired sources as well as the gas fired co-generation. The ultimate shape of the domestic conventional energy sector depends on the implementation of the agreement, concluded in 2021, related to the cooperation on the spinning off of the coal assets and the integration thereof as part of the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE).
Supply Segment 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. A number of initiatives are implemented, aimed at increasing the sales potential (by transforming the customer service channels into the integrated customer contact channels), increasing the value of the products and services sales to mass customers (by developing the product offering and the sales techniques), developing products and building contact channels with respect to the specialty products as well the partnership offering addressed to the mass customer segment. The Update of the Strategic Directions confirmed the continuation of the development of the new energy related products and services, including: 1. for the business customers: consulting and management of the energy assets and infrastructure, the energy audit and efficiency improvement services, 2. for the institutional customers: the products and services with respect to Smart City, electromobility, low emissions reduction, multiutility.	The actions taken by the competition and the rising customer expectations have an impact on developing the product offering and maintaining the highest customer service standards. The growing customer awareness has an impact on the rising requirements, both with respect to the products offered, as well as the speed and quality of the customer service. The importance of ecology, a change in the customer's approach to the way electricity is consumed and a large increase in the number of prosumers are ever more affecting the needs and expectations of the customers. TAURON is systematically expanding its product offering, tailoring it to the expectations of the individual and business customers, and developing the communications channels, both on the level of digital platforms, as well as that of the direct contacts. Building a competitive advantage is contingent on the fast response to the market changes and customer expectations. With similar price offerings the competition for a customer will take place on the level of innovative product and service proposals, in particular on the level of the customer communications platforms and customer service quality. The market of ecological products and services, stemming from the necessity to implement the green transition, will also be undergoing a continuous development. In the long term, it becomes necessary to have a wider range of services and products, including, among others, the energy efficiency improvement services and products with a documented neutral or reduced environmental impact.
Mining Segment The main goal for the Mining Segment is to align the coal extraction output level to TAURON Capital Group's planned demand for the fuel and to provide a stable supply of the cost competitive and adequate, in terms of quality, fuel. As part of the Update of the Strategic Directions, a strategic option was adopted that involved conducting a market verification of the sale of ZG Janina (Janina Coal Mine). Due to the lack of bids, the process of finding a buyer was ended in December 2019. In September 2021, a letter of intent was concluded with the State Treasury regarding the potential disposal of the TAURON Wydobycie subsidiary, with the decision to carry out the transaction being dependent, inter alia, on the results of the negotiations in this regard and the fulfillment of other conditions specified in the legal regulations.	The upcoming time in the hard coal mining industry will be difficult due to the unfavorable prospects for this fuel in the EU energy policy. The introduction of further restrictions with respect to the environment protection, quality of solid fuels, taxes and local government regulations (including the anti-smog ones), as well as the curtailment or a lack of the possibilities to obtain the financing pose a challenge for the sector. The energy and climate regulations lead to a successive decline of the competitiveness of the coal fired electricity generation. The directions of the mining industry's development will also be strongly correlated with the guidelines outlined in the government documents: <i>Poland's Energy Policy until 2040</i> and the <i>National Plan for Energy and Climate for the years 2021-2030</i>. The above mentioned documents demonstrate the growing importance of the renewable energy sources (RES) and a gradual change in the country's generation mix at the expense of the conventional energy. In 2021, a social agreement for the mining industry was signed, which set out the rules and pace of retiring (decommissioning) the Polish hard

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

Key challenges

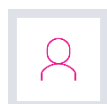
The Strategy and the Update of the Strategic Directions are TAURON Capital Group's responses to the challenges posed by the business environment and the requirements of the energy sector's customers:



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



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



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



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

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

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

Opportunities and threats

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

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

Opportunities	Threats
Regulations	
1. Participation in the government programs for the mining and conventional energy sectors. 2. Functioning of the dual-product market – additional revenue for maintaining the generation capacity. 3. Introduction of the legal solutions supporting the curtailment of the low emissions (for example the system district heating). 4. Possible softening of EU coal policy driven by the need to achieve independence from energy sources from Russia. 5. Funds allocated to the energy transition.	1. Tightening energy and climate policy of the European Union (EU): among others, the <i>EU taxonomy</i> and its impact on the possibilities of financing the investments in the energy sector, the <i>European Green Deal</i>, the strategy aimed at reaching the climate neutrality by 2050. 2. Increase of the costs of generating electricity using the conventional sources due to, among others, the ever higher environmental costs and the decarbonization policy. 3. The need to incur additional expenses due to the changes to the energy law.
Market	
1. Access to the largest, among Poland's energy companies, customer base. 2. Entry into the energy related services market segments based on the competences held. 3. Commercialization of the innovative solutions developed as part of the research and development (R&D) activities. 4. Preferential funding for the RES.	1. Rapid changes of prices on the gas market and increasing risk of its unavailability caused by political situation. 2. Loss of profitability of the Supply Segment caused by rapid changes of wholesale electricity prices. 3. Increasing prices and shortages of coal caused by low supply by local producers and difficulties with import. 4. Rapid changes of prices on raw materials market and related growing prices of investment goods that hinder planning and execution of investments. 5. Increase of proce competitive generation from RES and development of prosumers. 6. High inflation rate and the rising costs of the materials, services and labor.
Customer	
1. Competitive advantage with respect to the customer service quality. 2. Customer segmentation and offering of the additional products in line with the customer expectations. 3. Growing customer awareness and expectations towards the comprehensive, personalized offering of the additional services and products. 4. Expanding an offering of services for the customers based on the competences held and trust in the TAURON brand. 5. Developing modern and integrated sales and customer service channels. 6. New competences and business models based on the research and development (R&D) activities. 7. Maintaining of an upward trend in electricity consumption by the final consumers. 8. Developing competences and competitive advantages in the new areas of operations.	1. Potential loss of customers due to an increase in the number of the competitors offering customers similar products and due to the low electricity supply market entry barriers. 2. Decrease of the customer loyalty – intense activities conducted by the competitors. 3. Growing customer awareness and requirements with respect to the customer service quality and product offering. 4. Increase of the ecological awareness of the society (public). 5. Power independence of the consumers (prosumers, energy (power) islands, energy storage facilities, clusters). 6. Energy intensive consumers building the in-house generation sources, as a result of the drive to reduce the electricity costs. 7. "Carbon leakage" – moving business operations to other countries due to the cost of energy.
Technologies	
1. Continued decline of the prices of the renewable technologies. 2. Advancement of the energy storage technologies, smart technologies and the technologies related to the dispersed (distributed) generation. 3. Additional services for the customers related to the new technologies (internet of things, dynamic tariffs, virtual power plants). 4. Developing and implementing (commercializing) of proprietary innovative solutions that provide a competitive advantage. 5. Development of the technologies with respect to the circular economy.	1. Growth of the prosumer energy, partial energy independence of the final consumers. 2. The necessity to adapt the grid to the growth of the dispersed (distributed) power generation (bi-directional electricity flows). 3. Arrival of the new, cost competitive electricity generation technologies in the countries neighboring with Poland. 4. Growing number of cyberthreats.

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

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

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

The material opportunities include:

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

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

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

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

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

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

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

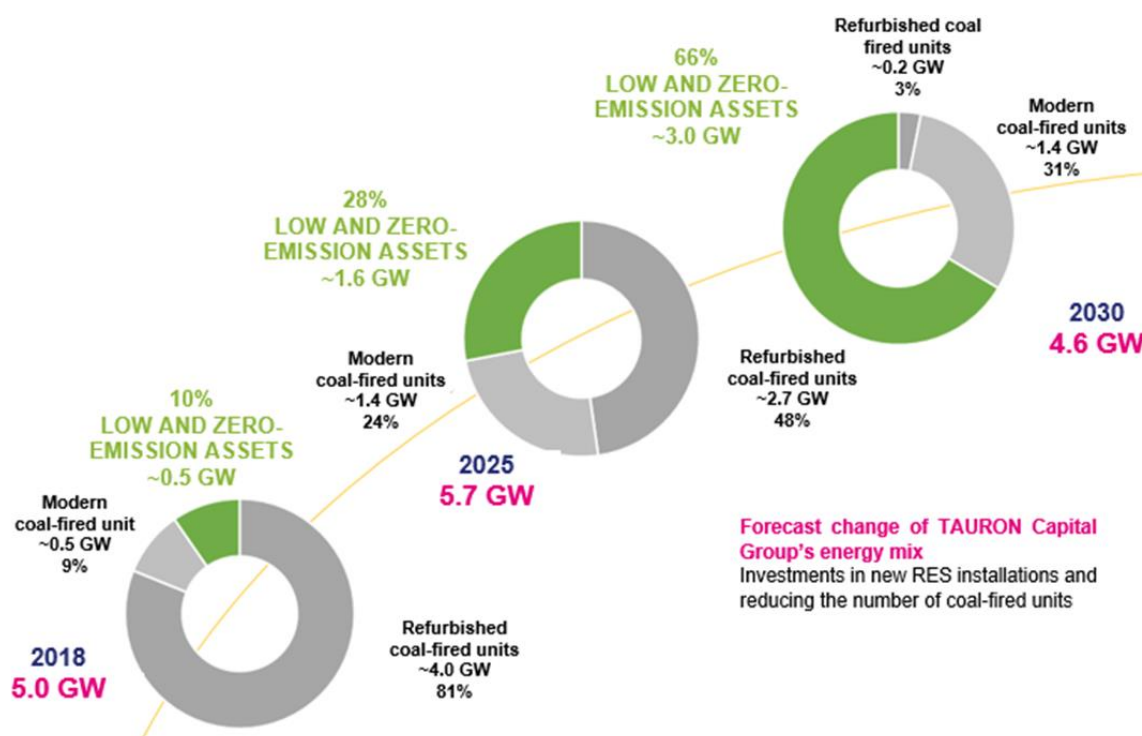
The document indicates the ultimate (target) structure of the generation assets of TAURON Capital Group. As a target, TAURON is planning to increase the share of the low and zero emission sources in the generation structure of TAURON Capital Group from 10% in 2018 to nearly 30 percent in 2025 and more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

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

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

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

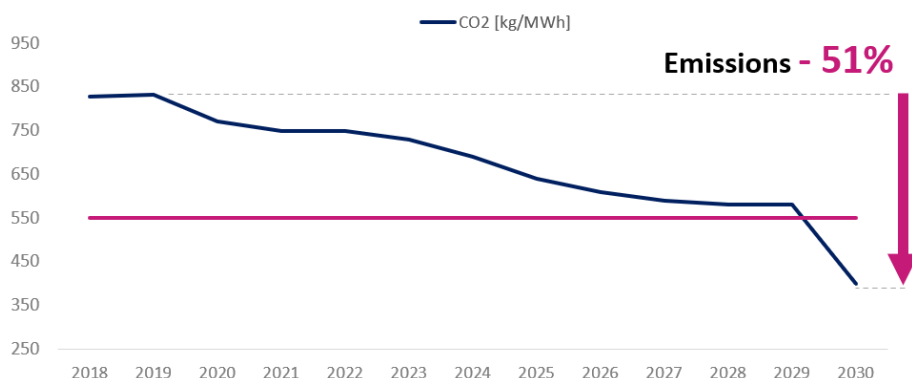
Figure no. 5. Direction of TAURON Capital Group's ultimate energy transition



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

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

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



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

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

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

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

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

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

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

Ensuring TAURON Capital Group's financial stability

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

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

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

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

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

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

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

Building a strong capital group

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

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

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

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

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

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

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

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

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

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

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

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

1.7. Description of the expansion policy and directions

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

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

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

Implementation of the strategic investment (CAPEX) projects

Key strategic investment (CAPEX) projects underway

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

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

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

Investment project	Investment project's work progress
2. Construction of the "Grzegorz" shaft (TAURON Wydobyćie), 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: 51 % Expenditures incurred: PLN 285.7 million	At the construction site of the "Grzegorz" Shaft, the construction of the infrastructure required to sink the shaft was completed and more than 80 m of the shaft was bored in the so-called ultimate mine shaft enclosure (casing). Mediation talks are held in order to determine the detailed conditions of the further conducting of the investment project. The freezing process is maintained at the construction site. As of the date of drawing up this report, no final and firm date for the resumption of the works has been established. The site continues to be ready for the continuation of the investment project works.
3. Construction of the 800 m level at the Janina Coal Mine (ZG Janina) (TAURON Wydobyćie). 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: September 23, 2021 Work progress: 100 % Expenditures incurred: PLN 454.1 million	The boring of the Route Diversion II workings had been continued until the 3rd quarter of 2021 and the alteration of the shaft sump at the level of 800 m was completed in the third quarter of 2021 The installation of equipment in the shaft adjacent basements at the level of 800 m was continued. In the first three quarters of 2021, a trial (test) operation of the mining shaft hoist was conducted to test the transportation of people and materials. The consent (approval, clearance) of the Director of the Specialist Mining Office (Specjalistyczny Urząd Górniczy) for the commissioning of the Shaft Mine Elevator at Janina VI shaft was obtained in August 2021 and the test (trial) run has been completed. In the third quarter of 2021, the Operations Manager of the Janina Coal Mine (Zakład Górniczy Janina) issued a permit to use the shaft hoist. The project was completed on September 30, 2021. The tasks that had not been completed as part of the project are the subject of the implementation of the investment tasks.
4. Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation Contractor: Contractors are being selected to carry out specific work (project) stages Planned project completion date: 2023 Work progress: 27 % Expenditures incurred: PLN 31.4 million	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. In 2021, the works related to installing the network connections were continued under the network connection agreements concluded and the process of acquiring new customers was continued. Cumulatively, from the beginning of the Program's implementation, the agreements have been concluded for the total volume of 18.91 MWT and the network connection conditions have been issued for 3.163 MWT.
5. TAURON Internet (POPC) – implementation of the project in the selected areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice-Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec) 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) Planned project completion date: Q4 2022 Work progress: 84% Expenditures incurred: PLN 202.4 million	The Digital Poland Operational Program (POPC - Program Operacyjny Polska Cyfrowa) involves implementing an infrastructure to enable high speed internet connections for households (min 30 MB/s). The final product of the project will be the provision of the wholesale services enabling connecting of the end users by the retail operators. All of the contractors had been conducting the works related to the deployment of the fiber optic network in 2021. The works related to switching over of the education facilities from the temporary subscriber lines to the optical fiber were carried out. The deployment of the fiber optic network in the areas covered by the project is currently underway. The contractors from all of the areas petitioned for a 3 month extension of the contract due to the ongoing epidemic, the corporate approvals for the concluding of the amendments have been obtained – a consent for the conclusion thereof was acquired from Centrum Projektów Polska Cyfrowa (Digital Poland Projects Center). In the next period, the works related to the further expansion of the optical fiber network will be carried out.
6. Program aimed at adapting TAURON Wytwarzanie's generating units to comply with the operational conditions in force beyond 2021 Contractor: Contractors are being selected to carry out specific projects. Planned project completion date: Q2 2022 (the works as such were completed in Q3 2021) Work progress: 100% Expenditures incurred: PLN 306.9 million	As part of the program the refurbishment of the following power generating units, in accordance with the following scope of works, is planned: 1. Jaworzno II Power Plant, units no. 2 and 3 – the construction of the flue gas desulfurization (FGD) installations. The implementation of the project was halted in the second quarter of 2020 due to the obtained derogations from the <i>BAT Conclusions</i>, which allowed for further operation of the units. The parties had prepared the documents that enabled the termination of the contract and the mutual settlements. 2. Jaworzno III Power Plant, units no. 1, 3, 5 – the construction of the selective catalytic reduction (SCR) installations. The field works on all of the units have been completed. The guaranteed performance tests (measurements) were completed and they confirmed that the contractual requirements were met. The SCR installations are operating and they are in the warranty period. The final acceptance protocols of the selective catalytic reduction (SCR) installation for units no. 1, 3 and 5 have been signed. 3. Łaziska Power Plant, units no. 9, 10, 11, 12 – the refurbishment and the construction of the selective catalytic reduction (SCR) installations. The field works on all of the units have been completed. The guaranteed performance tests (measurements) were completed and they confirmed that the contractual

Investment project	Investment project's work progress
	requirements were met. The SCR installations are operating and they are in the warranty period. The final acceptance protocols of the selective catalytic reduction (SCR). installation for units no. 9, 10, 11 and 12 have been signed. - Łaziska Power Plant, units no. 9, 10, 11 and 12 – the refurbishment of the flue gas desulfurization (FGD) installations. The field works on the FGD installation no. 1 have been completed. The guaranteed performance tests (measurements) were completed and they confirmed that the contractual requirements were met. The documentation for the purpose of the final acceptance had been assembled and the final acceptance was then signed in September 2021. The works are underway on the dust issue – the works have been completed on units 9, 10 and 12. On unit 11, the works will be completed in March 2022. - Łaziska Power Plant – the refurbishment of the sewage treatment plant. The field works in accordance with the reduced scope of the refurbishment (upgrade) works carried out as part of the ongoing overhauls (maintenance) have been completed. - 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>. - Łagisza Power Plant – the construction of the flue gas desulfurization (FGD) installation was substituted by the completion of the dry additives feeding installation. The project implementation has been halted due to the obtained derogations from the <i>BAT Conclusions</i>. - Monitoring Project – the installation of the equipment for the continuous monitoring of pollutants concentration in the flue gas at TAURON Wytwarzanie's generation units. The field works at all of the sites have been completed as part of the first stage (the works required to be performed at the power plants). The final acceptance protocols for the Łaziska Power Plant, the Jaworzno Power Plant, the Siersza Power Plant and the Łagisza Power Plant were signed.
7. Construction of the 30 MW Piotrków wind farm. Contractor: Consortium of MEGA S.A. and P&Q sp. z o.o. Planned project completion date: Q3 2022 Work progress: 64% Expenditures incurred: PLN 70.5 million	The Piotrków wind farm project was acquired by TAURON EKOENERGIA on December 15, 2020, through the acquisition of 100% of the shares in the Wind T1 SPV. The project was acquired at the ready for the construction stage. In 2021, the construction works with respect to: the GPO station, internal roads, assembly sites, were carried out following the handover of the construction site to the Contractor on March 31, 2021, and the foundations for the wind turbines were laid down. The contractor also carried out the works on the evacuation of the electricity from the wind farms to the substation (GPZ). The contracting for the supply of the key equipment has also been completed. The piling for all of the wind farms was completed, the primer concrete for the 12th wind farm was completed and the foundation for the 10th wind farm was poured. On September 13, 2021, the Mayor of Piotrków Trybunalski changed the terms of the building permit decision and approved a replacement (alternate) construction project for the GPO station. In addition, the arrangements with the external stakeholders of the project were continued in the field of the logistics related to the deliveries to the construction site. On June 25, 2021, the President of the Energy Regulatory Office announced the results of the auction for the sale of electricity from RES. The submitted offer for the supply of electricity from the Piotrków wind farm over the period of 15 years won the RES auction. In November 2021, the Distribution System Operator signed a contract with the contractor for connecting the Piotrków wind farm to the grid. The turbine supplier has confirmed the completion of the manufacturing and the shipment of the nacelle and blades.
8. Construction of the 6 MW Majewo wind farm. Contractor: HIUB Wróbel Planned project completion date: Q2 2022 Work progress: 40% Expenditures incurred: PLN 12.3 million	The Majewo wind farm project was acquired by TAURON EKOENERGIA on June 10, 2021, through the acquisition of 100% of the shares in the Polpower SPV. The project was acquired at the ready for the construction stage. In the third quarter of 2021, a contract for the supply and erection of the wind turbines as well as the contract for the construction of the technical infrastructure were concluded as part of the project. The construction site was handed over to the Contractor on July 28, 2021. The piling for the road was completed and the foundations were poured for all of the wind power plants. The fixed works for 2 power plants were completed. In addition, the arrangements with the external stakeholders of the project are continued with respect to the logistics related to the deliveries to the construction site.
9. Construction of the 140 MWt gas fired boiler at ZW Katowice (Katowice Generation Plant) for the district heating market needs Contractor: Mostostal Warszawa Planned project completion date: Q2 2024 Work progress: 37% Expenditures incurred: PLN 6.7 million	The construction of a gas boiler at ZW Katowice (Katowice Generation Plant) has been commenced. On July 26, 2021, an agreement was concluded with the General Contractor. The General Contractor provided a detailed implementation schedule. On September 27, 2021, the General Contractor formally took over the construction site. The preparatory works for the construction site facilities have been commenced and the Basic Engineering has been prepared.

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

Other investment projects

Investment projects in the RES line of business

Photovoltaic (PV) farms

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

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

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

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

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

Onshore wind farms

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

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

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

The analysis of the further projects is in progress.

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

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

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

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

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

Capital expenditures (CAPEX)

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

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

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

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

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

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

Evaluation of the capability to complete the intended investment projects

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

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

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

Directions for advancing innovations as well as research and development activities

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

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

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

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

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

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

1.8. Major achievements in the field of research and development

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

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

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

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

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

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

Project TENNESSEE

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

Second Life ESS

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

OPTI AI UNIT

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

HEMS Program

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

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

Internet of Things

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

Flexible Distribution

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

Hydrogen Poland

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

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

Cooperation with start-ups

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

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

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

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

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

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

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

1.9. TAURON Group's Business and Operational Model

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

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

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

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

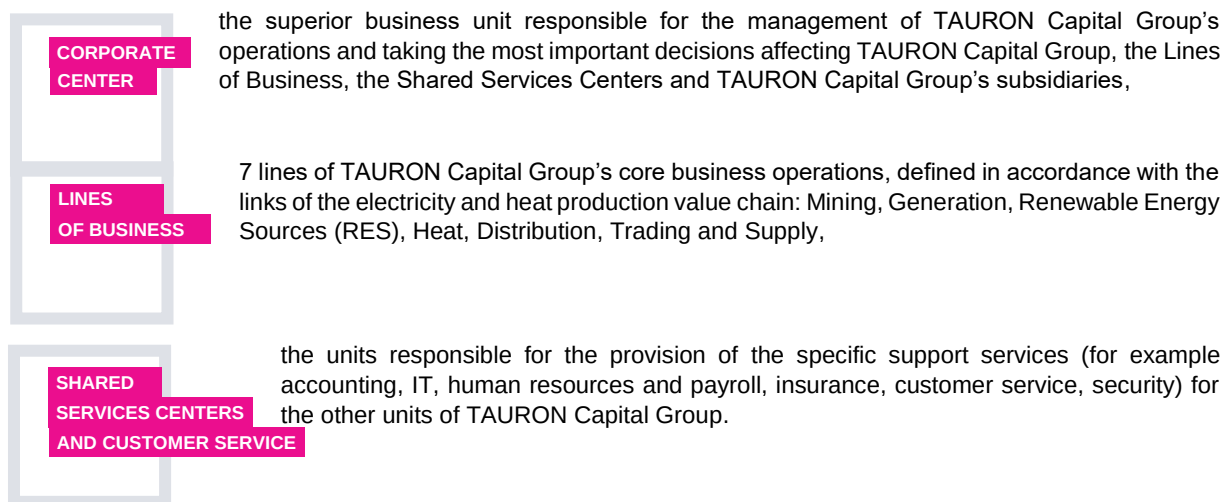
Assumptions of TAURON Group's Business and Operational Model

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

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

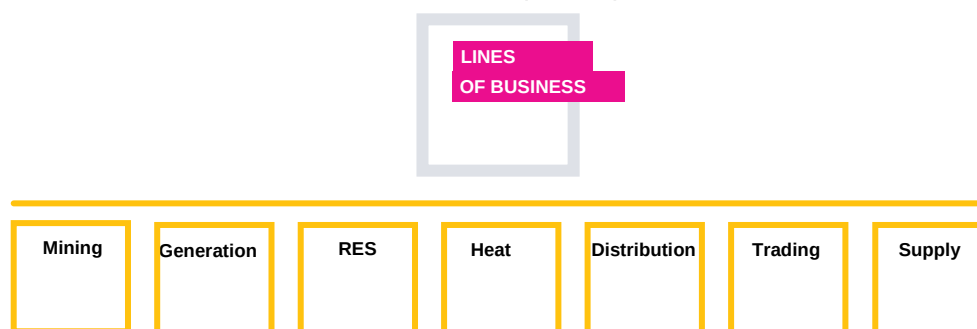
Lines of Business

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



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

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



TAURON Capital Group's Shared Services Centers (CUW)

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

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

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

Principles of management of TAURON Polska Energia S.A.

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

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

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

The Company shall carry out its tasks through:

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

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

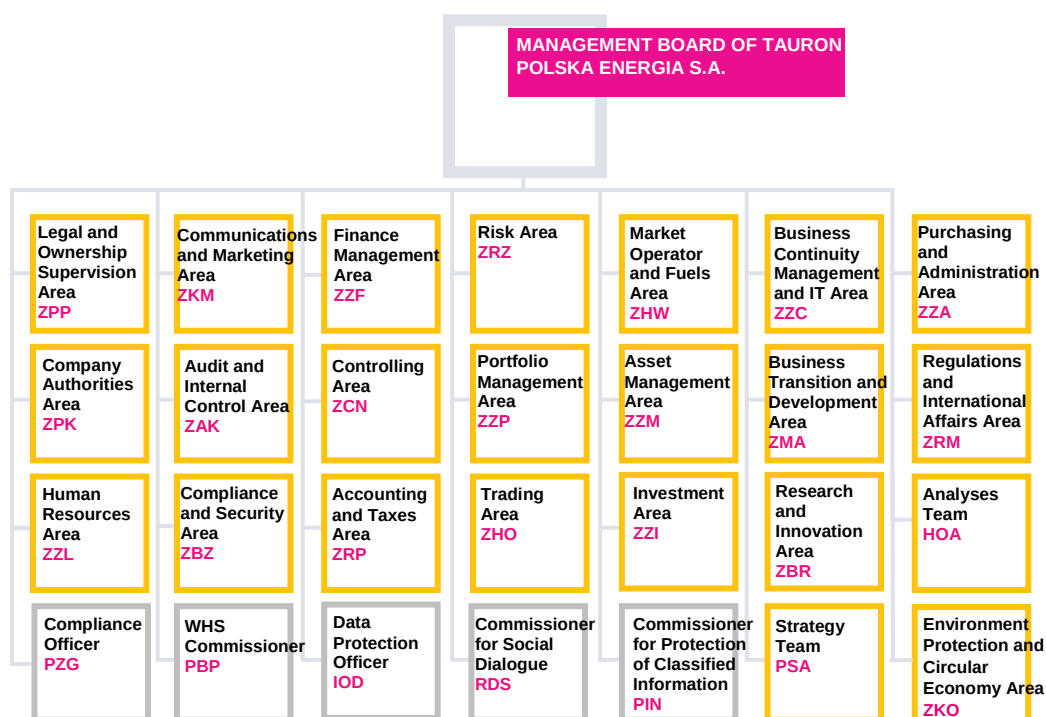
In 2021, the Company amended the Organizational Regulations twice.

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

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

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

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



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

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

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

Principles of management of TAURON Capital Group

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

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

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

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

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

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

1. Investment Committee,
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 of TAURON Capital Group's units.

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

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



Changes to the principles of management of TAURON Capital Group

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

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

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

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

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

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

2.1. Core products, goods and services

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The core products, goods and services of TAURON Capital Group

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

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

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

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

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

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

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

2.2. Markets and sources of supply

Markets

Hard coal sales

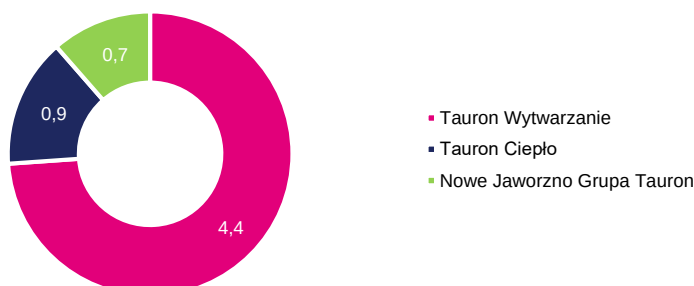
At TAURON Capital Group, the coal sales are carried out by TAURON, with respect to supplying the generation subsidiaries of TAURON Capital Group, and by TAURON Wydobycie, with respect to the sales on the domestic market and to TAURON.

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

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

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

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



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

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

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

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

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

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

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

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

Sales of generated electricity and heat

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

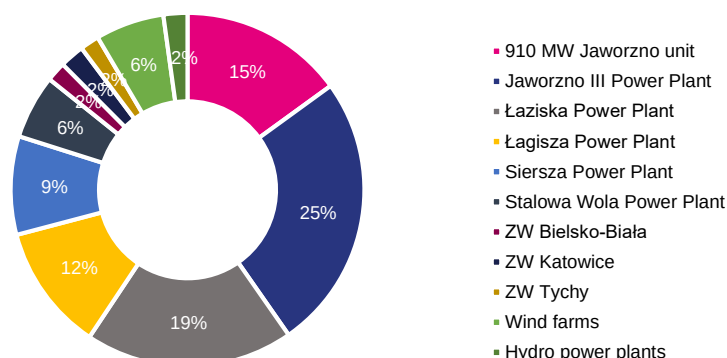
1. hard coal fired and biomass burning power plants and combined heat and power plants
2. hydroelectric power plants,
3. wind farms,
4. photovoltaic farms.

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

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

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

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



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

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

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

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

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

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

Sales of the electricity distribution services

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

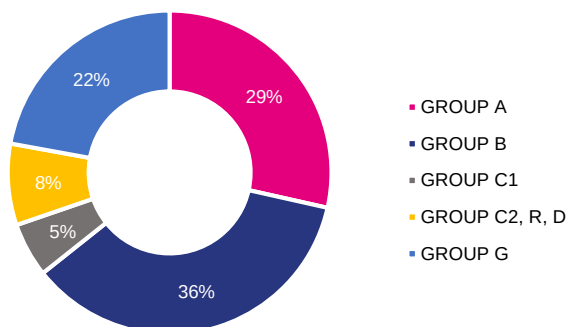
The regulated market on which TAURON Dystrybucja is operating includes the operations of 5 large electric utilities dealing with the electricity distribution and other 183 smaller enterprises of such type. Among the smaller electric utilities dealing with the electricity distribution, PKP Energetyka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

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

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

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

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



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

Wholesale and retail supply of electricity and gas

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supply sources – fuels

Hard coal (domestic market)

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

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

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

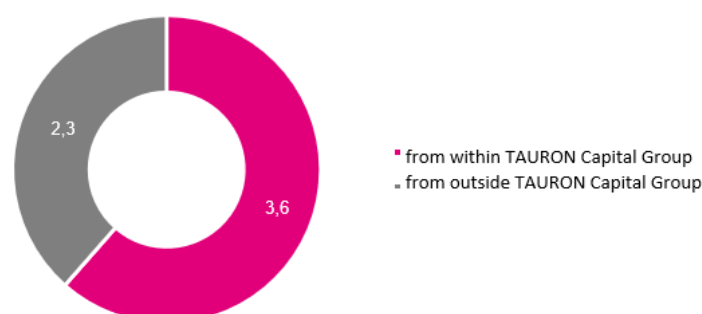
1. Polska Grupa Górnicza Sp. z o.o. (74.4% ¹),	4. EP Resources PL S.A. (3.2% ¹),
2. Jastrzębska Spółka Węglowa S.A. (11.9% ¹),	5. TRANSLIS Sp. z o.o. (2.5% ¹).
3. Węglokoks S.A. (8.0% ¹),	

¹suppliers' shares in the total hard coal supplies.

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

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

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



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

Gas (domestic and foreign market)

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

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

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

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

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

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

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

Internal factors

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

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

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

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

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

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

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

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

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

External factors

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

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

Macroeconomic environment

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

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

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

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

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

Market environment

Electricity

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

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

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

¹Including the industrial power plants

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

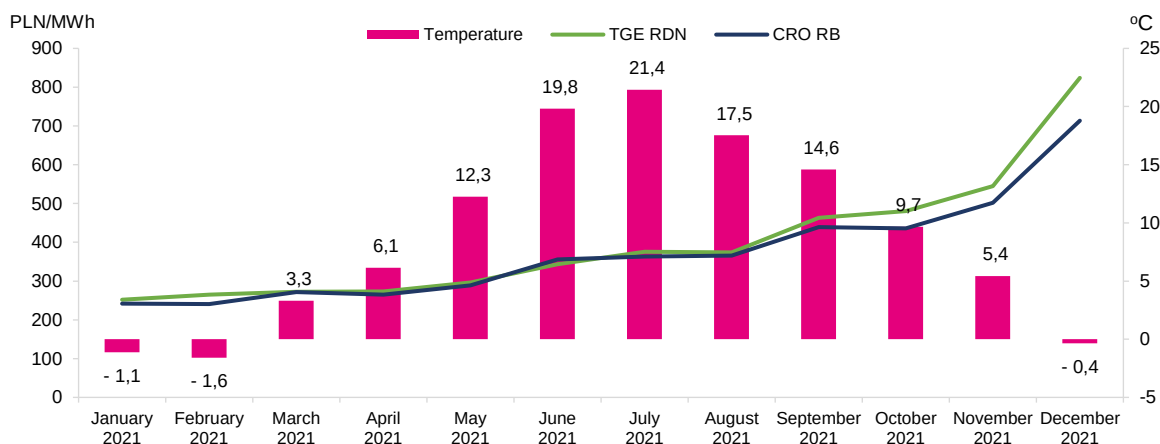
The factors behind the rising prices on the Day Ahead Market (RDN) and on the Balancing Market (RB) included: an increase of the demand, a surge of the prices of the CO₂ emission allowances, the much higher SPOT prices in the neighboring countries, as well as the lower balance of the inter-system electricity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

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

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

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

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



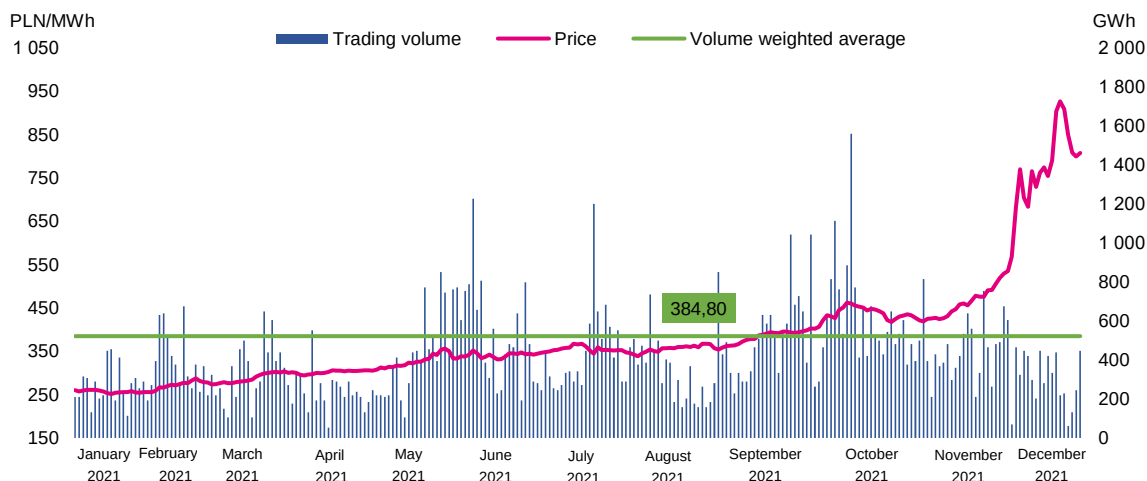
The reference (benchmark) base load contract with the delivery in 2022 (BASE_Y-22) was in an upward trend throughout the entire 2021. The price changes were in line with the changes in the commodity prices, in particular the prices of the CO₂ emission allowances. A particularly sharp surge of the prices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

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

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

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

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



Crude oil

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

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

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

Hard coal

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

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

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

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

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

Natural gas

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

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

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

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

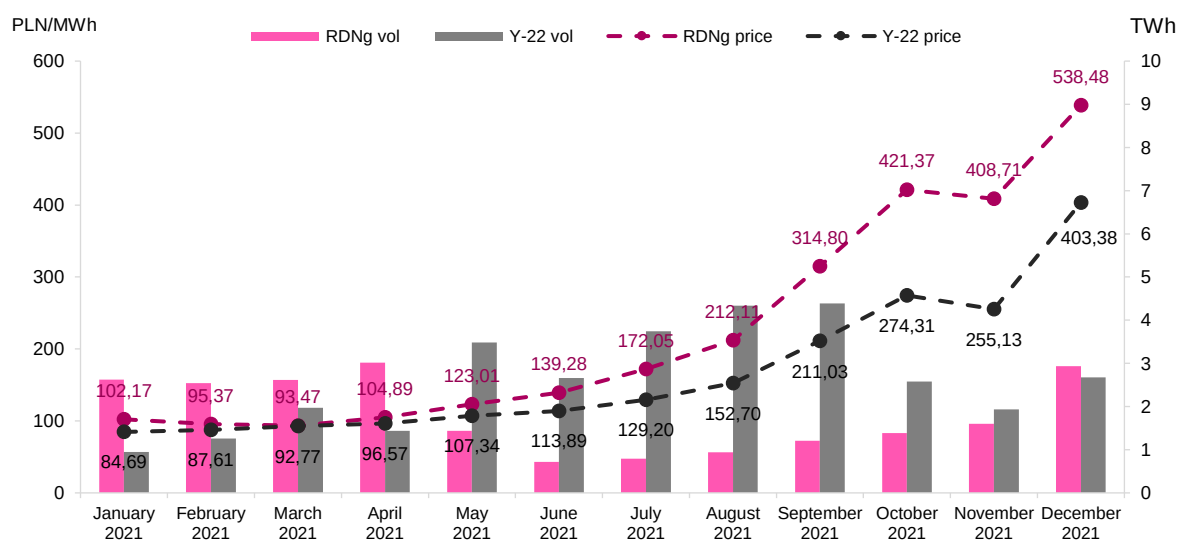
The lowest aggregate trading volume on the futures market was recorded in April 2021, clocking in at more than 5 TWh, while the highest trading volume was reported in September 2021, reaching approx. 23.2 TWh. The weighted average price of the reference (benchmark) one year GAS_BASE_Y-22 contract stood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

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

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

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

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



CO₂ emission allowances

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

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

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

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

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

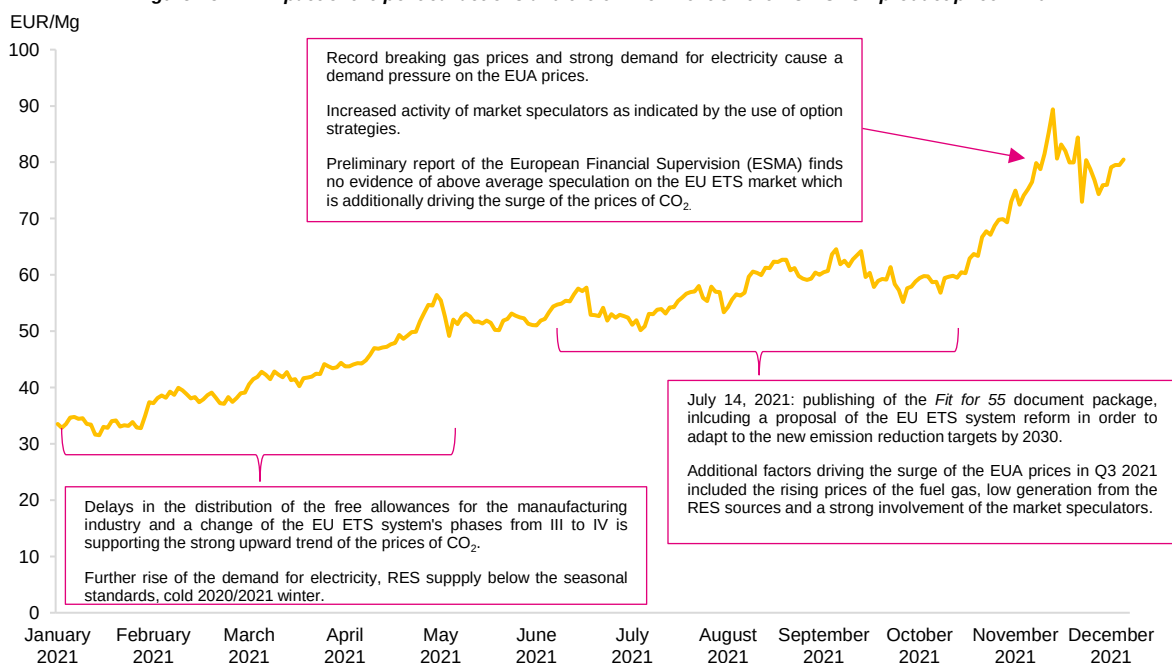
A proposal has been made to increase the Linear Reduction Factor (LRF) from the current 2.2% to 4.2% and to introduce the CO₂ border tax (CBAM – Carbon Border Adjustment Mechanism), thanks to which it will be possible to reduce the free allocation of the allowances in the sectors subjected to the CO₂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

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

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

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

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



Property rights

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

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

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

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

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

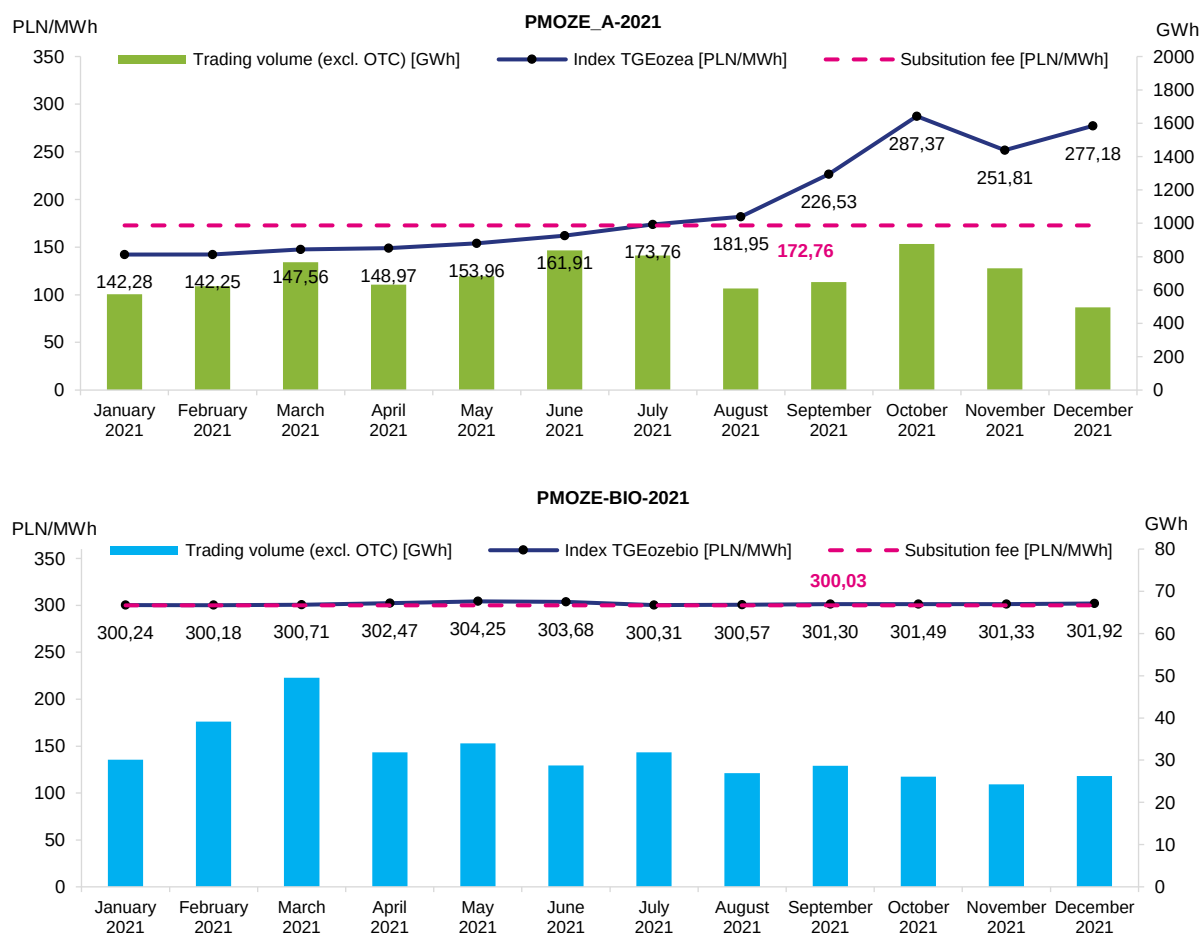
A similar performance and price ranges could have been observed for the PMEF-2020 contract, which was also trading in the first half of 2021 and continued to trend sideways. The price range was from 1 890.00 PLN/toe to 1 950 PLN/toe, and the weighted average price came in at 1 919.25 PLN/toe.

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

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

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

Figure no. 18. Property rights indices



Regulatory environment

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

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

Fit for 55 package

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

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

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

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

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

European Climate Law

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

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

Just Transition Fund

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

Taxonomy

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

Recovery and Resilience Facility

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

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

Proceedings in the Tempus case

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

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

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

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

Poland's Energy Policy until 2040

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amendment introduced, among others:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

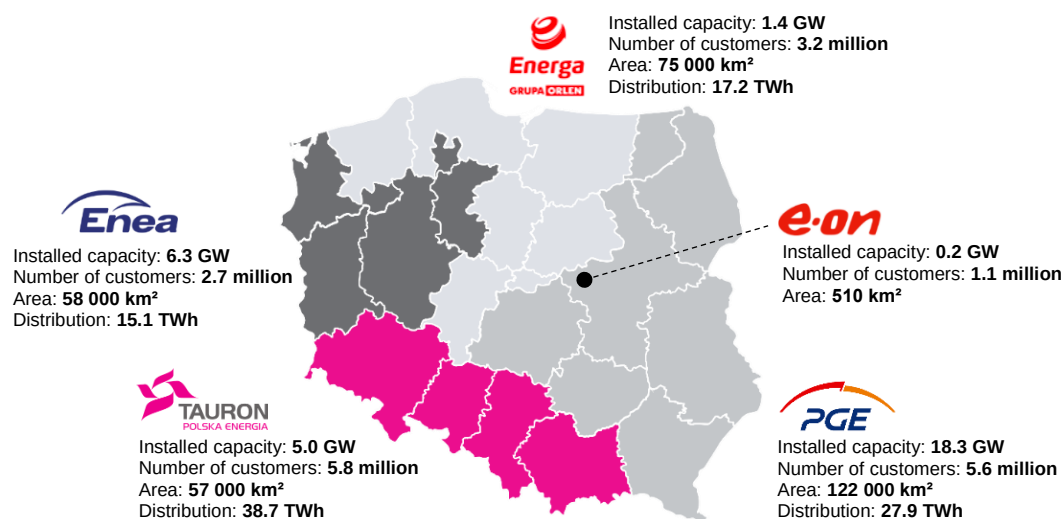
1. extension of the possibility to temporarily apply - until the date the state of the epidemic announced in connection with the SARS-CoV-2 virus infections is revoked on the territory of the Republic of Poland – the 0% rate for the donations/free provision (supply) of certain goods/services with respect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

Competitive environment (landscape)

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

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

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

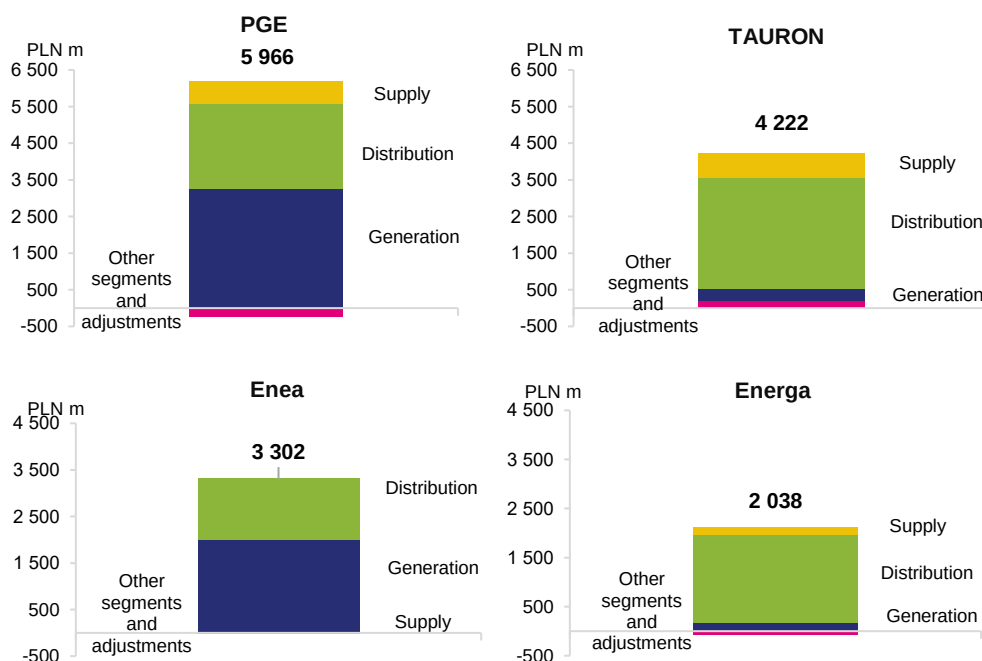


According to the data for the first three quarters of 2021, the consolidated energy groups (PGE, TAURON, Enea, Energa) held a 70% market share in the electricity generation sub-sector.

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

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

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



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

Generation

TAURON Capital Group is Poland's key electricity producer

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

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

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

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

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

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

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

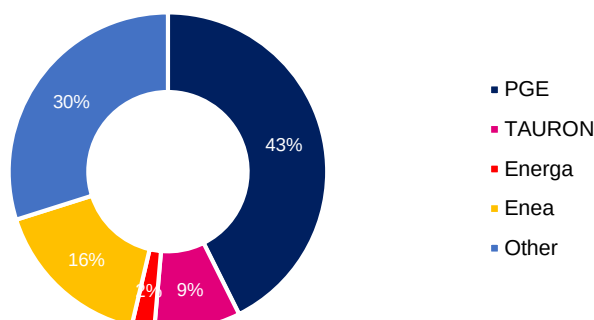
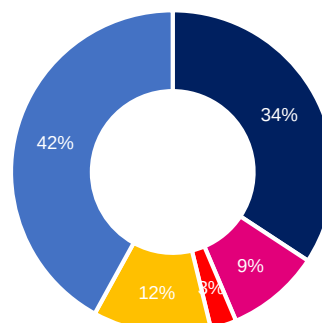


Figure no. 22. Installed capacity - estimated market shares in the first three quarters of 2021



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

Distribution

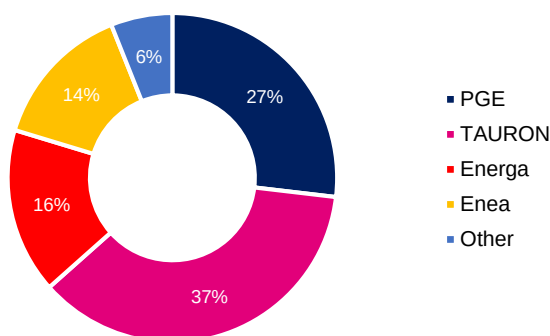
TAURON Capital Group is the Polish market leader in terms of the number of the distribution customers and the volume of electricity distributed.

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

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

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

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



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

Supply

TAURON Capital Group is Poland's second largest electricity supplier

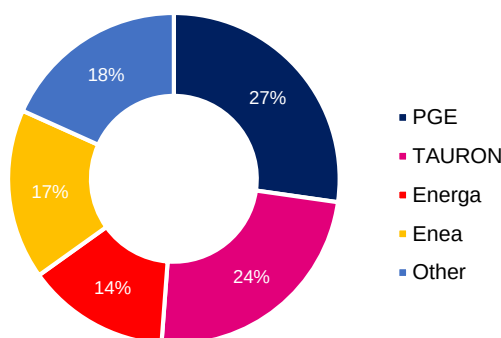
TAURON Capital Group holds a 24% share in the electricity supply market to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 33.4 TWh in 2021. The number of the customers served by TAURON Capital Group's Supply Segment is 5.6 million.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Line of Business	Area of initiatives	Sources of competitiveness
Mining Generation	- Reducing the fuel price and supply risk. - Investments in the generating units. - Operating expenses.	- Concluded capacity market contracts. - High efficiency generating units with a competitive unit production cost. - Improvement of the operational efficiency.
RES Heat	- Investments in the renewable energy sources and the low emission thermal energy (heat) sources. - Operating expenses. - Investments in the district heating networks.	- Improvement of the operational efficiency. - Development of the low and zero emission generation sources. - Expanding the regulated operations.
Distribution	- Operating expenses - Investment project efficiency	Implementing the ultimate business model.

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

2.4. Material factors impacting growth

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

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

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

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

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

2.5. Timeline

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

JANUARY FEBRUARY	1.	Signing by TAURON Dystrybucja and Apator Rector sp. z o.o. (Ltd.) of the agreement for the provision in the years 2021-2024 of the maintenance, support and development services with respect to the Computerized (IT) Grid Assets Management system.
	2.	Adoption of <i>TAURON Group's Physical Security Policy</i> .
	3.	Commencement by TAURON of the works on the prototype energy storage facilities as part of the Second Life ESS Project set up with the support of the consortium of the companies Solaris Bus & Coach sp. z o.o. (Ltd.) and Impact Clean Power Technology S.A.
	4.	Signing by TAURON, PGE and Enea of the Letter of Intent with respect to the cooperation in the implementation of the investment projects in the field of the offshore wind energy in the area of the Polish Exclusive Economic Zone of the Baltic Sea.
	5.	Launching of the Program for the development and implementation of the RES projects by TAURON Group, aimed at implementing the assumptions of the Green Turn of TAURON.
	6.	Completion by TAURON with Santander Bank Polska of the first green IRS transaction in Poland, hedging the risk of the interest rate volatility, based on the principles of the sustainable development.
	7.	Commissioning, at the Sobieski Coal Mine, of a new longwall coal face at the Brzezinka deposits, from which the hard coal will be shipped, among others, to the new 910 MW unit in Jaworzno.
	8.	Commencement by TAURON, in the cooperation with the Consortium of the companies MEGA S.A. companies and P&Q sp. z o. o. (Ltd) of the construction of a wind farm with a capacity of 30 MW in the Łódź province (Piotrków Project).
MARCH APRIL	1.	Commencement by TAURON Obsługa Klienta of the provision of the telecommunications services.
	2.	Signing by TAURON with Bank Gospodarstwa Krajowego of the documentation related to the program of the issue of the subordinated bonds worth up to the amount of PLN 450 million.
	3.	Publishing by TAURON of a free e-book on the energy audit for the companies.
	4.	Signing by TAURON with the State Treasury of an agreement for the sale of the shares in PGE EJ 1.
	5.	Commissioning of a photovoltaic power plant with a capacity of 6 MW in Choszczno.
	6.	Publishing of the financial results of TAURON and TAURON Capital Group for the full year 2020.
	7.	Signing by TAURON Sprzedaż of a contract with PSE (TSO) for the provision of the DSR (Demand Side Reduction) Intervention Reduction of the Electricity Consumption in the period from April 1, 2021 to March 31, 2022.
	8.	Launching by TAURON of a loyalty program at its electric car charging stations.
MAY JUNE	1.	Publishing by TAURON of a free e-book <i>100 questions with respect to the photovoltaics</i> .
	2.	Publishing of the financial results of TAURON and TAURON Capital Group for the first quarter of 2020.
	3.	Ordinary General Meeting of the Shareholders of TAURON.
	4.	Amendment to the Articles of Association of <i>TAURON Polska Energia S.A.</i>
	5.	Launching by TAURON of a new blog site service <i>Lepiej (Better)</i> , constituting a knowledge base with respect to the smart home and modern energy.
	6.	Acquisition by TAURON of the shares in the company Polpower sp. z o.o., managing a project to build a wind farm with a capacity of 6 MW in the municipality of Milejewo in the Warmian-Masurian province (Project Majewo).
JULY AUGUST	1.	Merger of the companies TEC3 and TEC2.
	2.	Publishing of the Integrated Annual Report for 2020.
	3.	Signing by TAURON Ciepło of the agreement with the Consortium of Erbud Industry sp. z o. o. and Erbud S.A. for the construction of a modern gas and oil fired boiler house at the Czechowice-Dziedzice Combined Heat and Power Plant.
	4.	Signing of the General Agreement by TAURON with 26 of TAURON Capital Group's subsidiaries aimed at ensuring the implementation of the TAURON Group strategy, and in particular the optimization of strategic decision making as well as the efficient and secure information flow within TAURON Group.
	5.	Signing of an agreement by TAURON Dystrybucja with PGE Systemy on the pilot project of the special communications network services based on the LTE technology in the 450 MHz band in the area covered by TAURON's license.
	6.	Signing by TAURON, PGE, Enea and Energa as well as the State Treasury of the agreement related to the cooperation with respect to the spinning off of the coal assets and the integration thereof within the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE).
	7.	Signing by TAURON Ciepło and Mostostal Warszawa of the agreement for the construction of a gas fired boiler with a capacity of 140 MWt at the Combined Heat and Power (CHP) Plant in Katowice.
	8.	Publishing by TAURON of the <i>Information on the state of the application by TAURON Polska Energia S.A. of the rules contained in the Code of Best Practice for WSE Listed Companies 2021</i> .
	9.	Signing by TAURON and PGNiG of the letter of intent with respect to the potential sale by TAURON Capital Group to PGNiG Group of its equity stake in EC (Combined Heat and Power Plant) Stalowa Wola.
SEPTEMBER OCTOBER	1.	Publishing of the financial results of TAURON and TAURON Capital Group for the first half of 2021.
	2.	Launch of 100 electric vehicle charging stations.
	3.	Signing by TAURON and the Ministry of the State Assets of a letter of intent with respect to the potential acquisition by the State Treasury of 100 percent of the shares in TAURON Wydobycie.
	4.	Change of the name of the company TEC3 sp. z o.o. to TAURON Zielona Energia sp. z o.o.
	5.	Commencement of the cooperation between TAURON and Microsoft sp. z o.o. with respect to the energy and digital transition as part of the research and development project Internet of Things in the smart city of Wrocław.
	6.	Commissioning of the further longwall coal faces at the Janina Coal Mine (ZG Janina) and the Brzeszcze Coal Mine (ZG Brzeszcze).
	7.	Completion of the construction of the 800 m level at the Janina Coal Mine (ZG Janina).
	8.	TAURON awarded the special prices <i>The Best of The Best</i> for the annual report and the honorable mention for the continuous, high quality of the integrated report in the competition <i>The Best Annual Report 2020</i> .
	9.	Signing by TAURON and PGE of a letter of intent on undertaking the bilateral cooperation with respect to the wind energy development in Poland.
	10.	Commissioning of the new longwall coal face at the Sobieski Coal Mine (ZG Sobieski).
	11.	Commissioning of the cogeneration installation in Jawiszowice powered by the gas obtained from the Brzeszcze Coal Mine (ZG Brzeszcze).
	12.	Signing by TAURON and the European Investment Bank of a loan agreement for the amount of PLN 2 800 000 000 in order to cover the Capital Group's capital expenditure related to the modernization and expansion of the electricity distribution grids planned for the years 2022-2026.
NOVEMBER DECEMBER	1.	Publishing of the financial results of TAURON and TAURON Capital Group for the third quarter of 2021.

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

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

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

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

Major business events in 2021

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

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

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

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

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

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

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

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

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

Signing of the general agreement within TAURON Capital Group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Major corporate events in 2021

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

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

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

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

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

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

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

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

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

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

Ordinary General Meeting of the Company

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

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

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

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

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

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

Other major events in 2021

Affirmation of the ratings granted by Fitch Ratings agency

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

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

Ruling of the Court of Appeal related to PEPKH

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

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

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

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

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

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

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

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

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

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

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

Major events after December 31, 2021

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

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

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

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

2.7. Prizes and accolades (honorable mentions)

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



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

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



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



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

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



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



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



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



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



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



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

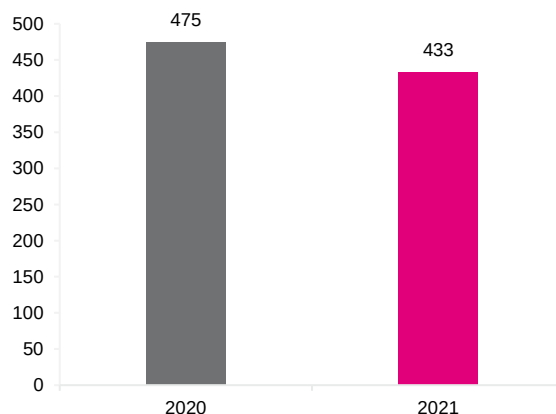
2.8. Information on the employment and employee related issues

Key headcount data

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

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

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

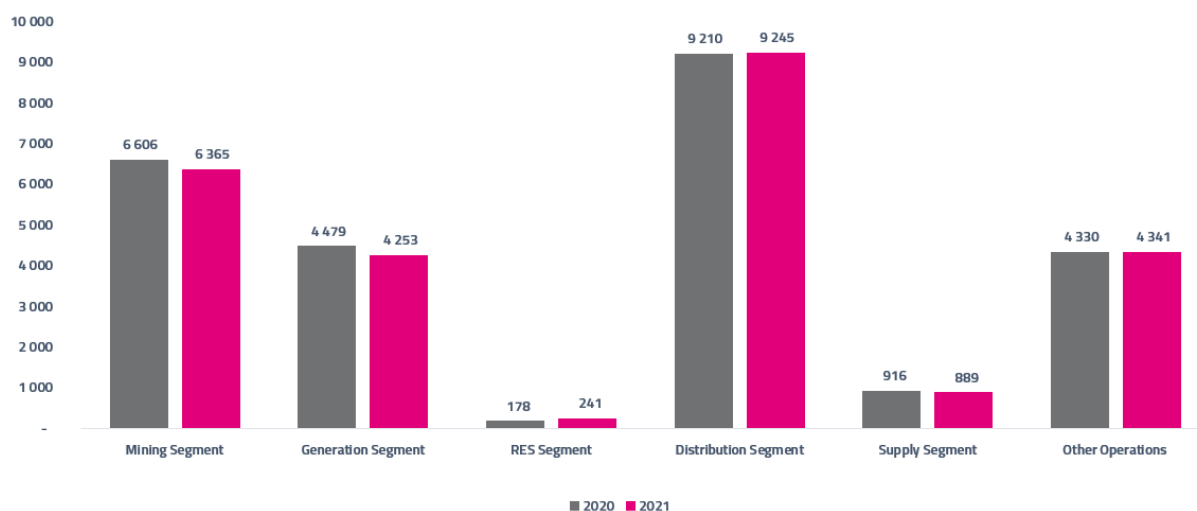


TAURON Capital Group's average headcount reached 25 333 FTEs in 2021, which meant a decrease by 386 FTEs versus the headcount in 2020, when the average employment level was 25 719 FTEs. The reduction of the average employment level is mainly related to the Generation and Mining Segments. In the Generation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

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

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

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



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

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

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

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

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

²figure includes TAURON's headcount.

TAURON Group's Human Capital Management Policy

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

The goal of the regulations contained in this policy is the broadly understood support for the employees and managers in creating an environment conducive to dialogue, introducing changes and striving for the development of the organization. Among the priorities set by *TAURON Group's Human Capital Management Policy*, there are also such issues as creating an organizational culture based on the cooperation and partnership, supporting bottom-up initiatives, independence and the development of the personnel.

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

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"

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

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

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

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

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

The below figure presents the human capital management structure.

Figure no. 27. Human capital management structure



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

Top Quality HR Certificate for TAURON Polska Energia

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

Remote work

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

Just transition

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

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

4. Just Transition Fund.

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

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

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

Development and training

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



70% of the development activities should be related to gaining experience in the position, among others by delegating the new or additional tasks and empowerments to the employee, broadening the scope of his/her responsibility, participation in the task or project teams,

20% of the development activities are based on learning from others, including the ongoing support and regular feedback from your direct superior and colleagues,

10% of the development activities involve a participation in various forms of the educational and training activities (internal and external).

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

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

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

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

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

Initiatives, development activities and development supporting activities

Development Conversation

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

TAURON Group Open University

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

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

Development Squared

Development Squared - a series of webinars conducted in four thematic areas: development, knowledge sharing, cooperation, health. The project was developed as a response to the difficult situation related to the COVID-19 pandemic that made it impossible to conduct the training in a traditional form. Thanks to Skype and the Office 365 technology, fully interactive meetings are possible, that make participants more active. The project's participants include all of TAURON Capital Group's employees with access to the intranet (approximately 17 000 persons). 49 webinars were held in 2021, on 21 different topics, conducted by 12 trainers. More than 2 406 of TAURON Capital Group's employees took part in the initiative.

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

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

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

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

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

Cooperation with the education sector

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

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

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

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

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

Social dialogue

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

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

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

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

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

2.9. Corporate Social Responsibility (CSR) Policy

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

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

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

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

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

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

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

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

Impact on natural environment and climate

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

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

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

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

Environmental Policy

TAURON Group's Environmental Policy (Environmental Policy), adopted by the Company's Management Board in July 2017 and updated in 2021, defines TAURON Capital Group's approach to the management of the issues related to the impact made by its operations on the natural environment, including the direction of its environmental activities and the principles it adheres to in the environment related matters. The Environmental Policy is the

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

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

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

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

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

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

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

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

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

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

¹Generation units 910 MW unit Nowe Jaworzno TAURON Group and TAURON Nowe Technologie gas engines were not the sources of air emissions in 2020

²Change compared to 2020 (+ increase / - decrease) taking into account the increase in the emissions from the combustion of the fuels for the generation units commissioned in 2021 - Nowe Jaworzno Grupa TAURON and TAURON Nowe Technologie (the cogeneration systems based on the gas engines using the

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

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

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

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

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

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

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

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

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

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

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

Circular economy

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

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

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

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

3.8 million Mg of the process by-products, coming from the thermal combustion and mining of the coal, was generated in 2021, with as much as 61% of that quantity brought to the market as the full value products to be used, among others, in the construction, road building, mining or agricultural sector. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization, among others in the land reclamation, macro-leveling and filling of the post-mining voids in mining.

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

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

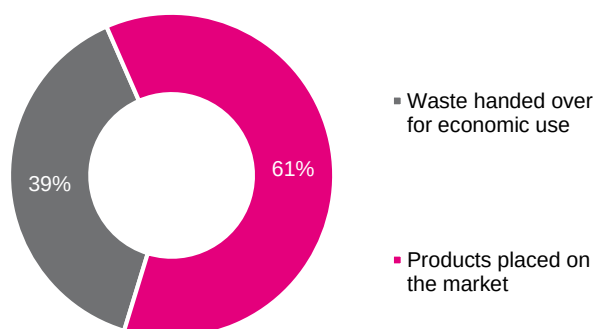
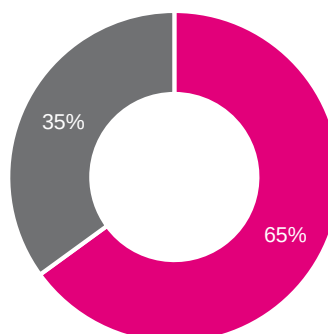


Figure no. 29. Structure (composition) of the ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2020



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

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

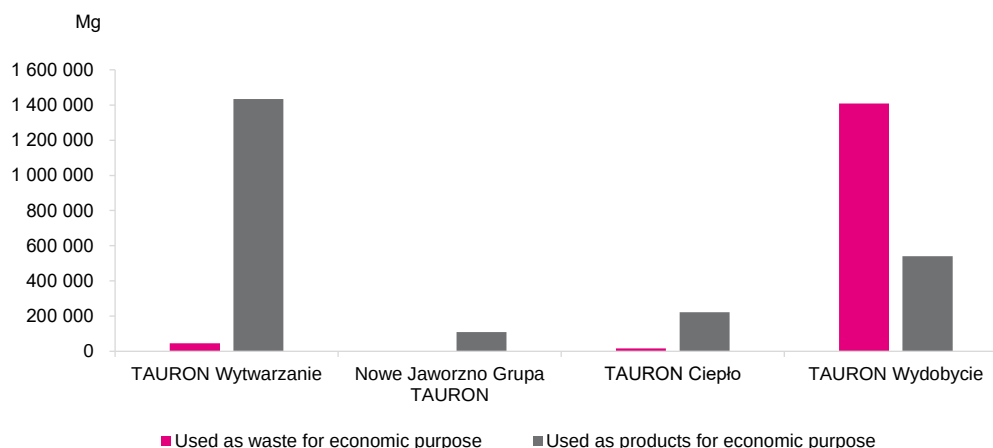
TAURON Capital Group's power plants produced 149 thousand Mg of ashes in 2021 that was used as a valuable raw material in the fire prevention by the coal mines. The ashes from TAURON Capital Group's power plants and combined heat and power plants cover 100% of the demand for the ashes to be used for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

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

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

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

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



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

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

Climate policy

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

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

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

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

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

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

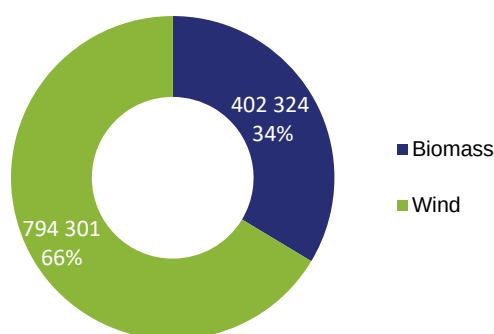
TAURON Capital Group sees the business opportunities related to the rapid expansion of the energy sector based on the renewable energy sources (RES), and therefore in 2021 the program related to the preparatory phase for the implementation of the large scale projects involving the construction of the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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.11. Sponsoring activities

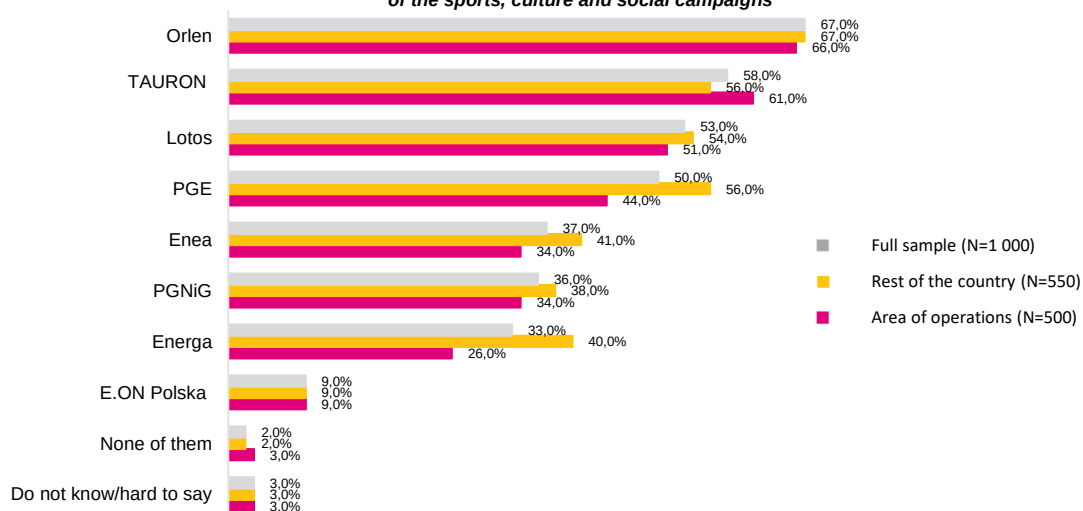
TAURON Capital Group, due to its size and the position of the leading electricity supplier in Poland, is carrying out nationwide projects. Based on the area in which its business operations are conducted and the current customers, the Company also takes care of the relations and reputation within the immediate geographical environment of the brand distribution area.

The main objectives of TAURON Capital Group's sponsoring activities include building the TAURON brand's value, supporting the product sales as well as supporting the business and communications goals defined in the Strategy. TAURON Capital Group's sponsoring activities are conducted based on the recommendations of the Sponsoring Committee and *TAURON Group's Plan of Conducting Sponsoring Activities in 2021* adopted by the Management Board of the Company and granted a positive opinion by the Supervisory Board of the Company.

The sponsoring activities were conducted only by TAURON in 2021, in accordance with the corporate regulations in force at TAURON Capital Group. All of the sponsorship agreements contain provisions that oblige the contractors (counterparties) to pay special attention to the business effect (the so-called *success fee* principle). In 2021, the Company carried out 9 sponsorship projects, among others: TAURON Arena Kraków, Polska Liga Siatkówki (Polish Volleyball League), TAURON Nowa Muzyka (TAURON New Music). The implemented projects generated more than PLN 168 million in the advertising equivalent in 2021 (each PLN spent on the sponsoring activities brought an almost PLN 17 equivalent). Taking into account the criterium of providing support for the product sales, the TAURON Arena project received the most responses among the individual customers, while the Polska Liga Siatkówki (Polish Volleyball League) project was indicated most often by the business customers.

The below figure presents the level of recognition (spontaneous awareness) enjoyed by the energy sector companies (electric utilities) as the sponsors of the sports, culture and social campaigns.

Figure no. 32. Level of recognition (spontaneous awareness) enjoyed by the energy sector companies (electric utilities) as the sponsors of the sports, culture and social campaigns



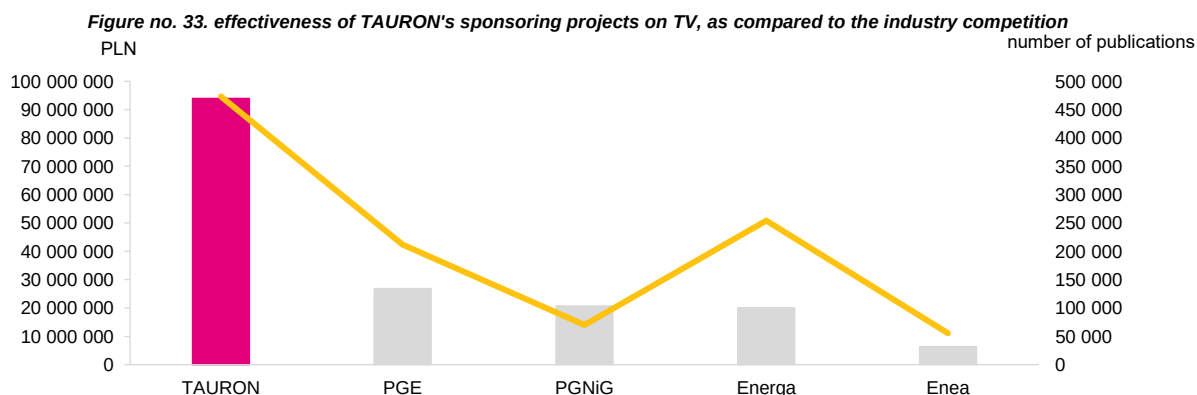
Source: Analysis by Sponsoring Insight

In spite of the ongoing COVID-19 pandemic, the majority of the events took place based on the traditional formula. Only SnowFest Festival Online Powered by Tauron was organized online. The event attracted an audience of approximately 300 000 people.

The sponsoring activities carried out by the Company are monitored, analyzed and reported on an ongoing basis. The surveys and analyses are conducted in the quarterly and annual cycles by the specialized external entities and the internal oversight. In accordance with the procedures implemented, the effectiveness of the activities conducted is assessed on a regular basis based on the opinion polls, by measuring the size and value of the brand's exposure in the media in the context of the activities conducted, as well as by measuring the impact on the pro-sales attitudes, including the reporting of the results achieved.

TAURON Capital Group continued to the leader among the Polish energy groups (electric utilities) in terms of the sponsoring activities in 2021. The implemented projects demonstrated a very high equivalence level. In terms of the television effectiveness, the research conducted by Sponsoring Insight shows that these projects generated almost PLN 94 million in the advertising equivalent. This means that TAURON ranks third among the TOP Sponsors, behind Lotos and PKO BP, but ahead of Lotto, Grupa Azoty or Plus.

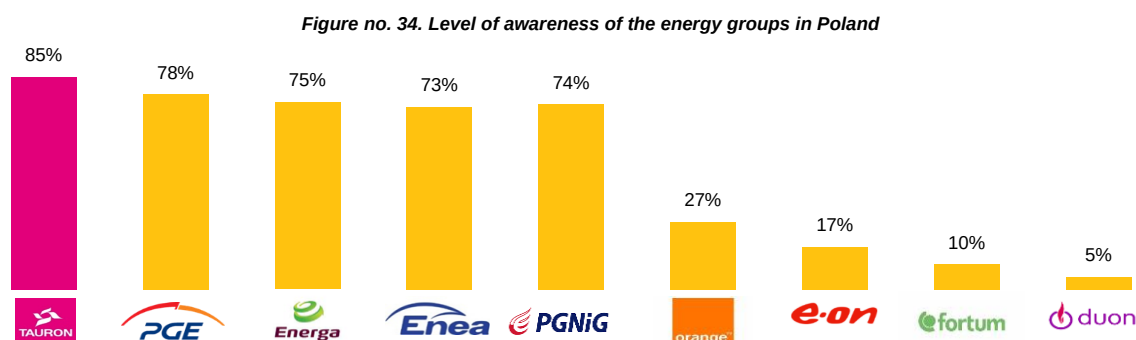
The below figure presents the effectiveness of TAURON's sponsoring projects on TV, as compared to the industry competition.



Source: Analysis by Sponsoring Insight

According to the latest research conducted by ARC Rynek i Opinia, TAURON was among the highest ranked companies in the ranking of the entities conducting sponsoring activities in 2021. At the same time, TAURON was ranked third among the brands from the energy industry that were most involved in the energy activities - ahead of such companies as Energa and Enea. The sponsoring activities have a significant impact on the awareness of (familiarity with) the TAURON brand. The research carried out by the OTAWA Advisory Group shows that TAURON had a significant advantage in terms of the spontaneous awareness in 2021. TAURON is also the most recognizable brand in the case of the assisted awareness.

The figure below shows the level of awareness of the energy groups in Poland.

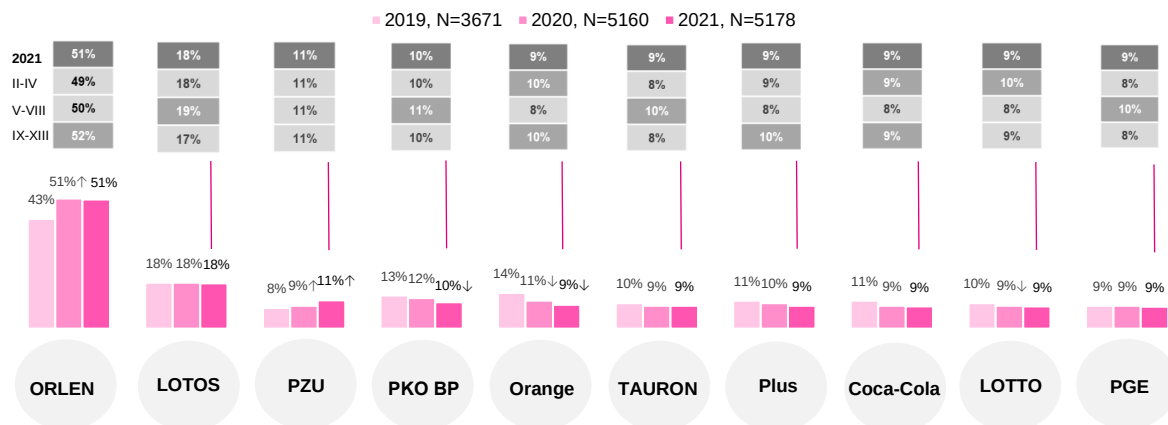


Source: Otawa Grupa Doradcza

An additional confirmation of the effectiveness of the activities carried out is the high positioning of the TAURON brand in an independent research report Sponsoring Monitor 2021, according to which TAURON ranks 5th in the overall TOP 10 list of sponsors. The company holds this ranking ex aequo with the companies that have significantly higher marketing budgets: Coca-Cola, PZU, Lotto and PGE.

The below figure shows the results of an independent research report Sponsoring Monitor 2021 in terms of the most active sponsors in 2019-2021.

Figure no. 35. Results of an independent research report Sponsoring Monitor 2021 in terms of the most active sponsors in 2019-2021



Source: ARC Rynek i Opinia

3. TAURON CAPITAL GROUP'S RISK MANAGEMENT

3.1. Risk management objective and principles

At TAURON Capital Group risk is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both negatively (threat), as well as positively (opportunity).

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, TAURON Capital Group's risk management is to ensure increased predictability of achieving its strategic goals, sustainable (stable) generation of its financial results, the protection of TAURON Capital Group's current economic value (preventive function), as well as support for the decision-making processes.

TAURON Capital Group's risk management:

Zarządzanie ryzykiem w Grupie Kapitałowej TAURON:

1. is based on the risk management process that provides comprehensive and consistent rules for identifying, measuring and responding to risk,
2. covers all elements of the value chain,
3. provides centralized risk measurement, monitoring and control function, and also ability to evaluate the full risk profile in the organization and consistent risk management principles,
4. ensures independence of the risk taking function from its control and monitoring,
5. ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
6. is a pro-active process, focused on an appropriately early identification of threats, allowing for taking preventive measures,
7. is a systematic and continuously improved process which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and organizational structure, as well as to the changing environment,
8. places a strong emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in daily activities,
9. co-creates TAURON Capital Group's internal audit (control) system, constituting, along with the compliance and security management functions, an element of the Three Line Defense Model

3.2. Risk management strategy

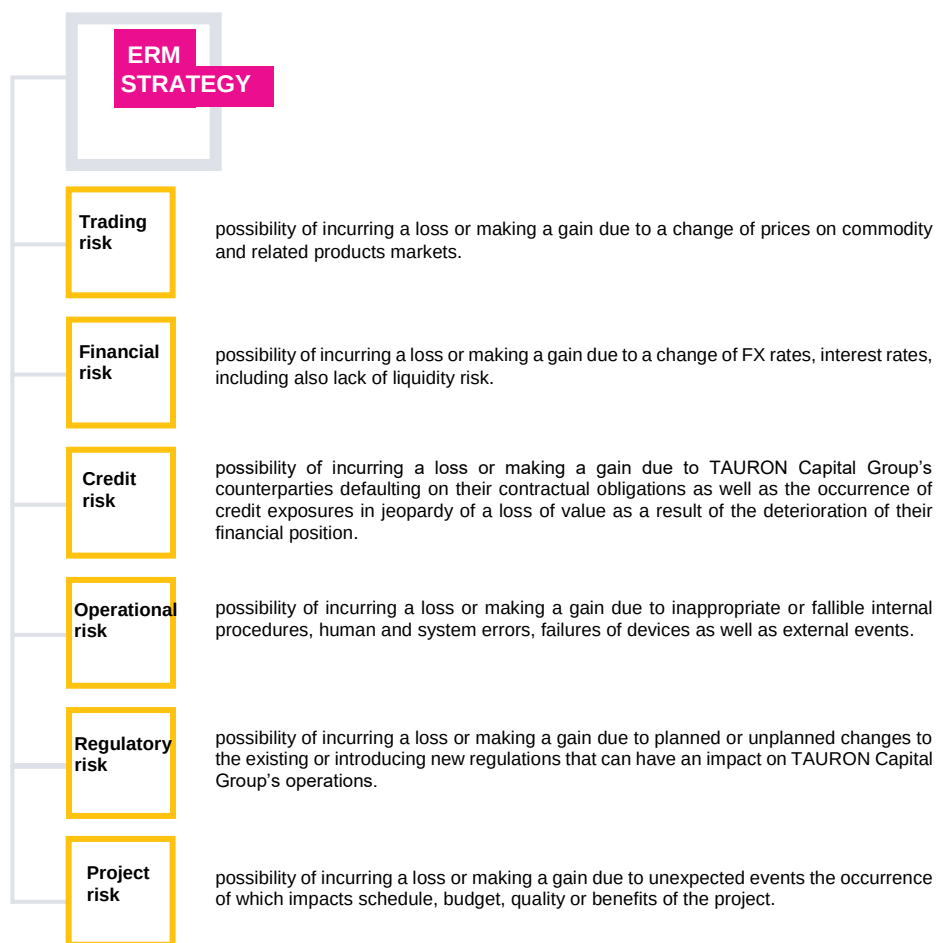
The enterprise risk management system (ERM System), implemented at TAURON Capital Group's level, constitutes a set of rules, standards and tools allowing for implementing the primary goal of risk management which is, broadly understood, ensuring security and safety of TAURON Capital Group's operations. This system is governed by *TAURON Group's Enterprise Risk Management Strategy* (ERM Strategy) that defines TAURON Capital Group's enterprise risk management framework and rules, and its objective is to ensure the consistency of managing the individual risk categories that are detailed in separate regulations, aligned to the specifics of the individual threat groups.

As part of the ERM System, the following specific risks are identified within TAURON Group, for which separate policies tailored to the nature and specifics of the given group of threats are defined:

1. Trading (commercial) risk,
2. Credit risk,
3. Financial risk,
4. Operational risk,
5. Regulatory risk,
6. Project risk.

The below figure presents the basic classification of the enterprise risk.

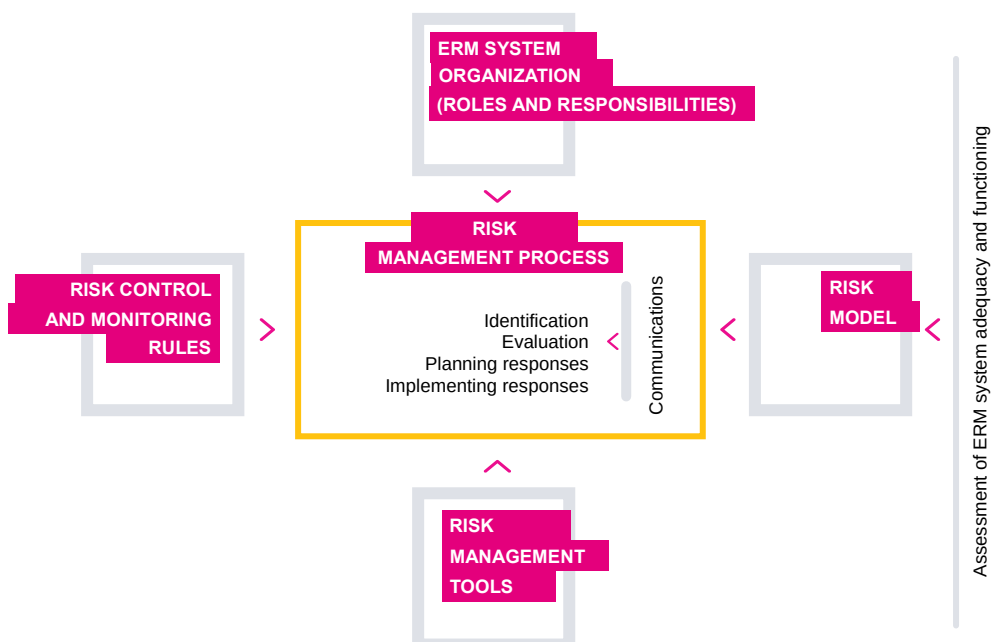
Figure no. 36. Basic classification of the enterprise risk



The core (central) element of the ERM System is a risk management process that includes continuous activities, i.e. risk identification, risk measurement as well as developing and implementing a response to risk. The architecture of the ERM system also includes elements that are to ensure the effective functioning of the process, including: organization of the ERM System, risk control and monitoring rules, risk model, risk management tools and the assessment of the adequacy and functioning of the ERM system.

The below figure presents the architecture of the ERM system in place at TAURON Capital Group.

Figure no. 37. Architecture of the ERM system in place at TAURON Capital Group

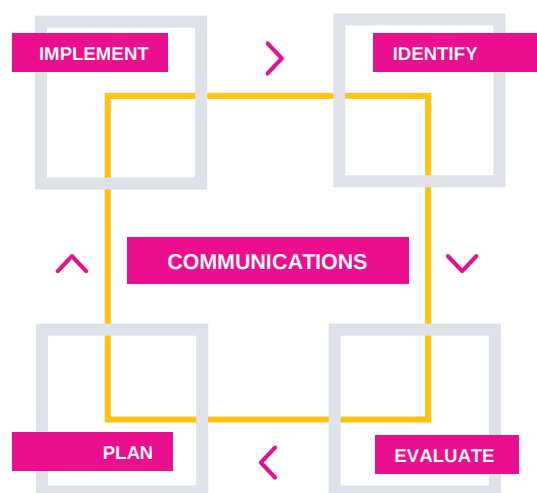


Risk management process

The enterprise risk management process ensures the comprehensive and consistent risk management rules linked with one another in terms of methodology and information. The enterprise risk management process means taking continuous measures comprising risk identification, risk assessment, planning of risk response, implementation of the adopted risk response and communication among the risk management process participants.

The below figure presents the risk management process.

Figure no. 38. Risk management process



Risk identification consists in determining the potential events that may affect the implementation of TAURON Capital Group's business goals. The main purpose of this step is to create or update a list of risks that may affect the achievement of the business goals. The identified risks are described in accordance with the adopted methodology and have a specific context providing information on the impact of their materialization on the business goals.

Risk assessment consists in determining the potential financial and non-financial effects of the materialization of the risk affecting the implementation of specific goals and assigning the risk class thereto, defining the materiality of the risk from the point of view of its impact on the achievement of the goals.

Planning consists in the preparation of the dedicated responses to the risk identified in order to achieve the

desirable results. The planned actions constituting the prepared risk response are dependent upon and adapted to the current level of the Key Risk Indicators (KRI), and in particular those among them that act as Early Warning Indicators (EWI).

Implementation of risk response consists in the practical implementation of the response to the identified risk, prepared as part of the planning process. The set of actions defined as part of the risk response, specified in the planning process, is dependent on the current level of the EWI indicators. The implementation of the subsequent activities as part of the response to risk requires ongoing monitoring of the risk indicators, which is to provide information on what set of activities should be implemented and, at the same time, inform whether the activities carried out thus far are effective and if risk management is bringing the assumed effect of maintaining the value of the EWI indicators within the acceptance range.

Communication consists in a continuous flow of the information among the participants of the process, which is to ensure the full knowledge on the current risk status and the effectiveness of the activities conducted as part of the response to risk. The periodic (regular) risk reporting is also an element of this process.

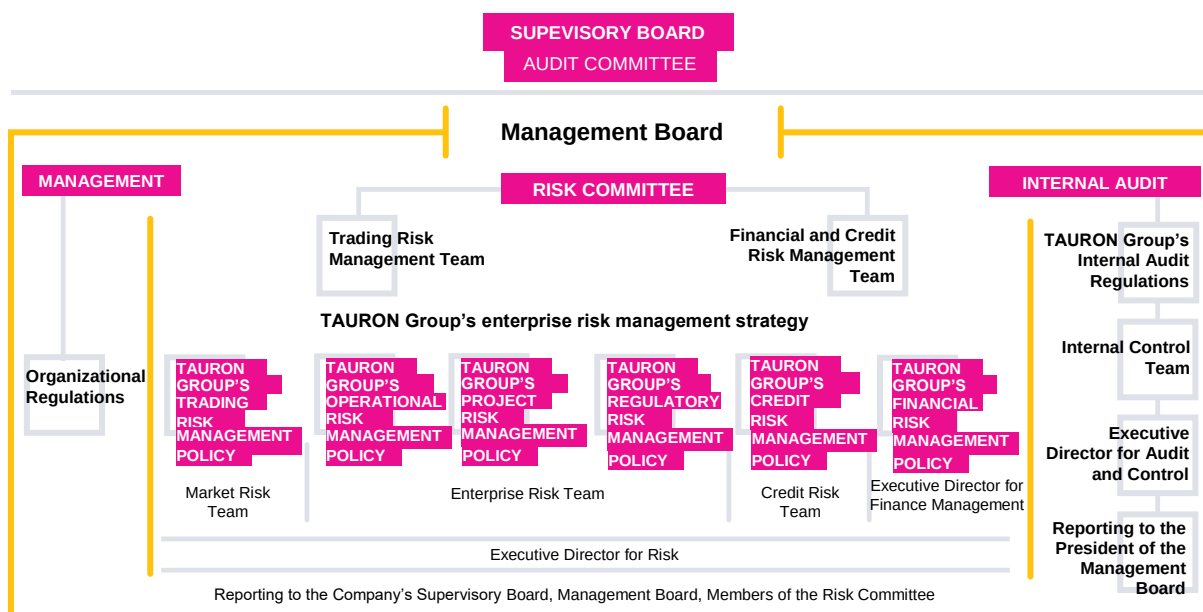
The organization of the risk management system (roles and responsibilities)

The key assumption of the risk management system is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest arises. In particular, the system guarantees the independence of the risk taking function from the risk control and monitoring. This is achieved through the centralization of the control function at the parent Company level, while maintaining the organizational and functional separation of the risk taking function. The rules in place at TAURON Capital Group introduce the function of the risk owner, i.e. the person responsible for managing the given risk, including in particular developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system was placed at the parent Company, in the Area of the Executive Director for Risk.

A special role, as part of the risk management process, is performed by the Risk Committee as an expert team that persistently and continuously initiates, analyzes, monitors, controls, supports and oversees the functioning of TAURON Capital Group's risk management system. The members of the Risk Committee include persons with appropriate knowledge of the Company and its environment as well as the required qualifications and empowerments. The task of the Risk Committee is to set norms and standards for risk management at TAURON Capital Group and the oversight of the risk management process effectiveness. Within the Risk Committee three separate teams are set up for the trading (commercial) risk area, the financial and credit risk area and for managing the operational and regulatory risk. The oversight of the enterprise risk management system is performed directly by the Risk Committee.

The below figure presents the links between the individual roles in the context of the ERM Strategy and the other documents regulating TAURON Capital Group's ERM system in detail.

Figure no. 39. ERM Links between the individual roles in the context of the ERM Strategy and the documents regulating the ERM System



Within the ERM System the roles and responsibilities of all the participants of TAURON Capital Group's risk management system are defined in detail and they are presented in the below table

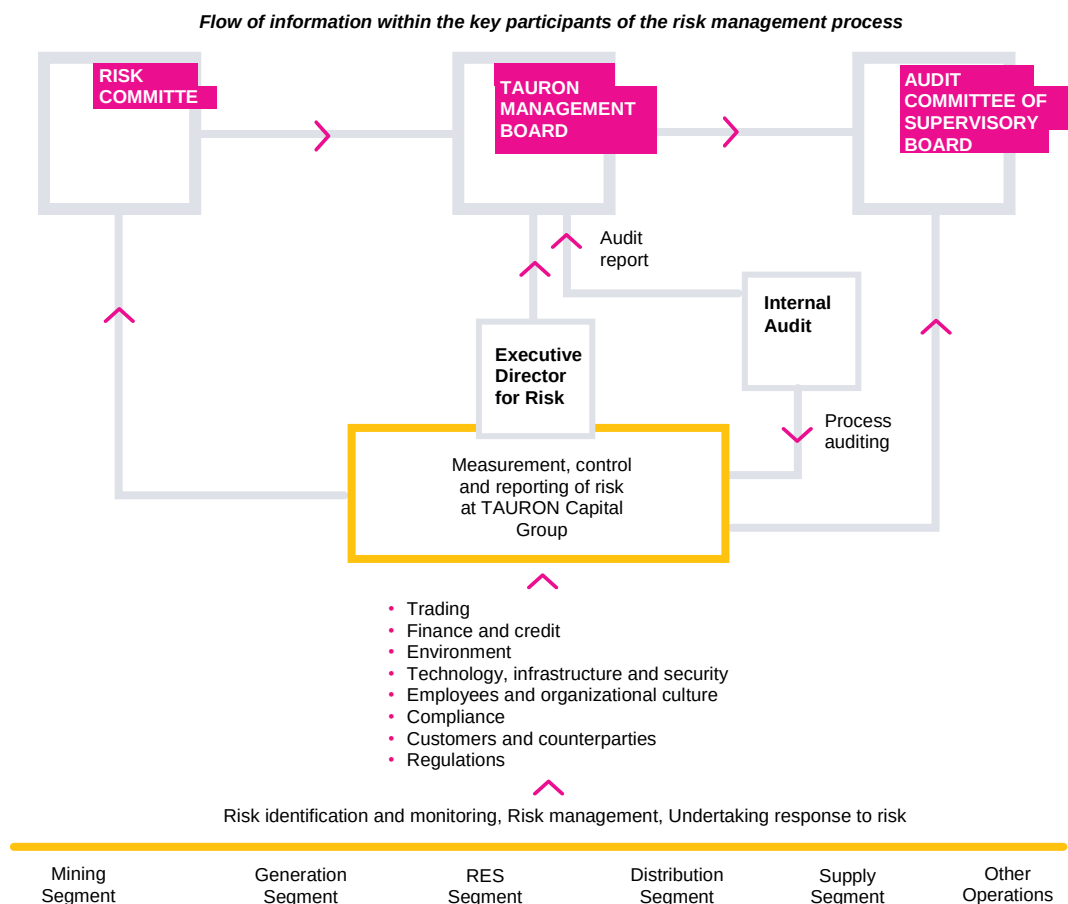
Table no. 23. Description of the ERM System participants' roles and responsibilities

Participant	Participant's roles and responsibilities
1. TAURON Supervisory Board	- Assessment of the ERM System, especially of its adequacy and effectiveness - Empowerment to audit the Company's operations with respect to enterprise risk management, in terms of compliance with the expectations of the shareholders, the supervisory and the regulatory authorities.
2. Audit Committee of TAURON Supervisory Board	Monitoring the ERM System's effectiveness.
3. TAURON Management Board	- Assessment of the ERM System's adequacy, effectiveness and efficiency. - Taking formal decisions related to the key elements TAURON Capital Group's enterprise risk management, including approving the list of risks with respect to which the Company's Management Board will be performing the Risk Owner's function. - Approving TAURON Capital Group's risk appetite and risk tolerance, including the global limits for the specific risks. - Managing the risks of special importance for TAURON Capital Group's operations. - Providing the adequate resources for the needs of the ERM System.
4. Risk Committee	- Overseeing the correct flow of TAURON Capital Group's risk management process. - Auditing (controlling) TAURON Capital Group's risk exposure. - Providing opinions (feedback) and recommending to the Company's Management Board the shape of the individual elements of the risk management infrastructure. - Defining TAURON Capital Group's risk 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. - Approving the operational limits constituting the allocation of the adopted risk tolerance. - 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	- Coordinating the risk management process on all levels and in all areas (lines of business) of the organization's operations. - Responsibility for the development of the ERM System (risk identification, evaluation, monitoring and control methods, processes and procedures). - Support for and oversight over the system's participants in the risk management implementation and evaluation of its efficiency. - Risk monitoring and control at the level of TAURON Capital Group, including control of the use (consumption) of the operating limits, the global limits and the risk tolerance - Preparing and providing the risk reports to the authorized risk management process participants. - 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	- Responsibility for risk management efficiency within a subsidiary. - Promoting risk management culture in a subsidiary. - Responsibility for the adequate responses to risk and the effectiveness thereof. - Appointing Risk Owners at the given subsidiary. - Approving plans of response to risks and taking ongoing decisions related to dealing with risk in case the established risk values (escalation threshold) are exceeded.
8. Risk Owner	Responsibility for the actions related to the implementation of the risk management process as part of the entrusted area of responsibility, in the context of an impact on the ongoing operations as well as on the implementation of the strategic, operational and financial goals of the unit.

Participant	Participant's roles and responsibilities
	2. Responsibility for preparing a plan and for implementing a response to risk, and also for the communications and reporting within the risk management performed.
	3. Responsibility for meeting (compliance with) the imposed operational limits.

The below figure presents the flow of information within the key participants of the risk management process.

Figure no. 40. Flow of information within the key participants of the risk management process



Risk control and monitoring rules

The purpose of the adopted risk control and monitoring rules is to limit TAURON Capital Group's exposure to the factors that may have an adverse impact on its functioning. The basic risk control tool is the Risk Appetite, approved by the Company's Management Board, that defines the basic framework used by TAURON Capital Group for risk management. In accordance with the adopted approach, TAURON Capital Group's priority is to maintain the maximum security at the level allowing for the implementation of TAURON Capital Group's strategic goals.

Based on the Risk Appetite, the Risk Tolerance is approved, that specifies TAURON Capital Group's maximum permitted risk exposure value, in particular taking into account the specifics and scope of the operations thereof. The Risk Tolerance level is expressed in the form of a set of metrics and boundary conditions limiting the risk exposure. The Risk Tolerance is a practical translation of the Risk Appetite, in particular taking into account the division into the key categories of the Specific Risks and the Global Limits related thereto. Based on the adopted Risk Tolerance value as well as the approved Global Limits, the Risk Committee approves sets of the Operational Limits dedicated to the individual risks or the groups thereof. The individual risk owners are responsible for meeting the Operational Limits, and the Executive Director for Risk is responsible for controlling the consumption (use) thereof. The basic assumption is to guarantee the independence of risk taking from the risk control, which guarantees the safety and security of the functioning of the organization. Such independence is ensured in particular by the appropriate positioning of the Executive Director for Risk within the organizational structure of the Company in a way that eliminates the emergence of a conflict of interest, as well as by ensuring direct reporting lines to the Company's Management Board and the Company's Supervisory Board.

A supplementary tool used for the risk monitoring and control comprises the Early Warning System based on the catalogue of the Key Risk Indicators (KRI) and the Early Warning Indicators (EWI).

The system functioning based on the said KRI and EWI indicators enables an adequately early identification of the threats by measuring the causes of the individual threats. At the same time, that system allows for an adequately early taking of the remedy actions, before the individual threats actually materialize.

Risk management tools

The risk management tools used by TAURON Capital Group allow for effective implementation of the individual stages of the process. TAURON Capital Group is using, in particular, the following tools:

1. **Risk identification / review questionnaire** - a document in the form of a table, specifying the detailed information that should be collected in the risk identification or periodic review process,
2. **Risk card - a document containing the detailed information on the identified risk,**
3. **Risk register** - a document in the form of a table with a summary of the risks associated with the operations of TAURON Capital Group, containing, in particular, their descriptions, categories and valuations,
4. **Risk response plans** - a document containing a prepared action plan, the early enough launching of which will allow for reducing exposure to the given risk to an acceptable level before it occurs, as well as for limiting the effects of the risk at the time of its materialization,
5. **Risk assessment form** - a tabular summary of the detailed information on risk measurement, including, among others, the determination of the impact and the probability associated therewith of risk materialization and the information on the current level of the risk measurement parameters (KRI / EWI).

Risk Model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of the risk across TAURON Capital Group. Each risk identified is assigned to the specific categories and sub-categories.

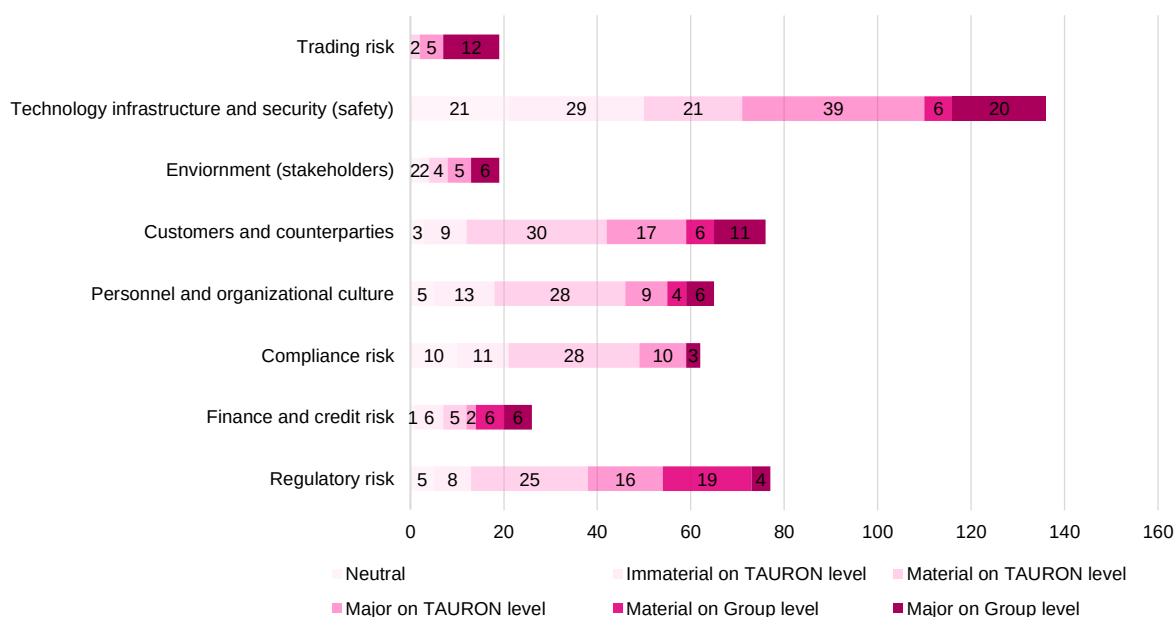
The below table presents the main risk categories and sub-categories, in accordance with the Risk Model in place.

Table no. 24. Main risk categories and sub-categories, in accordance with the Risk Model in place

Main risk categories	Main risk sub-categories	Description of the main risk sub-categories
1. Trading risk		Risks related to the volatility of electricity and related products market prices.
2. Financial and credit risk		Risks related to the fluctuations in the exchange rates and interest rates, as well as the risk of TAURON Group's contractors (counterparties) defaulting on the contractual obligations.
3. Operational risk	Environment (stakeholders)	Risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Capital Group's goals, including in particular the macroeconomic and reputational risks.
	Technology, infrastructure and security	All events having an adverse effect on the security of the employees, information as well as the generation, transmission, mining or IT infrastructure.
	Employees and organizational culture	Risks related to the employee issues and organizational culture, including also the pandemic risk.
	Compliance	Risks related to the cases of non-compliance with the legal regulations, internal and intra-corporate regulations, internal and external abuse (fraud) as well as the unethical behaviors and violations of the social norms (standards).
	Customers and contractors (counterparties)	Risks related to the volatility of the supplies / services market, a failure of the customer / contractor (counterparty) to meet the contractual obligations and the adverse changes or terminations of commercial contracts by the customers, affecting both the volume as well as the margin.
4. Regulatory risk		Risks determining the adverse impact of the changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Capital Group.

The below figure presents the main risk categories defined by TAURON Capital Group, including the number of key threats.

Figure no. 41. Number of risks monitored, broken down into sub-categories and their impact on TAURON Capital Group



Assessment of the adequacy and the functioning of the risk management system

TAURON Group's risk management is a systematic process subject to the continuous improvement which allows for aligning it, on an ongoing basis, to TAURON Capital Group's specifics and organizational structure, as well as to the fast changing environment. That process is also subject to an internal and independent assessment of adequacy and reviews, in particular based on:

1. ongoing assessment conducted by the Executive Director for Risk and the Risk Committee with respect to its adequacy and alignment with the changes to the structure and specifics of TAURON Capital Group's operations, as well as with the changing environment,
2. periodic (regular) evaluation conducted by the Executive Director for Risk who, not less seldom than once a year, prepares a report on the assessment of the adequacy of the ERM System's architecture for the members of the Risk Committee,
3. periodic (regular) evaluation conducted by the Executive Director for Audit and Control, who as part of performing the institutional (third line of defense), conducts an independent audit of TAURON Capital Group's risk management with respect to the appropriate implementation of the principles by the process participants, as well as its adequacy and effectiveness.

3.3. Key risks management

The Company is actively managing all of the risks, seeking to eliminate or to the maximum degree reduce (mitigate) their potential negative impact, in particular on TAURON Capital Group's financial results.

Trading risk management

In accordance with *TAURON Group's Trading Risk Management Policy* in place the trading risk is understood as the possibility of incurring a loss or making a gain due to the price fluctuations on the commodity and the related products markets. The trading risk, due to the specifics of the operations conducted, constitutes one of TAURON Capital Group's key risks. TAURON Capital Group is made up of the subsidiaries operating both in the Mining as well as in the Generation Lines of Business, including also the RES Line of Business, as well as in the Supply Line of Business. Due to the opposing positions in the above mentioned Lines of Business the risk is, to a certain degree, naturally diversified. However, since the above mentioned Lines of Business do not fully offset each other, and due to the diverse nature of the exposures, TAURON Capital Group is displaying sensitivity to the volatility of the prices of electricity, gas and the related products.

In order to efficiently manage that group of risks the trading risk management system was established, tied with respect to the organizational structure and information flow, to the trading position hedging strategy in place at TAURON Capital Group's level. In particular, *TAURON Group's Trading Risk Management Policy* in place introduces an early warning system and a system used to limit the risk exposure in the individual trading areas based on the Risk Tolerance approved by the Management Board.

The basic operational measure of TAURON Capital Group's market risk is Value at Risk (VaR), defining the maximum admissible change of the position's value over the given time horizon and at a specific probability level. Value at Risk (VaR) represents a dynamic risk measure which, in contrast to the static measures, allows for determining the potential negative effects before their factual occurrence. However, being aware of certain limitations of the statistical measures of this type, the Risk Area also uses a number of supplementary risk measures aimed at enabling a safe operation of the trading areas.

The strategic measurement of the market risk is conducted based on the mechanism of Hedge Curves, which are to ensure the maximum level of security by optimizing open trading positions exposed to the volatility of the price factors in the individual areas (lines of business) of TAURON Capital Group's operations.

The organizational structure of the trading risk management system envisages a strict division of competences, where the risk supervision (steering) and control are performed centrally at TAURON level. In particular, an element of the organizational structure of the trading risk management system is the split of TAURON Capital Group's trading operations into: Front Office, Middle Office and Back Office. The goal of such a split of tasks is to guarantee the independence of the operating functions carried out by the Front Office from the risk control function carried out by the Risk Area, and it ensures an appropriate level of operational flexibility. For the needs of the risk management process such a placement of responsibility is assumed so as an optimal approach to the given type of threat can be assured, in particular by taking advantage of the economy of scale and the synergy effect. Such an approach ensures efficiency of the trading processes conducted and the adequate supervision over one of the main business processes conducted by TAURON Capital Group.

The below figure presents a breakdown of TAURON Capital Group's trading operations

Figure no. 42. Breakdown of TAURON Capital Group's trading operations



Financial risk management

As part of the financial risk management, TAURON Capital Group is managing the FX risk and the interest rate risk, based on the developed and adopted for use *TAURON Group's Financial Risk Management Policy* as well as the Risk Tolerance approved by the Management Board, the Global Financial Risk Limit including the decomposition thereof into the individual financial risk types. The main goal of managing such risks is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of the transactions with the use of the derivative instruments. In cases when it is possible and economically justified, TAURON uses the derivative instruments the characteristics of which allow for applying the hedging accounting.

With respect to the financial risks TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay the current expenses, due to an inadequate value or structure of liquid assets in relation to the short term obligations or an insufficient level of the actual net inflows from the operating activities.

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. As part of the efforts aimed at minimizing the financing risk, TAURON is conducting a policy of acquiring the funding for TAURON Capital Group with an adequate advance notice in relation to the planned date

of the use thereof, i.e. up to 24 months in advance of the planned funding requirement. This means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging for such financing by accumulating the funds on TAURON Capital Group's accounts. Such a policy is first and foremost aimed at ensuring a flexible choice of the financing sources and taking advantage of the favorable market conditions as well as reducing the risk of the need to take on the new liabilities under unfavorable market conditions. TAURON's policy also covers the standardizing of the covenants and the provisions of the financing agreements in the most important (key) elements of the documentation.

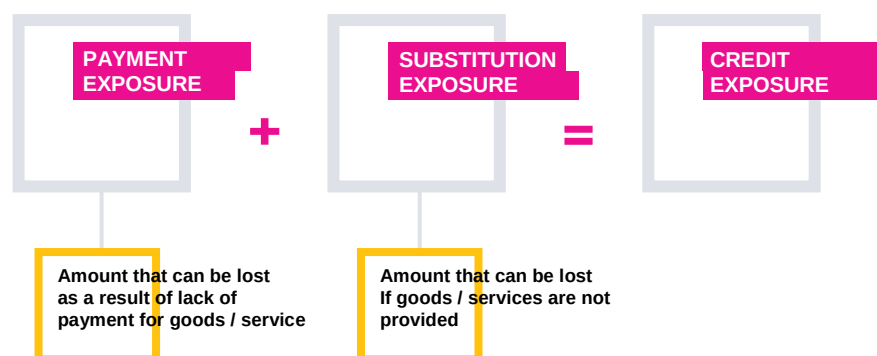
Credit risk management

In accordance with *TAURON Group's Credit Risk Management Policy* in place the credit risk is understood as the possibility of incurring a loss or making a gain due to the trading partners (counterparties) failing to fulfill their contractual obligations (default) as well as the occurrence of the credit exposures at the risk of impairment due to the deterioration of their financial position. TAURON Capital Group has a decentralized credit risk management system in place, however the control, limiting and reporting of this risk category is carried out centrally, on the parent Company level. *TAURON Group's Credit Risk Management Policy* put in place defines the credit risk management principles on TAURON Capital Group's level, aimed at effectively minimizing the impact of that risk on the achievement of TAURON Capital Group's goals.

The credit risk management is carried out by controlling the credit exposure generated upon the conclusion of the contracts by TAURON Capital Group's subsidiaries. The general rule is that prior to concluding a material contract every entity is subjected to an examination of its financial standing and is granted a credit limit which caps the maximum exposure due to the given trade. The credit exposure is, in this context, understood as an amount that can be lost if a counterparty (business partner, contractor) fails to fulfill its obligations (defaults) within a certain time (taking into account the value of the collaterals submitted thereby). The credit exposure is calculated as of the current day and is split into the exposure due to the payment (payment exposure) and the substitution exposure.

The below figure presents the credit exposure components.

Figure no. 43. Credit exposure components



Based on the exposure value and the synthetic measure used to evaluate the financial standing of specific customers, the global credit value at risk that TAURON Capital Group is exposed to is calculated using the statistical methods according to which the exposure value is calculated based on the CVaR total loss probability distribution. This measure is the basic operational limit of the credit risk, which represents the allocation of the Risk Tolerance approved by Management Board.

Operational risk management

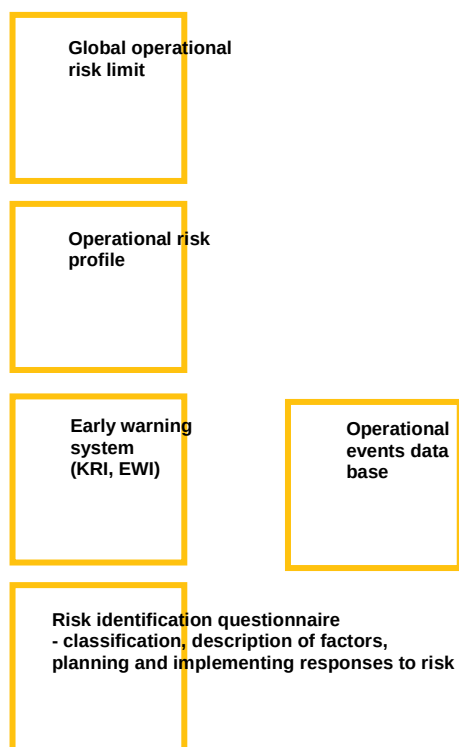
The operational risk, in accordance with *TAURON Group's Operational Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the inadequate or fallible internal procedures, human and system errors or as a consequence of external events. It also includes the reputational risk and the non-compliance risk. The operational risk, due to the specific nature of the threats and the ability to manage such a risk, constitutes a separate group of the risks affecting TAURON Capital Group's operations. The said risk is a complex issue, occurs in every process and type of operations, it is multi-dimensional and applies to various types of activities and operations. In particular, the exposure to the operational risk factors is related to the size and the complexity of the organizational structure, the number and the complexity of the IT systems and to the number of the business processes conducted. The operational risk is characterized by the lack of the ability to totally eliminate the sources thereof, and the analysis of its factors and parameters (among others, the frequency and severity), as well as the evaluation thereof requires the use of complex measurement and analysis methods.

In order to effectively manage the operational risk, TAURON Capital Group is using the adequate tools that, in particular, include: the global operational risk limit, the operational risk profile, the early warning system functioning on a broad scale, the operational events database, and the related operational limits system. In particular, based on the approved Risk Tolerance, the operational limits are determined for the individual operational risks (or the

groups thereof) aimed at the pre-emptive control of TAURON Capital Group's vulnerability to the individual operational risk factors and the implementation of the pre-emptive mitigation actions.

The below figure presents the risk management system tools.

Figure no. 44. Risk management system tools



Global operational risk limit is the basic tool for the operational risk control and represents the allocation of the Risk Tolerance adopted by TAURON Capital Group. The global operational risk limit can be subsequently allocated to TAURON Capital Group's individual lines of business, the operational risk sub-categories as well as to the specific operational risks.

Operational risk profile is aimed at identifying the areas, processes or activities with an excessive exposure to the threats stemming from the specific operational risk factors. It is expressed, in particular, in the structural dimension that includes the types of the operational events, TAURON Capital Group's organizational structure and processes, and in the scale dimension that includes the estimated potential losses, taking into account in particular the historical values of the actual losses, as well as the tools used to mitigate the threats. For the needs of measuring the operational risk and defining the Operational Risk Profile the individual types of the operational risk are broken down (due to the nature of the occurrence thereof) into the continuous and the one-off risks.

Early Warning System is defined in order to monitor the operational risk level for each identified threat. Early Warning Indicators (EWI) are selected from the set of the Key Risk Indicators (KRI), as the ones that are subject to continuous control with respect to the cautionary thresholds set for them, i.e. the acceptance, mitigation and escalation thresholds.

Operational events database is created for the needs of identifying the new risk factors, and in parallel in order to define the risk profile for TAURON Capital Group. It allows for keeping the records of cases that are characterized by a potential or actual loss for the organization. The goal of maintaining the operational events database is to determine the frequency and severity of the individual operational risk factors, as well as the areas and processes they occur in.

Risk identification questionnaire is a document in the form of a tabular form that constitutes a tool supporting the performance of the risk management process with respect to the risk identification, specifying the detailed information that should be collected as part of this process.

Regulatory risk management

The regulatory risk, in accordance with *TAURON Group's Regulatory Risk Management Policy* put in place, is understood as the possibility of incurring a loss or making a gain due to the planned or unplanned changes to the existing or the introduction of the new regulations that may affect the operations of TAURON Capital Group. The regulatory risk, due to the specific nature of the threats and the limited options to manage such a risk, is a separate category of the enterprise risk to which TAURON Capital Group is exposed as part of its operations. The regulatory risk management is based on the Regulatory Risk Management Process and is a refinement of the Risk Management Process specified in the ERM Strategy.

The main causes of the regulatory risk include:

1. instability of the legal environment,
2. change in the regulatory policy at the national and European Union levels,
3. progressing integration of the European energy market,
4. uncertain political situation,
5. a significant increase in the requirements with respect to a specific regulation.

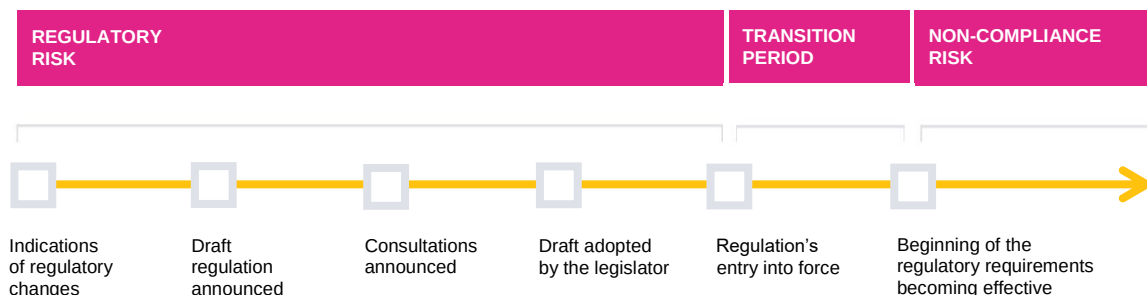
The main goal of the regulatory risk management at TAURON Capital Group is to minimize the losses and maximize the gains from the planned or unplanned changes to the existing regulations or the introduction of the new regulations that may affect the operations of the organization. As a result, it allows for reducing the potential threats to a level that would be possibly favorable for achieving TAURON Capital Group's strategic goals. The regulatory

risk management is also aimed at building the culture and awareness among the employees of TAURON Capital Group regarding the risk taken, as well as at the continuous improvement of the process of managing such risk.

The regulatory risk occurs when there are indications of the regulatory changes, for example an entry into force of the EU directive, which will be implemented into the Polish legal regime or the positions of the legislators declaring the regulatory changes. The regulatory risk management does not cease when a specific regulation which is frequently expected to provide executive regulations that specify its implementation method comes into force but from the moment the regulatory requirements take effect (the period from the entry of a legal act into force until the beginning of the regulatory requirements becoming effective is a transition period). At that time the regulatory risk management turns into the risk of non-compliance monitored as part of the non-compliance risk.

The below figure presents the regulatory risk life cycle.

Figure no. 45. Regulatory risk life cycle



In accordance with the classification of the regulatory risk, as part of *TAURON Group's Regulatory Risk Management Policy*, 13 areas of regulatory risk have been identified at TAURON Capital Group. The classification is based on the identification of the homogeneous groups of regulations, based on their impact on the operations of TAURON Capital Group, taking into account the possibility of undertaking an effective response to the given risk. The regulatory risk areas are divided into 2 basic categories:

1. **Sector regulatory risks** – the regulatory risks that may affect the operations of TAURON Capital Group related to the generation and supply of electricity and heat. As part of this category, independently, there are also risks related to the distribution of electricity and the extraction of raw materials.
2. **Non-sector regulatory risks** – the regulatory risks that may affect the operations of TAURON Capital Group related to, among others, the public procurement law, information security or compliance area, personal data protection, trading on energy markets, labor law, accounting and tax law, capital market regulations, work (occupational) health and safety or environment protection and climate change.

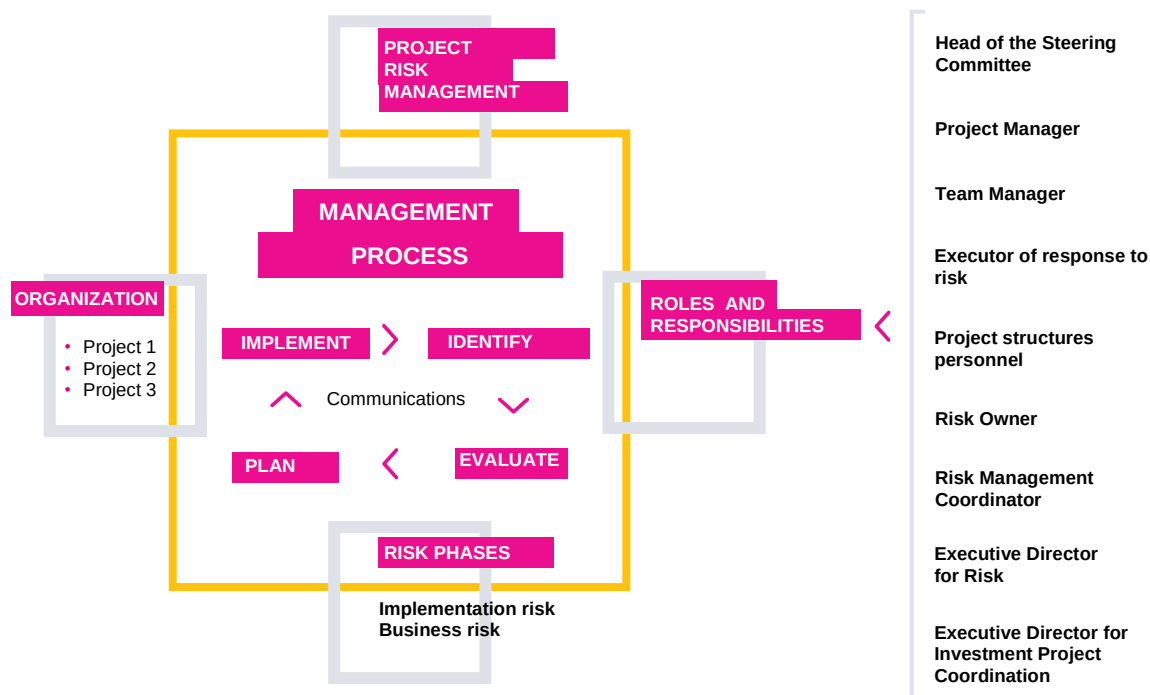
Project risk management

TAURON Capital Group is conducting a number of investment projects in many lines of its business operations. These projects, due to their scale and often very complicated nature of implementation, represent a source of threats (risk) that may have an impact on the schedule, budget or quality of the final products. Systematic application of the provisions of *TAURON Group's Project Risk Management Policy* is aimed at mitigating these risks, supporting at the same time the accomplishment of the organization's strategic goals. That regulation, in particular, defines the basic principles of the project risk management, ensuring consistency, comprehensiveness of the approach and the unequivocal understanding in that area. The goal of the actions taken is to achieve the required probability of the project's completion, while complying with the defined schedule, budget and quality of the products obtained. The overall objective is to obtain the expected benefits from the project's completion and to achieve TAURON Capital Group's strategic goals.

The project risk management is also applicable to managing the risk stemming from the projects and having an impact on the organization. The process of managing the risk stemming from the projects includes the identification, valuation of such risks, defining and monitoring the early warning indicators as well as planning and implementing actions related to managing such risks. In case of the risks that have an impact on the organization, the risk valuation is made based on the absolute value of the impact, including indicating the impact period broken down into the individual accounting periods, in reference to the assumed EBITDA or the assumptions made in the organization for the long term projections. In case of the most important risks that have an impact on the organization, the Risk Response Plans and the Back-up (Contingency) Plans are developed. The evaluation of the project risks and the risks stemming from the projects for the organization is taken into account when making the key decisions related to launching and implementing such projects.

The below figure presents the project risk management model.

Figure no. 46. Project risk management model



3.4. Description of the most material risk categories

The below table presents the most material risk categories identified for TAURON Capital Group.

Table no. 25. Most material risk categories identified for TAURON Capital Group

Risk name	Risk description	Risk trend and materiality	Reaction to risk
Trading			
1. Market risk	The risk related to unfavorable changes in prices on the wholesale electricity market and the energy related product markets, which adversely affect the financial results.	↗ ■	1. Independent monitoring of the trading positions and of the use (consumption) of the risk limits. 2. Daily control (checking) of the compliance with the limits - Value at Risk. 3. Daily control (checking) of the volume of the open positions, broken down into all assets and the aggregate. 4. Applying the Stop Loss limits allowing for protecting (locking in) the generated result. 5. The use of the futures (forward) products allowing for the hedging of the future exposure to the trading risk. 6. Applying tolerances allowing for the flexible reaction to the changing market conditions with a limited level of the risk incurred. 7. Taking advantage of the effects of the diversification between the products and the trading portfolios as well as the use of the internal netting. 8. Centralization of the trading activities at TAURON Capital Group allowing for taking advantage of the synergy effects.
Finance and credit			
2. Interest rate risk	Risk related to an unfavorable impact of interest rates on TAURON Capital Group's financial results.	↗ ■	1. Ongoing monitoring of the risk exposure in order to minimize the negative impacts of the changes to the interest rates. 2. Transfer of the risk through the use of the derivative instruments.
3. FX rate risk	Risk related to an unfavorable impact of the FX rates on TAURON Capital Group's financial results.	↗ ■	1. Ongoing monitoring of the risk exposure vulnerable to the FX rate risk. 2. Use of the risk limits for TAURON Capital Group's operational FX position (Value at Risk). 3. Transfer of the FX rate risk through the use of the hedging transactions in accordance with the adopted TAURON Group's Financial Risk Management Policy.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
4. Liquidity risk	Risk related to the lack of TAURON Capital Group's ability to pay its liabilities on an ongoing basis and the difficulties in accessing capital, a change in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	→ ■	1. Diversification of the sources of financing including arranging guaranteed financing programs as well as securing alternative sources of financing. 2. Analyzing the market and the availability of the sources of financing. 3. Ongoing communications with the financial institutions. 4. Arranging financing agreements in advance of the time the funding is needed. 5. Monitoring the financial liquidity and planning the use of the available sources of financing. 6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company.
5. Financing risk	Risk related to the difficulties in accessing capital, a change in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	→ ■	1. Diversification of the use of the available sources of financing by using the financing instruments that reduce the risk of breaching the covenant in the form of the net debt / EBITDA ratio (for example hybrid bonds, factoring). 2. The use of the instruments without financial covenants and limiting the number of the conditions that breach such covenants. 3. Ongoing communications with the financial institutions. 4. Pre-emptive activities with respect to obtaining approvals from the financial institutions to carry out the transactions or activities specified in the financing agreements. 5. Identification of the events that may potentially affect the breach of the financial contracts and taking pre-emptive actions to mitigate the negative impact of the emergence of such an event. 6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company. 7. Taking actions aimed at reducing the net debt and/or increasing the EBITDA based on the decisions of the Risk Committee or the Management Board of the Company.
6. Tax risk	Risk related to the incorrect or untimely payment of the tax obligations.	→ ■	1. Activities in accordance with the legal regulations (Corporate Income Tax Act). 2. Issuing opinions (providing feedback) on the economic events by TAURON Capital Group's tax advisors. 3. Jointly agreed upon positions at TAURON level. 4. Applying uniform accounting principles for the companies (subsidiaries) within the PGK (Tax Capital Group). 5. Preparation of the tax documentation for the transactions between the PGK companies and the related entities outside PGK, requiring such documentation in accordance with the CIT Act, and auditing other transactions in order to confirm that they are concluded at arm's length.
7. Credit risk	Risk related to a potential occurrence of overdue accounts payable or a conclusion of a contract with a counterparty (business partner, contractor) that may turn out to be insolvent.	→ ■	1. Regular monitoring of the financial standing of the counterparties (business partners, contractors). 2. Periodic (regular) customer scoring, credit rating of each customer prior to submitting an offer / concluding a contract. 3. Use of the protection mechanisms (hedging) in the commercial agreements
Environment (stakeholders)			
8. Reputational risk	Risk related to the current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash, including the risk related to not following the market trends related to the climate protection.	→ ■	1. Continuous monitoring of the Company's external and internal threats. 2. Media monitoring, developing the contacts and relationships with the media within TAURON Capital Group. 3. Preparing the procedures for the Company's communications with the external and internal environment (stakeholders). 4. Striving to change the business profile to zero and low emission (carbon). 5. Adoption and implementation of: <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>, <i>TAURON Group's Anti-corruption Policy</i>, <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i>, <i>TAURON Group's Diversity Policy</i>, <i>TAURON Group's Respect for Human Rights Policy</i>

Risk name	Risk description	Risk trend and materiality	Reaction to risk
9. License risk	Risk related to the lack of the possibility to conduct operations as a result of a prolonged process of obtaining a license or amending the licenses held, as well as the unfavorable legal changes with respect to the licensed operations.	→ ■	1. Ongoing control (checking) of the correct fulfillment of (compliance with) the licensing obligations. 2. Monitoring the changes to the legal acts with respect to the licensing obligations. 3. Legal support for the license extension and process.
10. Macroeconomic risk	Risk related to a change in the economic situation of the country, the instability of the financial markets resulting in a decrease of the demand for electricity.	↗ ■	1. Diversification of the revenue sources. 2. Market analysis and the application of the pre-emptive actions for the anticipated crisis (downturn) or a slowdown of the GDP growth rate.
11. Climate change risk	Risk related to the tightening of the EU climate policy, as well as the environmental requirements resulting from the climate change, activities supporting energy efficiency (expansion of the prosumer development, support for the thermal insulation, construction of in-house energy and heat sources, departure from coal as fuel), change in the conditions of TAURON Capital Group's operations (the need to adapt the company to the challenges of change resulting from the climate change). The implications of the risk include: difficulties or increase in the cost of raising capital to finance operations based on the fossil fuels, the need to incur additional capital expenditures for adapting the assets to the environmental requirements, an increase of the price of the CO ₂ emission allowances, declining demand for the products offered by TAURON Capital Group's subsidiaries.	↗ ■	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 the Investment Strategy. 5. Active participation in the works of the teams issuing opinions (providing feedback) on the projects and proposing optimal solutions. 6. Active searching for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on climate change. 7. Promoting eco-mobility or climate-neutral mobility. 8. Gradual adaptation of the production assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as the zero and low emission electricity generation technologies. 9. Cooperation with the business and social partners with respect to the adaptation to climate change.
Technology, infrastructure and security (safety)			
12. Environmental risk	Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would enable the prevention of excessive pollution, damage, disruption or failures of the installations or equipment that would have a negative impact on the environment. The risk also related to the possibility of: lack of the validity of environmental decisions, depositing waste in places not intended for such purpose or not in accordance with the conditions of the use of the facilities intended for such a purpose, the occurrence of a crisis situation (for example fire, displacement of earth masses, extreme conditions), the use of the waste not in accordance with the authorized destination (intended use), the lack of the appropriate safeguards limiting the negative impact of TAURON Capital Group's operations on the environment, release of the hazardous substances into the environment, social protests. The implications of the risk include: degradation of the natural environment and penalties for a failure to comply with environmental requirements, the need to remove such substances, the curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that would prevent their use, destruction of a habitat, object or valuable natural area - environmental compensation, restrictions on a further expansion of the business operations, a loss of the image of TAURON Capital Group, limitation of the ability to use the financial assistance programs. The risk also includes an increase in the environmental requirements due to the tightening of the EU's climate policy.	→ ■	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 emissions 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 searching for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on climate change.
13. Weather risk	Risk related to the more frequent occurrence of the weather anomalies, including relatively high temperatures in winter, higher rainfall intensity that can cause floods at any time of the year, uneven precipitation, resulting in longer periods of no rainfall, intermittent abrupt rainfall, and the intensification of the evaporation processes, increased frequency	→ ■	1. Upgrading (refurbishing) the hydroelectric structures aimed at optimizing the utilization of the hydro resources. 2. Preparing the plans of the overhauls, inspections and maintenance activities with the flexible provisions on the deadlines for completing the works.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
	and intensity of the hurricanes, strong winds incidentally accompanied by tornadoes and lightnings, more frequent occurrence of droughts and restrictions in access to water related thereto, as well as an increased risk of fires, a very high risk of weakening of the stands, making trees more susceptible to the damage caused by the wind. The implications of the risk include, in particular: a decrease of the volume of electricity and heat supply, a decline of the production volume, the deterioration of the quality indicators and an impact on the regulated revenue.		3. Continuous monitoring of the wind conditions and icing on the wind farms' blades. 4. Continuous technical oversight over the operation of the individual wind farms, conducted by the companies operating the farms. 5. Monitoring and analyzing the new technological solutions that reduce the impact of the adverse weather conditions on the volume of the electricity generated. 6. Gradual adaptation of the production assets to the consequences of the extreme weather conditions and the variability of the weather conditions, in particular in the Lines of Business sensitive to these factors.
14. Company asset failure risk	Risk related to the machinery and equipment failures, distribution grid failures (electricity, heat) caused, among others, by the operation thereof, but also by random (fortuitous) events including those related to the extreme weather conditions (storms, floods, hurricane winds, heat waves, fires) as a consequence of, among others, the climate change. The materialization of the risk affects the availability of the assets and results in downtime related to the asset failures, increased costs of the rectification thereof. In addition, it may also be a failure to meet the capacity obligation, resulting in the need to conclude transactions on the secondary market or the payment of the financial penalties to the TSO (PSE).	↗ ■	1. Optimizing the capital expenditures on asset replacements, ongoing monitoring of the condition of the machines, devices and installations. 2. Raising the professional qualifications and the work culture of the personnel by organizing courses and training. 3. Responding to an emergency situation by the technical personnel and the automatic process safety interlocks (safeguards). 4. Insuring the assets against fortuitous events (excluding underground assets). 5. Introducing the IT tools with respect to improving the monitoring and managing the failure indicators (rates, ratios). 6. Continuous monitoring of the availability (dispatchability) of the generation units and the demand reduction, as well as shifting the capacity obligations that require reserving to the dedicated intra-group reserve units or the external entities. 7. Updating the activities related to the handling of the group reserve, with the particular emphasis on the analyses of the functioning of the secondary market starting from January 2021. 8. Updating TAURON Capital Group's maintenance (overhaul) shutdowns (outages). 9. Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Distribution Line of Business.
15. IT risk	Risks related to the IT infrastructure security, failures of the IT infrastructure.	→ ■	1. Developing and maintaining the plans aimed at ensuring the continuity of the IT infrastructure's operation. 2. Periodic identifying and categorizing of the IT resources based on the service restoration targets. 3. Use of the IT solutions with the appropriate technical parameters, providing an acceptable level of reliability and performance of the operation (including also the UPS devices, GSM modem, mobile phones). 4. Planning and conducting the training courses on the IT infrastructure's continuity of the operation and security. 5. Storing and protecting the back-up data.
16. Asset (property) security and protection risk	Risk related to compromising the integrity of the machines / devices and to the security of the information, including its improper processing and unauthorized disclosure.	→ ■	1. Monitoring the implementation of the developed plans to protect the facilities that are subject to the mandatory protection. 2. Maintaining and updating the contingency procedures / plans. 3. Oversight over the compliance with the information security rules in force. 4. Regular personnel training with respect to the security procedures in force.
17. Geological risk	Risk related to the impact of the geological factors on the mining operations	→ ■	1. Making test drillings for the better intelligence on the positioning of the coal deposits. 2. Continuing to take preventive measures in the areas under threat in order to improve the geological and mining conditions and to provide the protection against the natural threats (including, among others, the long-drilled blasting hole shooting in order to break the rock mass)
Workforce and organizational culture			
18. Social dispute risk	Risk related to the collective disputes, strikes, social conflicts being the consequence of a lack of the personnel's satisfaction with the economic and social situation.	→ ■	1. Conducting the public consultations regarding the planned changes. 2. Conducting a policy of dialogue with the social partners (workforce). 3. Preparing and implementing the motivational solutions for the personnel.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			- Standardizing the tasks and the requirements towards the personnel. - Developing the organizational culture based on the values. - Conducting the active internal communications on the personnel matters
19. Human resources risk	Risk related to the employee issues, including also the diversity, participation, employment and the labor conditions, relations with the trade unions and respect for the right to freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to the climate change, forcing a change in the profile of the business operations. The materialization of the risk may result in interruptions or disruptions to the operations, employee complaints, collective disputes, strikes, loss of specialized staff and the difficulties in the recreating thereof.	→ ■	- 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>. - Taking care of developing the personnel competences, including through the participation in the training courses - Conducting the consultations with the social organizations at TAURON Capital Group - 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). - Adoption and implementation of <i>TAURON Group's Diversity Policy</i> and <i>TAURON Group's Respect for Human Rights Policy</i>.
20. Risk of the lack of the employees' due diligence	Risk related to the non-compliance with the procedures and the lack of the employees' due diligence in the performance of the official duties.	→ ■	- Implementation of <i>TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy</i>, - Systematic periodic employee training, - Analysis of the recurring cases of the errors and mistakes of the employees, taking systemic remedial actions. - Implementation of the Internal Control (Audit) System and the control (audit) mechanisms for the processes conducted at TAURON Capital Group.
21. Pandemic risk	Risks related to the persistence of the pandemic disrupting Poland's economic system and administration and causing significant changes in the market environment, impacting the operating conditions of TAURON Capital Group's subsidiaries. The increase in the number of infection cases leads to the curtailment of the economic activity, affecting the level of demand for the products offered by TAURON Capital Group's subsidiaries, including, in particular, the electricity distribution and supply volumes. An additional risk factor is inflow of migrants from Ukraine (military conflict).	→ ■	- Monitoring the state (condition) of the epidemiological threat (risk) at TAURON Capital Group. - Collecting the information on the threats and identification of the potential threats to the security and safety of the workforce of TAURON Capital Group's subsidiaries. - Developing and recommending the solutions aimed at reducing the level of threat (hazard) to the resources of TAURON Capital Group. - Ongoing monitoring of the risk related to the availability of the employees and services provided by TAURON Capital Group's subsidiaries. - Recommending the solutions aimed at curbing the effects of the materialization of the threat (hazard) to the resources of TAURON Capital Group. - Preparing and providing opinions (feedback) on the content of the messages to be disseminated at the level of TAURON Capital Group and the Company. - Use of the screening tests. - Preparing of the contingency plans in the event of the loss of the key employees of TAURON Capital Group. - Developing the backup business continuity plans. - Undertaking the trading activities in order to balance the buy position on an ongoing basis in relation to the observed drops in the volume of electricity sales. - Taking advantage of the market opportunities to hedge the position in the Generation Line of Business (buy-backs). - Taking advantage of the anti-crisis shield mechanisms. - Increasing the frequency of monitoring the overdue accounts receivable. - Introducing additional guidelines with respect to taking credit risk and extending the scope of the customer financial condition examination (vetting). - Introduction of a mechanism for monitoring and curbing spending.
22. Work Health and Safety (WHS) Risk	Risk related to ensuring the health and safety at work. The materialization of the risk results in an employee injury, a loss of health or excessive exposure of an employee to the factors harmful to health, the compensation paid out for a personal injury.	→ ■	- Prioritizing the safety and security of the employees, customers, contractors and stakeholders in the business activities undertaken - Adoption and implementation of <i>TAURON Group's WHS Policy</i>, - Ensuring the optimal labor conditions,

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			4. Conducting active monitoring of the working conditions and the correctness of the organization thereof, 5. Raising the employees' qualifications with respect to improving the work (labor) safety, 6. Conducting the training courses, implementing and improving the WHS management system
23. Communications risk	Risk related to providing the inaccurate, untrue information or a lack of the information disclosure at a specific time.	→ ■	1. Building the relationships with the social partners (workforce) of TAURON Capital Group and the close cooperation with the Social Dialogue Ombudsman. 2. Use and development of the available communications tools to provide the relevant information to the employees of TAURON Capital Group. 3. When providing the relevant information – organizing the direct meetings between the management team and the employees. 4. Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social discontent. 5. Regular periodic meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange the information. 6. Developing the Communications Strategy for TAURON Capital Group
Compliance			
24. Internal fraud risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, the use of the official position for personal gain resulting in the financial losses, criminal and administrative sanctions, criminal and civil law liability.	→ ■	1. Educational and training activities for the employees, including the mandatory e-learning training with respect to TAURON Group's Compliance Management System. 2. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 3. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators. 4. Building the organizational culture based on TAURON Capital Group's values and principles. 5. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>, <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and <i>TAURON Group's Rules for accepting and giving gifts</i>.
25. External fraud (abuse) risk	Risk related to the occurrence of an external fraud (abuse) that affects the operations of TAURON Capital Group through: the disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist attack and hacker attacks, tax fraud, theft, vandalism, counterfeiting, money laundering, terrorist attack.	→ ■	1. Raising the employees' awareness through the training and information campaigns related to the existing threats of external fraud (abuse). 2. Adoption and implementation of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries</i>. 3. Introduction of the anti-corruption clauses to the contracts with the contractors (counterparties). 4. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i>. 5. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 6. Monitoring of the cooperation with the contractors (counterparties) and testing their credibility at TAURON Capital Group. 7. Promoting of the best practices, improving the procedures, conducting training courses and applying <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and the functioning of the abuse (fraud) reporting (whistleblowing) system. 8. Building the organizational culture based on TAURON Capital Group's values and principles.
26. Risk of unethical behavior and mobbing	Risk related to the occurrence of unethical behavior resulting, in particular, in the lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of the employees.	→ ■	1. Adoption and implementation of <i>TAURON Group's Respect for Human Rights Policy</i>, <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>, <i>TAURON Group's Anti-Corruption Policy</i> and <i>TAURON Group's Rules for accepting and giving gifts</i>. 2. Effective use of the abuse (fraud) reporting (whistleblowing) system in the organization. 3. Conducting of the investigative probes by the Compliance Officer or Compliance Coordinators with respect to the anonymous reports of the mobbing and discrimination. 4. Reviewing of the reports of mobbing or discrimination by the Ethics Committee.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			- Promoting of the best practices, improving the procedures, conducting training courses and applying <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and the functioning of the abuse (fraud) reporting (whistleblowing) system. - Building the organizational culture based on TAURON Capital Group's values and principles.
27. Legal risk	Risk related to the non-compliance with the legal provisions, misinterpretation of the new laws and regulations, the requirements imposed by the regulator and the supervisory authorities. The materialization of the risk may result in the financial penalties, criminal and civil law liability, a loss of the image of TAURON Capital Group.	→ ■	- Adoption and implementation of <i>TAURON Group's Compliance Policy</i>. - Continuous monitoring of the legal environment and changes to the legal regulations with respect to the non-sector regulations related to the information security or the area of compliance in order to minimize the risk of non-compliance. - Monitoring of the implementation process or implementing of the changes to the internal regulations required by the law. - Setting up or participating in the working groups tasked with adapting the organizations to the changes stemming from the legal environment. - Consultations with the relevant organizational units with respect to the planned key regulations for the area of compliance. - Training of the personnel with respect to the changes to the legal regulations and the internal regulations.
28. Risk of a breach of the contractual provisions (default)	Risk related to a breach of the contractual provisions with respect to the contract parameters or a failure to perform the contract (default).	→ ■	- Updating and adapting the contract templates to the legal changes. - Monitoring of the complaints and proceedings of the Energy Regulatory Office (URE) / Office of Competition and Consumer Protection (UOKiK). - Process optimization.
29. Personal data protection risk	Risk related to the inadequate storing and processing of personal data resulting in an undesirable leak or violation of the rights of the data subjects related to personal data protection	→ ■	- Identifying and implementing the appropriate technical or organizational measures to ensure the adequate level of security of the personal data. - Monitoring the compliance with the legal regulations related to the personal data protection. - Raising the level of awareness of the workforce with respect to the personal data protection, in accordance with the applicable regulations. - Defining and implementing the process of handling the data subjects' requests in accordance with the regulations in force at TAURON Capital Group and the process documentation. - Providing the information and advice on the personal data protection to the employees of the organization.
Customers and counterparties (business partners, contractors)			
30. Customer service risk	Risk related to the non-compliance with the customer service standards leading to customer dissatisfaction with the service, customer complaints, loss of customers.	→ ■	- Monitoring and analyzing the external customer satisfaction indicators and the indicators related to the complaints. - Undertaking the additional measures, for example with respect to the internal regulations, defining the standards of conduct as a result of the analysis of the indicators. - Undertaking the additional measures, for example introducing the new internal regulations, in order to improve the customer service standards. - Developing the key account managers' competences and skills. - Continuous raising of the customer service standards.
31. Risk related to performance of agreements by contractors and subcontractors	Risk related to the improper performance by the contractors and subcontractors of the works commissioned, the termination of the agreement and delays, changes to the budget and scope related thereto.	→ ■	- 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	→ ■	- Ongoing updating of the offering, launching of the sales of the multi-package type products. - Conducting the marketing campaigns, acquiring the new customers. - Taking actions focused on retaining the existing customers and recovering the lost ones.

Risk name	Risk description	Risk trend and materiality	Reaction to risk
	operating segments of TAURON Capital Group due to the reduced demand.		
33. Purchasing process risk	Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, including the methods used to prevent the violations of the human rights by the business partners, counteracting corruption and abuse (fraud) in the purchasing process and compliance with the ethical and moral standards during the implementation thereof. The materialization of the risk results in unfavorable purchase agreements, the need to cancel the tender procedures, a loss of the image of TAURON Capital Group and its credibility with the stakeholders.	→ ■	1. Adoption and implementation of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's subsidiaries</i>. 2. Adoption and implementation of <i>TAURON Group's Anti-Corruption Policy</i> and <i>TAURON Group's Respect for Human Rights Policy</i>. 3. Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof. 4. Building lasting relationships with the contractors (counterparties) based on trust and mutual respect. 5. Expecting the contractors (counterparties) to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of countering discrimination and unequal treatment, respect for human rights and dignity of the employees, transparent personnel policy, environment protection, fair competition, preventing and combating fraud, as well as information security and protection. 6. Application of the contract forms (templates) and standard clauses in the contracts regarding the compliance with the human rights by the business partners of TAURON Capital Group.
Regulations			
34. Regulatory risk	Risk related to the change of the existing regulations or the introduction of the new regulations that affect the operations of TAURON Capital Group and the need to adapt to the regulatory changes, in particular those resulting from a significant increase in the requirements of a specific regulation, including the environmental requirements stemming from the climate change, the support for the pro-climate activities (prosumer development, thermal insulation, development of in-house production sources). The implications of the risk are primarily: the loss of revenues in the individual operating segments of TAURON Capital Group, the increase in the operating expenses as a result of the need to adapt to the legislative changes.	↗ ■	1. Ongoing analysis of the draft regulations and acts. 2. Active participation in the works of the teams providing opinions on the drafts and proposing the optimal solutions. 3. Gradual adaptation of the generation assets and the energy mix of TAURON Capital Group to the production of renewable energy as well as to the zero and low emission electricity generation technologies.
■ Low materiality ■ Moderate materiality ■ Medium materiality ■ High materiality			

3.5. Risk classification in the individual operating Segments

Mining Segment

The Mining segment, in particular with respect to the hard coal mining, is exposed to a number of risk factors, the materialization of which significantly hinders or completely reduces the mining capacity at the individual coal mines. The most material operational risks include:

1. risk of adverse geological and mining conditions characterized by, for example unfavorable positioning of the coal deposits in the coal seam, faults, or excessive presence of the rocks (stone),
2. risk of the lack of the timely commissioning of the coal faces involving the lack of the preparation of the mining fronts (headings) adequately in advance,
3. risk of asset failures leading to the coal mining downtime, due to the occurrence of the machinery and equipment failures,
4. risk of the occurrence of natural geological and mining threats leading to the coal mining downtime, caused by the rock bursts, endogenous fires, presence of methane in the deposit, too much water inflow.

The material risks in the Mining Segment also include threats stemming from the regulatory environment, including the gradual introduction of the new environmental requirements tightening the emission standards for the coal fired power plants, which will result in a decline of the demand for coal with the low quality parameters.

In the subsequent years the Mining Segment will also be materially affected by the climate policy that assumes a departure from the coal based generation technology in order to reduce pollution and achieve climate neutrality in the EU in the long term, which will, in effect, lead to the need to gradually phase out coal production. The withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investment projects in the Mining Segment. In connection with the above and the need to gradually phase out the production, the material risks in the

subsequent years will include the effects of both the technological as well as the social restructuring (planned spinning off of the mining assets from TAURON Capital Group).

In the short-term, in 2021, a significant increase in electricity demand and changes in the market environment were observed, which translated into an increase in the demand for the hard coal, favorably affecting the results of the Mining Line of Business.

Generation Segment

The Generation Segment is exposed, in particular, to the market risk, regulatory risk as well as the technical and organizational risks that will have a significant impact on the Segment's results in the coming years.

As part of the market risk, the material risk factors include: the high volatility of the CDS margin (in the short term) and in the long term the curtailing of the CDS margin as well as the plans to integrate the European electricity market. In addition, the development of the renewable energy technologies and the ever growing share of RES in meeting the demand for electricity have a material impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market. Also, the progressing integration of the European electricity markets and the introduction of the new capacity into the system, with the efficiency much higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be declining.

A strong surge in the electricity demand was observed in 2021, and as a consequence, a rise in the demand for electricity generation based on the hard coal. The situation observed caused the disturbances in the supply of this fuel on both the Polish as well as the European market. As a consequence, the risk of maintaining the required strategic hard coal inventory levels in stock has increased.

With respect to the operational factors, the most material threat is the risk of not achieving the planned availability rate (dispatchability) of the units, which is closely related to the individual units' failure rate, high variability of the units' loads and the higher frequency of start-ups or the use of the inadequate quality fuel.

A failure to meet the planned availability rate (dispatchability) of the units may also result in the inability to meet the capacity obligation, which, if it is not possible to reserve the capacity on the secondary market, may result in the assessing of penalties on the Generation Segment's subsidiaries for this reason.

The Generation Segment's operations are also materially impacted by the climate factors, including the EU's climate policy, that assumes the ultimate departure from the coal fired generation technology in order to reduce pollution, which, as a consequence, will cause a drop in the profitability of this operating segment. In addition, the climate factors may lead to an increase of the average temperature during the year, leading, in turn, to the reduction of the revenue from the heat supply. Furthermore, the withdrawal of the financial institutions from financing of the assets based on the fossil fuels has been intensifying recently, which results in the curtailment of the possibilities of financing the new investment projects in the Generation Segment.

In the longer term, the regulatory risks, including the further tightening of the environmental requirements, will lead to the need to carry out the transition of the Generation Segment, both in terms of the technical, as well as the social aspects (the government program of spinning off of the generation assets based on the hard coal into a separate entity is under way). The introduced and announced changes in the functioning of the balancing market, which may affect the costs of balancing the changes in the volume of the sales to the Supply Line of Business customers, also represent the material regulatory risks.

RES Segment

The RES segment is exposed, in particular, to the market risks, the risks related to the weather factors affecting the volume of the electricity generation, in particular hydro, wind and solar based, as well as the regulatory risks, the impact of which significantly affects the results of the RES Segment and its expansion opportunities.

The volume of electricity produced by the hydro power plants is dependent on the hydrological conditions, including the quantity and frequency of the rainfall both in the winter as well as during the rest of the year. Warm winters are reported more and more often, without the sufficient snowfall which would melt in the spring and feed the water courses where the hydro power plants are located. In case of the wind and photovoltaic energy, we are observing the greater predictability of the volume produced, and thus the stability of achieving the planned production volumes. The market risk related to the high volatility of the prices of electricity and the related products has an equally material impact on the results of the RES Segment, which translates into the amount of the margin obtained on the operations conducted.

The results of the RES Segment are also impacted by the efficiency rates of the assets and the risk of their failure related thereto, and thus the temporary outages of some of the assets from use.

The existing RES Segment's expansion opportunities and expectations, including those stemming from the climate policy, are grappling with the regulatory restrictions related, in particular, to the construction of the new wind farms, as well as the uncertainty with respect to the taxation of the RES assets.

Distribution Segment

One of the most important threats to the Distribution Segment is the distribution services sales volume risk related to the electricity supply volume, and, as a consequence, the fluctuations of the revenue from the provision of the distribution services to the individual groups of consumers. The material reasons behind this risk include both the macroeconomic factors, i.e. a decline of the demand for the electricity due to the economic slowdown, the epidemiological situation, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing energy consumption intensity and the rapid growth of the prosumer energy.

An equally material risk is associated with the occurrence of an unfavorable deviation of the operating expenses related to the costs of the operations, and in particular the operating expenses and the costs of purchasing electricity to cover the balancing difference, not being covered by the tariff during the tariff period.

With respect to the operational factors, a material risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs related to the fixing of the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the extreme weather occurrences, such as hurricanes, hoar frost, strong winds incidentally accompanied by the tornadoes and lightnings causing failures of the distribution grids.

In the medium and long term, the material risks for the Distribution Segment include the regulatory risks, including the ones related to an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the amount of the capital expenditures, the balancing difference indicators and the amount of the transmission fees), the issues related to the compliance with the distribution's quality indicators that have an impact on the regulated revenue and the planned change to the distribution tariff model.

A threat to the Distribution Segment is also the credit risk, understood as a failure of the contractors (counterparties) to meet their obligations arising from the sale of the electricity and gas. The uncertainty and the fluctuations on the market may lead to an increase of the insolvency of TAURON Capital Group's contractors (counterparties). In order to reduce the potential financial losses, the stricter criteria of the credit risk management are applied, the monitoring of the account receivables and the debt collection activities have been intensified.

Supply Segment

In the Supply Segment, TAURON Capital Group identifies and manages the risks related to the supply of electricity to the final consumers, including also the key customers (the volume risk per individual customer segment, margin risk, profile risk and the risk of non-balancing).

A material threat to the accomplishment of the Supply Segment's assumed goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the macroeconomic factors, i.e. a drop of the demand for the electricity caused by the economic slowdown, the restrictions due to COVID-19 as well as the volatility of the electricity prices. In addition, this risk is fueled by the increased customer awareness, the trend to strengthen consumer rights protection and the regulatory pressure to curb the increases of the electricity and prices for the final consumers.

At the same time, the market risk due to the high volatility of the electricity, gas and the related products prices is a threat for the Supply Segment. Such risk, as a consequence of the price fluctuations, as well as the observed liquidity of the electricity market, has an impact on the margin obtained due to the steps required to hedge the cost of the electricity supply.

A material threat (risk) to the Supply Line of Business is also posed by the credit risk understood as a failure of the counterparties (contractors) to meet their obligations arising from the electricity and gas sales. The uncertainty and the fluctuations on the market may cause a significant increase in the insolvency of the counterparties (contractors) of TAURON Capital Group. In order to cap (limit) the potential financial losses, the stricter criteria of the credit risk management are applied and the activities related to the monitoring of the accounts receivable and the debt collection have been intensified.

One of the most important regulatory risks in the Supply Segment is the tariff risk, in particular related to the curbing of the Company's costs by the President of the Energy Regulatory Office (ERO) to the level of the justified costs and the costs actually incurred not being fully covered by the tariff for the given year. The consequence of the materialization of such a risk is the curtailment of the planned revenue, profitability and funds for the development of the Company's potential. Particular attention is paid to the increased significance of this risk in 2021 and in the subsequent years due to the observed sharp increase in the electricity and gas prices on the European market.

A material regulatory risk is also posed by the introduced and announced changes in the functioning of the balancing market, which may affect the costs of balancing the changes in the supply volume to the customers of the Supply Segment.

In the long run, the climate factors, and in particular the rapid expansion of the prosumer energy, pose a threat to the stability (predictability) of achieving the Supply Segment's goals. The risk of the prosumer market growth is

associated with an increase in the electricity production from the micro installations, resulting in an increase of the costs of serving the prosumers, as well as a loss of the supply volume and the planned margin on the electricity supply.

Other operations

The other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other Operations segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, personal data protection, as well as the security and protection of property.

At TAURON Capital Group's level, some of the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing resulting from the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, the risks associated with the human resources management and the workforce expectations with respect to the growth of wages, as well as the pending court litigations against TAURON.

With respect to the regulatory risk, attention should be paid to the continued trend towards the tightening of the EU climate policy, related to a greater reduction of the CO₂ emissions and the support for the RES investments, which leads to an increase in the volatility in terms of the national sector regulations, and this in turn translates into an increase in the number of the regulatory risks of the strategic importance for TAURON Capital Group.

Risk category map

The below table presents the classification of risks based on TAURON Capital Group's operating segments. The risk categories indicated below are consistent with the Risk Model adopted by TAURON Capital Group described in section 3.2. of this report.

Table no. 26. Classification of risks based on TAURON Capital Group's operating segments

Risk	Term			Operating Segment1					
	Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
1. Market risk	x	x	x	3	5	5	3	5	0
2. Interest rate risk	x	x	x	2	2	3	4	2	3
3. FX rate risk	x	x	x	1	3	3	2	0	3
4. Liquidity risk	x	x	x	3	3	2	2	2	2
5. Financial risk	x	x	x	5	5	3	3	3	3
6. Tax risk	x			3	3	3	3	3	3
7. Credit risk	x	x		1	1	1	3	4	1
8. Reputational risk	x	x	x	1	1	1	2	2	1
9. License risk	x	x	x	3	3	3	3	3	0
10. Macroeconomic risk	x	x	x	4	4	3	4	4	2
11. Climate change risk	x	x	x	5	5	4	4	4	3
12. Environmental risk	x			2	2	2	1	0	0
13. Weather risk	x			1	2	3	3	2	0
14. Company asset failure risk	x			4	5	3	4	0	1
15. IT risk	x			3	3	2	3	3	4
16. Asset (property) security and protection risk	x			2	3	2	3	1	2
17. Geological risk	x			5	0	0	0	0	0
18. Social dispute risk	x			4	4	2	4	2	2
19. Human resources risk	x	x		3	3	2	3	2	2
20. Risk of the lack of the employees' due diligence	x			2	2	2	2	2	2

Risk	Term			Operating Segment ¹					
	Short	Medium	Long	Mining Segment	Generation Segment	RES Segment	Distribution Segment	Supply Segment	Other operations
21. Pandemic risk	x	x	x	4	5	3	5	2	3
22. Work Health and Safety (WHS) Risk	x			3	3	2	3	1	1
23. Communications risk	x			2	2	1	2	2	2
24. Internal fraud risk	x			2	2	2	2	2	2
25. External fraud risk	x			3	3	3	3	3	3
26. Risk of unethical behavior and mobbing	x			2	2	2	2	2	2
27. Legal risk	x			3	3	2	3	3	2
28. Risk of a breach of the contractual provisions (default)	x			2	2	2	2	2	2
29. Personal data protection risk	x			2	2	2	3	3	3
30. Customer service risk	x			1	1	0	3	3	1
31. Risk related to performance of agreements by contractors and subcontractors	x			2	4	2	2	1	2
32. Volume and margin risk	x	x		5	5	4	5	5	2
33. Purchasing process risk	x			2	2	2	3	1	2
34. Regulatory risk	x	x	x	5	5	3	4	4	2

¹values signifying the impact of the individual risks on TAURON Capital Group's Operating Segments: 0 - neutral, 1 – immaterial on the Company (subsidiary) level, 2 - material on the Company (subsidiary) level, 3 - serious (severe) on the Company (subsidiary) level, 4 – material on TAURON Capital Group level, 5 – serious (severe) on TAURON Capital Group level

4. ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A.

4.1. Overview of the economic and financial data disclosed in the annual financial statements

Statement of comprehensive income

The below table presents the annual standalone statement of comprehensive income in 2020-2021, drawn up in accordance with the IFRS. Poniższa tabela przedstawia roczne jednostkowe sprawozdanie z całkowitych dochodów w latach 2019-2020 sporządzone według MSSF.

Table no. 27. Annual standalone statement of comprehensive income in 2020-2021 drawn up in accordance with the IFRS

Statement of comprehensive income drawn up in accordance with the IFRS (PLN '000)	2020	2021	Change in % (2021 / 2020)
Sales revenue	11 340	18 216	161%
Own cost of goods, materials and services sold	(12 101)	(18 042)	149%
Gross profit (loss) from sales	(761)	174	-23%
Cost of sales	(21)	(25)	119%
Overheads	(118)	(101)	86%
Other operating revenues and costs	(10)	(3)	30%
Operating profit (loss)	(910)	45	-5%
Operating profit margin (%)	-8.0%	0.2%	-3%
Financial revenue	1 407	2 099	149%
Costs of interest on debt	(410)	(330)	80%
Revaluation of stocks and shares	(1 644)	(1 399)	85%
Revaluation of bonds and loans	(1 453)	(298)	21%
Other financial revenues and costs	(180)	119	-66%
Pre-tax profit (loss)	(3 190)	236	-7%
Pre-tax profit margin (%)	-28.1%	1.3%	-5%
Income tax	(62)	24	-39%
Net profit (loss)	(3 252)	260	-8%
Net profit margin (%)	-28.7%	1.4%	-5%
Other net comprehensive income	(95)	380	-400%
Total comprehensive income	(3 347)	640	-19%
EBITDA	(895)	57	-6%
EBITDA margin (%)	-7.9%	0.3%	-4%

The Company reported an operating profit of PLN 45 million in 2021, the result posted was higher than the result achieved in 2020, primarily as a consequence of the need to set up, in 2020, the provision for the onerous contract, i.e. the multi-year agreement for the purchase of the electricity generated by the 910 MW unit in Jaworzno in the amount of PLN 1 110 million.

In 2021, similar as in 2020, the impairment charges related to the carrying value of the stocks and shares in the subsidiaries were recognized in the financial results, due to the completed impairment tests related to the loss of the carrying amount of the stocks and shares in the subsidiaries as well as the bonds and loans as of June 30, 2021 and as of December 31, 2021.

The Company disclosed the information on the above event in the regulatory filings (current reports): no. 5/2022 of March 3, 2022 and no. 35/2021 of August 26, 2021.

Revenue

The below table presents the Company's sales revenue in 2020-2021.

Table no. 28. Company's sales revenue in 2020-2021

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)
Total revenue	12 917	20 472	158%
Sales revenue	11 340	18 216	161%
Revenue from sales of goods and materials:	11 199	17 841	159%
Electricity (without excluding excise tax)	10 514	14 816	141%
Gas	333	600	180%
Greenhouse gas emission allowances	340	2 411	709%
Other	12	14	117%
Revenue from sales of services:	141	375	266%
Trading services sales	108	138	128%
Other	33	237	718%
Revenue from other operations	6	2	33%
Revenue from financial operations	1 571	2 252	143%
Revenue from dividend	1 082	1 852	171%
Revenue from bonds and loans interest	325	247	76%
Other financial revenue	164	153	93%

Revenue from the sales of goods and materials represents 87% of the total revenue, while financial revenue represents 11%, which is a consequence of the implemented Business Model and centralizing of the functions by TAURON.

The goal of the adopted solution is to hedge the buy and sell positions of TAURON Capital Group's entities, to perform the function of the Market Operator and the entity responsible for the trading balancing of TAURON Capital Group's subsidiaries and to optimally manage, among others, the property rights and the CO₂ emission allowances.

A relatively large share of revenue from the bonds and loans interest is a consequence of the implemented central financing model and *TAURON Group's Liquidity Management Policy*, along with the *cash pool* mechanism put in place at TAURON Capital Group, which allows for efficient management of the finances of all of TAURON Capital Group's subsidiaries.

In the reporting period ended on December 31, 2021, the Company generated sales revenues that was 61% higher than the revenue posted in 2020, which is the result of the following factors:

1. an increase of the revenue from the sales of electricity by 41% as a result of the higher electricity sales prices (16%), as compared to 2020 and the higher sales volume (22%),
2. an increase of the revenue from the sales of the CO₂ emission allowances which is the result of the sale in 2021 of a larger volume of the allowances for the redemption needs of TAURON Capital Group's subsidiaries due to the emissions both for 2020 as well as for 2021. In addition, the higher revenue from the sales of the CO₂ emission allowances was impacted by the restructuring of the emission allowances in the portfolio of the Nowe Jaworzno Grupa TAURON subsidiary due to the delay in the commissioning of the generating unit and, as a consequence, the lower production output,
3. an increase by 80% of the revenue from the sales of the higher gas volume (17%), along with the simultaneous increase of the prices (54%). The sales conducted are mainly aimed at securing (hedging) the agreements and contracts for the gas sales concluded by TAURON Sprzedaż and achieving a positive margin on the trading activities.

Due to its holding operations the Company is reporting material financial revenue. It stood at 2 252 million in 2021 and it was 43% higher than in 2020. The financial revenue includes dividends (82%), interest revenue on the bonds and loans (11%), other financial revenue (7%), including the valuation of the derivative instruments and the profit from the disposal (divestment) of the units.

Costs

The below table presents the level and structure of the costs incurred by the Company in 2020-2021.

Table no. 29. Level and structure of the costs incurred by the Company in 2020-2021

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)
Total costs	(16 209)	(20 330)	125%
Cost of goods, materials and services sold	(12 101)	(18 042)	149%
Costs of sales and overheads	(139)	(126)	91%
Costs of other operations	(118)	(101)	86%
Costs of financial operations	(3 851)	(2 061)	54%

The total costs of the Company's operations in 2021 represented 125% of the amount of its costs in 2020. The increase in the Company's costs was affected by the higher, by 49%, costs of the goods, materials and services sold.

The cost of goods, materials and services sold came in at PLN 18 042 million and it was higher by PLN 5 941 million as compared to 2020, with the biggest impact thereupon coming from an increase of the electricity purchase costs as a result of an increase by 22% of the electricity volume purchased at the prices higher by 16% than in 2020 and the inclusion of the costs for the performance of the capacity obligation by the generation units belonging to the subsidiaries in connection with the operation of the Capacity Market from January 1, 2021.

The costs of the financing activities came in at PLN 2 061 million and they were lower by 46% as compared to 2020, which was to, the largest extent, due to the following events:

1. recognition of the lower cost of the revaluation of the shares and stocks, which in 2021 was mainly due to the booking of an impairment charge (write down) related to the loss of the carrying amount of the shares in Nowe Jaworzno Grupa TAURON in the total amount of PLN 1 764 million and a reversal of an impairment charge (write down) related to the loss of the carrying amount of the shares in TAURON EKOENERGIA in the amount of PLN 376 million as a result of the completed impairment tests,
2. recognition of the lower net cost of the revaluation of the loans, which in 2021 was mainly due to the impairment charges (write downs) in the amount of PLN 329 million on the loans granted to a subsidiary from the Mining Segment, which were initially recognized as a component of the financial assets impaired due to risk,
3. recognition of the surplus of the positive FX exchange differences over the negative ones in the amount of PLN 14 million. These differences are related largely to the FX exchange differences in connection with the Company's liabilities due to the debt denominated in EUR. In the comparable period, i.e. in 2020, the Company recognized the surplus of the negative FX exchange differences over the positive ones in the amount of PLN 303 million.

Company's assets and financial position

The below table presents the Company's annual standalone statement of financial position, drawn up in accordance with the IFRS.

Table no. 30. Company's annual standalone statement of financial position, drawn up in accordance with the IFRS (material items)

Statement of financial position drawn up in accordance with the IFRS (PLN '000)	As of December 31, 2020	As of December 31, 2021	Change in % (2021 / 2020)
ASSETS			
Fixed assets	25 202	27 087	107%
Stocks and shares	20 857	20 560	99%
Bonds and loans granted	4 234	5 936	140%
Current assets	3 844	4 393	114%
Inventory	394	51	13%
Accounts receivable due to deliveries and services	1 383	2 868	207%
Bonds and loans granted	1 147	445	39%
Cash and equivalents	643	440	68%

Statement of financial position drawn up in accordance with the IFRS (PLN '000)	As of December 31, 2020	As of December 31, 2021	Change in % (2021 / 2020)
TOTAL ASSETS	29 046	31 480	108%
EQUITY AND LIABILITIES			
Equity	11 461	12 101	106%
Long term liabilities	13 075	10 245	78%
Liabilities due to debt	12 118	9 801	81%
Short term liabilities	4 510	9 134	203%
Liabilities due to debt	2 771	4 669	168%
Liabilities towards suppliers and other liabilities	764	2 806	367%
TOTAL EQUITY AND LIABILITIES	29 046	31 480	108%

As of December 31, 2021, the fixed assets accounted for the biggest share of the total assets (86%), where the dominating item is the value of the stocks and shares (65% of the total assets) as well the bonds as loans granted (19% of the total assets).

The biggest impact on a decrease of the value of the stocks and shares down to PLN 20 559 million came from the revaluation of the shares and stocks as a result of the completed impairment tests related to the loss of the carrying amount of the stock and shares in the subsidiaries. The tests conducted as of June 30 and December 31, 2021, demonstrated that the booking of an impairment charge (write down) related to the shares in Nowe Jaworzno Grupa TAURON in the amount PLN of (1 764) million and a reversal of an impairment charge (write down) related to the shares in TAURON EKOENERGIA in the amount of PLN 376 million had been justified (legitimate).

As of December 31, 2021 and as of December 31, 2020, the equity represented, respectively, 38% and 39% of the total equity and liabilities.

The liabilities of the Company due to debt, as of December 31, 2021, were related to:

1. bonds issued under the bond issue program worth PLN 6 551 million, including the subordinated hybrid bonds in the amount of PLN 1 973 million,
2. loans obtained from the consortium of the banks in the amount of PLN 1 861 million,
3. loans obtained from BGK in the amount of PLN 999 million,
4. loans from the related entities drawn under the *Agreement on the provision of the cash pool service* in the amount of PLN 2 632 million,
5. loans obtained from the European Investment Bank (EIB) in the amount of PLN 382 million (along with the interest),
6. loans obtained from Intensa Sanpaolo S.p.A. in the amount of PLN 752 million (along with the interest),
7. loans obtained from SMBC Bank EU AG in the amount of PLN 499 million (along with the interest),
8. loan from a subsidiary in the amount of PLN 768 million,

In addition, pursuant to *IFRS 16 Leases*, the Company's liabilities due to debt also include a lease liability in the amount of PLN 25 million, related to the right of perpetual usufruct of land, leases of office premises and storage space, parking spaces and cars.

Statement of cash flows

The table below presents the statement of cash flows drawn up in accordance with the IFRS.

Table no. 31. Statement of cash flows drawn up in accordance with the IFRS (material items)

Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2020	2021	Change in % (2021 / 2020)
CASH FLOW FROM OPERATING ACTIVITIES			
Pretax profit / (loss)	(3 190)	236	-7%
Adjustments	4 096	(486)	-12%
Net cash from operating activities	906	(250)	-28%
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of stocks and shares	(691)	(31)	4%

Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2020	2021	Change in % (2021 / 2020)
Purchase of bonds	-	-	-
Loans granted	(1 934)	(1 567)	81%
Redemption of bonds	-	-	-
Repayment of loans granted	217	324	149%
Dividends received	1 082	1 852	171%
Interest received	227	208	92%
Net cash from investing activities	(1 088)	839	-77%
CASH FLOW FROM FINANCING ACTIVITIES			
Redemption of debt securities	(60)	(170)	283%
Repayment of loans / credits	(4 402)	(3 462)	79%
Interest paid	(380)	(348)	92%
Issue of debt securities	1 000	-	0%
Loans taken	3 360	2 000	60%
Net cash from financing activities	(512)	(2 009)	392%
Increase / (decrease) in net cash and equivalents	(694)	(1 420)	205%
Net FX differences	3	(3)	-100%
Cash opening balance	(49)	(743)	1516%
Cash closing balance	(743)	(2 163)	291%

The balance of cash received from the operating, investing and financing activities of the Company for 2021, taking into account the opening cash balance, stood at PLN (2 163) million. In addition, the closing cash balance presented in the Company's balance sheet as of the end of the period is the result of the adjustment of the cash that is represented by the balances of the loans granted and drawn under the *cash pool* transactions, due to the fact that they do not constitute cash flows from the investing or financing activities, as they are used mainly for the current liquidity management.

4.2. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON for 2021. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

4.3. Key financial ratios and the Alternative Performance Measures

The below table presents the key financial ratios of TAURON, which may constitute an important source of the information for the investors on the financial and operational standing of the Company. The Alternative Performance Measures below as defined by the ESMA Guidelines on the Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding the Company's financial results. They constitute the standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial standing, financial efficiency and cash flows of the Company. In 2021, there were no changes to the methodology for determining the individual indicators in relation to 2020, therefore the values of the indicators are comparable.

Table no. 32. Key financial ratios of TAURON

Item	Definition	2020	2021	Change in % (2021 / 2020)
1. Gross Profitability	Gross profit / sales revenue	(28.1)%	1.3%	-
2. Net Profitability	Net profit / sales revenue	(28.7)%	1.4%	-
3. Return on equity	Net profit / equity as of the end of the period	(28.4)%	2.1%	-

Item	Definition	2020	2021	Change in % (2021 / 2020)
4. Return on assets	Net profit / total assets	(11.2)%	0.8%	-
5. EBIT (PLN '000)	Operating profit	(910)	45	-
6. EBIT margin	EBIT / sales revenue	(8.0)%	0.2%	-
7. EBITDA (PLN '000)	Operating profit before depreciation	(895)	57	-
8. EBITDA margin	EBITDA / sales revenue	(7.9)%	0.3%	-
9. Current liquidity ratio	Current assets / short term liabilities	0.85	0.48	117%

The higher EBIT achieved by the Company in 2021, as compared to 2020, is mainly due to the need to set up the provision for the onerous contract, i.e. the multi-year agreement for the purchase of the electricity generated by the 910 MW unit in Jaworzno, in the amount of PLN 1 110 million.

The 2021 pre-tax and net financial results were impacted by the booked and reversed impairment charges related to the stocks and shares in the subsidiaries, the revaluation of the loans granted.

The amount of the operating profit is typical for a company conducting operations involving managing a holding entity (the costs related to managing TAURON Capital Group are included in the operating activities, while the revenues gained from the dividends are recognized as the items under the financial activities).

The Company's ability to pay its accounts payable was not in jeopardy in 2021.

4.4. Principles of preparing annual financial statements

The Financial Statements of TAURON have been drawn up in accordance with the IFRS approved by the EU.

The IFRS comprise the standards and interpretations approved by the International Accounting Standards (IAS) Board as well as the International Financial Reporting Standards Interpretations Committee.

The Financial Statements of TAURON have been drawn up with the assumption of the continuation of business operations by TAURON in the foreseeable future, i.e. over the time frame not shorter than 1 year from the balance sheet date. As of the date of the approval of the Financial statements of TAURON for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON.

The accounting principles (policy) adopted for drawing up of the Financial Statements of TAURON are presented in the individual notes to the Financial Statements of TAURON.

5. ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON CAPITAL GROUP

5.1. TAURON Capital Group's financial results

The below table presents TAURON Capital Group's EBITDA in 2012-2021.

Figure no. 47. TAURON Capital Group's EBITDA in 2012-2021



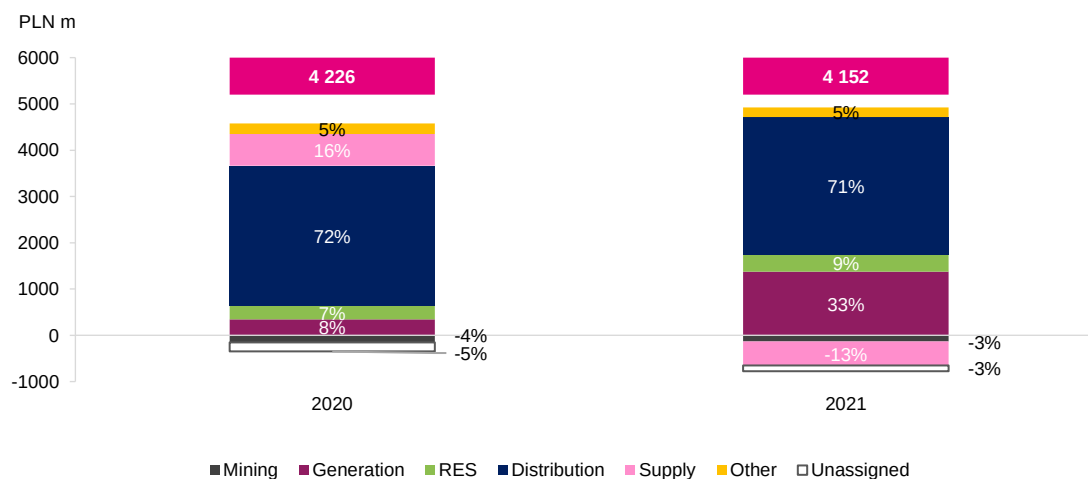
The below table presents TAURON Capital Group's 2020-2021 EBITDA broken down into individual lines of business (segments). The data for the individual segments does not include the consolidation exclusions.

Table no. 33. TAURON Capital Group's 2020-2021 EBITDA broken down into individual lines of business (segments)

EBITDA (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Mining	(157)	(130)	83%	27
Generation	344	1 375	400%	1 031
RES	297	376	127%	79
Distribution	3 023	2 967	98%	(56)
Supply	683	(524)	-	(1 207)
Other operations	229	208	91%	(21)
Unassigned items	(193)	(120)	62%	73
Total EBITDA	4 226	4 152	98%	(74)

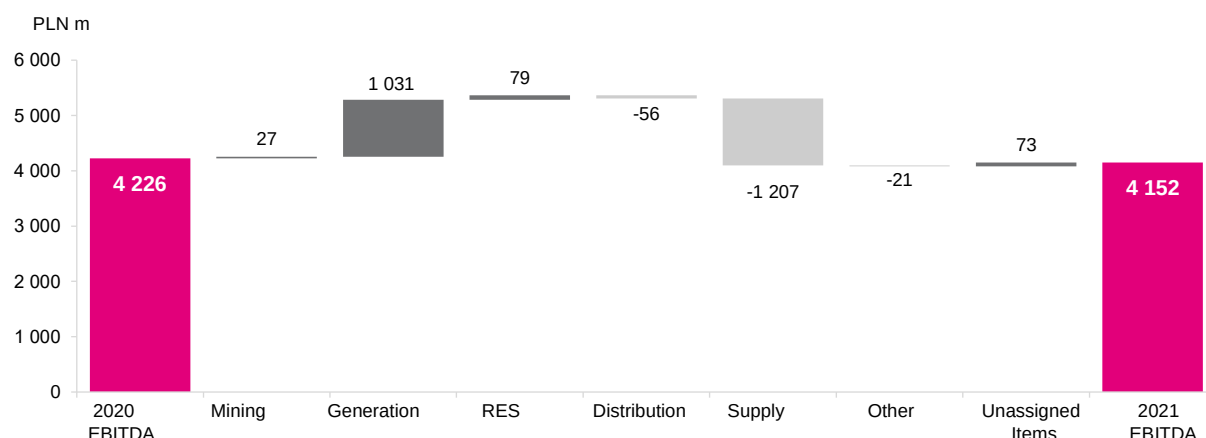
The below figure presents TAURON Capital Group's 2020-2021 EBITDA structure (composition).

Figure no. 48. TAURON Capital Group's 2020-2021 EBITDA structure (composition)



The Distribution, Generation and RES Segments are the biggest contributors to TAURON Capital Group's EBITDA. The below figure presents the change in TAURON Capital Group's EBITDA in 2020-2021.

Figure no. 499. Change in TAURON Capital Group's EBITDA in 2020-2021



5.2. TAURON Capital Group's financial results per operating Segment (Line of Business)

Mining Segment

The below table presents the Mining Segment's 2020-2021 results.

Table no. 34. Mining Segment's 2020-2021 results

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	1 052	1 467	139%	415
coal - coarse and medium assortments	236	393	167%	157
thermal coal	769	995	129%	226
other revenue	47	78	166%	31
EBIT	(887)	(458)	-	429
Depreciation and write-downs	730	328	45%	-402
EBITDA	(157)	(130)	-	27

The Mining Segment's revenue was 39% higher in 2021, as compared to 2020, as a consequence of the higher coal volume sold, which was due to the higher production of the commercial coal by TAURON Wydobycie mining subsidiary's coal mines and the higher demand for the hard coal on the domestic market. An increase of the production output was reported by the Sobieski Coal Mine (ZG Sobieski), which was due to the more favorable configuration of the longwall fronts than in 2020. The lower extraction output of the Janina Coal Mine (ZG Janina) was a consequence of the exploitation of the longwall coal faces that provided access to the smaller coal reserves, while the Brzeszcze Coal Mine's (ZG Brzeszcze) production decline was due to the liquidation of one of the longwall coal faces and a delay in the commissioning of another one.

The Mining Segment's EBITDA and EBIT were higher in 2021 as compared to 2019. The achieved results were impacted by the following factors:

1. an increase of the sales volume of the thermal coal by 34%,
2. an increase of the average coal sales price by 3%, i.e. from 250.37 PLN/Mg to 258.84 PLN/Mg, which was mainly due to an increase of the price of the large size grain products by 9%, while at the same time the prices of the other coal product assortments fell,
3. receiving of the funding under the government's anti-crisis shield program in 2020,
4. other - mainly due to the fact that some of the coal produced had been recognized as assets in the balance sheet in 2020 and then sold and recognized in the results in 2021.

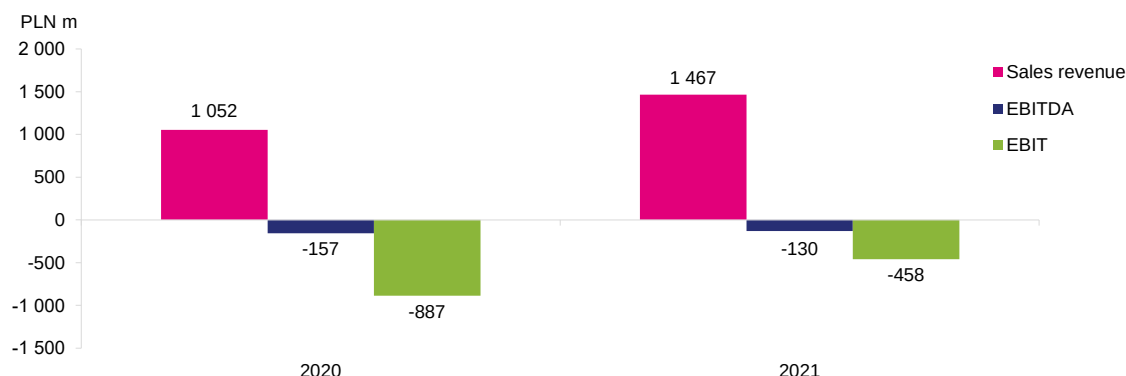
In addition, the Segment's higher EBIT was impacted by the lower impairment charge (write-down) than in 2020.

TAURON Capital Group recognized, in the 2020 results, the booking of the impairment charges (write-downs) related to the loss of the carrying amount on the balance sheet of the Mining Segment's cash generating units

(CGU), whose total impact on the charge to the Segment's operating profit reached PLN 185 million in 2021, which was a lower figure than the amount recorded in 2020, i.e. PLN 560 million.

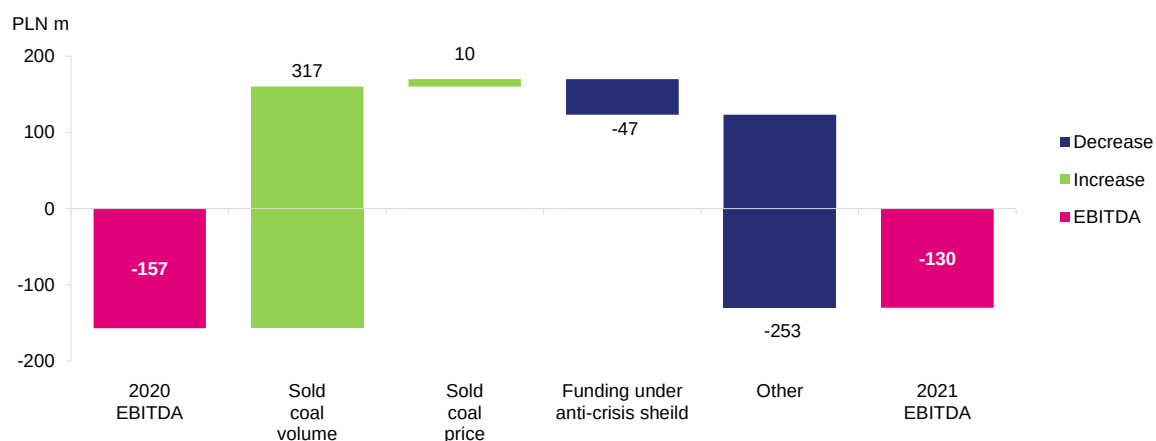
The below figure presents the Mining Segment's 2020-2021 financial data.

Figure no. 50. Mining Segment's 2020-2021 financial data



The below figure presents the Mining Segment's EBITDA, including the material factors affecting the change year on year.

Figure no. 51. Mining Segment's EBITDA



Major investments (CAPEX)

The Mining Segment's total capital expenditures came in at PLN 276 million in 2021, including the outlays on the following investment projects:

1. PLN 89 million of the outlays on the replacement and upgrade works,
2. PLN 10 million on the construction of the "Grzegorz" shaft,
3. PLN 169 million of the outlays on the preparation of the future production.

The Mining Segment's other capital expenditures are spent on the coal extraction preparations and operations (mainly the purchase of the machines and equipment, drilling of the headings, longwall preparation).

Generation Segment

The below table presents the Generation Segment's 2020–2021 results.

Table no. 35. Generation Segment's 2020–2021 results

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	4 522	9 819	217%	5 297
electricity	3 471	7 298	210%	3 827
heat	884	1 006	114%	122
property rights related to certificates of electricity origin	117	177	151%	60
services – Capacity Market	-	642	-	642
greenhouse gas emission allowances	-	654	-	654

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
other revenue	50	42	84%	-8
EBIT	-3 238	-25	1%	3 213
Depreciation and write-downs	3 582	1 400	39%	-2 182
EBITDA	344	1 375	400%	1 031

The Generation Segment's sales revenue was higher by 117% in 2021, as compared to 2020, primarily due to the higher revenue from the sales of the electricity (higher sales volume and higher sales price), heat as well as obtaining of the revenue from the Capacity Market and from the sales of the CO₂ emission allowances.

Generation Segment's EBITDA and EBIT were lower in 2021 than in 2020. The following factors had an impact on the results achieved:

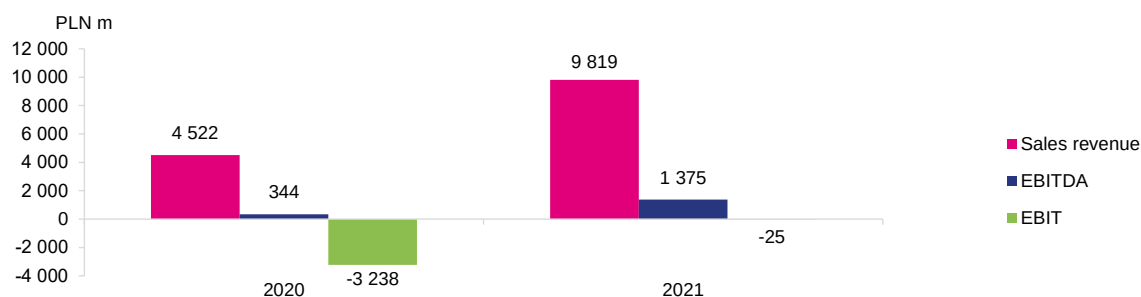
1. commencement of the functioning of the Capacity Market starting from January 1, 2021,
2. no inclusion in the catalog of the system services, starting from 2021, of the Operational Capacity Reserve and the Intervention Cold Reserve services, from which TAURON Wytwarzanie obtained revenues in 2020,
3. realization of the higher margin on the electricity, including the impact of the commissioning of the 910 MW unit in Jaworzno in November 2020,
4. completion of the transactions related to the CO₂ emission allowances:
 - 1) due to the delay of the commissioning of the 910 MW unit in Jaworzno and, as a consequence thereof, the lower production output, a significant surplus of the allowances contracted for the purpose of fulfilling the redemption obligation for 2020 above the actual requirement arose in Nowe Jaworzno Group TAURON's portfolio. As a consequence, in March 2021, TAURON Capital Group carried out the following transactions:
 - a) restructuring of the above mentioned portfolio of the CO₂ emission allowances with respect to the volume of 3 258 000 of the EUAs with the collection date in March 2021. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO₂ emission allowances and decided to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023 and 2024. At the same time, those transactions were completed at the prices that were higher than the originally contracted purchase, and as a consequence they will lead to an increase of the costs of setting up a provision by TAURON Capital Group for the liabilities related to the CO₂ emissions for 2021 and the subsequent financial years. As a result of the above TAURON Capital Group estimates that the total impact of the restructuring on the operating results thereof in the years 2021-2023 will not be significant,
 - b) resale of the CO₂ emission allowances held in the quantity of 691 000 EUAs that also constituted a surplus above the redemption needs of the subsidiary for 2020 due to the delay of the commissioning of the 910 MW unit in Jaworzno,
 - 2) in the first quarter of 2020 TAURON Capital Group made a decision to change the hedging strategy related to securing the Generation Segment's redemption needs, involving a one-time swap of the exchange traded contracts with the delivery date in December 2020 to the OTC contracts with the delivery date in March 2021. The decision to change the strategy was made taking into account the then current market circumstances, difficult to predict at the time of concluding the transaction. Implementing the above mentioned strategy change, the Company resold the futures position with the delivery date in December 2020 held on the exchange (it entered into an opposite transaction on the exchange), while at the same time purchasing the same volume in the contracts with the delivery date in March 2021 from the counterparties on the OTC market.
5. Due to the shutdown of the 910 MW unit in Jaworzno, planned to last until April 29, 2022, taking into account the current situation on the electricity market in Poland and the latest forecast of the electricity prices on the wholesale market, TAURON Capital Group recognized, as of the balance sheet date of December 31, 2021, a short term provision for an onerous contract in the amount of PLN 289 million. The set up provision was calculated assuming the purchase by TAURON Capital Group in the contracted volume of 1.7 TWh of the electricity, which due to the shutdown of the 910 MW unit in Jaworzno would not be produced as part of its in-house production.

In addition, the Segment's EBIT was impacted by the recognition of the impairment charges (write-downs).

TAURON Capital Group recognized, in the 2021 results, the booking of the impairment charges (write-downs) related to the loss of the carrying amount on the balance sheet of the Generation Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 953 million.

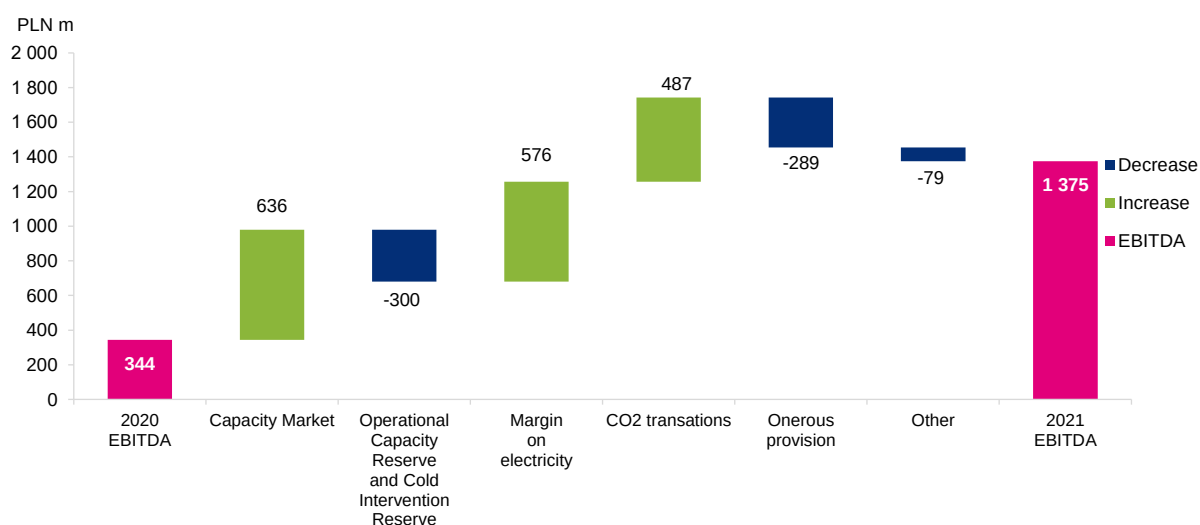
The below figure presents the Generation Segment's 2020–2021 financial data.

Figure no. 52. Generation Segment's 2020–2021 financial data



The below figure presents the Generation Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 53. Generation Segment's EBITDA



Major investments (CAPEX)

The Generation Segment's total capital expenditures came in at PLN 240 million in 2021, including the outlays on the following strategic investment projects:

1. PLN 26 million on the construction of the 910 MWe power generation unit in Jaworzno,
2. PLN 22 million on the adaptation of TAURON Wytwarzanie's generating units to the BAT conclusions,
3. PLN 106 million on the replacement expenditures and overhaul components at TAURON Wytwarzanie,
4. PLN 20 million on connecting the new facilities,
5. PLN 22 million on maintaining the district heating network.

Apart from the above capex the investment project at EC (Combined Heat and Power Plant) Stalowa Wola, with the participation of the strategic partner, PGNiG, was completed. The capital expenditures incurred on the project (excluding the financial costs) stand at PLN 1.4 billion.

Renewable Energy Sources Segment

The below table presents the RES Segment's 2020-2021 results.

Table no. 36. RES Segment's 2020–2021 results

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	616	661	107%	45
electricity	306	372	122%	66
certificates of origin of electricity	310	275	89%	(35)

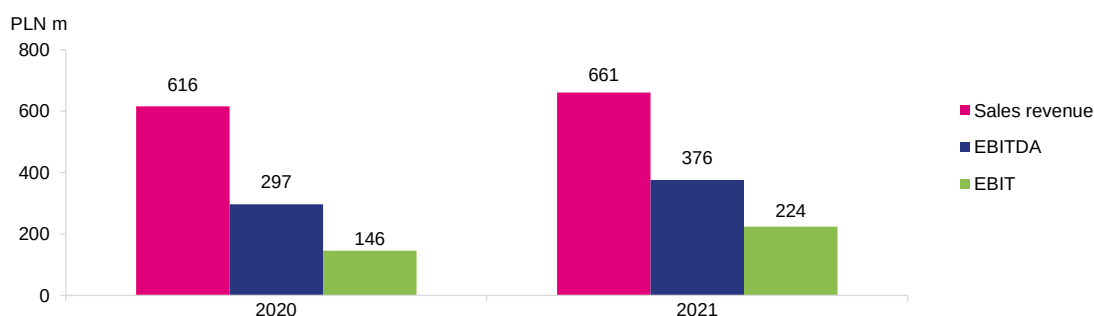
Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
other	0,1	14	140	14
EBIT	146	224	153%	78
Depreciation and write-downs	151	152	101%	1
EBITDA	297	376	127%	80

RES segment's EBITDA and EBIT were lower in 2021 than in the same period of 2020. The results posted were affected by the following factors:

1. a higher margin on the electricity sales, mainly due to the higher sales price, higher electricity production output by the hydro power plants, which was partly offset by the lower production output by the wind farms,
2. higher revenue from the certificates of origin of electricity, which was a consequence of an increase of the market prices of the property rights offset by the lower volume of the sales thereof as a result of the lack of the support in 2021 for the hydroelectric power plants and the Zagórze wind farm in accordance with the provisions of the energy law as well as the lower production volume by the other wind farms as compared to the production outputs achieved in 2020,
3. commencement of the functioning of the Capacity Market starting from January 1, 2021, and obtaining of the revenue from the Capacity Market,
4. lower fixed costs as a result of including as part of the costs in June 2020, of the provision for the real estate tax as a result of the judgement of the Constitutional Tribunal of July 2020 with respect to the constitutionality of the definition of a building structure.

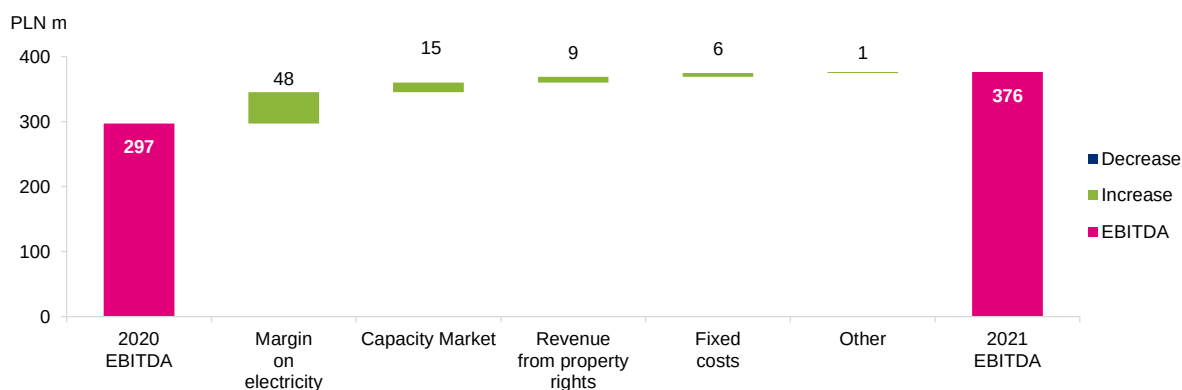
The below figure presents the RES Segment's 2020-2021 financial data.

Figure no. 544. RES Segment's 2020-2021 financial data



The below figure presents the RES Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 55. RES Segment's EBITDA



Major investments (CAPEX)

The RES Segment's total capital expenditures came in at PLN 90 million in 2021, including the outlays on the following investment projects:

1. PLN 52 million on the construction of the Piotrków wind farm,
2. PLN 15 million on the construction of the Choszczno PV farm
3. PLN 8 million on the construction of the Majewo wind farm.

Distribution Segment

The below table presents the Distribution Segment's 2020-2021 results.

Table no. 37. Distribution Segment's 2020-2021 results

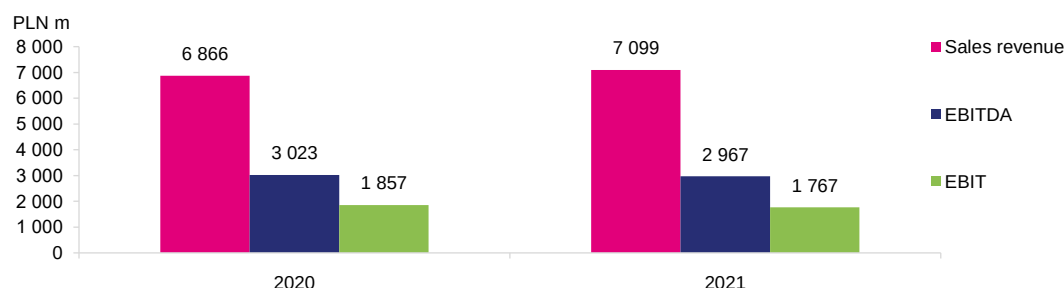
Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	6 866	7 099	103%	233
distribution and trading services	6 577	6 772	103%	195
grid connection fees	83	83	100%	-
revenue due for fixing power line collisions	37	68	184%	30
lighting services	50	53	106%	3
other revenue (illegal consumption, construction and assembly services, maintenance and support services, goods and materials)	118	124	105%	5
EBIT	1 857	1 767	95%	-90
Depreciation and write-downs	1 166	1 200	103%	34
EBITDA	3 023	2 967	98%	-56

The Distribution Segment reported a 3% sales revenue increase, while EBIT and EBITDA went down by, respectively, 5% and 2% in 2021, as compared to 2020. The changes to the results posted were affected by the following factors:

1. a decrease of the average rate for the distribution service sales to the final consumers,
2. an increase of the total electricity delivery by 3 706 GWh, including to the final consumers by 3 389 GWh in all of the tariff groups, first of all in the A and B tariff groups, as a result of the economic rebound following the COVID-19 pandemic,
3. lower costs of purchasing the transmission and distribution services,
4. an increase of the other revenue related to the distribution operations, i.e. due to the passive energy off-take exceeding the contractual connection capacity (power), power line collisions and the exceeding of the grid connection capacity (power),
5. a decrease of the costs of purchasing electricity to cover the balancing difference as a result of the lower volume, the lower purchase price, along with the increase of the upward adjustment in parallel,
6. dissolution, in 2020, of the provision for the payment of the equivalent for electricity,
7. a rise of the other fixed costs, including the labor costs as a result of the wages agreements signed, the costs of the taxes on the grid assets due to the increase of the value of the assets as a result of the investment projects conducted, higher costs of the subcontractor services purchased on the market.

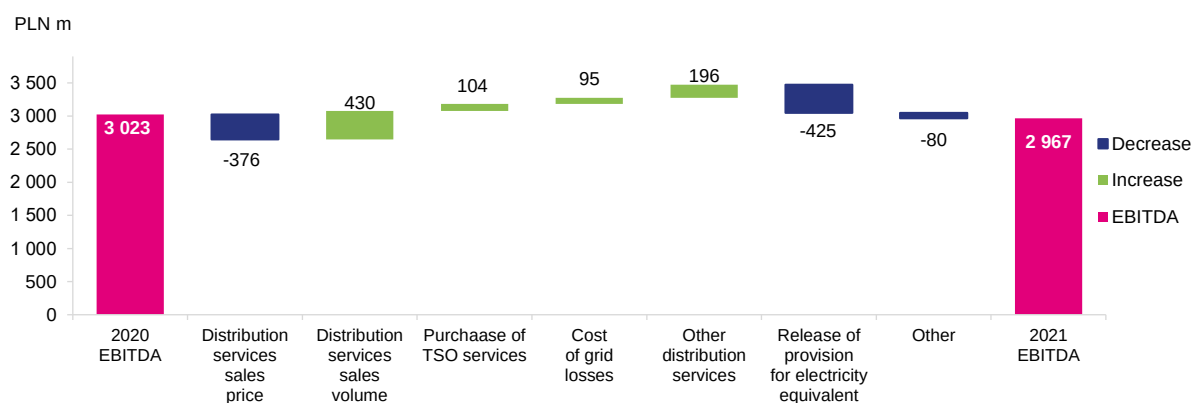
The below figure presents the Distribution Segment's 2020-2021 financial data.

Figure no. 56. Distribution Segment's 2020-2021 financial data



The below figure presents the Distribution Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 57. Distribution Segment's EBITDA



Major investments (CAPEX)

The Distribution Segment's total capital expenditures came in at PLN 2 044 million in 2021. The main capex directions included:

1. PLN 1 011 million on the investment projects related to connecting the new consumers to the grid,
2. PLN 877 million on the investment projects related to the grid upgrades (refurbishments) and replacements,
3. PLN 52 million for the construction of a dispatcher communications system.

In addition, the expenditures in the total amount of approx. PLN 114 million were also incurred on: communications and IT, buildings and structures, means of transportation, in 2021.

Supply Segment

The below table presents the Supply Segment's 2020-2021 results.

Table no. 38. Supply Segment's 2020-2021 results

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Sales revenue	17 250	24 134	140%	6 884
electricity, including	11 686	16 348	140%	4 662
revenue from retail electricity supply	9 575	10 315	108%	740
greenhouse gas emission allowances	340	2 107	620%	1 768
fuel	1 754	1 896	108%	142
distribution service (transferred)	3 243	3 302	102%	59
street lighting service	120	123	103%	3
other revenue, including trading services	107	358	335%	251
Compensations	66	(9)	-	(75)
EBIT	642	(564)	-	(1 206)
Depreciation and write-downs	42	41	98%	(1)
EBITDA	683	(524)	-	(1 207)

The Supply Segment's sales revenue was 40% higher in 2021, as compared to 2020, mainly due to the higher electricity sales revenue (higher electricity sales price and higher electricity sales volume) and the sale of the CO₂ emission allowances that took place in 2021, primarily for the redemption needs of the generation subsidiaries.

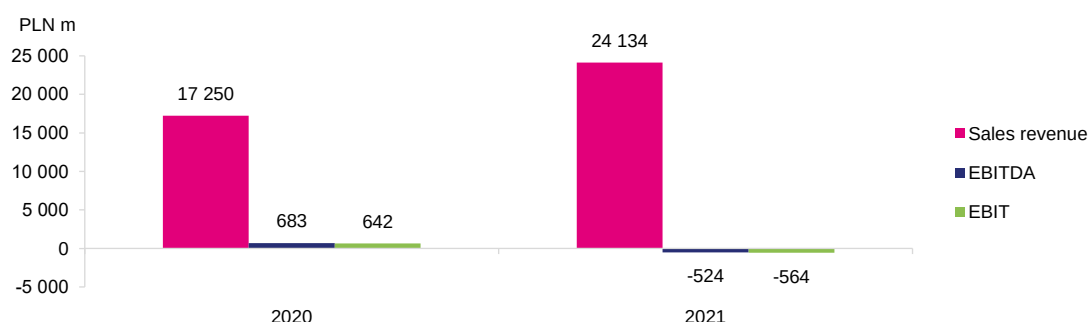
The Supply Segment's EBITDA and EBIT were higher in 2021 than in 2020. The results posted were affected by the following factors:

1. lower margin earned on the electricity sales earned, which is the result of:
 - 1) higher costs of purchasing the electricity, including as part of the performance of the contract for the purchase of the electricity from the 910 MW unit in Jaworzno,
 - 2) obtaining of the higher electricity sales price,

- 3) higher costs of the property rights, mainly as a result of the higher *green certificates (PMOZE)* purchase price,
- 4) higher volume due to the increase in the electricity sales (supply), including to the final consumers,
- 5) higher volume and the higher revenue from the fixed trading fees,
2. lower margin on the gas sales as a result of an increase of the gas purchase price, along with the higher volume of the sales thereof,
3. higher margin on the sale of the CO₂ emission allowances,
4. lower value (amount) of the recognized (booked) impairment charges (write-downs) related to the accounts receivable mainly as a consequence of the setting up (booking) of the elevated impairment charge (write-down) in the first half of 2020 as a result of the introduced restrictions and the uncertainty with respect to the financial standing of the Supply segment subsidiaries' counterparties,
5. other.

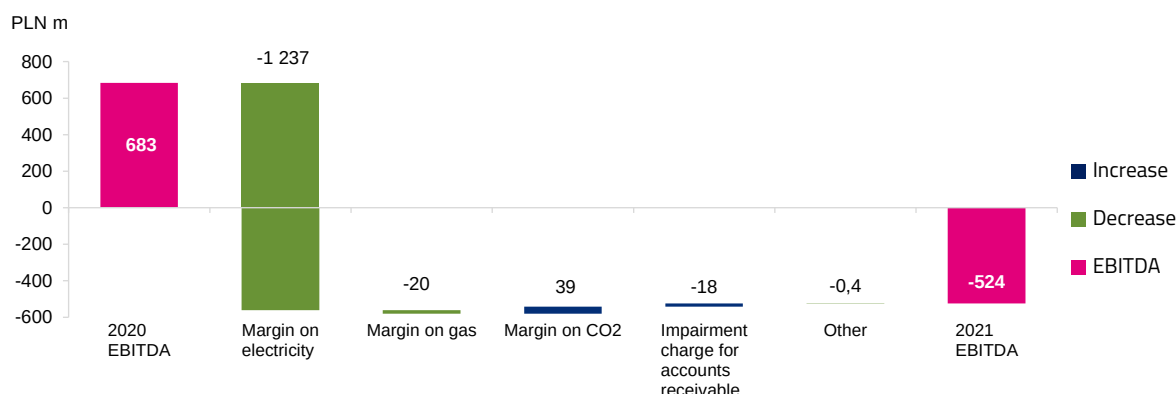
The below figure presents the Supply Segment's 2020-2021 financial data.

Figure no. 58. Supply Segment's 2020-2021 financial data



The below figure presents the Supply Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 59. Supply Segment's EBITDA



Major investments (CAPEX)

The Supply Segment's total capital expenditures came in at PLN 82 million in 2021, the amount spent mainly by the TAURON Nowe Technologie subsidiary, for the activities related to the maintenance and expansion of the street lighting in the amount of PLN 56 million and PLN 10 million for the construction of the gas engines.

Other operations

The below table presents the Other Operations Segment's 2020-2021 results.

Table no. 39. Other Operations Segment's 2020-2021 results

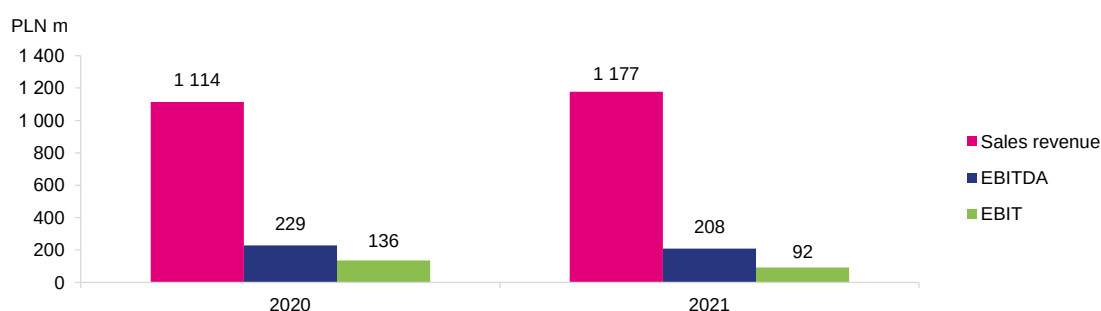
Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 / 2020)
Sales revenue	1 114	1 177	106%	63
customer service services	237	250	106%	13
support services	512	545	106%	33
biomass	104	119	114%	15

Item (PLN '000)	2020	2021	Change in % (2021 / 2020)	Change (2021 / 2020)
aggregates	156	113	72%	-43
other revenue	104	149	143%	45
EBIT	136	92	68%	-44
Depreciation and write-downs	93	116	125%	23
EBITDA	229	208	91%	-21

The Other Operations Segment's subsidiaries revenue was 6% higher in 2021, as compared to 2020, which was primarily due to a larger number of the support services provided for the needs of TAURON Capital Group's subsidiaries, higher sales of the rocks (stone) and the derivatives thereof as a consequence of the higher demand from the power sector for this product and the sales of the other services, including, among others, the sales of the by-products of the combustion and extraction process as well as energy.

The below figure presents the Other Operations Segment subsidiaries' 2020-2021 financial data.

Figure no. 60. Other Operations Segment subsidiaries' 2020-2021 financial data



Major investments (CAPEX)

The Other Operations Segment subsidiaries' capital expenditures came in at PLN 200 million in total in 2021 and they included mainly the outlays related to the investments in the IT systems, including PLN 98 million for the broadband internet construction project as part of the POPC III program.

5.3. Characteristics of the structure of assets and liabilities in the consolidated statement of financial position

The below table presents the structure of the annual consolidated statement of financial position.

Table no. 40. Structure of the annual consolidated statement of financial position

Consolidated statement of financial position	As of December 31, 2020	As of December 31, 2021
ASSETS		
Fixed assets	84.6%	84.5%
Current assets	15.4%	15.5%
TOTAL ASSETS	100.0%	100.0%
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the parent entity	39.9%	41.2%
Non-controlling stakes	2.2%	0.1%
Total equity	42.1%	41.2%
Long term liabilities	40.0%	34.0%
Short term liabilities	17.9%	24.8%
Total liabilities	57.9%	58.8%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%

Consolidated statement of financial position	As of December 31, 2020	As of December 31, 2021
Financial liabilities	11 516	10 944
Net financial liabilities	10 595	10 129
Net debt / EBITDA ratio	2.5x	2.4x
Current liquidity ratio	0.86	0.63

The below figures present the structure of assets as well as equity and liabilities.

Figure no. 61. Structure of assets

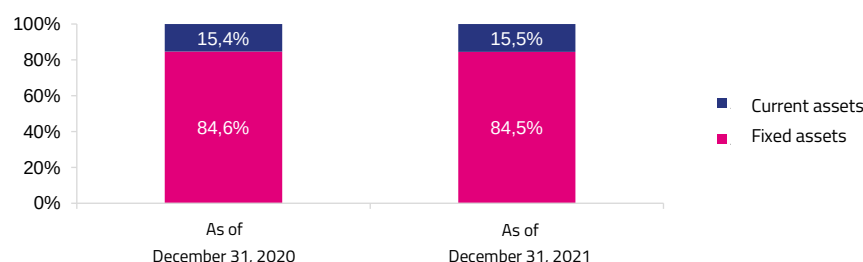
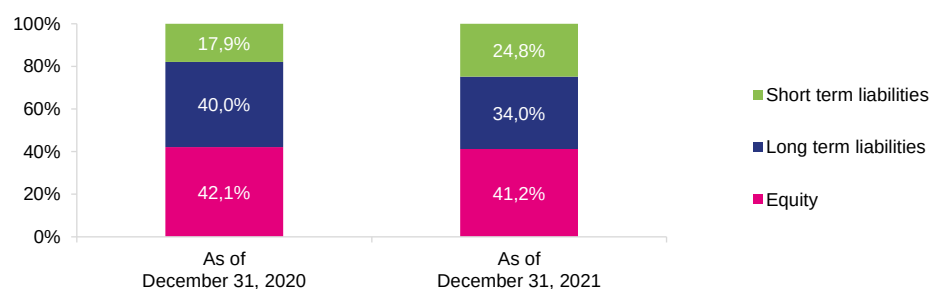


Figure no. 62. Structure of equity and liabilities



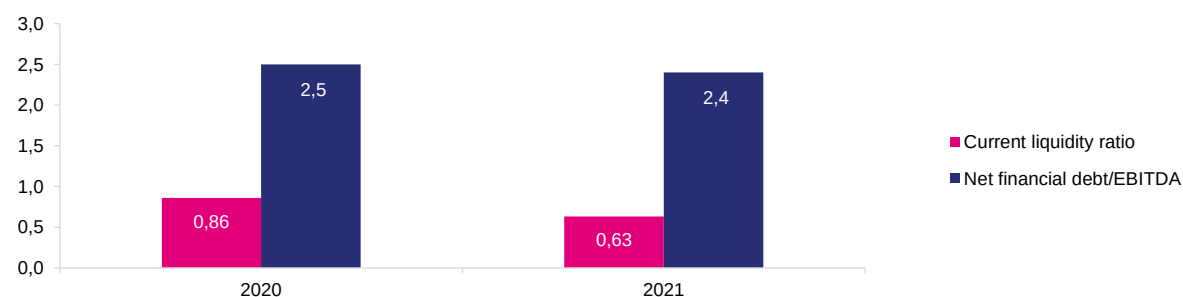
As of December 31, 2021, similar as in 2020, the value of the fixed assets constitutes the largest share in the structure of assets: 84.5%, which is lower by 0.1 pp than last year.

As of December 31, 2021, the liabilities represent the largest share in the structure of equity and liabilities: 58.8%, with their share rising by 0.9 pp.

The level of debt of TAURON Capital Group remains at a safe level, which is indicated by the value of the leverage ratio which is below the value agreed upon with the institutions financing TAURON Group's operations. The current liquidity ratio and the net debt to EBITDA ratio remain at a safe level.

The below figure presents the current liquidity ratio and the net financial debt to EBITDA ratio in 2020-2021.

Figure no. 63. Current liquidity ratio and the net financial debt to EBITDA ratio in 2020-2021



The below table presents the annual consolidated statement of financial position – assets.

Table no. 41. Annual consolidated statement of financial position - assets (material items)*

Statement of financial position (PLN '000)	As of December 31, 2020	As of December 31, 2021	Change in % (2021 / 2020)
ASSETS			
Fixed assets	33 585	33 855	101%
Tangible fixed assets	29 505	29 174	99%
Current assets	6 111	6 220	102%
Cash and equivalents	921	815	88%
Fixed assets classified as held for sale	74	10	14%
TOTAL ASSETS	39 696	40 064	101%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

As of December 31, 2021, the statement of the financial position of TAURON Capital Group indicates the balance sheet total higher by 3%.

The below figures present the change in the level of assets and current assets.

Figure no. 64. Change in assets

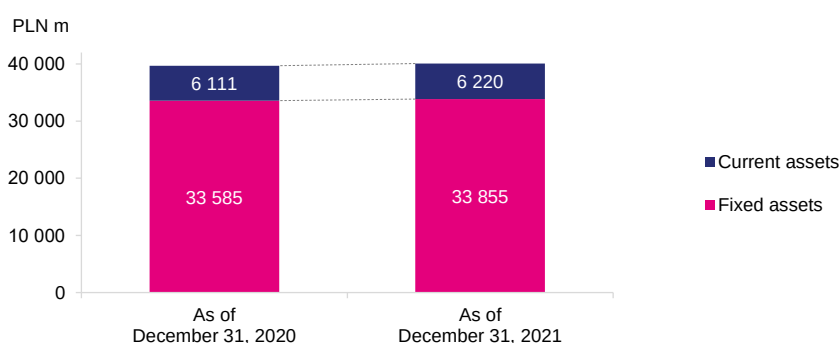
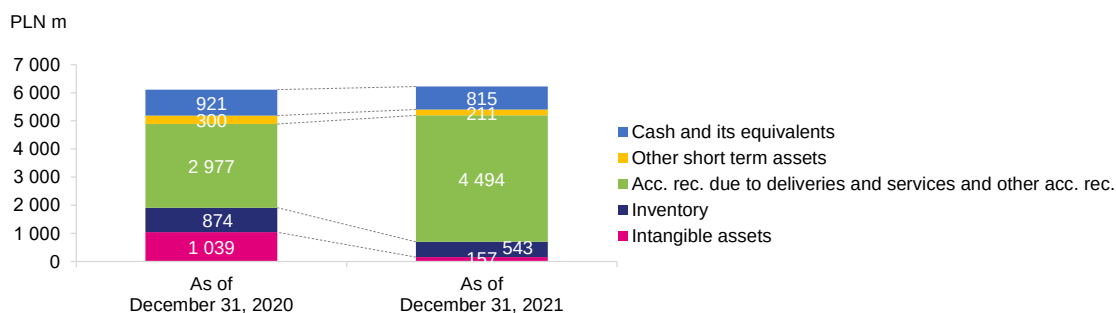


Figure no. 65. Change in current assets



The fixed assets represent the biggest item of the assets as of the end of December 2021, accounting for 84.5% of the balance sheet total. As compared to the end of 2020, the value of the fixed assets is higher by PLN 270 million, i.e. by 3%, which was due to the following factors:

1. tangible fixed assets – a decrease by 1% is a result of the recognized (booked) impairment charge (write-down) related to the non-financial fixed assets as a result of the impairment tests carried out as of June 30, 2021, and December 31, 2021, as well as an increase in the value of the tangible fixed assets as a result of the investment projects implemented by TAURON Capital Group's subsidiaries,
2. certificates of origin of electricity and the greenhouse gas emission allowances to be redeemed – a decline by 11% which is the result of the reclassifying of the certificates of origin of electricity and the CO₂ emission allowances as the current assets held in order to fulfill the obligation related to the redemption of the above mentioned assets and the purchase of the certificates of origin of electricity for the obligation for the following years,

3. derivative instruments (derivatives) - an increase by more than 1 000%, which is a consequence of the changes in the prices of the underlying instruments, i.e. the interest rates, currencies and commodities, including mainly the CO₂ emission allowances,
4. other financial assets – an increase by 152%, as a result of the advance payment for the fixed assets under construction, including those related to the construction of the wind farms,
5. deferred income tax assets – a decrease by 8%.

The following factors had an impact on the rise in the value of the current assets by PLN 98 million. i.e. by 2%:

1. balance of cash on hand and equivalents – a decrease by 12%. *The information on the reasons for the change is provided further on in this report, in the section under the heading Cash flows,*
2. certificates of origin of electricity and the CO₂ emission allowances to be redeemed – a decline by 85%, which is the result of:
 - 1) purchase of the CO₂ emission allowances in the first half of 2021 for the redemption obligation for the year 2020,
 - 2) purchase of the CO₂ emission allowances within 2021 for the redemption obligation for the year 2021
 - 3) purchase or the recognition (booking) of the certificates of origin of electricity produced in-house in 2021 for the fulfillment of the obligation to redeem the property rights for the year 2020 or 2021,
 - 4) reclassifying as the short term assets of a part of the property rights and the CO₂ emission allowances held, originally classified as the long term assets, that were reclassified due to their allocation for the purpose of the ongoing fulfilling of the obligation to redeem the above mentioned assets,
 - 5) redemption of the property rights and the CO₂ emission allowances in connection with the obligation stemming from the provisions of the energy law,
3. inventory levels – a decrease by 38% mainly due to the lower hard coal inventory level as a consequence of the higher demand because of the higher electricity production in the fourth quarter of 2021,
4. accounts receivable from the consumers – an increase by 34%,
5. accounts receivable due to the income tax – an increase by 381%,
6. accounts receivable due to the other taxes and fees – a drop by 1%,
7. other financial assets – a drop by 38%, mainly as a result of the decline of the accounts receivable due to the compensations for the trading companies,
8. other non-financial assets – an increase by 35%, mainly as a result of the higher costs depreciated (accounted for) over time due to the property and tort insurance.

The below table presents the annual consolidated statement of financial position – equity and liabilities.

Table no. 42. Annual consolidated statement of financial position – equity and liabilities (material items)*

Statement of financial position (PLN '000)	As of December 31, 2020	As of December 31, 2021	Change in % (2021 / 2020)
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent entity	15 834	16 491	104%
Non-controlling stakes	893	33	4%
Total equity	16 727	16 524	99%
Long term liabilities	15 867	13 634	86%
Liabilities due to debt	13 171	10 947	83%
Short term liabilities	7 102	9 917	140%
Liabilities due to debt	1 481	2 143	145%
Total liabilities	22 969	23 551	103%
TOTAL EQUITY AND LIABILITIES	39 696	40 075	101%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figures present the change in the amount of liabilities and equity attributable to the majority shareholders.

Figure no. 66. Change in equity and liabilities

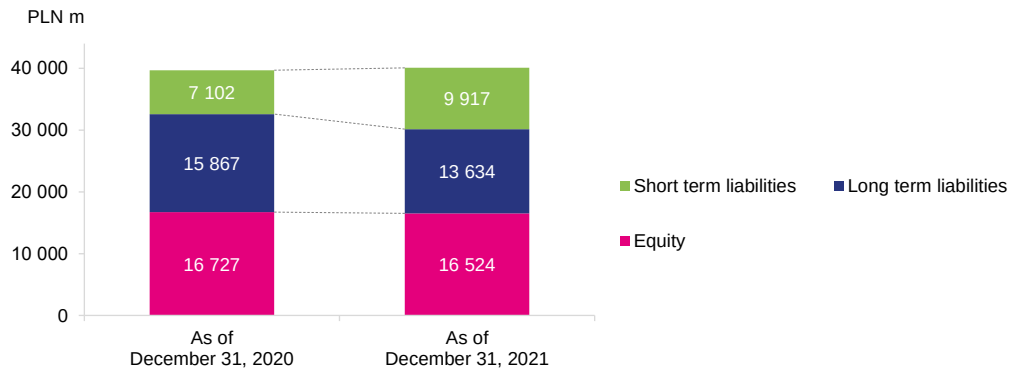
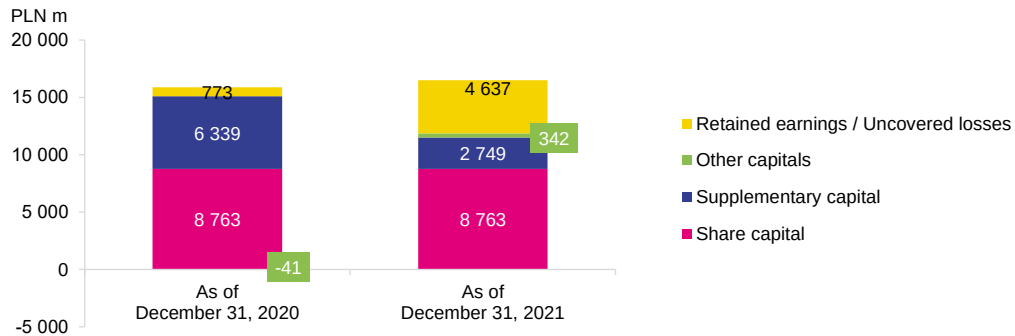


Figure no. 67. Change in equity attributable to majority shareholders



Equity was a material source of financing the assets in 2021 and its share in the total equity and liabilities stood at 41.2%.

The below figures present the change in the amount of short term and long term liabilities.

Figure no. 68. Change in long term liabilities

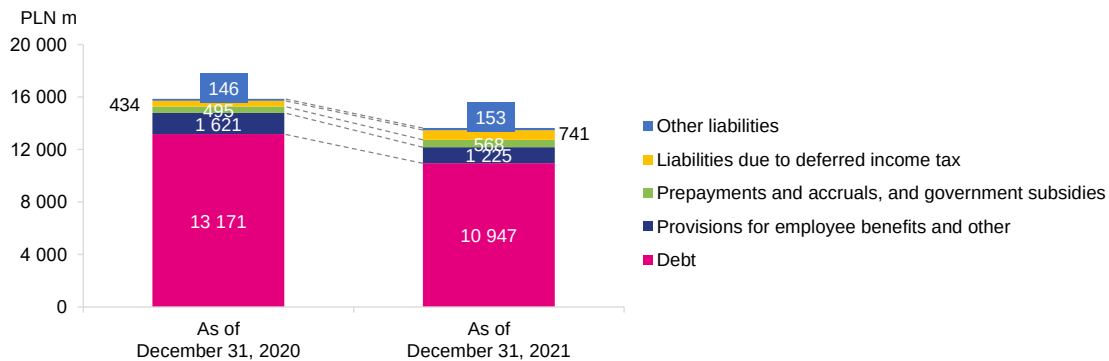
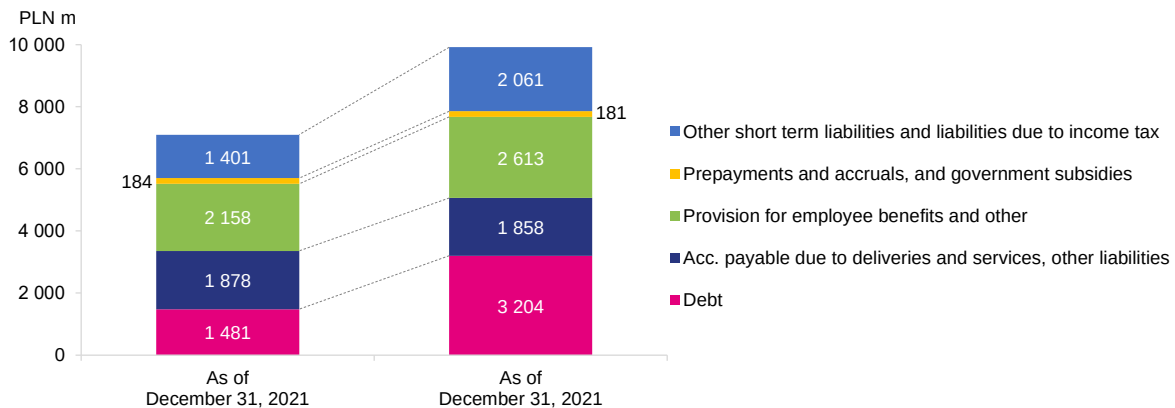


Figure no. 69. Change in short term liabilities



The amount of TAURON Capital Group's long term liabilities was lower by PLN 2 224 million, i.e. by 14%, in 2021, which was mainly a consequence of the following factors:

1. liabilities due to debt – a decrease by 17%, as a result of taking out the loans worth PLN 2 003 million in 2021, the updating of the value (revaluation) of the debt in a foreign currency as a result of a change of the FX rate as of December 31, 2021, in relation to the FX rate of December 31, 2020, and the reclassification of some liabilities as the short term ones,
2. provisions for the employee benefits – a drop by 17% mainly as a consequence of a change of the discount rate by 2.1 pp,
3. provisions related to the costs of dismantling the fixed assets and land reclamation - a decrease by 35%, primarily as a result of a change of the discount rate,
4. prepayments and accruals, as well as the government subsidies – an increase by 15%.
5. liabilities due to the deferred income tax – an increase by 68%,
6. derivative instruments (derivatives) - an increase by 57%, which is a consequence of the changes in the prices of the underlying instruments, i.e. the interest rates, currencies and commodities, including mainly the CO₂ emission allowances,
7. other financial and non-financial liabilities – a decline by 48% and 50%, respectively.

The amount of TAURON Capital Group's short term liabilities went up by PLN 2 806 million, i.e. by 40%, which was primarily a consequence of the following factors:

1. liabilities due to debt – an increase by 45%, which is a result of the reclassifying of a part of the long term liabilities, the updating of the value (revaluation) of the debt in a foreign currency as a result of a change of the FX rate as of December 31, 2021, in relation to the FX rate of December 31, 2020, and the repayment of the loans received in the amount of PLN 4 407 million,
2. accounts payable towards the suppliers – an increase by 22% and the investment related commitments – a drop by 28%,
3. provisions for the liabilities due to the certificates of origin of electricity and the CO₂ gas emissions – an increase by 8%, which is mainly due to a rise in the prices of the green certificates (PMOZE) and the CO₂ emission allowances in 2021 in relation to the prices thereof in 2020,
4. other provisions – an increase by 104%, which is mainly due to the setting up of a provision for onerous contracts in connection with the shutdown of the 910 MW unit in Jaworzno, planned to last until April 29, 2022.
5. accounts payable due to the income tax – an increase by 33%,
6. liabilities due to the taxes and fees - an increase by 53%, mainly as a consequence of the higher accounts payable due to VAT,
7. derivative instruments (derivatives) – an increase by 272%, which is a consequence of the changes in the prices of the underlying instruments, i.e. the interest rates, currencies and commodities, including mainly the CO₂ emission allowances,
8. other non-financial liabilities – an increase by 35%, which is a consequence of the higher overpayments received from the customers and the advance payments on account of the grid connection fees (charges).

In addition, as of December 31, 2021, under the item Liabilities due to the acquisition of non-controlling interests (stake), TAURON Capital Group recognized a liability stemming from the concluded agreement with the Infrastructure Related Investments Fund – Closed End Non-Public Assets Capital Fund (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych) FIZAN, under which the Company acquired 176 000 shares in the Nowe Jaworzno Grupa TAURON subsidiary, representing 13.71% of the total number of the votes at the General Meeting of the Shareholders (Partners) of Nowe Jaworzno Grupa TAURON for the amount of PLN 1 061 million. The transfer of the title to the shares took place upon the conclusion of the agreement.

5.4. Discussion of the economic and financial figures disclosed in the annual consolidated financial statement

Consolidated statement of comprehensive income

The below table presents the annual consolidated statement of comprehensive income. Due to the changes in the segments and in order to maintain the comparability, the results are presented for 2 years

Table no. 43. Annual consolidated statement of comprehensive income for 2020-2021*

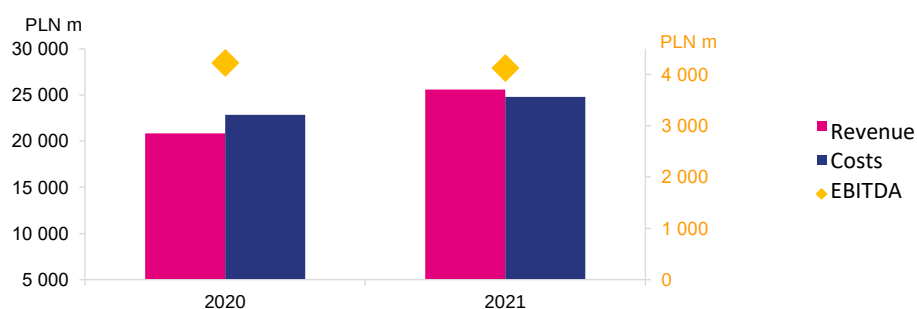
Statement of comprehensive income (PLN '000)	2020	2021	Change in % (2021 / 2020)
Sales revenue	20 850	25 614	123%
Compensations	66	(9)	-
Own cost of sales	(22 842)	(24 820)	109%

Statement of comprehensive income (PLN '000)	2020	2021	Change in % (2021 / 2020)
Other operating revenues and costs	373	99	27%
Share in the profits of the joint ventures	16	32	200%
Operating profit	(1 537)	916	-
Cost of interest on debt	(286)	(368)	129%
Other financial revenue and costs	(356)	127	-
Pre-tax profit (loss)	(2 179)	675	-
Income tax	6	(290)	-
Net profit (loss) for the period	(2 173)	385	-
Total income for the period	(2 362)	865	-
Net (profit) attributable to:			
Shareholders of the parent entity	(2 170)	338	-
Non-controlling stakes (interests)	(3)	47	-
EBIT and EBITDA			
EBIT	(1 537)	916	-
EBITDA	4 226	4 152	98%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The below figure presents TAURON Capital Group's 2020-2021 financial results.

Figure no. 70. TAURON Capital Group's 2020-2021 financial results



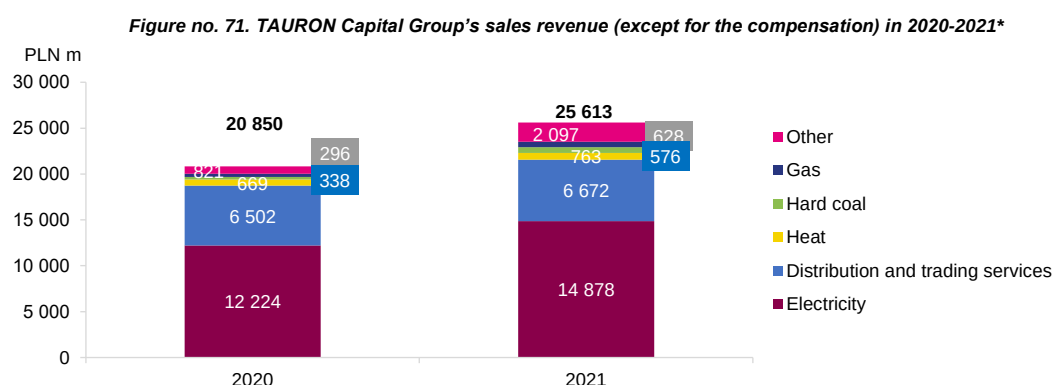
TAURON Capital Group generated PLN 25 614 million of revenue from the conducted operations in 2021, i.e. it is higher by 23% as compared to the amount generated in 2020, which is the result of the following factors:

1. higher revenue from the electricity sales by 22%, which is the result of the higher volume of the retail electricity supply (both in the business as well as in the mass customer segments), the higher electricity sales prices obtained, mainly on the balancing market and the exchange market as a consequence of an increase of the tariff and the higher electricity sales prices on the market as well as the higher revenue obtained from the trading (commercial) fees,
2. revenue obtained from the capacity market service - in connection with the performance of the capacity obligation by TAURON Capital Group's subsidiaries that are the capacity suppliers for PSE (TSO), performed by the Capacity Market units that are a part of TAURON Capital Group
3. higher revenue from the distribution and trading services sales by 3% which as a consequence of the higher distribution service volume and a decrease of the tariff in 2021,
4. higher revenue from the thermal energy sales (heat supply) by 14% due to the higher sales volume as a result of the lower temperatures year on year and the higher thermal energy sales prices obtained,
5. higher revenue from the gas sales by 70% mainly as a consequence of the higher gas prices and the sales of the higher volume as a result of the lower temperatures year on year and the higher thermal energy sales prices obtained,
6. higher revenue from the hard coal sales by 112% which is a result of the sales of the higher volume and obtaining of the higher prices.

In addition, in the first quarter of 2021, TAURON Capital Group obtained revenues from the sales of the CO₂ emission allowances, which is a consequence of:

1. completed restructuring of the CO₂ emission allowances in the quantity of 3 258 000 EUAs in Nowe Jaworzno Grupa TAURON's portfolio. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO₂ emission allowances and decided to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023 and 2024. In connection with the fact that the original contracts were not settled (cleared) based on the physical delivery and therefore the Company recognized (booked) the contracts in accordance with *IFRS 9 Financial Instruments* at fair value at the date of the change of judgment, i.e. in March 2021, and then recognized (booked) the result of the settlement (clearing) of the instruments, which led to an increase of the sales revenue and the operating result in the amount of PLN 303 945 000 (i.e. EUR 65 893 000). The new contracted transactions with an execution date in the years 2022-2024 are excluded from the scope of *IFRS 9 Financial Instruments* and are not marked at fair value. At the same time, these transactions were made at prices higher than the originally contracted purchase, which will lead to an increase of the costs,
2. market sale of the CO₂ emission allowances in the quantity of 691 000 EUAs that constituted a surplus above the redemption needs of the company for 2020 due to the delay of the commissioning of the 910 MW unit.

The below figure presents the structure of TAURON Capital Group's sales revenue (except for the compensation) in 2020-2021.



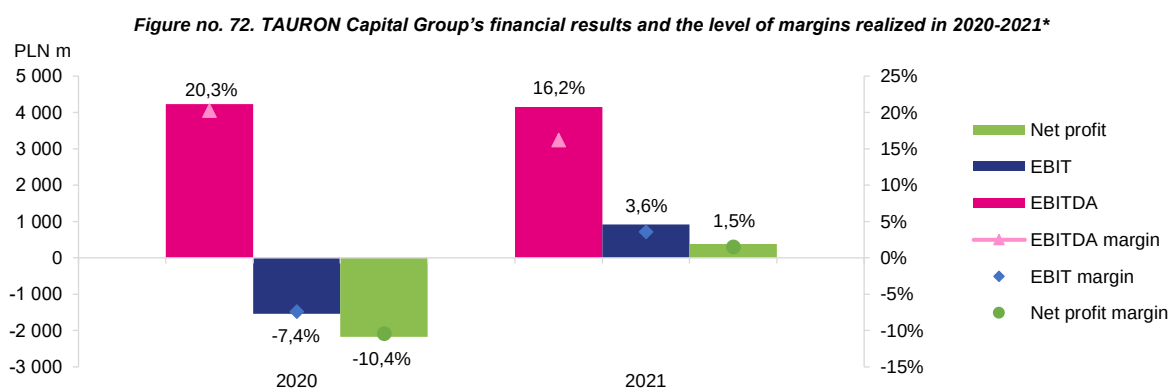
* Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The costs of TAURON Capital Group's operations (operating expenses) came in at PLN 24 820 million in 2021, i.e. they were 9% higher than the costs incurred in 2020, which is the result of the following factors:

1. higher depreciation costs, mainly as a result of an increase in the value of the assets of TAURON Capital Group as a consequence of commissioning the 910 MW unit in Jaworzno at the end of 2020 and the other investment projects related to the assets of TAURON Capital Group underway, mainly in the distribution line of business,
2. lower value of the impairment charges (write-downs) related to the non-financial fixed assets, which is the result of the asset impairment tests carried out as of June 30, 2021, and as of December 31, 2021, which demonstrated the legitimacy of recognizing (booking) the write-downs in an amount lower than in the same period of 2020,
3. higher costs of the materials and energy consumption, mainly as a result of the higher costs of the heating oil consumption and the other variable production costs due to the higher electricity and heat production and the higher price of the raw material (commodity),
4. higher costs of the repair (overhauls) and maintenance services due to the broader scope of the works to be performed with respect to the mining, heating and renewable energy (RES) assets and the higher rates for the services provided,
5. lower costs of the distribution services in connection with a decrease of the tariff for the distribution services for PSE (TSO), which is primarily related to the drop of the quality based fee,
6. higher costs of the other external services, mainly as a result of an increase of the costs of waste management and the transportation services as well as an increase in the number of the longwall coal face mining, headings (workings) maintenance, longwall headings (coal faces) liquidation services and a larger quantity of the subcontracting services due to the increased demand for the services related to the meter replacements, their re-legalization, the illegal electricity consumption control (inspection) services, as well as the services related to electricity supply interruption and restart. In addition, the increase in the cost item is due to the increased scope of the external services provided in connection with the commissioning of the 910 MW unit in Jaworzno at the end of 2020,
7. higher costs of the greenhouse gas emission allowances, which is the result of an increase in the price of the allowances and the higher CO₂ emissions by the generating units due to the higher production of electricity from the conventional sources,
8. higher costs of the employee benefits, which is the result of:

- 1) recognition in the costs of the first half of 2020 of the effects of the dissolution of the actuarial provisions by TAURON Capital Group's subsidiaries in connection with the amendment to the provisions of the corporate collective bargaining agreements of the subsidiaries with respect to the payout of a cash equivalent for the discounted use of electricity by the current employees of TAURON Capital Group who acquired the rights to the tariff upon retirement or upon receiving a disability pension and other entitled persons,
 - 2) reduction of the working time in the second quarter of 2020 in accordance with the signed agreement with the workforce, as a consequence of the COVID-19 pandemic,
 - 3) change in the discount rate from 1.5% to 3.6% in 2021, which led to the change of the costs of the actuarial provisions with respect to the years of the service anniversary related bonuses for the employees,
 - 4) increase of the minimum wage in 2021,
 - 5) 1% lower headcount at TAURON Capital Group's subsidiaries,
9. lower costs of the impairment charges (write-downs) related to the accounts receivable, which is a consequence of the recognition (booking) of the elevated impairment charges (write-downs) in 2020 due to the uncertainty with respect to the financial standing of TAURON Capital Group's counterparties in connection with the restrictions introduced as a consequence of the COVID-19 pandemic,
 10. higher costs by type related to the insurance of the 910 MW unit in Jaworzno whose costs were recognized (booked) as a capital expenditure related to the investment project underway in the three quarters of 2020,
 11. lower value of the costs of the services for the in-house purposes, which is mainly due to the recognition (booking) in the first three quarters of 2020 of a part of the operating costs (opex) of the 910 MW unit in Jaworzno as a capital expenditure (capex) in connection with its start-up,
 12. higher costs of the electricity sold, mainly due to the increase in the electricity purchase price year on year. In addition, in 2020, this reporting item included the effect of a one off transaction involving a swap of the power exchange contracts with the delivery date in December 2020 for the OTC contracts with the delivery date in March 2021. The decision on the change of the strategy was made taking into account the current market circumstances, difficult to predict at the time of the conclusion of the transaction. Such circumstances include, in particular, the growing costs of maintaining a position (exposure) on the power exchange, which was related to, inter alia, the need to make ongoing contributions to the power exchange deposits (margin payment calls), a change in the legal and market circumstances with respect to the trading in the CO₂ emission allowances related to Brexit and the COVID-19 pandemic. Implementing the above change in the strategy, the Company resold the futures position (exposure) with the delivery date in December 2020 held on the power exchange (it entered into an opposite transaction on the power exchange), while at the same time purchasing the same volume in the contracts with the delivery date in March 2021 from the counterparties on the OTC market. In addition, the costs of the electricity sold in 2021 include the cost of the provision for the onerous contract, recognized as of the balance sheet date, in the amount of PLN 289 million, which is related to the shutdown of the 910 MW unit in Jaworzno

The below figure presents TAURON Capital Group's financial results and the level of the margins realized from the continued operations.



**Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.*

The EBITDA margin generated in 2021 came in at 16.2% and it was lower by 4.1 pp than the margin posted in 2020. As a result of the impairment charges (write-downs) taken, which in 2021 were lower than the impairment charges booked in 2020, the EBIT margin and the net profit margin were higher in the reporting period than the figures posted in the previous year and came in at 3.6% and 1.5%, respectively.

Statement of cash flows

The below table presents the statement of cash flows.

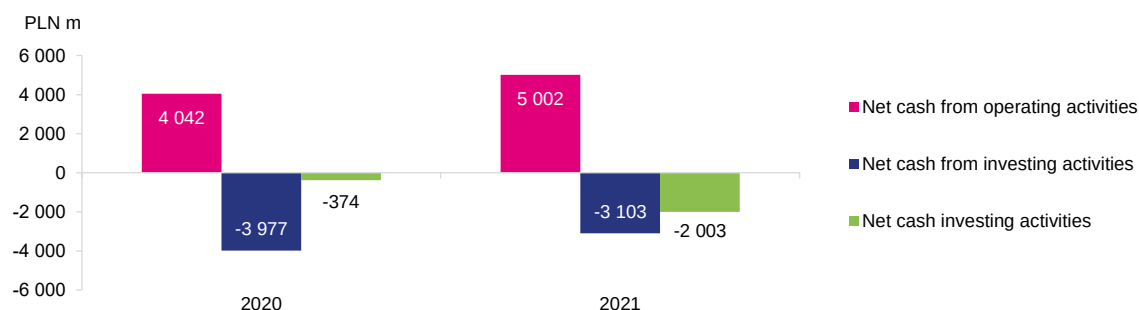
Table no. 44. Statement of cash flows (material items) in 2020-2021*

Statement of cash flows (PLN '000)	Year ended on December 31, 2020	Year ended on December 31, 2021	Change in % (2021 / 2020)
CASH FLOW FROM OPERATING ACTIVITIES			
Pre-tax profit / (loss)	(2 179)	675	-31%
Adjustments	6 221	4 327	70%
Net cash from operating activities	4 042	5 002	124%
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of tangible fixed assets and intangible assets	(3 908)	(3 255)	83%
Net cash from investing activities	(3 977)	(3 103)	78%
CASH FLOW FROM FINANCING ACTIVITIES			
Redemption of debt securities	(60)	(170)	283%
Issue of debt securities and proceeds from taking out credits / loans	1 000	-	-
Proceeds from taking out credits / loans	3 369	2 003	59%
Repayment of loans / credits	(4 407)	(3 466)	79%
Interest paid	(216)	(343)	159%
Net cash from financing activities	(374)	(2 003)	535%
Increase / (decrease) in net cash and equivalents	(309)	(104)	34%
Cash opening balance	1 204	895	74%
Cash closing balance	895	791	88%

*Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figure presents the 2020-2021 cash flows.

Figure no. 73. 2020-2021 cash flows



The amount of cash flows from operating activities in 2021 came in at PLN 5 002 million, which was the result of the following factors:

1. generated EBITDA in the amount of PLN 4 152 million,
2. a positive change of the working capital in the amount of PLN 1 256 million, which is the result of:
 - 1) a negative change of the balance of the accounts receivable, mainly from the consumers, in the amount of PLN 786 million,
 - 2) a positive change of the inventory level, in the amount of PLN 313 million, mainly due to the lowering of the hard coal inventory levels,
 - 3) a positive change of the balance of the accounts payable in the amount of PLN 543 million, mainly as a result of an increase of the accounts payable towards the suppliers, the overpayments received and the advance payments on account of the services provided,
 - 4) a positive change of the other long and short term assets as well as the provisions in the total amount of PLN 1 273 million,
 - 5) a negative change of the prepayments and accruals as well as the government subsidies in the amount of PLN 87 million,

3. income tax paid in the amount of PLN 392 million, which is, to the large extent, due to the Tax Capital Group (PGK) settlements that include:
 - 1) income tax paid by the Tax Capital Group (PGK) in the amount of PLN 433 million as the advance payment on account of the income tax for December 2020 and for the first three quarters of 2021,
 - 2) refund of the income tax overpayment for 2020 in the amount of PLN 104 million,
 - 3) income tax paid by the companies that are not part of the Tax Capital Group (PGK) for the years 2021 - 2023, mainly TAURON Ciepło.
4. other factors: PLN -14 million.

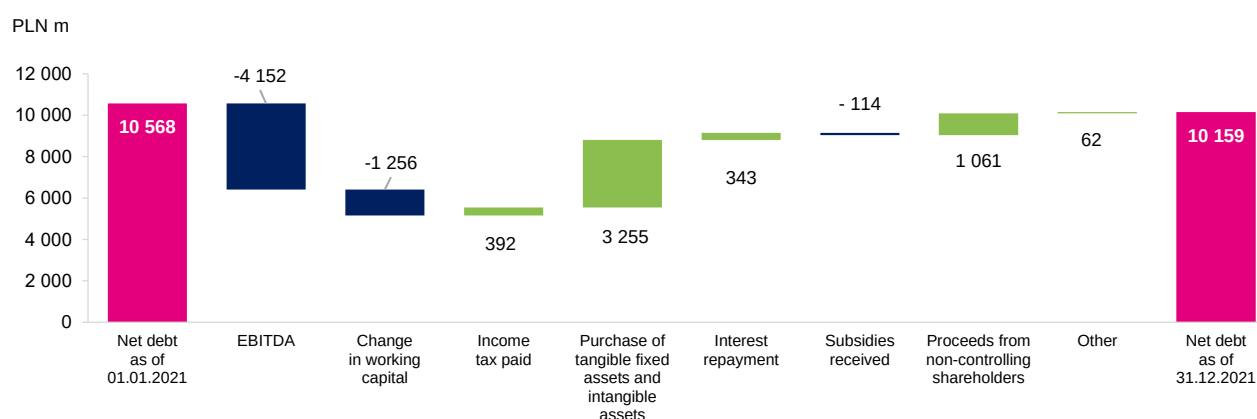
The expenditures for the purchase of the tangible fixed assets have the biggest impact on the cash flow from the investing activities, coming in at PLN 3 255 million in the reporting period and they were lower by PLN 653 million than the outlays incurred in 2020. The largest expenditures were incurred by the Distribution and Generation Segments.

The negative value of the cash flow from the financing activities is primarily due to the amount of the expenditures made in connection with the repayment of the financial obligations being higher than the inflows generated as a result of the financing obtained. The amount of the credits and loans repaid came in at PLN 3 446 million, while the amount of the proceeds received due to the loans taken out clocked in at PLN 2 003 million. In addition, in 2021 TAURON Capital Group paid the amount of PLN 343 million due to interest, mainly on the financial obligations, repaid the accounts payable due to the leases in the amount of PLN 117 million, while the amount of the subsidies received stood at PLN 114 million.

TAURON Capital Group is maintaining its market position. The current liquidity ratio and the net debt to EBITDA ratio continue to stand at a safe level.

The below figure presents TAURON Capital Group's 2021 cash flows.

Figure no. 74. TAURON Capital Group's 2021 cash flows



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pool* mechanism in order to minimize the potential cash flow disruptions and the risk of the liquidity loss. TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from the environmental funds, bond issues.

5.5. Material off-balance sheet items

The material off-balance sheet items of TAURON Capital Group, as of December 31, 2021, include:

1. lawsuits brought by the companies from the Polenergia and Wind Invest groups against TAURON and PEPKH, related to the termination of the long term contracts for the purchase of the electricity and property rights by PEPKH,
2. claim of the WorleyParsons consortium against PGE EJ 1 (currently Polskie Elektrownie Jądrowe – Polish Nuclear Power Plants),
3. claim of Huta Łaziska (Łaziska Steel Works) for the alleged damage caused by a failure to implement by GZE S.A. (company taken over by TAURON) the decision of the President of the Energy Regulatory Office (ERO) related to the resumption of the electricity supply by GZE to Huta Łaziska (Łaziska Steel Works),

4. lawsuit brought by Enea against TAURON as well as against TAURON Sprzedaż and TAURON Sprzedaż GZE as the co-defendants, where the basis of Enea claim are the allegations related to the Company's unjust enrichment (benefit) in connection with the possible errors with respect to the determination of the metering and billing data by Enea Operator sp. z o.o., constituting the basis for the settlements of Enea and TAURON with PSE, due to an imbalance on the Balancing Market,
5. administrative and investigative proceedings as well as the proceedings with respect to the imposition of the fines initiated by the President of the Office of Competition and Consumer Protection (UOKiK) and the President of the Energy Regulatory Office (ERO) against the Supply Segment's subsidiaries,
6. contingent liabilities related to the possibility of the future costs to be incurred by TAURON Capital Group's subsidiaries due to the non-contractual use of the real estate, i.e. the land on which distribution grids, district heating installations and the devices related thereto are located,
7. claim against TAURON Wydobycie related to the reimbursement of the expenses for providing the protection for the facility against the effects of the mining operations,
8. claim of the general contractor related to the amendment to the agreement for the construction of the "Grzegorz" shaft at TAURON Wydobycie.

The detailed information related to the off-balance sheet items both in the subjective and objective terms, as well in terms related to the value thereof is presented in notes 54 and 55 to the Consolidated financial statements of TAURON Capital Group.

5.6. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON Capital Group for 2021. This decision was due to the considerable volatility of the market and a substantial number of factors affecting the predictability thereof.

5.7. Key financial ratios and the Alternative Performance Metrics

The below table presents the key financial ratios of TAURON Capital Group, which may constitute an important source of information for the investors about the financial and operational standing of TAURON Capital Group. The Alternative Performance Measures presented below as defined by the ESMA Guidelines on the Alternative Performance Metrics, in the opinion of the Management Board, present the additional information with respect to the financial results of TAURON Capital Group's business operations. They constitute the standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial efficiency, cash flows and debt of TAURON Capital Group. In 2021, there were no changes in the methodology for determining the individual metrics in relation to 2020, therefore the values of the metrics are comparable

Table no. 45. Key financial ratios of TAURON Capital Group for the continued and discontinued operations¹

Ratios	Definition	2020	2021
PROFITABILITY			
EBIT Margin	Operating profit / Sales revenue	-7.4%	3.6%
EBITDA Margin	EBITDA / Sales revenue	20.3%	16.2%
Net Profitability	Net profit/ Sales revenue	-10.4%	1.5%
Return on Equity (ROE)	Net profit/ Equity at the end of the period	-13.0%	2.3%
LIQUIDITY			
Current liquidity ratio	Current assets / Short-term liabilities	0.86	0.63
DEBT			
Total debt ratio	Total obligations/ total liabilities	0.58	0.59
Net financial debt/ EBITDA	(Financial liabilities - Cash)/ EBITDA	2.50	2.19
OTHER RATIOS			
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	(1.24)	(0.20)

¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

In 2021, the EBITDA margin ratio came in at 16.2%, i.e. it was 4.1 pp. lower than in 2020, which was the effect of the rising electricity and gas sales prices, which contributed to a significant increase, i.e. by 23%, of TAURON Capital Group's revenues, while achieving the EBITDA level at a comparable level.

In 2021, the EBIT margin and net profitability ratios of TAURON Capital Group stand at the level of 3.6% and 1.5%, respectively, and they are higher than the metrics reported for 2020, which was a consequence of recognizing of the balance of the impairment charges related to the carrying amount of the assets, in the 2020 results, in the amount higher than in 2021 and the higher costs of interest on debt.

As of December 31, 2021, the current liquidity ratio was lower than as of December 31, 2020, which is the result of an increase in the liabilities, mainly due to the indebtedness, as a result of the reclassification of a part of the long term debt with the maturity of up to 1 year from the balance sheet date and the recognition of the liability due to the acquisition of the non-controlling interests (stake), as described in more detail in section 5.3. of this report.

The total debt ratio and the net debt to EBITDA ratio illustrate the share of the liabilities in financing TAURON Capital Group. The current level of these ratios enables TAURON Capital Group to obtain the external financing required to carry out the planned investment (capex) projects. The levels of both ratios confirm the stable financial position of TAURON Capital Group.

The EPS ratio (calculated in relation to the net result attributable to the shareholders of the parent entity) stands at PLN 0.2 / share and it is higher than reported in the previous year, which is due to the recognition in 2020 of the balance of the impairment charges related to the carrying amount of the assets in the amount higher than in 2021.

The below table presents the reconciliation of the net financial debt, the amount of which, along with the EBITDA amount, is the basis for calculating the net debt to EBITDA ratio.

Table no. 46. Net financial debt reconciliation

Item (PLN m)	2020	2021
Cash and equivalents	948	1 280
Cash and equivalents – balance acc. to balance sheet	921	815
Short term investments with the maturity of up to 1 year	27	465
Long term financial debt	10 165	7 881
Long term credits and loans, and other	4 843	2 736
Long term liabilities due to bonds issued	5 323	5 145
Short term financial debt	1 351	2 002
Short term credits and loans, and other	1 476	2 138
Short term liabilities due to bonds issued	201	203
Liabilities due to the valuation of the derivative instruments	-	495
Liabilities due to the acquisition of the non-controlling interests (stake)	-	1 061
Total financial debt	11 516	11 439
Net financial debt	10 568	10 159

The below table presents the reconciliation of the result at the EBITDA level.

Table no. 47. Reconciliation of the result on the EBITDA level

Item (PLN m)	2020	2021
Net profit (loss)	(2 173)	385
Net profit (loss) on discontinued operations	(6)	290
Income tax charged to the financial result	(196)	(193)
Financial costs	838	434
Financial revenue	(1 537)	916
EBIT	2 017	2 101
EBIT on discontinued operations	3 746	1 135

Item (PLN m)	2020	2021
Depreciation charged to the financial result	4 226	4 152

5.8. Most significant financial and operating data for the last 5 years

The below table presents the most significant financial data and operating data of TAURON Capital Group for the last 5 years, i.e. for the 2017 – 2021 period.

Table no. 48. Financial and operating data for 2017-2021*

Key information	unit	2017	2018	2019	2020	2021	Change in % (2021 / 2020)
STATEMENT OF COMPREHENSIVE INCOME							
Sales revenue	PLN m	17 425	18 122	19 558	20 850	25 614	123%
Operating profit	PLN m	1 879	791	295	(1 537)	916	-
Financial revenue (total)	PLN m	191	83	95	196	193	98%
Financial expenses (total)	PLN m	(313)	(11)	(407)	(838)	(434)	52%
Pre-tax profit (loss)	PLN m	1 758	505	(113)	(2 179)	675	-
Income tax	PLN m	(375)	(298)	19	6	(290)	-
Net profit (loss) on continued operations	PLN m			(94)	(2 173)	385	-
Net profit	PLN m	1 383	207	(12)	(2 173)	385	-
attributable to shareholders of the parent entity	PLN m	1 381	205	(11)	(2 170)	338	-
attributable to non-controlling shares	PLN m	2	2	(1)	(3)	47	-
EBITDA	PLN m	3 618	3 492	3 599	4 226	4 152	98%
STATEMENT OF FINANCIAL POSITION							
Fixed assets	PLN m	31 049	32 542	35 052	33 585	33 855	101%
Current assets	PLN m	4 786	4 556	6 865	6 111	6 220	102%
Total equity	PLN m	18 068	18 428	19 093	16 727	16 524	99%
Total liabilities	PLN m	17 767	18 669	22 825	22 969	23 551	103%
Long-term liabilities	PLN m	12 740	11 382	14 963	15 687	13 634	87%
Short-term liabilities	PLN m	5 027	7 287	7 862	7 102	9 917	140%
Net financial debt ²	PLN m	8 047	8 572	10 130	10 595	10 129	96%
Capital expenditures	PLN m	3 474	3 838	4 128	4 039	2 932	73%
CASH FLOW ACCOUNT							
Net cash from operating activities	PLN m	3 559	2 223	2 036	4 042	5 002	124%
Net cash from investing activities	PLN m	(3 872)	(3 387)	(4 535)	(3 977)	(3 103)	78%
Net cash from financing activities	PLN m	760	1 171	2 895	(374)	(2 003)	-
Cash closing balance	PLN m	801	808	1 204	895	791	88%
RATIOS (METRICS)							
EBIT Margin	%	11%	4%	2%	(7)%	4%	-
EBITDA Margin	%	21%	19%	18%	20%	16%	80%
Net financial debt/ EBITDA	multiple	2.2x	2.5x	2.8x	2.5x	2.4x	89%
Net earnings per share	PLN / share	0.79	0.12	-0.01	-1.24	0.19	-
OPERATING DATA							

Key information	unit	2017	2018	2019	2020	2021	Change in % (2021 / 2020)
Commercial coal production	Mg m	6.45	5.01	3.78	4.54	5.15	113%
Gross electricity production	TWh	18.41	16.21	13.88	12.5	15.59	125%
Electricity production from RES	TWh	1.3	0.97	1.38	1.94	1.71	88%
Heat production	PJ	12.2	11.29	10.85	11.63	12	103%
Retail electricity supply	TWh	34.94	34.52	33.73	32.43	33.41	103%
Distribution of electricity	TWh	51.37	51.97	51.73	50.26	53.97	107%
Number of customers (Distribution)	M	5.53	5.60	5.65	5.71	5.78	101%

* The values presented for the years 2017-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments that took place in 2020, i.e. the spinning off of the RES Segment from the Generation Segment and the presentation of the TAURON Ciepło data as part of the discontinued operations

The below table presents TAURON Capital Group's EBITDA for the last 5 years, i.e. for the 2017 – 2021 period.

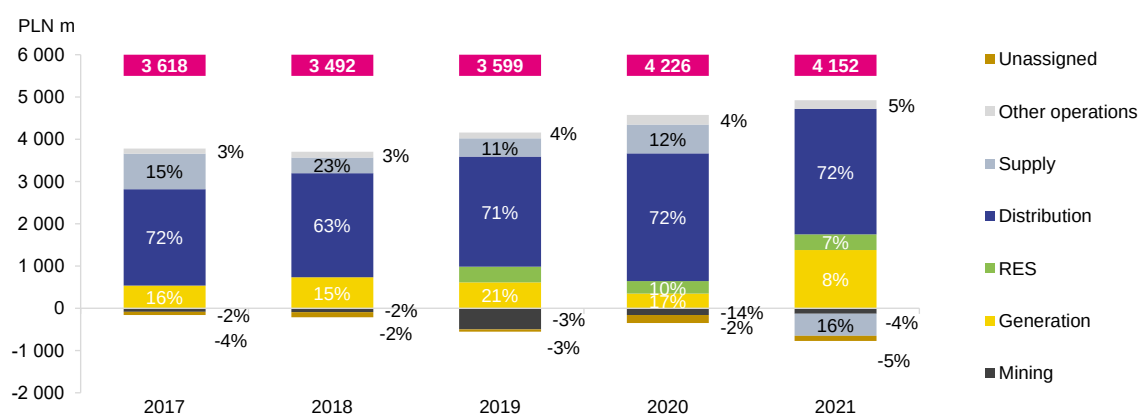
Table no. 49. TAURON Capital Group's EBITDA, broken down into Segments of Operations (Lines of Business) *

EBITDA (PLN m)	2017	2018	2019	2020	2021	Change in % (2021 / 2020)	Change (2021 - 2020)
Mining	(83)	(90)	(500)	(157)	(130)	83%	27
Generation	537	731	438	344	1 375	400%	1 031
RES			368	297	376	127%	79
Distribution	2 283	2 466	2 606	3 023	2 967	98%	(56)
Supply	841	372	429	683	(524)	-	(1 207)
Other operations	118	135	136	229	208	91%	(21)
Unallocated items	(78)	(122)	(56)	(193)	(120)	62%	73
Discontinued operations	3 618	3 492	3 599	4 226	4 152	98%	-74
Total EBITDA	3 337	3 618	3 492	3 599	4 223	117%	624

* The values presented for the years 2017-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments that took place in 2020, i.e. the spinning off of the RES Segment from the Generation Segment and the presentation of the TAURON Ciepło data as part of the discontinued operations.

The below figure presents the structure of TAURON Capital Group's EBITDA in 2017-2021.

Figure no. 75. Structure of TAURON Capital Group's EBITDA in 2017-2021



Key information for 2017-2021 by Segments

The below figures present the 2017 - 2021 financial data by Segments of Operations (Lines of Business).

Figure no. 766. Mining Segment's 2017 - 2021 data

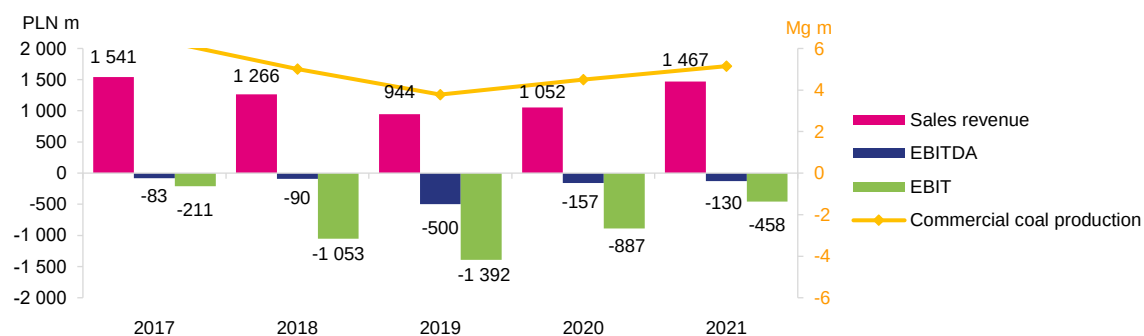


Figure no. 77. Generation Segment's and RES Segment's 2017 - 2021 data

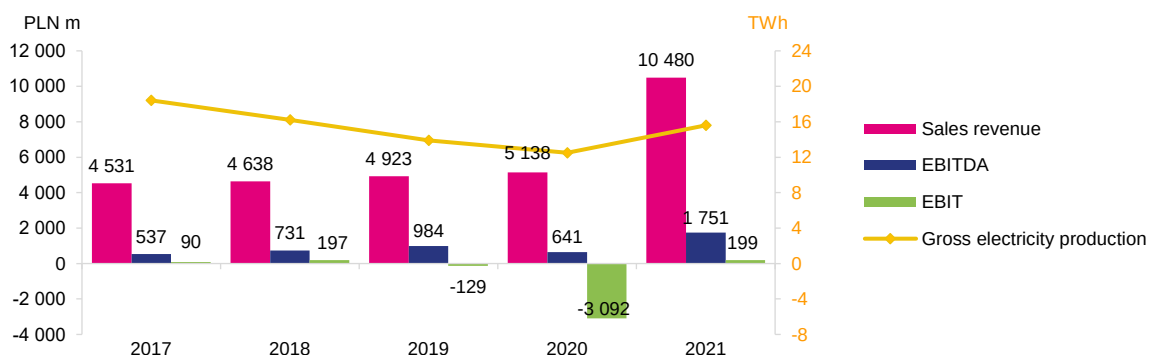


Figure no. 788. Distribution Segment's 2017 - 2021 data

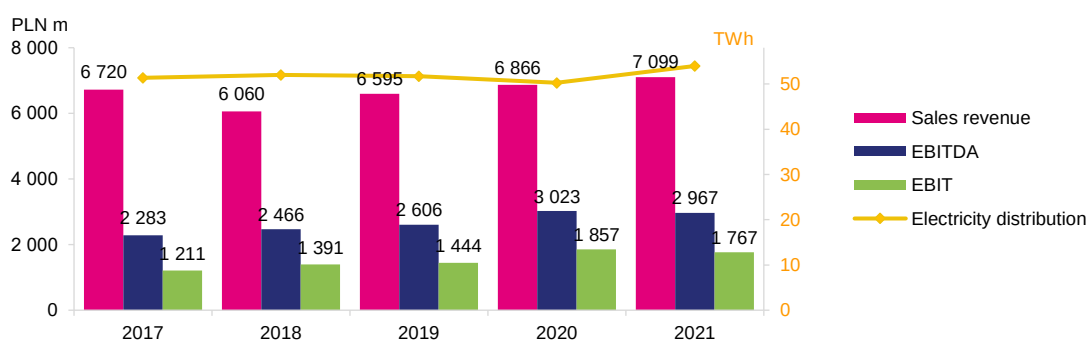


Figure no. 79. Supply Segment's 2017 - 2021 data

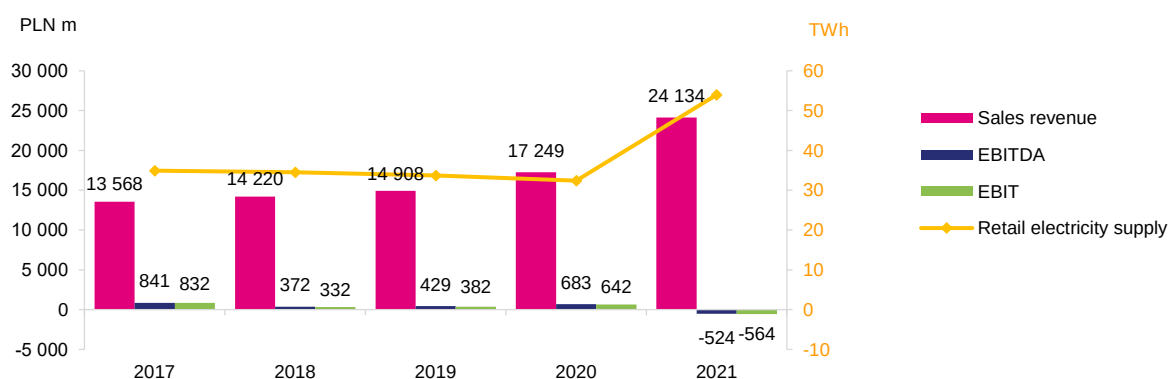
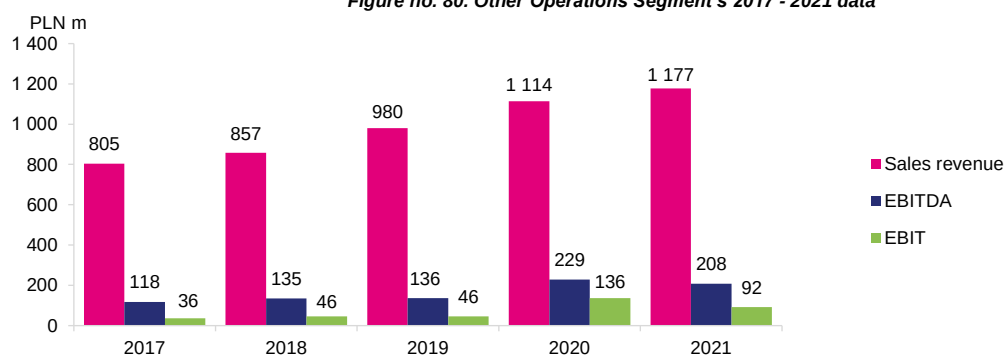


Figure no. 80. Other Operations Segment's 2017 - 2021 data



5.9. What we can expect in 2022

According to the forecasts for the global economy (Global Economic Prospects) published by the World Bank on January 11, 2022, the global GDP growth in the years 2021-2023 will come in at 5.5%, 4.1% and 3.2%, respectively. According to the World Bank, the growth of the world economy will slow down amid the continued COVID-19 pandemic, less fiscal stimulus for the economies and the persistent supply chain bottlenecks. Contrary to the developed economies, the economic growth in the developing countries will remain well below the pre-pandemic trend. The economic projections are characterized by the prevalence of the negative risks related to the new virus mutations, the possibility that the inflation expectations will not be anchored, as well as the fiscal tensions stemming from the rising debt levels. This may result in the need to restructure the debt of some countries, which will be more difficult to achieve at present than in the pre-pandemic conditions.

According to the bank's analysts, in the developed economies, the growth rate in the years 2021-2023 will clock in at 5.0%, 3.8%, and 2.3%, respectively. In the case of the forecast for 2021, this represents a downward adjustment of 0.4 pp as compared to the previous forecast from June 2021. However, for the group of the emerging and developing economies, the World Bank experts are forecasting the GDP growth rate of 6.3% in 2021, 4.6% in 2022 and 4.4% in 2023.

In the presented projections, the World Bank also updated the forecast for Poland's GDP. In its opinion, Poland's GDP growth rate forecast for 2021-2023 stands at 5.1%, 4.7%, and 3.4%, respectively. In the case of the forecast for 2021, this represents an upward revision of 1.3 pp as compared to the WB's earlier forecast from June last year.

The projection presented above does not take into account the current geopolitical turmoil and the armed conflict in Ukraine.

According to the forecasts of the National Bank of Poland (NBP) published as of March 11, 2022, the country's GDP growth rate will come in at 4.4% in 2022, and then it will slow down to 3% in 2023 and 2.7% in 2024. The presented forecasts are lower than those published in November 2021, when the NBP expected the economic growth rate in 2022 and 2023 to stand at the level of 4.9%. The Central Bank is pointing out that "the impact of the Russian armed aggression against Ukraine and the sanctions imposed on Russia will affect the trajectory of the economic growth in various directions. In the short term, the positive impact of the rising expenditures related to the increased inflow of the immigrants from Ukraine on the domestic GDP growth rate may prevail. In the longer outlook of the projection, the disruptions in the foreign trade and the increased volatility of the commodity prices on the world markets will have a more significant impact, leading to a downward revision of the forecast for the economic activity".

The NBP points to a material risk of a further exacerbation of the potential geopolitical tensions or the sanctions related to Russia's military aggression against Ukraine, which, in its opinion, may lead to a further increase in the commodity prices and a curtailment of the inflow of the direct foreign investments to the entire region, including to Poland. An additional factor that could weaken the expected GDP growth may be a reduction in the current account balance through a decline in the exports and an increase in the import prices due to the changes of the conditions for the foreign trade. According to the NBP analysts, another factor that may undermine the GDP growth is the further postponement of the payments from the funds of the National Recovery Plan for Poland.

The additional information related to the forecasts for 2021 is presented in section 2.3. of this report.

5.10. Current and forecast financial and assets situation (financial and assets outlook)

Taking into account the current market situation, it is expected that the results of TAURON Capital Group in the coming years will be affected by both the external factors as well as by the actions taken inside the Group.

The results of the **Mining Segment** in the coming years will, to a large degree, be dependent on the progress in the implementation of the government solutions related to the transition of the hard coal mining sector in Poland. Such solutions provide for the implementation of a system of subsidies to reduce the production capacity of the coal

mines, which, in combination with the growing demand and the rising prices of the raw materials (commodities) on the global markets, point to an improvement in the Segment's results in the short and medium term.

In the **Generation Segment**, due to the growing demand for electricity (a rebound following the pandemic), the production has gone up and is likely to remain at the elevated 2021 level in spite of a significant rise in the electricity prices on the market. Thanks to the high electricity prices, TAURON Ciepło's cogeneration units are in a good shape and the forecasts for them look sound too. The ultimate integration solutions within the National Energy Security Agency (NABE) will have the greatest impact on the outlook for the assets and the earnings with respect to the coal based electricity generation. The efforts in this regard are highly advanced at TAURON Capital Group.

It is expected that the financial results of the **RES Segment** will be stable in the coming years, with a growth outlook thanks to the rising wholesale electricity prices. In the short term, a further expansion of the RES Segment will be focused on the investments in the photovoltaic farms and the onshore wind farms. TAURON is prepared to accelerate the growth of the wind energy, provided that the regulations restricting the locations (sites) of the farms (10H) are liberalized. For both technologies, obtaining of the DSO grid connection conditions is a headwind. In the long term, the development of the offshore wind farms is also planned.

The **Distribution Segment** is and will be a stable source of the revenue for TAURON Capital Group. However, the rapid growth of the distributed sources and electromobility requires the substantial capital expenditures. The investments in this segment are an important element of the utilization of the electricity from the renewable energy sources (RES) and therefore should be supported by the Regulator and the aid funds.

The loss of the **Supply Segment**, reported in 2021, resulted from the sharp surge of the prices on the wholesale electricity and gas market as well as from the tariffs for the households approved by the President of the ERO. The turmoil on the gas market will be particularly severe this year. In the medium term, however, we are forecasting a stabilization and the Segment's return to the positive results. We are assuming a continuation of the value growth model based on the customer relationships and the resale of the additional products and services in connection with the supply of the utilities (electricity / gas).

Other operations: the main consumers of the shared services provided include, first and foremost, the Distribution Segment and the Supply Segment, for which the projects with respect to customer service are implemented and finalized, while at the same ensuring the highest quality of service. In addition, the services for TAURON Capital Group's subsidiaries are provided, with respect to, among others, financial and accounting services, human resources (HR) and payroll services, IT services, property security services, fleet management services and the real estate management services. Such activities enable achieving synergy effects across TAURON Capital Group and bring the cost efficiency improvements.

5.11. Principles of preparing annual consolidated financial statements

The Consolidated financial statements of TAURON Capital Group have been drawn up in accordance with the IFRS approved by the EU.

The IFRS comprise standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretations Committee.

TAURON Capital Group's subsidiaries and the parent entity keep their accounting books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy that is preparing the financial statements in accordance with the accounting principles applicable in the Czech Republic and the companies TEC1, TEC2, TEC 3, AVAL-1, WIND T1 and the limited partnerships listed in section 1.3.1 of this report, that are keeping their books and preparing their financial statements in accordance with the *Act of September 24, 1994, on accounting*.

The consolidated financial statements contain adjustments which are not included in the ledgers of TAURON Capital Group's entities, introduced in order to bring the consolidated statements into compliance with IFRS.

The Consolidated financial statements of TAURON Capital Group have been drawn up with the assumption of the continuation of business operations by TAURON Capital Group's subsidiaries in the foreseeable future, i.e. over the time frame not shorter than 1 year from the balance sheet date. As of the date of approval of the Consolidated financial statements of TAURON Capital Group for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON Capital Group's subsidiaries.

The accounting principles (policy) adopted for drawing up of the Consolidated financial statements of TAURON Capital Group are presented in note 6 to the Consolidated financial statements of TAURON Capital Group.

6. INFORMATION ON THE AUDIT FIRM

On November 23, 2018, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyt Polska) to conduct an audit of the financial statements and the consolidated financial statements of TAURON for the years 2019-2021. On January 11, 2019, TAURON concluded an agreement with Ernst & Young Audyt Polska and the subject of the agreement covered:

1. audit of the financial statements of the Company for the years 2019-2021, drawn up in accordance with the requirements of the IFRS,
2. audit of the financial statements of selected subsidiaries of TAURON Capital Group for the years 2019-2021, drawn up in accordance with the IFRS,
3. audit of the consolidated financial statements for the years 2019-2021, drawn up in accordance with the IFRS,
4. review of the interim, half year financial statements of the Company, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS,
5. review of the interim, half year consolidated financial statements, required by the WSE, for the periods ended on June 30, 2019, June 30, 2020 and June 30, 2021, drawn up in accordance with the requirements of the IFRS.

In addition, in accordance with the agreement, TAURON may exercise the option to commission other permitted services including: verification of the interim, half-year and annual consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021, required to prepare the consolidated financial statements and to carry out in 2020 and 2021 the agreed procedures regarding the verification of the subsidiary's report on the update of the Regulatory Asset Base (RAB) and the Regulatory Asset Base for the AMI System (AMI RAB) for the purpose of determining a justified return on capital employed by the President of the Energy Regulatory Office (ERO) for the years 2021 and 2022.

In connection with the changes in the organization of TAURON Capital Group that took place last year and were described in the report for the year 2019, resulting in the need to include additional subsidiaries in the consolidated financial statements, on December 5, 2019, TAURON concluded, with Ernst & Young Audyt Polska, Amendment No. 1 to the agreement of January 11, 2019, under which the option to commission other permitted services in the form of the verification of the annual and interim, half-year consolidation packages of selected subsidiaries of TAURON Capital Group for the years 2019-2021 was extended to include additional companies covered by the consolidated financial statements of TAURON Capital Group.

Prior to 2019 the services provided for the Company by Ernst & Young Audyt Polska had included the audit of the standalone financial statements and consolidated financial statements of the Company for the years from 2008 until 2012 and the years from 2017 to 2018 as well as the reviews of the interim, half year standalone financial statements and the consolidated financial statements of the Company for the periods ended on June 30 in the individual years from 2010 until 2012 and from 2017 to 2018. The Company had also used, prior to 2018, the advisory and training services provided by Ernst & Young Audyt Polska, to the extent in line with the legal regulations in force and not leading to the curtailment of the level of impartiality and independence of the auditor.

On November 9, 2021 the Supervisory Board of the Company, taking into account the recommendation of the Audit Committee, selected audit firm Ernst & Young Audyt Polska to carry out examination and review of the financial statements and consolidated financial statements of TAURON for the years 2022-2024. In connection with the above, in February 2022 (event after balance sheet date) TAURON signed agreement with Ernst & Young Audyt Polska for examination and review of financial statements and consolidated financial statements of TAURON for the years 2022-2024.

The compensation of the audit firm for the services provided for TAURON Capital Group's companies is presented in the below table.

Table no. 50. Compensation of the audit firm for the services provided for TAURON Capital Group's companies

Services provided for TAURON Capital Group's companies	Year ended on December 31, 2021 (PLN '000)	Year ended on December 31, 2020 (PLN '000)
1. Mandatory audit, including:	1 378	1 323
1) consolidated financial statements	179	147
2) standalone financial statements of the parent entity	175	175
3) standalone financial statements of the subsidiaries	1 024	996

Services provided for TAURON Capital Group's companies	Year ended on December 31, 2021 (PLN '000)	Year ended on December 31, 2020 (PLN '000)
2. Other certifying services provided to TAURON Capital Group, including reviews of financial statements and assessment of annual report of the Supervisory Board on remunerations	1 077	937
3. Tax advisory services	0	0
4. Other services (including training) provided for TAURON Capital Group	0	0
Total	2 455	2 260

7. FINANCIAL RESOURCES AND INSTRUMENTS

7.1. Proceeds from security issues

The Company did not issue any securities in 2021.

7.2. Financial instruments

Application of the financial instruments in order to eliminate price changes, credit risk, material disruptions of cash flows and loss of financial liquidity

The financial risk at TAURON Capital Group is managed by TAURON. The centralizing of the financial risk management function is aimed at optimizing the process, including minimizing TAURON's and TAURON Capital Group's costs in the above mentioned respect. As part of the financial risk management in 2021 TAURON Capital Group continued to hedge the risk of volatility of the cash flows resulting from its debt based on the WIBOR reference rate by entering into the interest rate swap (IRS) hedging transactions.

Moreover, in 2021 TAURON hedged its FX exposure arising from the trading operations (mainly due to the purchase of the CO₂ emission allowances) by concluding the forward contracts. In 2021 TAURON was also continuing the strategy of hedging its foreign currency exposure generated by the interest payments on the financing obtained in EUR by concluding the forward contracts. The goal of such transactions was to hedge against the risk of cash flow volatility resulting from the FX rate fluctuations.

With respect to hedging the credit risk, TAURON Capital Group did not use any financial instruments.

As part of the efforts aimed at eliminating the price risk (loss of margin), the contracting of the electricity sales is followed by the contracting of the CO₂ emission allowances. Such a method of hedging the positions allows for minimizing the risk of the CO₂ costs not being covered by the contracted electricity price. The basis for determining the CO₂ sales price for the emission allowances volume defined this way is the CO₂ price on the exchange from the time when the CO₂ volume is contracted.

On the other hand, as part of the liquidity loss risk management, the instruments referred to in section 7.3 of this report are used.

Objectives and methods of financial risk management

The detailed information on the objectives and methods of the financial risk management at TAURON and TAURON Capital Group is presented in section 3.3 of this report.

7.3. Assessment of financial resources management

TAURON is conducting centralized financial management policy and as a result of that effective management of the finances of entire TAURON Capital Group is possible. The main tools enabling effective management include adequate internal corporate regulations as well as the *cash pool* service and the intra-Group loans. In addition, the adopted financial management model is supported by the central policy with respect to TAURON Capital Group's financial risk management and the central Insurance policy of TAURON Capital Group. In these areas the Company is performing the function of the management body (manager) and the decision maker with respect to the directions of the measures undertaken, enabling the setting of the relevant limits of the risk exposure.

In accordance with the adopted financing policy the Company is responsible for acquiring the financing for TAURON Capital Group's subsidiaries. The funds acquired both internally (from TAURON Capital Group's subsidiaries generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to TAURON Capital Group's subsidiaries that are reporting the need for the financing.

The conducted policy of acquiring the funding sources enables, first of all, to increase the possibility of obtaining the financing for the general corporate purposes and capital expenditures (CAPEX), decrease the cost of the external capital, curtail the establishing of the number and form of the collaterals (pledges) on the assets of TAURON Capital Group as well as the covenants required by the financial institutions, and also leads to the reduction of the administrative (overhead) costs. The central corporate financing model also enables acquiring the funding sources that are not available for the individual subsidiaries. The Company is also considering implementing the method of acquiring funding using the project finance formula with respect to the RES projects. The Company has an option to exclude the financing obtained by TAURON's selected special purpose vehicles (SPV) for the implementation of the RES investment projects from the net debt / EBITDA ratio. In case of the project finance solutions, the funds will be obtained directly by the companies implementing the investment projects in the field of renewable energy sources (RES) in cooperation with TAURON - TAURON will be performing the arrangement (organizational) functions. The above mentioned action should enable greater use of debt financing as part of the green turn strategy implemented by TAURON.

Another key element impacting the financial management efficiency is the financial liquidity management policy, implemented, among others, through the determination of the liquidity position and implementation of the liquidity controlling processes. TAURON Capital Group manages cash flows efficiently, maintains adequate liquidity of TAURON Capital Group by optimizing the level of expenses and cash balances at the subsidiaries. The above mentioned activities lead to improving the selection of the moment of fund raising and determining the maturity date, as well as maintaining an adequate level of the liquidity reserve, and also cause the reduction of the financial costs.

In order to optimize TAURON Capital Group's financial liquidity management and the decision making processes, in particular with regard to the total working capital and approving the liquidity position of TAURON Capital Group's subsidiaries for the given year, as well as for the purpose of the ongoing monitoring and developing the management guidelines for the subsidiaries, the Liquidity Committee is in place at TAURON Capital Group.

The liquidity management is supported by the implemented *cash pool* mechanism. Its overarching goal is to ensure TAURON Capital Group's ongoing financial liquidity, while at the same time curbing the costs of the short term external financing and minimizing the financial costs related to maintaining cash surpluses on the bank accounts. Owing to the functioning of the *cash pool* structure TAURON Capital Group's subsidiaries, facing short term funding deficits, may use the funds of the subsidiaries generating the financial surpluses, without the need to acquire the external financing.

Both, the financing policy, as well as TAURON Capital Group's liquidity management policy conducted by TAURON are aimed, apart from increasing the efficiency of managing TAURON Capital Group's finances, first of all, at eliminating threats of curtailment or loss of TAURON Capital Group's financial liquidity. The guaranteed sources of the financing, obtained with an adequate lead time, effectively eliminate the risk of TAURON Capital Group losing its liquidity. The Company is pursuing a policy of diversifying the financing instruments, but, first and foremost, it is seeking to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet the current and future liabilities in the short and long term.

In addition, TAURON Capital Group has dedicated agreements in place to provide the collateral for the liabilities towards IRGiT (Warsaw Commodity Exchange Clearing House) and the bank guarantee programs, under which it is possible to issue guarantees to provide the collateral (pledges) for the liabilities of TAURON Capital Group's subsidiaries within the centralized bank limits. The above mentioned measure curtailed the costs of the guarantees acquired and curbed the formal actions required to obtain a guarantee.

In 2021 the Company and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.

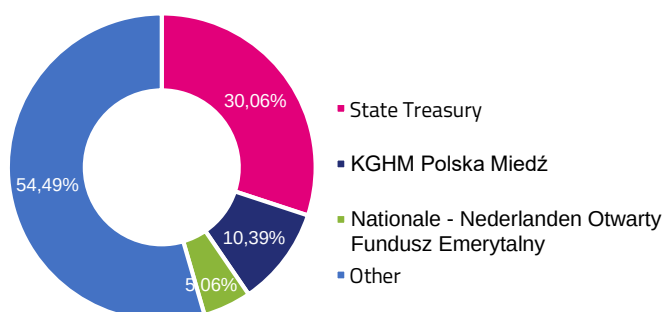
8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

8.1. Shareholding structure

As of December 31, 2021, and as of the date of drawing up this report the Company's share capital, in accordance with an entry in the National Court Register, stood at PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered ordinary BB series shares, which, as of March 1, 2021, were dematerialized under the *Act of August 30, 2019, on amending the Act - Code of Commercial Companies and certain other acts* (Journal of Laws of 2019, item 1798, as amended acc. to Journal of Laws of 2020, item 875).

The below figure presents the shareholding structure as of December 31, 2021 and as of the date of drawing up this report.

Figure no. 81. Shareholding structure as of December 31, 2021 and as of the date of drawing up this report



The detailed information regarding the shareholding structure (composition) is presented in section 9.4. of this report.

8.2. Dividend policy

As part of its Strategy adopted on September 2, 2016 the Company adopted its dividend policy. In the long term TAURON is planning to pay out a dividend of minimum 40 percent of the consolidated net profit. The Company's intention is to provide a dividend yield that would be competitive versus the yield offered by long term debt instruments issued on the Polish market by investment grade rated companies. The final recommendation on the dividend will be impacted by the additional factors, including in particular:

1. TAURON Capital Group's liquidity position,
2. market situation,
3. implementation of the investment policy,
4. cost and ability to obtain financing,
5. legal requirements and provisions of the financing agreements, in particular related to not breaching the defined level of the leverage ratio,
6. ensuring investment grade rating.

The dividend was last time paid out by the Company in 2015, in the amount of PLN 262 882 409.10 for the financial year 2014. Starting from 2015, the Company has not paid out any dividend.

On May 24, 2021, the Ordinary General Meeting (GM) of the Company passed a resolution to cover the loss for the financial year 2020 from the supplementary capital of the Company.

8.3. Number and nominal value of TAURON Polska Energia S.A.'s shares, as well as of the shares in the related units, held by the Members of the Management Board and the Supervisory Board

The below table presents the Company's shares held by the Members of the Company's Management Board as of December 31, 2021.

Table no. 51. Company's shares held by the Members of the Company's Management Board as of December 31, 2021

First name and last name	Date of appointment to the Management Board of the Company	Number of the Company's shares held	Nominal value of the Company's shares held
1. Artur Michałowski	05.08.2021	0	0
2. Patryk Demski	05.08.2021	0	0
3. Krzysztof Surma	05.08.2021	10 000	PLN 50 000
4. Jerzy Topolski	15.07.2020	0	0

The below table presents the Company's shares held by the Members of the Company's Management Board as of the date of drawing up this report.

Table no. 52. Company's shares held by the Members of the Company's Management Board as of the date of drawing up this report

First name and last name	Date of appointment to the Management Board of the Company	Number of the Company's shares held	Nominal value of the Company's shares held
1. Artur Michałowski	05.08.2021	0	0
2. Patryk Demski	05.08.2021	0	0
3. Krzysztof Surma	05.08.2021	10 000	PLN 50 000
4. Jerzy Topolski	15.07.2020	0	0
5. Artur Warzocha	21.01.2022	0	0

As of December 31, 2020, and as of the date of drawing up this report, the Members of the Management Board of the Company did not hold any shares in the units related to the Company.

As of December 31, 2020, and as of the date of drawing up this report, the Members of the Supervisory Board of the Company did not hold any TAURON shares or any shares in the units related to the Company

8.4. Agreements related to potential changes to the shareholding structure

The Company has no information on the existence of agreements (including also the agreements concluded past the balance sheet date), as a result of which changes in the proportions of shares held by the existing shareholders and bondholders may occur in the future.

8.5. Share buybacks

Acquiring the shares in TAURON Dystrybucja

In 2021 and by the date of drawing up this report, TAURON Dystrybucja subsidiary purchased for redemption 1 150 964 own shares in total, with an aggregate nominal value of PLN 23 019.28 which rounds up to 0.004% of the Company's share capital. These shares were purchased at a gross price of PLN 0.45 per share.

Taking into account art. 418¹, § 4 of the Code of Commercial Companies, the Management Board of TAURON Dystrybucja took steps to redeem its own shares purchased from the minority shareholders, i.e.:

1. On March 30, 2021, the Management Board of TAURON Dystrybucja adopted the resolutions on the redemption of the company's shares purchased by the company from the shareholders representing no more than 5% of the share capital and the lowering of the company's share capital as well as the amendments to the company's articles of association. The company's management board decided to lower the company's share capital from PLN 560 575 920.52 by PLN 86 186.00, i.e. to PLN 560 489 734.52. On May 21, 2021, the District Court for Kraków-Śródmieście in Kraków, the 11th Commercial Department of the National Court Register, registered the lowering of the share capital of TAURON Dystrybucja.
2. On January 11, 2021, the Management Board of TAURON Dystrybucja adopted the resolutions on the redemption of the company's shares purchased by the company from the shareholders representing no more than 5% of the share capital and the lowering of the company's share capital as well as the amendments to the company's articles of association. The company's management board decided to lower the company's share capital from PLN 560 489 734.52 by PLN 9 613.90, i.e. to PLN 560 480 120.62. As of the date of drawing up this report the lowering of the Company's share capital has not been registered thus as of December 31, 2021 and as of the date of drawing up this report the Company held 480 695 own shares.

Acquiring the shares in TAURON Wytwarzanie

In 2021, TAURON Wytwarzanie subsidiary purchased for redemption 139 602 308 own shares in total, with an aggregate nominal value of PLN 1 396 023 080.00. These shares were purchased at a gross price of PLN 10.00 per share.

The share capital of TAURON Wytwarzanie was lowered by the amount of PLN 1 396 023 080.00, i.e. from the amount of PLN 1 502 259 310.00 to the amount of PLN 106 236 230.00, by amending the Company's Articles of Association by way of redeeming some of the shares owned by TAURON, in order to cover the net loss for the financial year 2020 and the net loss from the previous years in the total amount of PLN 1 396 023 076.75, the remaining amount of PLN 3.25 was transferred to the reserve capital. On December 20, 2021, the District Court Katowice-Wschód in Katowice, the 8th Commercial Department of the National Court Register registered the lowering of the share capital of TAURON Wytwarzanie.

TAURON is the sole shareholder of TAURON Wytwarzanie.

In 2021 and as of the date of drawing up this report, TAURON and other subsidiaries did not hold own shares.

8.6. Employee stock award programs

No employee stock award programs were implemented by the Company in 2021

8.7. Share price performance on the Warsaw Stock Exchange (WSE)

TAURON shares have been listed on the Main Market of the Warsaw Stock Exchange since June 30, 2010. TAURON share price fluctuated between PLN 2.447 and PLN 3.82 (at the closing prices) in 2021. During the last stock market session of 2021 the share price stood at PLN 2.654.

Despite the ongoing COVID-19 pandemic, the Polish economy returned to the growth path in the second quarter of 2021, after recording four quarters of the GDP declines. In the second quarter of 2021, Poland's GDP went up by 1.9%, in the third quarter by 2.1%, and in the fourth quarter by 1.7%, which translated into a 5.7% economic rebound in the entire 2021.

The sentiment on the majority of the world's stock exchanges was very bullish in 2021, which was mainly a consequence of the monetary stimulation by the central banks, the government support programs and the rebound of the economy. On the other hand, the markets were grappling with the rising inflation and interest rate hikes.

The sentiment on the Polish capital market was also very bullish, which meant a reversal of the trends prevailing in 2020 - the WIG index went up by 21.52% in 2021, while the WIG20 climbed 14.26%. The WIG-Energia index, grouping the companies operating in the energy sector, posted an 18.35 percent growth.

The price performance of TAURON shares and the shares of the entire energy sector were impacted in 2021, in addition to the above mentioned macroeconomic trends, by the information on the transition of the electricity sector that envisages the spinning off of the hard coal and lignite based generation assets from the energy groups and the transfer thereof to NABE (The National Energy Security Agency), as well as the information on the scope of the hard coal mining sector transition program, including the planned sale of the coal mines operating as part of TAURON Capital Group to the State Treasury

As of December 31, 2021 TAURON shares were included in the following stock exchange indices:

1. **WIG** – an index that includes all companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in WIG: 0.8345%,
2. **WIG-Poland** – a national index that groups solely shares of domestic companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in WIG-Poland index: 0.8703%,
3. **WIG20** – an index calculated on the basis of the value of the portfolio of the shares of 20 largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG20 index: 1.2939%,
4. **WIG30** – an index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in WIG30 index: 1.1985%,
5. **WIG-Energia** – a sector based index that comprises companies included in the WIG index and are also qualified to the energy sector. TAURON's share in WIG-Energia: 19.7668%,
6. **WIG-ESG** – an index that includes the shares of companies considered as socially responsible, i.e. those that comply with the principles of corporate social responsibility, in particular with respect to the environmental, social, economic and corporate governance issues. TAURON's share in WIG-ESG: 0.7115%.

The below table presents the key data on the Company's shares price performance in 2011-2021.

Table no. 53. Key data on the Company's shares in 2011-2021

Year	Share price high (PLN)	Share price low (PLN)	Last share price (PLN)	Market capitalization at the end of the period (PLN m)	Market capitalization at the end of the period (%)	Book value (PLN m)	Price / Earnings
2011	6.81	4.65	5.35	9 376	2.1	15 922	8.1
2012	5.61	4.08	4.75	8 325	1.59	16 839	5.5
2013	5.39	3.85	4.37	7 659	1.29	17 675	5.5
2014	5.69	4.04	5.05	8 850	1.5	18 107	7.8
2015	5.29	2.37	2.88	5 047	0.98	18 837	4.2
2016	3.19	2.31	2.85	4 995	0.9	16 349	-
2017	4.12	2.75	3.05	5 345	0.8	17 880	3.02
2018	3.28	1.67	2.19	3 838	0.66	18 967	3.7
2019	2.44	1.43	1.64	2 874	0.52	19 168	13.9
2020	3.26	0.82	2.72	4 770	0.89	18 071	-
2021	3.82	2.495	2.654	4 651	0.66	16 497	-
Year	Price / Book Value	Rate of return ytd* (%)	Dividend yield (%)	Trading volume (PLN m)	Trading volume share (%)	Average volume per session (pcs)	Average number of transactions per session (pcs)
2011	0.59	-16.73	2.8	5 575	2.21	3 721 539	1 373
2012	0.49	-5.03	6.5	3 199	1.7	2 667 725	960
2013	0.43	-3.64	4.6	3 104	1.41	2 793 020	1 022
2014	0.49	20.07	3.8	3 135	1.53	2 489 329	1 106
2015	0.27	-40.78	5.2	3 063	1.5	3 190 195	1 431
2016	0.31	-1.04	-	3 199	1.69	4 662 087	1 465
2017	0.31	7.02	-	2 737	1.16	3 261 765	1 323
2018	0.2	-28.2	-	3 104	1.52	5 622 737	1 769
2019	0.15	-25.11	-	2 001	1.04	4 508 965	1 699
2020	0.26	65.98	-	3 233	1.09	6 807 622	2 523
2021	0.28	-2.50	-	3 015	0.96	3 883 666	2 167

*Rate of return calculated taking into account the investor's income from the dividend and assuming that the additional income realized is re-invested. Methodology in accordance with Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

Source: Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

The below graphs present the historical TAURON share price performance and trading volumes, including against the backdrop of the WIG20 and WIG-Energia indices.

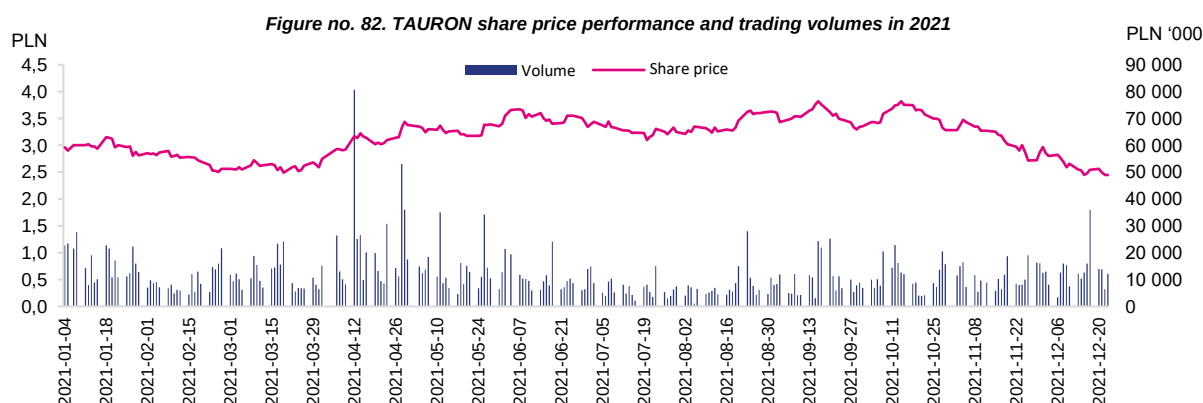


Figure no. 83. TAURON share price and trading volumes since the market debut until December 31, 2021

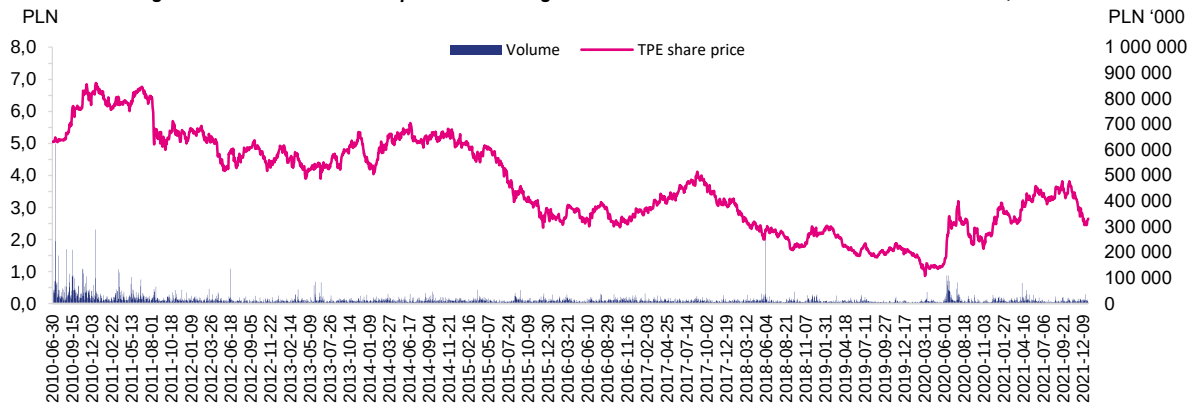
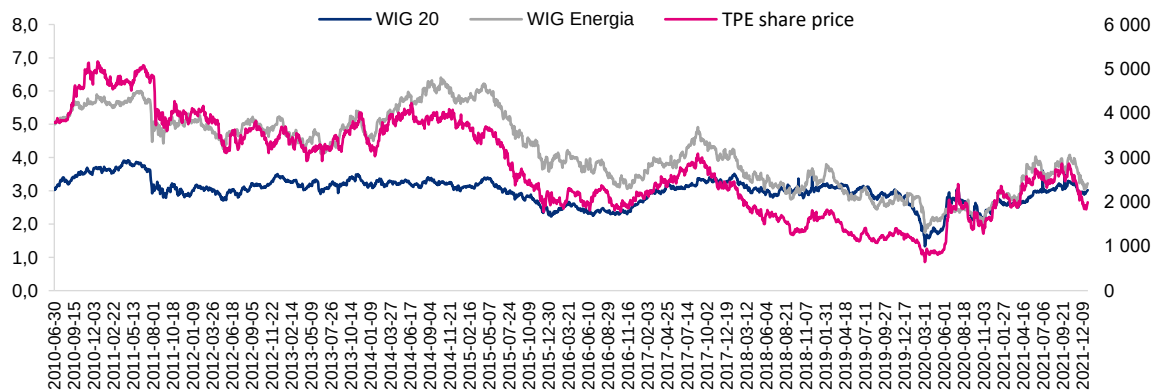


Figure no. 84. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2021



Analysts from brokerage houses and investment banks issued, in total, 18 recommendations for TAURON shares in 2021, including:



8

"buy" recommendations



3

"hold" recommendations



2

"sell" recommendations

The below table presents a list of recommendations issued in 2021.

Table no. 54. Recommendations issued in 2021

Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
28.01.2021	Santander BM	Buy / PLN 5.50
26.02.2021	Citi	Buy / PLN 3.10
23.04.2021	DM PKO BP	Buy / PLN 4.10
26.04.2021	TRIGON DM	Buy / PLN 3.60
27.04.2021	Societe Generale	Buy / PLN 4.10
18.05.2021	Erste Securities	Buy / PLN 4.20
20.07.2021	TRIGON DM	Buy / PLN 3.90
21.10.2021	TRIGON DM	Hold / PLN 3.80
26.10.2021	Societe Generale	Hold / PLN 4.10
17.11.2021	Santander BM	Buy / PLN 6.00
5.12.2021	DM BOŚ	Hold / PLN 3.13

Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
7.12.2021	Ipopema	Sell / PLN 2.22
9.12.2021	TRIGON DM	Sell / PLN 2.30

8.8. Investor relations

Transparent, accurate and regular communications is the foundation of TAURON's investor relations (IR) program. It is taking place not only in the form of the mandatory activities required by law, i.e. by disclosing the information in the current and periodic regulatory filings (current reports) for example, but it is also supplemented via a number of additional activities and tools addressed directly to all of the stakeholders. As a consequence, the high quality communications leads to the higher level of trust among the investors, financing institutions and business partners. Building the relationships with the investors is based on both implementing the best practices used around the world as well as setting the highest standards on the Polish capital market.

Analysts, journalists and shareholders had access to a wide spectrum of the information on TAURON Capital Group in 2021, using various communications tools. Due to the epidemic related restrictions, the meetings with the journalists, investors and analysts were held online.

In connection with the publication of the periodic reports, the Company was organizing the earnings conferences for investors and analysts, each time attended by several dozen representatives of the capital markets and media. Such events were simultaneously interpreted into English. It was also possible to follow (replay) them at a later date. As a result, all of the interested parties were guaranteed equal access to the information. In addition, the Company organized three chats with the representatives of the Management Board, dedicated to the individual (retail) investors.

Apart from the meetings accompanying the publication of the periodic reports, the Members of the Management Board and the representatives of the Investor Relations Team took part in several conferences in 2021, during which several dozen meetings with the investment fund managers and the capital market analysts were held. During the meetings with the investors, the Members of TAURON's Management Board and the key managers were presenting TAURON Capital Group's strategy, discussing the key capex projects, the financial situation as well as the current standing and the outlook for the energy sector.

In 2021, similar as in the previous years, TAURON also participated in the events addressed to the individual (retail) investors. The Company was, inter alia, a strategic partner of the "WallStreet" conference organized by the Individual Investors Association (Stowarzyszenie Inwestorów Indywidualnych).

In connection with the growing importance of the online channels and the social media, the Company is placing a lot of weight on the development thereof with respect to the communications with the investors. The broadcasts of events that are important for the investors are provided via the YouTube service, for example, the earnings conferences or the General Meetings. TAURON also has a corporate profile on Twitter where entries related to, among others, the investor relations are posted. Being aware of the fact that the website is a significant source of information for the investors, in particular, the Investor Relations tab; the Company takes cares of its content and the validity of the content provided therein. The Investor Relations section contains a lot of useful information on both the current events as well as the planned ones, the financial results or TAURON Capital Group's strategy. It also provides presentations and the video broadcasts of the conferences summarizing the financial results.

The activities with respect to the investor relations are regularly appreciated by the capital market participants and investors.

The detailed information on the awards and accolades (honorable mentions) received by TAURON and TAURON Capital Group's subsidiaries is presented in section 2.7. of this report.

The below table presents a timeline of the investor relations highlights (events) and activities that took place in 2021.

Table no. 55. Timeline of the investor relations events and activities that took place in 2021

Date	Event
26.01.2021	Participation in the Top Ideas conference, BM PKO BP
17.03.2021	Participation in the CEE Capital Markets conference, BM PKO BP
31.03.2021	Full year 2020 standalone and consolidated earnings reports published
01.04.2021	Video conference for the analysts, fund managers and the media to present the FY 2020 financial results
01.04.2020	Chat for the individual investors as part of cooperation with the Individual Investors Association.

Date	Event
19.05.2021	Q1 2021 consolidated earnings report published
20.05.2021	Video conference for the analysts, fund managers and the media to present the Q1 2021 financial results
24.05.2021	Company's Ordinary General Meeting.
06.09.2021	Pekao Investment Banking Participation in the 18th Annual Emerging Europe Investment Conference, Pekao Investment Banking
15.09.2021	H1 2021 consolidated earnings report published
16.09.2021	Video conference for the analysts, fund managers and the media to present the H1 2021 financial results
16.09.2021	Chat for the individual investors as part of cooperation with the Individual Investors Association
23.09.2021	Participation in the CEE Metals & Energy conference, BM PKO BP
06.10.2021	Participation in The Finest CEElection 2021 conference, Erste Group
17.11.2021	Q3 2021 consolidated earnings report published
18.11.2021	Video conference for the analysts, fund managers and the media to present the Q3 2021 financial results
18.11.2021	Chat for the individual investors as part of cooperation with the Individual Investors Association
9.12.2021	Participation in the WOOD's Winter Wonderland - Emerging Europe Conference, WOOD & Company

9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 70, clause 6, sub-clause 5) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic (interim) information disclosed by the issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a non-member state (i.e. Journal of Laws of 2018, item 757), the Company's Management Board presents the statement on the application of corporate governance in 2021.

9.1. Applied set of corporate governance rules

The intention of the Company is to follow the best national, European and global practices with respect to corporate governance. The Company consistently strives to develop corporate governance, paying particular attention to strengthening the transparency of the Company's operations, improving the quality of the Company's communication with the investors and strengthening the protection of the shareholders' rights. The Supervisory Board and the Management Board of the Company are taking steps to ensure the broadest possible application by the Company of the principles provided in the Best Practices of the WSE Listed Companies.

In 2021 the Company was subject to the corporate governance rules, described in:

1. Best Practice of the WSE (GPW) Listed Companies 2016 (Best Practice 2016), adopted by the Supervisory Board of the WSE (GPW) in resolution no. 26/1413/2015 of October 13, 2015, which had come into force on January 1, 2016 and had been in effect until June 30, 2021,
2. Best Practice 2021, adopted by the Supervisory Board of the WSE (GPW) in resolution no. 13/1834/2021 of March 29, 2021, which came into force on January 1, 2021.

The text of the Best Practice 2016 document that the Company had been subject to until June 30, 2021, is available on the WSE (GPW) website at the address:

https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/DPSN2016GPW.pdf.

The text of the Best Practice 2021 document that the Company is subject to is published on the WSE (GPW) website at the address: <https://www.gpw.pl/dobre-praktyki> as well as on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

In accordance with the requirements of the WSE (GPW), on July 29, 2021, the Company published the *Information on the application by the Company of the principles contained in the Code of Best Practice for the WSE Listed Companies 2021* on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

Description of the Company's activities before July 1, 2021, aimed at preparing the Company for the application of the Best Practice 2021

In order to adapt the Company's operations as widely as possible to the principles contained in the Best Practice 2021, in the period before July 1, 2021, the Company had taken the following steps, which resulted in the amendments to the Company's internal corporate documents, in particular:

On April 30, 2021, the Supervisory Board of the Company approved the amendments to the Regulations of the Management Board introducing, among others:	1. The obligation for the Management Board to vote in an open ballot (unless otherwise provided for in the law), 2. A ban on taking up an additional professional activity by a Member of the Management Board, if the time devoted to such activity prevents him / her from reliably performing his / her duties in the Company, 3. A possibility (option) for a Member of the Management Board to demand an inclusion of his / her dissenting opinion in the minutes of the meeting of the Management Board.
On May 24, 2021, the General Meeting adopted an amendment to the Company's Articles of Association, which introduced, among others:	1. The obligation to meet the independence criterion by at least two members of the Supervisory Board, 2. The obligation to adopt resolutions by the Supervisory Board in an open ballot, subject to the provisions of the generally applicable law, 3. A possibility (option) to report a dissenting opinion to the minutes of the meeting by a member of the Supervisory Board voting against the resolution, 4. The obligation to adopt a resolution of the General Meeting authorizing the Management Board to take steps aimed at acquiring the shares to be redeemed, including specifying the terms of the purchase of the shares by the Company as well as ensuring that the rights of all of the shareholders are respected.
On May 24, 2021, the General Meeting adopted the amendments to the Regulations of the General Meeting of the Company aimed at:	1. Striving to ensure the diversity with respect to women and men in the composition (membership) of the Supervisory Board, 2. Changing the rules of convening and conducting the General Meetings, including ensuring the publicly available broadcasts of the General Meetings, 3. Introducing the obligation to specify in detail the issue price of the shares with the pre-emptive rights (rights issue) in the form of a resolution of the General Meeting, 4. Setting the deadline by which the draft resolutions of the General Meeting should be submitted by the Shareholders (3 days before prior to the General Meeting at the latest), 5. Establishing the rules for submitting the candidates for the members of the Supervisory Board, 6. Introducing the obligation to attach justifications (statements of reason) to the draft resolutions of the General Meeting related to the matters and decisions other than those of a procedural nature.

On July 27, 2021, the Supervisory Board adopted the amendments to the Regulations of the Supervisory Board, among others with respect to:

1. The provision that the members of the Supervisory Board should be able to devote the required amount of time to perform their duties,
2. The provision that the administrative and financial measures necessary to ensure the efficient functioning of the Supervisory Board should be adequately delegated,
3. The provision that the Chairperson of the Supervisory Board should not combine his / her function with managing the works of the Audit Committee operating as part of the Supervisory Board's activities.

Description of the manner in which the Company is applying the principles provided in the Best Practice 2021 with respect to the issues of the greatest importance to the shareholders

Compliance with the corporate governance rules constitutes an integral part of the Company's operations. The high standards in this respect are also important from the perspective of the shareholders. The Company presents the below information on the rules applied by the Company that, in the Company's opinion, are significant for the shareholders.

The rules related to the information policy and communications with the investors

Section 1 of the Best Practice 2021 sets out the rules for ensuring the proper communications with the stakeholders and conducting a transparent and reliable information policy.

The Company uses various channels of communications with the capital market participants. All of the information required by the law is posted and updated on an ongoing basis on the Company's website. The Company maintains ongoing contacts with the investors (institutional and individual) as well as the analysts from the brokerage houses and investment banks. The Company communicates with them at the conferences organized following the publication of every interim report, individual meetings organized at the request of the investors and analysts, and the regularly organized chats for the individual (retail) investors. The contact details for the investors along with the available telephone numbers and e-mail addresses, as well as a contact form (rule 1.1.), are provided on the website <https://www.tauron.pl/tauron/relacje-inwestorskie>.

The Company prepares and publishes, on the website <https://www.tauron.pl/tauron/relacje-inwestorskie>, the periodic (interim) reports containing the financial results as soon as possible following the end of the reporting period. In order to reduce the investors' uncertainty with respect to the Company's financial situation, the Company publishes the estimated financial results prior to the publication of the periodic (interim) reports (rule 1.2.).

The Company holds conferences for the investors, analysts and media representatives every time after the publication of the financial results. These conferences are made available online in real time to all of the interested parties. During the earnings conferences, the representatives of the Management Board of the Company present and comment on the financial results posted, the adopted strategy and the implementation thereof, as well as the most important events that have an impact on the operations of the Company and TAURON Capital Group, as well as the prospects for the future. During the meetings, the Management Board of the Company publicly provides explanations and answers to the questions asked (rule 1.6.).

Investors may submit their questions in writing, by phone, via e-mail or using the contact form available on the website <https://www.tauron.pl/tauron/relacje-inwestorskie/kontakt-dla-inwestorow/formularz>. The Company has adopted a Procedure for providing information on the Company and its subsidiaries for the purposes of the Investor Relations, along with an indication of the deadlines for completing the individual activities. The answers are provided immediately, and in the case of the issues that would require in-depth analyses / calculations, within 10 days (rule 1.7.).

The rules related to the General Meeting and the relations with the shareholders

Section 4 of the Best Practice 2021 sets out the rules for holding the General Meetings and other rules to encourage the shareholders to get involved in the Company's affairs.

Pursuant to the Regulations of the General Meeting, the Company shall determine the place and date, as well as the form of the General Meeting in a manner that would enable the participation of as many shareholders as possible (rule 4.2.).

The Company shall provide a publicly available broadcast, in real time, of the General Meeting, and the representatives of the media shall be allowed to attend the General Meetings (rule 4.3. and rule 4.4.).

In case the General Meeting is convened by an entity or authority other than the Management Board pursuant to the provisions of the Code of Commercial Companies, the Management Board shall take all of the required steps to convene, organize and conduct the General Meeting (rule 4.5.).

The draft resolutions of the General Meeting related to the issues and decisions other than those of a procedural nature shall include a justification (statement of reason), unless it results from the documentation presented to the General Meeting (rule 4.6.).

The Supervisory Board shall provide its opinion (feedback) on the draft resolutions to be put on the agenda of the General Meeting by the Management Board (rule 4.7.).

Shareholders may submit draft resolutions of the General Meeting on the issues put on the agenda of the General Meeting no later than 3 days prior to the General Meeting (rule 4.8.).

Pursuant to the Regulations of the General Meeting, the shareholders who intend to propose candidates for the members of the Supervisory Board should provide the Company with the justification of the candidates along with the professional CVs of the candidates and a complete set of materials related thereto, by the deadline that would enable the other shareholders to study them before the General Meeting is held and to make a decision on the appointment of a member of the Supervisory Board based on the adequate knowledge, but not later than 3 days prior to the General Meeting. The information received from the shareholders shall promptly be made available by the Company to the other shareholders in the manner specified in the announcement (notice) on the General Meeting for the provision of the documentation and the draft resolutions to be presented to the General Meeting. A shareholder proposing the candidates for the members of the Supervisory Board shall submit to the Company, along with the justification for the candidate, a statement of the candidate on the candidate's compliance or non-compliance with the independence criteria specified in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, as well as on the existence or non-existence of the actual and significant connections of this candidate with a shareholder holding at least 5% of the total number of votes in the Company (rule 4.9.).

The Members of the Management Board and of the Supervisory Board shall participate in the sessions of the General Meeting in a group of its representatives that would enable them to provide substantive answers to the questions asked during the General Meeting. The Members of the Management Board and of the Supervisory Board as well as the certified auditor of the Company shall, within the limits of their competences and to the extent required to evaluate the matter included in the agenda of the General Meeting, provide the participants of the Meeting with the explanations and information regarding the Company. The Management Board shall present to the participants of the Ordinary General Meeting the financial results of the Company and other material information contained in the financial statements subject to the approval by the General Meeting (rule 4.11.).

The resolution of the General Meeting on the issue of the shares with the subscription rights (rights issue) shall specify in detail the issue price or the mechanism for the determination thereof, or oblige the authorized body to determine it prior to the subscription right date, within the time that would enable making of the investment decision (rule 4.12.).

A resolution on a new issue of the shares with the exclusion of the pre-emptive rights, which at the same time grants the pre-emptive right to acquire the newly issued shares to the selected shareholders or other entities, may be adopted if at least the following conditions are met:

1. The Company has a rational, economically justified need to urgently raise capital or the issue of the shares is related to the rational, economically justified transactions, among others such deals as a merger with or an acquisition of another company, or the shares are to be taken up under the incentive program adopted by the Company,
2. people who will be entitled to the pre-emptive rights will be identified according to the objective general criteria,
3. the price of the shares to be taken up will be in a rational relation to the current price of the Company's shares or will be determined as a result of the market based book building process (rule 4.13.).

The rules on the conflict of interest and the related party transactions

Section 5 of the Best Practice 2021 sets out the procedures for managing a conflict of interest and concluding transactions with the related entities under such conditions when there is a possibility of a conflict of interest arising.

In accordance with the procedures implemented in the Company, no shareholder shall be privileged over the other shareholders in relation to the transactions with the related entities. This shall also be applicable to the transactions between the Company's shareholders and the entities that are a part of the Company's group (rule 5.3.).

The resolution of the General Meeting authorizing the Management Board of the Company to take steps aimed at acquiring the shares to be redeemed shall specify the conditions for the purchase of the shares by the Company (buy-back), while ensuring that the rights of all of the shareholders are respected (rule 5.4.).

In case the transaction of the Company with a related entity requires the approval (consent, clearance) of the Supervisory Board, prior to adopting a resolution on granting the approval, the Supervisory Board shall assess whether it is necessary to first consult an external entity that will carry out the valuation of the transaction and analyze its economic effects (rule 5.5.). On the other hand, if the conclusion of a transaction with a related entity requires the consent of the General Meeting, the Supervisory Board shall prepare an opinion on the legitimacy of concluding such a transaction and, in such a case, shall assess the need to consult an external entity referred to in the previous sentence (rule 5.6.).

In case the decision on the conclusion by the Company of a material transaction with a related entity is made by the General Meeting, prior to making such a decision, the Company shall provide all of the shareholders with access to the information required to assess the impact of this transaction on the Company's interest, including providing the opinion of the Supervisory Board referred to in rule 5.6. (rule 5.7.).

The Company publishes on its website a list of the material transactions with the related entities drawn up in accordance with Art. 90i of the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*:

<https://www.tauron.pl/tauron/relacje-inwestorskie/wykaz-istotnych-transakcji>.

9.2. Set of abandoned rules of corporate governance

Best Practice 2016

Until June 30, 2021, the Company had not applied the following detailed rules provided in the Best Practice 2016:

1. **IV.Z.2.** - the rule related to the provision of the publicly available broadcasts of the GM in real time.

The Company is monitoring, on an ongoing basis, the shareholding structure (composition) and in case changes take place that would justify the need to provide the publicly available broadcasts of the general meeting in real time, the Company will take relevant actions in order to provide the broadcast,

2. **VI.Z.1.** - the rule related to the construction of the incentive schemes in a way necessary, among others, to tie the level of compensation of the members of the Company's Management Board and the key managers to the actual long term financial standing of the Company and the long term shareholder value creation as well as the Company's stability.

This rule was not applied due to the compensation and bonus system applicable at TAURON in relation to the members of the Management Board of the Company and its key managers that envisages that the level of compensation will be tied to the financial situation of the Company within a one year perspective, in conjunction with the implementation of the strategic objectives

3. **VI.Z.2.** – the rule related to tying the compensation of the members of the Management Board and the key managers to the Company's long term business and financial goals. The period between the allocation of the options or other instruments linked to the Company's shares under the incentive scheme and the ability to exercise them should be not less than 2 years.

This rule was not applied due to the compensation and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers that does not envisage that the compensation should be tied to the instruments linked with the Company shares.

In 2021 the following detailed rules provided in the Best Practice 2016 did not apply to the Company:

1. **I.Z.1.10.** the rule related to posting the financial projections on the Company website - if the company took the decision to publish them - published at least in the last 5 years, including the information on the degree of the achievement thereof.

This rule did not apply to the Company due to the fact that the Company did not publish the financial forecasts,

2. **III.Z.6.** the rule stating that in case the Company has no separate internal audit function in its organization, the audit committee (or the supervisory board if it performs the functions of the audit committee) shall make an assessment on an annual basis whether such function needs to be separated.

That rule did not apply to the Company due to the fact that the Company had a separate internal audit unit within its organizational structure.

In 2021, the Company did not apply only the recommendation provided in the Best Practice 2016, designated as **IV.R.2.**, related to providing a possibility to the shareholders to participate in the GM using electronic communication means. The Company is monitoring, on an ongoing basis, changes in the shareholding structure (composition) that could affect the way the communication is conducted during the general meeting. In addition, if the Company receives requests from the shareholders to conduct a general meeting using the electronic means of communication, the Company will verify the technical possibilities that would ensure a safe conduct of the general meeting for the shareholders and the Company, and in the absence of any contraindications, the Company will take actions in accordance with this recommendation.

The other recommendations provided in the Best Practice 2016 were applied by the Company in 2021.

Information on the non-application of the rules provided in the Best Practice 2021

From the date of entry into force of the Best Practice 2021, i.e. from July 1, 2021, the Company did not apply the following rules provided in the Best Practice 2021:

1. **1.4.2.** – the rule related to the presentation of the value of the ratio expressing the equal compensation paid out to its employees, calculated as a percentage difference between the average monthly compensation of women and men for the last year and the information on the actions taken in order to eliminate any potential inequalities in this respect, including the presentation of the risks related thereto and the time horizon over which achieving of equality is planned.

This rule was not applied by the Company due to the fact that this ratio did not reflect the actual conditions for the possibility of employing women and men in the Company's selected lines of business.

2. 2.1. – the rule related to having a diversity policy in place with respect to the Management Board and the Supervisory Board, adopted by the Management Board or the Supervisory Board, respectively, defining the diversity goals and criteria, among others in terms of gender, education background, specialist knowledge, age and professional experience, as well as indicating the date and method of monitoring the achievement of such goals. In terms of the diversity with respect to gender the prerequisite for ensuring the diversity of the Company's authorities is the participation rate (share) of the minority in the given authority at a level of not less than 30%.

The Company has implemented TAURON Group's Diversity Policy, on the basis of which TAURON Capital Group applies the policy of equal treatment and strives to ensure diversity in terms of gender, education, age and professional experience for all employees. However, the Company does not have a diversity policy with respect to the Management Board and the Supervisory Board in terms of the minority share in the given authority at a level of not less than 30%, due to the adoption by the Company of the solutions in accordance with the *Act of December 16, 2016, on the principles of state assets management* regarding the appointment of the members of the Management Board following the conducting of the recruitment procedure aimed at checking and assessing the qualifications of the candidates and selecting the best candidate to be a member of the Management Board. In the case of appointing the members of the Supervisory Board, the minister competent to exercise the rights related to the rights attached to the shares of the State Treasury has the statutory power to appoint the majority of the members of the Supervisory Board.

3. 2.2. - the rule stating that the persons making the decisions on the appointment of the members of the Management Board or the Supervisory Board should ensure the versatility of these authorities by selecting as the members thereof the persons that would ensure the diversity, enabling, inter alia, achieving of the target minimum minority participation rate (share), set at a level of not less than 30%, in line with the goals set out in the adopted diversity policy referred to in rule 2.1.

The Company currently does not ensure a 30% diversity level with respect to women in the composition (membership) of the Management Board and the Supervisory Board. The General Meeting, having in mind the goal of ensuring the diversity with respect to women and men in the composition (membership) of the Supervisory Board, on May 24, 2021, adopted the amendments to the Regulations of the General Meeting of the Company, inter alia, by adding in § 24, sec. 5 with the following wording: "Persons making the decisions on the appointment of the members of the Supervisory Board should ensure the versatility of the authority by selecting as the members thereof the persons that would ensure the diversity, enabling, inter alia, achieving of the target minimum minority participation rate (share), set at a level of not less than 30%, in line with the goals set out in the diversity policy adopted by the Company". With regard to the appointment of the members of the Management Board, the Company does not meet the criteria of this rule, because the Company's organizational solutions in this respect must comply with the provisions of the *Act of December 16, 2016, on the principles of state assets management* regarding the appointment of the members of the Management Board following the conducting of the recruitment procedure aimed at checking and assessing the qualifications of the candidates and selecting the best candidate to be a Member of the Management Board.

4. 3.4. - the rule stating that the compensation of the persons responsible for the risk management and compliance as well as that of the head of the internal audit should depend on the performance of the tasks assigned, and not on the short term results of the company.

The variable part of the compensation of the persons responsible for the risk management and compliance as well as that of the head of the internal audit is partly dependent on the achievement of the individual / specific area related goals (related directly to the implementation of the tasks assigned, in the area of the risk management, compliance and internal audit, respectively) and partly on the implementation of the solidarity goals related to the results of the Company and the Group.

5. 3.5. - the rule stating that the persons responsible for the risk management and compliance are report directly to the president or another member of the management board.

The person responsible for the Company's compliance management is reporting directly to the President of the Management Board of the Company. However, the person responsible for the Company's risk management is not reporting directly to the President or any other member of the Company's Management Board. In spite of the fact that the Company has not ensured the direct reporting to the Members of Management Board for the person responsible for the Company's risk management, the organizational solutions adopted by the Company and the adequate position in the Company's hierarchy in relation to the persons responsible for the operating activities have provided the person responsible for the risk management with the possibility of the direct reporting to the Members of the Management Board and the participation in the meetings of the Management Board as well those of the Supervisory Board of the Company, if the subject of these meetings are the issues related to risk.

6. 3.6. - the rule stating that the Head of the Internal Audit reports organizationally to the President of the Management Board, and functionally to the chairperson of the audit committee or the chairperson of the supervisory board, if the board performs the function of the audit committee.

The internal audit unit, headed by the Executive Director for Audit and Internal Control, is placed in the organizational structure of the Company under the direct authority of the President of the Management Board. Functionally, the Head of the Internal Audit does not report to the Chairperson of the Audit Committee, however, in order to maintain the independence, objectivity and proper performance of the audit and control functions, the Executive Director for Audit and Internal Control is provided with the option of the periodic reporting to the Audit Committee and the Supervisory Board of the Company.

7. 3.7. - the rule stating that that rules 3.4. - 3.6. shall also apply to those entities from the company's group that are of material importance to the operations thereof, in case they have designated (appointed) persons to perform these tasks.

The Risk Management Coordinators and the Compliance Coordinators, who do not always report directly to the president or another member of the subsidiary's management board, have been appointed at TAURON Capital Group's subsidiaries that are of material importance to the operations thereof. The solutions adopted at these subsidiaries in terms of the organizational structure, in spite of the fact that they do not always ensure the direct reporting to a member of the company's management board, do not restrict the possibility of the direct reporting to the members of the company's management board. With regard to the Audit and Internal Control Area, the audit function is centralized, and no persons have been designated (appointed) to perform the audit tasks at the subsidiaries.

8. 4.1. - the rule related to allowing the shareholders to take part in a general meeting by means of electronic communication, if it is justified due to the shareholders' expectations reported to the company, provided that it is able to provide the technical infrastructure required to conduct such a general meeting.

The Company monitors, on an ongoing basis, the changes in the shareholding structure that could affect the way the communication is conducted during the general meeting. In addition, in the event that the Company receives requests from the shareholders to conduct a general meeting using the electronic means of communication, the Company will verify the technical possibilities that would ensure the safe conduct of the general meeting for the shareholders and the Company, and in the absence of any contraindications, the Company will take actions in accordance with this recommendation.

9. 4.14. - the rule stating that the company should strive to distribute the profit by paying out a dividend, while retaining of the entire profit in the company is possible if any of the following reasons occur:

- 1) the amount of this profit is minimal, and as a consequence the dividend would be insignificant in relation to the value of the shares,
- 2) the company shows uncovered losses from the previous years, and the profit is to be used to reduce such losses,
- 3) the company justifies that the allocation of the profit to the investments will bring tangible benefits to the shareholders,
- 4) the company fails to generate cash that would enable the payout of the dividend,
- 5) the payout of the dividend would significantly increase the risk of a breach of the covenants included in the credit agreements that are binding for the company or the terms of the bond issue,
- 6) leaving the profit in the company is in line with the recommendation of the institution exercising the supervision over the company due to its specific type of operations.

The Company has a dividend policy in place, according to which the final decision with respect to the payout of the dividend is made by the General Meeting of the Company having obtained the recommendation of the Management Board of the Company, which takes into account, in particular, the following factors: the Group's liquidity position, market situation, implementation of the investment policy, cost and options for obtaining the financing, legal requirements and the provisions of the financial agreements, in particular with respect to not exceeding a certain level of the leverage ratio, ensuring an investment grade rating.

The company has disclosed the information to the public that, in accordance with the adopted Dividend Policy, the Company plans, in the long term, to pay out a dividend in the amount of at least 40% of the consolidated net profit. The intention of the Company is to ensure a dividend yield at a competitive level in relation to the long term debt instruments issued on the Polish market by companies with investment grade ratings. The Company's Dividend Policy is largely in line with rule 4.14. of the Best Practice 2021, although it also provides for a broader range of the events or circumstances justifying the lack of the dividend payout, and thus the Company's decision may be made on the basis of the premises that are not referred to in the catalog specified under rule 4.14. of the Best Practice 2021.

10. 6.2. - the rule regarding such a structuring (design) of the incentive programs that, inter alia, the level of the compensation of the members of the management board of the company and that of the key managers thereof would be made dependent on the actual, long term situation of the company in terms of the financial and non-

financial results as well as the long term increase in the shareholder value and the sustainable development, as well as the stability of the company's operations.

The level of the variable compensation of the Members of the Management Board and the key managers of the Company is dependent on the annual consolidated financial results of the Company and the long term situation of the Capital Group in terms of the non-financial results. The principles of compensating the Members of the Management Board, that would assume, inter alia, that the variable compensation should be dependent on the annual results, were adopted by the General Meeting of the Company at the request of a shareholder State Treasury. Changing of the above mentioned principles shall require a decision of the shareholders.

11. 6.3. - the rule stating that if one of the company's incentive programs is a management options program, then the implementation of the options program should be conditional on the eligible persons achieving, for at least 3 years, the predetermined, realistic and adequate financial and non-financial, as well as the sustainable development goals, and the established price at which the eligible persons would purchase the shares or settle the options may not differ from the value of the shares from the period when the program was adopted.

The compensation and bonus system for the Members of the Management Board of the Company and the key managers thereof in force does not provide for linking the compensation with the instruments tied to the Company's shares.

12. 6.4. - the rule stating that the supervisory board shall perform its tasks on a continuous basis, therefore the compensation of the members of the supervisory board may not depend on the number of the meetings held. The compensation of the members of the committees, in particular the audit committee, should take into account the additional workload related to the work in such committees.

Members of the Supervisory Board receive a fixed monthly compensation, regardless of the number of the convened meetings and regardless of the participation of the Members of the Supervisory Board in the works of the committees, including the Audit Committee.

The other rules included in the Best Practice 2021 were applied by the Company from July 1, 2021.

Update of the Information on the application by the Company of the rules included in the Code of Best Practice for WSE Listed Companies 2021 after the balance sheet date

In order to implement rule 3.4. of the Best Practice 2021 the Company has amended the *Regulations of Compensation of Employees of TAURON Polska Energia S.A.*, taking into account the recommendations stemming from rule 3.4.

As a result of the actions taken, as of the date of drawing up this report, the rule is applied by the Company.

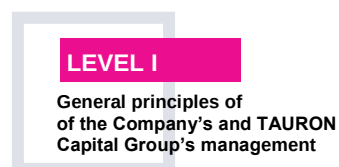
With a view to implement rule 3.5. of the Best Practice, the Company has introduced a change with respect to assigning the business areas to the individual Members of TAURON's Management Board, involving, among others, the fact that the Executive Director responsible for Risk is reporting directly to the Vice President of the Management Board responsible for the Company's Finances. The person responsible for the Company's compliance management is reporting directly to a Member of the Management Board of the Company.

As a result of the actions taken, as of the date of drawing up this report, the rule is applied by the Company.

On February 8, 2022, the Company published an update of the Information on the application by the Company of the rules included in the *Code of Best Practice for WSE Listed Companies 2021* on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

9.3. Main characteristics of the internal controls and risk management systems in relation to the process of drawing up the financial statements and consolidated financial statements

The internal audit and risk management system with respect to the process of drawing up the financial statements and consolidated financial statements is implemented on 3 levels:



Pursuant to the adopted internal regulations TAURON Capital Group's subsidiaries operate based on the organizational regulations and have defined organizational structures in place, where the applicable business units are assigned the responsibility for drawing up the financial statements and the consolidated financial statements. Such units are obliged to perform the ongoing control that is built into the tasks performed and the functional control of their activities. Based on TAURON Capital Group's Business

Model put in place the Process Documentation of Mega-process 3.4 Accounting was implemented, containing, among others, processes associated with the financial reporting of the Company and TAURON Capital Group. The process documentation defines the responsibilities of the business units within the reporting processes.

TAURON Capital Group has put the Risk Area in place, whose role is to oversee and establish TAURON Capital

LEVEL II

Risk management

Group's risk management system. These functions are implemented within the Company by the Corporate, Market and Credit Risk Management Teams as well as the Autonomous (Independent) Transaction Control (Audit) Positions. The purpose of the risk management is to ensure the improvement of the predictability of attaining strategic objectives by TAURON Capital Group, including the stable creation of the financial result

through early identification of threats allowing the preventive activities to be undertaken. Risk management standards applicable at TAURON Capital Group have been defined in *TAURON Group's Corporate Risk Management Strategy* and in the policies for managing the specific risks. The ERM system encompasses all of TAURON Capital Group's lines of business and the business processes carried out within TAURON Capital Group, including the process of drawing up the financial statements. The risks associated with this process are managed, monitored and reported within the ERM System. The goal of the standardization is to ensure consistency in managing the individual risk categories, by defining the general principles, standards and tools of the system's architecture. The oversight of the ERM system at TAURON Capital Group is performed by the Risk Committee, which as an expert team, on a permanent basis and continuously, initiates, analyzes, monitors, controls (audits) and supports the functioning of TAURON Capital Group's risk management system.

The detailed information on the risk management system is provided in section 3.2. of this report.

LEVEL III

Internal audit

The Audit and Control Area is functioning within TAURON Capital Group, with the goal to plan and implement the audit tasks, including the verification and advisory activities as well as the performance of the tasks as part of the internal (institutional) controls, fulfilling the detection (detection control) and preventive functions. The main objective of the internal control is the mitigation of the risk of TAURON Capital Group's losses. The audit and advisory activities are conducted by the Internal Audit Team carrying out the

scheduled and ad hoc audit tasks both at TAURON as well as at TAURON Capital Group's subsidiaries. The Internal Audit Team, based on the Annual Audit Plan for the given calendar year, performs the process based audit tasks to assess the current level of the individual risks and the effectiveness of the management thereof. In 2021, the implementation of a new model of a cyclical (periodic) assessment of the Internal Control System was launched, the purpose of which is to provide the Management Board and the Audit Committee of the Supervisory Board of the Company with the independent and objective information on the functioning of the control mechanisms in the business processes of the Company and TAURON Capital Group's subsidiaries. The institutional control understood as a set of the inspection activities as part of the functioning internal control system, is carried out at the level of TAURON Capital Group by the Internal Control Team and by the organizational units competent for the internal control, operating at some of the subsidiaries. The control tasks are performed in the form of the ad hoc and scheduled controls. In addition, the Internal Control Team carries out the specialist audits (controls) of TAURON Capital Group's IT, OT and security systems.

Most important aspects related to the internal audit (controls) and risk management with respect to the process of drawing up financial statements and consolidated financial statements

TAURON Supervision over application of consistent (uniform) accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statements

In order to ensure consistent accounting principles based on the International Financial Reporting Standards (IFRS), approved by the European Union, the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's standalone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for drawing up TAURON Capital Group's consolidated financial statements.

Furthermore, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Office and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. Vice President of the Management Board for the Company's Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The detailed information on the composition, competences and description of the operations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. is presented in section 9.11. of this report.

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the consistency (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification.

The accounting functions of TAURON Capital Group's subsidiaries are to a significant degree integrated - TAURON Capital Group's material subsidiaries' financial and accounting services are carried out by CUW-R (Shared Services Center – Accounting) as a result of which TAURON Capital Group's financial and accounting processes are to large extent unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments.

TAURON Capital Group's Business Model in place clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of the processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of drawing up the financial statements.

Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to an audit by a certified auditor. In 2018, the Company selected an entity authorized to audit and review the financial statements of the Company and of TAURON Capital Group's material subsidiaries, as well as the consolidated financial statements. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2019-2021, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2019, June 30, 2020 and June 30, 2021. In November 2021, the Company selected an entity authorized to audit and review the financial statements, as well as the consolidated financial statements for the years 2022-2024.

The rule related to changing the audit firm of the Company and TAURON Capital Group

The Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A., adopted by the Audit Committee of the Company's Supervisory Board is in force at the Company, which includes the following rule:

1. maximum duration of continuous audit engagements carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. after the 10-year duration of the mandate (engagement) neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

9.4. Shareholders holding substantial blocks of shares

The below table presents shareholders holding, as of December 31, 2021 and as of the date of drawing up this report, directly or indirectly via subsidiaries, substantial blocks of the Company's shares.

Table no. 56. Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2020 and as of the date of drawing up this report

Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total number of votes
1. State Treasury	526 848 384	30.06%	526 848 384	30.06%
2. KGHM Polska Miedź (Polish Copper)	182 110 566	10.39%	182 110 566	10.39%
3. Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88 742 929	5.06%	88 742 929	5.06%

Since the date of publishing the previous periodic (interim) report, i.e. since November 17, 2021, until the date of drawing up this report the Company had not received any notifications from its shareholders of any changes in the ownership structure of the substantial blocks of TAURON shares.

9.5. Holders of securities providing special control rights

The Company did not issue securities that would grant special control rights with respect to the Company.

9.6. Restrictions on exercising the voting right

Restrictions on exercising the right to vote are included in § 10 of the Company's Articles of Association which are available on the Company's website: <https://www.tauron.pl>.

The above mentioned restrictions on exercising the voting right are formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the company shall be limited so that none of them can exercise more than 10% of the total votes in the company at the General Meeting of Shareholders.
2. The restriction on exercising the voting right mentioned in clause 1 above shall not apply to the State Treasury and entities controlled thereby in the period during which the State Treasury, together with entities controlled thereby, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company.
3. Votes of shareholders who have a parent / subsidiary relationship within the meaning of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Associations, shall be any party (entity, person), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity, person) that does not hold the company's shares, and in particular to a user, lien holder, party (entity, person) entitled on the basis of a depositary receipt under regulations of the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*, as well as a party (entity, person) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
5. A parent company and subsidiary company, for the purposes of § 10 of the Company's Articles of Association, shall be understood, accordingly, as a party (entity, person):
 - 1) with a status of a controlling undertaking, controlled undertaking or, at the same time, both the status of a controlling undertaking and controlled undertaking in the understanding of the *Act of February 16, 2007 on the protection of competition and consumers*, or
 - 2) with a status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company, co-controlled company or one that has both the status of a parent company (including a higher level parent company) and the status of a subsidiary (including a lower level subsidiary company and a co-controlled company) in the understanding of the *Act of September 29, 1994 on accounting*, or
 - 3) which has (parent company) or one which is under (subsidiary company) controlling influence in the understanding of the *Act of September 22, 2006 on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or
 - 4) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity, person) or other parties (entities, persons) on conditions defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring substantial blocks of the Company's shares.
6. Aggregation of votes is based on totaling the number of votes held by individual shareholders that are members of the Shareholders' Cluster.
7. Reduction of the votes involves decreasing the total number of votes in the Company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the Company. Reduction of the votes shall take place in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the largest number of votes in the company among all shareholders that are members of the Shareholders' Cluster shall be reduced by a number of votes equal to a surplus above 10% of total votes in the company held by all shareholders that are members of the Shareholders' Cluster,
 - 2) if, despite the reduction mentioned in 1) above, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,
 - 3) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
 - 4) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.
8. Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board

or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.

9. Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity, person) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Company's Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
10. A party (entity, person) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity, person) shall be null and void.

9.7. Restrictions on the transfer of the ownership right to securities

As of December 31, 2021, and as of the date of drawing up this report the Company's Articles of Association do not envisage restrictions on the transfer of the ownership right to the Company's securities.

However, in accordance with the *Act of July 24, 2015 on the control of certain investments* (Journal of Laws of 2020, item 117), an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is, in accordance with the *Regulation of the Council of Ministers of December 23, 2019, on the list of entities subject to protection and their competent control bodies* (Journal of Laws of 2019, item 2501, as subsequently amended), an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – the competent Minister of the State Assets of its intention to do so, unless such obligation rests on other entities.

9.8. Rules on appointing and dismissing the Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., and the powers thereof

Management Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing the Members of the Company's Management Board

The Management Board of the Company shall be composed of 1 to 6 persons, including the President and Vice Presidents. The Members of the Management Board shall be appointed and dismissed by the Company's Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. In accordance with the Company's Articles of Association, each of the Members of the Management Board can be dismissed or suspended from office by the Company's Supervisory Board or the General Meeting of the Company.

In order to recruit a person with whom an agreement for providing the management services at the Company will be concluded, the Company's Supervisory Board shall announce a competition and conduct a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a Member of the Company's Management Board must meet the requirements set forth in § 16, clauses 3 and 4 of the Company's Articles of Association. The announcement of the qualification process is published on the Company's web site at the address: <https://www.tauron.pl>. and in the Public Information Bulletin of the Minister competent to exercise the rights related to the State Treasury's shares. The Company notifies the shareholders of the results of the qualification procedure.

Competence of the Company's Management Board

The Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Company's Articles of Association, to the scope of competence of the General Meeting (GM) or the Supervisory Board, shall be within the scope of competence of the Company's Management Board.

In accordance with the Company's Articles of Association, all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Company's Management Board, in particular, the following issues listed in the below table, as of December 31, 2021, and as of the date of drawing up this report.

Table no. 57. Competence of the Company's Management Board as of December 31, 2021, and as of the date of drawing up this report

Matters that require a resolution of the Company's Management Board	
1.	Regulations of the Company's Management Board,
2.	Company's enterprise organizational regulations,
3.	establishment and liquidation of branches,
4.	appointment of a proxy,
5.	taking on credits and loans,
6.	approving annual material and financial plans of the Company and of the Capital Group as well as the Capital Group's Corporate Strategy,
7.	assuming contingent liabilities within the meaning of the <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 11 and 12 of the Company's Articles of Association,
9.	purchase of real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, subject to § 20 clause 2 item 1 of the Company's Articles of Association,
10.	purchase of fixed assets excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 1 of the Company's Articles of Association,
11.	disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association,
12.	defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 4 items 9 and 10 of the Company's Articles of Association,
13.	rules of conducting sponsoring activities,
14.	adoption of the annual plan of sponsoring activities,
15.	matters which the Company's Management Board refers to the Company's Supervisory Board or the General Meeting of the Company for review

Supervisory Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing the Members of the Company's Supervisory Board

The Supervisory Board of the Company shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association, the Members of the Company's Supervisory Board shall be appointed and dismissed by the General Meeting, subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10 clause 5 of Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise at least 25% of the total votes in the Company, the State Treasury shall be entitled to appoint and dismiss Members of the Company's Supervisory Board in the number equal to half of the maximum number of members of the Company's Supervisory Board defined in the Company's Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:
 - 1) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of Members of the Company's Supervisory Board that would correspond to the maximum number of Members of the Company's Supervisory Board defined in the Company's Articles of Association in case such a motion is submitted to the Company's Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
 - 2) shall be excluded from the voting at the General Meeting of Shareholders on appointing and dismissing other members of the Company's Supervisory Board, including independent members of the Company's Supervisory Board; this shall not, however, apply to the case when the Company's Supervisory Board cannot act due to its membership being smaller than required by the Company's Articles of Association, and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Company's Supervisory Board in accordance with the distribution of seats in the Company's Supervisory Board defined in this section,
2. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10 clause 5 of the Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise less than 25% of the total number of votes in the Company, the State Treasury, represented by the minister competent to exercise the rights related to the State Treasury's shares, shall be entitled to appoint and dismiss one member of the Company's Supervisory Board,
3. appointing and dismissing members of the Company's Supervisory Board by the State Treasury pursuant to the above mentioned clause 1 or 2 shall take place by means of a statement submitted to the Company.

In accordance with the Company's Articles of Association at least two members of the Company's Supervisory Board shall meet the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, and shall not to have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

Independent Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on the compliance with the independence criteria.

The detailed information on the independence of the Members of the Company's Supervisory Board is presented in section 9.11. of this report.

Competence of the Company's Supervisory Board

Supervisory Board of the Company shall continuously oversee the Company's activities in all areas of its operations.

In accordance with the Company's Articles of Association, the Company's Supervisory Board's tasks and competences shall include in particular the matters listed in the below table, as of December 31, 2021, and as of the date of drawing up this report.

Table no. 58. Competence of the Company's Supervisory Board as of December 31, 2021, and as of the date of drawing up this report

Matters that require a resolution of the Company's Supervisory Board	
Competences related to providing opinions	
1.	evaluate the Company's Management Board's report on the Company's operations (Directors' Report) as well as the financial statements for the last financial year with respect to their compliance with the books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements,
2.	evaluate the Company's Management Board's recommendations on the distribution of the profit or the covering of the loss,
3.	submit a written report to the General Meeting of Shareholders on the outcome of the activities referred to in clauses 1 and 2 above,
4.	draw up once a year and submit to the General Meeting a report on the activities of the Supervisory Board containing at least: 1) information on: the composition of the Company's Supervisory Board and its Committees, including an indication which Members of the Supervisory Board comply with the criteria of independence listed in the <i>Act of May 11, 2017 on certified auditors, audit firms and public oversight</i>, as well as those that not to have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company, and also the information on the composition (membership) of the Supervisory Board in the context of the diversity thereof, 2) summary of the activities of the Supervisory Board and its Committees 3) evaluation of the Company's situation on the consolidated basis, including the assessment of the internal controls, risk management, compliance systems and the internal audit functions, including the information on the steps that the Company's Supervisory Board took in order to perform such an evaluation, including all of the significant control mechanisms, in particular the ones related to the reporting and operations 4) assessment of the application of the corporate governance principles and the method of fulfilment of the information (disclosure) obligations in relation to the application thereof, defined in the Regulations of the Exchange and the provisions related to the current and periodic information (disclosures, regulatory filings) filed by the issuers of securities. including the information on the steps that the Company's Supervisory Board took in order to perform such an assessment, 5) assessment of the rationality (legitimacy) of the expenditures incurred by the Company and its group to support culture, sports, charity institutions, media, social organizations, trade unions, etc., 6) information on the degree of implementation of the diversity policy in relation to the Company's Management Board and the Supervisory Board of the Company, including the implementation of the objectives and criteria of diversity, including in such areas as gender, education background, specialist knowledge, age and professional experience
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.	draw up, once a year, a report on the compensation of the Members of the Company's Management Board and the Supervisory Board of the Company in accordance with the requirements defined in the <i>Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies</i> ,
7.	provide opinions on the Capital Group's Corporate Strategy,
8.	provide opinions on the rules of conducting the sponsoring activities,
9.	provide opinions on the annual plan of conducting the sponsoring activities as well as on the annual report on the implementation thereof,
10.	provide opinions on the reports drawn up, by the Company's Management Board, on the entertainment expenses, the expenditures on the legal services, marketing services, public relations and social communications services as well as the advisory services related to management,
11.	provide opinions on the Company's Management Board's motions regarding the matters referred to in § 35 of the Company's Articles of Association, excluding the motions regarding the Members of the Company's Supervisory Board,
12.	provide opinions on the draft resolutions introduced by the Management Board of the Company to the agenda of the General Meeting,
13.	provide opinions on the changes of the rules of divesting fixed assets, defined in § 38 ¹ of the Company's Articles of Association.
Competences that include	
1.	selecting a certified auditor to carry out an audit of the Company's financial statements and the Capital Group's consolidated financial statements,
2.	defining the scope and deadlines for submitting the Company's and the Capital Group's annual material and financial plan by the 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,
5.	approving the Regulations of the Company's Management Board,
6.	approving the organizational regulations of the Company's enterprise,
7.	approving the capital group's compensation policy,
8.	purchasing real estate asset components within the meaning of the <i>Act of September 29, 1994, on accounting</i> , with the value exceeding: 1) PLN 20 000 000 or 2) 5% of the total assets within the meaning of the <i>Act of September 29, 1994, on accounting</i>, determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 5 of the Company's Articles of Association,
9.	disposing of fixed asset components, within the meaning of the <i>Act of September 29, 1994, on accounting</i> , classified as intangible and legal assets, tangible fixed assets or long term investments, including making a contribution to a company or cooperative if the market value of such components exceeds PLN 20 000 000 or 5% of the total assets within the meaning of the <i>Act of September 29, 1994, on accounting</i> , determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 5 of the Company's Articles of Association, as

Matters that require a resolution of the Company's Supervisory Board

- well as handing over these components for use to another entity for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject of the legal transaction exceeds PLN 500 000 or 5% of the total assets, where the handing over of such components for use in case of:
- 1) lease, tenancy and other contracts for the transfer of an asset for use by other entities for a fee - market value of the subject of legal action shall be understood as the value of services for: one year - if the asset was transferred on the basis of an agreement concluded for an indefinite period, the entire duration of the agreement - in case of contracts concluded for a fixed period,
 - 2) loan contracts and other free contracts for the handing over of an asset for use by other entities - the market value of the subject of legal transaction shall be understood as the equivalent of benefits that would be due if the lease or tenancy agreement were concluded, for: one year - if the asset is handed over under the contract concluded for an indefinite period, the entire duration of the contract - in case of contracts concluded for a definite period,
10. assuming contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of PLN 20 000 000,
 11. issuing bills of exchange with the value exceeding the equivalent of PLN 20 000 000,
 12. making an advance payment on account of the expected dividend,
 13. taking up or purchasing shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 5% of the total assets within the meaning of the *Act of 29 September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
 14. selling shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994*, determined on the basis of the last approved financial statements,
 15. concluding an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of the total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
 16. amending an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, increasing the compensation above the amount mentioned in section 15 above,
 17. concluding an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount (cap) is not envisaged,
 18. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
 19. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
 20. concluding a material agreement with a related entity within the meaning of the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*,
 21. granting a permission to establish the Company's branches abroad,
 22. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders (Partners) of companies in which the Company holds more than 50% of shares, with respect to the following matters:
 - 1) selling and leasing out the company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon them if their value exceeds the PLN equivalent of EUR 5 000 000,
 - 2) dissolving and liquidating the company
 23. defining the manner of exercising the voting right by a representative of TAURON during the GMs of companies (subsidiaries) with respect to which the Company is a dominating entrepreneur within the meaning of art. 4 section 3 of the *Act of February 16, 2007, on competition and consumer protection*, with respect to the following issues:
 - 1) a company setting up another company,
 - 2) a change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
 - 3) merging, transforming, splitting, dissolving and liquidating the company,
 - 4) increasing or decreasing the company's share capital,
 - 5) selling and leasing out the company's enterprise or its organized part and establishing a limited pledge (property right) thereupon,
 - 6) redeeming (retiring) of shares,
 - 7) setting the compensation of members of the Management Boards and Supervisory Boards,
 - 8) provision related to the claims for remedying damage inflicted when setting up the company or performing the management or supervision,
 - 9) matters mentioned in art. 17 of the *Act of December 16, 2016, on the principles of state assets management*, subject to § 15, clause 5 of the Company's Articles of Association, with the exception of the matters relating to the legal transactions referred to in § 20. clause 5 of the Company's Articles of Association, and with the exception of matters regarding the acquisition or disposal of fixed assets constituting or intended to constitute assets necessary to conduct business operations with respect to the distribution of electricity by a company that is an operator of the power distribution system.

Competences related to the Management Board

1. appoint and dismiss members of the Company's Management Board,
2. establish the rules of compensation and the amounts of compensation for the Members of the Company's Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Company's Management Board from office for important reasons,
4. delegate members of the Company's Supervisory Board to temporarily perform duties of the Members of the Company's Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Company's Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Company's Management Board shall not exceed the compensation established for the Member of the Company's Management Board to replace whom the Member of the Company's Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Company's Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions (services) in the Company shall be concluded and conclude such agreement to perform the management board functions (services) in the Company,
7. grant a permission to the Members of the Company's Management Board to take positions in governing bodies (authorities) of other companies

Other competences of the Company's Supervisory Board

1. approve the Company's Management Board's annual report on the supervision over the implementation of the investment projects
2. draw up reports on overseeing the implementation of investment projects by the Company's Management Board, including the fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of the expenditures related thereto

3. approve the reports drawn up by the Company's Management Board on :
 - 1) entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,
 - 2) applying good practices defined by the Chairman of the Council of Ministers (Prime Minister) on the basis of art. 7, clause 3 of the *Act on the principles of state assets management* with respect to corporate governance, corporate social responsibility and sponsorship,
4. pass regulations describing in detail the Company's Supervisory Board's procedures.

9.9. Procedure of amending TAURON Polska Energia S.A.'s Articles of Association

Amendments to the Company's Articles of Association shall be made in accordance with the provisions of the Code of Commercial Companies, in particular: an amendment to the Company's Articles of Association shall take place by way of a resolution of the GM, passed by the majority of three fourths of the votes, and shall, subsequently, require issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including the amendments passed by the General Meeting, shall be adopted by the Supervisory Board by way of a resolution.

In accordance with the Company's Articles of Association, a material amendment to the subject of the Company's operations requires the majority of two thirds of the votes in the presence of persons representing at least half of the share capital.

9.10. General Meeting of TAURON Polska Energia S.A. and the shareholders' rights

General Meeting of TAURON Polska Energia S.A.

The Company's General Meeting of Shareholders' procedures and its empowerments are defined in the Company's Articles of Association and in the *Regulations of the General Meeting of the Shareholders of TAURON Polska Energia S.A.* (GM Regulations) which are available on the Company's website at the address: <http://www.tauron.pl/>.

Procedures of the General Meeting of the Company

General Meeting (GM) shall be convened by a notice published on the Company's website and in a manner defined for providing the current information (regulatory filings) by the public companies. In case the General Meeting (GM) is convened by an entity or a body (authority) other than the Management Board on the basis of the regulations of the Code of Commercial Companies, as convening a General Meeting requires the Management Board's cooperation, the Management Board shall be obliged to perform any activities required by law in order to convene, organize and conduct the General Meetings that take place either at the Company's registered office or in Warsaw.

General Meeting shall be opened by the Chairperson of the Company's Supervisory Board, and in case he/she is absent, the following persons shall be entitled to open the General Meeting in the given order: Vice Chairperson of the Company's Supervisory Board, President of the Company's Management Board, a person designated by the Company's Management Board or the shareholder who registered at the General Meeting such a number of shares that grant the right to exercise the highest number of votes. Subsequently, the chairperson of the General Meeting shall be elected from among the persons entitled to participate in the General Meeting.

General Meeting shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Company's Articles of Association state otherwise.

A General Meeting may order a break in the meeting by the majority of two thirds of the votes. The breaks shall not exceed 30 days in total. A break in the GM session may take place only in exceptional situations, every time indicated on a case-by-case basis in the justification to the resolution, prepared based on the reasons presented by a shareholder requesting the break to be ordered. A GM resolution related to a break shall clearly indicate the date (time) of the resumption of the session, however, such a date (time) must not create a barrier for participation of the majority of the shareholders in the resumed meeting, including the minority shareholders.

Competence of the General Meeting of the Company

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting (GM) of the Company as of December 31, 2021, and as of the date of drawing up this report.

Table no. 59. Competence of the General Meeting of the Company as of December 31, 2021, and as of the date of drawing up this report

Matters that require a resolution of the General Meeting of the Company	
1.	reviewing and approving the financial statements of the Company and the consolidated financial statements of the Capital Group for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of the Capital Group
2.	granting the acknowledgement of the fulfillment of the duties to the members of the Company's corporate bodies (authorities),
3.	distribution of the profit and covering of the loss,
4.	appointing and dismissing the Members of the Company's Supervisory Board,
5.	suspending the Members of the Company's Management Board in the performance of their duties,
6.	establishing the amount of compensation for the Members of the Company's Supervisory Board, subject to § 29, clause 4 of the Company's Articles of Association,
7.	establishing the principles of determining compensation and the amount of compensation of the Members of the Company's Management Board taking into account the provisions of the <i>Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies</i> ,
8.	adopting, not less often than every four years, the compensation policy for the Members of the Management Board and the Supervisory Board of the Company, taking into account the requirements of the <i>Act of July 29, 2005 on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies</i> ,
9.	selling and leasing out the Company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon,
10.	concluding a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy, liquidator (receiver) or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator (receiver) or for the benefit of any such person,
11.	increasing and decreasing the Company's share capital,
12.	issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling the holder thereof to subscribe or take up the shares,
13.	purchasing (buyback) of own shares in the cases required by the regulations of the Code of Commercial Companies,
14.	mandatory buyback of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies,
15.	setting up, using and liquidating reserve capitals,
16.	using supplementary capital,
17.	provisions related to the claims to repair damage caused while establishing the Company or performing the management or supervision functions,
18.	merger, transformation and division of the Company,
19.	redemptions (retirements) of the shares,
20.	amendment to the Company's Articles of Association and change of the subject of the Company's operations,
21.	dissolving and liquidating the Company.
22.	providing an opinion on the report on the compensation of the Members of the Management Board and the Supervisory Board, referred to in § 20, clause 1, item 19 of the Company's Articles of Association,
23.	approving of the report on the activities of the Supervisory Board, referred to in § 20, clause 1, item 4 of the Company's Articles of Association.

In accordance with the provisions of the Code of Commercial Companies the decision on the issue and repurchase of the shares shall be included within the competence of the General Meeting.

Shareholders' rights and the manner of exercising thereof

The below table presents the description of the Company's shareholders' rights related to the General Meeting in accordance with the Company's Articles of Association, Code of Commercial Companies and the Regulations of the General Meeting.

Table no. 60. Description of the Company's shareholders' rights related to the General Meeting of the Company

Shareholders' rights	Description of shareholders' rights
1. Convene a General Meeting (GM)	Shareholders representing at least 1/20 of the share capital, may request convening of an Extraordinary General Meeting. Such a request should include a concise justification. It may be submitted to the Company's Management Board in writing or in an electronic form, to the Company's e-mail address, provided by the Company on its website under the <i>Investor Relations</i> tab. Shareholders representing at least a half of the share capital or at least half of all of the votes in the Company may convene an Extraordinary General Meeting (GM) and appoint a chairperson of such General Meeting.
2. Include matters (items) in the agenda of the General Meeting	Shareholders representing at least 1/20 of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting. Such a request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Company's Management Board not later than 21 days prior to the set date of the General Meeting in electronic form to the Company's e-mail address or in writing to the Company's address.
3. Become acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list at the Company's Management Board's seat for 3 weekdays preceding directly the General Meeting's date. Shareholders may also request that the list of shareholders be sent to them free of charge to the address for electronic deliveries or by electronic mail, providing the address to which the list should be sent.
4. Participate in the General Meeting	Only persons who are the Shareholders 16 days before the date of the General Meeting (date of registering to participate in the General Meeting) shall have the right to take part in the General Meeting. In order to participate in the General Meeting the shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting to an

Shareholders' rights	Description of shareholders' rights
	investment (brokerage) company maintaining their securities account. Such a request should be submitted not earlier than following the announcement (notice) on the convening of the General Meeting and not later than on the first weekday following the day of registering to participate in the General Meeting.
5. Represent a shareholder by a proxy (power of attorney)	Shareholders may take part in the General Meeting as well as exercise the voting right in person or through a proxy (power of attorney). Shares' co-owners may take part in the General Meeting and exercise the voting right only through a joint representative (proxy). A proxy (power of attorney) may represent more than one shareholder and vote differently based on the shares of each shareholder.
6. Elect the Chairperson of the General Meeting	Shareholders shall elect the Chairperson of the General Meeting from among the persons entitled to take part in the General Meeting. Each of the participants of the General Meeting shall have the right to propose one candidate. The Chairperson shall be elected by a secret ballot, by an absolute majority of the votes. In case there is just one candidate for the Chairperson, the election can take place by acclamation.
7. Elect the Returning Committee	Each shareholder may propose no more than 3 candidates for the members of the Returning Committee to be elected by the General Meeting, and vote for maximum 3 candidates.
8. Submit a draft resolution	During the General Meeting shareholders shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting, as part of the given item of the agenda.
9. Raise an objection	Shareholders who have voted against a resolution and, after the General Meeting has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such an objection is raised later, which however shall not take place later than by the time the General Meeting is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. The shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting.

9.11. Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof

Management Board of TAURON Polska Energia S.A.

The current 6th term of office of the Company's Management Board began its run on July 15, 2020.

In accordance with the Company's Articles of Association the common term of office shall last 3 years.

The composition (membership) of the Company's Management Board as of December 31, 2021

1. Artur Michałowski - Vice President of the Management Board for Trading and acting as the President of the Management Board,
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Krzysztof Surma - Vice President of the Management Board for Finance (CFO),
4. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The composition (membership) of the Company's Management Board as of the date of drawing up this report

1. Artur Michałowski - Vice President of the Management Board for Trading and acting as the President of the Management Board,
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Krzysztof Surma - Vice President of the Management Board for Finance (CFO),
4. Jerzy Topolski - Vice President of the Management Board for Asset Management,
5. Artur Warzocha - Vice President of the Management Board for Corporate Affairs.

The changes to the composition of the Company's Management Board in 2021 and by the date of drawing up this report

As of January 1, 2021, the Company's Management Board was composed of the following persons: Wojciech Ignacok (President of the Management Board), Jerzy Topolski (Vice President of the Management Board for Asset Management) and Marek Wadowski (Vice President of the Management Board for Finance).

On February 19, 2021, Wojciech Ignacok submitted a statement of resignation, effective as of February 28, 2021, from the position of the President of the Company's Management Board of the 6th common term of office.

On February 24, 2021, the Company's Supervisory Board entrusted Marek Wadowski with the duties of the President of the Company's Management Board from March 1, 2021, until the appointment of the President of the Company's Management Board.

On April 1, 2021, the Company's Supervisory Board appointed Paweł Strączyński to be a member of the Company's Management Board, entrusting him with the function of the President of the Company's Management Board.

On May 13, 2021, Marek Wadowski submitted a statement of resignation, effective as of the end of the day on May 17, 2021, from the membership of the Company's Management Board and thus from the position of the Vice President of the Company's Management Board for Finance.

On July 2, 2021, Paweł Strączyński submitted a statement of resignation from the position of the President of the Company's Management Board, effective as of the end of the day on July 21, 2021. On July 19, 2021, and on July 27, 2021, the Company received the statements of Paweł Strączyński on amending the statement of resignation from the position of the President of the Company's Management Board, as a result of which the resignation from the position of the President of the Management Board ultimately took place as of the end of the day on August 4, 2021.

On August 4, 2021, the Supervisory Board of the Company appointed Artur Michałowski, Patryk Demski and Krzysztof Surma to the Management Board of the Company, effective as of August 5, 2021. On the same day, the Supervisory Board of the Company appointed Artur Michałowski to be acting as the President of the Management Board of the Company from August 5, 2021, until the date the President of the Management Board of the Company is appointed.

On January 20, 2022, the Company's Supervisory Board appointed Artur Warzocha to be a member of the Company's Management Board, effective as of January 21, 2022,

There had been no other changes to the composition (membership) of the Company's Management Board by the date of drawing up this report.

Experience and competences of the Members of the Company's Management Board who continue to hold their positions in the Company's Management Board as of the date of drawing up this report

Artur Michałowski - Vice President of the Management Board and acting as the President of the Management Board



A graduate of the University of Occupational Safety Management in Katowice (Wyższa Szkoła Zarządzania Ochroną Pracy w Katowicach - WSZOP) with the major in management and production engineering, as well as the postgraduate studies at the University of Economics in Katowice (Uniwersytet Ekonomiczny w Katowicach) - Master of Corporate Governance and Executive Master of Business Administration studies at Collegium Humanum at the Warsaw Management University (Szkoła Główna Menedżerska w Warszawie).

From 2016 to August 4, 2021, he had been the Vice President of the Management Board for Technical Affairs at PGNiG Termika Energetyka Przemysłowa S.A.

Artur Michałowski began his professional career in 1979 at EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant), which was a part of KWK "Zofiówka" (Zofiówka Hard Coal Mine). During his professional career, he was holding, among others, the following positions: Operations Engineer on Duty, Deputy Operations Manager for Optimization of Production and Key Management Staff, Operations Manager at EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant), Deputy Director of EC "Pniówek" (Pniówek CHP - Combined Heat and Power Plant), Director of EC "Zofiówka" (Zofiówka CHP - Combined Heat and Power Plant) and Director of the Production Office.

Patryk Demski - Vice President of the Management Board



A graduate of the Faculty of Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń, Executive Master of Business Administration studies at the University of Commerce and Services (Wyższa Szkoła Handlu i Usług) in Poznań and postgraduate studies in Tax Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń.

In the years 2020-2021 Patryk Demski was a Member of the Management Board of Centralny Port Komunikacyjny Sp. z o.o., and from February 2020 to April 2020 he had been the Chair of the Supervisory Board of Centralny Port Komunikacyjny Sp. z o.o. In 2018-2019, he had held the position of the Vice President of the Management Board for Investments and Innovation of Grupa Lotos S.A. He had also been the Mayor of the City and Municipality of Pelplin (2014-2018), Deputy Director of the Branch / acting Branch Director / Chief Specialist at the Agricultural Real Estate

Agency (Agencja Nieruchomości Rolnych) in Gdańsk (2006-2014). In 2006, he had been the Deputy Director of the Cabinet of the Pomeranian Province Governor.

Krzysztof Surma - Vice President of the Management Board



A graduate of the Cracow University of Economics (Akademia Ekonomiczna w Krakowie), with the major in finance and banking, specialization: corporate finance. He also completed the Master of Business Administration studies for Financiers at Kozminski University (Akademia Leona Koźmińskiego), postgraduate studies in the Practical Application of International Financial Reporting Standards at the Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie) and the Manager Development Program organized by the ICAN Institute. He is also a member of the Association of Chartered Certified Accountants (ACCA).

Krzysztof Surma has been associated with the Issuer since 2009, holding the position of the Executive Director for Finance Management, and from May 2021 to August 4, 2021, he had been the Director of the Finance Division. While performing the above functions within the Issuer's Group, he was holding, among others, the following positions: Vice President of the Management Board of TEC1, TEC2, TEC3 (2019), President of the Management Board of Finanse Grupa TAURON (2019), President of the Management Board of PKE Broker Sp. z o.o. (2008-2009), General Director of TAURON Sweden Energy AB (2014-2019).

In the years 2001-2009 he had worked at Południowy Koncern Energetyczny S.A., including, among others, as the Head of the Risk and Insurance Department (2005-2009).

Jerzy Topolski - Vice President of the Management Board



A graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Cracow. He also completed the postgraduate studies in the field of energy enterprise management and new techniques in power engineering management.

Jerzy Topolski has professional experience with respect to the operations of the power sector, including management of the development of the distribution grid and the provision of electricity distribution services. He was involved in setting up the organization of the electricity market in Poland.

From the beginning of his professional career, he had been associated with the energy industry and TAURON Group or its legal predecessors, i.e. ENION S.A. and Zakład Energetyczny Kraków S.A.

Since 2016, he was the Vice President of the Management Board for Operator at TAURON Dystrybucja S.A. (TAURON's subsidiary), where he was responsible, among others, for the development of the distribution grid, provision of electricity distribution services, metering and grid operation management.

In addition to the above mentioned position, in 2016 he was the Director of TAURON Dystrybucja S.A. Cracow and Tarnów branches. In the years 2015 - 2016 he had worked as a coordinator and had been responsible, among others, for customer service quality. From 2013 to 2014 he had been the chief specialist, and in 2011-2012 he had been the head of the Office of Tariffs and the Energy Regulatory Office (URE) Relations.

In the years 2010 - 2011 he had been holding the position of the Director of the Tariff Department at ENION S.A. and had been responsible in particular for regulated revenue management. In 2007 - 2010 he had been the Director of the Distribution Services Department and had been responsible for ensuring profitability of the distribution services sales. From 2005 to 2007, he had been the President of the Management Board, in 2004 - 2005 - a Member of the Management Board for Trading, and until 2004 - a Member of the Management Board and the Director of Energy Trading.

In the years 1989 - 2000 he had been holding the following positions at Zakład Energetyczny Kraków S.A.: the director of the high voltage region; deputy head of the high voltage region for technical affairs as well as the grid foreman (team leader) and engineer.

Artur Warzocha – Vice President of the Management Board



A graduate of the College of Education (currently Jan Długosz University) in Częstochowa and the postgraduate studies in the European financial, economic and legal relations at the SGH Warsaw School of Economics.

From September 2020 to January 2022 Artur Warzocha had been the President of the Management Board of TAURON Nowe Technologie S.A. (TAURON's wholly owned subsidiary), where he supervised strategic projects related to the cogeneration, renewable energy sources and electromobility. From November 2019 to September 2020 he had been the Vice President of the Agricultural Social Insurance Fund. In the years 2015-2019 he had been a senator of the Republic of Poland of the 9th term of office. In the years 2008-2015 he had worked at the Supreme Audit Office where he had been the chief state audit expert. From 2010 to 2014 he had held a councilor's seat in the Silesian Regional Assembly of the 4th term of office. From 2008 to 2016 he had been a research assistant at the Institute of Political Sciences and National Security at the Jan Długosz University in Częstochowa. From 2006 to 2007 he had been the 1st Vice Governor of the Silesia province.

In addition, he had been, inter alia, the deputy director at the Agricultural Advisory Center in Częstochowa, a political assistant to the Head of the Chancellery of the Prime Minister, a town councilor in Częstochowa, the press spokesman for the Governor of the Częstochowa province and a journalist.

Description of the procedures of the Company's Management Board

The Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice* which are available on the Company's website at the address: <https://www.tauron.pl>. When performing their duties the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2021.

Two Members of the Management Board or one Member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one Member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

The meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. The meetings of the Management Board shall also be convened on the motion of the majority of the Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's registered office on the date set by the person that has convened the meeting. In justified cases the meetings of the Management Board may be held outside the Company's registered office. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board.

The Management Board shall vote in an open ballot, unless otherwise provided for in the legal regulations. The result of the ballot shall be recorded in the minutes of the meeting.

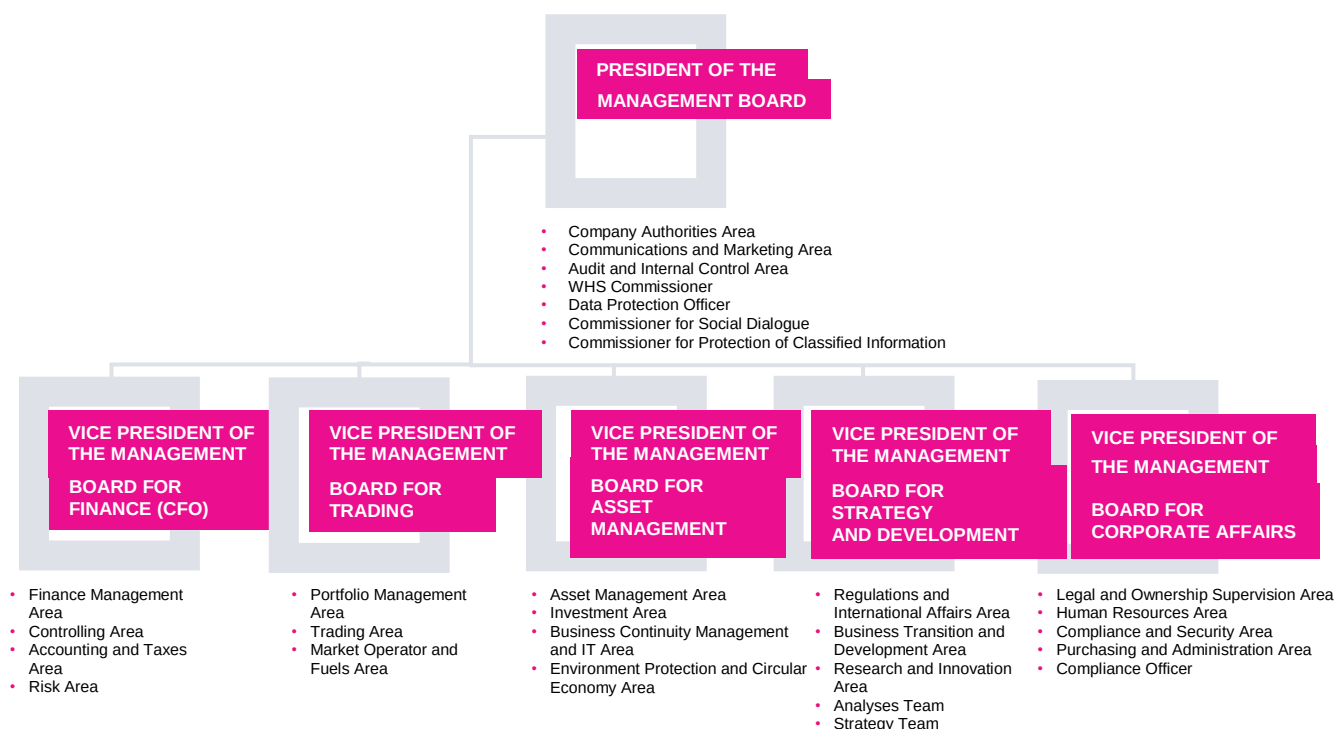
The resolutions of the Management Board shall be passed by an absolute majority of the votes in the presence of at least the majority of the Members of the Management Board. In case of an equal number of the votes the President of the Management Board shall have a casting vote. A Member of the Management Board shall inform the Management Board of any conflict of interest that has arisen or the possibility of the arising thereof and shall not participate in the reviewing of the matter or the voting on a resolution in a matter in which a conflict of interest may arise in relation thereto. The Management Board may pass resolutions by voting in writing or using the means of direct remote communications. The resolution shall be valid when all of the Members of the Management Board have been notified of the content of the draft resolution and at least the majority of the Members of the Management Board participated in adopting the resolution. The voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Member of the Management Board designated thereby, including setting the final deadline for casting of the votes by the Members of the Management Board. The Members of the Management Board voting against the resolution may submit a dissenting opinion to the minutes, which shall be recorded in the minutes along with the justification thereof. The decisions of the Management Board which are the decisions on the ongoing matters (daily business) that do not require a resolution shall be recorded only in the minutes.

The internal division, among the Members of the Management Board, of the tasks and responsibilities for the individual business areas of the Company's operations, as defined in the Organizational Regulations and including the independent (autonomous) work positions, as well as the organizational units reporting directly to the Executive Directors, whose work is managed (supervised) by the Members of the Company's Management Board, is defined by the Company's Management Board Resolution No. 18/VI/2022 of January 25, 2022 *regarding the assignment of individual organizational units of the Company and independent work positions directly reporting to the Members*

of the Management Board of TAURON Polska Energia S.A. The structure of the Company's business areas reporting to the individual Members of the Company's Management Board is posted on the Company's web site at the address: <https://www.tauron.pl/tauron/o-auronie/wladze-spolki>.

The below figure presents the diagram (flowchart) showing the split of responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report.

Figure no. 85. Diagram (flowchart) showing the split of responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report



Supervisory Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Company's Supervisory Board, began its run on July 15, 2020.

In accordance with the Company's Articles of Association it is a common term of office and it shall last 3 years.

The composition (membership) of the Company's Supervisory Board as of December 31, 2021

1. Piotr Tutak	- Chair of the Supervisory Board,
2. Teresa Famulska	- Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska	- Secretary of the Supervisory Board,
4. Stanisław Borkowski	- Member of the Supervisory Board,
5. Leszek Koziorowski	- Member of the Supervisory Board,
6. Ryszard Madziar	- Member of the Supervisory Board,
7. Grzegorz Peczkis	- Member of the Supervisory Board,
8. Marcin Wawrzyniak	- Member of the Supervisory Board.

The composition (membership) of the Company's Supervisory Board as of the day of drawing up this Report

1. Piotr Tutak	- Chair of the Supervisory Board,
2. Teresa Famulska	- Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska	- Secretary of the Supervisory Board,
4. Stanisław Borkowski	- Member of the Supervisory Board,
5. Dariusz Hryniów	- Member of the Supervisory Board,
6. Leszek Koziorowski	- Member of the Supervisory Board,
7. Ryszard Madziar	- Member of the Supervisory Board,
8. Grzegorz Peczkis	- Member of the Supervisory Board,
9. Marcin Wawrzyniak	- Member of the Supervisory Board.

The Supervisory Board of the Company held a total of 20 meetings in the period covered by this report.

The changes to the composition (membership) of the Company's Supervisory Board in 2021 and by the date of drawing up this report

As of January 1, 2021, the Company's Supervisory Board was composed of the following members: Andrzej Kania (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Katarzyna Taczanowska (Secretary of the Supervisory Board), Ryszard Madziar (Member of the Supervisory Board), Grzegorz Peczkis (Member of the Supervisory Board) and Barbara Piontek (Member of the Supervisory Board).

On February 12, 2021, Barbara Piontek submitted a statement of her resignation, effective as of February 28, 2021, from the membership of the Company's Supervisory Board, in connection with assuming the position of the President of the Management Board of Jastrzębska Spółka Węglowa S.A. from 1 March 2021.

On April 6, 2021, the Minister of State Assets, acting pursuant to § 23, section 1, clause 3) of the Company's Articles of Association, appointed Marcin Wawrzyniak to be a Member of the Company's Supervisory Board effective as of the same day.

On May 24, 2021, the Ordinary General Meeting of the Company adopted resolutions to appoint Stanisław Borkowski and Leszek Kozirowski to be the Members of the Supervisory Board of the Company.

On November 16, 2021, the Minister of State Assets, acting pursuant to § 23, section 1, clause 3) of the Company's Articles of Association, appointed Piotr Tutak to be a Member of the Company's Supervisory Board.

On November 18, 2021, Andrzej Kania submitted a statement of his resignation, effective as of the same day, from the membership of the Company's Supervisory Board and thus from performing the function of the Chair of the Supervisory Board without providing the reasons for his resignation.

On November 29, 2021, the Company's Supervisory Board elected Piotr Tutak to be the Chair of the Company's Supervisory Board.

On January 26, 2022, the Minister of State Assets, acting pursuant to § 23, section 1, clause 3) of the Company's Articles of Association, appointed Dariusz Hryniów to be a Member of the Company's Supervisory Board.

No other changes to the composition of the Company's Supervisory Board had taken place by the date of drawing up this information.

Information on the independence of the Members of the Company's Supervisory Board

In accordance with the Company's Articles of Association at least two Members of the Company's Supervisory Board should meet the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, and also should not have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

The Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on compliance with the independence criteria listed in the above mentioned act as well as on the existence or non-existence of the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company. In case a situation occurs where the independence criteria are not complied with, a Member of the Supervisory Board shall be obliged to inform the Company promptly thereof.

Information on the compliance of the Members of the Supervisory Board with the independence criteria is posted on the Company's website at the address: <https://www.tauron.pl>.

The below table presents the information on the compliance or non-compliance of the Members of the Company's Supervisory Board with the independence criteria as well as on the existence or non-existence of the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company as of December 31, 2021.

Table no. 61. Compliance of the Members of the Company's Supervisory Board with the independence requirements and the actual ties to a shareholder holding at least 5% of the total number of votes in the Company, as of December 31, 2021 and as of the date of drawing up this report

First and last name	Compliance with the independence requirements		Actual ties to a shareholder	
	as of December 31, 2021	as of the date of drawing up this report	as of December 31, 2021	as of the date of drawing up this report
1. Piotr Tutak	Independent	Independent	Did not exist	Do not exist
2. Teresa Famulska	Independent	Independent	Did not exist	Do not exist
3. Katarzyna Taczanowska	Independent	Independent	Existed	Exist
4. Stanisław Borkowski	Independent	Independent	Did not exist	Do not exist
5. Dariusz Hryniów	-	Independent	-	Do not exist

6. Leszek Koziowski	Independent	Independent	Did not exist	Do not exist
7. Ryszard Madziar	Independent	Independent	Did not exist	Do not exist
8. Grzegorz Peczkis	Independent	Independent	Did not exist	Do not exist
9. Marcin Wawrzyniak	Independent	Independent	Did not exist	Do not exist

Experience and competences of the Members of the Supervisory Board who continue to hold their seats on the Company's Supervisory Board as of the date of drawing up this report

Piotr Tutak - Chair of the Supervisory Board

A graduate of the political science faculty at the Institute of Social Sciences of the Pedagogical University in Cracow. He completed post-graduate studies in management at the SGH Warsaw School of Economics, public administration at the Jagiellonian University and the regional development at the University of Warsaw.

Piotr Tutak has extensive experience in public administration, including in the Chancellery Office of the Prime Minister, among others as an advisor to the Prime Minister, the Secretary of State and the Deputy Head of the Chancellery Office of the Prime Minister and the President of the Government Center for Strategic Studies. He also gained professional experience working in management and control (supervision, oversight) authorities of the commercial law companies, among others in the finance, energy and real estate sectors. He participated in professional internships in the US and Japan. A Member of the Consultative Council of the Faculty of Building Services, Hydro and Environmental Engineering of the Warsaw University of Technology. He completed a course for the candidates for members of the supervisory boards of the State Treasury companies. He has been the President of the Management Board of EuRoPol Gaz S.A. since 2016.

He has been a Member of the Company's Supervisory Board since November 16, 2021.

In the Company's Supervisory Board of the 6th common term of office he is the Chair of the Company's Supervisory Board and the Head of the Nominations and Compensation Committee of the Company's Supervisory Board and is a Member of the Strategy Committee of the Company's Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the University of Economics in Katowice (currently the University of Economics in Katowice). She holds a title of a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice. She is a professional tax advisor.

Since graduation she has been associated with the University of Economics in Katowice. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998 - 2013 she had been working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of more than 150 domestic and foreign publications in the field of finance, mainly public finance and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducted numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff. In 2007 - 2018 she had worked for three consecutive terms at the State Examination Commission on Tax Advisory Services, where, since 2010, for two consecutive terms based on the Minister of Finance's appointment, she was the Head of the Commission. In 2007 - 2019 a member of the Financial Education Committee of the Polish Academy of Science, where, in 2011 - 2015, she was a member of the Board of the Committee. Furthermore, she is a member of the Polish Finance and Banking Association (since 2004, a member of the Board), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries and Polish Economic Society.

In the period from May 29, 2017, until July 14, 2020, she had been a member of the Supervisory Board of TAURON Polska Energia S.A., holding the position of the Vice Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

She was awarded the following orders and accolades: Silver Cross of Merit, Silver Medal for Long Term Service, Medal of the Commission of National Education, awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. of the 6th common term of office since August 3, 2020, holding the position of the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

Katarzyna Taczanowska - Secretary of the Supervisory Board

A graduate of the Faculty of Law of the University of Warsaw, registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

Katarzyna Taczanowska has many years of professional experience in providing legal services for business entities that she has been offering since 2003. She was a partner at the GWW Woźny and Partners (GWW Woźny i Wspólnicy) law firm, since 2009 until now she has been a partner at the Kudlak, Taczanowska-Wileńska sp.k. law firm. In 2009 - 2012 she had been the Director of the Legal Office at Towarzystwo Funduszy Inwestycyjnych PZU S.A. (PZU S.A. Investment Funds Company). She was a member of the Supervisory Boards of PZU Życie S.A., LOT Aircraft Maintenance Services sp. z o.o. and IDA Management sp. z o.o.

Until December 2021 she held the position of the General Director for Corporate and Legal Affairs at KGHM Polska Miedź S.A., currently she holds the position of the General Director of Head Office at the abovementioned company.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since May 8, 2019.

In the Company's Supervisory Board of the 6th common term of office she is the Secretary of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board.

Stanisław Borkowski - Member of the Supervisory Board

A graduate of the Executive MBA studies at the University of Quebec in Montreal and a graduate of the Master of Business Administration studies at the SGH Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie). In addition, a graduate of the Faculty of Medicine at the University of Oslo.

He gained professional experience in the insurance sector, holding the position of the director of the health insurance department at PZU Group, Vice-President of the Management Board at insurance companies from Allianz Polska Group, acting President of the Management Board at Allianz Bank Polska S.A. and President of the Management Board at Credit Agricole Ubezpieczenia in the years 2001-2015. He had been a partner at Mangogross Sp. z o.o., responsible for consulting and investments, in the years 2015-2017. He had also been the President of the Management Board of Uzdrowisko Konstancin Zdrój S.A. and the Medical Institution (Zakład Lecznicy) Uzdrowisko Nałęczów S.A. in the years 2016-2017.

Currently, since 2017, he has been the President of the Management Board of Colbird Sp. z o.o. (Ltd).

He was a member of the supervisory boards of joint stock companies, where he was the chair of the supervisory board, as well as the head of the audit committees. Currently, he is a Member of the Supervisory Board and at the same time the Head of the Audit Committee of UNUM Polska S.A., as well as the Head of the Audit Committee at the Polish-Canadian Chamber of Commerce.

Decorated with the Golden Cross of Merit.

He has been a Member of the Supervisory Board of the Company since May 24, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Audit Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Dariusz Hryniów - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Opole (master's degree in law) and the Executive Master of Business Administration (MBA) studies at Koźmiński University, ESCP Europe. He is a legal counsel. He also completed technical education in the field of energy.

From 2015 to 2020, he had been holding the position of the Director of the Corporate and Legal Services Department at Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"). There he had been responsible, inter alia, for supervising the legal services provided for PGNiG Capital Group's subsidiaries, as well as the legal services related to the key projects, including the arbitration and acquisition processes, infrastructure investment projects, capital transactions as well as import contracts.

From 2016 to 2020, Dariusz Hryniów had been the Vice Chair and then the Chair of the Supervisory Board of PGNiG Termika S.A.

In the years 2017-2019 he had been the Chair of the Supervisory Board of PGNiG Supply & Trading GmbH, and in the period from 2016 to 2018 he had been a member of the Supervisory Board of Zakłady Wytwórcze Urządzeń Gazniczych "Intergaz" sp.z o.o.

From 2015 to 2016, he had been the Chair of the Supervisory Board of Opole TBS in Opole. In addition, he is the Managing Partner at Hryniów, Łebek i Partnerzy law firm.

He has been a Member of the Supervisory Board of the Company since January 26, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Strategy Committee of the Company's Supervisory Board.

Leszek Koziorowski - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Warsaw (Uniwersytet Warszawski), Registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

From the beginning of his professional career, he has been associated with the capital market. In the years 1994-1999 at the Securities Commission (Komisja Papierów Wartościowych - KPW), initially at the Office of Brokerage Houses and Trust Funds (Biuro Domów Maklerskich i Funduszy Powierniczych), subsequently as an advisor to the Chair of the Securities Commission (KPW).

During his work at the Securities Commission (KPW), he had also been holding the position of the Deputy Chairman of the Examination Committee for Investment Advisors.

Currently at GESSEL, KOZIOROWSKI Kancelaria Radców Prawnych i Adwokatów sp. p., where he has created and manages the capital market law department - employed since 1999, a partner since 2002.

He had been an arbitrator at the Stock Exchange Court at the Warsaw Stock Exchange (Sąd Giełdowy przy Giełdzie Papierów Wartościowych w Warszawie).

Since 2015, he has been a member of the Corporate Governance Committee at the Warsaw Stock Exchange (Komitet Ładu Korporacyjnego przy Giełdzie Papierów Wartościowych w Warszawie), where he was a co-author of the Best Practice of WSE Listed Companies 2016 and of the latest: the Best Practice of WSE Listed Companies 2021.

He had been holding the position of the chair and a member of the Supervisory Boards at a number of private and public joint stock companies, for example, IGLOTEX S.A. (the chair of the Supervisory Board), ESALIENS TFI S.A. (the chair of the Supervisory Board), Zakłady Odzieżowe BYTOM S.A., TETA S.A. (the chair of the Supervisory Board), TAURON Polska Energia S.A. (in the years 2010-2017).

An author of numerous publications in the field of the capital market law.

He has been a Member of the Supervisory Board of the Company since May 24, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Audit Committee of the Company's Supervisory Board. and a Member of the Nominations and Compensation Committee of the Company's Supervisory Board.

Ryszard Madziar - Member of the Supervisory Board

A graduate of the faculty of political science of the University of Warsaw. He holds an MBA degree obtained at the Warsaw Management University (Wyższa Szkoła Menedżerska w Warszawie).

He has an extensive experience in public administration. He has held the following positions: the Mayor of Wołomin, the Head of the Political Cabinet of the Vice Chairman of the Council of Ministers, and prior to that, the Deputy Director of the Mazovian Regional Office of the Agency for Restructuring and Modernization of Agriculture (Agencja Restrukturyzacji i Modernizacji Rolnictwa).

He is a member of the Supervisory Board of, among others, Totalizator Sportowy.

He had been the Head of the Political Cabinet of the Vice Chair of the Council of Ministers (Deputy Prime Minister) in the Chancellery of the Prime Minister until June 2021 and currently he is holding the position of an advisor to the Management Board of the Pekao S.A. bank.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since July 15, 2020.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

Grzegorz Peczkis gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is holding the position of the Vice Chair of the Supervisory Board of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Patent Office of the Republic of Poland.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019.

In the Company's Supervisory Board of the 6th common term of office he is the Head of the Strategy Committee of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board.

Marcin Wawrzyniak - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw (Uniwersytet Kardynała Stefana Wyszyńskiego w Warszawie). Entered on the list of legal counsels (attorneys-at-law) at the District Chamber of the Legal Counsels (Attorneys-at-law) in Warsaw (Warsaw Bar Association). An attorney-at-law (barrister), a member of the Warsaw Bar Association. A Member of the Tribunal of State.

He has had many years of professional experience with respect to providing legal services and consultancy for business entities, including the energy sector companies. A legal advisor to the central and local government administration bodies (authorities) with respect to investment processes. A partner at the law firm Wawrzyniak i Partnerzy Radcowie Prawni sp. p. (Wawrzyniak and Partners Legal Counsels Limited Liability Partnership - LLP). He was a member of the supervisory boards and the management boards of public and private sector companies. An author of several dozen publications in the field of business law, including books and comments to an act of law.

He has been a Member of the Company's Supervisory Board since April 21, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Description of the procedures of the Company's Supervisory Board

The Supervisory Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its registered office in Katowice* which are available on the Company's website at the address: <http://www.tauron.pl/>. When performing their duties the Members of the Company's Supervisory Board shall be acting in accordance with the principles provided in the Best Practice 2021.

The Members of the Supervisory Board of the Company, when performing the functions and duties assigned, shall be guided in their conduct, including in making decisions, by the independence of their own opinions and judgments, acting in the interest of the Company.

The Supervisory Board of the Company shall work by way of a debate, analyzing the situation of the Company and the Group against the background of the industry and the market on the basis of the materials provided thereto by the Management Board of the Company and the internal systems and functions of the Company, as well as obtained from outside the Company, using the results of the works of its Committees.

The main form of the Supervisory Board performing the oversight of the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. The meetings of the Company's Supervisory Board shall be convened by the Chair of the Supervisory Board or the Vice Chair of the Supervisory Board by presenting a detailed agenda of the meeting:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a request of each Member of the Supervisory Board,
4. at a request of the Management Board.

The meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all of the Members of the Company's Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chair of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. The notifications of the Supervisory Board's meeting shall be sent by electronic mail. In the notification of the Supervisory Board's meeting the Chair shall define the date of the meeting, the venue of the meeting and the detailed draft agenda. The Supervisory Board of the Company shall meet on as needed basis, however not less frequently than once every 2 months. The Supervisory Board may hold meetings without convening a formal meeting if all of the Members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda of the meeting.

A change of the proposed agenda of the meeting may occur when all of the Members of the Company's Supervisory Board are present at the meeting and no one raises an objection against the changed agenda of the meeting. An issue not included in the agenda of the meeting should be included in the agenda of the next meeting.

The participation in a meeting of the Supervisory Board shall be a Supervisory Board Member's duty. A Member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a Member of the Supervisory Board shall require a resolution of the Company's Supervisory Board. The Members of the Company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. The participation of the Company's Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the person convening the meeting of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

The Supervisory Board may seek opinions of experts using the knowledge of the Company's employees, including in particular, the legal counsels who provide regular legal assistance for the Company.

The Supervisory Board may also appoint independent experts to obtain an opinion and make the appropriate decision, as well as invite them to the meetings of the Supervisory Board. In case a transaction of the Company with a related entity requires an approval of the Supervisory Board of the Company, before adopting a resolution on granting such a consent, the Supervisory Board shall assess whether it is necessary to first seek an opinion of an external entity that will carry out the valuation of the transaction and the analysis of its economic effects. If the conclusion of the transaction with a related entity requires the approval of the General Meeting, the Supervisory Board of the Company shall draw up an opinion on the legitimacy of concluding such a transaction and in such a case it shall assess the need for a prior seeking of an opinion of an external entity. In the cases referred to above, the Supervisory Board of the Company shall adopt a resolution to commission the selected expert to carry out the work, obliging the Management Board of the Company to conclude the applicable agreement.

The meetings of the Supervisory Board shall be chaired by the Chair of the Supervisory Board, and in case of his/her absence, by the Vice Chair of the Supervisory Board. For important reasons, with the consent of the majority of the Members of the Supervisory Board present at the meeting, the person chairing the meeting shall be obliged to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Company's Supervisory Board. The Supervisory Board shall make its decisions in the form of resolutions. The Supervisory Board's resolutions shall be passed mainly during the meetings thereof. The Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all of its members have been invited in the appropriate manner defined in the Regulations of the Supervisory Board. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the Company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all of the Members of the Supervisory Board are present and nobody raises an objection. This shall not apply to the resolutions on excusing a Supervisory Board's Member's absence at the meeting. The resolutions shall be voted on in an open ballot. A secret ballot shall be ordered only in the cases stemming from the provisions of the law.

In accordance with the Company's Articles of Association, the Supervisory Board may pass resolutions in writing or using the means of direct remote communications. Passing a resolution in such a way shall require a prior notification of all of the Members of the Supervisory Board of the content of the draft resolution and the participation of at least half of the Members of the Supervisory Board in passing the resolution. The Company's Supervisory Board may pass resolutions this way as long as no Member of the Company's Supervisory Board raises an objection. When voting on a resolution in the above mentioned way a Member of the Company's Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution with a note that it has been passed in writing or by voting using the means of direct remote communications shall be signed by the Chair of the Supervisory Board. The resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

The participation in a meeting of the Company's Supervisory Board using the means of direct remote communications, i.e. a conference call or a video conference, shall be allowed. In case the Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using the means of direct remote communications, the resolutions shall be passed if at least half of the Members of the Company's Supervisory Board participate in the vote.

The Members of the Supervisory Board shall take part in the meetings and exercise their rights and responsibilities (duties) in person, and while performing their duties they shall be obliged to act with due diligence. The Members of the Supervisory Board shall be obliged to keep confidential the information related to the Company's activities that they have acquired in connection with holding their seat or on another occasion.

The Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision (oversight) activities on their own for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform the duties of the Members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the Member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Company's Supervisory Board, submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

The Company's Supervisory Board may appoint from among its members permanent or temporary (ad hoc) working groups (teams), committees to perform specific actions. The standing committees of the Company's Supervisory Board shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

The composition (membership), tasks and rules (procedures) of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Audit Committee were appointed for the current term on August 3, 2020 by the Company's Supervisory Board of the 6th common term of office from among its members.

In 2021 the Audit Committee was composed of 3 to 5 members.

Due to the changes to the membership of the Supervisory Board of the Company introduced in 2021, the Company's Supervisory Board also made changes to the membership of the Audit Committee.

The composition (membership) of the Audit Committee as of December 31, 2021, and as of the date of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Stanisław Borkowski - Member of the Audit Committee,
3. Leszek Koziorowski - Member of the Audit Committee,
4. Grzegorz Peczkis - Member of the Audit Committee,
5. Katarzyna Taczanowska - Member of the Audit Committee.

The changes to the composition (membership) of the Audit Committee in 2021 and by the date of drawing up this report

As of January 1, 2021, the Audit Committee was composed of the following Members of the Supervisory Board of the Company: Teresa Famulska (Head of the Audit Committee), Grzegorz Peczkis and Katarzyna Taczanowska.

On June 14, 2021, the Company's Supervisory Board supplemented the composition (membership) of the Audit Committee by appointing Stanisław Borkowski and Leszek Koziorowski to be the members thereof.

No other changes to the composition (membership) of the Audit Committee had taken place by the date of drawing up this report.

Information on the independence of the Members of the Audit Committee

Pursuant to the Act of May 11, 2017, on certified auditors, audit companies and public oversight, the majority the members of the audit committee, including the head thereof, should be independent and at least one member of the audit committee should have the knowledge and skills with respect to accounting or auditing financial statements and at least one member of the audit committee should have the knowledge and skills with respect to the industry that the company is operating in.

In 2021 the membership (composition) of the Audit Committee was in compliance with the requirements defined in the above mentioned act. The evaluation of the independence and the statutory requirements with respect to the knowledge and skills of the individual Members of the Audit Committee was carried out by the Company's Supervisory Board based on the relevant statements submitted by the Members of the Audit Committee.

The below table presents the information on the compliance, in 2021, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held.

Table no. 62. Compliance, in 2021, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held

First and last name	Period of performing the function (tenure) in the Audit Committee in 2021	Compliance with the independence requirements and the requirements with respect to the knowledge and skills held
1. Teresa Famulska	01.01.2021 – 31.12.2021	Independent Has the knowledge and skills in the field of accounting and auditing of financial statements
2. Stanisław Borkowski	14.06.2021 – 31.12.2021	Independent Has the knowledge and skills in the field of accounting and auditing of financial statements

First and last name	Period of performing the function (tenure) in the Audit Committee in 2021	Compliance with the independence requirements and the requirements with respect to the knowledge and skills held
3. Leszek Koziorowski	14.06.2021 – 31.12.2021	Independent
4. Grzegorz Peczkis	01.01.2021 – 31.12.2021	Independent Has knowledge with respect to the industry that the Company is operating in
5. Katarzyna Taczanowska	01.01.2021 – 31.12.2021	Independent

The detailed information on the way the Members of the Audit Committee, that continue to hold their seats in the Audit Committee, as of the date of drawing up this report, have gained the knowledge and skills to the extent defined in the *Act of May 11, 2017, on certified auditors, audit firms and public oversight* is presented above as part of the description of the experience and competences of the Members of the Supervisory Board of the Company.

Tasks and competences of the Audit Committee

In 2021 the Audit Committee was performing the tasks and competences defined in the currently applicable legal regulations and in the *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.* adopted by the Supervisory Board.

The Audit Committee held 8 meetings in total during the period covered by this report.

The tasks and competences of the Audit Committee as of December 31, 2021, and as of the date of drawing up this report, are presented in the below table.

Table no. 63. Competences of the Audit Committee as of December 31, 2021, and as of the date of drawing up this report

Competences of the Audit Committee
- monitoring: - Company's financial reporting process, - effectiveness of the internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting, - performing of financial revisions, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and findings of the Audit Supervision Committee stemming from an audit (inspection) performed at an audit company, - 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, - 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, - developing the policy for selecting the audit company to perform the audit, - 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, - defining the procedure for selecting the audit company by the Company, - 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, - 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, - presenting the recommendations aimed at ensuring accuracy (fairness, reliability) of the Company's financial reporting process, - performing other activities vested with the audit committees pursuant to the <i>Act of May 11, 2017, on certified auditors, auditing companies and public oversight, Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities, repealing the Commission Decision 2005/909/EC and the Act of September 29, 1994, on accounting</i>.

The detailed description of the activities of the Audit Committee is provided in the Report on the Activities of the Company's Supervisory Board, submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Permitted non-audit services provided by an audit company

The following permitted non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries in 2021 by the audit firm auditing the financial statements:

- confirmed in writing verification of the annual and interim (semi-annual) standalone consolidation packages of selected TAURON Capital Group's subsidiaries required to prepare the annual and interim consolidated financial statements,
- completing the agreed procedures for the verification of the report of TAURON Dystribucja 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.
- an assessment of the annual report of the Supervisory Board on the compensation of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., drawn up in accordance with art. 90g of the *Act*

on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies.

In connection with the provision of the above mentioned services, the Audit Committee performed an evaluation of the threats to and the safeguards of the independence of the audit company Ernst & Young Audyt Polska and expressed its consent for the provision of the above mentioned services.

Main assumptions of the policy for appointing (selecting) an audit company to conduct the audit and the policy of providing the permitted non-audit services by the audit company conducting the audit, by the entities related to such an audit company and by a member of the audit company's network

The Audit Committee adopted the following regulations on October 16, 2017, prepared in connection with the coming into force of the Act of May 11, 2017, on certified auditors, auditing companies and public oversight:

- 1. Policy for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,*
- 2. Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*
- 3. Policy for the provision of the permitted non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network.*

On October 5, 2020, the Audit Committee adopted the new version of the *Policy for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*, as well as the *Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*

Policy for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the selection of the audit firm to conduct the audit and review of the Company's financial statements with the legal regulations. The policy defines, in a clear manner, the principles and rules of the process for the appointment of the audit firm to audit the reports of TAURON as a public interest unit (entity), principles of the procedure for the appointment of the audit firm, principles of preparing the recommendations of the Audit Committee related to the appointment of the audit firm, as well as the principles of the rotation of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of TAURON. The most important assumptions adopted in the policy include the fact that the process for the appointment of the auditor shall be based on the applicable legal regulations, ensuring the transparency and objectivity of the process for the appointment of the auditor and including in the process of the requirements necessary for the timely and correct performance of the audit services for the Company.

Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the process for the appointment of the audit firm with the legal regulations, as well as ensuring that the audit and review of the financial statements are conducted at a high quality level, within a specified time frame, while ensuring independence, objectivity, transparency and credibility of the audit firm and the certified auditors. The procedure defines in detail and accurately the individual stages of the process to select the audit firm, including indicating the corporate authorities (bodies) and organizational units responsible for such stages. Furthermore, the procedure defines the general conditions for the participation in the proceedings and the criteria for the selection of the audit firm as well as the time frame of the auditor selection process. The most important assumptions made in the procedure include adopting a clear and transparent, based on the legal regulations, split of the responsibilities in the process for the appointment of the auditor, as well as defining transparent and non-discriminatory conditions for the participation in the tender procedure and criteria for the appointment of the audit firm that the company may apply.

Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network is aimed at defining clear rules aimed at meeting the requirement of the independence of the audit firm conducting the audit of the Company, in case such firm or entities that are members of its network are providing non-audit services. This policy defines the principles related to the provision for the benefit of TAURON Capital Group's entities, by the audit firm conducting the audit at TAURON, entities related to the audit firm and a member of the audit firm's network, of additional non-audit services or non-review services, in particular the conditions for the admissibility of the provision of the permitted services, the principles of the Audit Committee conducting an assessment of the threats to and safeguards of the independence of the audit firm, as well as the control mechanisms with respect to observing the principles of the independence of the certified auditor at TAURON Capital Group. The most important assumptions adopted in the policy include defining clear rules for the Audit Committee to conduct an assessment of the threats

to and safeguards of the independence of the audit firm and expressing consent for the provision of the non-audit services, based on the compliance with the legal regulations and the purposefulness of the provision of such services.

Recommendations of the Audit Committee related to the appointment (selection) of the audit firm

In 2021, the audit firm was selected to audit and review the financial statements and consolidated financial statements of TAURON for the years 2022-2024. The Supervisory Board selected the audit company based on the recommendation of the Audit Committee which met the applicable conditions and was drawn up as a result of the Company's public procurement proceedings, in accordance with the applicable criteria, including an indication of a second alternative entity to perform such activities and providing the justification for the preferences behind the selection of the recommended audit firm.

Controlling and monitoring the independence of the auditor

Controlling and monitoring the independence of the audit firm by the Audit Committee shall take place on the basis of the legal provisions and regulations adopted by the Audit Committee, in particular the *Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network* (Policy). In addition, the Company implemented the *Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.* (Procedure), which is aimed at ensuring the correct and timely performance by the Company of the activities required for the process of controlling and monitoring the independence of the audit firm and the entities that are members of its network by the Audit Committee.

The auditor's independence shall be assessed by the Audit Committee each time as part of reviewing the interim (semi-annual) and annual financial statements and the consolidated financial statements of the Company. For the purpose of the said assessment, in accordance with the Procedure, the Company shall obtain a declaration of compliance with the independence criteria referred to in the *Act of 11 May 2017 on certified auditors, audit firms and public oversight* from the audit firm in the case of semi-annual and annual financial statements. This statement shall be assessed by the Audit Committee.

The auditor's independence shall be assessed by the Audit Committee each time the Company or a subsidiary intends to commission services permitted to be performed by the audit firm or a member of the network that such an audit firm is a part of. In such a situation, the Audit Committee shall each time assess the threats and safeguards protecting the independence of the certified auditor and the audit firm. The assessment of threats and safeguards protecting the independence of the certified auditor and the audit firm carried out by the Audit Committee in accordance with the Policy shall include:

- 1) verification whether the given service is included in the list of the permitted services,
- 2) verification whether the requirements regarding the maximum limit of the compensation allowed by law for the provision of services other than an audit are met,
- 3) checking whether the subject of the permitted service to be commissioned to the certified auditor or audit firm, an entity related to that audit firm or a member of the network that the certified auditor or the audit firm is a part of, is not related to the Company's tax policy,
- 4) assessment of the statement on the compliance with the independence criteria obtained by the Company, in accordance with the Procedure, from the certified auditor or the audit firm that is to perform the permitted services, valid as of the date of the assessment,
- 5) an analysis of the substantive justification for the performance of the service by the certified auditor or the audit firm conducting the audit, an entity related to that audit firm or an entity that is a part of its network, indicating the key factors impacting the legitimacy of such a selection.

In accordance with the Procedure, for the purpose of the Audit Committee's control of the compliance with the requirements of the independence of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of the Company, the Company shall collect and regularly verify the information on the contracts concluded by TAURON Capital Group's subsidiaries with the audit firm conducting the audit and review of the financial statements and consolidated financial statements of the Company, as well as the members of the network that such an audit firm is a part of and the information on the transactions recorded by TAURON Capital Group's subsidiaries with the audit firm conducting the audit and review of the financial statements and consolidated financial statements of the Company, as well as the members of the network that the audit firm is a part of. At least once a year, the Company shall prepare information on the performance of the activities stemming from this procedure and submit it to the Audit Committee for evaluation.

Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Nominations and Compensation Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2021 the Nominations and Compensation Committee was composed of 3 to 4 members.

Due to the changes to the membership (composition) of the Supervisory Board of the Company introduced in 2021, the Company's Supervisory Board also made changes to the membership (composition) of the Nominations and Compensation Committee.

The composition (membership) of the Nominations and Compensation Committee as of December 31, 2021, and as of the date of drawing up this report

1. Piotr Tutak - Head of the Nominations and Compensation Committee,
2. Leszek Kozirowski - Member of the Nominations and Compensation Committee,
3. Ryszard Madziar - Member of the Nominations and Compensation Committee,
4. Marcin Wawrzyniak - Member of the Nominations and Compensation Committee.

The changes to the composition (membership) of the Nominations and Compensation Committee in 2021 and by the date of drawing up this report

As of January 1, 2021, the Nominations and Compensation Committee was composed of the following Members of the Supervisory Board of the Company: Andrzej Kania (Head of the Nominations and Compensation Committee), Ryszard Madziar and Barbara Piontek.

On February 12, 2021, Barbara Piontek submitted a statement of her resignation, effective as of February 28, 2021, from the membership of the Company's Supervisory Board of the 6th common term of office. This way, she ceased to be the member of the Nominations and Compensation Committee.

On February 19, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition (membership) of the Nominations and Compensation Committee by appointing Grzegorz Peczkis to be a member thereof.

On April 26, 2021, Grzegorz Peczkis submitted a statement of his resignation from the membership of the Nominations and Compensation Committee. On the same day the Company's Supervisory Board of the 6th common term of office supplemented the composition (membership) of the Nominations and Compensation Committee by appointing Marcin Wawrzyniak to be a member thereof.

On June 14, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition (membership) of the Nominations and Compensation Committee by appointing Leszek Kozirowski to be a member thereof.

On November 18, 2021, Andrzej Kania submitted a statement of his resignation, effective as of the same day, from the membership of the Company's Supervisory Board of the 6th common term of office. This way, he ceased to be the member of the Nominations and Compensation Committee.

On November 29, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Nominations and Compensation Committee by appointing Piotr Tutak to be a member thereof.

On November 29, 2021, the Nominations and Compensation Committee elected Piotr Tutak to hold the position of the Head of the Nominations and Compensation Committee.

No other changes to the composition of the Nominations and Compensation Committee had taken place by the date of drawing up this report.

Tasks and competences of the Nominations and Compensation Committee

The tasks and competences of the Nominations and Compensation Committee did not change in 2021.

The Nominations and Compensation Committee held 7 meetings in total during the period covered by this report.

The tasks and competences of the Nominations and Compensation Committee, as of December 31, 2021, and as of the date of drawing up this report, are presented in the below table.

Table no. 64. Competences of the Nominations and Compensation Committee, as of December 31, 2021, and as of the date of drawing up this report

Competences of the Nominations and Compensation Committee	
1.	recommending to the Supervisory Board a recruitment procedure for the positions of the Members of the Company's Management Board,
2.	evaluating candidates for the Members of the Management Board and providing the Supervisory Board with opinions in this respect,

3. recommending to the Supervisory Board a form and content of the agreements to be concluded with the members of the Management Board,
4. recommending to the Supervisory Board a compensation and bonus system for the members of the Management Board,
5. recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons,
6. recommending to the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of the Members of the Management Board who cannot perform their duties, along with a compensation proposal

The detailed description of the activities of the Nominations and Compensation Committee in the last financial year is provided in the Report on the activities of the Supervisory Board submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Strategy Committee were appointed for the current term on August 3, 2020 by the Supervisory Board of the 6th common term of office from among its members.

In 2021 the Strategy Committee was composed of 3 to 5 members.

Due to the changes to the membership (composition) of the Supervisory Board of the Company, introduced in 2021, the Company's Supervisory Board also made changes to the membership (composition) of the Strategy Committee.

The composition (membership) of the Strategy Committee as of December 31, 2021

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Stanisław Borkowski - Member of the Strategy Committee,
3. Ryszard Madziar - Member of the Strategy Committee,
4. Piotr Tutak - Member of the Strategy Committee,
5. Marcin Wawrzyniak - Member of the Strategy Committee.

The composition (membership) of the Strategy Committee as of the date of drawing up this report

1. Grzegorz Peczkis - Head of the Strategy Committee,
2. Stanisław Borkowski - Member of the Strategy Committee,
3. Dariusz Hryniów - Member of the Strategy Committee,
4. Ryszard Madziar - Member of the Strategy Committee,
5. Piotr Tutak - Member of the Strategy Committee,
6. Marcin Wawrzyniak - Member of the Strategy Committee.

The changes to the composition (membership) of the Strategy Committee in 2021 and by the date of drawing up this report

As of January 1, 2021, the Strategy Committee was composed of the following Members of the Company's Supervisory Board: Grzegorz Peczkis (Head of the Strategy Committee), Ryszard Madziar and Barbara Piontek.

On February 12, 2021, Barbara Piontek submitted a statement of her resignation, effective as of February 28, 2021, from the membership of the Company's Supervisory Board of the 6th common term of office. This way, she ceased to be the member of the Strategy Committee.

On March 1, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Andrzej Kania to be a member thereof.

On April 26, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Marcin Wawrzyniak to be a member thereof.

On June 14, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Stanisław Borkowski to be a member thereof.

On November 18, 2021, Andrzej Kania submitted a statement of his resignation, effective as of the same day, from the membership of the Company's Supervisory Board of the 6th common term of office. This way, he ceased to be the member of the Strategy Committee.

On November 29, 2021, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Piotr Tutak to be a member thereof.

On February 23, 2022, the Company's Supervisory Board of the 6th common term of office supplemented the composition of the Strategy Committee by appointing Dariusz Hryniów to be a member thereof.

No other changes to the composition of the Strategy Committee had taken place by the date of drawing up this report.

Tasks and competences of the Strategy Committee

The tasks and competences of the Strategy Committee did not change in 2021.

The Strategy Committee held 7 meetings in total during the period covered by this report.

The tasks and competences of the Strategy Committee as of December 31, 2021, and as of the date of drawing up this report are presented in the below table.

Table no. 65. Competences of the Strategy Committee as of December 31, 2021, and as of the date of drawing up this report

Competences of the Strategy Committee	
1.	evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board,
2.	recommending to the Supervisory Board the scope and deadlines for submitting the long term (multi-year) strategic plans by the Management Board,
3.	evaluating the impact of the planned and currently undertaken strategic investment projects on the Company's assets' position,
4.	monitoring the implementation of the strategic investment tasks,
5.	evaluating activities related to the use of the Company's material assets,
6.	providing opinions on the strategic documents submitted to the Supervisory Board by the Management Board

The detailed description of the activities of the Strategy Committee in the last financial year is provided in the report on the activities of the Supervisory Board submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

Description of the activities of the Committees of the Supervisory Board of TAURON Polska Energia S.A.

The detailed description of the activities of the Committees of the Supervisory Board is provided in the Regulations of the individual Committees of the Supervisory Board.

The Committees of the Supervisory Board are advisory and opinion making bodies acting collectively as a part of the Company's Supervisory Board structure and perform the support and advisory functions for the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements related to the scope of their tasks to the Supervisory Board, by way of the resolutions passed. The Committees of the Supervisory Board are independent of the Management Board of the Company.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of 3 to 5 members, while the Strategy Committee is composed of 3 to 7 members. The activities of the individual Committees are managed by their Chairpersons (Heads).

The meetings of the Committees of the Supervisory Board are convened by the Chairperson (Head) of the specific Committee on his / her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held on as needed basis. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Head of the given Committee may invite the Members of the Company's Supervisory Board, who are not members of the specific Committee, the members of the Management Board and the employees of the Company as well as other persons working or cooperating with the Company to take part in the meetings of the Committees. The Head of the specific Committee or a person appointed by him / her submits motions, recommendations and reports to the Supervisory Board.

The Committees of the Supervisory Board pass resolutions if at least half of their members are present at the meeting and all of the members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using the means of direct remote communication.

The Members of the Committees of the Supervisory Board may also participate in the meetings of the Committees and vote on the resolutions being passed by using the means of direct remote communication, i.e. tele- or video conferences.

The Company's Management Board shall be informed of the recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board shall provide public record information, via the Company, on their memberships, the number of meetings held and the participation in the meetings during the year, as well as on their main activities.

The Company's Management Board shall provide the individual Committees with the possibility of using the services of the external advisers to the extent required to perform the obligations of the Committees.

9.12. TAURON Group's Diversity Policy

The Company does not have a diversity policy with respect to the Members of the Management Board and the Supervisory Board in place. With respect to the Members of the Management Board and the Supervisory Board the

appointment of the persons performing the functions of the Members of the Management Board of the Company shall be made by the Supervisory Board of the Company, while the members of the Supervisory Board of the Company shall be elected by the General Meeting of Shareholders and the minister competent to exercise the rights related to the shares of the State Treasury under the statutory powers of the State Treasury.

The Members of the Management Board of the Company shall be appointed by the Supervisory Board of the Company on the basis of a recruitment procedure conducted in accordance with the rules and requirements set out in the Articles of Association and the *Act of December 16, 2016, on the principles of state assets management* whose goal is to check and assess the qualifications of the candidates and selecting the best candidate.

The announcement (notice) of the qualification (recruitment) process is published on the Company's web site at the address: <https://www.tauron.pl>. and in the Public Information Bulletin of the Minister competent to exercise the rights related to the shares of the State Treasury. Anyone who meets the requirements set out in § 16, clauses 3 and 4 of the Company's Articles of Association may enter the recruitment process. Due to the lack of specific requirements regarding, inter alia, gender, education background, age and professional experience, the Supervisory Board of the Company, when assessing and selecting candidates for the Members of the Management Board of the Company, has an option to ensure versatility and diversity in the selection of the Members of the Management Board of the Company.

The information on the qualifications and professional experience of the persons appointed to be the Members of TAURON's Management Board and Supervisory Board are published in the relevant current reports (regulatory filings) and on the Company's website at the address: <https://www.tauron.pl>.

The Company has implemented *TAURON Group's Diversity Policy* (Diversity Policy) on the basis of which TAURON Capital Group applies the policy of equal treatment and strives to ensure diversity in terms of gender, education, age and professional experience for all of the employees. The Diversity Policy is also applied in the cooperation (relationships) with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

Due diligence procedures and internal regulations

The due diligence procedures in place under the Diversity Policy include the activities aimed at:

1. developing the work environment based on respect, openness, reliability and fairness (justice),
2. ensuring versatility and diversity, in particular with respect to gender, education, age and professional experience,
3. building organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),
4. preventing discrimination by fostering appropriate atmosphere at work as well as building and strengthening positive relationships among the personnel.

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, in combination with the strengthening of the culture of equal treatment regardless of age, gender, appearance, disability, views or beliefs and ensuring equal opportunities in terms of compensation or professional development, there are regulations ensuring fairness and objectivity with respect to the work organization and compensation, for example:

1. *TAURON Group's Compensation Principles*,
2. applied regulations with respect to benefits (entitlements),
3. implemented flexible forms of work time and the ability to work remotely,
4. solutions dedicated for women, ensuring equal opportunities for them and support in combining professional life with private life, for example reduced working time for pregnant women.

By implementing the Diversity Policy TAURON Capital Group is seeking to ensure the work environment based on respect and fairness (justice). 2021 was spent on developing the assumptions and concept of the Knowledge and Age Management project and on raising the HR area's business awareness in this respect during the training courses held as part of the project.

In accordance with the Diversity Policy - diversity and openness are an integral part of TAURON Capital Group's business operations. TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all of the employees, and in particular to the management bodies (authorities) and its key managers. Also, actions have been undertaken to prevent discrimination by fostering appropriate atmosphere at work as well as building and strengthening positive relationships among the personnel and developing organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),

The Diversity Policy is also applied in the cooperation (relationships) with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

As part of employee related issues supporting the implementation of the directions set by the Diversity Policy, the following regulations are put in place at TAURON Capital Group.

1. *Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination at TAURON Group,*
2. *Policy of Respect for Human Rights* defining the principles of respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect,
3. training and competence development programs conducive to and supporting the creation of an atmosphere for the development of each employee,
4. regulations ensuring fairness and objectivity with respect to work organization and compensation, including among others:
 - 1) *TAURON Group's Compensation Principles,*
 - 2) *Human Resources Management Policy at TAURON Group,*
 - 3) regulations with respect to benefits (entitlements),
 - 4) flexible forms of work time and ability to work remotely
5. *TAURON Group's Employee Recruitment Principles,*
6. *TAURON Group's Competence Model*

TAURON Capital Group's diversity management is based on building a culture of openness. TAURON Capital Group, by fighting age related stereotypes, is building an intergenerational dialogue so as to facilitate the flow of knowledge. The workforce represents various age groups, including those over 50. Among the employees there are also people with various degrees of disability, which ensures the stimulation of the activities of this professional group.

TAURON Capital Group is taking steps aimed at preventing the discrimination, in particular due to age, gender, race, nationality, sexual orientation, appearance, fitness, difference in the views or political or religious beliefs by fostering the adequate atmosphere at work, which makes the employees feel respected and appreciated and gives a feeling that they can develop and fully realize their professional potential.

10. STATEMENT ON NON-FINANCIAL INFORMATION

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the Act of September 29, 1994, on accounting (Journal of Laws of 2021, item 217), instead of the statement on non-financial information, the Company drew up a Non-financial Report of TAURON Capital Group for 2020, in the form of a separate document posted on the Company's website at the address: : <https://www.tauron.pl>.

The above Report was drawn up in accordance with:

1. Article 49b, clauses 1-8 and art. 55, clauses 2b-e of the *Act of September 29, 1994, on accounting* (Journal of Laws of 2021, item 217), which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information, along with the additional, subsequent guidelines, including the European Commission Communication 2019 / C 209/01 of June 20, 2019, with the guidelines on non-financial reporting: Supplement on reporting climate related information,
2. Global Reporting Index guidelines - GRI Standards (core level).

11. MANAGEMENT AND SUPERVISORY PERSONNEL COMPENSATION POLICY

11.1. Compensation system for the Members of the Management Board and the key managers

General information on the adopted compensation system for the Members of the Management Board of TAURON Polska Energia S.A.

The principles of the compensation of the Members of the Company's Management Board in 2021 were in line with the "Policy of Compensation of the Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A." (Compensation Policy) adopted by the General Meeting of the Company by way of the resolution no. 26 of July 15, 2020 and in line with the resolution no. 5 of the Extraordinary GM of the Company of December 15, 2016, amended by the resolution no. 5 of the Extraordinary GM of the Company of November 21, 2019, on the principles of determining the compensation of the Members of the Management Board and the *Act of June 9, 2016, on the principles of determining the compensation of persons managing certain companies*, as well as the Best Practice of the WSE (GPW) Listed Companies in force in 2021.

The principles of determining the compensation were specified in detail in the resolution of the Company's Supervisory Board of December 19, 2016, *on determining the compensation of the Members of the Management Board of TAURON Polska Energia S.A.*, as subsequently amended

The Company shall draw up a report on the compensation of the Members of the Management Board and the Supervisory Board of the Company for the individual financial years in accordance with art. 90g of the *Act of July 29, 2005, on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies (Journal of Laws of 2021, item 1983)* and shall publish such reports on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>.

The subject of the Report on the Compensation are the principles of determining and the structure of the compensation of the Members of the Management Board and the Supervisory Board of the Company in the individual financial years, with a particular emphasis on the total compensation of the individual Members of the Management Board, broken down into the fixed and the variable compensation dependent on the accomplishment of the specific management objectives, along with the amount of the additional cash benefits and non-cash benefits granted to the Members of the Management Board and the amount of the benefits received by the Members of the Management Board in connection with the termination of the contract for the provision of the management services and the compliance with the non-compete clause.

The Compensation Policy, along with the resolution of the General Meeting of the Company on the adoption thereof is published on the Company's website at the address: <https://www.tauron.pl>.

The overarching objectives of the Compensation Policy include:

1. ensuring a consistent and motivational compensation system for the Members of the Company's Management Board,
2. linking the compensation principles with the monitoring of the implementation of the adopted strategic plans, the long term interests of the Company and the implementation of the financial plans,
3. setting the level of the compensation of the Members of the Company's Management Board in a way that links it with the implementation (accomplishment) of the management objectives set,
4. increasing the Company's value through the development of the most senior management staff,
5. improving the compensation system translating into the implementation of the Company's business strategy and the directions of its expansion,
6. ensuring the stable growth of the Company.

The model of compensation covered by the Compensation Policy assumes a two-component system for determining the compensation of the Members of the Company's Management Board, where the total compensation of a Member of the Company's Management Board is composed of a fixed part constituting the monthly base compensation and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management objectives (KPI).

The system of compensating the Members of the Company's Management Board assumes linking the variable part of the compensation with the outstanding management objectives stemming from the provisions of the *Act of June 9, 2016 on the principles for determining the compensation of the management personnel of certain companies*, as subsequently amended, and set, based upon these provisions, by the GM and the Supervisory Board of the Company. The adoption, in the compensation system, of the dependence of the compensation's variable part on achieving the management objectives set to be accomplished is aimed, in particular, at implementing the adopted

Strategy, the directions of the Company's expansion and the financial plans, taking into account the Company's long term interests. In addition, it shapes a new organizational culture of the Company.

Taking into account the applicable regulations, the level of compensation of the Members of the Company's Management Board is determined by the Company's Supervisory Board within the range determined by the Company's GM.

The variable compensation of the Members of the Company's Management Board constitutes up to 60% of the fixed compensation for the financial year, assuming the management objectives, set by the GM and detailed by the Supervisory Board for the given financial year, have been achieved.

The variable compensation for achieving the financial management objectives is granted based on the data coming from the audited consolidated financial statements of the Company for the given financial year. The variable compensation for achieving the non-financial management objectives is due in connection with achieving the specific goals in the given financial year based on the assessment of the achievement thereof made by the Company's Supervisory Board.

The Members of the Management Board of the Company are neither covered by the bonus program based on the capital (equity) of the Company (stock awards), nor do they receive any compensation or bonuses due to the performance of their functions in the governing bodies (authorities) of TAURON Capital Group's subsidiaries.

General information on the adopted System of Compensation of the Members of the Management Board of TAURON Capital Group's Subsidiaries

At all of TAURON Capital Group's subsidiaries for which TAURON is a parent company within the meaning of art. 4, clause 3 of the *Act of February 16, 2017, on the protection of competition and consumers*, (Journal of Laws of 2020, item 1076, as subsequently amended), the principles of compensation of the members of the management authorities (bodies) are applied in accordance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907). The above was defined in the *Policy for determining the compensation of the members of the authorities of the Subsidiaries* adopted by the Management Board of TAURON, and in the *Principles of the compensation of the members of the corporate authorities of the Subsidiaries*.

The principles of compensation of the members of the management bodies (authorities) of the subsidiaries are, similar as at TAURON, based on a two-component system for determining the compensation, where the total compensation is composed of a fixed part and a variable part dependent on fulfilling specific, results based criteria, i.e. achieving the management objectives. Linking of the compensation's variable part to achieving the management objectives set to be accomplished is of material importance in TAURON Capital Group's management process and is aimed at prioritizing the directions of the expansion of the individual subsidiaries.

General information on the adopted System of Compensation of the Key Managers

The principles related to the compensation and bonus system for the key managers and other employees are defined in the *Regulations of the Compensation of the Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

TAURON Group's Principles of Compensation were in force at TAURON Capital Group in 2021, constituting the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for the key managers based on the management by objectives system, consistent throughout TAURON Capital Group, representing a combination of the planning process, efficiency (performance) measurement process and assessment process.

The compensation and bonus system for the key managers in force envisages that the level of compensation should be tied to the financial condition of TAURON Capital Group and the Company over one year's time frame, in connection with the achievement (implementation) of the strategic goals.

The overarching assumption of the compensation system in force is to ensure the optimal and motivating compensation level, based on the value and type of work in the given position as well as the quality of work and effects achieved by the employees.

The structure of the compensation is composed of the following elements:

1. fixed part - constituting the base compensation (salary) determined in accordance with the table of level (tier) categories applicable at the Company and the monthly rates of the personal level (tier). The allocated level of the basic compensation (salary) reflects the value and type of work as well as the quality of the employee's work, defined based on the assessment of the employee's competence level,
2. variable part - which is dependent on the work performance results, defined based on the level of accomplishing the targets and tasks within the Management By Objectives (MBO) bonus system,
3. benefits (entitlements) - which are defined in the internal regulations of the Company.

The MBO bonus system based on the market principles of awarding bonuses ensures focusing (integrating) of the activities of the key managers on attaining the objectives aimed at implementing the Strategy, as well as the strategic objectives and expansion directions of TAURON Capital Group's individual subsidiaries. Such a system allows for cascading of the objectives defined by the Company's Management Board at TAURON Capital Group level and at the Company level, down to the concrete, parameterized tasks vested with the employees positioned at the lower levels of the organization. In addition, the MBO bonus system has been linked with the process based management system implemented at TAURON Capital Group, inter alia by linking the objectives with the Mega-processes defined within TAURON Capital Group. Therefore, the Management by Objectives culture introduced reflects the specific features of the individual functions implemented by the Company and allows for the use of the mechanisms enabling dialogue between the superior and the subordinate during the process of setting and assessing the objectives, that translate into attaining the overall efficiency throughout the entire organization.

At the same time, this tool enables precise correlating of the KPIs defined for the Members of the Company's Management Board with the objectives set for the given year for the key managers of the Company. An initial assessment of the accomplishment of the objectives takes place after the elapse of the first 6 months, while the Members of the Company's Management Board make the final assessment of the accomplishment of the objectives by the key managers after the year has ended.

In addition, there is a bonus system for the trading area (and the units directly cooperating therewith), the purpose of which is to motivate the personnel to achieving the higher revenues for TAURON Capital Group. The trading bonus covers the key managers from the trading area, where the bonus mechanism awards them an additional bonus only after exceeding their designated annual trading plans.

11.2. Principles, conditions and amount of compensation of the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group

Compensation of the Members of the Management Board of TAURON Polska Energia S.A.

The compensation of the Members of the Company's Management Board is determined by the Company's Supervisory Board. The total amount of the compensation understood as the value of the salaries, bonuses and benefits received in cash, in kind or in any other form, due or paid by the Company to the Members of the Company's Management Board in 2021 reached the gross amount of PLN 3 108 000.

The compensation of the Members of the Company's Management Board in 2021, broken down into the individual components, is presented in the below table.

Table no. 66. Compensation of the Members of the Company's Management Board in 2021, broken down into the individual components

First and last name	Period of holding the position in 2021	Compensation ¹ (PLN '000)	Variable compensation ¹ (PLN '000)	Other benefits ¹ (PLN '000)	Total (PLN '000)
1. Artur Michałowski	05.08.2021 – 31.12.2021	302	-	-	302
2. Patryk Demski	05.08.2021 – 31.12.2021	302	-	12	314
3. Krzysztof Surma	05.08.2021 – 31.12.2021	302	-	15	317
4. Jerzy Topolski	01.01.2021 – 31.12.2021	740	206	47	993
5. Wojciech Ignacok	01.01.2021 – 28.02.2021	132	-	5	137
6. Paweł Strączyński	01.04.2021 – 04.08.2021	273	-	9	282
7. Marek Wadowski	01.01.2021 – 17.05.2021	282	445	36	763
Total		2 333	651	124	3 108

¹excluding markups (surcharges)

At the same time, it is indicated that, because of the Company's obligations towards the former Members of TAURON's Management Board, the total amount of PLN 657 000 was paid out in 2021 due to the payment of the compensation for refraining from performing competing activities (the non-compete clauses), the variable compensation and the other benefits.

The Members of TAURON's Management Board did not receive any compensation or bonuses for performing the functions in the corporate bodies (authorities) of TAURON Capital Group's subsidiaries in 2021.

All of the Members of the Company's Management Board received in 2021 their compensation in accordance with the applicable contract for the provision of the management services in accordance with the *Act of June 9, 2016*,

on the principles of determining compensation of the management personnel of certain companies (Journal of Laws of 2020, item 1907) and the Compensation Policy.

The detailed information on the compensation model for the Members of the Company's Management Board and the Compensation Policy is presented in section 11.1. of this report.

Information on the obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature.

Compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries

The compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries is determined taking into account the scale (size) of the given subsidiary's operations, in particular:

1. average annual headcount,
2. annual net revenue (turnover) from the sales of goods, products and services as well as the financial operations,
3. total assets on the balance sheet as of the end of the year.

Based on the above criteria, the categories of the subsidiaries are defined, which determine the amount of the fixed compensation of the members of the subsidiaries' management authorities (bodies).

The principles of compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries are published on the website at the address: <https://www.tauron.pl>.

11.3. Agreements concluded with Members of the Management Board that envisage compensation in case of their dismissal from the position held

The agreements (contracts) for the provision of the management services concluded both with the Members of TAURON's Management Board as well as with the Members of the Management Boards of TAURON Capital Group's individual subsidiaries, envisage, in case of the termination or renouncement of the agreement by the Company for reasons other than defined therein, a payout of the severance payment in the amount of three times the fixed part of the compensation, on the condition they have performed their function over a period of at least 12 months prior to the termination of the agreement.

In addition, due to the Members of TAURON's Management Board, as well as the Members of the Management Boards of TAURON Capital Group's individual subsidiaries having access to the confidential information the disclosure of which could expose the Company and TAURON Capital Group's subsidiaries to losses, the agreements for the provision of the management services include the non-compete clauses applicable after the expiry of the term of office. Under the above mentioned agreements the Members of the Management Board are obligated to refrain from conducting competitive activities for a specified period in return for the compensation due thereto.

11.4. Non-financial components of the compensation due to the Members of the Management Board of TAURON Polska Energia S.A. and the key managers

Non-financial components of the compensation of the Members of the Company's Management Board

The Members of the Company's Management Board, in accordance with the agreements for the provision of the management services, shall be entitled to the reimbursement by the Company of the cost of training up to the net amount of PLN 15 000 in a calendar year.

The Members of the Company's Management Board are covered by the Employee Pension Program in accordance with the rules applicable to all of the employees of TAURON.

In addition, in the event of the permanent residence at a considerable distance from the registered office of the Company, a Member of the Management Board of the Company shall be entitled to a housing allowance in the gross amount of PLN 2 500.00 per month, that constitutes an additional benefit.

Non-financial components of the compensation of the key managers

The personnel employed at the key positions by the Company shall be entitled to take advantage of the following benefits and non-financial components of the compensation offered by the Company:

1. Employee Pension Program operated by the employer (under the condition of being employed by the Company or by one of TAURON Capital Group's subsidiaries over a period of at least 1 year),

2. medical package financed with the Company's funds,
3. company car allocated for their exclusive use,
4. housing allowance in the gross amount of PLN 2 500.00 per month in case the availability of the employee is required due to the nature of his / her work and scope of responsibilities.

11.5. Information on the changes to the compensation policy during the last financial year

The Compensation Policy did not change in 2021.

11.6. System of the Compensation of the Members of the Supervisory Board

The principles of the compensation of the Members of the Company's Supervisory Board in 2021 were in line with the Compensation Policy and the resolution the Extraordinary GM of the Company of December 15, 2016, amended by the resolution no. 5 of the Extraordinary GM of the Company of November 21, 2019, on the principles of determining the compensation of the Members of the Supervisory Board.

In accordance with the resolution of the Extraordinary GM of the Company of December 15, 2016, *on the principles of determining the compensation of the Members of the Supervisory Board*, as subsequently amended, which continues to be valid also in the light of the Compensation Policy in force, the monthly compensation of the Members of the Supervisory Board of the Company is determined as a product of multiplying the assessment base mentioned in art. 1, clause 3, item 11 of the *Act of 9 June 2016 on the principles for determining the compensation of the management personnel of certain companies*, and the multiplier:

1. for the chairperson of the Supervisory Board – 1.7
2. for the other members of the Supervisory Board – 1.5

The Members of the Supervisory Board shall be entitled to receive the compensation irrespective of the frequency of the meetings convened.

The compensation shall not be due for a month in which a Member of the Supervisory Board was not present at any of the formally correctly convened meetings, and the absence was not excused. The decision on excusing or a failure to excuse the absence of a Member of the Company's Supervisory Board at the meeting thereof shall be taken by the Company's Supervisory Board by way of a resolution.

Pursuant to the Company's Articles of Association, TAURON shall cover the costs incurred in connection with the performance the Members of the Supervisory Board of the functions entrusted therewith, in particular: the costs of the round trip between the place of residence and the venue of the Supervisory Board's meeting or a meeting of the Supervisory Board's Committee, the costs of the individual supervision and the costs of the accommodation and board.

11.7. Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.

The total amount of the compensation understood as the value of the compensations due or paid by the Company to the Members of the Company's Supervisory Board in 2021 reached the gross amount of PLN 573 000.

The compensation of the Members of the Company's Supervisory Board in 2021 is presented in the below table.

Table no. 67. Compensation of the members of the Company's Supervisory Board in 2021

First and last name	Period of holding the position in 2021	Compensation (PLN '000)
1. Piotr Tutak	16.11.2021 – 31.12.2021	11
2. Teresa Famulska	01.01.2021 – 31.12.2021	79
3. Katarzyna Taczanowska	01.01.2021 – 31.12.2021	79
4. Stanisław Borkowski	24.05.2021 – 31.12.2021	48
5. Leszek Koziorowski	24.05.2021 – 31.12.2021	48
6. Ryszard Madziar	01.01.2021 – 31.12.2021	79
7. Grzegorz Peczkis	01.01.2021 – 31.12.2021	79
8. Marcin Wawrzyniak	06.04.2021 – 31.12.2021	58
9. Barbara Piontek	01.01.2021 – 28.02.2021	13
10. Andrzej Kania	01.01.2021 – 18.11.2021	79

First and last name	Period of holding the position in 2021	Compensation (PLN '000)
Total		573

The Members of the Company's Supervisory Board do not perform functions (hold positions) in the authorities of the subordinated units.

Information on the obligations towards the former Members of the Company's Supervisory Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Supervisory Board due to pensions or benefits of similar nature.

12. OTHER MATERIAL INFORMATION AND EVENTS

12.1. Material proceedings pending before the court, competent arbitration authority or public administration authority

The below table presents the material proceedings pending before the court, competent arbitration authority or the public administration authority in 2021.

Table no. 68. Summary of material proceedings pending before the court, competent arbitration authority or public administration authority in 2021

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
Proceedings involving TAURON	
1. Plaintiff (Claimant): Huta Łaziska (Łaziska Steel Works) Defendants (Respondents): TAURON (as a legal successor to GZE) and State Treasury represented by the President of the Energy Regulatory Office (ERO)	Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance by GZE of the decision of the President of the Energy Regulatory Office (ERO) of October 12, 2001, related to the resumption of electricity supply to the plaintiff. Value of the object of litigation: PLN 182 060 000.00 Initiation of the proceeding: the lawsuit of March 12, 2007 Company's position: the Company considers the claims covered by the lawsuit as being without merit. On May 28, 2019, the Regional Court in Warsaw issued a ruling on the dismissal of Huta Łaziska's lawsuit in whole and ruled that Huta Łaziska shall refund each Defendant (Respondent) the costs of the proceedings. The ruling is not legally binding. Huta Łaziska filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole.
2. Authority conducting the audit: Head of the Mazovian Customs and Tax Office, and after an appeal has been filed – the Director of the Tax Administration Chamber in Katowice and the Director of the Tax Administration Chamber in Warsaw Party: TAURON	Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the two investigations (audits) are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from Castor Energy sp. z o.o. Value of the object of litigation (deducted VAT amount): with respect to the transaction with Castor Energy sp. z o.o. – PLN 52 494 672. Date of initiating the proceeding: October 2014, August 2016 Company's position: in the Company's opinion during the verification of the counterparty (business partner, contractor), the due diligence was actually adhered to, and the Company acted in good faith, so there are no grounds for refusing the Company the right to deduct the tax assessed on the invoices documenting the electricity purchase from Castor Energy sp. z o.o. On October 7, 2020, the Company received the decision of the Head of the Mazovian Customs and Tax Office, ending one of the audit proceedings, specifying the amount of its VAT tax liability for the following months: October, November, December 2013 and the first quarter of 2014, which resulted in the obligation for the Company to pay additional VAT due to the transaction with Castor Energy sp. z o.o. in the total amount of PLN 51 818 857, along with the interest on the tax arrears. The Company filed an appeal against the decision on October 20, 2020. On January 15, 2021, as part of the second audit proceedings, a decision was issued the Head of the Mazovian Customs and Tax Office in which the Authority stated that the Company had not been eligible to deduct the VAT assessed from the invoice issued by Castor Energia Sp. z o.o. in April 2014, and thus the Company overstated the amount of VAT assessed recognized in the tax statement filing for the second quarter of 2014 by the amount of PLN 677 815.39. On February 12, 2021, the Company filed an appeal against the decision.
3. Plaintiff (Claimant): Enea Defendant (Respondent): TAURON	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 Value of the object of litigation: PLN 17 085 846.49 Initiation of the proceeding: the lawsuit of December 10, 2015 Company's position: the Company considers the claims covered by the lawsuit as being without merit. On March 22, 2021, the Regional Court in Katowice dismissed Enea's lawsuit in full and ruled on Enea's obligation to reimburse the Company for the costs of the proceedings. The ruling is not final (legally binding). Enea filed an appeal against the said decision.
Lawsuits pertaining to the termination, by the PEPKH subsidiary, of the agreements related to the sales of electricity and property rights arising from the certificates of origin	
4. Plaintiff (Claimant): Dobiesław Wind Invest sp. z o.o. Defendant (Respondent): 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 (Claimant), apart from the existing claims, brought new claims: for the payment of PLN 37 471 305.05 or (a potential claim) PLN 35 969 662.07.

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
	Company's position: the Company considers the claims covered by the lawsuit as being without merit. 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.
5. Plaintiff (Claimant): Gorzyca Wind Invest sp. z o.o. Defendant (Respondent): TAURON	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 (Claimant): Pękanino Wind Invest sp. z o.o. Defendant (Respondent): 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 (Claimant): Nowy Jarosław Wind Invest sp. z o.o. Defendant (Respondent): 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. Co-participation on the plaintiff's (claimant' side): Amon sp. z o.o. (Amon) and Talia sp. z o.o. (Talia) Defendant (Respondent): 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 78 205 000; Talia – PLN 53 128 000 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	
9. Plaintiff (Claimant): Gorzyca Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o., Dobiesław Wind Invest sp. z o.o. Defendant (Respondent): 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, Dobiesław 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.
10. Plaintiff (Claimant): Dobiesław Wind Invest sp. z o.o. Defendant (Respondent): PEPKH	Object of litigation: plea to award damages and liquidated damages. Value of the object of litigation: PLN 119 958 191.00 (the plaintiff increased the value of the claim) 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.
11. Plaintiff (Claimant): Nowy Jarosław Wind Invest sp. z o.o. Defendant (Respondent): 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 105 128 834.11 (the plaintiff increased the value of the claim) 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.
12. Plaintiff (Claimant): Amon Defendant (Respondent): 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: determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
	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, 2. determined that Amon's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. 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.
13. Plaintiff (Claimant): Amon Defendant (Respondent): 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: August 20, 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 12 above. The court's decision is not legally binding (final).
14. Plaintiff (Claimant): Talia Defendant (Respondent): 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: 1. determined that PKH's statements on the termination of long term agreements, concluded between PEPKH and Talia, for the purchase of electricity and property rights arising from certificates of origin had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, 2. determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. On August 3, 2020, and on March 8, 2021, PEPKH filed an appeal against the ruling (the preliminary one and the supplemented one) with the court. On December 20, 2021, the Court of Appeal in Gdańsk, announced the ruling to dismiss the appeal of PEPKH. The ruling of the Court of Appeal, and as a consequence the above mentioned preliminary and partial ruling as well as the supplementary ruling are final (legally binding), however it is possible to file a cassation appeal. The rulings do not order that PKH should pay any damages to the plaintiff, i.e. Talia sp. z o.o. PKH disagrees in full with the ruling of the Court of Appeal as well as with the rulings of the Court of first instance. PEPKH filed a petition to the Court of Appeal for service of the judgment of the Court of Second Instance along with a written justification (statement of reason) and will proceed to analyze it in order to challenge it as soon as possible and take any other legal remedies it is entitled to.

Other proceedings

Petitions of TAURON Sprzedaż for a change of the approved tariff

As of January 1, 2020, pursuant to the decision of the President of the Energy Regulatory Office (ERO) of December 17, 2019, the electricity tariff for the G tariff groups consumers entered into force, resulting in an increase in the payments for the household consumers by 19.9% as compared to the payments incurred in 2018/2019.

Due to the fact that the said decision prevented TAURON Sprzedaż from passing on the justified costs of the activities related to the electricity trading, on January 8, 2020, TAURON Sprzedaż submitted to the President of the Energy Regulatory Office (ERO) a petition for a change of the tariff approved for 2020, thus initiating the administrative proceedings.

Due to the particularly complex nature of the case and the COVID-19 pandemic, the deadline for resolving the case was set as July 29, 2020.

By way of the decision of July 8, 2020, the President of the Energy Regulatory Office (ERO) did not approve the above mentioned tariff change.

In the opinion of TAURON Sprzedaż, the decision to approve the tariff was justified by the legitimate interest of the party and the provisions of the applicable law, stipulating that the tariff should cover the justified costs of the activities conducted by the Company, while the decision approving the tariff, in the opinion of the Company, did not ensure this.

On July 30, 2020, TAURON Sprzedaż filed an appeal to the Court of Competition and Consumer Protection in Warsaw, against the decision of the President of the Energy Regulatory Office (ERO) of July 8, 2020, motioning for the amendment of the challenged decision in its entirety by approving the electricity tariff in accordance with the

application of TAURON Sprzedaż or revoking the decision in its entirety and ruling that the decision was issued in the violation of the law.

On December 31, 2020, TAURON Sprzedaż received the information of the filing, by the President of the Energy Regulatory Office (ERO), of a motion to the Court of Competition and Consumer Protection in Warsaw to dismiss the above appeal.

As of the date of drawing up this information, TAURON Sprzedaż is waiting for the date of the hearing to be set.

The disputes between EC Stalowa Wola and Abener Energia

In connection with the settlement agreement concluded on December 31, 2021, as of the date of drawing up this report, all of the court and arbitration proceedings between EC Stalowa Wola and Abener Energia, the information of which was disclosed by the Company in 2021, had been suspended at the joint request of the parties. Subsequently, on March 9 and 10, 2022 (events taking place after the balance sheet date), the parties filed the motions to resume the suspended proceedings, to withdraw the lawsuits and the cassation appeal, and to discontinue all of the proceedings. The parties are awaiting the rulings of the Supreme Court and the Court of Arbitration at the Polish Chamber of Commerce in the above cases.

12.2. Agreements that are material for TAURON Capital Group's operations

Agreements that had been material for the operations of TAURON Capital Group in 2021 and by the date of drawing up this report are listed below.

Expiration of the cooperation agreement with respect to the implementation of the offshore wind farm projects

On December 29, 2020, TAURON concluded a two year cooperation agreement with OW OFFSHORE with respect to the development of the offshore wind farm construction projects in the Polish Exclusive Economic Zone on the Baltic Sea.

On June 29, 2021, TAURON provided OW OFFSHORE with a statement on the expiration of the obligations arising from the above mentioned agreement and thus the expiration thereof.

In the opinion of TAURON, for the objective reasons, beyond the control of any of the parties, in particular as a result of the changes in the regulatory environment and the entry into force of the Act on promoting electricity generation by the offshore wind farms, the situation reached such a stage that it became completely, permanently and objectively impossible to fulfill the obligations assumed in the agreement.

TAURON disclosed the information on the above events in the regulatory filing (current report): no. 24/2021 of June 29, 2021.

Sale by TAURON of its shares in PGE EJ1

On March 26, 2021, the Company signed with the State Treasury the agreement for the sale of all of its shares in PGE EJ 1.

The detailed information on the above mentioned topic is provided in section 1.3 of this report.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 10/2021 of March 26, 2021.

Buyback of the shares in Nowe Jaworzno Grupa TAURON from the funds managed by the Polish Development Fund (Polski Fundusz Rozwoju S.A. - PFR)

On August 25, 2021, the Management Board of the Company made the decision to start the activities, including the initiation of the negotiations, aimed at repurchasing from the Infrastructure Related Investments Fund - Closed-End Non-Public Assets Capital Fund (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych) and the PFR Closed-End Investment Fund (PFR Inwestycje Fundusz Inwestycyjny Zamknięty), whose part of the investment portfolio is managed by the Polish Development Fund (Fund), all of the 176 000 shares held by the funds in the company Nowe Jaworzno Grupa TAURON.

On December 22, 2021, TAURON concluded an agreement with the Infrastructure Related Investments Fund - Closed-End Non-Public Assets Capital Fund (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych), whose part of the investment portfolio is managed by the Fund, under which TAURON acquired 176 000 shares in Nowe Jaworzno Grupa TAURON representing 13.71% of the total number of the votes at the General Meeting of the Shareholders (Partners) of Nowe Jaworzno Grupa TAURON. The purchase price for the shares stood at PLN 1 061 385 000.

On March 22, 2022, (an event taking place after the balance sheet date), TAURON made the payments pursuant to the sale agreement, and thus the shareholders' (partners') agreement and the investment agreement with the Fund were terminated.

As a result of the transaction, TAURON became the owner of 100 percent of the shares and owns 100 percent of the votes at the shareholders' (partners') meeting of Nowe Jaworzno TAURON Group, which is operating a 910 MW unit in Jaworzno.

The sale agreement was concluded, inter alia, in connection with the government program of spinning off, from the capital groups of the energy companies with the State Treasury shareholding, of the assets related to the electricity generation by the conventional coal fired units and the ultimate integration thereof within the National Energy Security Agency (NABE).

TAURON disclosed the information on the above events in the regulatory filings (current reports): no. 34/2021 of August 25, 2021, and no. 51/2021 of December 22, 2021. TAURON disclosed the information on the shareholders' (partners') agreement and TAURON's investment agreement in the regulatory filing (current report): no. 11/2018 of March 28, 2018.

Signing of the loan agreement with the European Investment Bank

On October 29, 2021, the Company and the European Investment Bank signed a PLN 2 800 million loan agreement. The proceeds from the loan will be used to cover the capital expenditures of the Capital Group related to the modernization and expansion of the electricity distribution grid planned for the years 2022-2026.

In accordance with the agreement concluded, the funds may be used within three years from the date of signing the Agreement, while the loan will be repaid within up to eighteen years from the date of the disbursement of the funds. Depending on the decision of the Company, the interest rate will be fixed or floating, and will be determined as of the funds drawdown date.

By the date of drawing up this report, the Company had drawn the funds under this loan in the amount of PLN 800 million.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 42/2021 of October 29, 2021.

Signing of the loan agreement with Erste Group Bank AG

On December 15, 2021, TAURON signed a PLN 500 million loan agreement with Erste Group Bank AG, with the funds to be used to cover the expenditures of TAURON Capital Group related to the financing or refinancing of the growth with respect to the renewable energy sources, energy efficiency improvement and the expansion of the e-mobility infrastructure. The objectives of the funding will be in line with the criteria set out in the taxonomy of the European Union (EU) for determining whether and to what extent the given economic activity qualifies as environmentally sustainable. In accordance with the agreement, TAURON will be able to use the funds within 18 months from the date of signing the Agreement. The loan will be repaid within 5 years from the date of signing the agreement. The interest will be based on the floating interest rate increased by the bank's margin.

By the date of drawing up this report, the Company had drawn the funds under the loan in the amount of PLN 96 million.

TAURON disclosed the information on the above event in the regulatory filing (current report): no. 48/2021 of December 15, 2021.

12.3. Transactions with related entities on terms other than at arm's length

All of the transactions with the related entities are concluded at arm's length.

The detailed information on the transactions with the related entities is provided in note 56 to the Consolidated financial statements of TAURON Capital Group.

12.4. Concluded and terminated credit and loan agreements

TAURON concluded two long term loan agreements for the total amount of up to PLN 3 300 million in 2021.

The detailed information related to the above mentioned agreements is provided in section 12.2. of this report.

In 2021, as part of financing its ongoing operations, the Company concluded an overdraft agreement for the amount of up to PLN 250 million, with its effective term until August 30, 2022. The loan is intended to be used to finance the Company's ongoing operations. The loan's interest is based on a variable WIBOR 3M base rate increased by a fixed margin.

On December 31, 2021, a loan agreement was concluded between TAURON Wytwarzanie and the National Fund for Environmental Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) for the amount of PLN 83 million, for the purpose of co-financing the construction of a photovoltaic farm in Myslowice. The loan is interest free and the loan repayment deadline is December 20, 2029. The loan will be disbursed in accordance with the eligible project expenses incurred.

The intra-group loan agreements were concluded within TAURON Capital Group in 2021. *The information is presented in section 12.5. of this report.*

TAURON Capital Group's other subsidiaries did not conclude any other credit or loan agreements in 2021.

The detailed information on the credit and loan agreements is provided in note 39.1 of the Consolidated Financial Statement of TAURON Capital Group.

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2021.

12.5. Loans and sureties granted as well as sureties and guarantees received

Loans granted

TAURON provided the financing to the related companies in the form of the intra-group bonds in the total amount of PLN 1 589 million in 2021. In addition, as part of the intra-group financing, TAURON extended the maturity deadlines of the existing loans in the total amount of PLN 2 150 million. As of December 31, 2021, the total nominal amount of the intra-group loans granted stood at PLN 9 384 million.

In 2021, TAURON continued the financing, in the form of loans, of the co-subsiary EC Stalowa Wola, with the total nominal value of such loans clocking in at PLN 413 736 million as of December 31, 2020.

Apart from the loans mentioned above, the Company did not extend any other loans in 2021.

In 2021, TAURON EKOENERGIA granted the loans in the total amount of PLN 11 million to the special purpose vehicles conducting the investment projects in the field of the renewable energy sources. As of December 31, 2021, the amount of the loans came in at PLN 0.7 million.

After the balance sheet date, TAURON signed loan agreement with TAURON Nowe Technologie for the amount of up to PLN 50 million, annexes to loan agreements with TAURON Wydobycie extending the period of financing, annex to loan agreement with Wind T1 increasing the loan amount to PLN 197 million, and a loan of PLN 120 million for EC Stalowa Wola.

The detailed information on the loans is provided in note 39.1 of the Consolidated Financial Statement of TAURON Capital Group.

Sureties and guarantees granted

In 2021, a guarantee agreement was concluded by the Company, PGNiG and EC Stalowa Wola, under which the Company granted a corporate guarantee of up to PLN 7 million for the liabilities of EC Stalowa Wola under the agreements for the sale of electricity, the agreements for the provision of the electricity transmission or distribution services. The guarantee had been effective until February 15, 2022.

In 2021, TAURON EKOENERGIA increased, to the level of EUR 30 million, the corporate guarantee (bond) granted in 2020 for the liabilities of the Wind T1 company. The guarantee (bond) is effective until September 2022.

In addition, in 2021 TAURON raised the surety granted to TAURON Sprzedaż for the trade liabilities to the amount of PLN 30 million and extended its effective term until April 30, 2022.

As of December 31, 2021, the total amount of the sureties (co-signings) and the corporate guaranties (bonds) granted stood at PLN 862 635 000.

The amount of the guaranties (bonds) and sureties granted by TAURON EKOENERGIA for the liabilities of Wind T1 and Polpower, as of December 31, 2021, stood at PLN 92 million.

In 2021, as part of the framework (master) agreements in force, the bank guarantees (bonds) were issued at the instruction of the Company for the liabilities of TAURON Capital Group's subsidiaries and the related companies. As of December 31, 2021, the amount of the bank guarantees (bonds) in force, issued at the instruction of the Company, stood at PLN 645 million.

After the balance sheet date, TAURON granted to TAURON Czech Energy s.r.o. corporate guarantee in the amount of EUR 3 million as a collateral for trade agreements signed by the company and in the form of sponsor's declaration for the amount of up to CZK 180 million as a collateral for framework agreement for bank guarantees covering the entire term of the agreement.

The detailed information on the sureties and guarantees (bonds) granted is provided in note 55 to the Consolidated financial statements of TAURON Capital Group and in note 43 to the Financial statements of TAURON.

Sureties and guarantees received

As of December 31, 2021, the Company and its subsidiaries held the transaction collaterals (securities) received from the counterparties (contractors) in the form of the guarantees (bonds) granted to TAURON Capital Group's subsidiaries, bills of exchange issued by the counterparties (contractors), pledges on mortgage. The most important

guarantees (bonds) granted to TAURON Capital Group's subsidiaries were related to Nowe Jaworzno Grupa TAURON and were issued with respect to the construction of the 910 MW unit in Jaworzno.

12.6. The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in 2021

2021 was a period of the continued COVID-19 pandemic, during which an increase in the number of infection cases had initially been observed, leading to the record breaking levels of the SARS-CoV-2 infection cases, and subsequently, a gradual decline took place in the second and the third quarter of 2021, and then the next wave of infections came in the fourth quarter of 2021. In connection with the above, depending upon the then current status of the epidemiological situation, the numerous restrictions were in force in Poland in order to contain the spread of the pandemic. Initially, as the number of the infection cases was going up, the restrictions were additionally tightened and then, in the subsequent quarters of 2021, they were gradually lifted. Such a situation led to the disruptions in the economic and administrative system in Poland and worldwide. As a result, the epidemic continued to curb the economic activity (primarily in the first and in the second quarter of 2021), affecting, in particular, the operations of the companies operating in such industries as, among others, tourism, retail stores or transportation. As a consequence, in the medium and long term it should be expected – taking into account the continued high rate of infections and the arrivals of the successive waves of infections - that the COVID-19 epidemic will persist to affect the condition of the national, the European, as well as the global economy, making a negative impact on the macroeconomic factors, i.e. on the economic growth in Poland in the current year, as well as in the subsequent years, and also on the inflation rate. Important issues related to the impact of the pandemic on TAURON Group are presented below:

1. in spite of the restrictions in force, increased demand for electricity by clients of TAURON Capital Group was observed in 2021,
2. in the reported period no material changes and permanent trends in the balance of the overdue accounts receivable or fluctuations of electricity and related products proces was observed that would result from COVID-19 pandemic,
3. the persistent COVID-19 pandemic in 2021 brought about certain difficulties in the implementation of some of the strategic investment projects carried out by TAURON Capital Group caused by, inter alia, disruptions in supplies of materials and equipment. There were problems with functioning of the public administration, which resulted in the extension of the duration of the administrative proceedings.
4. the situation related to the COVID-19 pandemic continued to have an impact upon the operational activities of individual Lines of Business of TAURON Capital Group due to a higher absence rate and an increase in the operating costs resulting from the need to ensure epidemiological safety.

TAURON Capital Group, being aware of the threats related to the epidemiological situation, has continued to undertake the active measures aimed at minimizing the impact of the current and the expected economic situation, as well as providing the protection against the events of extreme nature. The situation related to the COVID-19 pandemic is highly volatile and the future effects as well as the scale of the pandemic are, as of the present moment, difficult to precisely estimate. The duration of the pandemic, its severity and range, the level of the vaccination, as well as its impact on the economic growth in Poland in the short, medium and long term will be important.

The Management Board of the Company, being aware of the threats stemming from the COVID-19 pandemic, is monitoring the impact thereof on an ongoing basis and will be taking all possible steps in order to mitigate any negative effects of the pandemic's impact on TAURON Capital Group.

12.7. The impact of aggression by the Russian Federation against Ukraine on current and future operations of TAURON Capital Group

An armed conflict broke out in the territory of Ukraine in February this year. The aggression of the Russian Federation against Ukraine is causing geopolitical tensions both in Europe as well as worldwide. In response to the situation that has arisen, the EU is introducing the successive packages of sanctions against the Russian Federation, which take a wide and varied form, including, inter alia, the diplomatic and financial measures, sanctions against the individual persons as well as the restrictions imposed on the economic relations.

TAURON Capital Group is identifying an abrupt increase in the volatility and the levels of the prices of the raw materials listed on the commodity markets (including crude oil, gas and hard coal), as well as the prices of the electricity and the CO₂ emission allowances. The material changes were also noted in the foreign exchange rates, including a significant weakening of the EUR / PLN exchange rate, as well as an increase in the market interest rates and an intervention raising of the NBP's reference (prime) rate by 75 bps. In addition, the third CHARLIE-CRP alert level has been introduced in Poland, indicating an elevated risk related to the possibility of terrorist incidents occurring. There are difficulties in accessing biomass of agricultural origin, which is mainly imported from Ukraine.

In other areas, as of the present moment, TAURON Capital Group has not identified any direct effects of the aggression on its own operating and business activities, and the continuity of the functioning of the business processes is not at risk. TAURON Capital Group does not have any assets located in the territory of Ukraine, Russia

and Belarus, and there were no material transactions related to the sales or deliveries in these directions. The situation related to the aggression of the military forces of the Russian Federation against Ukraine is highly volatile and its future implications are difficult to precisely estimate. They will, in particular, depend on the scale and duration of the aggression, as well as on the impact on the condition of the economy in Poland and worldwide. The impact on TAURON Capital Group will also depend on the scope of sanctions directed against the Russian Federation and their impact on the local as well as the global political and economic relations.

The potential risks that may constitute a future negative impact of the situation in question, characterized by an elevated risk of materializing, which may affect TAURON Capital Group, include:

1. heightened cybersecurity risk (potential attacks on the IT systems and the OT systems, and, as a consequence, the disruptions in the operation of the critical infrastructure),
2. possible disruptions on the fuel market in the EU and, as a consequence, the high volatility of the prices of gas, hard coal and biomass, which may translate into the level and volatility of the electricity prices, as well as the risk of ensuring a sufficient supply of fuel required to produce electricity by TAURON Capital Group,
3. elevated volatility of the prices of electricity as well as the prices of the CO₂ emission allowances and other related products, which may affect the market risk related to the trading (commercial) operations of TAURON Capital Group, as well as the amount of the margin deposits under the transactions concluded on the TGE (PPX) commodity exchange market,
4. changes in the EU energy (electricity) balance and, as a consequence, the possibility of the extended operations of the units located on the territory of Poland, which may lead to the disturbances in the operations of the power grid, as well as the elevated load of TAURON Capital Group's generating units and an escalation of the risk for the energy fuel supplies and the risk of maintaining the strategic reserves,
5. volatility of the prices of the raw materials and the prices of electricity and the related products, which may translate into the profitability of the ongoing and planned investment processes,
6. potential impact on the interruption / disruption of the supply chains related to the goods and services, which may affect, inter alia, the possible delays in the ongoing investment and restructuring processes,
7. potential disruptions in the access to the liquid fuels may lead to the difficulties in the road transportation, which may translate into the lack of the ability by UPS and UPW to carry out the collections (pickups), and, as a consequence, cause the curtailments of the operations of TAURON Capital Group's generation units,
8. increase in the prices of the raw materials as well as the goods and services, which may have a negative impact on the condition of the economy, leading to a further increase of the inflation rate in Poland and in the other EU countries,
9. as a result of the possible deterioration of the economic situation, a further increase in the level of the interest rates (an impact on the costs of financing based on a floating interest rate and an impact on the future level of the return on capital employed in the Distribution Line of Business) and the fluctuations in the domestic currency exchange rate against the key foreign currencies can be expected,
10. in the event of a deterioration of the economic situation in Poland, an impact on the level of the domestic electricity demand can be expected, which may turn out to be a headwind for the profitability of the Distribution Line of Business and the Supply Line of Business,
11. increased immigration of the Ukrainian citizens may affect the level of the domestic demand for electricity in households segment, which may affect the profitability of the Distribution Line of Business and the Supply Line of Business,
12. potential disruptions in the operations of the manufacturing plants and the relocation of their production capacity may affect the level of the domestic demand for electricity in business segment, which may affect the profitability of the Distribution Line of Business and the Supply Line of Business,
13. due to a potential curbing of the trade exchange between Poland and the Russian Federation, as well as due to the possible economic slowdown, the financial difficulties can be expected for some customers and contractors (counterparties) of TAURON Capital Group, which may translate into an increase of the credit risk at TAURON Capital Group,
14. unfavorable perception of TAURON Capital Group by the financial institutions in the context of Poland's location as a country bordering with Ukraine,
15. potential limitations in the access to the IT infrastructure, Internet and GSM networks, which may disrupt the functioning of the operational processes and the business continuity.

The above mentioned risks constitute the effects of the developing situation underway, identified as of the date of drawing up this report, which may have an impact on the operations of TAURON Capital Group in the future, and since the situation is evolving it is not an exhaustive list.

TAURON Capital Group, taking note of the scale of the threats related to the developing situation underway, is identifying the impact of the Ukrainian conflict on an ongoing basis and is taking steps aimed at minimizing the potential effects of the risk for TAURON Capital Group materializing, as well as at maintaining the continuity of the operations of the critical infrastructure. The coordination of works related to the identification of the impact and the reaction to the risk is managed by the dedicated Crisis Teams, set up both at the level of the Company as well as at the level of the individual subsidiaries of TAURON Capital Group.

12.8. Other information that could be material for the evaluation of TAURON Capital Group's personnel, assets, financial position, financial result and the changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations

Apart from the events indicated in this information, no other events had occurred 2021 that were material for the evaluation of the personnel, assets, financial position and the financial result of TAURON Capital Group and the changes thereof, as well as for the evaluation of the ability of TAURON Capital Group to meet its obligations.

Katowice, March 29, 2022

Artur Michałowski - acting as the President of the Management Board / Vice President of the Management Board

Patryk Demski - Vice President of the Management Board

Krzysztof Surma - Vice President of the Management Board

Jerzy Topolski - Vice President of the Management Board

Artur Warzocha - Vice President of the Management Board

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of trade terms and the list of abbreviations and acronyms most commonly used in this information is presented below.

Table no. 69. Explanation of abbreviations and acronyms as well as trade terms

Abbreviation and trade term	Full name / explanation
1. Abener Energia	Abener Energia S.A. (Joint Stock Company) with its registered office in Campus Palmas Altas (Sevilla).
2. Update of the Strategic Directions	Document entitled the <i>Update of the Strategic Directions in TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on May 27, 2019, constituting a supplement to the document entitled <i>TAURON Group's Strategy for 2016-2025</i> adopted by TAURON's Management Board on September 2, 2016.
3. Amon	Amon sp. z o.o. (Ltd.) with its registered office in Łebcz.
4. ARA	Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports
5. ARE	Agencja Rynku Energii S.A. (Energy Market Agency) with its registered office in Warsaw.
6. AVAL-1	AVAL-1 sp. z o. o. (Ltd.) with its registered office in Szczecin.
7. BASE (BASE Contract)	A baseload contract for the supply of electricity at all hours of the period, for example the BASE contract for March 2021 is related to the supply of the same amount of electricity during all hours of the month of March 2021.
8. BGK	Bank Gospodarstwa Krajowego with its registered office in Warsaw.
9. Bioeko Grupa TAURON	Bioeko Grupa TAURON Sp. z o.o. (Ltd.) with its registered office in Stalowa Wola.
10. B+R (R&D)	Research and Development (R&D&I).
11. B+R+I (R&D&I).	Research, Development and Innovations (R&D&I).
12. CAPEX	Capital Expenditures.
13. Cash pool	True real time (online) <i>cash pool</i> structure, implemented under the cash management agreement, is based on the daily limits. As a result of the implementation of the <i>cash pool</i> mechanism, cash transfers are made between the accounts of the service participants and the Pool Leader's account.
14. CDS	Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO ₂ emission allowances.
15. CER	Certified Emission Reduction - certified emission reduction unit.
16. Color certificates	Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: green - certificates of origin of electricity from RES, blue - certificates of origin of electricity generated from agricultural biogas. white - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors) yellow - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, red - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), violet - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing,
17. COVID-19	Coronavirus Disease 2019 - acute respiratory system contagious disease caused by the SARS-CoV-2 virus infection. The disease was first diagnosed and described in November 2019 in central China in the city of Wuhan, Hubei Province.
18. CRO	Deviation Settlement Price (Cena Rozliczeniowa Odchylenia) - the price at which PSE (transmission system operator) accounts for deviations in the production or consumption of electricity by the electricity balancing market (RB) participants.
19. CSI	Customer Satisfaction Index - an index used in marketing to determine the level of customer satisfaction with products or services offered by the company.
20. CSR	Corporate Social Responsibility.
21. CUW	Shared Services Center (Centrum Usług Wspólnych - CUW) - separate organizational units responsible for providing a specific range of support services (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services, CUW Insurance, CUW Protection).
22. CVaR	Credit Value at Risk – a measure of risk determining the maximum potential loss due to credit risk with the given probability and within a specified time horizon.
23. CVC	Corporate Venture Capital - Venture Capital (VC) investments carried out by VC funds with the intention of achieving not only financial goals, but also strategic (industry) goals set by a large company (corporation) which is the capital donor for this fund. VC are capital investments made on the OTC market

Abbreviation and trade term	Full name / explanation
	in business ventures that are in the early stages of development. CVC is a development of VC as a way of investing capital and is to have a positive impact on the industry objectives of TAURON Capital Group.
24. DMS	Distribution Management System – distribution grid management system.
25. Best Practices 2016	Document entitled <i>Best Practices of WSE Listed Companies 2016</i> , adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on October 13, 2015, effective as of January 1, 2016, replaced by the <i>Best Practices of WSE Listed Companies 2021</i> , adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on March 29, 2021, effective as of July 1, 2021.
26. Best Practices 2021	Document entitled <i>Best Practices of WSE Listed Companies 2021</i> , adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on March 29, 2021, effective as of July 1, 2021. The document replaced the <i>Best Practices of WSE Listed Companies 2016</i> in force before, adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on October 13, 2015.
27. DSM	Demand Side Management.
28. DSR	Demand Side Response – reaction of the demand side. A mechanism that involves a temporary reduction of electricity consumption by the consumers or a postponement of its consumption at the request of the transmission system operator.
29. EBI	European Investment Bank with its registered office in Luxembourg.
30. EBIT	Earnings Before Interest and Taxes.
31. EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
32. EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. (Joint Stock Company) with its registered office in Stalowa Wola (Stalowa Wola Combined Heat and Power Plant (CHP)).
33. EEC Magenta ASI	EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw.
34. EEC Magenta 2 ASI	EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw
35. EEC Ventures	EEC Ventures limited liability company limited joint stock partnership with its registered office in Warsaw
36. EEC Ventures 2	EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw
37. EEX (EEX exchange)	European Energy Exchange – the European energy exchange in Leipzig, where the contracts and derivatives for electricity for various European countries are traded, as well as the primary auctions of the CO ₂ emission allowances are conducted.
38. EMAS	EcoManagement and Audit Scheme – the community ecomanagement and audit system.
39. Enea	Enea S.A. (Joint Stock Company) with its registered office in Poznań.
40. Energa	Energa S.A. (Joint Stock Company) with its registered office in Gdańsk.
41. EPCM	Engineering Procurement Construction Management - construction, engineering and procurement management service (Contract Manager).
42. ERM	Enterprise Risk Management.
43. ESG	Environmental, Social and Governance - environmental, social and corporate governance factors used in the investment decision making process.
44. ESS	Energy Store System.
45. EU ETS	European Union Emission Trading System.
46. EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO ₂) equivalent to the air, within the meaning of Article 2 section 4 of the <i>act of July 17, 2009, on the management system of emissions of greenhouse gases and other substances</i> , which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>Act of April 28, 2011, on the system of greenhouse gases emission allowances trading</i>
47. EUR	Euro - a common European currency introduced in some EU member states
48. EWI	Early Warning Indicator.
49. Finanse Grupa TAURON	Finanse Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Katowice.
50. FIZ	Fundusz Inwestycyjny Zamknięty (Closed-end Investment Fund)
51. FIZAN	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end Private Equity Investment Fund)
52. GAZ-SYSTEM	Transmission Pipelines Operator (Operator Gazociągów Przesyłowych) GAZ-SYSTEM S.A. with its registered office in Warsaw.
53. WSE (GPW)	Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A. (Joint Stock Company)) with its registered office in Warsaw.

Abbreviation and trade term	Full name / explanation
54. TAURON Capital Group	TAURON Capital Group Polska Energia S.A. (Joint Stock Company)
55. GZE	Górnślaski Zakład Elektroenergetyczny S.A. (Joint Stock Company) with its registered office in Gliwice.
56. HEMS	Home Energy Management System.
57. ICE (ICE exchange)	InterContinental Exchange – the commodity and financial exchange, where, among others, the contracts for oil, coal, natural gas and the CO ₂ emission allowances are traded.
58. FGD (IOS)	Flue gas desulphurization installation (Instalacja Odsiarczania Spalin)
59. IRGiT	Izba Rozliczeniowa Gield Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with its registered office in Warsaw.
60. IRS	Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market
61. KGHM Polska Miedz	KGHM Polska Miedz S.A. (Polish Copper Mining Joint Stock Company) with its registered office in Lubin.
62. Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A..
63. Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
64. Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
65. BAT Conclusions	Best Available Techniques with respect to large combustion plants (LCP), introduced by way of the Executive Decision of the European Commission (EU) no. 2017/1442 of July 31, 2017
66. KPI	Key Performance Indicators – key financial and non-financial indicators used as ways to measure progress of achieving goals of an organization.
67. KRI	Key Risk Indicators.
68. KSE	National Power System (Krajowy System Elektroenergetyczny)
69. Ksh	<i>Act of September 15, 2000, Code of Commercial Companies</i>
70. KW Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. (Ltd.) with its registered office in Krzeszowice.
71. Marselwind	Marselwind sp. z o.o. (Ltd.) with its registered office in Katowice.
72. Ministry of State Assets	Ministry of State Assets with its registered office in Warsaw.
73. Mg	Megagram - million gram (1 000 000 g), i.e. ton.
74. Business Model	Document entitled <i>TAURON Group's Business and Operational Model</i> (which is an update of <i>TAURON Group's Business Model</i> adopted by the Management Board on May 4, 2016).
75. IFRS (MSSF)	International Financial Reporting Standards.
76. NBP	National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw.
77. NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.
78. Nowe Jaworzno Grupa TAURON	Nowe Jaworzno Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Jaworzno.
79. NO _x	Nitrogen oxides.
80. Line of Business (Segment)	Seven areas (segments) of TAURON Capital Group's core operations set up by the Company: Trading, Mining, Generation, RES, Heat, Distribution and Supply
81. OPEC	Organization of the Petroleum Exporting Countries with its registered office in Vienna.
82. DSO (OSD)	Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD)
83. TSO (OSP)	Transmission System Operator (Operator Systemu Przesyłowego - OSP)
84. OTC (OTC market)	Over The Counter Market – European OTC market.
85. OTF (OTF market)	Organized Trading Facility.
86. OW OFFSHORE	OW OFFSHORE S.L. with its registered office in Madrid, Spain - a joint venture in which EDP Renovaveis SA with its registered office in Lisbon, Portugal, and ENGIE SA based in Paris, France, each hold 50% of the shares.
87. RES (OZE)	Renewable Energy Sources (Odnawialne Źródła Energii - OZE)
88. PEAK (PEAK contract)	Peak contract for the supply of electricity during business hours (8-22) on business days, for example the PEAK contract for March 2020 is related to the supply of the same amount of electricity on all business days in March 2020 between 8 and 22.

Abbreviation and trade term	Full name / explanation
89. PEC Tychy	Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. (Ltd.) with its registered office in Tychy.
90. PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (Ltd.) with its registered office in Warsaw.
91. PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund Joint Stock Company) with its registered office in Warsaw.
92. PFR IFIZ	PFR Inwestycje Fundusz Inwestycyjny Zamknięty (PFR Investments Closed-end Investment Fund)
93. PGG	Polska Grupa Górnicza S.A. (Polish Mining Group) with its registered office in Katowice
94. PGE	PGE Polska Grupa Energetyczna S.A. (Joint Stock Company) with its registered office in Warsaw.
95. PGE EJ 1	PGE EJ 1 sp. z o.o. (Ltd.) with its registered office in Warsaw.
96. PGK	Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK).
97. PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil and Gas Joint Stock Company) with its registered office in Warsaw.
98. PKB (GDP)	Gross Domestic Product (Produkt Krajowy Brutto).
99. PLN	Polish zloty currency symbol – zł (PLN)
100. PMEF	Property rights related to the energy efficiency certificates
101. PMOZE	Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009.
102. PMOZE_A	Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009.
103. PMOZE-BIO	Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
104. POPC	Digital Poland Operational Program. (Program Operacyjny Polska Cyfrowa – POPC).
105. PRO	Partnership, Development, Boldness (Partnerstwo Rozwój Odwaga – PRO) - key corporate values reflecting the way TAURON Capital Group wants to achieve its business goals.
106. PSE	Polskie Sieci Elektroenergetyczne S.A. (Joint Stock Company) with its registered office in Konstancin-Jeziorna.
107. Balancing Market (Rynek Bilansujący – RB)	Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced.
108. RDB (Intraday Market)	Intraday Market - a market operating on the POLPX TGE), where trading is carried out in a continuous trading formula, 24 hours a day. Instruments with delivery on the next day are traded, with their trading starting at 14:00 the day before the delivery and gradually exiting the market one hour before the start of the delivery.
109. RDN (Day Ahead Market)	Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery.
110. RDNg	Day Ahead Gas Market - a market operating on the POLPX (TGE), where trading is carried out every day and is conducted in the continuous trading system.
111. REACH	Registration, Evaluation and Authorization of Chemicals - register of chemical substances placed on the market. Regulation of the European Parliament and of the Council governing the use of chemicals through the registration and evaluation thereof and, in some cases, the granting of authorizations and imposing trading restrictions.
112. ROI	Return on Investment - profitability ratio used to measure efficiency.
113. RTT	Futures Commodity Market (Rynek Terminowy Towarowy – RTT) - market operating on the POLPX (TGE), where trading in contracts is carried out in the continuous trading system and in the auction system.
114. SAIFI	System Average Interruption Frequency Index - an indicator of the average system frequency of long interruptions in the supply of electricity.
115. SARS-CoV-2	Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease.
116. SCE Jaworzno III	Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (Ltd.) with its registered office in Jaworzno.
117. SCR	Selective Catalytic Reduction - flue gas denitrification system.
118. Segment, Segments of Operations (Operating Segments)	TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following 5 main Segments: Mining, Generation, RES, Distribution and Supply, as well as, additionally, Other Operations.
119. SLA	Service Level Agreement.
120. SOx	Sulfur oxides.

Abbreviation and trade term	Full name / explanation
121. Consolidated Financial Statements of TAURON Capital Group	Document under the title <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020.</i>
122. Financial Statements of TAURON	Document under the title <i>Financial statements of TAURON Polska Energia S.A. in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2020.</i>
123. SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded with delivery not later than 3 days after the date of the transaction's conclusion (most often it is one day before the date of delivery). The operation of the SPOT market for electricity is strongly tied to the operation of the Balancing Market run by the TSO.
124. Company	TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice.
125. Company's Articles of Association	Document entitled <i>Articles of Association of TAURON Polska Energia S.A. (Joint Stock Company)</i>
126. Strategy	Document entitled TAURON Group's Strategy for 2016-2025 adopted by the Management Board on September 2, 2016, which is supplemented by the Update of Strategic Directions in the TAURON Group's Strategy for 2016-2025, adopted by the TAURON Management Board on May 27, 2019.
127. Sustainable Development Strategy	Document entitled <i>TAURON Group's Sustainable development strategy for 2017-2025</i> , adopted by the Management Board on August 1, 2017, which is an update of the document entitled <i>TAURON Group's Sustainable development strategy for 2016-2018 with an outlook until 2020.</i>
128. TAMEH HOLDING	TAMEH HOLDING sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
129. TAMEH POLSKA	TAMEH POLSKA sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
130. TAMEH Czech	TAMEH Czech s.r.o. with its registered office in Ostrava (Czech Republic).
131. TAURON	TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice.
132. TAURON Ciepło	TAURON Ciepło sp. z o.o. (Ltd.) with its registered office in Katowice.
133. TAURON Czech Energy	TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic).
134. TAURON Dystrybucja	TAURON Dystrybucja S.A. with its registered office in Cracow.
135. TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. (Ltd.) with its registered office in Tarnów.
136. TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. (Ltd.) with its registered office in Jelenia Góra.
137. TAURON Nowe Technologie	TAURON Nowe Technologie S.A. (Joint Stock Company) (formerly: TAURON Dystrybucja Serwis S.A. (Joint Stock Company)) with its registered office in Wrocław.
138. TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. (Ltd.) with its registered office in Wrocław.
139. TAURON Serwis	TAURON Serwis sp. z o.o. (Ltd.) with its registered office in Katowice.
140. TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. (Ltd.) with its registered office in Cracow.
141. TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. (Ltd.) with its registered office in Gliwice.
142. TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. (Ltd.) with its registered office in Katowice.
143. TAURON Wydobycie	TAURON Wydobycie S.A. (Joint Stock Company) with its registered office in Jaworzno.
144. TAURON Wytwarzanie	TAURON Wytwarzanie S.A. (Joint Stock Company) with its registered office in Jaworzno.
145. TCFD (TCFD Guidelines)	Task Force on Climate-related Financial Disclosures - A Task Force on Climate-Related Disclosures established by the G20 Financial Stability Board, which issued recommendations in June 2017 to encourage financial institutions and non-financial companies to disclose information on the climate related risks and opportunities. These recommendations are considered to be the authoritative (credible) guidance on the financial reporting of the climate related information.
146. TEC1	TEC1 sp. z o.o. (Ltd.) with its registered office in Katowice.
147. TEC2	TEC2 sp. z o.o. (Ltd.) with its registered office in Katowice.
148. TEC3	TEC3 sp. z o.o. (Ltd.) with its registered office in Katowice.
149. TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw.
150. TGEozebio	Property rights that confirm the production of electricity from renewable energy sources using agricultural biogas.
151. TU	Towarzystwo Ubezpieczeń (Insurance Company)
152. EU (UE)	European Union (Unia Europejska - UE)

Abbreviation and trade term	Full name / explanation
153. UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK))
154. Unbundling	Separation of the operations with respect to transmission or distribution of electricity from the operations that involve the production and delivery (supply) of this electricity to the final consumers.
155. ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki - URE)
156. USA	United States of America.
157. USD	United States Dollar - US dollar's international acronym
158. VaR	Value at Risk - a measure of risk that determines the maximum possible change in the value of the Portfolio with the given probability and within a specified time frame.
159. WACC	Weighted Average Cost of Capital - the weighted average cost of capital of the company, weighted respectively by the share of debt and equity in the company's capital structure.
160. WFOŚiGW	Regional Environment Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) in Katowice or in Cracow .
161. Wind T1	Wind T1 sp. z o. o. . z o.o. with its registered office in Jelenia Góra.
162. Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów.
163. GM (WZ/ZW)	General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW)
164. ZG	Coal Mine (Zakład Górniczy - ZG) (Janina Coal Mine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze).

Appendix B: INDEX OF TABLES AND FIGURES

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NON-FINANCIAL REPORT

of TAURON Capital Group
for 2021

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LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

It is our unchanging priority to develop renewable energy sources as part of the Green Turn of TAURON. To accelerate this process, we began working on a new strategy. The document will set new goals with respect to climate challenges and customer expectations. In addition, the new strategy will be our response to the market in connection with the tightening climate policy, in particular the European Green Deal and the Fit for 55 Package.

The development of renewable energy sources was a priority for TAURON Group in 2021. In order to stay on the growth curve, we intensified activities focused on increasing the volumes of production from the wind and sun. From the beginning of last year, some of the electricity we were generating came from the photovoltaic farm in Jaworzno. We have also completed construction works on a photovoltaic farm with a total capacity of 14 MW in Choszczno. In addition, we have started the construction of two wind farms - Piotrków and Majewo, with a total capacity of 36 MW, and a photovoltaic farm with a capacity of 100 MW in Mysłowice. Additionally, we have concluded a number of framework agreements aimed at securing the rights to the new RES generation units' construction projects.

TAURON Group is involved in the process of establishing the National Energy Security Agency, where coal-fired generation assets are to be transferred. Last year, we also signed a letter of intent with the Ministry of State Assets, under which TAURON Group's coal mines are planned to be sold to the State Treasury. We have also made the decision to keep the district heating assets within the Group's structure, with the intention to convert them from coal to gas by 2030, which will allow us to strengthen our leading position on the district heating supplier market in the Upper Silesia-Zagłębie Metropolitan Area.

Aware of the increasing importance of sustainable development factors in our operations, we established the ESG Committee in 2021. As a result, setting directions and goals related to ESG as well as reporting on the implementation thereof will be carried out in a new, fully coordinated fashion.

The entire 2021 year also brought us a number of challenges related to the COVID-19 pandemic. Bearing in mind the health and safety of our workforce, we made the decision to continue maintaining the implemented precautionary measures, adapted to the specifics of TAURON Group's subsidiaries' operations. In addition, we initiated a number of supporting activities, among others we provided the funding for the voluntary tests for the presence of the SARS-CoV-2 virus antibodies. We also undertook pro-social aid activities, making targeted donations for the purchase of equipment for foundations and medical institutions located in the area of our operations. The customer service solutions introduced due to the pandemic will remain with us for years, including a large scale acceleration of the digitization of processes.

It is important for us that the Report that I submit to you is a comprehensive and transparent document, therefore both the layout as well as the content of the publication are based on the structure and guidelines of the international reporting standard GRI (Global Reporting Index). Focusing on the disclosure of key non-financial issues related to the operations of TAURON Capital Group, presented taking into account the environment (stakeholders) and anticipated trends, this Report aims, first and foremost, to disclose the method used to create value for our stakeholders.

The changing regulatory environment, rising prices of CO₂ emission allowances and accelerating climate change prompt us to systematically verify our assumptions and adapt to the growing expectations of stakeholders as well as to take further actions to minimize the impact of our activities on the planet. We hope that in 2022 we will be able to widen the options for obtaining further funding and intensify our expansion towards increasing the share of zero- and low-carbon assets in the Group's generation portfolio.

For this year, full of new challenges, I would like to thank all shareholders, customers and employees of TAURON Capital Group.

Yours respectfully,
Artur Michałowski

acting as the President of the Management Board
Vice President of the Management Board of TAURON Polska Energia S.A.

1. Information on TAURON Capital Group's Report and legal basis

1.1. Information on the Report, legal basis

The 2021 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 presented in this Report from the point of view of the entire TAURON Capital Group and are provided on a consolidated basis.

The subject matter scope of the Report has not changed significantly as compared to 2020. The Report covers the following subsidiaries: TAURON Polska Energia, TAURON Wydobycie, TAURON Wytwarzanie, Nowe Jaworzno Grupa TAURON, TAURON Ciepło, TAURON Ekoenergia, TAURON Dystrybucja, TAURON Nowe Technologie, TAURON Dystrybucja Pomiary, 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 2020 was published on March 31, 2021).

Due to the growing importance of non-financial data, the Non-financial Report has been prepared for the third time in the history of TAURON Group, constituting an independent, autonomous document.

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.

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 topics to be covered in the Report;
- Collecting the data illustrating the implementation of the policies with respect to the business model, Strategy and the corporate social responsibility goals, as well as the due diligence and risk management principles and the way they are managed at TAURON Capital Group;
- Drawing up this Report based on the collected data in accordance with the Accounting Act of September 29, 1994, as subsequently amended, the European Commission Communication 2019/C 209/01 of 20.06.2019 with guidelines on non-financial reporting: Supplement on reporting climate-related information and based on the reporting standard Global Reporting Index - GRI Standards (core level).

1.3. Reporting standard

Seeing growing interest in non-financial data that allows for understanding 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, investors, analysts and bondholders, employees, customers, suppliers, business partners, local communities, legislators, regulatory bodies (regulators) and decision makers.

This Report is based on the Global Reporting Initiative standard - GRI Standards (core level). The Report presents indices from the categories of the basic (core level) 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.

1.4. Stakeholder mapping

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 thereof 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 capabilities as well as implementing the agreements reached.

With the above purpose in mind 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. The process was verified and confirmed to be up to date in 2022. It was also 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 no

stakeholders outside the previously identified groups had been found among the responses to the Group's posts or messages.

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.

As part of the stakeholder map, the impact of individual stakeholder groups on TAURON Group was determined on a five-point scale (where -5 points means no impact at all, +5 points means a very high impact). The interest of individual stakeholder groups in TAURON Group is shown in the same way, by placing them on a scale from -5 (complete lack of interest) to +5 (very high level of interest).

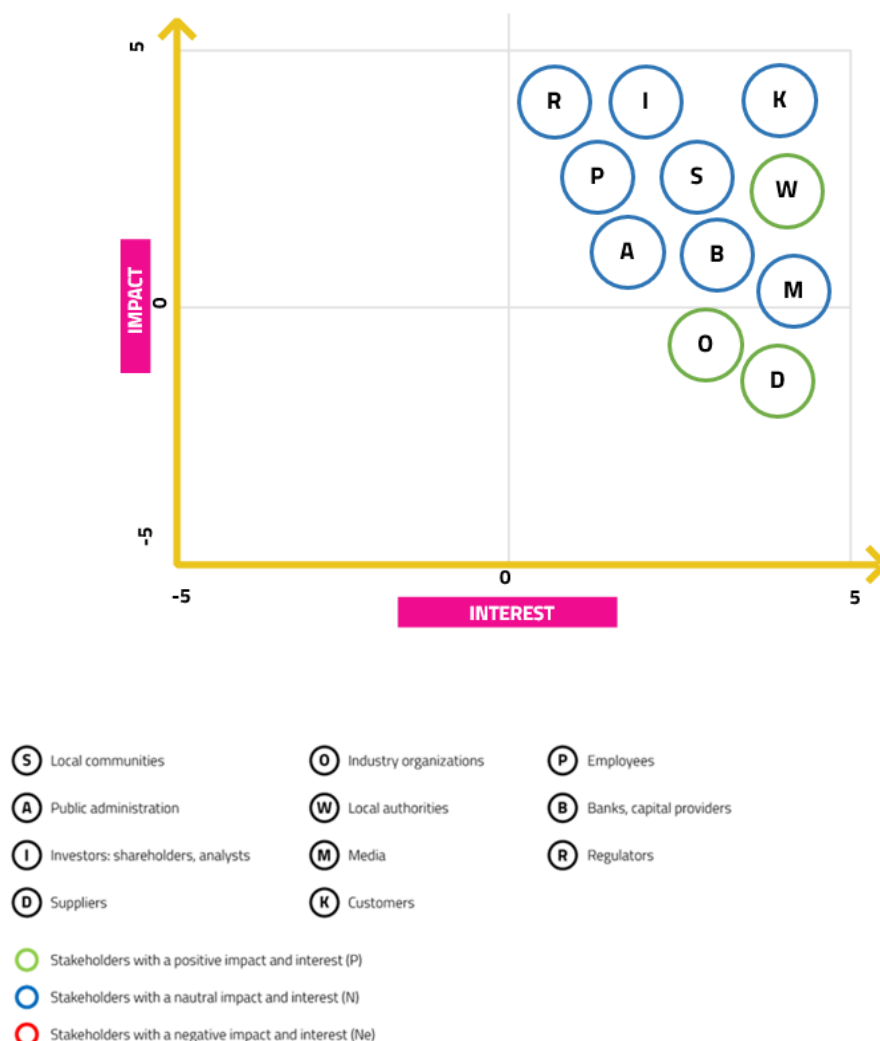


Figure no. 1. Johnson & Scholes matrix illustrating the map of TAURON Capital Group's stakeholders in 2020

Having conducted 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 points 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, verified and confirmed in 2021;
- 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. The preparation of this Report was based on the results of the above mentioned process were used.

In accordance with the market analysis principles and the AA1000 SES standard, the process of defining material aspects of the reporting was composed of:

- quantitative research - surveys,
- qualitative research – workshops and interviews.

They were implemented in two groups of stakeholders representing 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 topics (issues) to be reported. The goal of the qualitative research, on the other hand, was to obtain the confirmation by stakeholder representatives from key groups of the importance (weight) of the topics (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 (AGH).

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 lines of business (Mining, Generation, Heat, RES, Distribution, Customer Service and Supply) 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 the internal stakeholders were collected based on the on-line questionnaire. As part of the qualitative research, 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 the 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. 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, and additionally also the representatives of the universities (AGH) participating therein.

The results of the identification by the external and internal stakeholders of the materiality level of non-financial topics (issues) to be reported by TAURON Capital Group are provided in the materiality matrix, presented in Figure 2.

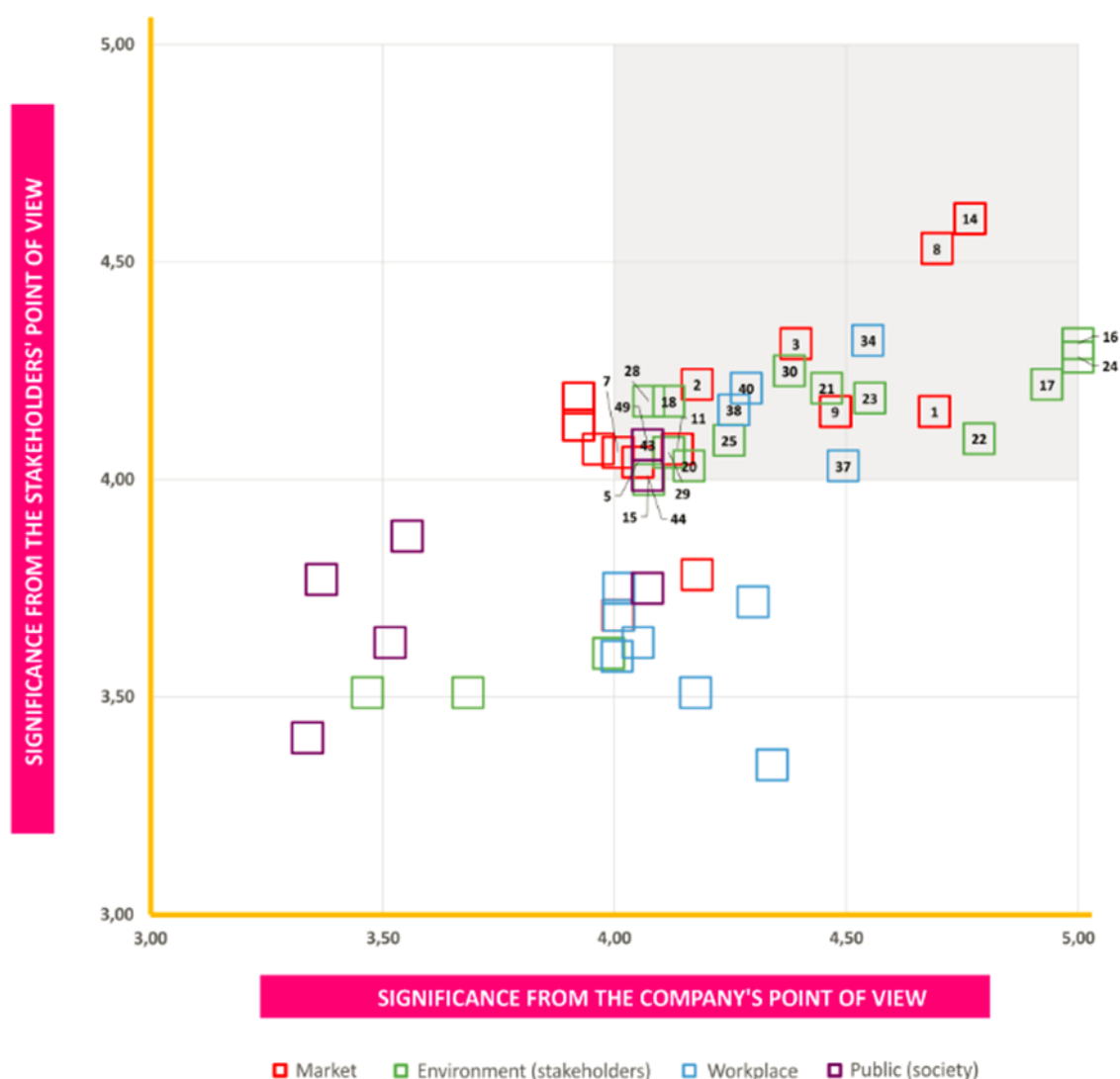


Figure no. 2. The level of significance of the individual non-financial topics (issues) for TAURON Capital Group and its environment (stakeholders)

Based on the results of stakeholder indications, material non-financial topics (issues) (with a weight of 4 (important) and higher (very important)) to be reported by TAURON Capital Group for 2021 were summarized. They are presented in table no. 1.

Table no. 1. Non-financial topics (issues) selected by stakeholders during the materiality analysis to be reported by TAURON Capital Group

The number in the group of topics (issues) considered	Topics (issues) selected during the materiality analysis	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	Ensuring 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

- 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 Strategy for the years 2016-2025

2.1. Conditions of the environment determining the choice of TAURON Group's strategy in the long, medium and short term

The operations of energy companies are affected by a number of factors that shape their immediate and further environment. Such factors also have an impact on the choice of the adequate strategy. In addition to the fundamental aspects, such as political, regulatory, economic, social and technological factors, the environmental and climate issues are playing a key role now.

There has been a significant acceleration of legislative work at the European level, aimed at preparing specific actions to enable the economy of the European Union to be based on low- and zero-emission sources. These activities have a significant impact on the domestic electricity market, accelerating the sector's transition. The above has a direct impact on TAURON Group and its strategic decisions.

TAURON Group is implementing the Green Turn of TAURON, announced in 2019, that envisages a sustainable transition towards low-emission operations. Due to the tightening of the European Union's climate policy, in particular the European Green Deal and the Fit for 55 Package, TAURON is working on a new strategy that will intensify activities related to the Group's energy transition. The new Strategy will set strategic goals in the short, medium and long term that will constitute a response to the climate and environmental challenges, market changes and customer expectations. Maintaining the competitive position will be possible through the development of renewable energy sources (RES), maintaining the reliability of electricity and heat distribution and offering modern solutions for the customer.

2.2. TAURON Group against the backdrop of the world's greatest challenges – climate changes and insufficient resources

The consequences of rapid climate change include an increase in average air and ocean temperatures, widespread melting of snow and ice as well as rising sea levels. The effects of climate change in the form of extreme weather conditions are expected to become even more intense and visible over time.

In order to limit the negative impact of economic activities on the climate decisions have been made at the European level to accelerate work on the European Union's climate neutrality. In December 2019, the European Green Deal strategy was announced and the EU's 2050 climate neutrality target was approved. The proposed EU strategy aims to transform Europe into a climate neutral, fair and prosperous society with a sustainable, resource-efficient and competitive economy.

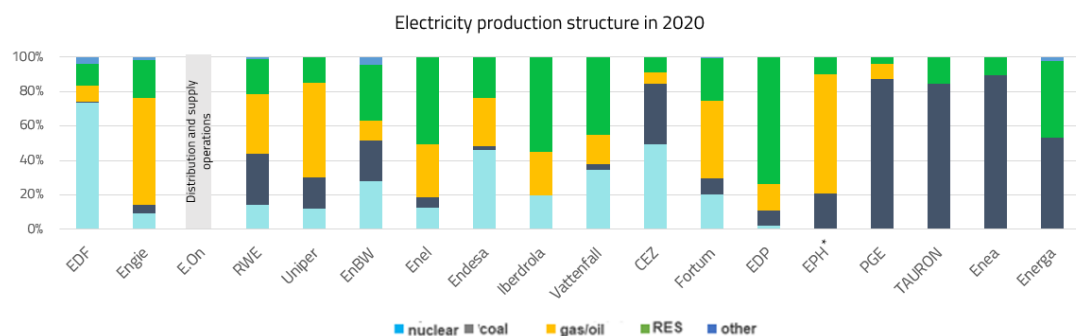
Achieving climate neutrality by 2050 will be a great challenge for Poland and the Polish energy sector. The regulations stemming from the European Green Deal will also have a material impact on the operations of TAURON Group. More information on the Group's climate impact and adaptation to climate change is provided in section E 1.1.2. TAURON Group's Climate Policy.

Economic growth is inextricably associated with the use of water resources and mineral resources, including fossil energy resources. The industrial sector that uses fossil fuels must take into account the supply limits, worsening of the availability conditions thereof, and ultimately their exhaustion. For these reasons, where possible, technical solutions allowing for the so-called closing of circuits, i.e. reuse of the resources, are applied. More information on the Group's use of the environment and the circular economy is provided in section E 1.1.1. TAURON Group's Environmental Policy.

2.3. TAURON Group against the European power market backdrop

Currently the main trend with respect to the changes taking place in the environment of the energy groups in Europe is the 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. 3 presents a comparison of the generation mix and installed capacity among selected largest energy groups in Europe.



2020 Installed capacity GW		EDF	Engie	E.ON	RWE	Uniper	EnBW	Enel	Endesa	Iberdrola	Vattenfall	CEZ	Fortum	EDP	EPH	PGE	TAURON	Enea	Energa
total		144,5	101,0	-	40,7	33,5	12,5	84,0	21,6	48,0	29,3	14,6	50,3	23,7	b.d.	18,0	6,1	6,3	1,4
OZE		33,3	31,1	-	10,1	3,7	4,9	44,1	7,7	34,8	12,5	3,1	8,8	18,6	b.d.	1,0	0,7	0,4	0,5
solar		2,2	3,1	-	0,2	-	0,0	3,9	0,5	1,9	0,1	0,1	0,3	0,3	b.d.	0,0	-	-	0,0
wind		8,4	10,1	-	8,5	-	1,9	12,4	2,4	19,7	3,5	0,7	0,1	11,2	b.d.	0,7	0,4	0,1	0,2
hydro		22,5	17,8	-	0,6	3,7	2,5	27,8	4,7	13,2	8,9	2,3	8,4	7,1	b.d.	0,4	0,1	0,1	0,2

2019 Installed capacity GW		EDF	Engie	E.ON	RWE	Uniper	EnBW	Enel	Endesa	Iberdrola	Vattenfall	CEZ	Fortum	EDP	EPH	PGE	TAURON	Enea	Energa
total		122,3	96,8	-	43,4	32,5	13,8	84,4	23,4	45,7	30,5	14,6	14,2	26,7	13,3	17,8	5,2	6,3	1,4
OZE		32,3	26,9	-	10,0	3,7	4,4	41,2	7,4	32,0	12,1	1,7	5,2	19,6	0,8	1,0	0,7	0,4	0,5
solar		1,8	2,6	-	0,1	-	0,0	3,1	0,4	1,0	0,0	b.d.	0,3	0,1	0,0	0,0	-	-	0,0
Wind		7,8	7,4	-	8,6	-	1,7	10,3	2,3	17,8	3,0	b.d.	0,2	10,7	1,0	0,6	0,4	0,1	0,2
hydro		22,5	16,3	-	1,2	3,7	2,5	27,8	4,7	13,2	8,9	b.d.	4,7	8,8	0,0	0,4	0,1	0,1	0,2

*EPH electricity production structure based on the 2019 data. Others include, among others, pumped storage hydro power plants, waste incineration plants.

Figure no. 3. 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

Against the background of 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 2020/2019, a trend involving rising investments in renewable energy sources and departing from coal is clearly visible. An example of this is EnBW or Enel, whose total installed capacity went down in 2020 as compared to 2019, while the RES based capacity went up at the same time.

A similar situation can be observed in case of CEZ, whose total capacity remained at the same level and the RES capacity doubled within a year.

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. 2.

Table no. 2. Summary of the strategic directions most often set by the largest energy groups in Europe

Developing services and solutions for the Customers aiming for climate neutrality	Efficient grid infrastructure	RES expansion
CO₂ emissions reduction	Departure from coal Carbon footprint improvement	Climate protection, social objectives and corporate culture differentiation
Gas-fired power decarbonization	Digitization as an efficiency improving factor	Hydrogen technology development

Source: Proprietary compilation based on the annual reports of the European energy groups

European energy groups increasingly emphasize social issues and sustainable development aspects in their strategies, referring to the adopted UN Sustainable Development goals and EU regulations. In their core business, they take into account the broadly understood concept of climate care, i.e. the development of renewable sources, reduction of emissions, abandonment of electricity generation based on coal fuel and reduction of the carbon footprint. Striving for climate neutrality, the energy groups expand their offering by adding the so-called ecological services and products. Another direction is ensuring the security of supplies and the quality of distributed electricity, with an increase in unstable renewable energy sources (RES) and the number of prosumers.

In addition to the development of renewable energy sources, the activities related to the modernization of energy infrastructure, digitization of processes and implementing smart metering are gaining momentum. A common practice is to link investments in RES with PPAs (i.e. Power Purchase Agreements). Along with the increase in the supply of renewable energy sources, including also small prosumer installations, the development of electricity storage technology, including hydrogen technology, is becoming more important.

Expansion of Renewable Energy Sources - declarations of energy companies

As the environment is changing, energy companies are updating their plans and strategic goals. Figure 4 presents the declarations of the European power companies regarding capital expenditures and expansion of the RES assets.

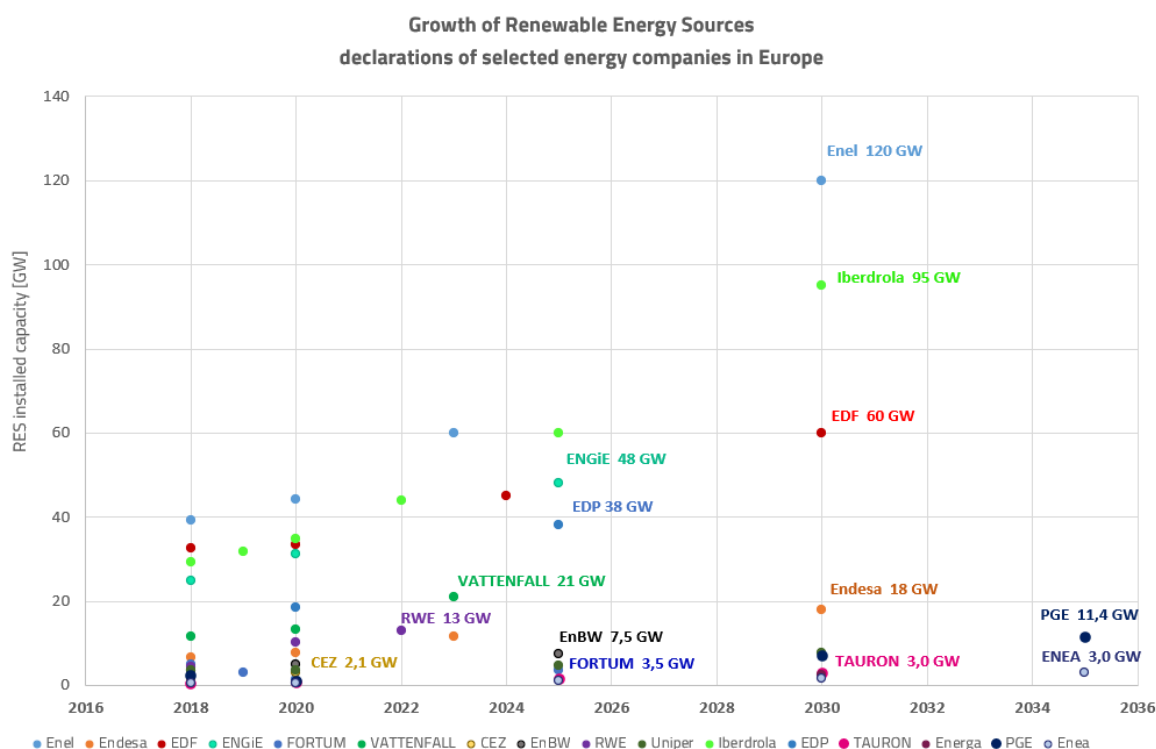


Figure no. 4. Declarations of the European power companies regarding capital expenditures and expansion, in the coming years, with respect to new generation capacity based on the RES assets

Source: Proprietary compilation based on the annual reports of the European energy groups presented

In 2020, an Italian company Enel had the highest installed RES capacity among the energy companies presented, with 44.1 GW. In its strategic plans, it assumes increasing RES capacity to 120 GW by 2030. Iberdrola, another energy company with installed RES capacity of 34.8 GW in 2020, is planning to achieve installed capacity of renewable energy sources of more than 90 GW by 2030. French EDF assumes achieving 60 GW of RES capacity in 2030, from more than 33 GW in 2020. ENGIE Group, the second company operating in France, is planning to increase its capacity by approx. 17 GW by 2025 (from approx. 31 GW in 2020 to 48 GW in 2025). The Portuguese energy group EDP is planning to increase the RES capacity by approximately 20 GW over the years 2020-2025 and ultimately achieve a target capacity of 38 GW in 2025.

On the domestic market, PGE Group had the largest installed RES capacity in 2020, i.e. 1.0 GW (excluding the capacity of the pumped storage hydro power plants). PGE's ambition is to achieve approx. 7 GW of installed RES capacity (excluding the pumped storage hydro power plants), including 2.5 GW of offshore wind capacity by 2030. The group is planning to have approx. 11 GW of renewable energy capacity in 2035, and to achieve climate neutrality by 2050. At the end of December 2021, Enea Group updated its Expansion Strategy by 2030 with an outlook until 2040. According to the new strategic plan, Enea is intending to increase its RES installed capacity to 1.7 GW in 2030, to 3.0 GW in 2035 and to 4.0 GW by 2040. Enea Group has declared that it will achieve climate neutrality by 2050. In May 2021, Energa Group, operating within the structure of the PKN ORLEN fuel and energy group, adopted the Group's Strategic Expansion Plan for 2021-2030, which provided for achieving approx. 1.1 GW of installed capacity in onshore renewable sources and participating in projects to build offshore wind farms with a capacity of approx. 1.3 GW. Ultimately, Energa's RES capacity will reach 2.6 GW in 2030.

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 has also communicated its readiness to take part in off-shore wind farm development projects.

CO₂ emission reductions – declarations of energy groups

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. 5 illustrates the declarations of the power companies related to the CO₂ emission reduction targets by 2030.

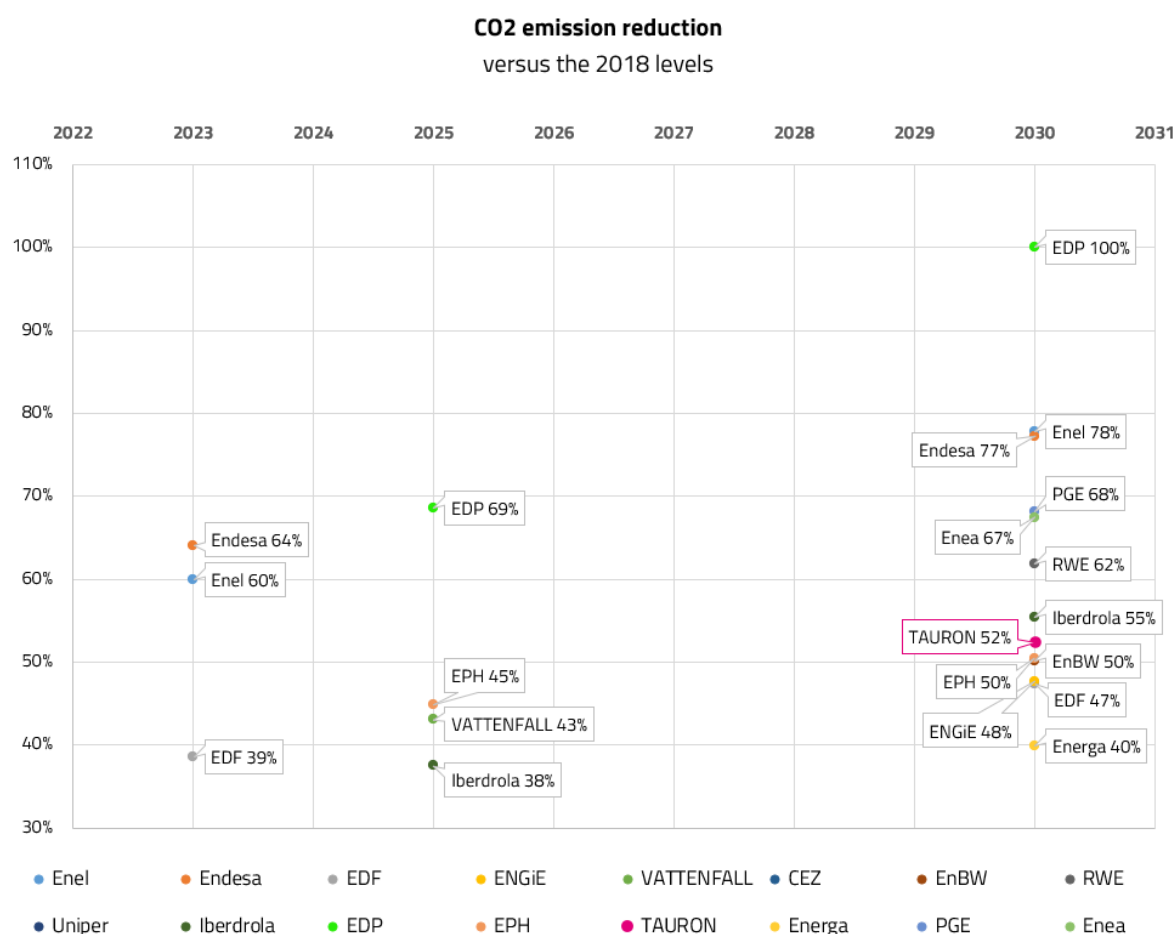


Figure no. 5. CO₂ emission reduction targets of the European energy companies

Source: Proprietary compilation based on the annual reports and presentations of the European energy groups

EDP Group has the most ambitious plans among the European energy groups, and its goal is to achieve 100% zero emissions electricity production by 2030. Pursuing this goal, the group is planning a reduction of unit (specific) CO₂ emissions by 69% (as compared to the 2018 level) by the end of 2025. Another group planning a large reduction of emissions is Enel – a reduction by 78% in 2030. Iberdrola declares that by 2030 the group's emissions will be reduced by 55% and its operations in Europe will be climate neutral.

EnBW declares achieving climate neutrality in 2035, and the company plans to reduce unit (specific) emissions by 50% by 2030, and also Uniper declares its operations on the European market will be climate neutral in 2035.

RWE is planning a 62% 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. Enel, Endesa, EDF, VATTENFALL, Iberdrola, Uniper and FORTUM have declared their operations will be climate neutral by 2050.

TAURON Group is planning to reduce emissions by more than 50% by 2030. PGE has declared a reduction of unit (specific) CO₂ emissions by 68% by 2030, while Enea, in line with its new strategy, will reduce emissions by 67%. Energa will reduce unit (specific) emissions by 40% by 2030 (as compared to 2018). PGE and Enea, as well as ORLEN Group, the owner of Energa Group, have declared their operations will be climate neutral by 2050.

2.4. TAURON Group against the Polish energy market backdrop

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 power market in Poland. The consolidated energy groups (PGE, TAURON, ENEA, ENERGA) had a 70% 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. 9% after 9 months of 2021. The Group is the third largest electricity generator on the Polish market. The Group's gross electricity production stood at 15.59 TWh in 2021.

Figures 6 and 7 present information on electricity generated in Poland during 9 months of 2021 and installed capacity as of September 30, 2021.

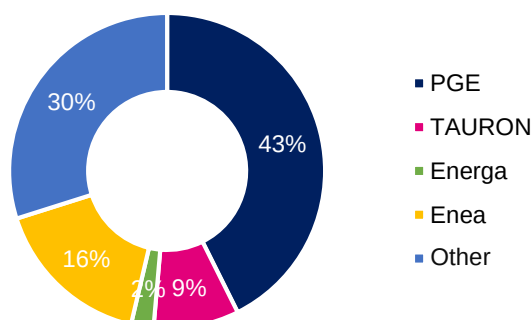


Figure no. 6. Gross electricity production - estimated market shares after 9 months of 2021

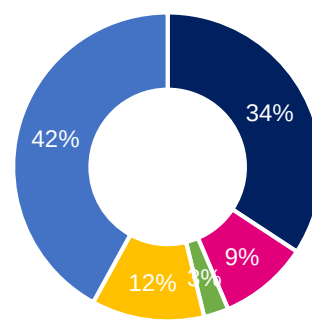


Figure no. 7. Installed capacity - estimated market shares after 9 months of 2021

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. 37% (taking into account 5 largest distributors) in the first three quarters of 2021. TAURON Capital Group's distribution grids cover more than 18% of the country's territory. Figure no. 8 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 2021. TAURON Group's electricity distribution volume came in at 53.97 TWh in 2021.

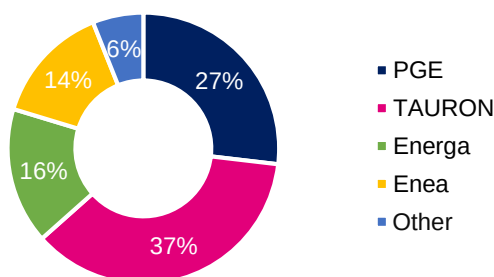


Figure no. 8. Electricity distribution in Poland - estimated market shares after 9 months of 2021

Source: ARE, information from the energy companies published on their websites

Supply

When comparing the data after the first three quarters of 2021, TAURON Group was the second, after PGE, largest supplier of electricity in Poland. TAURON Group's retail electricity supply reached 33.41 TWh for the full year 2021. The number of the Supply Segment's customers stood at approx. 5.6 million in 2021.

Figure no. 9 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 2021.

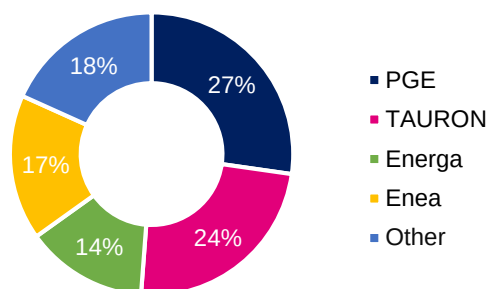


Figure no. 9. Electricity supply to the final consumers in Poland - estimated market shares after 9 months of 2021

Source: ARE, information from the energy companies published on their websites

2.5. TAURON Capital Group's strategic determinants related to the external environment

The most significant changes in the external environment of TAURON Capital Group are the regulatory changes, particular the ones related to the climate and environment protection. 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

Until 2025 the power sector will focus its efforts on the development of renewable sources. On one hand, this is the result of an increase in prices on the wholesale electricity market, and on the other hand, it is a 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 energy sector decarbonization tendency observed in recent years is gaining momentum, which is reflected in the regulations related to the increase in environmental requirements for coal fired units. In many cases, the above results in a permanent lack of profitability. Additionally, the change in the approach of the financial sector towards lending only to environmentally sustainable investment projects is accelerating the transition of the energy sector. The 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 the fast rising electricity prices is also important. According to the Polish Energy Policy (PEP) until 2040, it is assumed that the achievable capacity in PV technologies will reach 5 GW in 2025. In the short term, the installed capacity in onshore wind technology will also increase - according to the PEP 2040 assumptions, the estimated installed capacity of 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 expansion of wind energy. The new forecasts indicate a potential faster growth rate of the development of wind and PV sources than those outlined in PEP 2040.

Offshore wind farms are a new and promising investment direction. The opportunity for the emergence of large-scale offshore renewable energy sources is provided by the Act on the Promotion of Electricity Generation in Offshore Wind Farms, which entered into force in 2021. 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. According to PEP 2040, offshore capacity will stand at approx. 0.7 GW by 2025. The estimates included in the PEP indicate that approx. 2.6 GW of capacity will be retired from the national system in 2021-2025. 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.

Due to the situation of the industry in Poland the energy sector's business model is undergoing a change. Efforts are made towards spinning off of conventional coal based energy from the energy groups into separate entities and focus activities on RES, distribution and supply of electricity and new products. At the government level, work is underway to establish the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE), where coal-fired generation assets will be concentrated.

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. This will be a consequence of the wider spreading of the use of electricity, for example, for heating purposes in connection with counteracting low emissions. 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. Electricity 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 electricity 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 grid elements), voltage and short-circuit power control. The low and medium voltage grids 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 guarantor of stability and security, as well as a kind of "energy storage" for the prosumer sources and the other renewable energy sources (RES).

From TAURON Group's point of view, the most important issues that will affect the energy sector until 2025 include:

- implementation of the government solutions for hard coal mining and coal energy;
- 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;
- decisions regarding the option of financing investments in gas assets;
- decommissioning of some conventional generating units due to 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.);
- further growth of the prosumer installations.

Medium term outlook

In terms of electricity generation technology, the continuation of the fast development of renewable energy sources and the probable development of electricity storage technology are forecast in the 2026-2030 time frame. 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. The share of coal in the domestic energy mix will decrease significantly. According to the forecasts provided in PEP 2040, an increase in capacity in PV installations up to more than 7 GW, as regards the wind capacity, an increase in onshore wind installations' capacity to approx. 9.6 GW, and in offshore wind installations' capacity to 5.9 GW is expected in 2030. By 2030, further shutdowns of unprofitable coal-fired units will take place. It is estimated in PEP 2040 that approx. 4 GW of generation capacity will be retired in the 2026-2030 time frame. However, there is an opportunity for large, modern conventional power generating units that will be stabilizing the national power system. As a result of shutting down coal units a peak power deficit may arise in the NPS, which may create potential for the development of sources based on natural gas, provided that such investment projects could be financed.

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. It is assumed that consumer awareness will be increasing further in connection with the digitization processes, access to the prosumer installations and smart grid solutions. 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 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.

Growing energy awareness in combination with increasing energy costs will cause more and more interest in energy efficiency, energy saving and in-house production and storage 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 by the households). Additionally, the popularity of pro-ecological behavior patterns will grow. More and more customers will accept the higher cost of electricity, provided it comes from ecological generation sources.

Long term outlook

The role of the renewable sources will be steadfastly growing in the long term and they will push out the coal-based electricity over the next two decades. In the longer term, there will also be a significant transition of the national energy mix and an increase of the share of renewable energy sources to more than 60% by 2040. In the time frame up to 2050, the greatest challenge for Poland will be to ensure stable electricity supply.

The energy sector will have to adapt to climate change, and in particular to the effects of extreme weather and climate related events, such as hurricanes, droughts or floods.

In the long term, the possibility of the emergence of breakthrough technologies on the market that will have a significant impact on the energy business may be assumed. It is forecast that hydrogen technologies will be spreading widely in energy, manufacturing industry and transportation, and energy storage technologies will be developed.

Sustainable development

The 2030 Sustainable Development Goals (presented in Figure no. 10) 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 included 17 sustainable development goals and 169 detailed tasks related thereto, to be achieved by 2030. The 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. 10. UN Sustainable Development Goals 2030 (the so-called Agenda 2030)

Source: website

European 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. They include:



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

Table no. 3. 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
- European Green Deal – EU climate neutrality by 2050 strategy, - Fit for 55 legislative package (reduction of greenhouse gas emissions - 55% by 2030), - Need to adapt generating units to the BAT conclusions - Winter package and curtailment of support systems for conventional energy (EPS 550), - EU taxonomy and its impact on the options for 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, - Poland's Energy Policy until 2040, National Plan for Energy and Climate for the years 2021-2030, - Regulations in the financial sector that curtail financing for the conventional generation assets, - Work on government programs for the mining industry and conventional energy.	- 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, - Increasingly frequent occurrence of extreme weather conditions - droughts, hurricanes, severe heat waves, heavy rains and floods, - 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.	- Rising conventional electricity generation costs (high prices of CO₂ emission allowances), decreasing economic profitability of coal units, - High natural gas costs, - Rising electricity prices, - Reduction or lack of financing for conventional energy, preferential financing for RES - Rising RES generation, - High inflation rate and increase in costs of materials, services and labor, - Limited possibilities of thermal coal mining, - Thermal modernization activities, increase of energy efficiency, - Generational and competence gap problem, - Risk of power shortage in the system.	- 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, - Negative perception of waste storage.	- Falling prices for renewable and distributed technologies - Fast development of prosumer energy, - 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.

2.6. TAURON Capital Group's Strategy and its assumptions

In 2019 TAURON Group announced an update of the strategic directions, the so-called TAURON's Green Turn, which was a supplement to the Group's Strategy published in 2016. The update focuses on the Group's sustainable transition towards low-carbon operations. The adopted update of the strategic directions confirmed the legitimacy of the Group's expansion based on:

- regulated and stable Distribution segment,
- development of low and zero emission sources,
- conventional generation assets eligible for support,
- sales of energy and energy related products and services tailored to customer needs.

In general, TAURON Group is planning to increase the share of low- and zero-emission sources in its generation structure (mix) from 10% in 2018 to nearly 30% in 2025 and more than 60% in 2030. The assumed energy mix of TAURON Group will be the result of investments in low- and zero-emission assets and a reduction in the number of generation units based on coal fuel. The effect of the change in the structure of TAURON Group's installed capacity will be a significant reduction of the CO₂ emissions. Unit (specific) CO₂ emissions are expected to clock in significantly below 550 kg/MWh in 2030.

The following assumptions were made in 2019 as part of the main strategic directions:

The development of low emission and zero emission power generation, primarily through investments in renewable energy sources. By 2025 the Group is planning to:

- invest in on-shore wind farms, aiming ultimately to reach installed capacity of 1.1 GW in 2025,
- invest in photovoltaic farms, aiming ultimately to reach installed capacity of 0.3 GW in 2025,
- commence the process of engaging in the construction of off-shore wind farms.

Enhancing the flexibility of the Group's asset portfolio by aligning the mining assets with the Group's planned demand for fuel, reorganizing the Generation segment and equity investments portfolio. The following assumptions were made as part of the above steps:

- market verification of the potential divestment of the Janina Coal Mine and TAURON Ciepło (Heat),
- sale of the shares in the companies: Elektrociepłownia Stalowa Wola and PGE EJ 1,
- permanent decommissioning of the 120 MW units by 2020 and, after 2025 – the 200 MW units.

In accordance with the assumptions of TAURON's Green Turn, TAURON Group will have installed capacity of 5.7 GW in 2025, of which nearly 30% will be low and zero-emission sources, while as of the end of 2030 the Group will have installed capacity of 4.6 GW, of which more than 65% will be low and zero-emission sources.

According to the update of the strategic directions, the increase in the Group's value will be based on maintaining the stable Distribution segment and conducting sales of energy and energy-related products and services tailored to the customer needs. The Group's Distribution Line of Business will be striving to maintain the leading position on the Polish market in terms of the grid operation security and efficiency. In turn, the Supply Line of Business will be seeking to maintain the status of a leader in the energy industry in customer relationships based on high quality service and product leadership.

With respect to the implementation of TAURON's Green Turn, the Group significantly increased its RES capacity – as compared to 2018, i.e. the time before the update of the strategic directions, the total installed capacity in hydro, wind and photovoltaic technologies was increased by more than 60% (from 0.3 GW to 0.5 GW in 2021). This increase was mainly due to the acquisition of wind farms (180 MW) in 2019 and the commissioning of PV farms (11 MW). Further wind (Piotrków 30 MW, Majewo 6 MW) and photovoltaic (Choszczno II 8 MW and Mysłowice 37 MW) projects are under construction.

TAURON has also commenced preparations for the participation in offshore wind farm construction projects. In 2021, the Group strengthened its cooperation with industry partners, among others by signing 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, and then signing a conditional agreement with PGE regarding the purchase of shares in a project company (special purpose vehicle). At the same time, TAURON Group joined the "Sectoral Agreement for the development of offshore wind energy in Poland", with its goals being providing support for the development of the sector in Poland

and maximizing the "local content" in the supply chain for offshore wind farms built in the Polish exclusive economic zone.

As part of the implementation of the strategic options aimed at making the Group's asset portfolio more flexible, in 2019 a market verification process of the option of divesting the Janina Coal Mine was carried out, which was completed at the end of the same year due to the lack of interest from potential buyers. At the same time, TAURON was working on making the mining segment profitable, among others through the implementation of the TAURON Wydobycie Turnaround Program. In 2021, TAURON signed a letter of intent with the State Treasury regarding the acquisition by the State Treasury of 100% of TAURON Wydobycie subsidiary shares. Currently, work is underway aimed at completing the internal reorganization of the Group, and subsequently conducting the TAURON Wydobycie subsidiary shares sale transaction.

In 2019, the process of divesting TAURON Ciepło subsidiary began. After conducting the market verification of the option of selling this subsidiary and taking into account the current growth perspectives for the domestic heating sector, in 2021 a decision was made to keep TAURON Ciepło within the structure of TAURON Capital Group.

In 2021, a letter of intent was signed with PGNiG Group regarding a potential transaction Elektrociepłownia Stalowa Wola S.A. shares sale transaction and an agreement for the sale of shares in PGE EJ 1 was signed with the State Treasury.

With respect to conventional energy, a schedule of shutdowns of obsolete coal-fired units was implemented. In the years 2020-2021, approx. 1 GW of coal-fired generation capacity was retired, i.e. all 120 MW units were decommissioned.

In 2021, TAURON was actively participating in the works on the implementation of the government program leading to the spinning off of coal-based generation assets from energy groups, as part of which TAURON, PGE, Enea and Energa and the State Treasury concluded an agreement on the cooperation in the spinning off of coal assets and their integration within the National Energy Security Agency (NABE). As part of the concluded agreement, TAURON is carrying out the schedule of implementing the Group's asset integration model and getting ready to conduct the due diligence and valuation process.

The implementation of the above-mentioned government programs for the mining and energy sectors will allow for a socially acceptable transition of the domestic energy sector.

Currently, works are underway to finalize the new TAURON Group's Strategy, which will be a response to the current challenges facing the power sector, including the more stringent climate and environmental policy of the European Union. As a principle the activities of TAURON Group will focus on sustainable operations by continuing the Green Turn and striving for climate neutrality along with the simultaneous participation in the above-mentioned government solutions for the hard coal mining and coal-based energy sectors. With respect to the system (district) heating line of business, it is assumed that heat generation sources will transition to low-emission fuels and that regulatory requirements for efficient district heating systems will be met. For electricity distribution, it is assumed that significant investment outlays will be allocated to the expansion and modernization of the grid, aimed at improving the quality and reliability of electricity supply, including adapting the grid to the growing installed capacity in renewable sources.

The progressing climate change and its projected effects require fundamental changes to the role and directions of development of the companies operating in the power sector. In view of the most important trend, which is the transition to a low-carbon economy, in its activities and strategic plans TAURON Group takes into account the fact that long term success depends on sustainable development and corporate social responsibility.

TAURON Group contributes to the implementation of the UN Sustainable Development Goals in its operations, through the activities indicated below, presented in Figure 11

Sustainable development of TAURON Group



Figure no. 11. 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, it is conducting educational and information campaigns, engaging in natural environment protection projects, by planting trees in forest areas or caring for the life of animals. The Group also takes part in 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 activities 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 counteracting discrimination.

In December 2021, the Management Board of the Company appointed the ESG Committee (E - Environment, S - Social Responsibility and G - Corporate Governance), involving the Group's top management therein.

The tasks of the Committee include, first of all, creating, disseminating and supervising the Group's approach to the sustainable development issues and ensuring the consistency of TAURON Group's Strategy operationalization process with these issues.

2.7. TAURON Capital Group's key non-financial efficiency ratios (metrics, performance indicators)

In order to make the best possible use of the value levers (drivers) set as part of TAURON Group's Strategy and the Update of the Strategic Directions, key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations are defined in the following areas:

1. reliability and quality of the supply of products and services for the customer,
2. orientation towards the customer and his/her needs (focus on the customer, customer orientation),
3. environment protection,
4. labor safety, ethics culture and employee engagement,
5. social and business partnership.

The below table presents the key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations in 2020-2021.

Table no. 4. Key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations in 2020-2021

Key non-financial efficiency ratio (performance indicator)	Name of capital / element related to capital	Ratio (indicator) nature	unit	Value of the ratio (metric, performance indicator)	
				2020	2021
Reliability and quality of the supply of products and services for the customer					
1. Number of customers of TAURON Capital Group's Distribution Line of Business: individual (households) and business customers	Financial capital / Distribution Segment's Regulatory Asset Base (RAB), capital expenditures, cash flow from operating activities	Stimulant	number	216 551	222 615
2. Number of cases of non-compliance and complaints related to products and services of TAURON Capital Group with respect to providing information (disclosures)	Financial capital / cash flow from operating activities, net profit, long term rating	Destimulant	number	0	0
3. Frequency of planned power outages - number of outages (interruptions) / consumer / year (SAIFI)	Financial capital / cash flow from operating activities	Destimulant	minutes	0.19	0.19
Orientation towards the customer and his/her needs					
4. Number of individual and business customers of TAURON Capital Group's Supply Line of Business	Financial capital / sales revenue, EBITDA, EBITDA margin, net profit, long term rating	Stimulant	Number	5 590 108	5 622 759
5. Number of TAURON Capital Group's cases of non-compliance related to marketing communications	Social capital / Implemented and applied TAURON Group's PROClient Social Policy	Destimulant	number	0	0
Environment protection					
6. Percentage share of TAURON Capital Group's RES installed capacity in TAURON Capital Group's total installed capacity	Production capital / Installed capacity in hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	10.5	9
7. Percentage share of TAURON Capital Group's electricity production based on RES in Tauron Capital Group's total electricity production	Production capital / electricity production by hydro, wind, solar and biomass fired power plants and combined heat and power plants	Stimulant	%	17	12
	Production capital / heat production by biomass fired combined heat and power plants	Stimulant	%	9	5
8. Direct greenhouse gas emissions by TAURON Capital Group - tCO ₂ e	Natural capital / direct greenhouse gas emissions	Destimulant	Mg	10 093 648	13 702 825
9. Total weight of non-hazardous waste (including the combustion and mining processes' by-products) generated by TAURON Capital Group	Natural capital / total amount of non-hazardous waste	Destimulant	Mg	1 729 672	1 655 250
Labor safety, ethics culture and employee engagement					
10. Number of meetings with trade union organizations at TAURON Capital Group's subsidiaries	Intellectual capital, Social capital, Human capital / developing relationships based on dialogue, organizational culture based on PRO values	Stimulant	number	334	315
11. Number of employees at TAURON Capital Group	Human capital / number of employees	Nominant	Number	25 572	25 324
	Human capital / number of training courses conducted by Internal Coaches (Trainers)				
	Intellectual capital / knowledge and competences of the Group's employees				
	Social capital / personnel education and development				
12. Accident rate at TAURON Capital Group	Social capital / organizational culture based on the PRO values	Destimulant	-	8.3	7.9
13. Share of women among TAURON Capital Group's workforce	Human capital / share of women among the workforce Social capital / TAURON Group's Diversity Policy and TAURON Group's Respect for Human Rights Policy implemented and applied	Nominant	%	21.5	21.8

Key non-financial efficiency ratio	Name of capital / element related to capital	Ratio (indicator) nature	unit	Value of the ratio (metric, performance indicator)	
				2020	2021
14. Number of training session hours at TAURON Capital Group	Human capital / number of training session hours	Stimulant	'000	295	385
Social and business partnership					
15. Number of local and social initiatives that TAURON Foundation has joined	Social capital / support for local initiatives through TAURON Foundation	Stimulant	Number	144	93
16. Number of projects with respect to corporate social responsibility implemented by TAURON Capital Group	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 via TAURON Foundation	Stimulant	Number	18	22
17. 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		Stimulant	Number	Continuously, in line with the ongoing operations	Continuously, in line with the ongoing operations
18. Number of initiatives implemented by for the employees and communities, related to counteracting COVID-19		Stimulant	Number	11	8

2.8. TAURON Capital Group's key financial data

TAURON Capital Group's sources of financing include: the company's equity, funds generated from business operations conducted and liabilities. 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 2.93 billion in 2021.

In 2021, TAURON signed a subordinated bond issue program and new long term loan agreements to provide support for the Group's undertakings related to the Green Turn. The subordinated bond issue program enables the issue of bonds worth up to the amount of PLN 450 million. These funds may be used to finance the Group's ongoing needs and investment projects. In October 2021, TAURON concluded a loan agreement with the European Investment Bank up to the amount of PLN 2.8 billion, to be used for the modernization and expansion of the electricity distribution network. On the other hand, the loan concluded in December 2021 with Erste Group Bank AG enables TAURON to cover expenses related to financing or refinancing its expansion in the area of renewable energy sources, energy efficiency improvement and e-mobility infrastructure development.

The activities aimed at implementing the transition towards a low-emission economy and the investments in the electricity sector related thereto are supported by the European Union funds in the form of earmarked special purpose funds, research programs and other instruments supporting modern, sustainable investment projects.

Due to the fact that the Group is implementing a responsible environmental and climate policy and takes into account the ESG factors, it is possible to take steps to obtain new external financing.

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 generating a stable income and maintain the net debt to EBITDA ratio at a safe level.

Key data on TAURON Group's financial capital in 2019-2021 is presented in table no. 5.

Table no. 5. Key data on TAURON Group's financial capital in 2019-2021

Key capital data	2021	2020	2019*
Equity [PLN m]	16 524	16 727	19 093
Fixed assets [PLN m]	33 855	33 585	35 052
Distribution segment's RAB [PLN m]	18 988	18 255	17 470
Net debt [multiple]	2.4x	2.5x	2.8x
Capital expenditures [PLN m]	2 932	4 039	4 128

*Data comparable to the results published for the 01.01.2020-31.12.2020 reporting period

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,
- steadfast implementation of the financing optimization plan,
- cooperation with banks and financial institutions,
- searching for optimal sources of financing,
- obtaining preferential loans to finance investment projects that have a positive impact on the environment,
- financial risk hedging,
- efficient management of the Group's financial liquidity.

The results achieved as part of TAURON Capital Group's management of financial capital are presented in table no. 6.

Table no. 6. Results achieved by TAURON Capital Group in 2019-2021 as part of the management of financial capital

Results achieved:	2021	2020	2019*
Sales revenue [PLN m]	25 614	20 850	19 558
EBITDA [PLN m]	4 152	4 226	3 599
EBITDA margin [%]	16.2%	20.3%	18.4%
Cash flow from operating activities [PLN m]	5 002	4 042	2 036
Net debt/EBITDA ratio [multiple]	2.4x	2.5x	2.8x
Net profit (loss) [PLN m]	385	(2 173)	(12)
Long term rating**	BBB-	BBB-	BBB

* Data comparable to the results published for the 01.01.2020-31.12.2020 reporting period

** On October 18, 2021, Fitch ratings agency affirmed TAURON Polska Energia's long term foreign and local currency ratings of "BBB-" with a stable outlook

2.9. GRI indices

- 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

3. TAURON Capital Group during the coronavirus pandemic

In 2021, the COVID-19 pandemic, as in the previous year, was one of the greatest challenges for all global economies. In order to stop the spread of the virus, various forms of restrictions related to economic activities as well as social activities were introduced. In 2020, the pandemic primarily affected the labor market and the stability of small and medium-sized enterprises. Furthermore, 2021 also brought disruptions in the supply chains and long-distance transportation of semi-finished products or components. In addition, the crisis affected the building materials industry, which was accompanied by the growing demand for housing construction (the so-called housing boom), resulting in an increase of the real estate prices. The consequences of the COVID-19 pandemic also include downtime and delays in the production of integrated circuits, which are an electronic component required by the car and electronics manufacturers. The gradual rebound of economic growth in the world and the recovery of electricity demand in 2021 led to a significant decrease in global crude oil reserves and natural gas storage in the EU. According to the National Bank of Poland, this situation led to a strong surge in the prices of energy resources, and the prices of natural gas on the European and Asian markets reached a record level. In 2021, there was also a marked increase in electricity prices, especially in countries where the energy mix is based on natural gas. In Poland, the increase in electricity prices was mainly due to record prices of the CO₂ emission allowances. The pandemic was therefore a major economic threat in 2021, but the public learned to function in the new reality. Greater awareness and better preparation of the society to function in the face of numerous restrictions, contributed to mitigating the dramatic decline in economic activities in 2021.

In recent years, the Polish economy has been one of the fastest growing in the world. According to the forecasts of the National Bank of Poland, the Polish economy in 2021 grew by 5.3%, as compared to a decline by 2.8% in 2020. It is estimated that although the pandemic crisis led to a strong drop of the GDP, the recovery of global activity is progressing faster than following the 2008 financial crisis. The measures implemented to rebuild economic activity contribute to a marked increase of the inflation rate in a number of countries. In Poland, the average annual inflation rate was around 5.0% in 2021, as compared to 3.4% in 2020. On the other hand, the registered unemployment rate was around 5.4% as of the end of 2021, and compared to the end of 2020 it was 0.9% lower. By 2023, the Polish economy will be growing at an average rate of around 5% year on year. Economic recovery is expected due to the rebound of economic activity abroad or an increase in household consumption. However, the GDP growth rate may be constrained by the continued COVID-19 pandemic, continued bottlenecks in the supply chains and less fiscal stimulation of economies. The World Bank has also identified additional risks, such as new COVID-19 mutations, deepening inflation and rising debt that may affect the global economy.

Steps taken by TAURON Group

The risk of coronavirus and its impact on TAURON Capital Group is curtailed, inter alia, by implementing the recommendations of the COVID-19 Risk Monitoring Team operating at TAURON Polska Energia. The main tasks of the team include:

- analyzing information on threats,
- issuing recommendations regarding changes to the work system (introducing remote or hybrid work),
- providing protection and disinfection agents,
- monitoring the body temperature of TAURON Group's employees,
- ongoing communications with the workforce.

In addition, steps are taken in accordance with the Guidelines and Instructions in the event of an infection, developed by the subsidiaries and taking into account the specifics of their operations. Individual subsidiaries have planned control mechanisms that are adequate for the needs and capabilities, among others framework agreements with laboratories with respect to the RT-PCR genetic tests or reimbursement of the costs of tests performed by employees and associates for the presence of coronavirus.

In 2021, preventive actions aimed at ensuring the safety of the workforce and customers as well as the continuity of the operation of the critical infrastructure were continued at TAURON Capital Group's subsidiaries, among others:

- distribution of disinfectants and personal protection equipment (masks, gloves, visors),
- activities of the Team for monitoring the impact of the epidemiological situation related to the occurrence of the COVID-19 virus on the operations of TAURON Group - 115 meetings in 2021,
- conducting regular meetings of teams responsible for dealing with the threats related to the risk of spreading the SARS-CoV-2 virus at individual TAURON Group's subsidiaries,
- conducting of the workforce vaccination campaign,

- promoting vaccination against COVID-19 by preparing posters, newsletters and the completed "#Szczepimy się. Razem damy radę" (#We vaccinate, Together we can make it) video clip, in which TAURON's employees were encouraging their colleagues to vaccinate, setting a good example,
- making a video entitled What matters is the team - in which the employees were thanked for their work during the pandemic,
- encouraging employees to be active by providing them with access to a platform with exercises. The campaign was conducted under the slogan: Stay healthy,
- encouraging employees to donate blood and plasma,
- enabling employees to work remotely, aimed at limiting direct contact between them at the workplace,
- introduction of the rotation work, shift work, home on call duty,
- analysis of legal changes at the national level,
- launching of a number of information campaigns and introducing regulations related to safety rules and antiviral preventive care at work and in the event of the need to perform tasks outside the workplace (e.g. at the customer's premises), rules of conduct in case of a SARS-CoV-2 infection or contact with a person subject to quarantine, isolation or under epidemiological supervision,
- limiting business meetings, briefings, meetings and training,
- signing agreements regarding an option of conducting additional tests for the presence of the SARS-CoV-2 virus.

In March 2021, the temporary hospital in Krynica-Zdrój resumed its operations. It is the first facility that was launched in the autumn of 2020 as part of the government's strategy to build temporary hospitals in each voivodeship (province). TAURON was responsible for providing the technical support for the project.

The SARS-CoV-2 virus pandemic and the restrictions on social and economic activities introduced in Poland contributed, inter alia, to:

- a temporary decline of the demand for electricity and heat among practically all groups of the consumers served by TAURON Capital Group's subsidiaries,
- the need to develop new schedules for the meter reading and support service works and introduce a change in the meter reading systems,
- arising of uncertainty as to the further economic situation in the industries served by TAURON Capital Group's subsidiaries,
- suspension of the option of halting electricity supply for reasons related to a failure of debt collection activities, which may result in indebtedness of the consumers served by TAURON Capital Group's subsidiaries,
- a rise in absenteeism among the workforce,
- halting of debt collection activities and electricity consumption controls,
- arising of the possibility of postponing the deadlines for the completion of projects, programs and undertakings.

G – GOVERNANCE

(Corporate Governance)

G 1. TAURON Capital Group's values

G 1.1. 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.

G 1.2. 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.

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.

G 1.3. Corporate Social Responsibility Code of Conduct

TAURON Capital Group is applying the principles of the Corporate Social Responsibility Code of Conduct (hereinafter the Code) - a key document on TAURON Group's ethical culture.

The Code was adopted based on the belief that responsible and transparent business conduct, predicated on respect for the law and taking into account the needs of stakeholders, is a prerequisite for sustainable development.

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:

- employee,
- 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 is related to the Compliance Management System being developed by the Group. 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, as well as 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 corruption, 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 every 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, 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 detecting the risk of non-compliance or the occurrence of the reported irregularities (deficiencies).

Document update

The content and the graphic design (layout) of TAURON Group's Corporate Social Responsibility Code of Conduct was updated in 2021.

G 2. Documents supporting the ESG management process

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, Codes and Principles for use at TAURON Capital Group:

- Corporate Social Responsibility Code of Conduct,
- TAURON Group's Anticorruption Policy,
- TAURON Group's Corporate Purchasing Policy,
- TAURON Group's Subsidiaries Contractors (Counterparties) Code of Conduct,
- TAURON Group's Compliance Policy,
- TAURON Group's Principles of Counteracting Conflict of Interest,
- Personal Data Protection Policy for TAURON Group Entities,
- TAURON Group's Security Management System Policy,
- TAURON Group's Environmental Policy,
- TAURON Group's Climate Policy,
- TAURON Group's Human Capital Policy,
- TAURON Group's Diversity Policy,
- TAURON Group's Recruitment Principles,
- TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination,

- TAURON Group's Respect for Human Rights Policy,
- TAURON Group's Work Health and Safety (WHS) Policy,
- TAURON Group's PROClient Social Policy,
- Strategic Research Agenda,
- TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) Projects.

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 policy of communications with the numerous stakeholders of TAURON Capital Group, who may familiarize themselves with the annually published reports on the implementation thereof.

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 according to the individual documents (policies) and the results of the application thereof in 2021.

Environmental, Social and Governance (ESG) aspects are becoming increasingly important not only due to the regulatory framework but also due to the shifting priorities of banks as well as institutional and individual investors.

Therefore, in December 2021, the Management Board of the Company appointed the ESG Committee (E - Environment, S - Social Responsibility and G - Corporate Governance), involving the Group's top management therein.

The core task of the Committee includes creating, disseminating and supervising the Group's approach to the ESG issues. The Committee is to ensure the consistency of TAURON Group's Strategy operationalization process with these issues.

G 3. TAURON Group's Business Model

G 3.1. TAURON Polska Energia S.A. Company Management Principles

In accordance with the provisions of the *Regulations of the Management Board of TAURON Polska Energia S.A.* (Regulations of the Management Board), the Management Board shall conduct the affairs of the Company and represent it in all judicial and extra-judicial proceedings. All of the issues connected with managing the Company, which are not restricted by the legal regulations and the provisions of the *Articles of Association of TAURON Polska Energia S.A.* (Company's Articles of Association) to the competence of the General Meeting (GM) or the Supervisory Board shall be within the competence of the Company's Management Board. Cooperation of two Members of the Management Board or one Member of the Management Board together with a proxy is required for making statements on behalf of the Company.

In accordance with the *Organizational Regulations of TAURON Polska Energia S.A.* (Organizational Regulations), the Company shall be managed directly by the Management Board of the Company, as well as through proxies (power of attorneys), Executive Directors or persons holding other positions reporting directly to the Members of the Company's Management Board.

The Company shall carry out its tasks through:

1. separate organizational units (business units):
 - 1) Business areas, comprising independent work positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by the Members of the Company's Management Board directly,
 - 2) Teams, constituting organizational units (business units) reporting to the Executive Directors. The activities of the Team are managed by the Team Leader (Manager),
2. independent (autonomous) work positions:
 - 1) Executive Directors who manage and lead the work of the subordinate Teams or work positions constituting the given business area of the Company,
 - 2) other independent work positions that may be entrusted to, in particular, Power of Attorneys (Proxies), Inspectors, Spokespersons,
3. temporary organizations – Project Teams set up with the goal to implement tasks and projects of the Company.

G 3.1.1. Management Board of TAURON Polska Energia S.A.

The current 6th term of office of the Company's Management Board began its run on July 15, 2020.

In accordance with the *Articles of Association of TAURON Polska Energia S.A.* the common term of office shall last 3 years.

The composition of the Company's Management Board as of December 31, 2020, is as follows:

1. Artur Michałowski - Vice President of the Management Board for Trading and acting as the President of the Management Board,
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Krzysztof Surma - Vice President of the Management Board for Finance,
4. Jerzy Topolski - Vice President of the Management Board for Asset Management.

The composition of the Company's Management Board as of the date of drawing up this report is as follows:

1. Artur Michałowski - Vice President of the Management Board for Trading and acting as the President of the Management Board,
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Krzysztof Surma - Vice President of the Management Board for Finance,
4. Jerzy Topolski - Vice President of the Management Board for Asset Management,
5. Artur Warzocha - Vice President of the Management Board for Corporate Affairs.

The changes to the composition of the Management Board TAURON Polska Energia S.A. that took place in 2021 and by the date 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 2021.

Competences and description of the procedures of the Management Board of TAURON Polska Energia S.A.

The Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice* which are available on the Company's website at the address: <https://www.tauron.pl>. When performing their duties the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2021.

Two Members of the Management Board or one Member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one Member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

The meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. The meetings of the Management Board shall also be convened on the motion of the majority of the Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's registered office on the date set by the person that has convened the meeting. In justified cases the meetings of the Management Board may be held outside the Company's registered office. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board.

The Management Board shall vote in an open ballot, unless otherwise provided for in the legal regulations. The result of the ballot shall be recorded in the minutes of the meeting.

The resolutions of the Management Board shall be passed by an absolute majority of the votes in the presence of at least the majority of the Members of the Management Board. In case of an equal number of the votes the President of the Management Board shall have a casting vote. A Member of the Management Board shall inform the Management Board of any conflict of interest that has arisen or the possibility of the arising thereof and shall not participate in the reviewing of the matter or the voting on a resolution in a matter in which a conflict of interest may arise in relation thereto. The Management Board may pass resolutions by voting in writing or using the means of direct remote communications. The resolution shall be valid when all of the Members of the Management Board have been notified of the content of the draft resolution and at least the majority of the Members of the Management Board participated in adopting the resolution. The voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Member of the Management Board designated thereby, including setting the final deadline for casting of the votes by the Members of the Management Board. The Members of the Management Board voting against the resolution may submit a dissenting opinion to the minutes, which shall be recorded in the minutes along with the justification thereof. The decisions of the Management Board which are the decisions on the ongoing matters (daily business) that do not require a resolution shall be recorded only in the minutes.

The internal division, among the Members of the Management Board, of the tasks and responsibilities for the individual business areas of the Company's operations, as defined in the *Organizational Regulations 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. 18/VI/2022 of January 25, 2022 regarding the assignment of individual organizational units of the Company and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A.

The structure of the Company's business areas reporting to the individual Members of the Company's Management Board is presented on the diagram (flowchart) showing the split of responsibilities of the members of the Company's Management Board, described in section 2.8. of this report and posted on the Company's web site at the address: <https://www.tauron.pl>.

Rules on appointing and dismissing Members of the Management Board of TAURON Polska Energia S.A.

The Company's Management Board shall be composed of 1 to 6 persons, including the President and Vice Presidents. Members of the Company's Management Board shall be appointed and dismissed by the Company's Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. In accordance with the Company's Articles of Association, each of the Members of the Company's Management Board can be dismissed or suspended in office by the Company's Supervisory Board or the Company's General Meeting.

In order to recruit a person with whom an agreement for providing the management services at the Company will be concluded, the Company's Supervisory Board shall announce a competition and conduct a qualification procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a Member of the Company's Management Board must meet the requirements set forth in § 16, clauses 3 and 4 of the Company's Articles of Association. The announcement (notice) of the qualification procedure 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.

G 3.1.2. Supervisory Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Company's Supervisory Board, began its run on July 15, 2020, i.e. on the date of holding the Ordinary General Meeting 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 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 shall last 3 years.

The composition of the Company's Supervisory Board as of December 31, 2021 is as follows:

1. Piotr Tutak - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Stanisław Borkowski - Member of the Supervisory Board,
5. Leszek Kozirowski - Member of the Supervisory Board,
6. Ryszard Madziar - Member of the Supervisory Board,
7. Grzegorz Peczkis - Member of the Supervisory Board,
8. Marcin Wawrzyniak - Member of the Supervisory Board.

The composition of the Company's Supervisory Board as of the day of drawing up this Report is as follows:

1. Piotr Tutak - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Katarzyna Taczanowska - Secretary of the Supervisory Board,
4. Stanisław Borkowski - Member of the Supervisory Board,
5. Dariusz Hryniów - Member of the Supervisory Board,
6. Leszek Kozirowski - Member of the Supervisory Board,
7. Ryszard Madziar - Member of the Supervisory Board,
8. Grzegorz Peczkis - Member of the Supervisory Board,
9. Marcin Wawrzyniak - Member of the Supervisory Board.

The changes to the composition of the Supervisory Board of TAURON Polska Energia S.A. that took place in 2021, 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 2021.

Competences and description of the procedures of the Supervisory Board of TAURON Polska Energia S.A.

The Supervisory Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its registered office in Katowice* which are available on the Company's website at the address: <http://www.tauron.pl/>. When performing their duties the Members of the Company's Supervisory Board shall be acting in accordance with the principles provided in the Best Practice 2021.

Members of the Supervisory Board of the Company, when performing the functions and duties assigned, shall be guided in their conduct, including in making decisions, by independence of their own opinions and judgments, acting in the interest of the Company.

The Supervisory Board of the Company shall work by way of a debate, analyzing the situation of the Company and the Group against the background of the industry and the market on the basis of materials provided thereto by the Management Board of the Company, and the internal systems and functions of the Company, as well as obtained from outside, using the results of the works of its Committees.

The main form of the Supervisory Board performing the oversight of the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. The meetings of the Company's Supervisory Board shall be convened by the Chairperson of the Supervisory Board or the Vice Chairperson of the Supervisory Board by presenting a detailed agenda of the meeting:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a request of each Member of the Supervisory Board,
4. at a request of the Management Board.

The meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all 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 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 of the meeting.

A change of the proposed agenda of the meeting may occur when all Members of the Company's Supervisory Board are present at the meeting and no one raises an objection against the changed agenda of the meeting. An issue not included in the agenda of the meeting should be included in the agenda of the next meeting.

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 person convening the meeting of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

The Supervisory Board may seek opinions of experts using the knowledge of the Company's employees, including in particular, legal counsels who provide regular legal assistance for the Company.

The Supervisory Board may also appoint independent experts to obtain an opinion and make the appropriate decision, as well as invite them to meetings of the Supervisory Board. In case a transaction of the Company with a related entity requires an approval of the Supervisory Board of the Company, before adopting a resolution on granting consent, the Supervisory Board assesses whether it is necessary to first seek an opinion of an external entity that will carry out the valuation of the transaction and analysis of its economic effects. If the conclusion of the transaction with a related entity requires the approval of the General Meeting, the Supervisory Board of the Company prepares an opinion on the legitimacy of concluding such a transaction and in such a case assesses the need for a prior seeking of an opinion of an external entity. In the cases referred to above, the Supervisory Board of the Company adopts a resolution to commission the selected expert to carry out the work, obliging the Management Board of the Company 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 only in the cases stemming from the provisions of the law.

In accordance with the Company's Articles of Association the Supervisory Board may pass resolutions in writing or using 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 Company's Supervisory Board may pass resolutions this way as long as no Member of the Company's Supervisory Board raises an objection. When voting on a resolution in the above mentioned way a Member of the Company's Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution with a note that it has been passed in writing or by voting using the means of direct remote communications shall be signed by the 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 (oversight) activities on their own for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform the duties of the Members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the Member of the Supervisory Board who is to be delegated.

The detailed description of the activities of the Supervisory Board in the last financial year is provided in the Report on the Activities of the Company's Supervisory Board, submitted on an annual basis to the General Meeting (GM) and published on the Company's website at the address: <http://www.tauron.pl>.

The Company's Supervisory Board may appoint from among its members permanent or temporary (ad hoc) working groups, 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.

The information on the composition of the committees of the Supervisory Board of TAURON Polska Energia S.A. and the changes thereof that took place in 2021, 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 2021.

Rules on appointing and dismissing Members of the Supervisory Board of TAURON Polska Energia S.A.

The Supervisory Board of the Company shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 years, except for the first term that lasted 1 year. In accordance with the Company's Articles of Association members of the Company's Supervisory Board shall be appointed and dismissed by the General Meeting (GM), 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 (GM) 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 (GM) 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 (GM), 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 Articles of Association of the Company, at least two Members of the Supervisory Board of the Company should meet the independence criteria specified in the Act of May 11, 2017, on certified auditors, audit firms and public supervision, and should not have actual and significant connections with a shareholder holding at least 5% of the total number of votes in the Company.

Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Supervisory Board, a written statement on compliance with the independence criteria mentioned in the above act as well as on the existence or non-existence of the actual and significant connections with a shareholder holding at least 5% of the total number of votes in the Company. In case a situation occurs where the independence criteria are not fulfilled, a Member of the Supervisory Board shall be obligated to inform the Company promptly thereof.

Information on the compliance by the Members of the Supervisory Board of TAURON Polska Energia S.A. with the independence criteria 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 2021.

G 3.1.3. General Meeting of TAURON Polska Energia S.A.

Competence and description of the procedures of the General Meeting of TAURON Polska Energia S.A.

The procedures and powers 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 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 2021.

A General Meeting shall be convened by way of a notice posted on the Company's website and in a manner defined for providing the current information (disclosures) by public companies. In case a 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 of a General Meeting 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 that takes place either at the Company's registered office or in Warsaw.

A 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: the Vice Chairperson of the Company's Supervisory Board, the 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 such a number of shares that entitle him/her 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.

A General Meeting shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Company's Articles of Association state otherwise. A General Meeting may order a break in the meeting by the majority of two thirds of the votes. 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 the 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 2021.

G 3.1.4. 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. shall be 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. shall take place by way of a resolution of the General Meeting, passed by the majority of three fourths of the votes, and shall then 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 Articles of Association of TAURON Polska Energia S.A., including the 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. shall require two thirds of the votes in the presence of persons representing at least half of the share capital.

G 3.2. 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.

G 3.2.1. 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.

G 3.2.2. TAURON Group Business and Operational Model

The Business and Operational Model is a response to the needs and goals set out in TAURON Group's Strategy. In recent years, changes taking place in the external and internal environment of the Group resulted in the need to undertake works on updating the document. As a result of the completed review, on February 24, 2021, the Management Board of the Company adopted the updated Business and Operating Model of TAURON Group. This

document defines the Group's management model, defines the high-level architecture of the processes as well as the functions and tasks of the Corporate Center, Lines of Business and other units.

Moreover, in order to ensure flexibility, resilience and adaptation of TAURON Group to the changes in the environment, in particular those resulting from climate change, the current Business and Operating Model of Taron Group takes into account the role of ESG (as an increasingly important tool of the communications with the environment (stakeholders)). The scope of the five process streams around which the Group's operations are focused, i.e. Strategy, Finance, Asset Management and Development, Corporate Support and Operational Processes, was also verified and updated. Comprehensive provisions were introduced to indicate the independence of the Distribution System Operator's operations (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),
- 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 the knowledge and qualifications of TAURON Group's personnel.

The Business Model introduces the division of roles and responsibilities, based on the assignment of process competences among the Corporate Center, Lines of Business and Shared Service Centers. This division is shown in Figure 12.

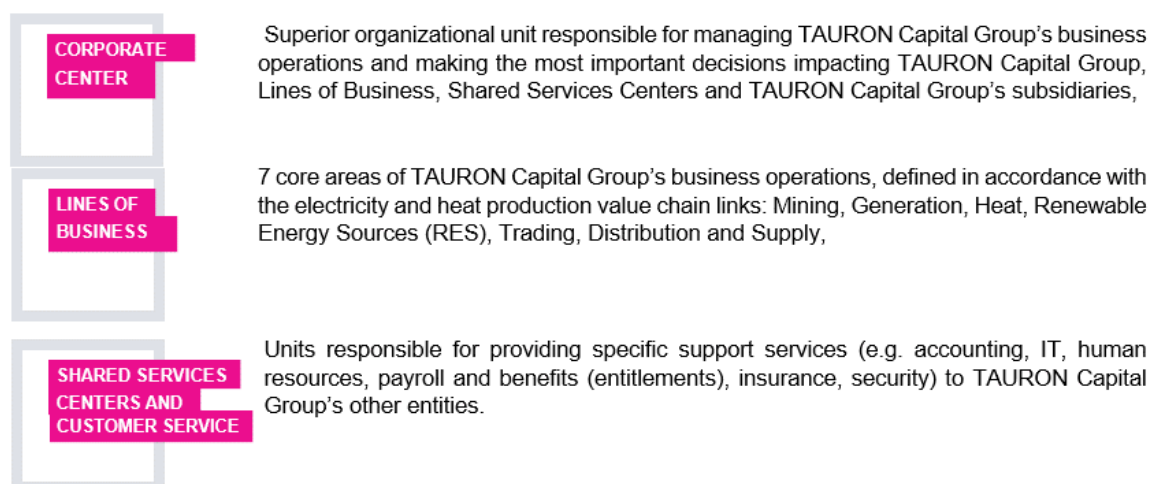


Figure no. 12. The division of obligations (duties) and responsibilities under TAURON Capital Group's business model in 2021

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 (Segments), 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. 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, IT services, human resources, payroll and benefits, insurance services, security 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. 13.

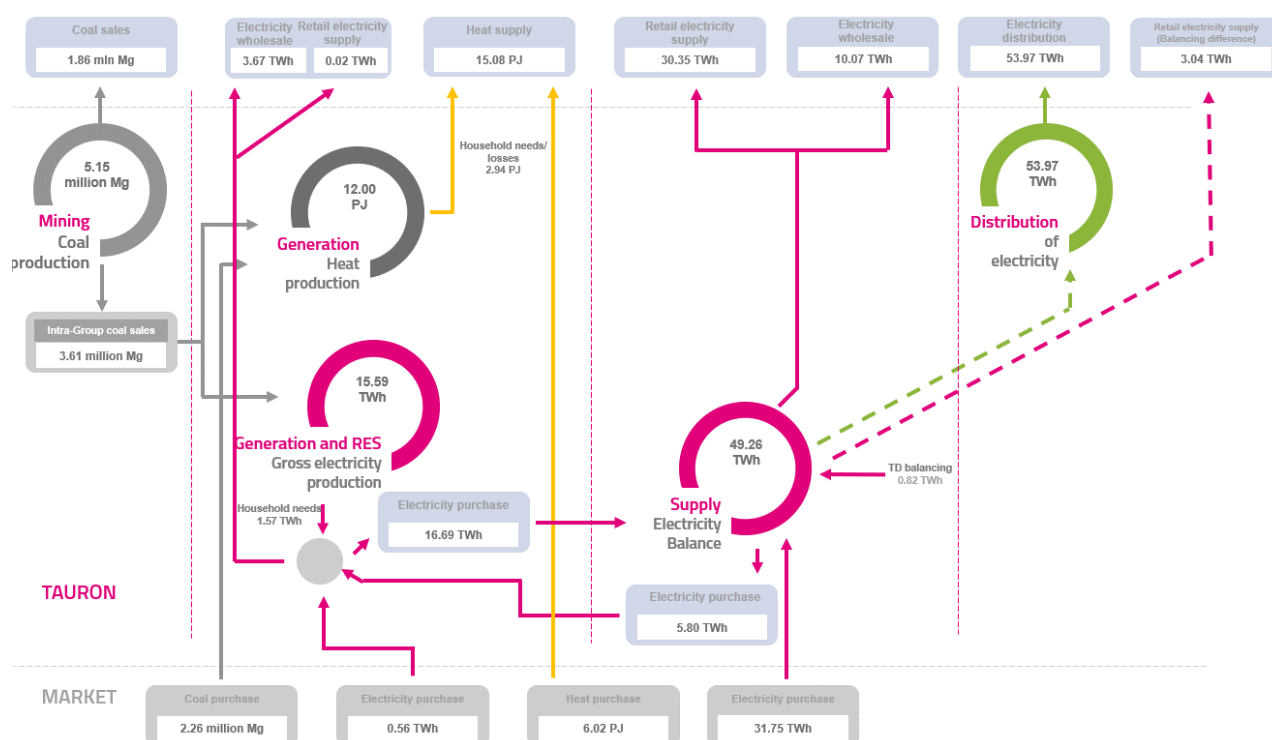


Figure no. 13. TAURON Group's business model in 2021

TAURON Capital 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 it will reach over 65%. Such actions will allow for reducing the emissions of all pollutants by 2030, including the 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. Additionally, the construction of a 5 MW photovoltaic power plant on TAURON Group's post-industrial land in Jaworzno and the construction of the 6 MW Choszczno I photovoltaic farm have been completed. The Choszczno II photovoltaic farm with a total capacity of 8 MW is near completion. The largest contribution to TAURON Group's financial result comes from the Distribution Line of Business, in which the largest capital expenditures are also incurred - in 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 resilience to weather conditions, including the ever more frequently occurring extreme weather conditions associated with climate change.

The key data on TAURON Group's production capital in 2019-2021 is presented in Table no. 7.

Table no. 7. Key data on TAURON Group's production capital in 2019-2021

Key data on the capital	2021*	2020	2019
Hard coal extracting coal mines	3	3	3

Hard coal fired power plants (number)	6	6	5
Hard coal fired power plants (installed capacity)	5,2 GWe; 1,2 GWt	5,2 GWe; 1,3 GWt	4,3 GWe; 1,35 GWt
Combined heat and power plants (quantity)	4	4	4
Combined heat and power plants (installed capacity)	0.35 GWe; 1,1 GWt	0.35 GWe; 1,2 GWt	0.35 GWe; 1,2 GWt
Proprietary district heating networks - TAURON Ciepło (length)	896 km	888 km	857 km
Heat supply	15.08 PJ	11.6 PJ	12.0 PJ
Hydroelectric power plants (number)	34	34	34
Hydroelectric power plants (installed capacity)	133 MW	133 MW	133 MW
Wind power plants (number)	9	9	9
Wind power plants (installed capacity)	381 MW	381 MW	381 MW
Photovoltaic power plants (number)	2		
Photovoltaic power plants (installed capacity)	11 MW		
Cogeneration engines - gas from methane drainage (number)	4		
Cogeneration engines - gas from methane drainage (installed capacity)	10.8 MWe		
Electricity distribution lines (length)	245 800.km	241 600 km	237 000 km
Transformers (distribution)	60 800	60 900	58 900
MV/LV stations	61 600	59 100	60 900
HV/MV stations HV/MV	495	493	491
Capital expenditures (PLN million)	2 932	4 039	4 128
Depreciation (PLN million)	2 100	1 954	1 992

* As of 31.12.2021

TAURON Group's management of the production capital is performed through efficient operations, as well as expansion and modernization investments, including:

- related to 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;
- adapting the generating units to the operational conditions in force beyond 2021, stemming from the introduction of the BAT Conclusions
- expanding and upgrading the district heating network.

The results achieved in 2019-2021 as part of TAURON Group's management of production capital are presented in Table no. 8.

Table no. 8. GRI 301-1, EU2. Results achieved by TAURON Capital Group in 2019-2021 as part of TAURON Group's management of production capital

Results achieved	2021	2020	2019
Commercial coal production by segment groups: coal dust, medium size lump coal, large size lump coal, eco-pea coal	5.15 million Mg	4.54 million Mg	3.78 million Mg
Net electricity production	14.3 TWh	11.4 TWh	12.7 TWh

including electricity production from RES	1.7 TWh	2.0 TWh	1.4 TWh
Heat distribution	9.42 PJ	8.44 PJ	8.51 PJ
Heat generated	12.00 PJ	11.63 PJ	10.85 PJ
Electricity distribution	53.97 TWh	50.26 TWh	51.73 TWh

Mining

It comprises mainly hard coal mining, processing (separating, cleaning) and sales to the utility scale power plants, district 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 (separating, cleaning). 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 widely used in the power generation, steel making, construction, lime, cement, sugar and 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. Electricity generation by the conventional units is carried out by the power plants with the total capacity of approx. 5.2 GWe and 1.2 GWt and by the 49 MWe biomass fired generating unit. The power plants are located in the following cities: Łaziska Górne, Będzin, Trzebinia and Jaworzno (including the 910 MWe unit). This Line of Business also includes the TAURON Serwis sp. z o.o. subsidiary that provides technical maintenance (support) services.

In addition, a 5 MW photovoltaic farm was operated in 2021, built on the site of a former coal-fired power plant. This unit will ultimately be managed as part of the RES Line of Business.

Heat

It comprises heat generation, transmission and distribution as well as supply, using the 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, Bielsko-Biała and Czechowice-Dziedzice, as well as by local boiler houses. The generating units are using hard coal and biomass for their production. The district heating 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 district heating networks on the territory of, among others, Katowice, Dąbrowa Górnicza, Sosnowiec, Będzin, Chorzów, Siemianowice Śląskie, Jaworzno and Mysłowice, including 896 km of TAURON Ciepło's own networks, and 122 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 33 hydroelectric power plants with the total capacity of nearly 133 MW, located primarily in the south of Poland, 9 wind based power plants with the total capacity of 381 MW, located mainly in the north of Poland, and a 6 MW

photovoltaic power plant. The segment's operations are conducted by TAURON Ekoenergia sp. z o.o., TAURON Zielona Energia, special purpose vehicles set up to build new RES sources and TAURON Ekoservis sp. z o.o., a subsidiary providing support and maintenance services for the hydro 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 (provinces): Małopolska, Lower Silesia, Opole and Silesia, and partly also Świętokrzyskie, Podkarpackie, Łódzkie, Wielkopolska and Lubuskie.

The operations are conducted by TAURON Dystrybucja S.A. subsidiary that performs the function of the DSO, including guaranteeing independence and compliance with the unbundling requirements. The operational functions (activities) are carried out by 11 branches located in Będzin, Bielsko-Biała, Częstochowa, Gliwice, Jelenia Góra, Cracow, Legnica, Opole, Tarnów, Wałbrzych and Wrocław. The operations of TAURON Dystrybucja are supported by the TAURON Dystrybucja Pomiarów sp. z o.o. subsidiary.

Trading

It comprises electricity wholesale trading, as well as trading and management of the CO₂ emission allowances and property rights arising from the certificates of origin of electricity, as well as fuels. Such operations are conducted by TAURON Polska Energia S.A. and TAURON Czech Energy s.r.o. subsidiaries. The Trading Line of Business also includes the procurement of biomass, as well as the utilization of the mining and burning processes' 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 market. 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.

In 2021, TAURON Group also offered the broadband Internet access services. The service is provided by TAURON Obsługa Klienta sp. z o.o.

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 need to ensure independence of the DSO and compliance with other unbundling rules, for TAURON Dystrybucja S.A.

Figure no. 14 presents the structure of TAURON Capital Group's Lines of Business.

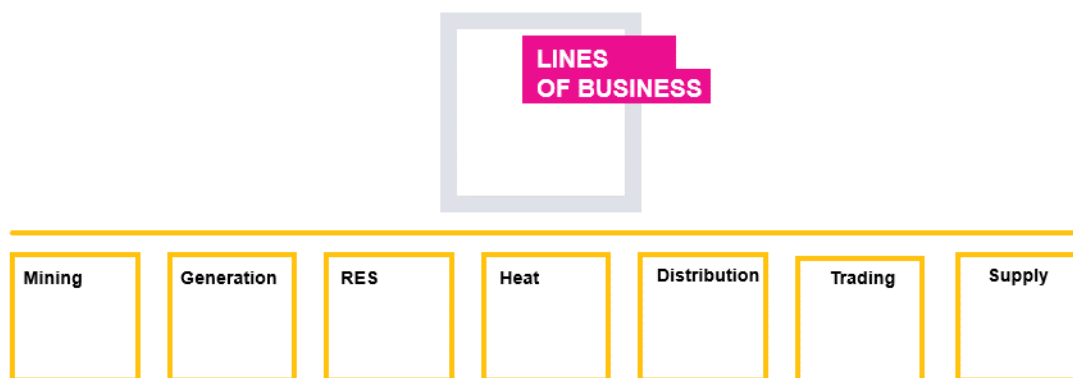


Figure no. 14. TAURON Capital Group's Lines of Business in 2021

G 3.3. TAURON Capital Group's organization

TAURON Capital Group's organization, that implements the Group's business model described in section G 3.2.2., 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 – associated with 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.

G 3.3.1. Process based organization

The regulations implemented in 2018, along with the Business Model, introduced management by processes within TAURON Capital Group. In 2021, as part of 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. 15 shows mega-processes identified at TAURON Group (the highest process level).

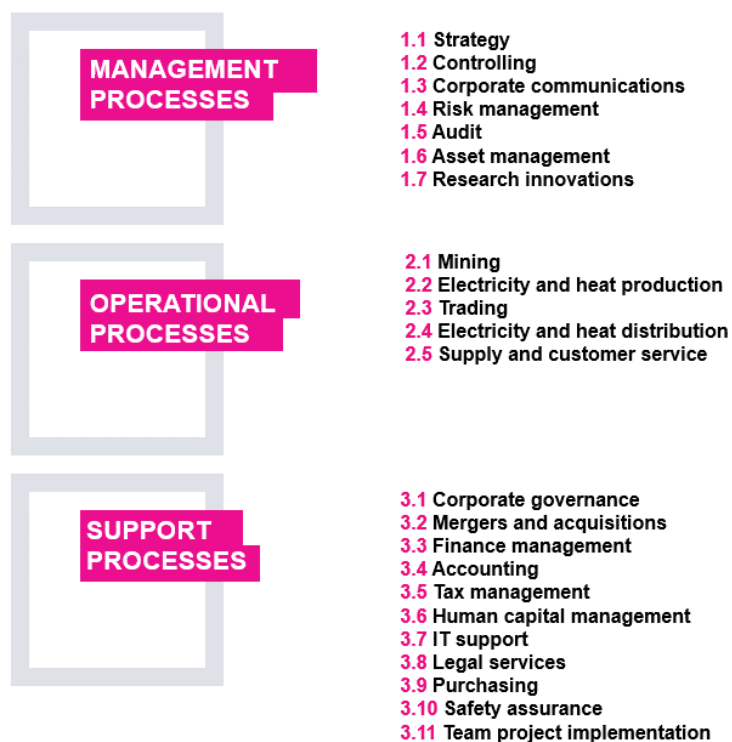


Figure no. 15. TAURON Capital Group's mega-processes in 2021

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 subsidiaries. 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 subsidiaries, 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 subject to assessment and are modified accordingly to improve their efficiencies. The process documentation is published in the intranet and is 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.

G 3.3.2. Organization by Lines of Business

TAURON Capital Group's operations are implemented based on seven Lines of Business: Mining, Generation, Heat, Renewable Energy Sources (RES), Trading, Distribution and Supply.

Lines of Business are responsible for implementing the core processes and support processes 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. 16.

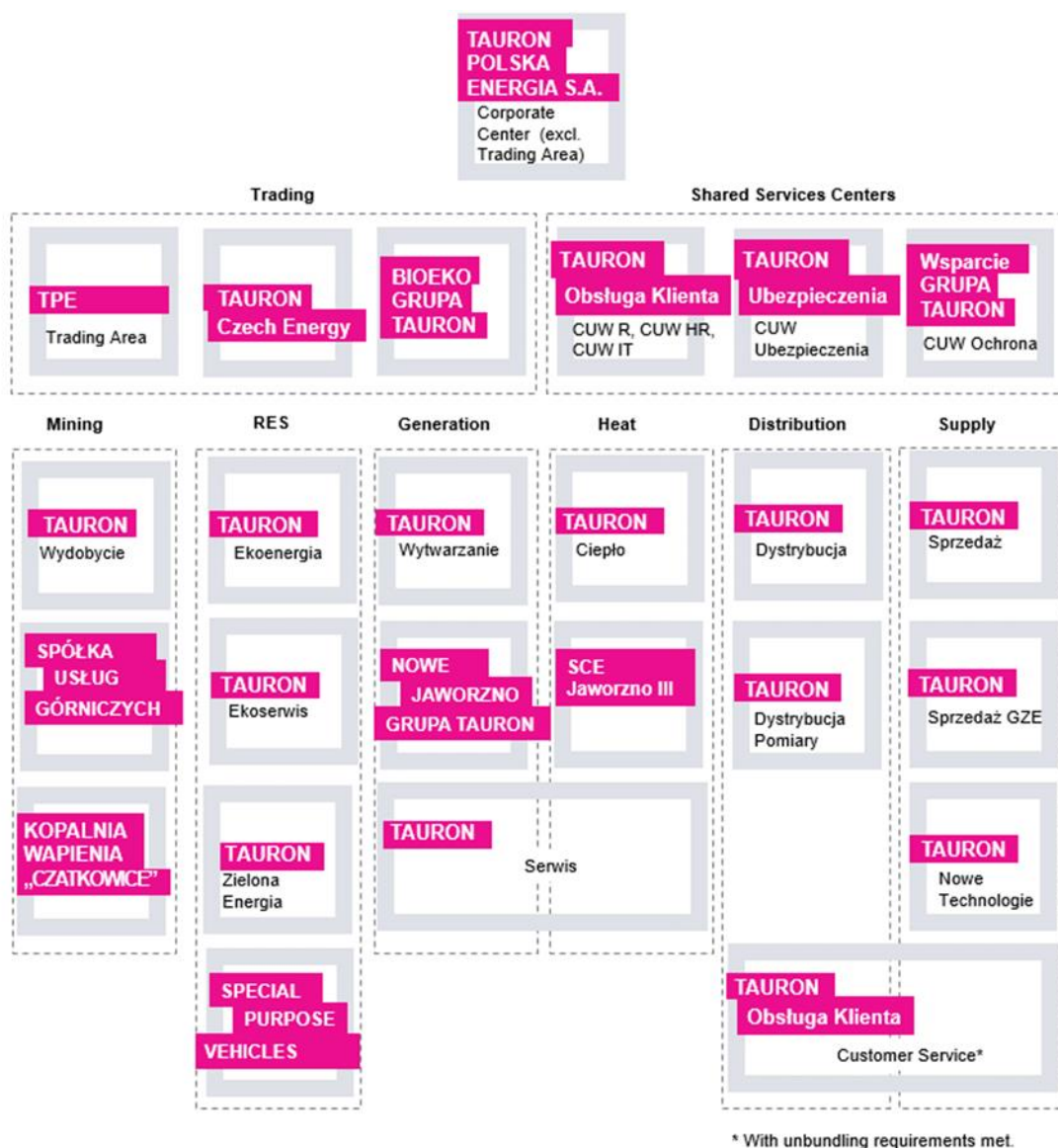


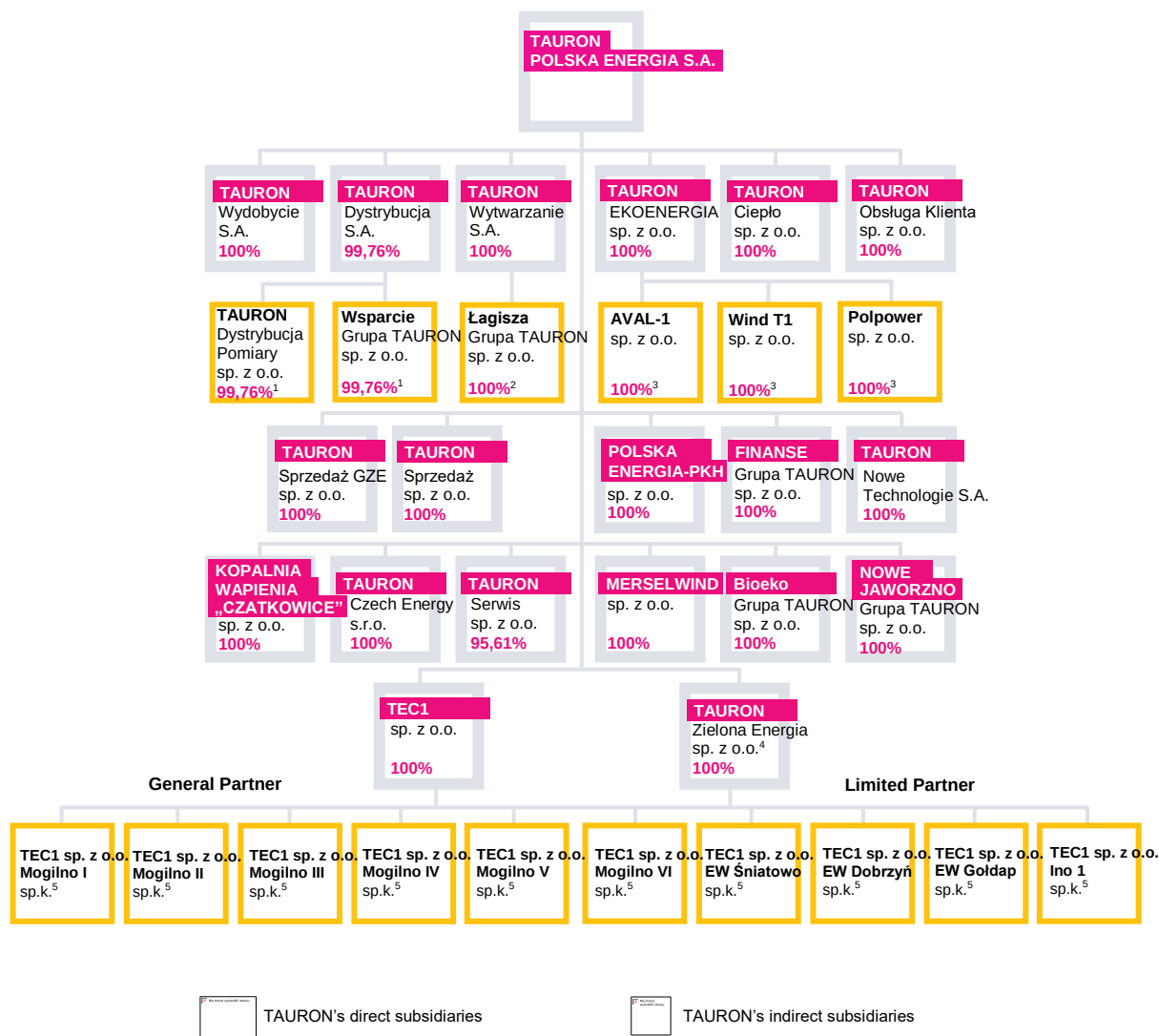
Figure no. 16. Assignment of TAURON Capital Group's subsidiaries to Lines of Business and Shared Services Center (CUW) in 2021

G 3.3.3. Formal and legal organizational structure

Na dzień 31 grudnia 2021 r. do spółek Grupy Kapitałowej TAURON, oprócz jednostki dominującej TAURON Polska Energia S.A., zaliczało się 35 spółek zależnych, objętych konsolidacją oraz 4 podmioty współzależne ujęte w skonsolidowanym sprawozdaniu finansowym na dzień 31.12.2021 roku TAURON Polska Energia S.A. metodą praw własności, tj. Elektrociepłownia Stalowa Wola S.A., TAMEH HOLDING Sp. z o.o., TAMEH POLSKA Sp. z o.o., TAMEH Czech s.r.o.

As of December 31, 2021, TAURON Capital Group's subsidiaries, besides the TAURON Polska Energia S.A. parent company, included 35 subsidiaries subject to consolidation and 4 jointly controlled entities (co-subsidiaries) included in the consolidated financial statements, as of December 31, 2021, 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. 17.



¹ The shares in TAURON Dystrybucja Pomiary and Wsparcie Grupa TAURON are held by TAURON indirectly via TAURON Dystrybucja subsidiary,

² The shares in Łagisza Grupa TAURON sp. z o.o. (Łagisza Grupa TAURON) are held by TAURON indirectly via TAURON Wytwarzanie subsidiary.

³ The shares in AVAL-1, Wind T1 and Polpower are held by TAURON indirectly via TAURON EKOENERGIA subsidiary.

⁴ Formerly TEC3 sp. z o.o.

⁵ In the indicated limited partnerships: TEC1 is the General Partner, TAURON Zielona Energia is the Limited Partner

Figure no. 17. Core TAURON Capital Group's subsidiaries in 2021, 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. is provided in section G 3.1. TAURON Polska Energia S.A. Company Management Principles

G 3.4. Changes to the principles of TAURON Polska Energia S.A. and TAURON Capital Group Management

Changes to the principles of the Company's management

In 2021, the Company amended the Organizational Regulations twice.

Taking into account the progressing changes in the business environment, requiring the optimization and strengthening of the internal organization, on April 14, 2021, the Management Board of the Company adopted the

new wording of the Organizational Regulations, which was approved by the Supervisory Board on April 26, 2021, taking effect as of May 4, 2021. The change to the Organizational Regulations involved, in particular, setting up competence centers grouping Business Areas into Divisions responsible, in terms of the subject matter, for the key areas of the Company's operations.

Subsequently, taking into account the challenges faced by the Company, related to the transition of the energy sector and the hard coal mining sector. The Organizational Regulations were verified by the Management Board of the Company, in particular in terms of improving an internal management system and enhancing the internal communication, as well as the need to adapt to emerging business opportunities and comply with assumed TAURON Group's Strategy and the Best Practice 2021. A consequence of the above activities was the introduction of another change to the Organizational Regulations, which involved in particular the liquidation of the Divisions, while the Business Areas managed by Executive Directors were assigned directly to the Members of the Management Board. On November 9, 2021, the Management Board of the Company adopted the current version of the *Organizational Regulations of TAURON Polska Energia S.A.*, which was approved by the Company's Supervisory Board on November 16, 2021, and took effect on December 1, 2021.

The organizational structure of TAURON Polska Energia S.A., as of December 31, 2021, and as of the day of drawing up this Report is presented in Figure no. 18.

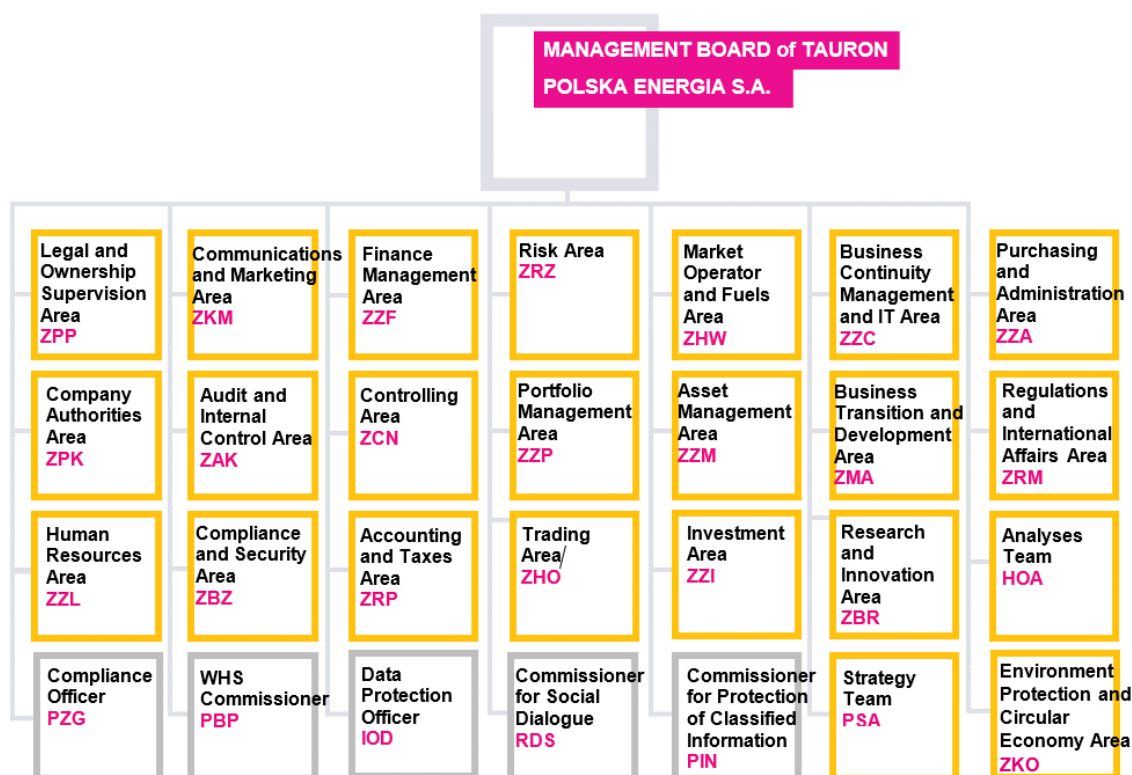


Figure no. 18. Organizational diagram of TAURON Polska Energia S.A.

In connection with the new Organizational Regulations, the required modifications of the scopes of functions of the individual Lines of Business in the Company's organizational structure were also made.

As of January 25, 2022, the Management Board of the Company, by way of a resolution, assigned to the Members of the Management Board of the Company, directly, the individual lines of business and the independent (autonomous) work positions.

The diagram showing the division of responsibilities of the Members of the Management Board of TAURON Polska Energia S.A. as of the day of drawing up this Report is presented in Figure no. 19.

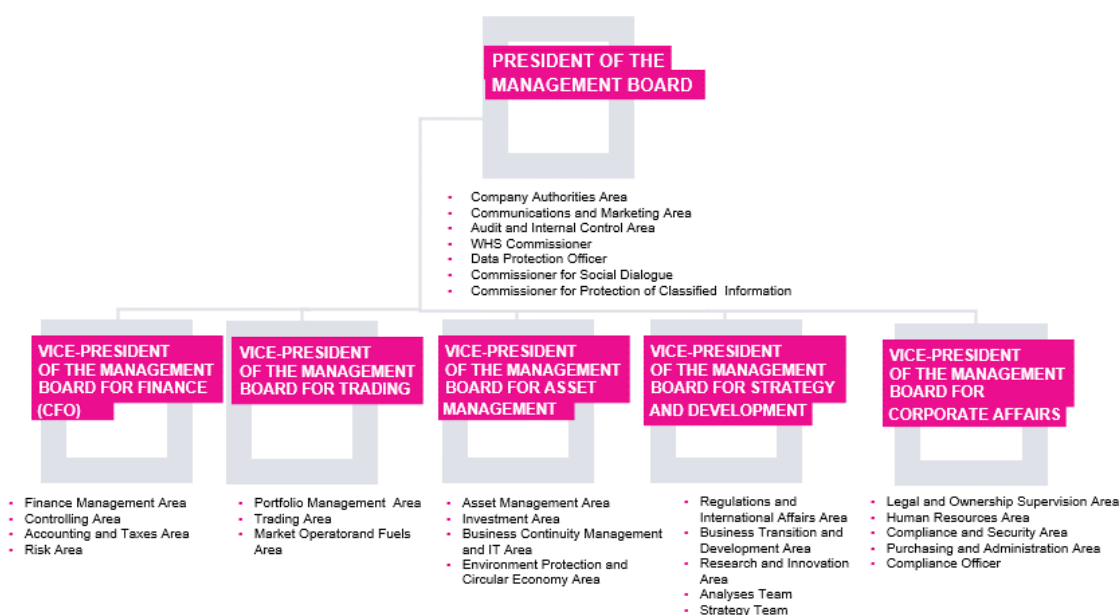


Figure no. 19. The diagram showing the division of responsibilities of the Members of the Management Board of TAURON Polska Energia S. A.

Changes to the principles of TAURON Capital Group's management

In February 2021, the works, commenced in 2020, on updating the Business Model, which defines TAURON Capital Group's management model, in place thus far, were completed. Launched as of February 24, 2021, the updated Business Model emphasizes the role of ESG as an increasingly important tool of communications with the environment (stakeholders) in order to provide flexibility, resilience and adaptation of TAURON Capital Group to the changes in the environment, in particular those stemming from climate change.

The updated Business Model was developed taking into account the requirements related to the unbundling, established in the *Compliance Program - Program for Ensuring Non-discriminatory Treatment of Users of the Distribution System at TAURON Dystrybucja S.A.*, approved by the President of the ERO and the generally applicable provisions of law, taking into account the legal, functional and organizational separation of the DSO within the structure of TAURON Capital Group.

As part of the works on updating the Business and Operational Model, the functions and tasks performed within all of TAURON Capital Group's mega-processes were reviewed, which was done jointly with their owners, and the provisions were updated or the required additional functions and tasks were formulated, adequately assigning the competences to the Corporate Center, Lines of Business and the Shared Services Centers.

The assessment of the process maturity of selected processes of TAURON Capital Group, using *TAURON Group's Process Maturity Model* in force at TAURON Capital Group, was continued in 2021. 565 selected processes were assessed, which represented 21% of TAURON Capital Group's processes in place. As a result of the assessment completed in 2021, 80% of TAURON Capital Group's processes assessed achieved level IV or level V of process maturity on an eight-level scale. The maturity assessment is continued in 2022, based on the plans defined by TAURON Capital Group's subsidiaries.

G 4. TAURON Capital Group's main risks and the management thereof

G 4.1. 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 changes taking place at both the European as well as the national law levels.

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, FIT for 55, Grid Codes, ETS Directive, BAT conclusions, European Green Deal, European Commission guidelines on climate impact reporting),
- not seen before 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,
- further development of the distributed and prosumer energy,
- 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 adequate for the external conditions. In particular, the risk management system functioning in this respect at TAURON Group is geared towards implementing adequate and effective responses to potential threats, as well as towards the possibilities of taking advantage of emerging market opportunities.

G 4.2. 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. 20



TAURON Figure no. 20. TAURON Capital Group's three line defense model

G 4.3. 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 a negative one (threat), as well as a positive one (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 the 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 functions, and also the 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 system, constituting, along with the compliance and security management functions, an element of the Three Line Defense Model.

G 4.4. 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. 21.



Figure no. 21. 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 2021.

G 4.4.1. 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. 22 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 2021.

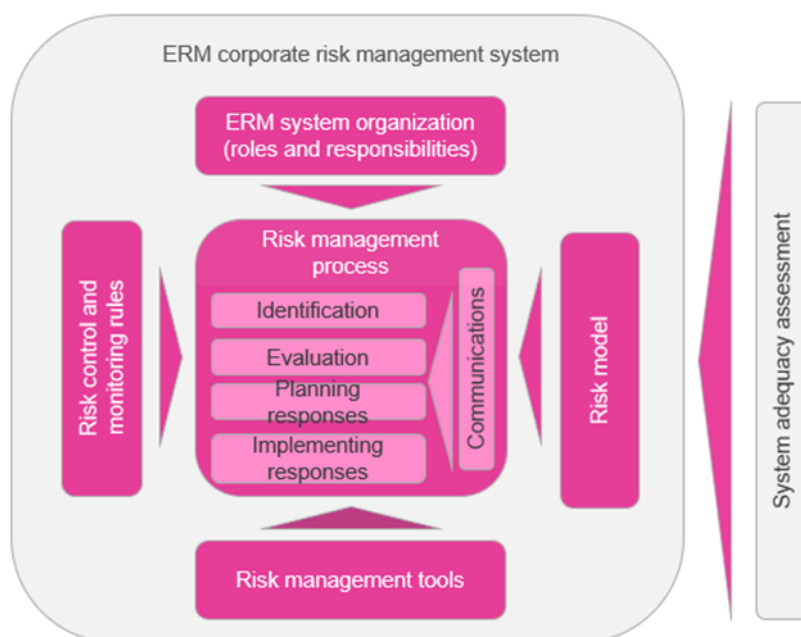


Figure no. 22. TAURON Capital Group's ERM System Architecture

The rest of the section includes 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 2021.

G 4.4.2. 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 communications among the risk management process participants.

Figure no. 23 presents TAURON Capital Group's risk management process.

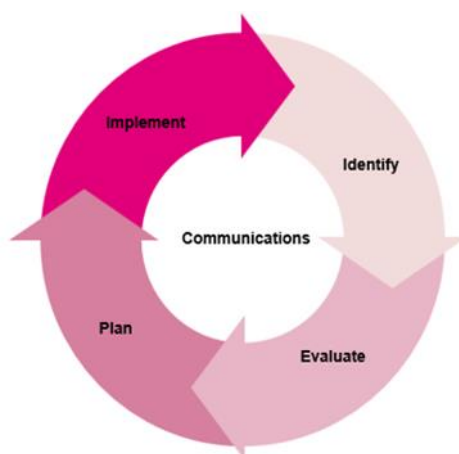


Figure no. 23. TAURON Capital Group's risk management process

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.

G 4.4.3. 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 adequate 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 three separate teams are set up: for the trading (commercial) risk area, for the financial and credit risk area and for the operational and regulatory risk management. 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. 9.

Table no. 9. Description of TAURON Capital Group's ERM System participants' roles and responsibilities

PARTICIPANT	PARTICIPANT'S ROLES AND RESPONSIBILITIES
TAURON Supervisory Board	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	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	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	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	1) Responsibility for effectiveness of 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	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.

G 4.4.4. 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.

G 4.4.5. 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).

G 4.4.6. 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 related to 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.

G 4.4.7. 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:

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.

G 5. TAURON Group's due diligence procedures

G 5.1. 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 Internal Control Area at TAURON Polska Energia S.A. include: planning and implementation of the audit tasks of the verifying and advisory nature, as well as performance of the internal control tasks – institutional control performing the detection function (detection control) and the prevention function. The basic objective of the internal control is to minimize the risk of incurring losses by TAURON Capital Group.

The audit and advisory activities are carried out by the Internal Audit Team conducting planned and ad hoc audit tasks both at TAURON Polska Energia S.A. as well as at TAURON Capital Group's subsidiaries. The Internal Audit Team, based on the Annual Audit Plan for the given calendar year, performs audit tasks of a process nature, assesses the current level of individual risks and the effectiveness of the management thereof. As part of the audit activities, the correctness of the examined processes and the effectiveness of the control mechanisms are also verified. If any irregularities are identified, the auditors recommend taking adequate corrective actions (remedies). 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.

Institutional control, understood as a set of inspection activities as part of internal control system in place, is carried out at the level of TAURON Capital Group by the Internal Control Team and by the organizational units competent for internal control operating at some of the subsidiaries. The control tasks are performed in the form of ad hoc and scheduled controls (audits). The Internal Control Team also carries out specialized controls (audits, inspections) of TAURON Capital Group's IT, OT and security systems.

The Audit and Control Area conducted 21 scheduled and ad hoc tasks in 2021.

The implementation of the new model for the periodic assessment of the Internal Control System was also commenced with its goal to provide the Management Board and the Audit Committee of the Company's Supervisory Board with independent and objective information on the functioning of the control mechanisms in business processes.

The goal of the Audit and Internal Control 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 organizational reporting to the President of the

Management Board allows the Area to maintain the required independence and objectivity needed for the effective performance of their duties. The Executive Director for Audit and Internal Control was also provided with the possibility of periodic reporting directly to the Chairperson of the Audit Committee, as a representative of the standing committee established within the Supervisory Board of TAURON Polska Energia. This empowerment is implemented in the applicable Organizational Regulations of the Company.

G 5.2. 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. The Company's Vice President of the Management Board for 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 activities 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 grade 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.

The accounting functions at TAURON Group's subsidiaries are to a significant degree integrated - TAURON Capital Group's material subsidiaries' financial and accounting services are performed by CUW-R (Shared Services Center – Accounting) and as a result of that TAURON Capital Group's financial and accounting processes are to a large degree 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 an audit by a certified auditor. In 2018, the Company selected an entity authorized to audit and review the financial statements of the Company and of TAURON Capital Group's material subsidiaries, as well as the consolidated financial statements. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2019-2021, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2019, June 30, 2020 and June 30, 2021. In November 2021, the Company selected an entity authorized to audit and review financial statements and consolidated financial statements for the years 2022-2024.

The rule related to changing the audit firm of the Company and TAURON Capital Group

The Company has in place the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.*, adopted by the Audit Committee of the Company's Supervisory Board, which includes the following rule:

1. maximum duration of continuous audit engagements (mandates) 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.

G 5.3. TAURON Capital Group's Key Policies, Codes and Principles in force as part of the Corporate Governance

G 5.3.1. 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 whose goal is 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 entire 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 authorities 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 the 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 Anti-corruption 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

The activities of the Compliance Officer and the Compliance Coordinators at TAURON Capital Group are based on the guidelines presented in the Standards recommended for the compliance management system with respect to counteracting corruption and protecting whistleblowers at the companies listed on the markets organized by the Warsaw Stock Exchange adopted on October 8, 2018.

In 2021, the monitoring of compliance risks was carried out at TAURON Group. As part of the monthly risk monitoring, the risk of internal abuse, the risk of external abuse, the risk of unethical behavior, the risk of non-compliance due to non-compliance with 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 investigating and probing (fact finding) of corruption activities and other abuse (fraud) are of key importance.

Each employee is obliged to study the provisions of TAURON Group's Anti-corruption Policy, to strictly comply with its content and to sign an appropriate statement on having familiarized himself/herself with the Policy. Such statements are most often stored in the employee's personal files.

Newly hired employees are also familiarized with the Anti-corruption Policy.

In 2021, the staff of the compliance departments//areas at Spółka Usług Górniczych and TAURON Wydobyć took steps aimed at extending the scope of the periodic WHS training in order to include therein the topics related to compliance and GDPR.

In addition, 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).

G 5.3.2. TAURON Group's Corporate Purchasing Policy

TAURON Capital Group's Corporate Purchasing Policy, 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 entire TAURON Capital Group. So far, a common tree of purchasing categories has been implemented, consolidated categories have been designated at TAURON Group as well as key categories at the subsidiaries for which there is an obligation to prepare a purchasing strategy or a purchasing platform.

TAURON Group's Corporate Purchasing Policy is to facilitate the implementation of the 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.

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

Single common purchasing regulations were 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. It should be emphasized that the common procurement regulations are gradually updated pursuant to the changing legal regulations. Subsequent updates are also a response to the changing market environment. The purchasing area is cooperating closely with the Compliance area as well as the audit and taxes area in order to improve the purchasing process.

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 available 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.

G 5.3.3. 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 relationships with the contractors (counterparties). The Code also includes the rules related to the workforce (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 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 to comply with its provisions. The above statement is posted on the Company's website at: https://swoz.tauron.pl/swoz2/platform/application?MP_action=publicFilesList&folder=000f0003&MP_module=main

G 5.3.4. TAURON Group's Compliance Policy

TAURON Group's Compliance Policy defines the basic principles of operation of TAURON Group's Compliance Management System, in particular: the objective, structure, tools, stages and areas of compliance management.

The Compliance Policy applies to all employees, members of the management board and supervisory bodies of the subsidiaries, as well as the proxies and powers of attorneys of TAURON Group.

The Compliance Management System's task is to reduce the risk of sanctions, financial losses as well as the loss of reputation, while contributing to building and consolidating the positive image of TAURON Group. This system was created taking into account the needs and specifics of the entire organization and covers the activities of all organizational units of TAURON Group's subsidiaries.

TAURON Group's Compliance Management System includes:

- Compliance Officer,
- Compliance Coordinators
- Ethics Committee.

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,
- conducting Compliance training as well as information and education campaigns related to Compliance,
- 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 and implementing TAURON Group's Fraud (Abuse) Reporting System and conducting the fact finding investigations (probes),
- 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.

G 5.3.5. TAURON Group's Principles (Rules) of counteracting a conflict of interest

TAURON Group's Corporate Social Responsibility Code of Conduct says: "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 interests of TAURON Group. We openly communicate cases that constitute or may constitute a source of conflict of interest, and we take actions aimed at minimizing the risk of a conflict of interest emerging."

Therefore, TAURON Group is running its operations 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 Principles (Rules) of Counteracting a Conflict of Interest are also in force at TAURON Group. 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.

TAURON Group employees are obliged to report the possibility of an emergence of a potential or actual conflict of interest.

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 his/her superior of 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.

G 5.3.6. Personal data protection policy for TAURON Group's entities

Personal Data Protection Policy for TAURON Group's entities is in force at TAURON Capital Group.

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 force at TAURON Group. 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 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 data processing security measures, 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 2021, TAURON Group continued updating the implementation of the requirements of the Regulation due to the need to:

- ensure the protection of personal data regardless of the place of its processing,
- carry out risk analyses in order to assess the effects of personal data protection
- ensure mandatory notification of protection 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.

In the Policy, in accordance with art. 24 and art. 32 of GDPR, in the performance of the above mentioned compliance obligations, measures have been implemented that take 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.

The following principles are enforced at TAURON Capital Group:

- Legality (lawfulness) of personal data processing: personal is processed data in accordance with the generally applicable law, based on an established legal basis;
- Reliability: personal data is processed in a fair (reliable), adequate, relevant 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 persons' 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, disclosing it only for the necessary purposes, of which the information is provided in advance;
- Correctness: TAURON Group takes care of the correctness of data with the utmost diligence, verifying it and enabling its owners (entities subject to GDPR rights), for example, to update the data;
- Security: particular emphasis is placed on the security of personal data processing using IT systems, implementing tools and procedures aimed at increasing cyber security. Procedures optimizing the security of personal data are implemented and updated, and TAURON Group's workforce is trained in this regard.

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 preparing changes to 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 thereby to ensure 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:
 - a. threats to information security,
 - b. consequences of violating information security rules, including the legal liability,
 - c. use of measures to ensure information security, including devices and software that minimize the risk of human errors,
7. Ensuring the protection of the information processed against theft, unauthorized access, damage or interference thereof, by:
 - a. monitoring access to the information,
 - b. activities aimed at detecting unauthorized information processing activities,
 - c. 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, modifications, 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:
 - a. taking care of software updates,
 - b. minimizing the risk of information loss as a result of a failure,
 - c. protection against errors, loss, unauthorized modification,
 - d. using cryptographic mechanisms in a manner adequate to the threats or the requirements of a legal provision,

- e. ensuring the security of system files,
 - f. reducing the risks arising from the use of the published technical vulnerabilities of the ICT systems,
 - g. promptly taking actions after noticing the undisclosed vulnerabilities of the IT systems to the possibility of security breaches,
 - h. 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 an audit of the IT systems in which personal data is processed.

In 2021, there was no justified complaint regarding a breach of customer privacy received from the regulatory authorities, while the number of justified complaints regarding a breach of privacy of the GDPR data subject received from external entities and recognized by TAURON Group's subsidiaries decreased from 341 complaints in 2020 to 2 complaints in 2021. The above is the result of the measures taken to correct and optimize the confidentiality and integrity of personal data processed by the administrators (data controllers), as well as of increasing the quality and shortening the response time to requests from the GDPR subjects (persons whose data was processed).

The increase in the total number of identified leaks, thefts or cases of loss of customer data to 674 cases in 2021 (growth rate versus last year in the region of more than 1000%) is a consequence of the data leakage at the Processors of TAURON Sprzedaż Sp. z o.o. (contractor processing customers' personal data on behalf of the administrator – data controller) as a result of a failure to ensure a server's security.

In order to ensure the security of the data subjected to the leak, immediately after the incident, TAURON Group implemented continuous monitoring and remedial actions involving mainly:

- providing persons affected by the possibility of unauthorized access to data with the information on the incident and the potential consequences thereof,
- providing customers exposed to the risk of unauthorized access to personal data the possibility of free use of the "Alert BIK" service,
- setting up an e-mail address dedicated to the event: kontakt.odo@tauron.pl, via which customers were able to report all issues related to the case,
- conducting an information campaign on the website www.tauron.pl, on which a section of key information on a possible breach of the security of personal data relating to the incident in question was made available to clients.

In addition, during the two consecutive weekends following the incident, a dedicated TAURON Group service hotline was operating, answering questions of customers whose data could have been the subject of a breach.

The below table presents material complaints regarding breaches of customer privacy and loss of customer data at TAURON Group in 2021.

Table no. 10. GRI 418-1. Material complaints regarding breaches of customer privacy and loss of customer data at TAURON Capital Group in 2021

Material data on customer privacy in 2021	
Total number of data leakage, theft or loss of customer data cases found	674
Number of substantiated (justified) complaints regarding breaches of customer privacy received from third parties and recognized by the organization	2
Number of substantiated (justified) complaints regarding breaches of customer privacy received from the regulatory authorities	0
Total number of substantiated (justified) complaints regarding breaches of customer privacy	2

TAURON Sprzedaż and TAURON Sprzedaż GZE are the centers for the arising of material complaints regarding breaches of customer privacy and loss of customer data (data leakage) in 2021.

G 5.3.7. TAURON Group's Security Management System Policy

TAURON Group's Security (Safety) Management System Policy was implemented in July 2018 and it applies to all of TAURON Group's subsidiaries. Currently, the process of updating its provisions is underway, with its completion scheduled for Q1 2022.

The Security (Safety) Policy and the detailed regulations related thereto form a uniform, coherent and comprehensive Security (Safety) Management System within TAURON Group, which:

- provides an optimal level of Security (Safety), adequate to the existing threats,
- takes into account the identified risks,
- provides a structured response to threats that minimize the effects or eliminate the risk of the occurrence thereof,
- ensures that the actions taken are systemic in nature, aimed at achieving the planned security (safety) goals.

The Security Policy defines TAURON Group's approach to ensuring security (safety) as part of its business operations and describes the operation of the Security Management System, which will be maintained by TAURON Group.

The policy defines standards, rules of conduct and organizational structures with respect to security (safety) within TAURON Group, including the assignments of competences and responsibilities.

Security (safety) management as part of the implemented Security (Safety) Management System has been divided into substantive areas, including among others:

1. Management of the Safety Management System,
2. Information security management,
3. IT/OT systems security management,
4. Physical security management,
5. Personnel security management,
6. Management of security incidents.

Within each area, detailed internal and intra-corporate regulations are developed.

The Security Management System is based on international standards with respect to information security management, such as ISO 27001 and NIST standards.

Due diligence procedures and internal regulations

As part of the Security (Safety) Management System, a number of intra-corporate regulations have been established, regulating in detail specific security (safety) aspects in the given area of operations:

1. TAURON Group's Security (Safety) Management System Policy - general document,
2. TAURON Group's Information Classification and Handling Policy,
3. TAURON Group's Physical Security Policy, along with a set of detailed requirements for physical security,
4. TAURON Group's 4. Principles of IT System Management in the TAURON Group,
5. A comprehensive set of security standards for the IT/OT area,
6. TAURON Group's Incident Management Principles.

For the purpose of clarifying in detail the aspects of security (safety) management, companies may develop internal regulations, applying the principle that these regulations may not lower the level of security (safety) sanctioned by the intra-corporate regulations.

As part of the Security (Safety) Management System, there is a set of processes responsible for various aspects of security (safety) management that are implemented accordingly throughout TAURON Group.

Actions taken and results achieved

Due to the fact that the security (safety) of TAURON Group comes largely down to the attitudes and behavior of employees and colleagues, a number of educational activities are carried out to raise awareness and competences with respect to broadly understood security (safety):

1. Mandatory e-learning training for all employees,
2. Mandatory introductory training in basic security (safety) aspects for newly hired employees,

3. Substantive (subject matter) training for employees responsible for various aspects of security (information security, IT/OT security, security audits),
4. In addition, the rules in force in the Policy are recalled through information campaigns and content available on the Group's intranet website,
5. Alerts and security (safety) information (bulletins) as reactions to current and emerging threats for TAURON Group.

TAURON Group is undertaking a number of activities to ensure the security (safety) of TAURON Group's infrastructure, including by:

1. Maintaining an extensive infrastructure for monitoring security (safety), physical security and IT/OT security,
2. The use of technical and organizational safeguards (physical security, ICT security),
3. Maintaining structures responsible for detection and quick response to security incidents (own CSIRT, SOC, SMA),
4. Cooperation with state authorities and services in identifying and neutralizing threats as well as attacks against TAURON Group's systems and infrastructure,
5. Conducting security audits and tests,
6. Applying the security by design and security by default principles in designing, ordering, maintaining systems and infrastructure that affect security,
7. Participation in the structures of the National Cybersecurity System,
8. Building business continuity plans based on the intra-corporate regulations regarding business continuity management,
9. Cooperation with entities from the power sector with respect to the exchange of information on threats, response to incidents, providing feedback and agreeing on common security standards.

TAURON Group is undertaking a number of activities aimed at ensuring security (safety) and raising awareness of TAURON Group's customers, including by:

1. Providing information to customers on threats directly related to them, e.g. extortion, phishing, spoofing for TAURON Group, fake SMS messages, etc.,
2. Maintaining and updating information on threats directly related to customers on TAURON Group's website.

G 5.4. Risks related to TAURON Capital Group's sustainable development

Risks related to TAURON Group's sustainable development are classified in accordance with the Risk Model described in section G 4.4.6. Based on that the following risk categories have been identified:

1. Legal risk presented in section G 5.4.1. of this Report,
2. Compliance risk presented in section G 5.4.2. of this Report,
3. Purchasing process risk presented in section G 5.4.3. of this Report,
4. Risk related to climate change presented in section E 1.2.1. of this Report,
5. Environmental risk presented in section E 1.2.2. of this Report,
6. Social risk presented in part S 2.2.1. of this Report,
7. Human capital management risk presented in section S 1.2.1. of this Report,
8. Internal communications risk presented in section S 1.2.2. of this Report,
9. Work Health and Safety (WHS) risk presented in section S 1.2.3. of this Report.

Each of the risks is also assigned a trend and a materiality level, as indicated below:



G 5.4.1. Legal Risk

Table no. 11 presents the Legal Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section G 4.4.6, the Legal Risk is classified in the category: Operational risk/Environment (stakeholders).

Table no. 11. 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 include financial penalties, criminal and civil law liability, damage to the Group's image.	 	• Continuous monitoring of the regulatory 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 and intra-corporate 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 in the area of compliance • Employee training with respect to the knowledge of the legal regulations and the internal regulations.

G 5.4.2. Compliance Risk

Table no. 12 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. 12. 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.	 	• 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 fraud (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). • Implementation of TAURON Group's Anti-Corruption Policy.

				• Applying of the principles stemming from TAURON Group's Corporate Social Responsibility Code of Conduct. • Implementation of the provisions 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 assault and hacker attacks, tax fraud, theft, vandalism, counterfeiting, dirty money laundering, terrorist attack.	→ ■	• Raising employee awareness through training and information campaigns on the existing threats of external abuse (fraud). • 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). • 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.auron.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. • Building and spreading an organizational culture based on TAURON Group's values and principles.
3.	The risk of unethical behavior and mobbing	The risk includes the occurrence of unethical behavior resulting, in particular, in a lack of cooperation, bad atmosphere in the team, mobbing, harassment, insults, discrimination of employees.	→ ■	• Developing an organizational culture based on TAURON Group's values and principles • Conducting information activities in order to familiarize the employees with TAURON Group's standards of conduct and corporate values defined in TAURON Group's Corporate Social Responsibility Code of Conduct, TAURON Group's Respect for Human Rights Policy, TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination. • Promoting knowledge with respect to the principles of social coexistence, moral standards and principles of equity adopted for use in the society. • Raising employee awareness through training and information campaigns on ethical behavior. • 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/ .

G 5.4.3. Purchasing Process Risk

Table no. 13 presents the Purchasing Process Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section G 4.4.6. the Purchasing Process Risk is classified in the category: Operational Risk/Customers and Contractors (Counterparties).

Table no. 13. 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.	→ ■	• Implementation of the provisions of the Code of Conduct for the Contractors (Counterparties) of TAURON Group. • Applying of TAURON Group's Anti-Corruption Policy. • Applying of anti-corruption clauses in the contracts with the contractors (counterparties). • Implementation of the Respect for Human Rights Policy. • Standardization of the principles (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.

G 5.5. Fraud Reporting (Whistleblowing) System

TAURON Group has a Fraud Reporting (Whistleblowing) System in place, which is a systematic sequence of consecutive actions aimed at receiving and reviewing the received notification and informing the notifying person about the results of the investigation.

The Fraud Reporting (Whistleblowing) System is a part of the organization's compliance management system.

The Fraud Reporting System is operated based on the provisions contained in TAURON Group's Corporate Social Responsibility Code of Conduct, TAURON Group's Compliance Policy and TAURON Group's Anti-Corruption Policy.

As part of this system, it is possible to whistle blow illegal activities and violations of the intra-corporate regulations through the communications channels adopted at TAURON Group, i.e.:

- in person to the Compliance Officer,
- 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,
- via the Abuse (Fraud) Reporting Form available at: <https://www.tauron.pl/tauron/o-tauronie/formularz-zgloszenia-naduzycia/>.

At TAURON Group's subsidiaries, abuse (fraud) can be reported in person, by phone, or in writing to the address of the Compliance Coordinator.

Employees are required to immediately report any reasonable suspicion of corruption or other abuse (fraud). For this purpose, TAURON Capital Group provides:

- the above mentioned communications channels allowing employees and external entities to safely (including anonymously) report potential violations,
- confidentiality of the reporting person's data and the information provided,
- protection against any form of retaliation against anyone who reports, in good faith, corruption or other abuse (fraud).

External entities, in particular contractors (counterparties) and other stakeholders of TAURON Group's subsidiaries, in case they have identified irregularities in TAURON Group's operations, also have an option to use the Fraud (Abuse) Report Form.

The Compliance Officer, and in case of a company other than TAURON Polska Energia, a Compliance Coordinator, having received the notification, confirms to the person submitting the notification the fact of its receipt, excluding anonymous reports, and verifies its authenticity, and then undertakes, with due diligence, follow-up actions in order to investigate the circumstances indicated in the notification in accordance with the procedures in force in this respect at TAURON Capital Group.

The Compliance Officer, and in case of a company other than TAURON Polska Energia, the Compliance Coordinator, informs the person submitting the notification, excluding anonymous reports, about the final result of the fact finding (investigation) procedure or about its extension in connection with the ongoing analysis of the facts described in the notification.

All of the reports received are entered in the Fraud (Abuse) Register.

If corruption or other abuses (fraud) are confirmed, the subsidiaries take corrective measures aimed at preventing similar events in the future. The Compliance Officer, and in case of companies other than TAURON Polska Energia, the Compliance Coordinators undertake educational and information activities in order to provide understandable and easily accessible information on the principles of reporting corruption or other abuse (fraud) at TAURON Capital Group.

A total of 106 potential cases of irregularities were reported at TAURON Group in 2021, including 31 notifications filed via the Fraud Report Form. Total number of anonymous reports: 26.

The draft act of October 14, 2021, on the protection of persons who report breaches of the law, implementing the provisions of Directive of the European Parliament and of the Council (EU) 2019/1937 on the protection of persons reporting breaches of EU law was published on the website of the Government Legislation Center on October 18, 2021.

The analysis of the intra-corporate regulations has demonstrated that TAURON Group has implemented tools and solutions with respect to reporting abuse (fraud), which, in order to fully adapt them to the Act, require relevant changes/updates after the above-mentioned act's entry into force.

The Compliance Officer, together with the Compliance Team of TPE S.A., on an ongoing basis monitor the course of the legislative works related to the introduction of the Act.

The activities performed by the Compliance Officer with the support of the Compliance Team are proportional and in line with the current legislative works and, at this stage of the legislative works, do not pose a risk of non-compliance due to non-compliance with the law.

G 6. GRI Indices

- 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 102-45 Entities included in the consolidated financial statements
- GRI 102-25 Conflict of interest
- 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 102-9 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 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 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

E – Environment

(Environment and Climate)

E 1. TAURON Capital Group's strategy and business model in the context of climate and environment 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 the 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, through electricity generation and distribution, up to supplying the product to the final consumer. For the energy industry, the climate impact includes both, the weather related occurrences, as well as the regulatory changes and changes in customer attitudes. All of this is not without significance for the business model and Strategy. TAURON Group monitors the changes in the regulatory area, both at the European, as well as the national level, aimed at minimizing the negative impact on the climate and the environment, and the departure of the financial institutions and insurers from the cooperation with entities operating coal assets. The above determines the weight of the climate and environmental issues as well as the development of RES at TAURON Group. 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. 24.

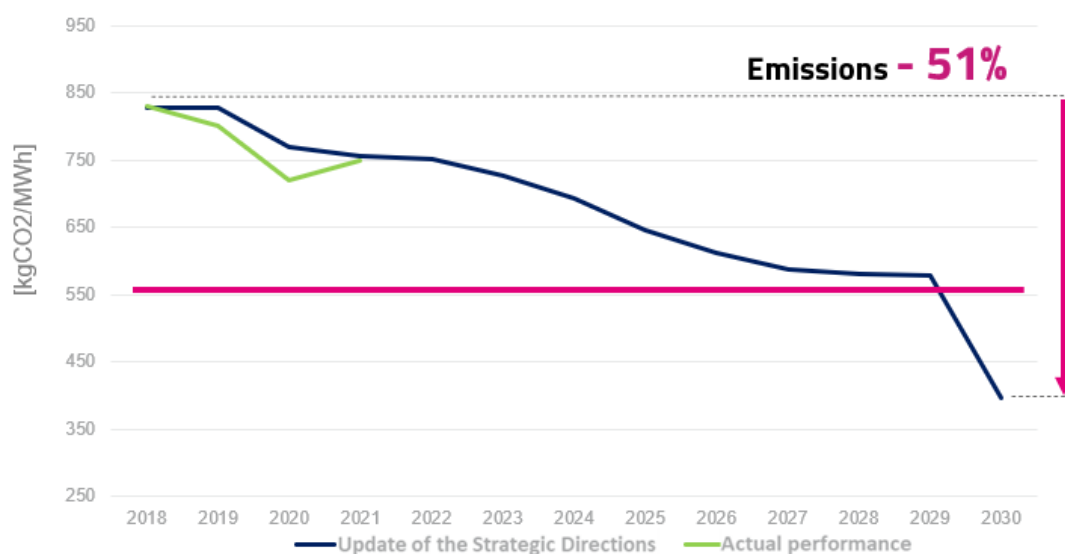


Figure no. 24. Planned CO₂ emissions by TAURON Capital Group in 2018-2030

TAURON Group's current Strategy and its business model are in line with the implementation of the terms of the Paris Accord, assuming limiting global warming to a value below 2°C as well as striving and taking actions aimed at not exceeding the temperature increase of more than 1.5°C. In case the expected curbing of the temperature increase does not materialize, the measures and actions taken will have to be more radical, and their implementation will be significantly accelerated.

Based on the scenario assuming warming at a maximum level of 2°C, changes in the external environment will be 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 deeper and faster.

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). 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 improvements of energy efficiency and the levels of greenhouse gas emissions in 2021 are presented in section E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results and E 1.1.4. TAURON Group and the climate and sustainable business development - activities, impact, trends, results.

In the long term, the impact of TAURON Group on natural resources will be decreasing, both due to the need to comply with the expected tightening of the environmental requirements and climate policy, through investments in new, low and zero-emission energy sources, but also due to the permanent shutdown of worn-out (obsolete) conventional units or their spinning off from TAURON Group.

The Group's transition towards low and zero-emission energy will impact the business model, shifting the place where the revenue is generated in the value chain.

More on TAURON Group's Strategy in section 2 TAURON Group's Strategy for the years 2016 – 2025.

E 1.1. Policies supporting the management of the following areas: environment, climate, sustainable development in the value chain

E 1.1.1. TAURON Group's Environmental Policy

Environment protection is a strictly controlled and regulated area in the energy and mining industry, both on the national law level, as well as on the EU regulations' level. Notwithstanding the applicable general provisions, TAURON Group, taking responsibility for the consequences of using natural resources, is taking actions that go beyond legal obligations defined in the documents titled TAURON Group's Environmental Policy and TAURON Group's Climate Policy.

TAURON Group's Environmental Policy (Environmental Policy) adopted by the Management Board in 2017 and updated as needed, 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 that should be followed 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 includes the general principles, values and vision followed by TAURON Capital Group in order to limit the impact on the natural environment, both as part of the direct, as well as the indirect impacts throughout the entire value chain. The document also presents the principles of responsible communications related to the environmental issues, ensuring the clarity and understanding of the operations of TAURON Group that may impact the environment as well as of the activities undertaken for the benefit of the environment.

E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results

TAURON Capital Group, acting in accordance with the legal regulations and in compliance with the provisions of the administrative decisions relevant for the performance 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 and the implementation of the environmental resource efficiency targets

Due diligence procedures and internal regulations

Due to the diverse production and service profiles of TAURON Capital Group's subsidiaries, their impact on the environment varies significantly. Therefore, the principles of the Environmental Policy are addressed in the individual internal documents of the individual subsidiaries in a way corresponding to their role in TAURON Capital Group's value system.

Minimizing of the negative impacts on the environment is effectively implemented by TAURON Group taking into account the specifics of the operations conducted, technological development and access to the 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 November 25, 2009, on voluntary participation by organizations in the European Community's Eco-Management and Audit Scheme.

TAURON Capital Group is monitoring, on an ongoing basis, the main aspects of the direct and indirect environmental impact of its operations, and the most important environmental performance indicators (metrics) are communicated in the form of monthly reports to the managers overseeing operating activities, including the top managers and the management board members.

Actions undertaken that bring environmental effects and results achieved

As a result of the BAT program for TAURON's coal-fired generating units, completed in mid-2021, starting from August 2021 the coal power generating units, having been modernized ecologically, have met the requirements of the "BAT conclusions" and thus have contributed 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 covered the following ecological investment projects of TAURON Wytwarzanie:

- 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 BAT Program, based on the concluded contracts for the implementation of the above projects, included expenditures amounting to approx. PLN 311.2 million, of which only approximately PLN 27.6 million was spent in 2021 due to the final stage of the program.

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 comply with them, due to having been modernized in previous years or having obtained relevant derogations (derogations from the BAT conclusions obtained under administrative decisions on the changes to the integrated permits in the procedure involving the participation of the public).

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) allowed for the reduction of the specific (unit) emissions of sulfur oxides and nitrogen oxides into the air to the following levels:

The specific (unit) SO₂ emission index - units 9 and 10 at the Łaziska Power Plant

	2021	2020
fuel g/GJ	48 (SO ₂ =130 mg/m ³ , O ₂ ref.)	74 (SO ₂ =200 mg/m ³ , O ₂ ref.)

The specific NO_x emissions index - units 1, 3, 5 at the Jaworzno III Power Plant and units 9-12 at the Łaziska Power Plant

	2021	2020	xxx
fuel g/GJ	56 (NO _x =150 mg/m ³ , O ₂ ref.)	74 (NO _x =200 mg/m ³ , O ₂ ref.)	

As part of the investment projects 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 successively connecting of the individual facilities, previously heated by individual heat sources.

TAURON Nowe Technologie has commissioned low-emission gas-fired cogeneration units using gas from demethanization of the Brzeszcze Coal Mine with a total capacity of 10.8 MWe. As a result of methane combustion this gas is converted into CO₂ whose greenhouse effect potential is many times lower.

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 systems, switch rooms (indoor substations) or transformer/switch substations, makes a direct contribution to the improvement of the soil and groundwater safety.

TAURON Group assumes responsibility for 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 2021 is approximately PLN 32.7 million, which is illustrated in Table no. 14.

Table no. 14. Estimated charges to be paid for the business use of the environment by TAURON Capital Group due for 2021

#	Subsidiary name	Charges ¹ for the business use of the environment due for 2021 (PLN '000)
1.	TAURON Wytwarzanie	11 913.5
2.	TAURON Wydobycie	14 944.5
3.	TAURON Ciepło	4 119.6
4.	TAURON Dystrybucja	232.1
5.	KW Czatkowice	67.1
6.	TAURON Nowe Technologie	33.8
7.	TAURON Obsługa Klienta	17.3
8.	TAURON Ekoenergia	563.9* **
9.	TAURON Sprzedaż	< 0.8**
10.	Bioeko Grupa TAURON	4.5
11.	Nowe Jaworzno Grupa TAURON	770.8 ***
12.	Wsparcie Grupa TAURON	1.2
Total		32 668.3

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 2021 is PLN 558.4 thousand and a fee of PLN 5.5 thousand for discharging rainwater or snowmelt into the waters.

** 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 2021. The 910 MW unit's incomplete operation period - on June 11, 2021 there was an emergency shutdown for repair during the warranty period.

Emissions, waste water (sewage) and waste

In 2021, TAURON Group's generation units were operated with extraordinary intensity as a consequence of the needs of the NPS (KSE) operator and the necessity to replace the most modern 910 MW coal-fired unit in Jaworzno, which had been operated for slightly more than half a year and, starting from June 11, it was put out of service for repair during the warranty period. As a result, the absolute air emissions of the NO_x, SO₂ compounds and dusts increased in relation to the previous year. In spite of that, the emissions of TAURON Group in 2021 are significantly below the levels defined as the maximum allowed annual loads of substances released into the air according to the permits. This is due to the fact that all operating generation units of TAURON Wytwarzanie and TAURON Ciepło achieve the concentration levels of sulfur dioxide, nitrogen dioxide and dust below the current permitted limit values, while the 200 MW units and the biomass-fired boilers (RES) achieve emission levels at the level of the limit values specified in the BAT conclusions, which came into force in August 2021. In addition to the implementation of the program for the construction and modernization of the flue gas treatment installations, the conventional power generation units use solid fuels of adequate quality and the updated equipment operation procedures are applied in order to meet the environmental requirements.

As part of its operations related to the environmental management TAURON Group is performing an ongoing monitoring of the emissions of the NO_x, SO₂ compounds and dusts into the atmosphere and the emissions in 2021 and in the previous 2020 are presented in Tables no. 15, 15-a and 15-b.

Table no. 15. GRI 305-7. Emissions of the NO_x, SO₂ compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2021 and 2020

TOTAL		
	2021	2020
NO _x	8 322 641	7 490 740

SO ₂	7 247 774	7 050 794
Total dust	428 683	435 182
Other *	8 050 431	5 971 549 *

** The items Other and Total for 2020 were recalculated (methane emissions are not included as they were transferred to the Scope 1 direct emissions, including the adequate conversion using the GWP factor (25) for CH₄ => CO₂e according to GHG Protocol - AR5).*

Table no. 15-a. GRI 305-7. Emissions of the NOx, SO₂ compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2021 and 2020, per individual subsidiaries

	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		Nowe Jaworzno Grupa TAURON ¹⁾		TAURON Nowe Technologie		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
NOx	278	684	6 050 299	6 238 530	1 426 435	1 102 230	37 678	37 668	807 906	111 628	46	-	8 322 641	7 490 740
SO ₂	52	27	4 683 464	5 392 053	2 029 341	1 537 689	55 188	55 188	479 726	65 837	3	-	7 247 774	7 050 794
Total dust	8 985	6 507	233 768	282 085	84 884	82 311	59 358	44 372	41 688	19 907		-	428 683	435 182
Other *			5 519 617	4 551 863	2 437 741	1 366 787	50 745	46 651 *	42 327	6 248		-	8 050 431	5 971 549 *

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period).

* the items Other and Total for 2020 were recalculated (currently methane emissions are not included as they were transferred to the Scope 1 direct emissions, including the adequate conversion using the GWP factor (25) for CH₄ => CO₂e according to GHG Protocol - AR5).

Table no 15-b. GRI 305-7. Operational limits of emissions of significant compounds into the atmosphere at TAURON Capital Group's individual subsidiaries, applicable in 2021

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 Nowe Technologie	116.2	9.2	-
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 emissions of which do not exceed 10% of the reference value (benchmark) or 10% of the permitted levels in the air averaged per hour.

In the first half of 2021, despite the COVID 19 pandemic underway, the last of the investment tasks related to the modernization of the air protection installation at Łaziska and Jaworzno III Power Plants, was completed, and thanks to that the coal units planned for further operation, which were also the participants of the capacity market, were prepared for the new environmental requirements specified in the BAT conclusions starting from August 2021.

TAURON Group's costs and expenditures for the projects related to environment protection are presented in Table 16.

Table no. 16. TAURON Group's costs and expenditures for the projects related to environment protection (excluding climate-related expenditures)

TAURON Group's total spending on environment protection	PLN 345.0 million
Including capital expenditures related to environment protection	PLN 36.5 million
Share of capital expenditures in spending on environment protection	approx. 10.6 %
Share of capital expenditures related to environment protection in the Group's total capital expenditures	approx. 1.2 %

Following the principle of resource efficiency, TAURON Group is also monitoring and optimizing 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. In 2021, a significant decrease in water consumption for technological purposes was recorded, which was associated with the complete stopping of the operation of the generation units that use solid fuels at the Stalowa Wola site (from May 2021) - currently at this location the market demand is satisfied by a modern low-emission cogeneration unit fired using the gas fuel.

Nowe Jaworzno Grupa TAURON's (NJGT) 910 MW unit and TAURON Wytwarzanie's Łaziska Power Plant in Będzin meet the highest quality requirements for the combined cycles and are equipped with water conditioning (treatment) installations based on modern membrane techniques.

The climate changes observed, including the hydrological drought phenomenon that has been growing in recent years, directly affect the availability of the resources considered as renewable, such as for example water. Sustainable use of these resources is implemented in the energy industry, among others by applying operational limits on the amount of water taken directly from the environment (surface and groundwater intakes, presented in table no. 17.

Table no. 17. Maximum daily limits for direct water intake from the environment in force in 2021

Source	Maximum daily quantity m ³ /d

	Coal mine drainage water (including the ground water to be used for the coal mine needs)	Ground water	Surface water
TAURON Wydobycie	158 934 (8 256)		
TAURON Wytwarzanie		14 376	877 272**
TAURON Ciepło			7 209.6
TAURON Dystrybucja		11.9	
TAURON Ekoenergia		3,8	
Kopalnia Wapienia Czatkowice		3,5	240

* The above table does not include the so-called reverse water intake for electricity generation purposes by hydropower plants, nor limits stemming from civil law contracts with external suppliers.

** The value includes the so-called reverse water intake in an open cooling system.

The consumption of water used in the production processes by TAURON Capital Group in 2021 is shown in Tables no. 18 and no. 18-a.

Table no. 18. GRI 303-3. TAURON Capital Group's total water consumption per source in 2021 and 2020

[m ³ /year]	TOTAL	
	2021	2020
rivers	47 230 609	117 712 190
wetlands	0	0
ground water	46 577 742	46 458 181
rain water picked up directly and stored	278 954	318 988
water from the city network	4 143 445	3 613 660
Other	18 741 603	15 941 437
Total volume of water consumed from all sources taken into account	116 972 353	184 044 456

Table no. 18-a. GRI 303-3. TAURON Capital Group's total water consumption per source broken down by subsidiaries in 2021 and 2020

[m3/year]	TAURON Wydobycie		Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Surface water (rivers, lakes) including water from wetlands														
rivers	0	0	47 075	48 465	46 701 176	117 350 726	482 358	312 999	0	0	0	0	47 230 609	117 712 190
wetlands	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other:														
ground water	45 704 009	45 471 280	80	92	873 168	986 281	0	0	485	528	0	0	46 577 742	46 458 181
rain water picked up directly and stored	0	0	0	0	278 954	318 988	0	0	0	0	0	0	278 954	318 988
water from the city network	411 991	792 963	30 809	22 688	2 149 767	1 680 253	1 549 598	1 116 587	1 280	1 169	0	0	4 143 445	3 613 660
Other	0	0	0	0	13 457 328	14 565 846	1 188 230	759 936	0	0	4 096 045	615 655	18 741 603	15 941 437
Total volume of water consumed from all sources taken into account	46 116 000	46 264 243	77 964	71 245	63 460 393	134 902 094	3 220 186	2 189 522	1 764	1 697	4 096 045	615 655	116 972 353	184 044 456

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period).

* 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.

By optimizing waste water treatment processes, modernizing and applying new waste water treatment methods, as well as a result of shutting down the coal and biomass fired units at the Stalowa Wola site, TAURON Group has significantly reduced the total quantity of waste water produced. The quality and quantity of wastewater is subject to ongoing monitoring and the total volume of waste water produced (discharged) as a result of TAURON Capital Group's operations in 2021, including its utilization method (destination), is shown in Tables no. 19 and no. 19-a.

Table no. 19. GRI 306-1. Total volume of TAURON Capital Group's waste water [m³] in 2021 and 2020 by quality and utilization method (destination)

Waste water dump site taking into account emergency heat dumps		TOTAL m ³
	2021	2020
Waste water discharged into the sewage system (municipal companies)	984 342	815 147
Waste water discharged by means of transportation to the waste water treatment plant	564	524
Waste water discharged to the surface water:		
Rivers	60 126 611	128 817 551
Other	1 400 842	153 285
Total waste water volume	62 512 359	129 786 507

Table no. 19-a. GRI 306-1. Total volume of TAURON Capital Group's waste water [m3] in 2021 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]													
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Wydobywanie		TAURON Ciepło		TAURON Ekoenergia		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Waste water discharged into the sewage system (municipal companies)	0	0	212 938	114 400	287 311	287 587	483 091	412 367	1 002	793	-	-	984 342	815 147
Waste water discharged by means of transportation to the waste water treatment plant	0	0	0	0	416	385	0	0	148	139	-	-	564	524
Waste water discharged to the surface water:														
Rivers	45 267	33 605	16 522 878	85 205 063	43 373 193	43 455 515	184 794	122 855	479	513	-	-	60 126 611	128 817 551
Other	0	0	0	0	0	0	0	0	0	0	1 400 842	153 285	1 400 842	153 285
Total waste water volume	45 267	33 605	16 735 816	85 319 463	43 660 920	43 743 487	667 885	535 222	1 628	1 445	1 400 842	153 285	62 512 359	129 786 507

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period).

* 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.

Decommissioning of units using solid fuel at TAURON Wytwarzanie S.A. in Stalowa Wola in 2021 led to the significant reduction of the amount of waste water discharged to surface waters (rivers).

Waste management - actions taken and results achieved

TAURON Capital Group is undertaking numerous actions aimed at minimizing the negative impact on the environment, including minimizing the waste generated from processes and activities within the entire value chain.

In accordance with the principles of the Environmental Policy, the Group has a hierarchy in place for dealing with waste.

Tables no. 20 and 20-a as well as 21 and 21-a present the total weight of waste by type and utilization (handling) method.

Table no. 20. GRI 306-2. Total weight of hazardous waste [t] in 2021 and 2020, by waste type and waste utilization (handling) method

	2021	2020
Reuse	9.3	101.6
Recycling	2.2	541.4
Recovery (including energy recovery)	494.3	103.0
Neutralization	24.7	148.8
Storage	36.2	5.1
Other *	437.4	52.4
TOTAL WASTE WEIGHT	1 004	952

* The Group does not generate nuclear waste.

Table no. 20-a. GRI 306-2. Total weight of hazardous waste [t] in 2021 and 2020, by waste type and waste utilization (handling) method, per subsidiary

	weight of hazardous waste [tons]															
	Kopalnia Wapienia "Czatkowice"		TAURON Wytwarzanie		TAURON Wydobycie		TAURON Ciepło		TAURON Ekoenergia		TAURON Dystrybucja		Nowe Jaworzno Grupa TAURON ¹⁾		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Reuse	0.0	0.0	0.0	9.3	0.0	0.0	0.0	0.0	0.0	0.0	9.3	92.3	0.0	0.0	9.3	101.6
Recycling	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	541.4	0.0	0.0	2.2	541.4
Recovery (including energy recovery)	0.0	0.0	194.9	76.6	0.0	0.0	10.0	8.0	0.0	0.0	289.4	18.4	0.0	0.0	494.3	103.0
Neutralization	0.0	0.0	5.8	10.1	0.0	0.0	0.0	3.0	0.0	0.0	18.9	135.7	0.0	0.0	24.7	148.8
Storage	0.0	0.0	9.4	0.5	4.2	3.4	2.0	1.0	0.0	0.0	20.5	0.2	0.0	0.0	36.2	5.1
Other	24.5	26.2	0.0	0.0	38.1	26.2	0.0	0.0	129.9	0.0	244.9	0.0	0.0*	0.0*	437.4	52.4
TOTAL WASTE WEIGHT	24.5	26.2	211.2	96.5	42.3	29.6	12.0	12.0	129.9	0.0	584.2	788.0	0.0*	0.0*	1 004	952

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period).

* 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. 21. GRI 306-2. Total weight of non-hazardous waste [t] in 2019 and 2020, by waste type and waste utilization (handling) method

	2021	2020
Reuse	155	0
Recycling	2 203	3 606
Recovery (including energy recovery)	1 581 107	1 434 488
Neutralization	1 286	274
Dump (landfill)	5 969	8 958
Storage	9 656	30 701
Composting	0	0
Other	54 875	251 644
TOTAL WASTE WEIGHT	1 655 250	1 729 672

Table no. 21-a. GRI 306-2. Total weight of non-hazardous waste [t] in 2021 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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Reuse			155												155	
Recycling			943	872							1 260	2 734			2 203	3 606
Recovery (including energy recovery)			75 824	166 308	1 468 313	1 231 386	36 273	36 304			696	490			1 581 107	1 434 488
Neutralization			801	14			7				478	251			1 286	274
Dump (landfill)			5 969	8 958											5 969	8 958
Storage			981	893	6 359	28 485	2 016	1 323			300				9 656	30 701
Composting																
Other	91	286	2 063	2 005	50 897	248 883			186	200	500		1 137	269	54 875	251 643
TOTAL WASTE WEIGHT	91	286	86 737	179 050	1 525 569	1 508 754	38 296	37 636	186	200	3 235	3 475	1 137	269	1 655 250	1 729 670

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period).

Circular economy

TAURON Capital Group is actively looking for solutions that would implement the idea of the Circular Economy whose goals include:

1. taking care of the natural environment,
2. reducing the harm caused by the waste produced,
3. maximizing the use of the by-products of the combustion related to electricity generation or of the coal mining,
4. minimizing the costs related to the disposal (neutralizing) of environmentally harmful waste and providing new functionalities to the areas transformed as a result of industrial activities,
5. partnership collaborations in the field of circular economy.

As part of the operations of TAURON Capital Group, the cycles of substances produced by the Group are closed and the re-use of the combustion and mining by-products is being spread in the economy and industry. The reuse of substances contributes to the protection of natural resources and the reduction of the amount of waste deposited in landfills.

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 curtailing the carbon footprint.

3.8 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2021, with as much as 61% of that quantity brought to the market as full value products to be used, among others, in the construction, road building, mining or agricultural sector. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization, among others in land reclamation, macro-leveling and filling of the post-mining voids in mining.

In 2021, TAURON Wytwarzanie and Nowe Jaworzno Grupa TAURON brought to the market as much as 100% of ashes and boiler slag coming from coal combustion as by-products from 7 system power plants, to be used in construction, road engineering (building), mining and agriculture.

The below figure presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2021.



Figure no. 25. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2021

TAURON Capital Group's power plants produced 149 thousand Mg of ashes in 2021 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 Wytwarzanie's coal mines.

100% of TAURON Ciepło's by-products, i.e. 239 000 Mg, is reused in various industries. In 2021, the contract under which almost 1 million tons of ash-slag from TAURON Wytwarzanie were used to build the S-19 expressway was completed.

TAURON Wytwarzanie processes post-mining waste, as a result of which high-quality construction and road aggregates are obtained. 197 thousand Mg of aggregates and materials produced from the post-mining waste were placed on the market in 2021.

The below figure presents the structure (composition) and quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2021.

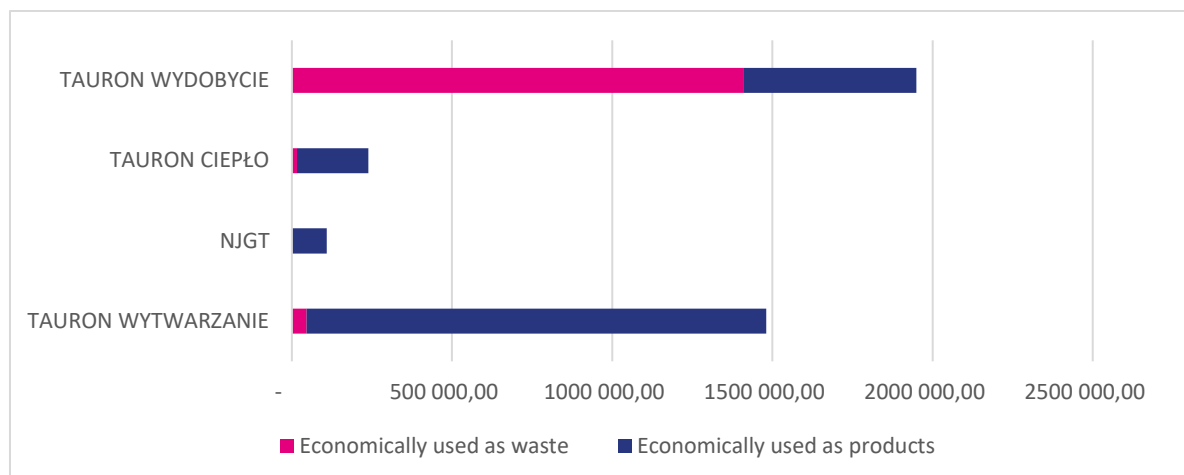


Figure no. 26. Structure (composition) and quantities of the combustion and mining by-products generated by TAURON Capital Group, brought to the market in 2021

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. aggregates, sand or gravel.

Biodiversity

TAURON Capital Group has knowledge of the areas that are valuable from the nature point of view, whose locations are subject to its 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 9 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.

The results of the monitoring achieved in 2021 are presented below:

1. Chiropterofaunal monitoring

In 2021, 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 563 bats from 8 species hibernated in the winter shelters penetrated. The condition of the population of the Horseshoe bat and the Geoffroy's bat in the winter shelters was assessed as suitable – their number went up as compared to the previous years. In case of the lesser horseshoe bat a small decrease of its number was observed in the Raclawicka Cave (Jaskinia Raclawicka), while its number increased in the Bat Cave (Jaskinia Nietoperzowa). 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 as well as 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 comparable or higher than in the previous years.

In the close vicinity of Kopalnia Wapienia "Czatkowice", the presence of two small breeding colonies of the ciliated scabbard was found in the church in Tenczynek and in the Palace in Krzeszowice (there is also a colony of lesser horseshoe bat here).

The hunting and field listening activities completed indicate that in the areas where trees were planted, the activity of bats and the wealth of their species went up.

2. Ornithological monitoring – of the breeding birds in the protection zone

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 forestry management, the described area provides a shelter for a number of bird species, including many of those that are deprived of breeding habitats year by year.

Similar as in the previous years, 2 species from Annex 1 of the Birds Directive were found in 2021 - red-backed chrysanthemum and rowan. These species are currently finding optimal conditions for growth in the area covered by the study.

In 2021, the numbers of many species significantly increased. Overall, there were 187 detections (in 2020 - 118 detections, in 2019 - 169, in 2018 - 129).

The major part of TAURON Group's operations in the entire value chain is carried out in a manner ensuring the protection and development of biodiversity. The principles and directions of actions according to the Environmental Policy include:

1. Promoting nature protection, and in particular the preservation of habitats, plant and animal species located within the key locations, in order to protect biodiversity and the functioning of ecosystems.
2. Taking into account the impacts of the key assets on biodiversity.

In 2021, promoting of nature protection, and biodiversity in particular, was achieved through:

- spreading knowledge and shaping responsible attitudes among TAURON Group's employees, among others in 2021, as part of the internal communications, the knowledge of the Code of Good Practice was disseminated: Gardening against invasive plants of foreign origin. TAURON Group, which was noted by the General Directorate for Environmental Protection in good examples of the Code's use;
- running the campaign entitled Our stork,
- implementation of the project What to plant so as not to overdo it,
- promotion of the Landscape Day.

TAURON Group's approach to biodiversity in the medium term is gaining new meaning in connection with the potential liquidation of the permanently decommissioned generation assets and granting of the new functionalities to the post-industrial areas (land), as well as in the light of the goal of developing zero-emission assets based on the photovoltaic and wind power plants.

Each "new" or "restored" site under potential consideration for the operations of the Group's subsidiaries is subject to analyses and assessment in terms of the possibility of maintaining the integrity of ecosystems and is subjected to a nature inventory (also a preliminary one without long term nature monitoring), including with respect to the biodiversity of the existing and adjacent flora and fauna, along with the determination of favorable conditions for its preservation and even development.

The designed photovoltaic farms are planned to be implemented with the goal to preserve the largest possible biologically active area.

Actions taken and results achieved

When implementing RES development projects TAURON Capital Group always takes into account the requirements specified in the decisions on environmental conditions with respect to activities aimed at the protection of biodiversity.

In 2021, the Group was preparing itself for the obligation to verify the sustainable development criteria for the biomass used for electricity generation purposes.

TAURON Group's total consumption of renewable raw materials in the form of biomass came in at more than 517 thousand tons in 2021.

The subsidiaries operating biomass burning installations (TAURON Wytwarzanie and TAURON Ciepło), covered by the emission allowances trading system, and the biomass supplier (Bioeko Grupa TAURON) obtained certificates of the voluntary certification system authorizing them to issue documents confirming the sustainable development criteria, which means that from January 1, 2022, when new requirements come into force, the biomass used for the Group's electricity generation purposes will meet the criteria expected for reducing the greenhouse gas emissions.

E 1.1.3. 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, in November 2019, the Management Board of TAURON Polska Energia S.A. also adopted to be applied the document entitled: TAURON Group's Climate Policy.

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.

E 1.1.4. TAURON Group and the climate and sustainable business development - operations, impact, trends, results

In 2021, TAURON joined the group of companies reporting information on climate and water management under the CDP project. The disclosure under the CDP is voluntary. The standard helps to fully track the progress in adapting activities to climate change in accordance with the idea of sustainable development and to improve reporting.

Publications in this format are a response to the expectations of stakeholders, especially investors for whom it is of growing importance to know whether the companies in which they want to invest are aware of the risks and opportunities related to the climate and manage their impact on its change and take adaptive measures.

This international survey aims to ensure that companies transparently disclose information on climate and the impact on the changes thereof.

The addition of TAURON to this study, with the company being in the first phase of transformation (first assessment D), will allow for the tracking and evaluation of the activities undertaken by the Group in the following years.

As part of the questionnaires related to the areas of climate change ("Climate Change") and water management ("Water"), TAURON prepared data and information needed to provide detailed answers to the questions grouped in 14 thematic sections of the survey on climate change and 9 sections related to water management, ensuring consistency with the reporting standard for the previous years.

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. 22 and 22-a, as well as 23 and 23-a).

Table no. 22. GRI EU1. TAURON Capital Group's installed capacity, broken down into main types of the raw material and the regulatory requirements in 2021 and 2020

Installed capacity in MW by the type of fuel used	TOTAL	
	2021	2020
Hard coal	7 157	7 157
Natural gas and coke oven gas as well as other energy production related gases (gas from the Brzeszcze Coal Mine's demethanization)	176	165
Biomass*	238	381
Heating oil**	269	269
Wind based electricity***	381	381
Hydroelectricity***	133	133
Solar energy***	11	0

* total electric (MWe) and thermal (MWt) installed capacity.

** total thermal (MWt) installed capacity.

*** total electric (MWe) installed capacity.

The Group is also operating photovoltaic micro-installations used 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. Photovoltaic micro-installations are also operated by TAURON Ciepło (the heat plant in Zawiercie).

Table no. 22-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 2021 and 2020

Installed capacity in MW by the type of fuel used	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		Kopalnia Wapienia „Czatkowice”		NOWE Aktywa "Zielony Zwrot TAURONA"		Nowe Jaworzno Grupa TAURON		TAURON Nowe Technologie		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Hard coal*	4186 MWe 953 MWt	4186 MWe 953 MWt	307 MWe 796 MWt	307 MWe 796 MWt	-	-	-	-	-	-	914,6 MWe 914,6 MWe	914,6 MWe	-	-	7 157	7 157
Natural gas and coke oven gas as well as other energy production related gases (gas from the Brzeszcze Coal Mine's demethanization)*	-	-	164 MWt	164 MWt	-	-	1 MWt	1 MWt	-	-	-	-	10,8 MWe	-	176	165
Biomass*	50 MWe 78 MWt	105 MWe 166 MWt	40 MWe 70 MWt	40 MWe 70 MWt	-	-	-	-	-	-	-	-	-	-	238	381
Heating oil**	140 MWt	140 MWt	132 MWt	129 MWt	-	-	-	-	-	-	-	-	-	-	269	269
Wind based electricity***	-	-	-	-	201 MWe	201 MWe	-	-	180 MWe	180 MWe	-	-	-	-	381	381
Hydroelectricity***	-	-	-	-	133 MWe	133 MWe	-	-	-	-	-	-	-	-	133	133
Solar energy***	5 MWe	-	-	-	-	-	-	-	6 MWe	-	-	-	-	-	11	-

* total electric (MWe) and thermal (MWt) installed capacity.

** total thermal (MWt) installed capacity.

*** total electric (MWe) installed capacity.

Table no. 23. GRI EU1. TAURON Capital Group's installed capacity, broken down into types of generation units in 2021 and 2020

Installed capacity in MW by the type of generation unit:	TOTAL	
	2021	2020
Power plants (MWe)	5 686	5 720
Power plants (MWt)	1 171	1 259
Combined heat and power plants (MWe)	347	347
Combined heat and power plants (MWt)	1 014	1 014
Heat plants (MWt)	146	146

Table no. 23–a. GRI EU1. TAURON Capital Group's installed capacity, broken down into types of generation units, per subsidiary in 2021 and 2020

Installed capacity in MW by the type of generation unit:	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		Kopalnia Wapienia „Czątkowice”		NOWE Aktywa "Zielony Zwrot TAURONA"		Nowe Jaworzno Grupa TAURON		TAURON Nowe Technologie		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Power plants (MWe)*	4 241	4 291	-	-	334	334	-	-	186	180	914.6	914.6	10.8	-	5 686	5 720
Power plants (MWt)	1 171	1 259	-	-	-	-	-	-	-	-	-	-	-	-	1 171	1 259
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	146

* Power plants (MWe) total includes photovoltaic farms' and gas engines' generation (TAURON Nowe Technologie).

** Kopalnia Wapienia "Czątkowice" boiler house / heat (thermal) 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 as well as striving not to exceed the temperature increase of more than 1.5°C in relation 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 different 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 since 2020, have been included in:

1. Risk management - process based management of climate risk in the short, medium and long term (2020 -2025 - 2030) has been 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 2022 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.

Establishment of TAURON Group's ESG committee

At the end of 2021, TAURON Polska Energia established the ESG Committee, whose task and role is to coordinate all issues related to the impact of climate change in the current operations of TAURON Group in connection with the set Strategic goals (medium and long term).

TAURON Group's main strategic goals related to climate change have to a large extent already been communicated as part of the Green Turn of TAURON, including the most important goals for 2030 envisaging a significant increase in the share of low and zero-emission sources in TAURON Group's installed capacity and a decrease in the emissions for energy production by 50% as compared to the base year 2018.

The chairperson of the ESG committee is a representative of TAURON Group's highest level of management – the Vice President for Assets of TAURON Polska Energia S.A., and the members of the ESG committee are also the representatives of middle and senior management responsible, among others, for strategy, communications, human resources and environmental protection.

The role of the ESG Committee will be in particular (starting from 2022):

- adopting directions of ESG activities and metrics for TAURON Group's Strategy,
- providing feedback on/recommending/launching ESG initiatives at TAURON Group,
- accounting for the achievement of ESG goals (metrics),
- adopting the content of the annual report on the implementation of ESG objectives and issuing conclusions and recommendations in this regard for the Management Board of TAURON Polska Energia S.A.,
- reviewing the action plan in light of the changing global context and approving recommendations in this regard.

Thus, the up to now designation and adoption of ESG related directions and goals and reporting on the implementation thereof, which in 2021 took place within the individual operational divisions of TAURON Group, will be implemented in a new, fully coordinated dimension.

In addition, in parallel to taking the decision to appoint the ESG Committee, the following areas for review and development in the coming years were identified, related to the impact of TAURON Group's activities with respect to climate change as well as the directions and goals resulting from the implementation of the Green Turn of TAURON:

- review of the options available to reduce the Scope 1 direct emissions in the conditions where it is necessary to provide services to the NPS,
- review of the options to further reduce the Scope 3 indirect emissions as part of activities related to the initiatives created throughout the value chain,
- review and revision of the short and medium term decarbonization targets related to the emissions reduction in the generation line of business (electricity and heat) for TAURON Group,
- defining indicators and the monitoring thereof with respect to increasing the share of EBITDA from sustainable activities in the entire value chain,
- defining indicators and the monitoring thereof with respect to the growth of the capital expenditures / CAPEX for sustainable activities throughout the value chain,
- integration of the Group's of activities with respect to the "Crisis Response Program",
- developing initiatives for more efficient use of natural resources,
- integration at the Group level of the superior environmental efficiency monitoring system and implementation of universal monitoring indicators,
- development of the environmental guidelines for liquidated activities and for the use of industrial sites for new functionalities,
- development of sustainable products and services.

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 too low or too high water level in the rivers, is presented in Table no. 24.

Table no. 24. The number of days on which the electricity production at TAURON Ekoenergia did not take place in 2021 due to the low water levels in the rivers

River	Power plant	The number of days in the month with no production												
		January	February	March	April	May	June	July	August	September	October	November	December	Total
Odra	Brzeg	4	19	4	3	14		1	3		1		3	5
	Janowice					2								
	Kopin		1											
	Wrocław II							28	24					5
Bóbr	Bobrowice II					1				1	1			
Nysa Kłodzka	Opolnica					11				2	1		1	
	Ławica					1								
Wisła	Dąbie					2		4						
	Przewóz					1								
Potok Bystre	Kuźnice	15	28	31	6								8	
Mała Panew	Turawa	6	6	10			27	16					6	

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 2021 is illustrated in Table no. 25.

Table no. 25. Share of mass failures in total failures at TAURON Dystrybucja in 2021

Share of mass failures in total failures	Number of mass failures
17.4%	2

Failures often result in interruptions in the supply of electricity, the frequency and duration of which are illustrated in tables no. 26 and 27.

Table no. 26. GRI EU 28. Frequency of the interruptions in the supply of electricity to the consumers of TAURON Dystrybucja in 2021

Interruption type	CP * (number of interruptions / consumer / year)
CPmd - regulatory interruption frequency indicator in the area: large cities	0.43
CPmp - regulatory interruption frequency indicator in the area: cities with county rights	1.12
CPm - regulatory interruption frequency indicator in the area: cities	1.77
CPw - regulatory interruption frequency indicator in the area: large villages	3.89

* Formerly SAIFI (System Average Interruption Frequency Index), replaced with the area related indicators: CPmd, CPmp, CPm, CPw. The methodology used to calculate the CPmd, CPmp, CPm, CPw indices is the same as the methodology used to calculate the SAIFI index. SAIFI (System Average Interruption Frequency Index) - 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. 27. GRI EU 29. Average duration of the interruptions in the supply of electricity distributed by TAURON Dystrybucja in 2021

Interruption type	CTP * (minutes / consumer / year)
CTPmd - regulatory interruption duration indicator in the area: large cities	11.32
CTPmp - regulatory interruption duration indicator in the area: cities with county rights	61.81
CTPm - regulatory interruption duration indicator in the area: cities	84.42
CTPw - regulatory interruption duration indicator in the area: large villages	203.59

* Formerly SAIDI, replaced with the area related indicators: CTPmd, CTPmp, CTPm, CTPw. The methodology used to calculate the CTPmd, CTPmp, CTPm, CTPw indices is the same as the methodology used to calculate the SAIDI index. 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. 28).

Table no. 28. 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 (metric)	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%
2021		39.71%
2025	41.00%*	-
2030	45.00%	-

* Targets for 2020 and 2025 have been recalculated taking into account the specifics of new connections to the MV grid and the pace of the RES development, and in accordance with the forecast of the specifics 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 the data and analyses, winters have been much milder in the area served by TAURON Ciepło (Silesia-Dąbrowa metropolitan area, as well as 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. 27 and 28.

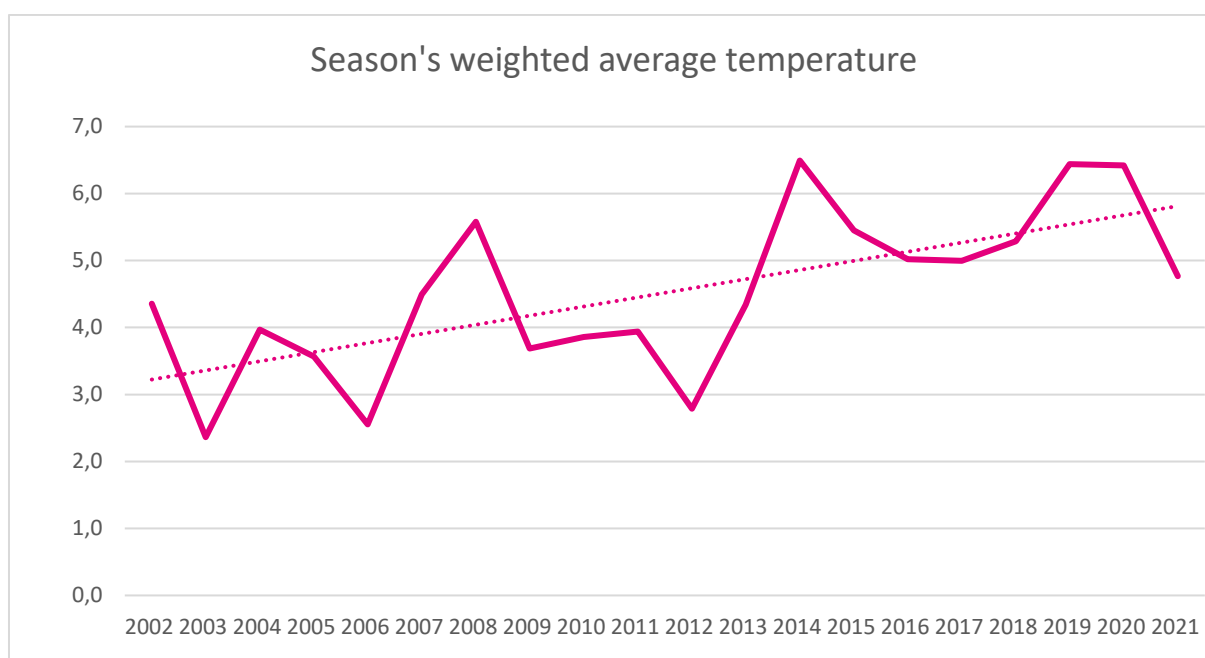


Figure no. 27. Chart of the weighted average air temperature in Poland during the heating season - trend of changes in 2011-2021 [°C].

In the same period of 2002 to 2021, 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.

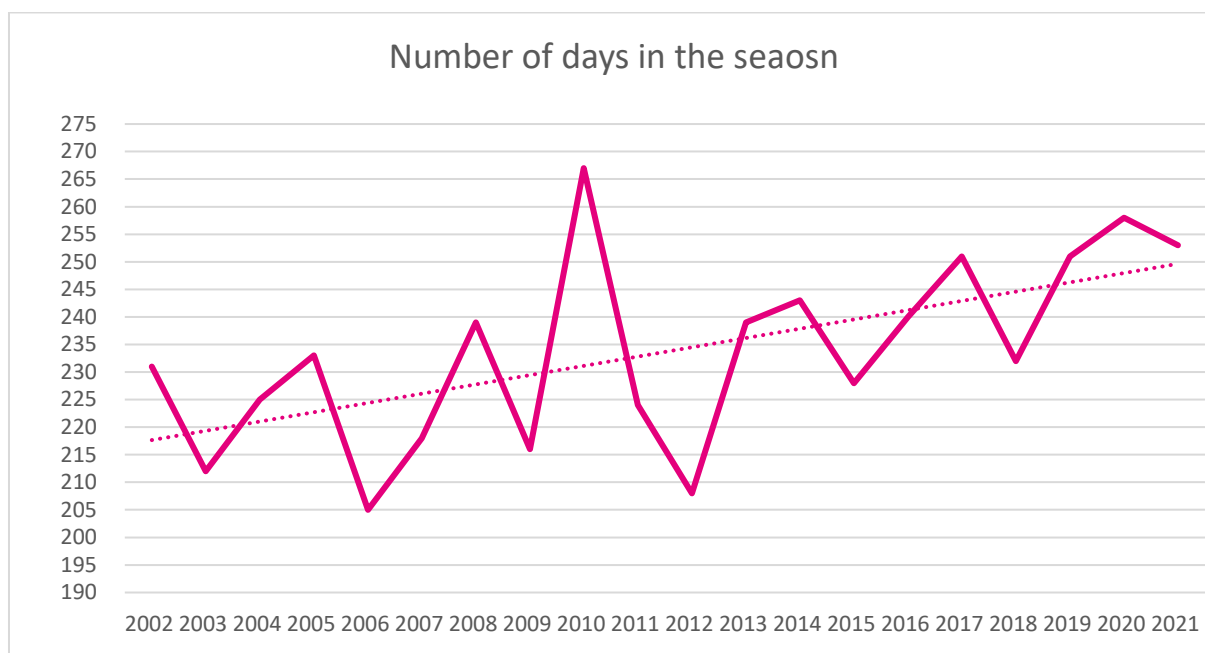


Figure no. 28. Length of the heating season in the years 2002 - 2021. The data is applicable to PEC Katowice in the years 2002-2011 and TAURON Ciepło in the years 2011-2021 [days].

Comparing the 2021 data to the 2020 data, the heat production as well as the demand for heat supply at TAURON Ciepło, during the heating period were at a much higher level, with a difference in heat production (increase) amounting to approximately 31.5%. This was a consequence of two factors: length of the season (extension) and the average temperature of the heating season in 2021 (lower than in 2020), while the situation related to COVID-19 did not really affect a change of 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. 29.

Table no. 29. GRI 305-5. Reduction of the greenhouse gas emissions by TAURON Capital Group in 2021

	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 boiler to a biomass-only boiler (Jaworzno II),	voluntary	344 440
TAURON Ciepło	Change in the type of fuels used	voluntary	302 091
TAURON Nowe Technologie	Burning of methane (coal mine demethanization) in cogeneration engines	voluntary	188 046
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 carried out an investment project at ul. W. Pola 47, 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*
TAURON Dystrybucja	"Modernization of GPZ (Transformer/Switching Station) Wadowice" including thermal modernization of the station	voluntary	22.1
TOTAL REDUCTIONS			837 067

* Due to the change of the boiler room and the transfer of the heat supply service, the GHG Scope 1 emissions became Scope 3 emissions.

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 2021.

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 2021, TAURON was also operationally involved in the work on the National and Regional Just Transition Plans.

TAURON Group's impact on 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.

Direct greenhouse gas emissions by TAURON Capital Group in 2021 are presented in tables 30 and 30-a.

With regard to the final consumer, TAURON Group, by offering and selling products within its value chain (mainly electricity and gas fuels), causes greenhouse gas emissions accounted for as Scope 3 indirect emissions. Scope 3 indirect emissions also include GHG emissions from the transportation of fuels, materials and products (the Group's subsidiaries and intermediaries) as well as GHG emissions from business trips. In 2021, it was respectively:

- approx. 20.6 million tCO₂e (Scope 3) related to the consumption of electricity sold to the final consumers,
- approx. 0.7 million tCO₂e (Scope 3) related to the consumption of the sold natural gas and from the Brzeszcze Coal Mine demethanization,
- approx. 0.043 million tCO₂e (Scope 3) related to the transportation of fuels, materials and products as well as business trips.

Scope 2 and Scope 3 indirect greenhouse gas emissions are presented in tables 30-b and 30-c. The methodology used to determine indirect emissions and factors to calculate indirect GHG emissions (Scope 2 and 3) are presented directly under tables 30-b and 30-c.

Table no. 30. GRI 305-1. Direct greenhouse gas emissions [tCO₂] by TAURON Capital Group in 2021 and 2020 (Scope 1)

	TOTAL AGGREGATE	
	2021	2020
Emissions related to electricity generation	11 837 461	8 848 777
Emissions related to heat generation	1 169 995	1 227 458
Emissions from gas leaks, including those associated with accidents and direct emissions accompanying coal mining	678 537	723 215

Emissions related to the transportation of materials, products and waste	16 832	16 954
Total direct emissions	13 702 825	10 816 405
Biogenic emission	646 531	754 122

Table no. 30-a. GRI 305-1. Direct greenhouse gas emissions [tCO₂] by TAURON Capital Group in 2021 and 2020, per subsidiary (Scope 1)

	Greenhouse gas emissions															
	[tCO ₂]															
	Kopalnia Wapienia "Czatkowice"	TAURON Wytwarzanie	TAURON Ciepło	TAURON Wydobycie ¹⁾	TAURON Dystrybucja	Nowe Jaworzno Grupa TAURON ²⁾	TAURON Nowe Technologie	TOTAL AGGREGATE								
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Emissions related to electricity generation			9 429 331	8 007 159	909 119	624 146					1 478 110	217 472	20 901		11 837 461	8 848 777
Emissions related to heat generation	7 394	5 291	331 916	521 536	830 048	700 251			637	380	-	-	-		1 169 995	1 227 458
Emissions from gas leaks, including those associated with accidents and direct emissions accompanying hard coal extractions			443	373	0	0	675 537	722 755	2 467	87	90	0			678 537	723 215
Emissions related to the transportation of materials, products and waste	4 253	3 704	1 192	1 231	843	1 247	365	1 876	9 951	8 883	92	13	136		16 832	16 955
Total direct emissions	11 647	8 995	9 762 882	8 530 299	1 739 166	1 325 644	675 902	724 631	13 055	9 350	1 478 292	217 485	20 901	0	13 702 825	10 816 405
Biogenic emissions			344 440	535 361	302 091	218 761					-	-	-	-	646 531	754 122

¹⁾ Methane emissions from the coal mine ventilation system, the purpose of which is to ensure the safety of the workforce, are not limited in a technically justified manner due to climate protection and they are the so-called off-balance sheet methane emissions. They are calculated and taken into account in order to pay the fees due for the economic use of the environment. According to the GHG Protocol reporting standard, methane emissions are included in Scope 1 direct emissions and this where they have been assigned as of 2021, along with a relevant conversion of the corresponding emissions from 2020. CO₂e equivalent emissions for methane calculated on the basis of the greenhouse effect potential index according to GHG Protocol - AR5 (GWP-25 for CH₄ => CO₂e) accounted for approx. 5% of the total Scope 1 direct emissions in 2021 and for approx. 7% in 2020. Brzeszcze Coal Mine also has a mine methane drainage plant, in which in 2021, 100% of methane was captured and used (sold) in the amount of approx. 50 million Nm³, so that the captured methane was not a source of direct emissions to the atmosphere, but was a primary energy source for external recipients and for the TAURON Nowe Technologie subsidiary. In 2021, TAURON Nowe Technologie launched cogeneration systems (CHP) based on four gas engines with a total capacity of 12.4 MWe, located near the Brzeszcze Coal Mine and in nearby Brzeszcze-Jawiszowice.

²⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period).

Table no. 30-b. GRI 305-1. Indirect greenhouse gas emissions (tCO₂e) by TAURON Capital Group in 2021 in connection with the operations conducted by the subsidiaries (Scope 2)

Indirect greenhouse gas emissions [tCO ₂ e]		
	2021	Explanatory notes
Indirect emissions related to the use of purchased electricity and transmission losses (balancing difference) related to electricity distribution	1 680 893	It includes all of the electricity purchased by the Group's subsidiaries and the amount of electricity related to the transmission losses (balancing difference) in connection with the operations conducted by TAURON Dystrybucja S.A. ¹⁾
Total indirect emissions (Scope 2)	1 680 893	-

¹⁾ The indicator (metric) 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/struktura-paliw>, i.e. in the same value equal to 0,650 Mg CO₂e / MWh.

Table no. 30-c. GRI 305-1. Indirect greenhouse gas emissions (tCO₂e) by TAURON Capital Group in 2021 in connection with the operations conducted by the subsidiaries (Scope 3)

Indirect greenhouse gas emissions [tCO ₂ e]		
	2021	Explanatory notes
Indirect emissions related to the use of electricity purchased by the final consumer	20 637 500	It includes all of the electricity sold by the Group's supply subsidiaries ¹⁾ The sales volume to the final consumer that was generated from the sources of the Group's subsidiaries is not included.
Indirect emissions related to the use of the sold gas fuel by the final consumer	668 280	It includes the volume of the gas fuels sold by the Group's supply subsidiaries ¹⁾ and the sales of the coal mine gas from the Brzeszcze Coal Mine demethanization to the final consumers outside the Group ¹⁾
Indirect emissions related to the transportation of fuels (including biomass) and from the services purchased with respect to the transportation of products and waste from major production processes	41 226	It includes the transportation of coal and biomass to the subsidiaries ²⁾ : TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON ³⁾ and the transportation of products and waste from the main production processes carried out by external entities for a dedicated entity of the Bioeko Grupa TAURON subsidiary
Indirect emissions from business trips	2 115	It includes selected Group's subsidiaries. The calculations based on fuel consumption.
Total indirect emissions (Scope 3)	21 349 121	-

¹⁾ The indicator (metric) 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/struktura-paliw>, i.e. in the same value equal to 0,650 Mg CO₂e / MWh. For the gas fuel and the coal mine gas from the Brzeszcze Coal Mine's demethanization the indicator (metric) for the calculation of indirect GHG emissions was adopted based on the KOB and ZE source data for the settlement of GHG emissions for 2021 in the EU ETS trading system, i.e. in the amount of 55.83 Mg CO₂e / GJ of gas fuel and 55.42 Mg CO₂e / GJ of the coal mine gas from the Brzeszcze Coal Mine's demethanization station.

²⁾ The indicator (metric) used to calculate indirect GHG emissions 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 by trucks on the roads - 62 g CO₂e / ton-km (the mean value for two data sources) and 239 396 576 tkm as the total number of ton kilometers calculated based of the actual weights of fuel and product loads as well as the average length of the road routes, transportation of fuel by rail - 22 g CO₂e/ton-km and 1 195 031 172 tkm as the total number of ton-kilometers calculated on the basis of the actual weights of fuel and product loads as well as the average length of the railway routes.
- Ton-kilometers take into account the weight of the materials transported from the place of initial fuel loading to the destination (the Group's subsidiaries), including the imports..

Ton-kilometers for the transportation of biomass take into account the averaged distance for the entire volume of biomass from the producer to the destination.

Transports commenced at the end of 2020 were not taken into account.

³⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period).

Improving efficiency throughout the value chain

Actions taken for the climate are also reflected in various types of investment projects carried out by TAURON Capital Group's subsidiaries in 2021 and in the previous years, which have a direct and indirect impact on reducing specific (unit) 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 85 toe in 2021. 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 43 stations in 2021.

TAURON Nowe Technologie, a subsidiary dedicated to the operation and maintenance of street lighting in the area of the Group's operations, continued in 2021 the program of replacing the street lights with the energy saving lighting (approx. 15.7 thousand units), which will allow for annual savings in the final electricity consumption by the consumers (21 municipalities) in the estimated amount of approx. 4 565 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 have been accounted for starting from 2021.

From 2021, the effects of the production of the photovoltaic farms are settled: the farm in Jaworzno (5 MWe) commissioned at the end of 2020 by TAURON Wytwarzanie and the farm in Choszczno (6 MWe) operationally managed by TAURON Ekoenergia.

TAURON Dystrybucja is implementing a long term program of replacing electricity meters with a new type of "smart-metering". In 2021, the number of the "smart-metering" type meters stood at approx. 840 000 units.

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. 31.

Table no. 31. Expenditures on the projects related to climate change adaptation

Total capital expenditures related to TAURON Group's climate change adaptation projects	PLN 352 million
Share of the capital expenditures related to climate change adaptation projects in the Group's total investment outlays	approx.12.0 %

The operations of TAURON Ekoenergia (including those of the companies managed thereby as well as the subsidiaries thereof), 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 the 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. 32 and 32-a present the volume of electricity produced by TAURON Group's generation units in 2021, broken down by the main energy sources.

Table no. 32. GRI EU2. Volume of net electricity and heat generated by TAURON Capital Group, broken down into main energy sources in 2021 and 2020

	Electricity [GWh]		Heat [GJ]	
	2021	2020	2021	2020
Hard coal	12 248	9 179	9 642 750	8 261 963
Sludge	187	163	449 533	342 560
Liquid fuels	94	74	475 187	211 557
Natural gas and coke oven gas as well as other energy production related gases (gas from the Brzeszcze Coal Mine's demethanization)	50	2	148 263	287 507
Biomass	434	628	546 895	940 709
Wind	831	936	0	0

Hydro	402	395	0	0
Solar energy	11	0	0	0
TOTAL	14 257	11 377	11 262 629	10 044 296

Table no. 32-a. GRI EU2. Volume of net energy generated by TAURON Capital Group, broken down into main energy sources, per subsidiary in 2021 and 2020

	TAURON Wytwarzanie				TAURON Ciepło				TAURON Ekoenergia				NOWE Aktywa "Zielony Zwrot TAURONA"				Nowe Jaworzno Grupa TAURON ¹⁾				TAURON Nowe Technologie				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]		Electricity [GWh]		Heat [GJ]	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Hard coal	9 269	8 100	2 587 608	3 032 232	1 186	848	7 055 142	5 229 731									1 794	230							12 248	9 179	9 642 750	8 261 963
Sludge	101	108	136 801	168 483	85	55	312 732	174 076																	187	163	449 533	342 560
Liquid fuels	93	73	384 805	102 868	1	1	90 383	108 689																	94	74	475 187	211 557
Natural gas and coke oven gas as well as other energy production related gases	1	2	38	3 940			148 225	283 567													50				50	2	148 263	287 507
Biomass	216	473	174 302	669 275	218	154	372 593	271 434																	434	628	546 895	940 709
Wind									402	472			414	464											831	936		
Hydro									417	395															402	395		
Solar energy	5								6																11			
TOTAL	9 684	8 757	3 283 555	3 976 799	1 491	1 058	7 979 075	6 067 497	825	867	0	0	414	464	0	0	1 794	230	0	0	50	0	0	0	14 257	11 377	11 262 629	10 044 296

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period)

TAURON Capital Group's approach to sustainable development

In order to implement the vision of sustainable development, TAURON Group made efforts in 2021 to update its strategic directions and business model to include the fast growth in the installed capacity of low and zero-emission generation sources. As a result, TAURON Group will be creating added value for all stakeholders in the coming years, while at the same time benefiting from the chosen direction of energy transition of its assets and curbing the related risks (transition risks). In connection with the above, TAURON Group puts at the center its commitment to achieving the goals of sustainable development - SDG 13 "Actions to counteract climate change".

TAURON is seeking to be one of the leaders of the energy transition in Poland and therefore in 2021 it revised its long term investment plan to increase and provide adequate funds to continuously develop renewable energy (SDG 7). In 2021, the Photovoltaics Development Program was modified with a view to use the Company's own industrial areas and convert such land to perform new functionality.

In addition, in line with SDG 9 "Industry, innovation and infrastructure" and SDG 11 "Sustainable cities and municipalities", the Group intends to promote electrification and increase in the consumption of electricity from renewable energy sources as well as the development of new services for the final consumers, focusing on providing adequate infrastructure.

The main goal of TAURON Group in the medium term is to speed up the decarbonization process – to change the fuel mix of its electricity generation segment (an acceleration of the activities related to the construction of the new RES sources) and promote electrification - consumption of electricity from renewable energy sources (RES), thus enabling stopping of the global warming and achieving the targets to be accomplished in accordance with the Paris Accord.

The Green Turn of TAURON, constituting a kind of a sustainable development plan, takes into account the results of the materiality analysis and synergies with the directions of the Strategy. TAURON Group defined the directions of activities related to sustainable development and identified, as part thereof, the specific goals to be implemented in the 2021-2025 time frame. Every year, these goals will be updated and new goals will be set to ensure compliance with the business strategy and the results achieved so far, to increasingly integrate sustainable development throughout the value chain. Anticipating global trends, TAURON Group tries to identify such business opportunities that provide an advantage, following the changes in the energy sector towards sustainable development based on the change of the mix to low and zero emission.

The Sustainable Development Plan, predicated on clear and ambitious goals, reaffirms the leading role of TAURON Group in promoting and accelerating the energy transition, creating long term added value for all stakeholders.

TAURON medium and long term goals - TAURON Group's sustainable development

Both assuming a warming at the level of at most 2 °C, as well as seeking not to cause a warming by more than 1.5 °C, will translate into TAURON Group's business model and strategy. However, their expected consequences may be different over time. The so-called electricity production mix will have to undergo a gradual change. The Sustainable Development Indices that will reflect the transition process include: the RES Capacity Growth Index (shown in Table no. 33) and the Emissions Reduction Index (shown in Table no. 34).

Table no. 33. 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	2020	2021	-	-
	27 %	19 %		

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. 34. 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	2020	2021		
	6%	3%		

Emissions Reduction Index denotes the average annual CO₂ emissions reduction index for gross electricity production, calculated as follows (excluding the units of TAURON Ciepło):

$$JWRE_r = \frac{WE_{CO2_{2018}} - WE_{CO2_r}}{WE_{CO2_{2018}} \times (r - 2018)}$$

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 Emissions Trading Scheme;

$WE_{CO_2\_2018}$ [MgCO₂/MWh] denotes the CO₂ emission index in the base year, accounted for under the Community Emissions Trading Scheme;

r denotes a calendar year r ;

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 emissions index is calculated as follows:

$$WE_{CO_2,r} = \frac{E_{CO_2(ee)r}}{P_{ee(brutto)r}}$$

where:

$WE_{CO_2,r}$ [MgCO₂/MWh] denotes the CO₂ emission index for gross electricity production

$E_{CO_2(ee)r}$ [MgCO₂] oznacza emisje CO₂ w roku r przypadające na produkcję energii elektrycznej brutto z paliw kopalnych i biomasy oraz OZE w roku r

$P_{ee(brutto)r}$ [MWh] denotes the CO₂ emissions in year r for gross electricity production from fossil fuels and biomass as well as RES in year r .

TAURON Group's long term goals with respect to sustainable development of are also presented in section E 2.1. Climate Neutrality 2050.

Use of natural capital, outcomes and results, implementation of the 2021 goals

The Group's dependence on the natural capital varies in different lines of business. Mining, Generation and Heat Lines of Business depend 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.

Natural capitals defined by TAURON Group, which are used and impacted thereby - minerals (coal, gas, limestone), air, water, solar energy, biomass - are used throughout the entire business chain.

TAURON Group's dependence on the individual types of the natural capital in 2021 and 2020 (and 2019 – raw materials used) is presented in tables no. 35-40.

Table no 35. GRI 301-1. Raw materials used by TAURON Capital Group in 2021, 2020 and 2019

TOTAL	2021	2020	2019
NON-RENEWABLE RESOURCES *			
Net coal [tons]	6 419 493	4 888 015	6 082 657
Net coal production [tons]	5 146 853	4 541 216	3 784 980
Sludge [tons]	248 142	249 980	315 247
Natural gas [m ³]	30 057 357	12 067 032	8 220 614
Heating oil [tons]	40 340	26 324	26 575
Diesel oil [m ³]	6 796	6 289	6 857
Limestone [tons]	269 563	197 288	252 865
Limestone production [tons]	2 011 529	1 722 376	1 717 980
RENEWABLE RESOURCES			
Agro biomass [tons]	82 283	124 203	88 220
Forest biomass [tons]	435 137	553 537	332 592

* Includes the consumption and production by the Group's subsidiaries

Table no. 36. 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 2021 and 2020

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		Tauron Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TAURON Nowe Technologie		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
hard coal	99 815 693	87 111 351	17 052 882	12 732 980							15 038 064	2 172 985			131 906 639	102 017 316
natural gas and coke oven gas	5 636	27 807	171 197	351 523					71 858	59 962			377 146		625 837	439 292
sludge	1 231 319	1 326 569	1 007 697	662 881											2 239 016	1 989 451
heating oil	1 460 360	882 855	118 006	144 724							112 662	65 839			1 691 027	1 093 417
liquid fuels		16 606		16 822	15 706	25 315	1 716	1 344	57 395	49 990	1204	194			76 021	110 270
TOTAL	102 513 009	89 365 188	1 125 703	13 908 930	15 706	25 315	1 716	1 344	129 253	109 952	15 151 930	2 239 017	377 146		136 538 541	105 649 746

Table no. 37. GRI 302-1. Total consumption of energy from renewable sources in GJ (gross chemical energy of fuels) at TAURON Capital Group in 2021 and 2020, per subsidiary

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		Tauron Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TAURON Nowe Technologie		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
biomass	2 469 469	5 712 043	2 846 271	2 072 414											5 315 766	7 784 457
wind							116 135	120 625							116 135	120 625
hydro							20 920	20 383							20 920	20 383
TOTAL	2 469 469	5 712 043	2 846 271	2 072 414			137 055	141 008							5 452 821	7 925 465

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period)

Table no. 38. 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 2021 and 2020, per subsidiary

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		Tauron Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TAURON Nowe Technologie		TOTAL
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
electricity	3 958 072	3 744 271	920 715	743 907	995141	1271330	142 081	145 292	84012	71820	669 395	109 144	2875	-	6 772 290
Heat	656 536	772 116	249 281	194 107	183672	240356	1124	956	6755	4962	144553	77068	0	-	1 241 921
TOTAL	4 614 608	4 516 388	1 169 996	938 014	1178813	1511686	143 205	146 248	90767	76782	813 948	186 212	2 875	-	8 014 211

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period)

Table no. 39. GRI 302-1. Energy supply in GJ (net less in-house needs) at TAURON Capital Group in 2021 and 2020, per subsidiary

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TAURON Nowe Technologie		TOTAL	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
electricity	34 252 433	30 821 153	5 366 004	3 809 911	0	0	2 946 901	3 120 101	0	0	6 458 294	828 625	115	-	49 202 747	38 579 789
heat	3 283 555	3 976 799	7 979 075	6 067 497	0	0	0	0	0	0	0	0	0	-	11 262 629	10 044 296
TOTAL	37 535 987	34 797 952	13 345 078	9 877 408	0	0	2 946 901	3 120 101	0	0	6 458 294	828 625	179 115	-	60 465 376	48 624 086

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period)

Table no. 40. GRI 302-1. Total energy consumption in GJ at TAURON Capital Group in 2021 and 2020, per subsidiary

[GJ]	TAURON Wytwarzanie		TAURON Ciepło		TAURON Wydobycie		TAURON Ekoenergia		Kopalnia Wapienia "Czatkowice"		Nowe Jaworzno Grupa TAURON ¹⁾		TAURON Nowe Technologie		ŁĄCZNIE	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
total energy consumption by the organization	72 061 125	60 262 672	9 020 970	7 041 950	1 609 637	1 511 686	-2 664 925	-2 831 501	220 020	131 782	9 507 583	1 596 626	200 905	-	89 955 315	72 246 229

¹⁾ Data for the Nowe Jaworzno Grupa TAURON subsidiary covers the period of the 910 MW unit's operation from January 1, 2021 to June 11, 2021 (emergency shutdown during the warranty period)

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 shrinking of the 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. 41.

Table no. 41. GRI 302-3. Energy consumption at TAURON Capital Group in 2021, per subsidiary

	TAURON Wytwarzanie		TAURON Ciepło		TAURON Ekoenergia		TAURON Ekoenergia Nowe Aktywa Wiatrowe		Nowe Jaworzno Grupa TAURON ¹⁾	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Energy consumption rate [%] (energy consumption for in-house needs / gross energy production)	10.97%	11.51%	8.10% *	8.13% *	4.64%	4.48%	0.81%	0.68%	9.39%**	11.64%**
Energy consumption rate - electricity [%] (electricity consumption for in-house needs / gross electricity production)	10.75%	11.41%	14.80%	16.71%	4.64%	4.48%	0.81%	0.68%	9.39%**	11.64%**
Energy consumption rate - heat [%] (heat consumption for in-house needs / gross heat production)	13.17%	12.31%	3.03% *	2.74% *	-	-	-	-	-	-

* It 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. 42, 42-a and 41-b.

Table no. 42. 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 - 2021		22.2			
TAURON Wydobywanie	Electricity consumption rate* [kWh/t]	70.9	60.0	50.8	48.3
Result achieved - 2021		58.2			

* excluding the additional consumption due to the construction of the Grzegorz Shaft (investment project put „on ice”).

Table no. 42 - 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 – 2021	10.97%			8.10%*			9.39%	
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 – 2021	10.75%			14.80%				
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 – 2021	13.17%			3.03%*				

* It 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 2021 targets in terms of energy consumption rates 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 rate for heat production and worse than assumed for electricity production.

Table no. 42-b. Target, and result achieved, for transmission losses set to be achieved by TAURON Dystrybucja in 2021

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 (2021)	3.88 %		

* 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. In addition, as part of the sales of certified products, the so-called EKO Product Line, including contracting the sale of the electricity "certified based on its origin" to business customers, a total of 1 088 GWh of green energy coming from TAURON Group's in-house sources was contracted.

EKO product lines (for 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. 43.

Table no. 43. Increase in 2021 vs. 2020 of the sales of TAURON Capital Group's products aimed at achieving the climate neutrality target

Sales of selected EKO Line Products and Services		Metric type	Increase
EKO product line	EKO Premium	Increase in the value of Certificates of Origin issued period - y/y	118.3 %
	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	91.7 %
Photovoltaics		Change in the quantity of installations sold	19.9 %
Passive Power Compensation		Change in the quantity of services sold	25.8 %
Enterprise Energy Audit		Change in the quantity of services sold	39.1 %
Implementation of the replacement of street lighting with low-energy lighting		pcs.	15 682

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 within its value chain. 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 climate and social policy, the implementation of which is confirmed by relevant reports submitted to the financial institutions. In addition, in some financing agreements, TAURON undertakes not to allocate funds from the given financing to finance activities related to the operations of the generation (conventional sources) and mining lines of business.

Table no. 44 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. 44. 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	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 2018-2022
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 2018-2022
European Investment Bank	loan	295 000 000.00 PLN	162 250 000.00 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	225 000 000.00 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	2 800 000 000.00 PLN	0.00 PLN	Financing of the investment program with respect to electricity distribution grids in southern and south-western Poland in 2022-2026.
Intesa Sanpaolo S.P.A. operating via Intesa Sanpaolo S.P.A. Spółka Akcyjna Oddział w Polsce	loan	750 000 000.00 PLN	750 000 000.00 PLN	Covering the expenses related to the implementation of investment projects or groups of investment tasks of TAURON Group covering (i) broadly understood power generation based on renewable energy sources and (ii) distribution of electricity, among others the expansion and upgrade of the grid and connecting new customers, as well as refinancing of the existing Financial Debt
A series bond issue (TPE1025)	bonds	1 000 000 000.00 PLN	1 000 000 000.00 PLN	The proceeds from the Bond issue may be used to: (i) finance the RES projects construction/acquisition costs, (ii) finance the Group's distribution operations as well as the general corporate activities related to RES or the zero-emission energy transition, and (iii)

					refinance the Group's debt taken on to finance the above projects.
					The proceeds from the Bond issue cannot be used to finance new and existing coal-fired units, the operations of TAURON Wydobycie S.A. and the operations of TAURON Wytwarzanie S.A. (in case of projects other than those indicated in the paragraph above)
					Financing or refinancing development with respect to renewable energy sources, improving energy efficiency and expanding e-mobility infrastructure.
Erste Group Bank AG		loan	500 000 000.00 PLN	0.00 PLN	The funding objectives must be in line with the criteria set out in the European Union taxonomy for determining whether and to what extent an economic activity qualifies as environmentally sustainable.
					Construction of a photovoltaic farm on the territory of the reclaimed landfill of the combustion waste from the Jaworzno III power plant in Mysłowice-Dzieńkowice, along with the construction of a 110kV cable line and a 110/20kV station.
NFOŚiGW		repayable funding	82 500 000.00 PLN	0.00 PLN	
WFOŚiGW (Regional Protection and Water Fund)	Environment Management	TW loan	40 000 000.00 PLN	4 000 000.00 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	11 092 000.00 PLN	Construction of a photovoltaic farm in Jaworzno
WFOŚiGW (Regional Protection and Water Fund)	Environment Management	KWC loan	292 955.60 PLN	112 284.60 PLN	Thermo-modernization of the Car Service Station at Kopalnia Wapienia "Czatkowice" sp. z o.o.

E 1.2. TAURON Capital Group's climate and environmental risks and opportunities

E 1.2.1. Risk and opportunities 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 risks.

Moreover, within the framework of the Risk Model, one of the elements is the estimation of the value of risk and opportunity (business impact). Using such a tool, it is also possible to determine the impact of the given risk/opportunity factor in relation to EBITDA or estimated revenues from TAURON Group's operations.

E 1.2.1.1. Physical Risk

Table no. 45 presents the Physical Risk related to climate change identified at TAURON Capital Group. In accordance with the Risk Model described in section G.4.4.6., 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. 45. 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)	The risk is related to: 1. 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), 2. 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. The risk materialization also results in: 1. 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, 2. 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. 3. 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, 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.	→ ■	1. Applying TAURON Group's Climate Policy. 2. Planning and implementing projects that are aligned with the sustainable development activities. 3. Applying TAURON Group's Strategic Asset Management Plan 4. Supporting innovative technologies with the potential of significant energy savings. 5. Conducting business operations that affect the climate in accordance with the sustainable development principles 6. Maintaining the required level of the pollution reduction devices' efficiency (performance). 7. Frequent assessment of compliance of the activities with the legal requirements regarding climate impact. 8. 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. 9. Optimization of investment outlays allocated for asset replacement, active monitoring of the condition of the machinery, equipment and installations.

				10. Raising the professional qualifications and work culture of employees by organizing courses and training sessions. 11. Responding to an emergency situation by the technical operational personnel and the automated protection systems. 12. Property insurance against fortuitous events (excluding the underground assets). 13. Introduction of IT tools with respect to improving the monitoring and management of failure rates. 14. 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	The risk is related to: 1. 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, 2. drop, 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, 3. change of the market conditions for the operations of TAURON Group's subsidiaries, in particular as a result of changes in the weather 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, 4. 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. The risk includes risks identified and managed by TAURON Group: volume and margin risk, company assets related risk and market risk.	→ ■	1. Ongoing offering updates, launching of the multi-packet products for sale. 2. Conducting marketing activities, acquiring new customers. 3. Activities focused on retaining current customers and recovering the lost ones. 4. Daily measuring and reporting of the portfolio positions.

E 1.2.1.2. Climate Risk related to the transition

Table no. 46 presents the Climate Risk related to the transition identified at TAURON Capital Group. In accordance with the Risk Model described in section G.4.4.6., 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. 46. 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	Risk related to the tightening of the European Union's climate policy, the tightening of the environmental requirements resulting from the	↗	1. Applying TAURON Group's Climate Policy.

	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). 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: 1. 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, 2. 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, 3. difficulties or an increase in the cost of raising capital to finance operations based on fossil fuels, 4. loss of reputation due to involvement in fossil fuels, 5. the need to transform the assets and, as a consequence, the need to incur additional expenses as a result of the climate change, 6. difficulty or an increase in the insurance costs for the assets based on fossil fuels, 7. 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, 8. an increase in the price of the CO₂ emission allowances and, as a consequence, a decrease in the margin in the conventional electricity segment, 9. a decrease in demand for electricity as a result of energy efficiency and growth of the prosumers segment, 10. a decrease of the demand for the products offered thus far by TAURON Group's subsidiaries, 11. limiting or discontinuing the operations based on fossil fuels and carbonates, 12. the need to restructure employment resulting from a change in the business operations profile, 13. impediments to administrative procedures involving the public by non-government organizations, 14. a decline in the company value, 15. inability to meet market expectations due to the lack of the expected products in the portfolio. 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.	 2. Defining and updating as well as implementing TAURON Group's Strategy. 3. Update of TAURON Group's Strategic Research Agenda. 4. Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from the Climate Policy and the Investment Strategy. 5. Ongoing analysis of the draft ordinances (regulations) and acts. 6. Active participation in the work of teams providing opinions on projects and proposing optimal solutions. 7. 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. 8. 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. 9. Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on the climate change. 10. Promoting eco-mobility or climate-neutral mobility. 11. Cooperation with business and social partners with respect to adaptation to climate change

E 1.2.1.3. Opportunities stemming from climate change and transition

Climate changes, processes and behaviors related thereto, observed within the environment and market trends as well as the pursuit of the 2050 climate neutrality target also create business opportunities for TAURON Group in the medium and long term. TAURON Group's strategic lines of business can be developed in a sustainable manner, in particular by implementing the concept of the Green Turn of TAURON towards energy transition to zero-emission energy generation in the long term. The climate neutrality target is also conducive to the creation of new dedicated products, and in the medium and long term, it may allow for an increase in revenues and creating added value throughout the entire chain of TAURON Group's business operations. Taking these factors into account, the following categories of opportunities related to climate change have been distinguished in a manner similar to the risk management system:

Table no. 47. Opportunities stemming from climate change and related to the transition identified for TAURON Group

#	Opportunity name	Description	Trend and materiality	Managerial approach and management
1.	Long term physical opportunity increase / decrease in demand for electricity and heat as a consequence of temperature changes resulting from climate change (medium and long term)	The opportunity is related to: 1. An increase or decrease in demand for electricity and heat and, consequently, an increase or decrease in the output of the value chain. The demand for electricity is also affected by the temperature, the fluctuations of which may affect TAURON Group's operations. The increase in the number of hot days in the climatic zone for the operations conducted by TAURON Group may contribute to the increase (net per year) of revenues related to electricity generation. 2. The opportunity includes the identification of climate change scenarios and, consequently, the intensification of the implemented direction of the Green Turn of TAURON's and zero-emission in the medium term and long term.	 	1. Applying TAURON Group's Climate Policy. 2. Technological diversification and the direction of the Group's development towards low and zero emission economy mean that the impact of changes (positive and negative) in the climate variable is positive / mitigated at the business level throughout the entire supply chain. To ensure that its operations always account for the weather and climate developments, the Group adopts a number of practices, such as for example weather forecasting, real time monitoring and long term climate scenarios. 3. Planning and implementing projects that are aligned with the sustainable development activities. 4. Conducting business operations that affect the climate in accordance with the sustainable development principles 5. Optimization and growth of investment outlays for sustainable operations and low and zero emission generation assets. 6. Gradual adaptation of the production assets to the consequences of weather development and volatility of weather conditions, in particular in the Distribution Line of Business.
2.	Opportunity related to transition policies and regulations with respect to shaping the prices of the CO2 emission allowances, incentives for the energy sector's transition, greater opportunities to invest in renewable energy sources (medium and long term)	The opportunity is related to: Policies and regulations regarding the energy transition may have an impact on the development and size of investments as well as on the return on invested capital	 	1. By implementing the direction of the Green Turn of TAURON, in the medium term TAURON wants to minimize its exposure to the risk of transition, while at the same time seeing an opportunity in the progressive "decarbonization" of the energy sector. The strategic activities of the Group that are focused on investments in renewable energy sources, in the grids and for the benefit of the customers, allow us to mitigate potential threats and take advantage of opportunities related to the energy transition

3.	Opportunity related to transition (market) decarbonization and changes of the trends (medium and long term)	The opportunity is related to: Changes in commodity and energy prices, evolution of the energy mix, changes in retail consumption, changes in the competitive environment .	→ ■	1. TAURON Group is maximizing its opportunities by adopting a strategy based on energy transition and the fast development of renewable energy generation and electrification as a future trend for energy consumption. 2. Taking into account the energy transition scenarios, the Group assesses the impact of trends in the share of renewable sources in the energy mix, electrification and the growth of electric vehicle sales in order to estimate their potential impact on the future operations to be conducted.
4.	Opportunity related to transition widespread electrification of industries	The opportunity is related to: An increase in margins and greater investment opportunities as a result of the transition with respect to the development of new electric technologies dedicated to households and residential housing as well as to electric transportation .	→ ■	1. Trends in electrification of transportation and households as well as residential housing will have a potential impact on our future business operations. 2. The Group is maximizing its opportunities thanks to a strong position in new businesses and "smart." Services.

E 1.2.2. Environmental Risk

Table no. 48 presents the Environmental Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section G.4.4.6., the Environmental Risk is classified in the category: Operational Risk/Technology and infrastructure.

Table no. 48. Environmental Risk identified at TAURON Capital Group

#	Risk name	Risk description	Trend and risk materiality	Response to risk
1.	Environmental Risk	Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would 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. The risk also involves the possibility of: 1. a lack of valid environmental decisions, 2. depositing waste in places not intended for this purpose or not in accordance with the operating conditions of the facilities designated for such purpose, 3. occurrence of a crisis situation: e.g. fire, displacement of earth masses, extreme weather events, 4. use of waste not in accordance with the authorized intended purpose, 5. a lack of adequate safeguards reducing the negative impact of TAURON Group's operations on the environment, 6. release of hazardous substances to the environment,	→ ■	1. Applying TAURON Group's Environmental Policy. 2. Conducting business operations that affect the environment in accordance with the sustainable development principles. 3. Conducting and intensifying activities aimed at increasing the utilization of the UPS/UPW waste. 4. Striving to maximize the management (utilization) of the post-production waste generated at all of TAURON Group's coal mines. 5. Striving for the optimum management of water resources. 6. Ongoing supervision over compliance with the conditions of the environmental decisions. 7. Maintaining the required level of the pollution reduction devices' efficiency (performance). 8. Frequent assessment of compliance of the activities with the legal requirements with respect to the environment protection.

	7. social protests. 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.		9. 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. 10. Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on climate change.

E 2. Revenue from sustainable operations

In 2021, the EBITDA of TAURON Capital Group related to sustainable low emission activities: products, services and technologies, came in at PLN 376 million and it was generated mainly by the RES operating segment. Certain compensation related to the increase in the EBITDA from sustainable activities for 2021 occurred due to increased production from renewable energy sources (wind, hydro and additionally two photovoltaic installations). CAPEX dedicated to sustainable low-emission activities: products, services and technologies, stood at PLN 325 million. This was related to the implementation of investments in renewable energy sources (among others, the construction of the Piotrków wind farm and the photovoltaic farms), and grid investments ("growth rate of RES grid connections" and grid hardening), which translated into a percentage increase in the spending on sustainable investment projects, reaching approx. 11% of the total CAPEX for the Group's investment projects implemented in 2021.

Table no. 49. Revenue and capital expenditures (CAPEX) indicators related to sustainable operations for TAURON Capital Group in 2021

Revenue indicators related to sustainable operations		TOTAL
	Unit	2021
EBITDA related to sustainable low emission activities: products, services and technologies (1)	PLN million	376
	% of EBITDA from all of the Group's operating segments	9%
CAPEX* related to sustainable low emission activities: products, services and technologies (2)	PLN million	325
	% of the Group's CAPEX	11%

(1) EBITDA indicator related to "sustainable low emission activities: products, services and technologies" includes solely RES electricity generation operating segment. The share of the EBITDA from the sustainable operations in the Group's EBITDA for 2021 is presented in relation to the RES operating segment, which generates more than 80% of the EBITDA from the sustainable operations.

(2) CAPEX indicator related to "sustainable low emission activities: products, services and technologies" includes CAPEX for: RES electricity generation operating segment, infrastructure and grids (RES grid connections growth rate and grid hardening), e-products (excluding the sales of gas and electricity from conventional sources), utilization of a part of the gas from the Brzeszcze Coal Mine's methane drainage by a Group's subsidiary.

E 2.1. Climate neutrality 2050

The roadmap (presented in table no. 49) of TAURON Group's decarbonization and the approach to the ESG management with respect to climate neutrality and the net-zero 2050 target:

- Reduction of the installed capacity of conventional electricity and heat generation sources with high emissions in the medium term and the change of the fuel mix by increasing the share of zero-emission and low-emission sources.
- Intensification of the activities related to climate change in the subsequent years and focus on digitization. Following the trend of widespread electrification of industries (consumption/increase in demand for electricity).

- Innovations, the circular economy, e-products and cybersecurity as growth accelerators.
- Reduction of the carbon footprint of Scope 1 - climate neutrality 2050 (zero emissions) and Scope 3 - low-emission supply chain as well as supply and distribution of low and zero emission energy.

Table no. 50. "Road map" and intermediate targets on the way seeking to achieving climate neutrality by TAURON Group by 2050

Activity	2021-2025 Intermediate Target	2021 Results	Status	ESG topics	Sustainable Development Goals (SDG)
Scope 1 direct GHG emissions unit (specific) reduction	-23% in 2025 as compared to the base year 2018 (Target 640 kgCO ₂ eq/MWh) (1)	-10% as compared to the base year 2018 (Result 750 kgCO ₂ eq/MWh) (1)	ACTIVE	E G	13
Renewable generation sources' capacity expansion plan	+1.0 GW of new RES capacity (2)	+0.011 GW of new RES capacity (2) +0.081 GW of RES capacity (under construction)	ACTIVE	E G (I)	7 13
Low-emission and zero-emission generation sources' heat (thermal) capacity expansion / change plan	+0.261 GW of low-emission and zero-emission heat (thermal) capacity (3)	+0 GW of new low-emission and zero-emission heat (thermal) capacity (3) +0.216 GW of capacity (under construction)	ACTIVE	E G (I)	13
Adaptation of the conventional assets to comply with the environmental requirements (BAT conclusions)	PLN 311.2 million* of capital expenditures on environment protection – BAT program (adaptation of the assets to the requirements of the BAT conclusions and to the capacity market)	PLN 27.6 million of capital expenditures on environment protection – BAT program	COMPLETED	E (I)	13
Sustainable development: EBITDA** from sustainable operations / Group's EBITDA)	-	8.5%** - share of EBITDA from sustainable operations	ACTIVE (2021 achievement) PLANNED (2025 target definition)	E G	
Sustainable financing - better use	-	-	PLANNED (2025 target definition)	G	7 13

* continuation of the BAT Program carried out in 2018 - 2021

** share of EBITDA from sustainable operations in the Group's EBITDA in 2021 is presented in relation to the RES operating segment, which generates more than 80% of the EBITDA from the sustainable operations.

(1) Direct GHG emissions unit indicator in kgCO₂eq/MWh is calculated in relation to electricity production (TAURON Group's subsidiaries included: TAURON Wytwarzanie, TAURON Ciepło, TAURON Ekoenergia as well as the company's subsidiaries or the companies managed thereby, TAURON Nowe Technologie). The intermediate 2025 target value corresponds to the graphical data - Figure no. 14 TAURON Capital Group's planned CO₂ emissions level in 2018-2030.

(2) New RES capacities based on wind energy and photovoltaic farms (2021-2025 Expansion Plan).

(3) Replacement of the capacity of the conventional heat generation sources (coal and heavy heating oil) (baseload and peak units) with low and zero-emission heat generation sources. Only TAURON Ciepło is included.

E – Environmental

G – Governance

(I) – Investments

In addition, TAURON Group is planning to take steps in 2022 to verify its targets, applying an approach consistent with the criteria and recommendations of the Science Based Targets (SBTi) initiative, however without conducting certification. It is a supplement to the direction of actions adopted under the TAURON Group's Climate Policy aimed at limiting global warming and not exceeding the temperature by 1.5 °C in the long term, in line with the Paris Accord and the targets of the United Nations according to the "2030 Agenda for Sustainable Development".

Thus, starting from 2022, TAURON Group's striving to achieve, in the long term, the zero GHG emissions within the value chain by 2050, which is applicable to the direct emissions (Scope 1), will be subject to checking and verification. In addition, the indirect emissions (Scope 2 and 3) will be curtailed based on the Science Based Targets (SBTi) criteria and recommendations.

Direction – Energy transition

The future for energy generation

In order to achieve complete decarbonization by 2050, TAURON Group, by developing an update of the strategic directions, confirmed its indirect goal in the fight against climate change stemming from the implementation of the Green Turn of TAURON, setting the goal of reducing the Scope 1 direct greenhouse gas emissions by at least 50% by 2030 as compared to 2018,

To achieve this target, TAURON is planning additional capacity in renewable sources, so as to achieve a 65% share of zero and low-emission sources' installed capacity. At the present stage, the most likely scenario for reducing the share of conventional power generation capacity in TAURON Group's fuel mix is the spinning off and divestment of its coal assets to another entity. More on this topic in section 2.6. TAURON Capital Group's Strategy and its Assumptions.

Electrification, digitization and creation of new development platforms

To promote electrification and increase the consumption of electricity from RES, TAURON Group aims to expand its range of products and services in order to raise customer satisfaction. The main goals in this regard include the installation of 566 electric vehicle charging points by the end of 2025, but also, with respect to promoting electrification, strengthening the grid infrastructure.

In addition, taking into account the role of infrastructure, in particular for decarbonization purposes, the planned actions include the goal of increasing the flexibility and resilience of the grid infrastructure by investing in digitization and in raising the quality and efficiency of the services provided, also by using new development platforms. The main goals set for 2025 include improving the CTP and CP indicators (equivalent to SAIDI and SAIFI) by not less than 20% as compared to 2021 and achieving the target of more than 5.8 million final consumers with active smart metering (data to be used as part of the new development platforms) in place by 2025.

E 3. GRI indices

- 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 EU DMA Research and investments to ensure reliability of energy supply and promote sustainable development
- 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 305-5 Direct greenhouse gas emissions
- 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
- GRI 102-15 Key impact, risks and opportunities
- GRI 102-16 Key areas of impact, risks and opportunities
- GRI 201-2 Financial implications and other risks and opportunities related to climate change

S – SOCIAL

(Social Responsibility)

S 1. TAURON Capital Group's Human Capital Management Strategy

The range of the Group's business operations, both in terms of geography as well as competence areas, employing more than 25 300 employees, has a significant impact upon the complexity of the human capital management process. TAURON Group strives to optimize, standardize and digitize the human capital management processes so as to provide employees and management with tools to effectively support the organization, ensure a dialogue based environment, introduce changes and develop the organization, taking into account business and external factors. It is also crucial to participate in the energy transition process and provide the organization with the competences required to maintain business continuity and the competences of the future.

TAURON Group is seeking to create flexible conditions for the development of knowledge and skills as well as to create a work environment based on cooperation and partnership. Employee opinion polls are conducted and their results form the basis for building and implementing action plans aimed at increasing commitment and creating an attractive workplace, in compliance with the standards of compliance, at all TAURON Group's subsidiaries, with the principles of ethics, respect for diversity and counteracting mobbing and discrimination.

The key data on TAURON Group's human capital in 2019-2021 is presented in Table no. 51.

Table no. 51. Key data on TAURON Group's human capital in 2019-2021

Key data	2021	2020	2019
Number of employees (in persons as of 31.12)	25 324	25 572	26 086
Share of women among the workforce	21.8%	21.5%	21.4%
Share of men among the workforce	78.2%	78.5%	78.6%
Share of college graduates among the workforce	35.9%	34.8%	33.8%
Share of high school graduates among the workforce	43.2%	43.5%	43.3%
Share of vocational and elementary school graduates among the workforce	20.9%	21.7%	22.9%
Rotation rate	7.05%	6.67%	6.51%

TAURON Capital Group's human capital management strategy is performed through the implemented processes in place presented in Figure no. 29:

HUMAN CAPITAL MANAGEMENT



Figure no. 29. Processes implemented as part of TAURON Capital Group's Human Capital Management Strategy

Through active management of human capital TAURON Group achieved in 2019-2021 the results presented in Table no. 52.

Table no. 52. Results achieved by TAURON Capital Group in 2019-2021 as part of TAURON Group's management of human capital

Results achieved	2021	2020	2019
Number of training course hours	385 000	295 000	478 000
Number of the participants of TAURON Group Open University (the number of Tauronet views in 2021)	2 000	7 000	2 700
Number of training courses conducted by Internal Coaches	155	84	167
Number of Internal Coaches	104	86	83
Number of persons trained by Internal Coaches	1 600	1 100	1 800
Number of interns/apprentices	265	263	655
Number of patronage classes	52	53	47
Number students in patronage classes	1 200	1 000	1 300
Number of participants in the Development Squared initiative	2406	950	no data

S 1.1. Policies and Principles supporting Human Capital Management

S 1.1.1. TAURON Group's Human Capital Management Policy

TAURON Group's Human Capital Management Policy is a document that focuses on acquiring, developing and maintaining competencies that are key to organizational efficiency and achieving the Group's strategic goals in a specific reality.

The goal of the regulations contained in this policy is the broadly understood support for 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.

Human capital management mission

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

Human capital management vision

We are a partner for the Management Team and Workforce in building an efficient company, based on clear rules and modern solutions

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 are set and activities aimed at achieving them are identified. Their comprehensive description is presented in Table no. 53.

Table no. 53. Strategic areas of activities defined by TAURON Capital Group's human capital management

Area: Organization development	
Goal: Implementing and promoting organizational culture that supports TAURON Group's development.	Process
Strengthening employee engagement and creating a safe and inspiring work environment; • openness to communication with employees, • obtaining and providing feedback, • engaging employees in improving the work environment.	Employee Opinion Survey Employee communication Employer Branding Management by objectives
Building the image of TAURON Group as an attractive employer - both inside and outside the organization: • surveying the opinion of employees, • creating tools that allow to ensure easy and efficient communication with employees, • cooperating with universities and schools.	Employee Opinion Survey Employee communication Employer Branding Management by objectives
Ensuring an efficient flow of information and creating conditions for a partner dialogue with the workforce: • strengthening cooperation among areas and among generations: • creating an environment that is friendly to the exchange of knowledge and experience, • promoting knowledge sharing	Social dialogue Development initiatives Knowledge and age management
Building relationships with customers and strengthening awareness with respect to environment protection, climate change and commitment to promoting the Green Turn of TAURON	Employer Branding
Supporting TAURON Group in the process of changes through access to knowledge and market solutions: • designing development programs and providing knowledge, • monitoring market trends and solutions.	Development initiatives
Area: Organization efficiency management	
Goal: Focus on efficiency management.	Process
Clear and consistent defining of roles, tasks and required authorizations at work positions.	Position evaluation system Job description book
Defining clear compensation rules, based on market conditions, that motivate people to work efficiently: • supporting the implementation of tasks and goals that stem from the Strategy, • creating performance related employee compensation systems, • building tools that support management by objectives.	Employment, wages and benefits management Management by objectives Social dialogue

Minimizing the risk associated with human capital management.	TAURON Group's risk management system
Ensuring compliance with the principles of ethics and diversity: - conducting educational activities, - taking care of an environment free from mobbing and discrimination.	Regulations related to diversity, ethics and counteracting mobbing and discrimination
Optimizing, standardizing and digitizing the Human Capital Management Area processes, increasing the flexibility and efficiency of the organization.	Human Capital Management Mega-process
Area: Competences and development management	Process
Goal: Supporting the development of competences	
Ensuring continuous development of employee competences so as to keep them aligned with the needs of the changing energy sector: - developing new competences that prepare for change management, - focusing on acquiring new qualifications and improving employees' competences.	Development initiatives Recruitment
Creating a culture based on self-development: Supporting employees through various individual development tools.	Employee Opinion Survey Employee communication Employer Branding Management by objectives
Ensuring the continuity of competences for the energy sector by educating pupils and students.	Development initiatives Recruitment
Taking care of employee retention: - creating opportunities for development for employees and ensuring a motivating atmosphere at work, - implementing pro-employee solutions.	Development initiatives Employee induction
Ensuring knowledge transfer between generations: - implementing development programs, - implementing internal training programs, - ensuring the exchange of experiences between generations.	Knowledge and age management Development initiatives
Ensuring the development of leadership competences of the Management Personnel.	Competence model Development conversation
Creating and improving tools for the development, motivation and evaluation of the employees' potential.	Development conversation

Tables no. 54-57 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. 54. GRI 102-8-a. Number of TAURON Capital Group's employees by type of labor contract and gender as of 31.12.2021, per subsidiary

NUMBER OF EMPLOYEES	TAURON Polska Energia	TAURON Wytwarzanie	TAURON Ekoenergia	TAURON Dystrybucja	TAURON Nowe Technologie	TAURON Dystrybucja Pomiary	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Czech Energy	TAURON Obsługa Klienta	TAURON Ciepło	Kopalnia Wapienia Czatkowice	Polska Energia Pierwsza Kompania Handlowa	Bioeko Grupa TAURON	Wsparcie Grupa TAURON	TAURON Serwis	Nowe Jaworzno Grupa TAURON	TAURON Zielona Energia	TOTAL	
LABOR CONTRACTS																				
TOTAL NUMBER OF EMPLOYEES UNDER LABOR CONTRACTS, INCLUDING:	413	6 285	2 216	179	7 898	123	1 475	314	9	14	2 625	1 431	296	3	176	1 263	401	182	21	25 324
women	189	525	363	45	1 211	47	266	168	6	7	1 896	251	46	3	34	407	26	14	9	5 513
Men	224	5 760	1 853	134	6 687	76	1 209	146	3	7	729	1 180	250	0	142	856	375	168	12	19 811
INCLUDING:																				
FOR A DEFINITE PERIOD OF TIME (including for a trial period and as a substitute):	13	147	12	18	386	19	56	58	1	0	414	66	46	0	78	235	32	3	11	1 595
women	6	13	4	7	67	9	12	28	1	0	322	9	7	0	11	73	7	0	5	581
men	7	134	8	11	319	10	44	30	0	0	92	57	39	0	67	162	25	3	6	1 014
FOR AN INDEFINITE PERIOD OF TIME:	400	6 138	2 204	161	7 512	104	1 419	256	8	14	2 211	1 365	250	3	98	1 028	369	179	10	23 729
women	183	512	359	38	1 144	38	254	140	5	7	1 574	242	39	3	23	334	19	14	4	4 932
men	217	5 626	1 845	123	6 368	66	1 165	116	3	7	637	1 123	211	0	75	694	350	165	6	18 797

Table no 55. 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 31.12.2021, per subsidiary

NUMBER OF EMPLOYEES	TAURON Polska Energia	TAURON Wytwarzanie	TAURON Ekoenergia	TAURON Dystrybucja	TAURON Nowe Technologie	TAURON Dystrybucja Pomiarów	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Czech Energy	TAURON Obsługa Klienta	TAURON Ciepło	Kopalnia Wapienia Czatkowice	Polska Energia Pierwsza Kompania Handlowa	Bioeko Grupa TAURON	Wsparcie Grupa TAURON	TAURON Serwis	Nowe Jaworzno Grupa TAURON	TAURON Zielona Energia	TOTAL	
	TAURON Wytwarzanie	TAURON Ekoenergia	TAURON Dystrybucja	TAURON Nowe Technologie	TAURON Dystrybucja Pomiarów	TAURON Sprzedaż	TAURON Sprzedaż GZE	TAURON Czech Energy	TAURON Obsługa Klienta	TAURON Ciepło	Kopalnia Wapienia Czatkowice	Polska Energia Pierwsza Kompania Handlowa	Bioeko Grupa TAURON	Wsparcie Grupa TAURON	TAURON Serwis	Nowe Jaworzno Grupa TAURON	TAURON Zielona Energia	TOTAL		
EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT																				
TOTAL NUMBER OF EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT:	17	227	79	10	26	5	13	14	0	1	129	8	20	6	6	942	36	6	2	1 547
women	5	7	15	4	8	1	5	5	0	1	114	0	8	1	0	239	3	0	0	416
men	12	220	64	6	18	4	8	9	0	0	15	8	12	5	6	703	33	6	2	1 131
PERSONS UNDER MANAGEMENT CONTRACTS:	4	2	4	2	5	2	2	4	0	0	4	3	1	1	2	2	2	2	2	44
women	0	0	1	0	0	0	0	4	0	0	2	0	0	0	0	1	0	0	0	8
men	4	2	3	2	5	2	2	0	0	0	2	3	1	1	2	1	2	2	2	36
SELF PERSONS:	0	0	0	0	2	0	0	5	0	0	0	0	0	0	0	0	0	0	0	7
women	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	2
men	0	0	0	0	1	0	0	4	0	0	0	0	0	0	0	0	0	0	0	5

EMPLOYEES UNDER THE GROUP'S SUPERVISION:		0	0	0	0	0	0	6	0	0	0	123	0	0	0	0	0	0	0	0	129
	women	0	0	0	0	0	0	5	0	0	0	110	0	0	0	0	0	0	0	0	115
	men	0	0	0	0	0	0	1	0	0	0	13	0	0	0	0	0	0	0	0	14
PERSONS ON POSTGRADUATE INTERNSHIPS:		2	70	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	73
	women	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	men	1	70	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	72
PERSONS PROVIDING SERVICES UNDER A CIVIL LAW AGREEMENT		3	152	71	3	15	0	0	1	0	0	0	2	14	5	0	936	29	1	0	1 232
	women	2	7	14	1	7	0	0	0	0	0	0	0	6	1	0	236	3	0	0	277
	men	1	145	57	2	8	0	0	1	0	0	0	2	8	4	0	700	26	1	0	955
EMPLOYEES OF THE SUPERVISORY BOARD		8	3	4	5	3	3	5	4	0	1	2	3	5	0	4	4	5	3	0	62
	women	2	0	0	3	0	1	0	0	0	1	2	0	2	0	0	2	0	0	0	13
	men	6	3	4	2	3	2	5	4	0	0	0	3	3	0	4	2	5	3	0	49

Table nr 56. GRI 102-8-c. Table no. 56. GRI 102-8-c. Employment of employees at TAURON Capital Group based on a permanent labor contract type by gender as of 31.12.2021, per subsidiary

NUMBER OF EMPLOYEES	TAURON Polska Energia	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	TAURON Zielona Energia	TOTAL	
WORKING UNDER A LABOR CONTRACT, INCLUDING:																				
FULL TIME:	406	6 282	2 209	178	7 873	123	1 471	312	6	12	2 612	1 428	295	3	172	1 229	400	182	20	25 213
women	183	523	360	44	1 196	47	263	167	4	5	1 886	250	46	3	34	383	26	14	9	5 443
men	223	5 759	1 849	134	6 677	76	1 208	145	2	7	726	1 178	249	0	138	846	374	168	11	19 770
PART TIME:	7	3	7	1	25	0	4	2	3	2	13	3	1	0	4	34	1	0	1	111
women	6	2	3	1	15	0	3	1	2	2	10	1	0	0	0	24	0	0	0	70
men	1	1	4	0	10	0	1	1	1	0	3	2	1	0	4	10	1	0	1	41

Table no. 57. GRI 102-41. Percentage of TAURON Capital Group's employees covered by collective bargaining agreements as of 31.12.2021, per subsidiary

	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 Pierwsza Kompania Handlowa	Bioeko Grupa TAURON	Wsparcie Grupa TAURON	TAURON Serwis	Nowe Jaworzno Grupa TAURON	TAURON Zielona Energia	TOTAL
Total number of persons employed (from table 102-8-a)	413	6 285	2 216	179	7 898	123	1 475	314	9	14	2 625	1 431	296	3	176	1 263	401	182	21	25 324
Total number of employees covered by collective bargaining agreements	0	6 272	2 216	179	7 881	105	1 471	314	9	0	2 625	1 412	295	0	0	1 263	0	182	0	24 224
Percentage of employees covered by collective bargaining agreements	0,0%	99,8%	100,0%	100,0%	99,8%	85,4%	99,7%	100,0%	100,0%	0,0%	100,0%	98,7%	99,7%	0,0%	0,0%	100,0%	0,0%	100,0%	0,0%	95,7%

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;
- TAURON Group's Recruitment Principles,
- Principles 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;
- Talent Programs, in place at TAURON Group's individual subsidiaries;
- Principles of Cooperation with Schools and Universities;
- Regulations of the "Join" Program – TAURON's internship 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 2021, TAURON Group again 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 315 meetings of the employers with the trade union organizations in 2021. In total, the trade union organizations had about 17.9 thousand members among TAURON Group's employees (i.e. 71% of the total number of employees) at the end of 2021.

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 Third edition of the survey, conducted at the Group's key subsidiaries in 2021, the employees of TAURON Group's 15 subsidiaries had an opportunity to express their opinion on how they assess the individual aspects of work at the subsidiary and at the Group, answering 10 closed questions and also being able to enter any additional comments as part of the open question.

With a turnout of 55% (i.e. 10,303 votes), a more complete picture of the situation was obtained on topics relating to three thematic areas: satisfaction, commitment and communications. All responses were aggregated and summarized in the form of three indicators: satisfaction, commitment and communications.

The survey results demonstrated that TAURON Group's employees:

- are satisfied with the work at their company (satisfaction rate - **74%**),
- declare a very strong commitment to the performance of their tasks and obtaining the best possible results of work (commitment rate - **91%**),
- rate TAURON Group better and better in terms of communications, understood as providing important information about the company (communications rate - **64%**)

In addition to the numerical results, comments were collected (in response to the open-ended question), which covered issues related to, inter alia, workplace and working conditions, atmosphere, pandemic situations, development opportunities, sense of security and stability.

The results obtained are a starting point for in-depth analyses and developing, together with managers and employees, of further action plans.

Top Quality HR Certificate for TAURON Polska Energia

In 2021, TAURON Polska Energia and TAURON Obsługa Klienta again participated in the study organized by the Polish Association of Human Resources Management entitled Top Quality HR. As part of the study, the Association verified and awarded the top marks to the individual areas of human capital management, among others: motivation and compensation systems, employee development, recruitment and competence management, employee communications and building the employer's brand. The Group's new initiative, the Training Catalog, was particularly highly appreciated, as part of which, last year, employees were offered four training modules: expert knowledge, tools, management competences and personal development. The positive result of the study led to obtaining the 2022 Top Quality HR Certificate.

Just transition

TAURON Group has undertaken a number of activities aimed at preparing the workforce for the energy transition process. The activities were taken in parallel with respect to all sources of potential financing:

- National Just Transition Plan,
- National Reconstruction Program,
- Modernization Fund,
- Just Transition Fund.

The project fiches submitted assume, among others:

- retraining, financing training for the employees,
- support in setting up one's own business,
- matching skills and qualifications to the job offers available on the market,
- preparation for the recruitment processes (CV, cover letter, job interview),
- analysis of the labor market and professions/scarcely competences,
- analysis of the impact of the outplacement program dedicated to the power plant's workforce (supporting the layoffs process) on the level of commitment and satisfaction as well as employability of the employees in order to achieve the highest possible effectiveness in finding a new job,
- relocation of the employees to other branches or other subsidiaries of TAURON Group - relocation package - reimbursement of accommodation and travel costs in the form of a monthly lump sum based on a periodic calculation taking into account the applicable prices,
- programs dedicated to persons acquiring entitlement to the pre-retirement benefits or acquiring up to 5 years of retirement rights - additional severance pay, paid employee absenteeism ("Fixed term leaves").

TAURON Group also participated in the START project – the technical assistance of the European Commission for the projects submitted under the Just Transition Fund, to which it was qualified by the Marshal's Office of the Małopolska Region. As part of the START assistance, the Group received support with respect to the project aimed at diagnosing the competency needs of the organization in the face of transition.

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 personal 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 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 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. 58 presents the key data on employee training at TAURON Capital Group as of December 31 in 2019-2021.

Table no. 58. Key data on employee training at TAURON Polska Energia and TAURON Capital Group as of December 31, 2019, December 31, 2020, December 31, 2021.

Key data on employee training	TAURON			TAURON Group		
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2019	2020	2021	2019	2020	2021
1. Average number of training hours per employee by job (position) group, including:	176	42	63	109	62	91
1) Management Board and Directors	88	10	23	45	26	40
2) Management positions	51	15	15	32	14	24
3) Administrative staff (white collar positions)	28	16	19	14	9	10
4) Blue collar positions	9	1	6	18	13	17
2. Number of training hours per employee by gender, including:	16 766	6 801	7 552	477 618	294 945	383 796
1) Women	6 624	2 996	3 572	79 871	49 704	65 794
2) Men	10 142	3 806	3 980	397 747	245 240	318 002

Key statistics on the training carried out at TAURON Group in 2021 are presented in figure no. 30.

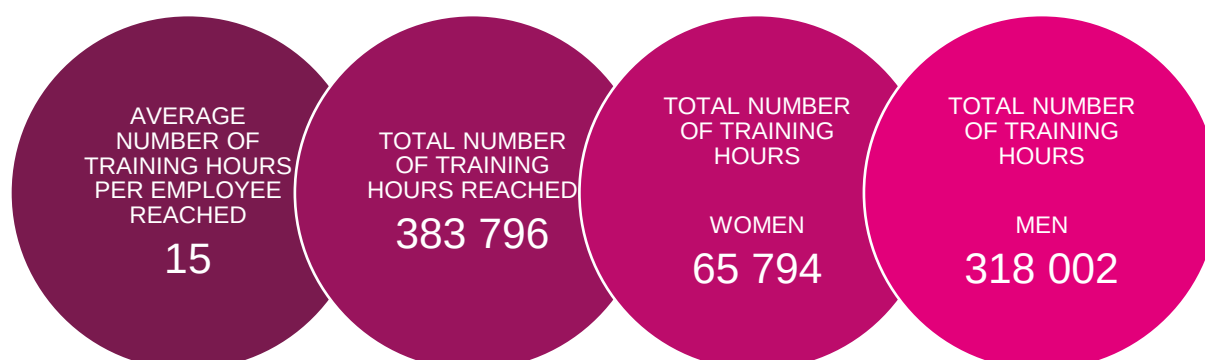


Figure no. 30. GRI 404-1 - The number of training hours per employee at TAURON Capital Group in 2021

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 conducted last year at the Group's selected subsidiaries demonstrated a number of benefits that open communications and individual approach to the employees' needs, in combination with the directions of the organization's development, bring.

Postgraduate studies - Executive Master of Business Administration (MBA)

In order to meet the challenges of the changing business environment and implementing the Group's values, in 2021, MBA studies were launched, dedicated to the management team of TAURON Polska Energia S.A. The goal of the studies is to transfer and systematize the knowledge required in the company management process. 29 employees were invited to participate in the initiative.

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 provides the opportunity to gain knowledge and additional competences

The initiative was continued in 2021 but, due to the epidemic situation, the lectures were moved online to a virtual auditorium. 7 online lectures were delivered, attended by nearly 2 000 employees. Some of the lectures were posted on the Intranet and can be used by the employees without time limits.

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. 104 internal trainers completed a total of 155 training sessions for more than 1 600 of TAURON Group's employees in 2021.

Development Squared

Development Squared - a series of webinars conducted in four thematic areas: development, knowledge sharing, cooperation, health. The project was developed as a response to the difficult situation related to the COVID-19 pandemic that made it impossible to conduct training in a traditional 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). 49 webinars were held in 2021, on 21 different topics, conducted by 12 trainers. More than 2 406 of TAURON Group's employees took part in the initiative.



Training Catalogue

One of the new tools implemented at TAURON Polska Energia in the last quarter of 2021 is the Training Catalog. Thanks to the setting up of a training base in four modules: expert knowledge, management competences, personal development, tools, the employees can participate in training sessions of their choice every month, while developing their skills and knowledge, in accordance with an individual development plan.

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. The employees have continuous, 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 2021, the employees, thanks to the e-learning training courses, got to know, inter alia, TAURON Group's latest regulations related to counteracting mobbing and discrimination or found out how to conduct valuable development conversations. In total, nearly 13 000 employees participated in more than 37 000 e-learning training courses in 2021.

Manager's Zone and "#wzMOCnij się" (power up yourself)

Manager's Zone is a space in the intranet dedicated to managers. The management team have a permanent access to specialist articles on the subject of broadly understood management, team management support tools, interesting on-line events (Mediateka) and recommended books. The Manager Zone newsletter is distributed regularly, in which we provide information about news in the Zone and cover the most current topics.

In 2021, more than a dozen articles were published on the current trends in the management area, e.g.

- Competences of the future,
- Stress management,
- How to build a culture of responsibility,
- The Pareto principle and decision making,
- Courage of the manager,
- Empathy of the manager
- The art of resting,
- Assessing and appreciating,
- Employee experience,
- Employee training and development.

Quick Tips

Preventive and informational activities aimed at raising awareness and understanding of the current regulations and the applicable rules of counteracting COVID - 19 were continued throughout the entire Capital Group in 2021. Quick tips is a series of weekly short cards on the homepage of TAURON Group's intranet – Tauronet

Two hours for the Family and the Children's Day

As part of this initiative TAURON Group organized the Family Week for its workforce, run under the slogan "Rodzina MegaMoc. Trzymajmy się razem!" (Family MegaPower. Let us stick together!) All of the events were held virtually, contests and sports competitions were held, thanks to a special application that enables recording one's activities in terms of walking, running and cycling.

Almost 17 000 employees with access to the intranet, were able to actively participate in all of the events

Heart week and health week

At the turn of October and November 2021, two initiatives were implemented to promote a healthy lifestyle and preventive examinations (testing) among the Group's employees. The Heart Week, related to the World Heart Day, consisted of a series of publications on the intranet on the prevention of heart disease, competitions and knowledge quizzes on this subject. The health week was devoted primarily to the prevention of breast and prostate cancer. As part of the health week, two lectures were held in the series: TAURON Group Open University - A healthy woman and a healthy man in the 21st century, and the Oncological Prevention Program in the field of breast and prostate cancer. Nearly 500 employees participated in the lectures.

S 1.1.2. 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. 2021 was spent on developing the assumptions and concept of the Knowledge and Age Management project and on raising the HR area's business awareness in this respect. As part of the project, two training courses were held on the transfer of competences and process management in the organization.

This goal is accomplished through the implementation of numerous training programs, supporting the development of the competences of each employee.

The most important among them include:

- TAURON Group Open University - the goal of creating and continuing the idea of the University is to provide employees with permanent 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
- "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. 59;
- 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 (WHS) training, management personnel meetings, giant screens, notice boards.
- Diversity appreciation week - an initiative implemented in 2021 as part of the Managers Forum at TAURON Obsługa Klienta. The action dedicated to the representatives of the managerial staff at all levels of management. The goal of the initiative was to broaden knowledge, develop skills and strengthen attitudes aimed at appreciating the potential of diversity in teamwork. The leaders were invited to participate in webinars and workshops covering such issues as: dealing with difficult emotions in a team, how to build psychological safety in a team, important aspects of strengthening employee engagement in remote work, building mental resilience, people management in the VUCA and BANI world. The key message of the initiative was to draw attention to and appreciate the potential of diversity in teamwork - with particular emphasis on aspects of diversity such as age, knowledge and experience. Taking into account the

individual needs of managers, the proposed topics also include topics related to GDPR or the possibility of using mindfulness sessions. 243 employees took part in the initiative;

- social dialogue and active cooperation with trade unions as well as the activity of the Ombudsman for Social Dialogue. The number of meetings with trade unions at the Group's companies and the percentage of employees covered by collective bargaining agreements are presented in Table no. 60.

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. The internship and apprenticeship programs support the development of skills of young people, and mentors have the opportunity to share their knowledge and experience. By the end of 2021, TAURON had covered 52 classes with its patronage.

In 2021, similar to the previous year, the number of apprenticeships and internships at TAURON Group decreased due to the epidemic. 265 people took part in the programs in 2021. 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. 59. GRI 401-3. Parental leave at TAURON Capital Group in 2021

	TAURON Group's total	Women	Men
Percentage of returns to work	80%	56%	90%
Retention rate following a parental leave	94%	82%	97%

Table no. 60. Number of meetings with trade union organizations functioning at the Group's subsidiaries and percentage of employees covered by collective bargaining agreements

Results achieved	2021	2020	2019
Number of meetings with trade union organizations functioning at the Group's subsidiaries	315	334	329
Percentage of employees covered by collective bargaining agreements	95.7%	95.6 %	95.7%

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. 61 and no. 62.

Table no. 61. GRI 405-1. Composition of TAURON Capital Group's workforce broken down by age and gender as of 31.12.2021

TAURON Group															
	MANAGEMENT BOARD AND DIRECTORS			HIGHER AND LOWER LEVEL MANAGEMENT PERSONNEL			OTHER ADMINISTRATIVE STAFF (WHITE COLLAR POSITIONS)			BLUE COLLAR POSITIONS					
	≤ 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	172			2 496			9 361			13 295			25 324		
	0	78	94	26	1 340	1 130	799	5 027	3 535	1 344	6 581	5 370	2 172	13 023	10 129
women	0	24	13	4	285	139	396	2 480	1 527	28	261	357	429	3 048	2 036
men	0	54	81	22	1 055	991	403	2 547	2 008	1 316	6 320	5 013	1 743	9 975	8 093
SHARE IN PERCENTAGE (in reference to all of the company's employees)															
	1%			10%			37%			52%			100%		
Share in percentage (in reference to the number of employees in the given employment category)															
TOTAL	-	45%	55%	1%	54%	45%	9%	54%	38%	10%	49%	40%	9%	51%	40%
women	-	14%	8%	0%	11%	6%	4%	26%	16%	0%	2%	3%	2%	12%	8%
men	-	31%	47%	1%	42%	40%	4%	27%	21%	10%	48%	38%	7%	39%	32%

Table no. 62. Composition of the Management Boards of TAURON Capital Group's subsidiaries as of December 31, 2021, 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	45		
TOTAL	0	22	23
women	0	2	2
men	0	20	21
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	-	50%	50%
(percentage share versus all men in the Management Board) men	-	49%	51%

S 1.1.3. TAURON Group's Recruitment Principles

TAURON Group's Recruitment Principles were updated in 2021. 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. 1203 employees were hired by TAURON Group in 2021. The detailed data on TAURON Group's employment structure is provided in section S 1.1.1. TAURON Group's Human Capital Management Policy of this Report.

Due diligence procedures and internal regulations

Due diligence procedures employed under the Policy include, first of all, the following structured forms of recruitment:

- internal recruitment within a subsidiary (actions aimed at finding job candidates, to fill the vacancies, from among the personnel of the given TAURON Group's subsidiary, recommendations (referrals) by employees of other employees as potential candidates, e-mail messages to all employees),
- internal recruitment within TAURON Group (actions aimed at finding job candidates, to fill the vacancies, from among the personnel of other TAURON Group's subsidiaries, (announcements (notices) in the Group's intranet, recommendations (referrals) by employees of other employees as potential candidates, employees with a development potential),
- external recruitment (actions aimed at finding job candidates by posting job advertisements on the external market (outside TAURON Group), 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 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, as well as the analysis of the budget allocated to the given specific 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 2021, 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 2021, TAURON Group implemented a new recruitment system (ATS). The indispensable tool provides comprehensive support for the process, from the acquisition of candidates and data processing, through communications with candidates and the close cooperation between the manager and the recruiter. In addition, TAURON Group's recruiters participated in training on market trends with respect to recruitment, e.g. Candidate Experience.

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 and other entities is a regular element of the activities promoting TAURON Group in the academic community. TAURON Capital Group promoted its job offers during the Engineering Job and Entrepreneurship Fair in Gliwice and the JOBICON Job Festival. 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 2021. 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 as part of TAURON Group's recruitment process. The main benefits of implementing the Program include, among others, the optimization of the recruitment costs, shortening of the recruitment's duration, as well as the strengthening of the involvement of the Group's employees and of the awareness of their impact on shaping the human resources at TAURON Group. This year, we have managed to completely digitize the Program by implementing it as an additional module in the new recruitment system.

Cooperation with the education sector

The cooperation of TAURON Capital Group with the education sector focuses primarily on the process of the 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 2021, 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.

In addition, TAURON Group is trying to have a real impact on the shape of education activities and projects in Poland, through active participation in many projects in the field of education, e.g. "Sectoral agreement for the development of the hydrogen economy in Poland", Sector Qualifications Framework for Energy.

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 for its teaching staff,
- participation of TAURON's employees in conducting qualification exams,
- 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.

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 outcome of the project will be the development of a master's degree program for the 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:

- 3 Associated Partners were invited to cooperate, namely: the Silesian University of Technology, Wrocław University of Science and Technology and the University of Agriculture in Krakow;
- the second Summer School was organized by the University of Economics in Katowice. Due to the ongoing coronavirus pandemic, all classes were held remotely. As part of the event, TAURON representatives prepared a case study in the field of renewable energy;
- TAURON Group's employees participated in training courses dedicated to people working in the energy industry;
- a survey was conducted among selected employees of the Group with respect to education and competences required in the industry. The results of the survey will inspire further work in the Project.

Implementation doctorate

TAURON Group launched a project to develop employee competences by initiating a number of three-party agreements with universities. As a consequence, 24 employees from the entire Group began doctoral studies. The project assumes the harmonious use and expansion of knowledge, so that an employee reaching the next level of academic career could transfer the acquired experience and knowledge to students, and at the same time satisfy the company's identified needs. TAURON has signed agreements with the Silesian University of Technology and the AGH University of Science and Technology, the University of Economics in Krakow, the University of Silesia, the Jagiellonian University and the Warsaw School of Economics. The main assumptions of the program are to create a platform for tripartite cooperation among universities, the company and the doctoral student, as well as to carry out research, the results of which will be used in solving the challenges facing the company. The doctorates will cover the research spectrum in the field of humanities, social sciences, exact and technical sciences. Six of TAURON Group's subsidiaries are taking part in the project - TAURON Polska Energia, TAURON Dystrybucja, TAURON Wytwarzanie, Kopalnia Wapienia Chatkowice, TAURON Ekoenergia and TAURON Sprzedaż.

S 1.1.4. 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 Principles as well as the tasks, empowerments and obligations of the Ethics Committee. The Policy was updated in 2021. The introduced changes were related to the need to make the work of the Ethics Committee (Internal Sub-committee and the Group Sub-committee) more efficient and to update the provisions of the Policy due to the regulatory changes. In particular, they were related to:

- increasing the number of members of the Group Subcommittee of the Ethics Committee to twelve,
- establishing the function of the Deputy Chair of the Group Subcommittee of the Ethics Committee,
- consolidating the provisions related to the works of the Ethics Committee,
- updating the definitions in connection with the change in the Labor Code with respect to mobbing and discrimination,
- the method of reporting the number of cases handled by the individual Ethics Committees,
- other consolidating changes.

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 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 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 (environment).

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. They are mandatory for all of the newly hired employees. The other employees are reminded of the Policy principles through information campaigns and content available on the Group's intranet website.

In 2021, both the Policy and the e-learning training were updated. The introduced changes were related to, inter alia, changes with respect to submitting complaints, reviewing them, as well as convening meetings of the Committee. In addition, the definition of discrimination has been extended to include unwanted behavior of sexual nature or relating to an employee's gender, the purpose or effect of which is to violate dignity.

In 2021, 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 Subcommittee). The project assumed conducting 6 training courses with respect to competence development of people reviewing reports of negative behavior at TAURON Group (28 people were trained).

In February 2021, a training dedicated to the management team of TAURON Polska Energia S.A. on counteracting mobbing and discrimination in the workplace was also held, and it included, among others:

- mobbing from the organizational and legal point of view, with particular emphasis on the differences between the enforcement of the execution of official duties and mobbing,

- practical aspects of mobbing occurring in labor relations,
- analysis of the cases that have occurred.

S 1.1.5. TAURON Group's Respect for Human Rights 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 Respect for Human Rights Policy 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 principles dedicated to the respect for human rights and protection with respect to interacting with the stakeholders, in particular the counterparties (contractors) and business partners, as well as with respect to local communities.

Due diligence procedures and internal regulations

The basic regulations related to TAURON Group's Respect for Human Rights Policy 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 Respect for Human Rights Policy, every employee, counterparty (contractor) and an external entity/business partner is required to:

- respect and promote respect for human rights and ensure the protection thereof,
- 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 an unequal treatment situation occurring. 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 were able to 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 (Fraud) Reporting Form, available on the website <https://www.tauron.pl/tauron/o-tauronie/formularzzgloszenia-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 group 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 TAURON Group's Respect for Human Rights Policy contributes to raising awareness of respect for human rights and promoting their protection.

S 1.1.6. 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 (WHS) regulations and rules at the individual work stations.

The most important documents regulating the work health and safety (WHS) issues include TAURON Wydobycie's Work (Occupational) Safety System implemented on April 1, 2021, 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 the employees. The employees of external companies (contractors and subcontractors) are also required to have up-to-date medical examinations (clearances, certificates) as well as relevant 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

In order to improve the labor safety of the workforce, information and educational activities are intensified at TAURON Group's subsidiaries. They include, among others, the following projects conducted in 2021:

- Work Health and Safety (WHS) Knowledge Competition at TAURON Ciepło - due to the prevailing epidemiological condition, the competition was organized via the Group's intranet;
- Modular training courses entitled: Work safely - you have someone to come back to;
- Information campaign on the methods of providing first aid in the era of the new threat such as the COVID-19 coronavirus;
- Training employees who drive company cars in safe and economic driving techniques;
- Creating the Minute for OHS tab in TAURON Group's Intranet;

- Webinar: Road plague - human inattention;
- Popularizing of the content related to broadly understood safety in the non-professional aspect as part of the series: Take care of your safety;
- Quizzes related to work safety;
- Continuation of the 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 workforce safety culture of the employees.

An important element in promoting the Work Health and Safety (WHS) rules at TAURON Group is the raising of the awareness of the employees and subcontractors, mainly through dedicated training courses, which in 2021 were conducted in the form of online meetings and workshops, as well as via an interactive e-learning platform.

Accident frequency rates

There were 206 accidents at TAURON Group's subsidiaries in 2021, leading to the total of 210 persons getting injured. There were 2 larger scale (group) accidents among them that led to 4 persons getting injured. In comparison to 2020, there was not a single fatal accident reported among the Group's workforce in 2021. The total number of accidents decreased by 6 incidents in 2021 as compared to 2020. The number of minor accidents also declined from 211 in 2020 to 205 accidents in 2021. As compared to the previous year, there was 1 major (severe) accident reported in 2021.

The accident frequency rate was 7.9 in 2021 and it was lower than the accident frequency rate reported in 2020 (8.3).

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 2021

TOTAL NUMBER OF ALL ACCIDENTS	206
Women	8
Men	202
NUMBER OF FATAL ACCIDENTS AT WORK	-
Women	-
Men	-
NUMBER OF MINOR ACCIDENTS AT WORK	205
Women	8
Men	197
NUMBER OF MAJOR ACCIDENTS AT WORK	1
Women	-
Men	1
NUMBER OF GROUP ACCIDENTS	2
Women	-
Men	4
ACCIDENT FREQUENCY RATE	7,9
Accident frequency rate = (number of accidents at work x 1000) / average employment in 2020	
Women	0,3
Men	7,7
ACCIDENT SEVERITY RATE	60,0

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	121,3
Men	67,6

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 persons trained in 2021 is presented in Table no. 64.

Table no. 64. GRI EU18. Percentage of the employees employed by the contractors and subcontractors that have undergone the above WHS training

2021	TAURON Serwis	TAURON Ciepło	TAURON Wydobycie	TAURON Wytwarzanie	TAURON Dystrybucja Pomiary	Spółka Usług Górniczych
Percentage of the employees employed by the contractors and subcontractors that have undergone the above WHS training	100%	85%	100%	33%	93%	100%

At TAURON Wydobycie all of the 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. It is a prerequisite to be allowed to work at the coal mines. The above mentioned training is conducted with respect to work health and safety regulations applicable at the coal mines, running coal mine operations as well as fire safety, occurring threats, work order and discipline, rescue plan, communications and alerting rules, knowledge of the work area, as well as reporting accidents and threats.

At TAURON Dystrybucja, each contractor and subcontractor, proceeding to perform the work, undertakes in the contract that its employees have valid periodic work health and safety (WHS) training. However, before starting work, each employee, be it of a contractor or a subcontractor, must be familiarized with the general information on work health and safety (WHS) - attached as appendix no. 2 to IOBP.

At Kopalnia Wapienia Łatkowice, when hiring employees of external (outsourced) companies, they are required to have up-to-date medical examinations (certificates), relevant qualifications and authorizations to perform the work. The initial training is carried out according to the approved General Work Health and Safety (WHS) Training Program for employees of external companies and also on-the-job training is conducted. A coordinator is appointed to cooperate with the employees of an external company and control the compliance with work health and safety (WHS) regulations.

TAURON Serwis, as a subsidiary of TAURON Group, deals with the maintenance and repairs of energy facilities. In accordance with the specific nature of its operations, TAURON Serwis employees as well as the employees of the subcontracting companies are trained each time before starting work.

At TAURON Wytwarzanie the employees of external companies and their subcontractors are bound by an internal normative act regarding the employment of external companies with respect to the application of the provisions and principles of work health and safety, which include, inter alia, training requirements for the employees of external companies, as well as the described required documents that the external company is obliged to provide before proceeding to the implementation of the contract/order.

TAURON Wytwarzanie S.A. conducts training for the supervisory staff of external companies with respect to the threats to safety and health at the workplace, as well as to familiarize them with internal regulations in force at the company with regard to work (occupational) 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 health and safety at workplace and during the performance of the works, as well as to familiarize themselves with internal normative acts in force at TAURON Wytwarzanie SA, with regard to work (occupational)

health and safety as well as fire safety, relevant for the given scope of work. Every time in case of subcontractors, the Contractor is obliged to fulfill the obligations described above.

Procedures for counteracting SARS-CoV-2 are described in detail in section 3 of this Report

TAURON Group's obligation to ensure safe and hygienic work conditions during the SARS-CoV-2 virus pandemic led to the further functioning of the Team for monitoring the impact of the epidemiological situation on TAURON Group's operations established on March 11, 2020. Similar, dedicated crisis management teams were set up at the Group's individual subsidiaries. Their main tasks included and still include:

- monitoring of the status 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.

S 1.2. Human Capital Related Risks

TAURON Group's main human capital related risks include:

- Human Capital Management Risk,
- Internal Communication Risk,
- WHS Risk.

S 1.2.1. Human Capital Management Risk

Table no. 65 presents the human capital management risk identified at TAURON Capital Group. In accordance with the Risk Model described in section G 4.4.6., the human capital management risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 65. 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.	 	1. Adoption and implementation of TAURON Group's Recruitment Principles. 2. Adoption and implementation of TAURON Group's Human Capital Management Policy. 3. Adoption and implementation of the Policy of Compliance with Ethics Principles and Counteracting Mobbing and Discrimination. 4. Care for the development of the employees' competences, including through the participation in training courses. 5. Conducting consultations with social organizations operating at TAURON Capital Group. 6. Implementation of TAURON Group's Human Capital Management Policy based on the Competence Model and the applicable compensation and labor law regulations (Compensation Regulations, ZUZP, Labor Regulations). 7. Applying the provisions of the Diversity Policy. 8. Implementation of the provisions of the Respect for Human Rights Policy.

S 1.2.2. Internal Communication Risk

Table no. 66 presents the Internal Communication Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section G 4.4.6., the Internal Communication Risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 66. 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).	→ 	1. Developing relationships with TAURON Capital Group's workforce and close cooperation with the Social Dialogue Ombudsman. 2. The use and development of the available communication tools to provide relevant information to the employees of TAURON Capital Group. 3. When providing relevant information - organizing face to face (direct) meetings of the management team with the workforce. 4. Ongoing monitoring of the situation and events taking place at TAURON Capital Group's subsidiaries that may cause social concerns. 5. Regular periodic meetings with the representatives of the subsidiaries, that deal with the internal communication, in order to exchange information 6. Applying the provisions of TAURON Group's Communications Strategy.

S 1.2.3. WHS Risk

Table no. 67 presents the WHS risk identified at TAURON Capital Group. In accordance with the Risk Model described in section G 4.4.6., 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.	→ 	1. Prioritizing the safety of the employees, customers, contractors and stakeholders in the business operations undertaken. 2. Applying the provisions of TAURON Group's Work Health and Safety (WHS) Policy. 3. Ensuring optimal working conditions. 4. Conducting active monitoring of the working conditions and the correctness of work organization. 5. Raising employees' qualifications with respect to improving work safety.

				6. 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.	→ ■	1. Monitoring of the epidemiological threat at TAURON Group. 2. Collecting information on threats and identifying potential threats to the safety of the employees of TAURON Group's subsidiaries. 3. Developing and recommending solutions aimed at reducing the level of threat to TAURON Group's resources. 4. Ongoing monitoring of the risk of the availability of employees and services provided by TAURON Group's subsidiaries. 5. Recommending solutions aimed at reducing the effects of the materialization of the threat on TAURON Group's resources. 6. Preparing and providing feedback on the content of messages disseminated at the level of TAURON Group and TAURON Polska Energia S.A. 7. Use of screening tests. 8. Preparing contingency plans in the event of a loss of the Group's key employees. 9. Development of backup business continuity plans. 10. Undertaking trading activities in order to balance, on an ongoing basis, the buy position versus the observed drops in the volume of electricity sales. 11. Taking advantage of market opportunities to secure the position in the Generation line of business (buy-backs). 12. Use of the anti-crisis shield mechanisms (facilities). 13. Increasing the frequency of monitoring overdue accounts receivable. 14. Introducing additional credit risk-taking guidelines and extending the scope of testing (vetting) the financial condition of the customers.. 15. Introduction of a mechanism to monitor and cap (limit) spending.

S 2. TAURON Group's social and intellectual capital management

TAURON Group's social capital is based on developing mutual relations both within the organization as well as towards the external environment (stakeholders).

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 a number of important sports and cultural events.

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 got involved in a number of educational campaigns addressed to both employees as well as local communities. In 2021, there were also projects aimed at minimizing the social effects of the coronavirus pandemic and supporting the fight against it.

An increasingly important role in managing social capital is also played by activities aimed at shaping the appropriate organizational and business conditions necessary to achieve strategic goals with respect to the relations with the customers and the market environment.

Table no. 68. Results achieved as part of TAURON Capital Group's management of social capital in 2019-2021

Results achieved	2021	2020	2019
Number of meetings with trade union organizations functioning at the Group's subsidiaries	315	334	329
Percentage of employees covered by collective bargaining agreements	95.7	95.6 %	95.7%
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	93	144	158
Number of corporate social responsibility projects implemented	22	18	11
Number of cases of non-compliance and complaints regarding products and services of TAURON Capital Group with respect to providing information (disclosures)	0	0	0
Number of COVID-19 counteracting initiatives implemented for employees and communities	8	11	-

The potential of intellectual capital covers with its scope 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.

Efficient intellectual capital management provides a chance to increase adaptive flexibility and carry out transformational activities aligned to changes in the market environment.

The results achieved as part of TAURON Group's management of intellectual capital in 2019-2021 are presented in Table no. 69.

Table no. 69. Results achieved as part of TAURON Group's management of intellectual capital in 2019-2021

Results achieved	2021	2020	2019
Number of new research and development projects launched in all of the Group's lines of business	3 (including 1 project conducted in cooperation with start-ups)	10 (including 8 projects conducted in cooperation with start-ups)	18 (including 9 projects conducted in cooperation with start-ups)
Number of projects underway in the R&D Area	33	52	67
Total value of projects underway	PLN 95 million	PLN 109 million	PLN 178 million
Co-financing obtained from external sources for the implementation of the R&D projects	PLN 40 million	PLN 42 million	PLN 48 million

S 2.1. Policies, Codes, Principles supporting Line of Business (area) management

S 2.1.1. TAURON Group's PRO Client Social Policy

Pursuant to TAURON Group's Strategy for the years 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 supply and customer 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. 70) and extremely significant group of stakeholders.

Table no. 70. GRI EU 3. Number of TAURON Capital Group's individual and business customers as of December 31, 2021

Supply group type	Supply Line of Business	Transmission and Distribution
Individual	5 220 416	16 421
Business (including institutions)	402 343	206 194
Total	5 622 759	222 615

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 their expectations.

Marketing research

Due diligence procedures implemented as part of the PRO Customer Social Policy include primarily periodic surveys. Their goal is to get to know the customers so as 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 2021 is presented in Table no. 71.

Table no. 71. Surveys carried out by TAURON Capital Group in 2021 as part of the due diligence procedures

Subject of the survey	Time when the survey was conducted
Surveys on products / services:	
Survey on the Specialist Service Technician product	03.2021
Survey on the assistance product for the Photovoltaics	02-03.2021
Survey on the new electricity and gas offering	05-06.2021
Energy Storage product customer satisfaction survey	08.2021
Survey on the combined PV+air conditioning+PC+energy storage offering	09-10.2021
Testing the potential of the QR code in the process of transferring a meter	01.2021
Monitoring of coherence and transparency of the marketing communications, including in particular the communications related to the new products and offerings, including:	
Survey on the effectiveness of the "Service Technicians Team" campaign	06.2021
Survey on the effectiveness of the "Something" campaign	11-12.2021
Mystery shopper research at Customer Service Centers and Partner Outlets (4 waves)	Q1, Q2, Q3, Q4.2021
Survey on the awareness of the assistance product possession by customers – household segment	10-11.2021
Survey on the familiarity with TAURON offering	11-12.2021
Survey on the awareness of the functioning of the Partner Outlets	04.2021

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 electricity pricing and seniors, were conducted. The summary of such surveys and their quantity are presented in Table no. 72.

Table no. 72. Educational activities carried out by TAURON Capital Group in 2021 as part of the due diligence procedures

Information campaigns	Activities conducted as part of the campaign
	137 638 – number of the campaign addressees
Seniors' campaign - a solution to "SOMETHING broke" („COŚ się zepsuło")	
An information and educational campaign aimed primarily at seniors, but also young people, who often act as carers for the elderly.	Promotion on industry and local portals, and also in the local press
As part of the campaign, in 2021, with seniors in mind, a guide was prepared on the safety of seniors in the Internet and outside it, as well as actions to be taken in the event of a failure of home appliances. For seniors, educational videos were also prepared, answering the questions: where to look for help in case of home appliance breakdowns, how to pay bills safely via the Internet, how to recognize unsafe e-mails and SMS messages.	Promotion in the social media and as part of the paid online campaign
	Distribution of the materials at Customer Service Centers and Partner Outlets
The next element of the campaign was the competition "Pomoc ma MegaMoc. Łączymy pokolenia" ("Assistance has MegaPower. We connect generations") implemented jointly with a nationwide radio broadcasting station, whose goal was to provide radio and online support for the campaign "Seniors' solution to "SOMETHING broke" („COŚ się zepsuło"). Through this campaign we drew the attention of young people to the problems faced by seniors on a daily basis.	40 pages of practical knowledge for seniors
	More than 78 thousand unique viewings of the tauron.pl/seniorzy website

Information campaigns	Activities conducted as part of the campaign
The starting point for the entire campaign was the report: Seniors' solution to "SOMETHING broke" („COŚ się zepsuło”), in which the results of a survey conducted among seniors were presented. The materials prepared as part of the campaign were promoted in the press, online and on the radio, as well as posted on the tauron.pl/seniorzy website.	
Content platform LEPIEJ (BETTER). lepiej.tauron.pl <i>Lepiej. Serwis pełen rozwiązań (Better, Service full of solutions)</i> is a website created to support people in their choices - both those made every day as well as the unusual ones. The service is a response to the problems of the people who want to live BETTER, i.e. calmer, safer, happier and in harmony with nature. The content available on the website explains, in an easy and straightforward manner, the benefits of the solutions available at TAURON as well as on the market of energy products. In addition, there are tips on how to be safe online, related to free time, family life or self-development. The overriding goal of the website is to search for better solutions that will translate into a higher quality of life for each of the readers. The service was prepared in accordance with the principles of digital accessibility. Launched in May 2021, it is continuously supplemented with valuable content.	Promotion in the social media Wide-ranging online campaign Publications on the service in the media More than 200 contents in the Lepiej (Better) service. 410 thousand viewings of the Lepiej (Better) service. More than 750 thousand viewings of the articles in the search engines
Video materials with a sign language interpreter In order to meet the needs of our customers, especially those that are members of minorities, we have made instructional videos to help understand the mechanics and benefits of having an account in the Mój TAURON (My TAURON) service. The videos were produced in the fourth quarter of 2021 with the assistance and participation of a sign language interpreter. In addition, they offer an option of a written transcription (captioning) of the text spoken by the speaker. Thanks to this, we were able to provide support for our customers in understanding the basic processes that they can perform on the website and encourage them to continue using the Mój TAURON (My TAURON) service. In addition to the video version, we provided customers with the text material containing answers to the most frequently asked customer questions.	Publications of the video materials on mojtauron.pl and on the TAURON YouTube channel 8 thousand viewings of the YT videos Useful knowledge in a nut shell, in five 2-minute videos
Q4 campaign promoting the online functionalities for the 55+ group In the fourth quarter, a wide-ranging online outreach campaign was conducted for people aged 55+, aimed at providing informing on the online functionalities available for TAURON's customers, such as transferring the meter, paying invoices, providing the meter readings or changing customer data. The effect of the campaign is a significant increase in the awareness of the service functionality among the target group, as well as a more than twofold increase in the number of logins to the website as compared to the previous period. The campaign used both static objects as well as two video spots, which were promoted, among others, in online TV services. The marketing activities contributed to a significant increase in the viewings of the individual functionalities' websites, as well as to unique viewings of the service website.	More than 2 times more viewings of the service website - 660 thousand unique viewings 2 times more transitions to the product websites during the campaign Wide-ranging online campaign (performance campaign including mailings, display activities, online TV promotion, affiliations, programmatic) Activities carried out in the offline channels: radio, press, spotify
"Bezpieczniki TAURONA" (TAURON Fuses) series educational programs for customers • Turn on for the sake of the child, • Turn on for nature, • Turn on at work. Customer education in such areas as safe, conscious and rational use of electricity, first aid, especially after an electric shock, security of electricity supply, environment protection. The campaign is carried out in the media (online, television, radio, press, social media), in the direct communications with local governments, schools, regional education authority (board of education), chambers of commerce, as well as during events. Customer education covered such topics as: electro-waste and energy labels, safe lighting for holidays, tree planting near power lines and caring for trees already planted, safety of works, including agricultural works, performed near power lines, first aid in case of an electric shock.	50 000 users of educational materials on the educational portal for children Promotion on industry and local portals Promotion in the social media Nearly 3 million internet users watched our educational videos 60 000 viewings of the first aid course - 3 parts of the on-line training "First aid has megaMOC"
Educational campaign for individual customers on photovoltaics	Wide-ranging online campaign

Information campaigns	Activities conducted as part of the campaign
The campaign was aimed at expanding the knowledge and awareness of photovoltaics among household owners. TAURON Dystrybucja has prepared a special guide in which it answers the most frequently asked questions by the prosumers regarding the correct operation of the photovoltaics solutions. Preparing advice and guidelines for the prosumers is also a response to complaints that affect the correct operation of home installations. The company also tested the level of customer knowledge in the field of photovoltaics. The survey covered a group of prosumers whose micro-installations did not work properly having been connected to the grid. TAURON Dystrybucja has also created a special online tool: a form using which it will be more convenient to report home micro-installations. So far, most of such applications have been received by the company by e-mail. Now both the installers as well as the customers are able to use an intuitive and quick-to-use tool. Reporting micro-installations using this form allows one to eliminate the most common errors and shortcomings seen in the applications. The company also organized a Webinar for micro-installation contractors, whose purpose was to provide knowledge on the development of renewable energy sources (RES) in the company's area of operations, the impact of micro-installations on the grid's operation and the presentation of the results of the research on the adjustment capabilities of inverters.	Communications with local governments Promotion of the publication in the industry media, nationwide (online and press) and local (radio) Promotion in the social media Nearly 40 000 „Prosumer Guide” downloads More than 700 participants in the prosumer survey
New eBOK service for the distribution customers TAURON Dystrybucja has launched a new self-service portal (electronic Customer Service Center) for households as well as small and medium-sized enterprises customer segment. The distribution customers can use the service (website) on a desktop computer and from anywhere on a tablet or smartphone for 24 hours a day, 7 days a week. On the website, they can view the data and parameters of their contracts and change their contact details themselves. They can also conveniently pay bills and view the history of their payments and invoices. Other options offered by the new eBOK include reporting failures or searching for scheduled outages, checking one's electricity consumption and direct sending and receiving of messages from TAURON Dystrybucja. It is also possible to switch from the service to other distribution services i.e. eLicznik (eMeter) or Przyłączenia (Connections).	Communications in the media A guide for online customers has been prepared - answers to the frequently asked questions
A series of online guides for customers on the topics of most interest thereto The guides are related to: - operation of micro-installations - "Why are micro-installations shutting down", - planting trees near power lines and caring for trees already planted - in terms of customer safety, as well as failure-free electricity supply - "What to plant so as not to overdo it", - rules of safe operation of electrical devices and safe behavior in the vicinity of energy devices - "Safety conduct near power devices", - changes in the method of calculating the capacity fee for some end users in connection with the amendment to the Act on the Capacity Market - "Change in the method used to assess the capacity charge" - information on how to help storks when winter attacks in spring. There are more than 2 200 stork nests on TAURON Dystrybucja's power grid poles. The company has been helping these protected birds survive for years - "How to help storks when winter attacks" - TAURON Dystrybucja advises on how to choose an outdoor lighting set that will not only provide a beautiful visual effect, but above all will be safe to use - "How to choose safe lighting for the holidays season" The guides are available on the company's website.	Paid online campaign The guides have been downloaded over 115,000 times Promotion of the publications on the industry websites
"Bocian nasz" (Our Stork) program More than 2 200 stork nests are located on TAURON Dystrybucja's power poles. Power engineers take care of them especially in winter, when the birds are not in Poland, and the care and cleansing treatments can be performed on the nests. The scope of works corresponds closely to the life cycle of the birds and the need to ensure safe operation of the power grid. The action is aimed at ensuring the safety of customers, failure-free electricity supply and the safety of storks that build nests on the power poles. An information campaign addressed to the customers draws their attention to the safety of animals that cannot be guaranteed without the safety of our customers. The program is also designed to draw customers' attention to aspects related to environment protection.	Cooperation with local governments Expert support from the Regional Directorates for Environmental Protection 2 200 stork nests are located on power poles Information campaign in the media, including the social media

Customer service through the highest quality sales and service channels

2. Seniors, pregnant women, persons with young children and the disabled are treated as privileged (prioritized) persons in TAURON Capital Group's stationary contact channel

In 2021, 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.
 - 3) The elderly (seniors) and people with disabilities are provided with magnifying sheets and signature boxes.
2. A service queue for seniors has been implemented in the telephone contact channel.

Additional facilities have also been introduced in the telephone contact channel for all customers:

- 1) Further IVR simplifications have been implemented, allowing, among other things, to remind the customer the topic regarding which he made his/her last contact.
- 2) additional functionalities were launched to improve customer service, among others the customer can identify himself/herself before getting connected with the hotline agent.

3. In the online channel:

For the elderly (seniors) and people with disabilities:

- 1) Functionality of the website: www.auron.pl, on which it is possible to increase the contrast and font size was maintained.
- 2) The auron.pl/bezbarier subpage was launched, which presents all the facilities introduced for people with hearing, visual and movement disabilities and for seniors.

For all of the customers in the online channel:

- 1) The scope of customer service on the chat has been extended - now the service in this channel is the same, as in other channels.
- 2) The auron.pl/dla-domu/obsługa-klienta subpage for the customers has been updated.
- 3) The home page auron.pl has been modernized with respect to positive user experiences.
- 4) The response time in the e-mail channel has been shortened (for selected cases, the response time does not exceed two hours).
- 5) The number of interactions has been reduced to two on the same topic, in the electronic channel. After two e-mail messages, TAURON Group's employees call back the client to speed up the handling of his case (request).
- 6) In online channels, the process of stopping customer service via e-mail in favor of offering customer service via thematic forms, which are posted on the website or in the Mój TAURON (My TAURON) service, has been started. Thanks to this, the customer addresses his/her message directly to the employee specialized in the given topic.
- 7) Another 40 service forms have been digitized, which allow for resolving (handling, fixing) the customer's case without the need to visit the Customer Service Center (POK), as well as without the need to download the application from the website www.auron.pl in order to print, scan and ship it.
- 8) In the Mój TAURON (My TAURON) service (website), forms have been provided which allow, inter alia, for data update, payment distribution into installments, postponement of the payment date, change of the contracted capacity.

Responsibility towards the customer at the time of the SARS-CoV-2 pandemic

In connection with the COVID-19 pandemic underway, TAURON Capital Group has introduced pro-customer solutions that make it possible to resolve issues without leaving home:

1. Self-service processes and their presentation on the auron.pl website have been simplified.
2. TAURON's automatic assistant that shows customers how they can solve the given case has been retained.
3. The documents digitized in 2019 have been promoted among the customers:
 - Handover and Acceptance Protocol (PZO),

- Application to conclude or amend a contract (WOZ).
- 4. 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.
- 5. The practice of making appointments via the tauron.pl website and via the hotline has been maintained at customer service centers.

All security measures for customers and employees are in place at the stationary customer service centers. Disinfectant dispensers have been replaced with the non-contact dispensers. All of the employees use face masks when serving customers.

In the event of the COVID-19 infection incidents at the Customer Service Center, disinfection and employee tests are carried out to restart the facility as soon as possible and maintain continuity of customer service.

In order to maintain the continuity of service via the remote channels, customer service is carried out in a total of 9 locations provided by the external partners. Such a number of sites ensures the continuity of services provided by the partners – if the COVID-19 cases are found in one location, the service is transferred to the others.

A 50/50 stationary and remote service model was implemented at the external partners, i.e. 50% of the staff work remotely and 50% operate in the stationary mode.

In 2021, TAURON Dystrybucja changed the electronic communication channel for the micro-installation grid connection applications – starting from November 15, 2021, customers can report (submit) micro-installations in electronic form only via the www form. In order to make it easier for the installation contractors to use the new tool, an online training on the use of the form was provided for them.

New electronic forms for handling distribution related matters have been launched on the tauron-dystrybucja.pl website,:

- Ordering the service to be performed at the consumer's additional request,
- Application for placing advertisements/devices on TD's facilities,
- Application to install a meter enabling a remote read-out.

As part of the Distribution Hotline, a dynamic IVR has been launched, enabling customer identification at the IVR level - identification based on the phone number, prediction of the contact topic.

During the time of an increased number of COVID-19 infections, from January to April and in December 2021, temporary restrictions were introduced on the performance of works on the metering systems inside the customers' premises. Such works were related to the meter readings and maintenance works. The works on the metering systems and related to the rectification of failures as well as meter read-outs, that required entry to the premises were carried out with the consent of the customer and with the use of the required personal protection equipment by the relevant personnel. When performing meter read-outs, the company's representatives first asked the customers to provide the meter read-out without going inside the premises.

In order to provide protection against COVID-19, the employees were using personal protection equipment, i.e. face masks or face shields covering the mouth and nose, disposable gloves and disinfectants. With the increase in the number of infections, communication with the employees and customers about the need to use personal protection equipment and maintaining social distance was enhanced. In case of premises or persons subject to isolation, quarantine or epidemiological supervision, the customers were asked to provide such information upon contact with a TAURON Dystrybucja representative, prior to starting any works. The relevant tasks were carried out at a later date agreed upon with the customer.

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 the customers 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, TAURON Group commenced 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 who act as ambassadors of simple communication have also been selected at TAURON Obsługa Klienta, TAURON Sprzedaż and at TAURON Dystrybucja.

As part of the TMPL project in 2021:

- a subpage was launched to show the effects of our previous activities: tauron.pl/tmp/,
- at four of TAURON Group's subsidiaries (TAURON Polska Energia, TAURON Sprzedaż, TAURON Obsługa Klienta and TAURON Dystrybucja) 4 Initiative Coordinators, 15 Trainers and 60 Plain Language Consultants were appointed,
- the requirement to agree upon all documents, messages, and marketing materials with plain language consultants before sending them out to the customers or publishing was upheld,
- a website dedicated to the project was updated on the Group's intranet, where users would find: writing style handbook (stylobuk), information on the consultants and language tips written by the consultants.

Almost 700 documents and 1000 messages have been simplified since 2017 thanks to the initiative.

In 2021, TAURON Group celebrated, for the first time, the International Plain Language Day on October 13.

As part of the project, the employees were provided the opportunity to participate in:

- webinar on effective communication at TAURON,
- three quizzes with prizes, thanks to which the employees could test their knowledge of the rules of plain language and the TAURON speaks the way humans do initiative,
- an online meeting with Tomasz Piekot - Simple and classy, or why TAURON speaks the way humans do.

The above activities are conducive to the development of the processes of providing reliable and comprehensible on the products and services offered.

As a result, in 2021, similar as in the previous years (2019-2020), 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 entire TAURON Capital Group.

In accordance with the principles stemming from the PRO Client Social Policy, the marketing message sent by TAURON Group is not only in line with the law, but also with good practices. The above is illustrated in tables no. 73 and no. 74.

Table no. 73. GRI 417-2. Cases of non-compliance of TAURON Capital Group's products and services with respect to the information and labeling thereof in 2021

Number of cases of non-compliance with:	TAURON Dystrybucja	TAURON Sprzedaż	TAURON Ciepło	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	0
Regulations - resulting in a warning	0	0	0	0	0	0	0
Internal codes of conduct	0	0	0	0	0	0	0
TOTAL NUMBER OF CASES	0	0	0	0	0	0	0

Table no. 74. GRI 417-3. Cases of TAURON Capital Group's non-compliance regarding marketing communications in 2021

	TAURON Dystrybucja	TAURON Sprzedaż	TAURON Ciepło	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	0
Regulations - resulting in a warning	0	0	0	0	0	0	0
Internal codes of conduct	0	0	0	0	0	0	0
TOTAL NUMBER OF CASES	0	0	0	0	0	0	0

Handling of complaints

In accordance with the adopted procedure, the customers can file comments on the services provided by TAURON and the quality of service through all available contact channels.

The procedure has been prepared separately for handling matters related to the electricity supply and separately for the services for which the distributor is responsible.

The complaint handling system in place at TAURON Sprzedaż since 2019 is shown in Figure no. 31.

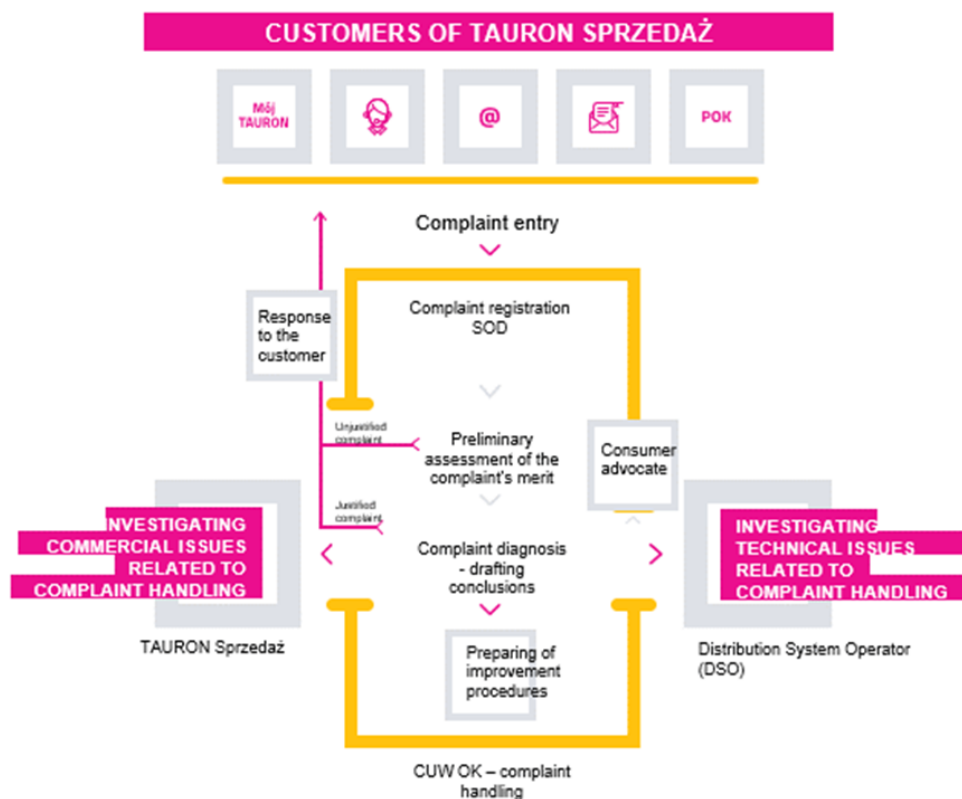


Figure no. 31. Customer complaint handling system in place at TAURON Sprzedaż since 2019

The complaint handling system in place at TAURON Dystrybucja since 2019 is shown in Figure no. 32.

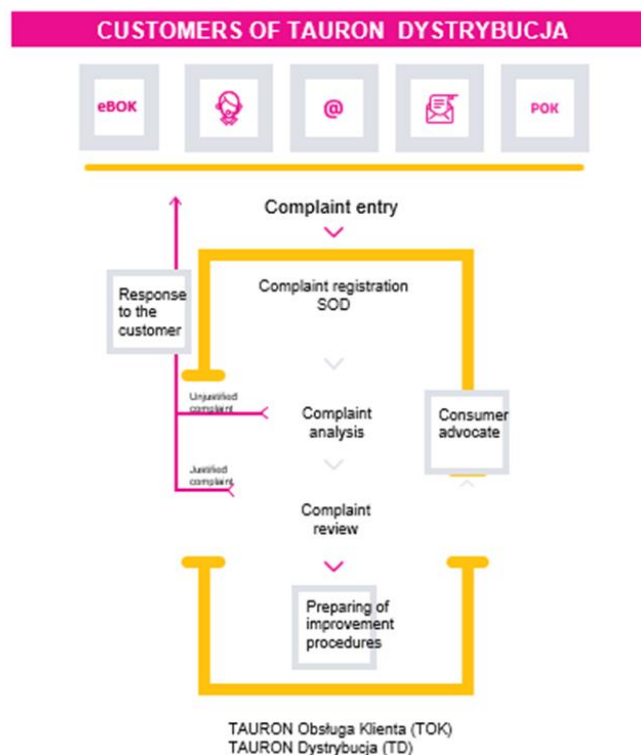


Figure no. 32. Customer complaint handling system in place at TAURON Dystrybucja

Customer Satisfaction Index

Customer Experience Management at TAURON Group

Customer experience is understood at TAURON Group 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 2021 was carried out in the areas where the customer most often meets (faces) the company, i.e. in the process of handling grid connections, contracts, settlements, debt collection and filing a complaint.

The research was carried out:

- via online surveys (every month),
- in the form of interviews conducted quarterly via the hotline.

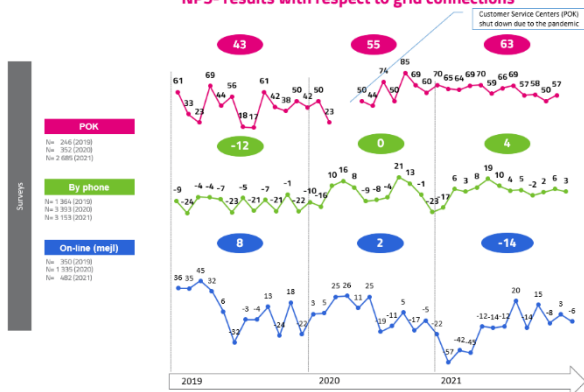
The main areas of research focus include:

- the level of customer loyalty (NPS – Net Promoter Score) - after going through the given process,
- the effort (CES - Customer Effort Score) that the customer put into solving their issue at TAURON.

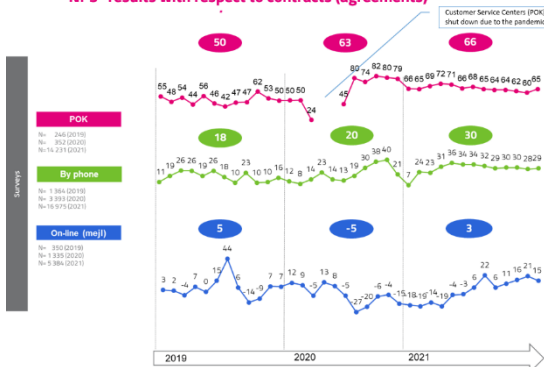
The below charts present the loyalty level (NPS – Net Promoter Score) of the customers following the process that they have participated in and what improvements and changes should be introduced in order to meet the customers' expectations with respect to the customer service (handling) provided.

The below figure below presents the results of the customer loyalty survey (NPS) among TAURON Capital Group's customers from the households segment in the years 2019 - 2021. The complaint area was covered by the survey later, therefore the data is presented for the 08.2020 - 12.2021 time frame.

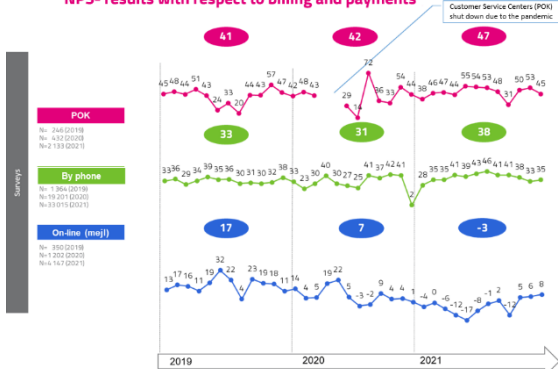
NPS- results with respect to grid connections



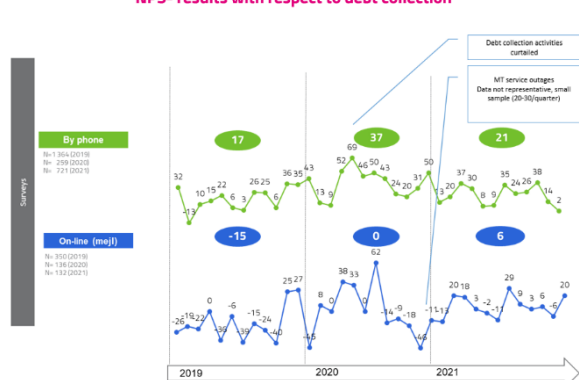
NPS- results with respect to contracts (agreements)



NPS- results with respect to billing and payments



NPS- results with respect to debt collection



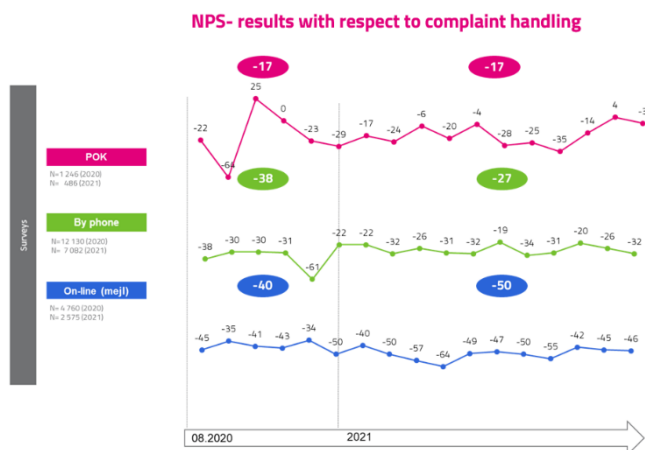
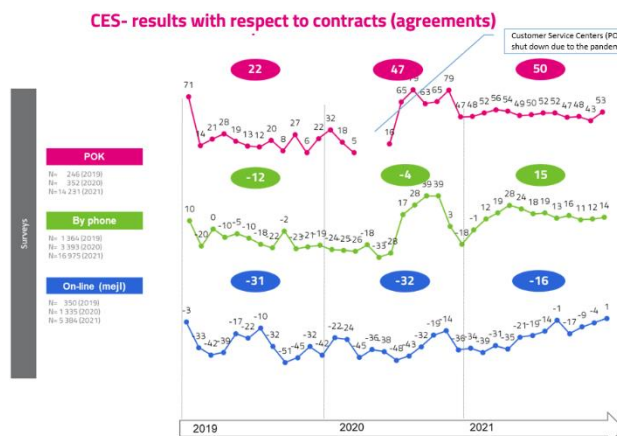
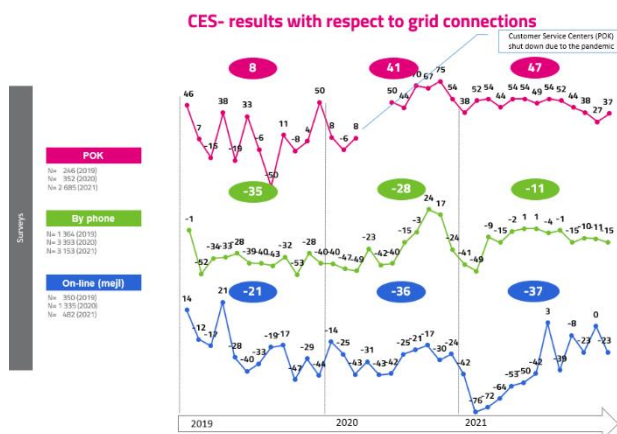


Figure no. 33. Results of the customer loyalty level (NPS) survey among TAURON Capital Group's customers from the households segment in the years 2019 – 2021

The below figure presents the results of the customer effort (CES - Customer Effort Score) among TAURON Capital Group's customers from the households segment in the years 2019 - 2021. The complaint area was covered by the survey later, therefore the data is presented for the 08.2020 - 12.2021 time frame.



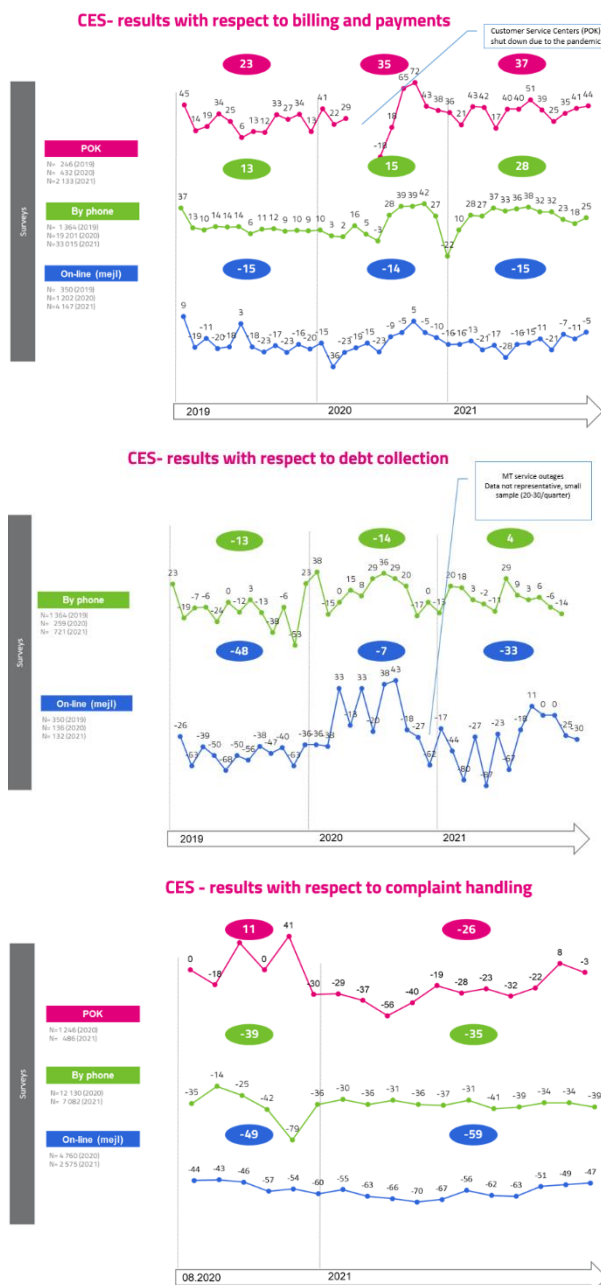


Figure no. 34. Results of the customer effort (CES) survey among TAURON Capital Group's customers from the households segment in the years 2019 - 2021

S 2.1.2. 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. 75.

Table no. 75. GRI EU DMA. Research and investment projects in 2021 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 electricity 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.	322 934,15
TOTAL COSTS IN THE CATEGORY			322 934.15
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 the grid, as well as the 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's implementation 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.	4 214 493.56
	Flexible Distribution - a prototype of a simulation tool	As part of the project, a compendium of knowledge on flexibility services and a case study in a selected pilot area will be developed, including an assessment of the effectiveness of a potential purchase of flexibility services in relation to the planned expenditures on the grid modernization and the possible time frame of such modernization. There will also be an audit of the IT systems' data availability and its usefulness for identifying the needs in terms of acquiring flexibility services and assessing the economic effectiveness of this process. The final product (outcome) of the project will be a prototype of a tool supporting the decision-making process regarding the purchase of flexibility services, based on the analytical and forecasting methods developed as part of the project.	11 000.00
TOTAL COSTS IN THE CATEGORY			4 225 493.56
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.	205 000.00
	Integrated Grid Diagnostics System	The goal of the project is to conduct the 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 (the Polish acronym ZSDS).	137 126.72

	Remote control of electric circuits in the power grid	The goal of the project is to test a device mounted on TAURON's infrastructure, the main executive element of which in the power circuit is a fuse (a single-phase or three-phase one) enabling remote switching off and on of the protected circuit and restoring power after the protection has been triggered. The pilot project was carried out as part of the KPT ScaleUp acceleration program; the funds to cover the costs of the pilot project came from the Polish Agency for Enterprise Development (PARP).	250 000.00
TOTAL COSTS IN THE CATEGORY			592 126.72
	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.	113 267.36
	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).	526 967.56
Advanced technologies (storage, recovery, etc.)	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.	3 632 013.33
	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). Due to the delays in component deliveries, no expenditures required in 2021.	0.00
	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.	77 878.00
	Developing and testing an adaptive electricity storage system based on the second life of the batteries coming from electric vehicles (Second Life ESS)	The goal of the project is to develop a prototype of an innovative electricity storage system, based on the reuse of the lithium-ion batteries from the electric transportation, 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.	831 536.25

	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 development of the technology for the processing of waste from the fluidized bed boilers, with the use of 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.	1 843 025.38
TOTAL COSTS IN THE CATEGORY			7 024 687.88
	Development of advanced technology for the monitoring and predictive analysis of the technical condition of the boiler in order 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).	422 524.56
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 develop a prototype modular computer system based on artificial intelligence algorithms in order 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.	3 326 616.74
	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.	106 067.59
	HEMS (Home Energy Management System) Program	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. In 2021, the HEMS program has been extended to include an additional group of addressees - i.e. business customers.	341 786.23
TOTAL COSTS IN THE CATEGORY			4 196 995.12

TOTAL AGGREGATE COSTS	16 362 237.43

S 2.1.3. TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects – support for the social transition

The main document regulating the issues of TAURON Group's responsibility towards the public is TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects adopted by the Management Board of TAURON Polska Energia in 2020. The regulations contained in the document specify what constitutes an activity that is a part of the CSR projects at TAURON Group, what are its goals and dimensions, and how to plan and implement CSR projects to ensure their transparency and compliance with the generally applicable legal regulations, internal and intra-corporate regulations and good practices.

Based on the above as well as on the *Best Practices of WSE Listed Companies 2021* (Best Practices 2021), TAURON Capital Group implements numerous projects aimed at improving the social interest, respecting stakeholders and the principles of ethics, paying particular attention to transparency of operations and open communication in the spirit of dialogue and trust.

In 2021, TAURON Capital Group implemented a total of 10 framework (master) projects with an aggregate value of PLN 2 020 000, dedicated to supporting local communities.

TAURON Group pays particular attention to the proper performance of the role of a responsible member of the community within which it is operating. TAURON Group addresses pro-social projects broadly, proportionally to the range of its business activities.

In terms of the CSR projects addressed to external stakeholders, TAURON Group focuses on a few selected areas:

- The first is to provide support for the development of children and adolescents from families at risk of social exclusion caused by the transformation of the manufacturing industry. The most important projects in this respect, in the era of the social transition of TAURON's region of operations, include cooperation with the House of Guardian Angels Association for Helping Children and Youth, initiated in 2018. The association supports children from the poor post-mining and post-smelting districts, focusing on providing equal opportunities.
- Being aware of the importance of promoting a healthy and active lifestyle, as well as the role played by sport in the upbringing of the youngest generations, TAURON Group launched a program entitled TAURON supports young athletes. As part of the program, TAURON supports entities whose statutory activity is based on running sports projects in such disciplines as volleyball, football and swimming. Since 2018, TAURON Group has also been involved in promoting sport among children and youth by organizing a proprietary football tournament called TAURON Junior Cup.
- Education is another important area of social activities. TAURON Group, as a leader in the energy industry, uses its in-house specialist competences to promote education and knowledge related to exact sciences, as well as safe use of electricity. Bezpieczniki TAURONA (TAURON Fuses) is the most important project in the area under discussion. As part of the project, TAURON Group provides ready-made lesson plans for teachers, a guide for parents as well as interesting games and educational materials related to electricity for students. All information is available on the website dedicated to the project: <https://edukacja.bezpieczniki.tauron.pl/>.
- TAURON Group supports numerous Foundations as part of the framework (master) projects. In 2021, TAURON Polska Energia cooperated, among others, with the ISKIERKA Foundation, which helps children with cancer. As part of joint activities, hospital wards in Katowice and Gliwice were renovated, carnival balls for the children under the Foundation's care as well as an integration family picnic were organized.

In addition to the framework (master) projects dedicated to the local communities, smaller projects are also implemented, both at the Capital Group's level as well as those of the individual subsidiaries.

S 2.1.4. Cooperation with the local government authorities

TAURON Capital Group is cooperating and maintaining close relations with the local authorities in the area of its operations.

There are nine proxies responsible for contacts with the local government authorities at TAURON Dystrybucja, whose tasks include holding regular, direct meetings with the presidents and mayors of cities, heads of municipalities, county boards, as well as participation in the County Crisis Management Centers, meetings of the local associations of municipalities and counties, metropolitan areas and other local government associations.

In 2021, proxies responsible for contacts with the local government authorities held 737 meetings in municipalities and 75 meetings in counties in TAURON Group's distribution area.

The meetings were devoted to agreeing the planned investment projects, communicating matters important for TAURON Group, as well as dealing with the current issues related to ensuring electricity supply, implementing distribution contracts, modernizing the grid, eliminating collisions, cutting trees, etc.

The subjects related to the use of renewable energy sources in the municipalities and the electricity billing rules for the prosumers arouse great interest of the local government officials. This is mainly due to the broad opportunities for the municipalities to obtain external funds for the elimination of the low emission sources and the increasing availability of the technological solutions.

S 2.2. Risks related to social capital management

S 2.2.1. Social Risk

Table no. 76 presents Social Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section G 4.4.6., the Social Risk is classified in the category: Operational risk/Employees and organizational culture

Table no. 76. 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.	 	1. Applying the PRO Client Social Policy. 2. Conducting the dialogue with customers, including customer satisfaction surveys, tailoring the product offering to their needs, ensuring high quality of customer service. 3. Developing relationships with customers and the market environment. 4. Responsibility for the product, including for the quality and security of supply, tailoring the product offering to customer expectations. 5. Protection of privacy and security of the customers' personal data. 6. Deploying tools supporting the implementation of the client social policy. 7. 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. 8. Implementation of the promotional activities in accordance with the adopted TAURON Brand Strategy and TAURON Group's Sponsorship Strategy for the years 2018-2025, taking into account respect for human rights and conducting responsible marketing activities.
2.	Corporate social responsibility area management risk	Risk related to the involvement of TAURON 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 the society.	 	1. Implementation and performance of the CSR project plan, which specifies all activities, including the justification thereof. 2. Applying the document entitled TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects. 3. Approval of the key activities by the 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.	→ ■	1. Supervising the process of establishing the methodology for conducting promotional and sponsorship campaigns, approving of the key activities by the authorized areas. 2. Implementing the Visual Identification System, appointing a Team responsible for assessing and approving the image building projects.

S 3. GRI Indices

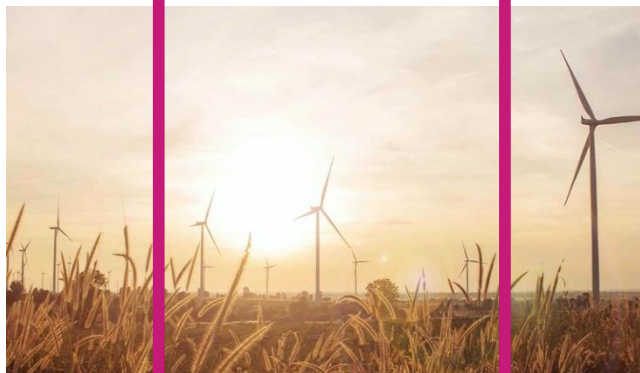
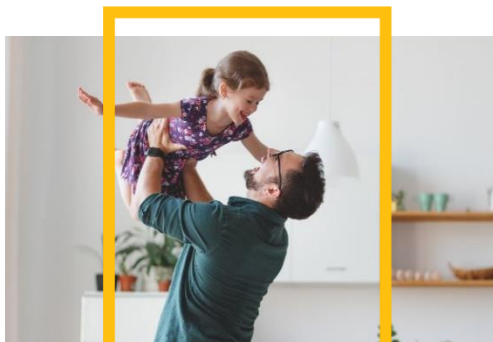
- GRI 203-1 Supported infrastructure investments and services for society through commercial activities, transfer of goods and pro-bono activities. Impact of these activities on society,
- GRI 103-2 The management approach and its components in the areas: environment, social, human rights, anti-corruption, HR, including indicating material topics within the given area
- GRI 102-17 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 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 203-1 Investments in products and services
- 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 102-15 Key impact, risks and opportunities
- GRI 102-16 Values, ethics code, principles, standards, and norms of behavior
- Average duration of interruptions in the supply of distributed electricity

- 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, 2022

Artur Michałowski	- acting President of the Management Board Vice President of the Management Board for Trading
Krzysztof Surma	- Vice President of the Management Board for Finance
Jerzy Topolski	- Vice President of the Management Board for Asset Management
Patryk Demski	- Vice President of the Management Board for Strategy and Development
Artur Warzocha	- Vice President of the Management Board for Corporate Affairs



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.	Artur Michałowski	- acting President of the Management Board/ Vice President of the Management Board
2.	Patryk Demski	- Vice President of the Management Board
3.	Krzysztof Surma	- Vice President of the Management Board
4.	Jerzy Topolski	- Vice President of the Management Board
5.	Artur Warzocha	- Vice President of the Management Board

March 29, 2022
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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

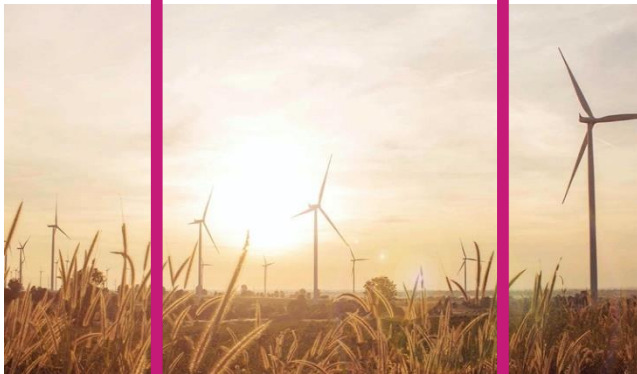
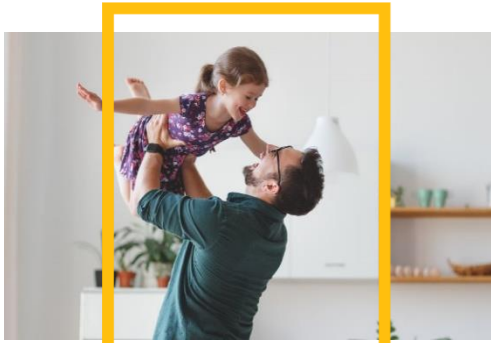
Management Board of TAURON Polska Energia S.A., pursuant to the representation of the Supervisory Board, informs of the appointment of the audit firm to conduct the audit of the annual consolidated financial statements of TAURON Capital Group in accordance with the applicable regulations, including the 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. Artur Michałowski - acting President of the Management Board/
Vice President of the Management Board
2. Patryk Demski - Vice President of the Management Board
3. Krzysztof Surma - Vice President of the Management Board
4. Jerzy Topolski - Vice President of the Management Board
5. Artur Warzocha - Vice President of the Management Board

March 29, 2022
date



ASSESSMENT BY THE SUPERVISORY BOARD

of TAURON Polska Energia S.A.



**Assessment by the Supervisory Board of TAURON Polska Energia S.A.,
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 2021**

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 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:

- 1) Financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2021, 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, 2021, 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 2021.

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, 2021, 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, 2021, 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 2021, 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 Non-financial Report of TAURON Capital Group for 2021 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 Ernst & Young Audyt Polska 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 2021 prepared for the Audit Committee and the Company's management, in accordance with the regulations of art. 11 of 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 art. 67 clause 4 sub-clause 9) of the act Act of May 11, 2017 on certified auditors, audit firms and public oversight.

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 2021 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, 2021, and their financial results for the financial year from January 1, 2021 until December 31, 2021, 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, 2021, 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.

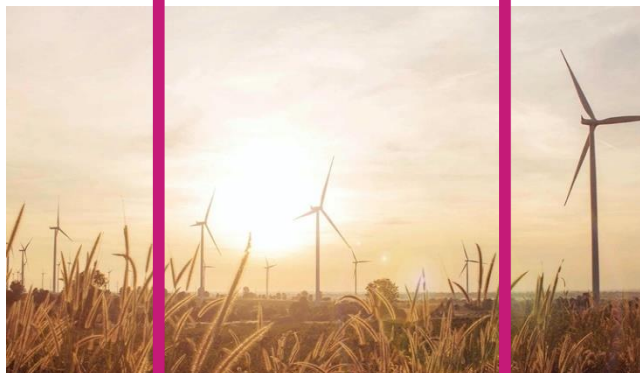
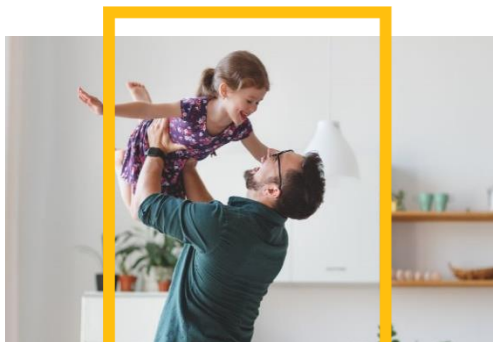
Furthermore, in the opinion of the certified auditor the Management Board's Report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021 was prepared in accordance with the applicable legal regulations and is in compliance with the financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2021, and with the consolidated financial statements of TAURON Capital Group for the year ended on December 31, 2021.

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.	Piotr Tutak	- Chair of the Supervisory Board
2.	Teresa Famulska	- Vice Chair of the Supervisory Board
3.	Katarzyna Taczanowska	- Secretary of the Supervisory Board
4.	Stanisław Borkowski	- Member of the Supervisory Board
5.	Dariusz Hryniów	- Member of the Supervisory Board
6.	Leszek Koziorowski	- Member of the Supervisory Board
7.	Ryszard Madziar	- Member of the Supervisory Board
8.	Grzegorz Peczkis	- Member of the Supervisory Board
9.	Marcin Wawrzyniak	- Member of the Supervisory Board

March 30, 2022
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.	Piotr Tutak	- Chair of the Supervisory Board
2.	Teresa Famulska	- Vice Chair of the Supervisory Board
3.	Katarzyna Taczanowska	- Secretary of the Supervisory Board
4.	Stanisław Borkowski	- Member of the Supervisory Board
5.	Dariusz Hryniów	- Member of the Supervisory Board
6.	Leszek Koziorowski	- Member of the Supervisory Board
7.	Ryszard Madziar	- Member of the Supervisory Board
8.	Grzegorz Peczkis	- Member of the Supervisory Board
9.	Marcin Wawrzyniak	- Member of the Supervisory Board

March 30, 2022
Date

This is a translation of the document originally issued and signed in Polish