



**Report of the Supervisory Board
of TAURON Polska Energia S.A. on the operations
in the financial year 2020**

30 March 2021

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1. Foreword

Acting pursuant to Article 382 § 1 of Commercial Companies Code and § 20(1)(4) of the Company Articles of Association, the Supervisory Board of TAURON Polska Energia S.A. (hereinafter referred to as: the Company Articles of Association) and the provisions of *the Code of Best Practice for WSE Listed Companies 2016* (hereinafter referred to as: Best Practice 2016), the Supervisory Board of TAURON Polska Energia S.A. (hereinafter referred to as: the Supervisory Board) hereby submits the *Report on activities of the Supervisory Board in the financial year 2020* to the Ordinary General Meeting (hereinafter referred to as: the Report).

Applying the recommendations and principles of *Best Practice 2016*, the Supervisory Board performed an assessment of:

- 1) the situation of the Company and TAURON Group, including the assessment of internal control systems, risk management, compliance and the internal audit function, covering all relevant control mechanisms, especially those related to financial reporting and operational activities,
- 2) the manner in which the Company fulfils its information obligations concerning the application of corporate governance rules set out in the *Rules of the Warsaw Stock Exchange* (hereinafter referred to as: *WSE Rules*) and regulations concerning current and periodic information provided by issuers of securities,
- 3) the rationality of the Company sponsorship, charity or other similar policy,
- 4) meeting the independence criteria by Members of the Supervisory Board.

As a part of implementation of the rules defined in the *Best Practice 2016*, the Supervisory Board presents the aforementioned evaluations contained herein to the Ordinary General Meeting of the Company.

At the same time, the Report presents a description of the activity and functioning of the Supervisory Board and its committees in the financial year 2020.

2. Information on the term of office of the Supervisory Board, composition of the Supervisory Board and functions fulfilled therein as well as changes in the composition of the Supervisory Board during the financial year

The term of office of the Supervisory Board is a joint term of office lasting three years, excluding the first term of office lasting one year.

The current, sixth term of office of the Supervisory Board, started on 15 July 2020, i.e. on the day of convening of the Ordinary General Meeting of the Company approving the financial statements for the last full financial year of the term of office of the members of the Supervisory Board of the fifth term, i.e. for the financial year 2019. In accordance with the Company Articles of Association this is a joint term of office lasting for three years. The sixth joint term of office will expire on 15 July 2023.

The Supervisory Board consists of 5 to 9 members, appointed and dismissed by the General Meeting, subject to the following provisions:

- 1) in the period, in which the State Treasury, including subsidiaries of the State Treasury within the meaning of § 10(5) of the Articles of Association, holds a number of shares of the Company authorising to exercise at least 25% (twenty five per cent) of the total number of votes in the Company, the State Treasury is entitled to appoint and dismiss members of the Supervisory Board in the amount equal to a half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (if the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4) increased by 1, provided that the State Treasury:
 - a) is obliged to vote at the General Meeting on determining of the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association, or in case of submission of such a motion to the

Management Board by a shareholder or shareholders holding a number of votes entitling to exercise at least 5% (five per cent) of the total votes in the Company,

- b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; however, this would not apply to the case when the Supervisory Board cannot act due to a composition minor to that required under the Articles of Association, and the shareholders present at the General Meeting, other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in this section,
- 2) in the period of time in which the State Treasury, including together with subsidiaries of the State Treasury within the meaning of § 10(5) of the Articles of Association, holds a number of Company shares authorising it to exercise less than 25% (twenty five per cent) of total voting rights in the Company, the State Treasury, represented by a minister competent for the State Treasury affairs shall be authorised to appoint and dismiss one member of the Supervisory Board,
- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the procedure defined in clause 1 or 2 above takes place by means of a declaration submitted to the Company.

The table below presents personal composition of the Supervisory Board as of 31 December 2020 .

Table no. 1 Personal composition of the Supervisory Board as at 31 December 2020

No.	Name and surname	Function exercised
1.	Andrzej Kania	Chairman of the Supervisory Board
2.	Teresa Famulska	Deputy Chairwoman of the Supervisory Board
3.	Katarzyna Taczanowska	Secretary of the Supervisory Board
4.	Ryszard Madziar	Member of the Supervisory Board
5.	Grzegorz Peczkis	Member of the Supervisory Board
6.	Barbara Piontek	Member of the Supervisory Board

As at 1 January 2020 the Supervisory Board consisted of the following Members: 1) Beata Chłodzińska (Chairperson of the Supervisory Board), 2) Teresa Famulska (Vice Chairperson of the Supervisory Board), 3) Jacek Szyke (Secretary of the Supervisory Board), 4) Barbara Łasak - Jarszak, 5) Grzegorz Peczkis, 6) Jan Płudowski, 7) Marcin Szlenk, 8) Katarzyna Taczanowska and 9) Agnieszka Woźniak.

Changes in the composition of the Supervisory Board during the financial year 2020 and until the date of the report are presented in the table below:

Table no. 2. Changes in the composition of the Supervisory Board during the financial year 2020 and until the date of the Report

Date	Changes in the composition of the Supervisory Board
24 March 2020	The Minister of State Assets, acting pursuant to § 23(1)(1) and (3) of the Company Articles of Association, dismissed Agnieszka Woźniak from the Supervisory Board of the Company of the 5th joint term of office and appointed Andrzej Śliwka as a member of the Supervisory Board of the Company for the 5th joint term of office.
20 April 2020	Jacek Szyke and Marcin Szlenk submitted their declarations on resignation from the Supervisory Board of the Company of the 5th joint term of office, without stating the reasons for their resignations.

Date	Changes in the composition of the Supervisory Board
27 April 2020	Beata Chłodzińska submitted a statement of resignation from the Supervisory Board of the Company of the 5th joint term of office, without stating the reasons for her resignation.
22 May 2020	The Minister of Treasury, acting pursuant to § 23(1)(1) and (3) of the Company Articles of Association, appointed Andrzej Kania as a member of the Supervisory Board of the 5th joint term of office.
25 May 2020	The Supervisory Board of the Company elected Andrzej Kania as the Chairman of the Supervisory Board of the Company of the 5th joint term of office and Katarzyna Taczanowska as the Secretary of the Supervisory Board of the Company of the 5th joint term of office.
5 June 2020	The Minister of State Assets, acting pursuant to § 23(1)(1) and (3) of the Company Articles of Association, dismissed Jan Płudowski from the Supervisory Board of the Company of the 5th joint term of office and appointed Barbara Piontek as a member of the Supervisory Board of the Company of the 5th joint term of office.
16 June 2020	Andrzej Śliwka submitted a statement of resignation from the Supervisory Board of the Company of the 5th joint term of office, without stating the reasons for his resignation.
15 July 2020	On the date of holding the Ordinary General Meeting of the Company approving the financial statements for the last full financial year of office of Members of the Company Supervisory Board of the 5th joint term of office, i.e. for the financial year 2019, the mandates of all Members of the Supervisory Board of the Company of the 5th joint term of office expired.
15 July 2020	The Minister of Treasury, acting pursuant to § 23(1)(1) and (3) of the Company Articles of Association, appointed Andrzej Kania, Ryszard Madziar and Barbara Piontek as members of the Supervisory Board of the 5th joint term of office.
15 July 2020	The Ordinary General Meeting of the Company, acting pursuant to § 22(1) of the Company Articles of Association, appointed Grzegorz Peczkis and Katarzyna Taczanowska to the Supervisory Board of the Company of the 6th joint term of office.
3 August 2020	The Minister of Treasury, acting pursuant to § 23(1)(1) and (3) of the Company Articles of Association, appointed Teresa Famulska as a member of the Supervisory Board for the 6th common term of office.
3 August 2020	The Company Supervisory Board of the 6th joint term of office elected Andrzej Kania as the Chairman of the Supervisory Board of the Company of the 6th joint term of office, Teresa Famulska as the Vice Chairperson of the Supervisory Board of the Company of the 6th joint term of office and Katarzyna Taczanowska as the Secretary of the Supervisory Board of the Company of the 6th joint term of office.
12 February 2021	Barbara Piontek submitted a declaration of resignation from the Supervisory Board of the 6th joint term of office as of 28 February 2021 in connection with taking up the function of the President of the Management Board of Jastrzębska Spółka Węglowa S.A. as of 1 March 2021.

The table below presents personal composition of the Supervisory Board Committees as at the date of the Report.

Table no. 3. Composition of the Supervisory Board as at the day of the Report

No.	Name and surname	Function exercised
1.	Andrzej Kania	Chairman of the Supervisory Board
2.	Teresa Famulska	Deputy Chairwoman of the Supervisory Board
3.	Katarzyna Taczanowska	Secretary of the Supervisory Board
4.	Ryszard Madziar	Member of the Supervisory Board
5.	Grzegorz Peczkis	Member of the Supervisory Board

3. Information on the fulfilment of independence criteria by Members of the Supervisory Board

The term „independent member of the Supervisory Board“ means an independent member of the supervisory board within the meaning the *Commission Recommendation of 15 February 2005, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC)* taking into consideration *Best Practice 2016*. At least two members of the Supervisory Board should meet the criteria of independence within the meaning of the aforementioned Recommendation (hereinafter: independent Supervisory Board members).

Members of the Supervisory Board provided the Supervisory Board and the Management Board of the Company with declarations concerning the fulfilment of independence criteria.

The Supervisory Board performed the evaluation in terms of existence of relations and circumstances which may affect the fulfilment of independence criteria by a given member of the Supervisory Board.

The table below presents information on the fulfilment of independence criteria by Members of the Supervisory Board, in accordance with rule II.Z.4 of *Best Practice 2016* as at 31 December 2020 and as at the day of drawing up this report.

Table no. 4. Fulfilment of the independence criteria as at 31 December 2020 and as at the date of this Report

No.	Name and surname	Fulfilment of the independence criteria as at 31 December 2020	Fulfilment of the independence criteria and as of the date of this report
1.	Andrzej Kania	Does not fulfil independence criteria	Does not fulfil independence criteria
2.	Teresa Famulska	Fulfils independence criteria	Fulfils independence criteria
3.	Katarzyna Taczanowska	Does not fulfil independence criteria	Does not fulfil independence criteria
4.	Ryszard Madziar	Does not fulfil independence criteria	Does not fulfil independence criteria
5.	Grzegorz Peczkis	Fulfils independence criteria	Fulfils independence criteria
6.	Barbara Piontek	Fulfils independence criteria	-

4. Information on significant issues considered by the Supervisory Board and the number of meetings held and resolutions adopted

The Supervisory Board performs its tasks based on specific powers granted by the Company Articles of Association and the *Regulations of the Supervisory Board of TAURON Polska Energia S.A.* as well as the principles of corporate governance defined in the *Best Practice 2016*.

In the financial year 2020 the Supervisory Board held, in total, 13 meetings and adopted 107 resolutions. All Members of the Supervisory Board participated in 9 meetings. During the remaining five meetings, the individual absences of Members of the Supervisory Board were excused by the relevant resolutions of the Supervisory Board. Due to the ongoing pandemic of the SARS-CoV-2 virus, in 2020, for security reasons the Supervisory Board Members had a possibility to participate in the meetings by means of direct remote communication.

While exercising its competence, the Supervisory Board permanently supervised operations of TAURON Polska Energia S.A. in all areas of its activity, in particular, in relation to the implementation of the *TAURON Group Strategy for 2016-2025*, taking into consideration the *Update of strategic directions of TAURON Group for 2016-2025*, including: goals, strategic directions and initiatives, generated economic and financial results of the Company and TAURON Capital Group and the performance of the material and financial plan, the implementation of strategic investment of key importance for TAURON Capital Group, taking into account schedules of their implementation as well as the accuracy and effectiveness of spending funds associated with investment executed by the Management Board of the Company.

Within its activities the Supervisory Board actively supported the Management Board in implementation of the strategic goals of the Company, considered motions of the Management Board related to issues requiring the approval of the Supervisory Board as well as reviewed other matters presented by the Management Board.

Activities related to the recruitment procedure for the positions of Members of the Management Board of the Company of the 6th joint term of office

In connection with the expiry of the 5th joint term of office of the Management Board of TAURON Polska Energia S.A. In 2020, the Supervisory Board, acting within its competence:

- 1) adopted the "Rules of the qualification procedure for the position of Members of the Management Board of TAURON Polska Energia S.A. with its registered office in Katowice",
- 2) announced and conducted the qualification procedure for the following positions: President and Vice-Presidents of the Management Board of TAURON Polska Energia S.A,
- 3) qualified the candidates to participate in the next stage of the qualification procedure for the positions in the Company Management Board of the 6th joint term of office, which included interviews,
- 4) completed the qualification procedure for the positions in the Management Board of TAURON Polska Energia S.A. of the 6th joint term of office, selecting the best candidates,
- 5) dismissed Members of the Management Board from the Management Board of TAURON Polska Energia S.A. of the 5th joint term of office,
- 6) appointed Members of the Management Board to the Management Board of TAURON Polska Energia S.A. of the 6th joint term of office,
- 7) concluded agreements for the provision of management services with the appointed Members of the Company Management Board for the new 6th joint term of office.

Having conducted the above activities, the Supervisory Board completed its work related to the qualification procedure for the positions of Members of the Management Board of the Company of the 6th joint term of office.

Table no. 5. Main issues considered by the Supervisory Board during its meetings in 2020

Main issues considered by the Supervisory Board during its meetings in 2020
<i>In the scope of its opinion-making / evaluation functions</i>
<ol style="list-style-type: none">1. It adopted the <i>Procedure for Periodic Evaluation of Transactions with Related Parties</i>,2. It evaluated the <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2019 compliant with International Financial Reporting Standards approved by the European Union</i> in terms of their compliance with the ledgers and documents as well as with the actual state of affairs,3. It evaluated the <i>Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards approved by the European Union</i> in terms of their compliance with the ledgers and documents as well as with the actual state of affairs,4. It evaluated the motion of the Management Board to the General Meeting of TAURON Polska Energia S.A. concerning the coverage of the net loss for the financial year 2019,5. It evaluated the <i>Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the 2019 financial year and the Report on non-financial information of TAURON Capital Group for 2019</i>,6. It adopted the Report of the Supervisory Board on the evaluation of the <i>Financial statements of TAURON Polska Energia S.A., Consolidated financial statements of TAURON Capital Group, Report of the Management Board on operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended 31 December 2019 and the motion of the Management Board concerning coverage of net loss for the financial year 2019</i>,7. It accepted the <i>Report of TAURON Polska Energia S.A. on entertainment expenditure, expenses incurred on legal services, marketing services, public relations and social communication services as well as on advisory services related to management incurred in 2019</i>,8. It issued a positive opinion on the Report on implementation of the sponsoring activity by TAURON Group in 2019,9. it approved the <i>Report of the Management Board of TAURON Polska Energia S.A. on supervision over the implementation of investment projects in 2019</i>,10. it adopted the <i>Report of the Supervisory Board of TAURON Polska Energia S.A. on the supervision of the implementation of investments by the Management Board, including the purchase of fixed assets in 2019 and issued a positive opinion and did not raise any objections as to the accuracy and effectiveness of cash expenditure related to the purchase of fixed assets</i>,11. It issued a positive opinion on the motion of the Management Board to the General Meeting for introducing the amendments to the Articles of Association of TAURON Polska Energia S.A.,12. It adopted the Report on the assessment of the process maturity of selected TAURON Group processes,13. It adopted the Concept of the TAURON Group Structure Optimisation Programme,14. It adopted the Report on the review of the project portfolio, directions and scope of work in the R&D area with a view to rationalising expenditure, including the recommendations of changes.
<i>In the scope of its decision-making competence</i>
<ol style="list-style-type: none">1. it adopted the <i>Report on of the Supervisory Board on operations of TAURON Polska Energia S.A. in the financial year 2019</i> containing:<ol style="list-style-type: none">1) the evaluation of the Company position, including the assessment of the internal control, risk management systems, compliance and internal audit functions, comprising all significant control mechanisms, including, in particular those related to financial reporting and operational activity,2) the assessment of the method of fulfilment of information obligations by the Company, in relation to the application of corporate governance principles defined in the Rules of the Exchange and provisions related to current and periodical information submitted by issuers of securities,3) the assessment of the rationality of the policy of sponsorship, charity or other similar activities carried out by the Company,

Main issues considered by the Supervisory Board during its meetings in 2020

- 4) the assessment of compliance with the criteria of independence by members of the Supervisory Board,
2. it approved the *Material and financial plan of TAURON Group for 2020 and the Material and financial plan of TAURON Polska Energia S.A. for 2020*,
3. it adopted the updated *Regulations of the Supervisory Board of TAURON Polska Energia S.A.*,
4. it elected the Chairperson, Vice-Chairperson and Secretary of the Supervisory Board of TAURON Polska Energia S.A. in connection with the beginning of the new term of office,
5. it appointed new members to the Nomination and Remuneration Committee, the Audit Committee and the Strategy Committee in connection with the commencement of the new term of office,
6. it adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.*,
7. it adopted the new *Organisational Regulations of TAURON Polska Energia S.A.*,
8. it approved concluding the agreements for legal services, marketing services, public relations services and social communication services as well as advisory services associated with management, whenever the level of the remuneration for the services provided exceeded PLN 500 thousand net on an annual basis jointly in a particular agreement or other agreements concluded with the same entity,
9. it defined the method of exercising the voting right at General Meetings / Meetings of Shareholders of companies in relation to which TAURON Polska Energia S.A. is a dominant undertaking within the meaning of Article 4(3) of the *Act of 16 February 2017 on the protection of competition and consumers* in cases related to the amendments of articles of association / agreements, purchase of fixed assets, changes in the rules of remuneration of members of management boards and supervisory boards, increase in the share capital, merger of companies,
10. it adopted the *Framework Work Plan of the Supervisory Board of TAURON Polska Energia S.A. for 2020*.

In terms of cooperation with the audit firm Ernst & Young Audyty Polska sp. z o.o. sp.k.

1. it reviewed the conclusions and results of the audit of the TAURON financial statements and the consolidated financial statements of TAURON Capital Group for the year ended 31 December 2019, as well as the additional report prepared for the Audit Committee,
2. it met with the statutory auditor in order to discuss the results of the audit of the Company financial statements and the consolidated financial statements of TAURON Group for the financial year 2019 and 2020,

In the scope of supervision over the current activities of the Company and the TAURON Group

1. it analysed the current economic and financial situation of the Company and TAURON Capital Group, including the implementation of the material and financial plan, indebtedness, utilisation of the generation potential, the process of asset recovery as well as projected revenues and profits in individual business areas,
2. it monitored the activities of the Committees of the Supervisory Board,
3. it analysed current information concerning key corporate risks and risks specific in TAURON Group,
4. it reviewed current information concerning the status of implementation of strategic investment projects,
5. it reviewed current information concerning completed and ongoing audit tasks in TAURON Group,
6. it reviewed information on the issue and disposal of intra-group bonds,
7. it consulted information on the adaptation of generating units in TAURON Group to the BAT conclusions,
8. it consulted current information concerning the area of compliance management,
9. it analysed current information related to court disputes of the company - Polska Energia - Pierwsza Kompania Handlowa sp. z o.o.,
10. it reviewed current information of the Management Board concerning the impact of the epidemiological threat related to SARS COV-2 on the activities and position of TAURON Polska Energia S.A. Capital Group,

Main issues considered by the Supervisory Board during its meetings in 2020

11. it reviewed TAURON Group's activities in the field of research, development and innovation in the context of the effects of the work carried out so far and the projected benefits in the coming years,
12. it monitored subjects covered under the agenda of General Meetings/Meetings of Shareholders of companies where TAURON Polska Energia S.A. holds shares/equity,
13. it monitored the acquisition/taking up of shares in other commercial law companies by TAURON and the companies of TAURON Group,
14. it monitored the process of implementation of the social dialogue in the Company and in TAURON Capital Group,
15. it reviewed took the current situation concerning proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw in the case lodged by Abener Energia S.A. against Elektrociepłownia Stalowa Wola,
16. it reviewed the information concerning the expenses incurred on advisory services in TAURON and in the Capital Group in the period from 2017 to 31 October 2020, broken down by business and strategic advice, legal advice, audit services, tax advice and other,

In the scope of its competence concerning the Management Board

1. it amended Resolution No. 94/IV/2016 of the Supervisory Board of TAURON Polska Energia S.A. of 19 December 2016 on formation of the remuneration of Members of the TAURON Polska Energia S.A. Management Board,
2. in connection with the adopted remuneration system, it specified the management objectives for Members of the Company Management Board to be implemented in 2020, together with the weighting of these objectives and the objective criteria for their implementation and settlement,
3. it submitted a motion to the Ordinary General Meeting to acknowledge the fulfilment of duties by Members of the Company Management Board in the financial year 2019,
4. it issued an opinion on the motion addressed to the Ordinary General Meeting of TAURON Polska Energia S.A. to adopt *the Remuneration Policy for Members of the Management Board in TAURON Polska Energia S.A.*,
5. it dismissed Members of the Management Board from the Management Board of TAURON Polska Energia S.A. of the 5th joint term of office,
6. on the basis of the qualification procedure conducted, it appointed Members of the Management Board to the Management Board of TAURON Polska Energia S.A. of the new 6th common term of office,
7. it carried out an analysis of the level of achievement of management objectives and determined the amount of the Variable Remuneration payable to Members of the Company Management Board for 2019,

In the scope of supervision over the correctness and effectiveness of the disbursement of cash related to the implementation of investments by the Management Board of the Company, including the purchase of fixed assets

1. It agreed to the buy-back of fixed assets in the form of CO2 emission allowances of a value exceeding PLN 100,000,000 from Izba Rozliczeniowa Giełd Towarowych S.A. By TAURON Polska Energia S.A.,
2. it amended the Resolution of the Supervisory Board No. 91/V/2019 of 16 December 2019 concerning the consent to incur contingent liabilities in the form of bank guarantees,
3. It granted its consent to the conclusion of annexes to the Investment Agreement and to the Shareholders' Agreement as well as the contingent agreement on the sale of the Funds' shares in Nowe Jaworzno Grupa TAURON sp. z o. o. with the Investment Funds represented by Polski Fundusz Rozwoju S.A. and Nowe Jaworzno Grupa TAURON sp. z o.o.,
4. it reviewed current information regarding the implementation of an investment project involving the construction of a 910 MWe power unit for supercritical parameters in Jaworzno,

Main issues considered by the Supervisory Board during its meetings in 2020

5. it reviewed current information concerning the implementation of an investment project involving the construction of a 449 MW_e CCGT unit with a 240 MW_t heat generating unit in Stalowa Wola,
6. it agreed to the conclusion of annexes to the Investment Agreement and to the Shareholders' Agreement as well as the contingent agreement with the Investment Funds represented by Polski Fundusz Rozwoju S.A. and Nowe Jaworzno Grupa TAURON sp. z o.o. company,
7. it reviewed information on the development of the TAURON Group with regard to the implementation of RES projects,
8. it agreed to the conclusion of Annex no. 7 to the Shareholders' Agreement with the Investment Funds represented by Polski Fundusz Rozwoju S.A. and Nowa Jaworzno Grupa TAURON sp. z o.o. company,

The Supervisory Board did not report any deficiencies in the accuracy and effectiveness of the disbursement of cash related to the implementation of investment by the Management Board of the Company in the financial year 2020, including the purchase of fixed assets.

5. Information on implementation of resolutions of the General Meeting related to the activities of the Supervisory Board

In the financial year 2020, in the scope of execution of Resolution No. 5 of the Extraordinary General Meeting of TAURON Polska Energia S.A. of 15 December 2016 *on the principles of formation of the remuneration of Members of the Management Board* (as amended), the Supervisory Board determined detailed Management Objectives for Members of the Management Board of TAURON Polska Energia S.A. to be achieved in 2020 including determination of the weights of those objectives and measurable criteria of their implementation and settlement.

6. Committees of the Supervisory Board

While implementing the recommendations and rules defined in the *Best Practice 2016*, in the financial year 2020, the activity of the Supervisory Board was supported by the following committees: Audit Committee, Nominations and Compensation Committee and Strategy Committee.

Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively and performing the support and advisory functions towards the Supervisory Board. Tasks of the Committees of the Supervisory Board are carried out through presenting motions, recommendations, opinions and reports concerning the scope of their tasks to the Supervisory Board.

The table below presents tasks and competence of Committees of the Supervisory Board.

Table no 6. Tasks and competence of Committees of the Supervisory Board

Tasks and competence of Committees of the Supervisory Board

Audit Committee

1. Monitoring of the financial reporting process in the Company, effectiveness of internal control systems, risk management, compliance and internal audit, including in the scope of financial reporting, performing financial revisions, in particular performing an audit by an audit firm, taking into account any conclusions and findings of the Audit Supervision Committee stemming from an audit performed in an audit firm.
2. Controlling and monitoring the independence of the statutory auditor and the audit firm, in particular in the case where the audit firm provides services other than auditing to the Company.

Tasks and competence of Committees of the Supervisory Board

3. Assessing the independence of the statutory auditor and granting the consent for provision by it of permitted services in the Company, other than auditing.
4. Developing the policy for selecting the audit firm to perform the audit.
5. Developing a policy related to the provision of permitted services other than auditing by the audit firm, entities related to the audit firm and by a member of the audit firm corporate network.
6. Defining the procedure for selecting the audit firm by the Company.
7. Presenting to the Supervisory Board the recommendations, for the purpose of selecting the audit firm responsible for performing the statutory audit or the review of financial statements, referred to in Article 130(2) and (3) of the Act of 11 May 2017 on *statutory auditors, audit firms and public oversight* and in Article 16(2) of 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...*, in line with policies referred to above in clauses 4 and 5.
8. Informing the Supervisory Board of audit results and explaining how the audit contributed to the reliability of financial reporting in the Company as well as what was the role of the Audit Committee in the audit process.
9. Submitting recommendations aimed at ensuring the reliability of the financial reporting process in the Company.
10. Performing other activities assigned to the responsibilities of audit committees pursuant to the Act, the Regulation and the *Accounting Act* of 29 September 1994.

Nominations and Compensation Committee

1. Recommendations to the Supervisory Board concerning the recruitment procedure for the positions of Members of the Company Management Board.
2. Assessment of candidates for Members of the Company Management Board as well presenting opinions in this scope to the Supervisory Board.
3. Recommendations to the Supervisory Board concerning the form and contents of agreements concluded with Members of the Company Management Board.
4. Recommendations to the Supervisory Board concerning the remuneration and bonus scheme for Members of the Company Management Board.
5. Recommendations to the Supervisory Board concerning the need to suspend a Member of the Company Management Board due to material reasons.
6. Recommendations to the Supervisory Board concerning the need to delegate a member of the Supervisory Board to temporarily perform the duties of Members of the Company Management Board who cannot perform their duties, including the proposal of compensation.

Strategy Committee

1. Assessment of the Corporate Strategy of TAURON Group and presenting its results to the Supervisory Board.
2. Recommendations to the Supervisory Board concerning the scope and deadlines for submission of strategic multi-annual plans by the Management Board.
3. Assessment of impact of the planned and undertaken strategic investments on assets of the Company.
4. Monitoring the implementation of the strategic investment tasks.
5. Assessment of activities concerning the disposal of significant Company assets.
6. Issuing opinions on strategic documents submitted to the Supervisory Board by the Company Management Board.

The Committees of the Supervisory Board consist of three to five members, with the exception of the Strategy Committee which can comprise from three to seven members.

The composition of the Supervisory Board Audit Committee meets the requirements of Article 129(3) of the Act of 11 May 2017 *on certified auditors, audit firms and public oversight*. The majority of Members of the Audit Committee meet the statutory independence criteria, including the Chairperson of the Audit Committee who has knowledge and skills both in the scope of accounting and auditing of financial statements. One of Members of the Audit Committee has knowledge and skills in the scope of energy, i.e. the industry in which the Company operates.

Members of the Committees of the Supervisory Board have elected from among themselves the Chairpersons who manage works of a given Committee and supervise preparation of the agenda, development and distribution of documents to other members of the Committees as well as drafting minutes of the meetings.

The table below presents personal composition of the Supervisory Board Committees as at 31 December 2020.

Table no. 7. Composition of the Supervisory Board Committees as at 31 December 2020

No.	Name and surname	Audit Committee	Nominations and Compensation Committee	Strategy Committee
1.	Andrzej Kania	-	Chairman	-
2.	Teresa Famulska	Chairperson	-	-
3.	Katarzyna Taczanowska	Member	-	-
4.	Ryszard Madziar	-	Member	Member
5.	Grzegorz Peczkis	Member	-	Chairman
6.	Barbara Piontek	-	Member	Member

The table below presents personal composition of the Supervisory Board Committees as at the date of this Report.

Table no. 8. Personal composition of the Supervisory Board Committees as at the day of this Report

No.	Name and surname	Audit Committee	Nominations and Compensation Committee	Strategy Committee
1.	Andrzej Kania	-	Chairman	Member
2.	Teresa Famulska	Chairperson	-	-
3.	Katarzyna Taczanowska	Member	-	-
4.	Ryszard Madziar	-	Member	Member
5.	Grzegorz Peczkis	Member	Member	Chairman

In the financial year 2020:

- The Audit Committee held a total of 9 meetings and adopted 21 resolutions,
- The Nominations and Compensation Committee held a total of 5 meetings and adopted 13 resolutions,
- The Strategy Committee held a total of 7 meetings and adopted 7 resolutions, including 1 meeting on the premises of the Capital Group companies.

Table no. 9. Main issues considered by the Committees of the Supervisory Board during their meetings in 2020.

Main issues considered by the Committees of the Supervisory Board during their meetings in 2020.

Audit Committee

1. it cooperated with the statutory auditor in the scope of:
 - audit of the Company financial statements and consolidated financial statements of the Capital Group for the financial year 2019 (discussion of the statutory auditor's report on the audit, discussion of the additional report prepared by the auditor for the Audit Committee, review of the statement on meeting the independence requirements by the audit firm and members of the team performing financial audit activities and information on non-performing services which are not financial audit services by the audit firm for the Company and companies of TAURON Capital Group),
 - review of the interim condensed financial statements of the Company and the consolidated financial statements of TAURON Capital Group for the first half of 2020 (discussion of the results of the review and getting acquainted with the statement on maintaining independence from the audited entity in the period from the date of submission of the previous statement on independence),
 - process of auditing the financial statements of the Company and the consolidated financial statements of TAURON Capital Group for the financial year 2020 (discussion of the general assumptions of the auditing process, auditing strategy and non-financial reporting, as well as the results of the preliminary audit in the Company and its subsidiaries),
 2. it monitored the financial reporting process, including the analysis of reliability of financial information presented by the Company, in terms of their compliance with the ledgers and documents as well as with the actual state of affairs and presented the relevant recommendations to the Supervisory Board concerning the performed evaluation of the information contained in the following documents:
 - *Financial statements of TAURON Polska Energia S.A. for the financial year ended 31 December 2019 compliant with the International Financial Reporting Standards approved by the European Union,*
 - *The Management Board motion to the General Meeting concerning the coverage of net loss for the financial year 2019,*
 - *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the financial year ended 31 December 2019 compliant with International Financial Reporting Standards approved by the European Union,*
 - *The Management Board's Report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2019 and Report on non-financial information of TAURON Capital Group for 2019,*
 - *Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the first quarter of 2020,*
 - *Extended consolidated semi-annual report of TAURON Polska Energia S.A. Capital Group for the first half of 2020,*
 - *Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the third quarter of 2020,*
 3. it presented to the Supervisory Board a positive assessment of the independence of the financial audit process based on the statement of independence of the audit firm and team members performing the audit of the separate and consolidated financial statements of the Company and TAURON Group for the financial year 2019, information on the performance of non-financial audit services by the audit firm and other network companies for the Company and TAURON Group companies as well as a statement that no prohibited services other than financial audit services were provided by the audit firm and other network companies,
 4. it recommended to the Supervisory Board a positive assessment of the Company standing including the assessment of effectiveness of internal control, risk management and compliance systems and the internal audit function,
 5. it analysed the financial results of TAURON Group and TAURON Polska Energia S.A. for 2019, 2020 Q1, 2020 H1 and 2020 Q3,
 6. it updated the Policy for selecting the audit firm to perform the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,
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7. it updated the Procedure for selecting the audit firm to perform the audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.,
 8. it reviewed the Policy for the provision of permitted non-audit services by the audit firm in TAURON Group, with a view to the need to update it,
 9. it reviewed and evaluated the new text of the Accounting policy of TAURON Polska Energia S.A. Capital Group,
 10. it reviewed information concerning the performance of activities resulting from the Procedure for ensuring compliance within the TAURON Group with the requirement of independence of the audit firm auditing and reviewing the financial statements and the consolidated financial statements of TAURON Polska Energia S.A,
 11. it discussed the procedure related to the selection of the audit firm to audit the financial statements for the next period starting from 2022,
 12. it monitored issues related to internal audit and internal control systems, and in particular, it discussed the implementation of the annual *Audit Plan for TAURON Group for 2019*, the implementation of the plan of audit tasks for TAURON Group adopted for 2020 and ad hoc checks in individual quarters,
 13. it analysed the results of the audit of the compliance of the procedure for the purchase of protective equipment carried out by TAURON Polska Energia S.A,
 14. it analysed the results of the review of the contracting process for services in the area of research and development in the period from January 2018 to August 2019 and the audit from the review of processes concerning the cooperation with start-ups in TAURON Group,
 15. it monitored the progress of the implementation of the assessment of the effectiveness of the internal control system (ICS) in TAURON Group under the 1st line of defence,
 16. it analysed and evaluated quarterly risk management, including key corporate and specific risks in the TAURON Group concerning: finance and loans, trade, employees and corporate culture, clients and contractors, compliance, environment, technology and infrastructure,
 17. it reviewed the information on the application in the Company of the ESMA Guidelines on certain aspects of the requirements of the MIFID II Directive of 5 June 2020 and the Financial Supervision Authority Guidelines of 27 May 2014,
 18. it read and analysed information on the area of compliance management in TAURON Group (including: the discussion of *TAURON Polska Energia S.A. Compliance Report for 2019*, *TAURON Group Compliance Policy* and *TAURON Group Compliance Plan for 2020*),
 19. it recommended to the Supervisory Board the adoption of the Procedure for periodic assessment of Transactions concluded with Related Parties and its new wording, in view of the need for updating,
 20. it reviewed the Report on periodic assessment of Transactions concluded with Related Parties for the period from 29 November 2019 to 30 June 2020,
 21. it analysed the participation of TAURON Group companies in industry organisations for 2019, taking into account the period covering 2016 - 2019 and the plan for 2020, as well as the costs of membership of individual TAURON Group companies,
 22. it reviewed quarterly information in the area of procurement, covering in particular: results of procurement proceedings (analysis of selected public and non-public proceedings in TAURON Group companies), including lists of contracts awarded in a negotiated procedure by individual TAURON Group companies, lists of contracts awarded under the emergency procedure in 2020, with particular emphasis on contracts awarded in connection with the COVID-19 pandemic,
 23. it analysed and assessed the amendments to the Public Procurement Regulations in TAURON Group and the management objectives (KPIs) in the area of procurement set to be achieved by persons holding management positions (n-1) in TAURON Group companies,
 24. it examined the activities of Magenta Grupa TAURON sp. z o.o. and the legitimacy of its merger with TAURON Dystrybucja Serwis S.A,
 25. it performed the tasks assigned by the Supervisory Board, including the analysis and assessment of certain legal actions performed by the Company, in terms of their compliance with the applicable laws and internal regulations,
 26. it adopted the *Report on activities of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2019* and submitted it to the Supervisory Board,
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27. it adopted the *Work Plan of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. for 2021* and submitted it to the Supervisory Board.

Nominations and Compensation Committee

1. it recommended to the Supervisory Board to amend Resolution No. 94/IV/2016 of the Supervisory Board of TAURON Polska Energia S.A. of 19 December 2016 on formation of the remuneration of Members of the TAURON Polska Energia S.A. Management Board, in the scope of updating the Management Objectives and granting a benefit to Members of the Management Board covering the financing of the Company contributions for participation in the employee pension scheme,
2. it recommended the Supervisory Board to conclude agreements Annexes to agreements for the provision of management services with Members of the Management Board of TAURON Polska Energia S.A.,
3. it recommended to the Supervisory Board to adopt the updated Management Objectives for Members of the Management Board of TAURON Polska Energia S.A. of the fifth joint term of office, including determining of the weight of those objectives and measurable criteria of their implementation and settlement,
4. it adopted the *Report on activities of the Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2019* and submitted it to the Supervisory Board,
5. it recommended to the Supervisory Board to adopt the Rules of the qualification procedure for the position of Members of the Management Board of TAURON Polska Energia S.A. with its registered office in Katowice,
6. it recommended to the Supervisory Board to announce and conduct the qualification procedure for the position of President and Vice-President of the Management Board of TAURON Polska Energia S.A. for the new sixth term of office,
7. it opened and verified applications in terms of meeting the formal requirements by candidates in the qualification procedure for individual positions in the Management Board of TAURON Polska Energia S.A. of the sixth joint term of office,
8. it performed the analysis and evaluation of indicators determining awarding of the annual bonus for 2019 to Members of the Management Board and presented the relevant recommendations to the Supervisory Board, including the amount of the payment of the Variable Remuneration due to the Members of the Management Board for 2019,
9. it recommended the Supervisory Board to adopt detailed Management Objectives for Members of the Management Board of TAURON Polska Energia S.A. of the new sixth joint term of office to be implemented in 2020, including determining of the weight of those objectives and measurable criteria of their implementation and settlement,
10. it analysed quarterly information on the due performance of duties by Members of the TAURON Management Board resulting from the concluded agreements for the provision of management services.

Strategy Committee

1. it adopted the *Report on activities of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2019* and submitted it to the Supervisory Board,
 2. it adopted the *Framework Work Plan of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. in the first half of 2020*,
 3. it visited the construction site of the Grzegorz shaft in the Sobieski mining plant in Jaworzno, reviewing the status of its implementation,
 4. it reviewed the activities and functioning of the Mining Area, with particular reference to: the economic and financial results of the company, including the presentation of production volumes by individual mining facilities, information on the risks and costs of preventive measures related to the COVID-19 pandemic as well as the results of the implementation of the Recovery Programme and the directions for further optimisation of the Mining Area,
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5. it discussed issues relating to the demand of the Generation Area for coal, including: coal consumption in 2017, 2018, 2019 broken down into own resources and external purchases, the quality parameters of the Mining Area coal vs. the quality needs of the Generation Area, the demand for coal of the Generation Area in 2020-2030 broken down into individual years and the ability of the Mining Area to cover the demand and the unit decommissioning programme in 2020-2030 broken down into individual years and units,
 6. it reviewed information concerning the employment in TAURON Group, including: the size of employment in TAURON Group as at 32 December 2019, the average age of the personnel, the number of people who will reach a retirement age in 2020, education of employees in TAURON Group, the employee performance evaluation process and employee development and qualification improvement programmes,
 7. it discussed information on the Sales Area in TAURON Group, including: the organisation of the Sales Area, current market and regulatory issues related to the operation of retail sales, results of the Sales Area in 2016-2020 (including results in tariff groups), conditions for the operation of retail sales in the business and mass customer segments,
 8. it reviewed and evaluated the recommendation presented by the Management Board concerning the update of the TAURON Group Strategy based on the analysis of the market environment and the internal situation of TAURON Group,
 9. it reviewed and evaluated the Concept of the TAURON Group Structure Optimisation Programme presented by the Management Board,
 10. it reviewed the activities and operations of TAURON Nowe Technologie S.A., including: projects implemented and activities planned,
 11. it discussed the cooperation of TAURON Group with start-ups in 2017 - 2020, including the substantive scope, costs, cooperation effects and plans for 2021 as well as the implementation effects.
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7. Self-assessment of the Supervisory Board

The Supervisory Board of TAURON Polska Energia S.A. provides permanent oversight of the Company activities in all areas of its operations, in accordance with the obligations and powers defined in the *Commercial Companies Code* and other legal regulations, provisions of the *Company Articles of Association* as well as the provisions of the *Regulations of the Supervisory Board*. Moreover, while performing their obligations, Members of the Supervisory Board follow the rules contained in the *Best Practice 2016*.

All Members of the Supervisory Board represent a high level of professional preparation and demonstrate the relevant substantive preparation, required to act in the capacity of the Member of the Supervisory Board.

All Members of the Supervisory Board applied due diligence while performing their obligations, using with commitment their best knowledge and experience in the scope of managing and supervising commercial law companies. Owing to high competence and commitment of individual Supervisory Board Members and efficient organisation, the Supervisory Board effectively implemented its statutory tasks, being driven by interests of the Company.

It should be mentioned that representatives of the Supervisory Board participated in sessions of the General Meeting of the Company in order to enable substantive answer to questions asked during General Meeting sessions.

In accordance with the foregoing, the Supervisory Board requests granting the discharge from fulfilment of duties for the acknowledgement of the fulfilment of duties by Members of the Supervisory Board of TAURON Polska Energia S.A. in the period from 1 January 2020 to 31 December 2020.

8. Assessment of the Company standing including the assessment of effectiveness of internal control, risk management and compliance systems and the internal audit function

8.1. Evaluation of the situation of the Company and TAURON Capital Group

Evaluation of TAURON Polska Energia S.A. situation

TAURON, as a parent entity in TAURON Group fulfils, in particular, the governing and the consolidating function. As a result of the implementation of the Business Model and centralisation of functions, TAURON has concentrated many competences concerning the functioning of the companies of TAURON Capital Group and currently operates in the areas of wholesale trade in electricity, gas and related products, procurement management, financial management, Capital Group asset management, corporate risk management, IT model management, coordination of R&D work carried out in TAURON Capital Group, accounting and tax consultancy, legal services and audit.

The major sources of the Company income include dividends from subsidiaries as well as revenue on sales of electricity, coal, gas, property rights to electricity certificates of origin, CO₂ emission allowances and commercial services.

The financial statements of TAURON drawn up for the financial year ended 31 December 2020 indicated a negative operating result of PLN (910) million and a negative net financial result in the amount of PLN (3,590) million. A factor of significant impact on the development of EBIT is the cost of the provision for the onerous contract, i.e. the long-term contract for the purchase by the Company of electricity generated by the 910 MW unit in Jaworzno in the amount of PLN (1,110) million.

In addition, the margin earned by the company in 2020 on the sale of electricity, gas, coal, CO₂ emission allowances and other products, including the costs of operations, amounted to PLN 200 million.

In 2020, the Company generated financial income from:

- 1) dividends from subsidiaries in the amount of PLN 1,082 million,
- 2) interest in the amount of PLN 325 million.
- 3) positive result on derivatives due to the measurement and execution of derivatives, mainly currency forwards and CCIRS in the amount of PLN 126 million.

At the same time, the Company incurred costs in the reporting period on account of:

- 1) interest in the amount of PLN 410 million,
- 2) currency exchange differences in the amount of PLN 303 million,
- 3) impairment losses on shares, loans and bonds and on the revaluation to fair value of non-current assets classified as held for sale in the amount of PLN 3,436 million.

The value of other financial income and financial expenses not mentioned above amounted to PLN (2) million.

The total gross financial result generated in the financial year ended 31 December 2020 is negative and amounts to PLN (3,528) million and the net financial result amounts to PLN (3,590) million.

Despite negative financial results, the company standing is stable, which is confirmed by the Net Debt/EBITDA ratio of 2.5x and the current liquidity ratio at a level of 1.05 accomplished by TAURON Capital Group. The key covenant for concluded long- and short-term loan agreements concluded and the national bond issue schemes is the Net Debt/EBITDA ratio which sets the debt less cash in relation to EBITDA generated. Its value fell to the level significantly below the 3.5x, which is the permissible limit included in agreements with banks.

Furthermore, the stability of the financial position of the company was confirmed on 21 May 2020 by Fitch Ratings, which revised the ratings assigned to the Company so that selected ratings were confirmed at an unchanged level while certain ratings were downgraded.

As at 31 December 2020, the structure of assets did not change significantly in relation to the status as at 31 December 2019, i.e. fixed assets constituted, respectively, 85% and 89% of the total assets.

The main factors affecting the decrease in the share of non-current assets in the balance sheet total are the created write-downs on shares in subsidiaries, TAURON Wytwarzanie in the amount of PLN (194) million and in TAURON EKOENERGIA in the amount of PLN (376) million as well as the recognition of a write-down in the amount of PLN (1,394) million due to the revaluation to fair value of non-current assets classified as held for sale, i.e. shares in TAURON Ciepło Sp. z o.o.

In the structure of liabilities, equity accounts for 39% of the share in the balance sheet total and it was 10 pp lower compared to the balance reported as at 31 December 2019. The factors influencing the above change are mainly the costs of write-downs described above and the costs of the provision in the amount of PLN (1,110) million for the onerous contract, i.e. the long-term contract for the purchase by the Company of electricity generated by the 910 MW unit in Jaworzno, recognised in the financial result. The value of the provision in question was recognised on the other side as an increase in long-term provisions in the amount of PLN 840 million and short-term provisions in the amount of PLN 269 million. An additional factor contributing to the increase in liabilities is the growth in cash pooling debt and the increase in EUR denominated debt liabilities as a result of the growth in the EUR exchange rate to the level of 4.6148.

The status of cash gained as at 31 December 2020 was negative amounted to PLN (743) million which results from the adjustment of cash and pecuniary assets, consisting of balances of loans granted and received, implemented under cash pooling transactions, due to the fact that they do not constitute cash flows from investment or financial activities, being used mainly for management of current cash flows.

Shares of TAURON have been listed at the Primary Market of the Warsaw Stock Exchange since 30 June 2010.

In 2020, the TAURON share price ranged from PLN 0.82 to PLN 3.26 (according to closing prices). The share price at the last session in 2019 reached the level of PLN 1.64 and at the end of 2020 it amounted to PLN 2.72.

In 2020, the economic situation continued to be influenced by the effects of the COVID-19 pandemic, which adversely affected most sectors of the economy. This translated into the GDP level reached by the Polish economy which, according to GUS estimates, decreased by 2.8%.

In 2020, the WIG index fell by 1.4% and WIG20 - by 7.7%. The negative trend recorded in 2020 on the domestic trading floor was also a consequence of external factors such as trade restrictions between the United States and China and the uncertainty surrounding the US presidential election.

On the other hand, investors positively evaluated companies from the energy sector, which translated into a 4.0% increase of the WIG-Energy index. At the same time, it should be noted that the return on investment in TAURON shares between the end of 2019 and the end of 2020 amounted to 66% (PGE: -18.3%, ENEA: -17.4%, ENERGA: +11.3%).

Evaluation of TAURON Capital Group situation

TAURON Capital Group is a vertically integrated energy group and it conducts its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator), i.e. in the area of coal mining, generation, distribution and sales of electricity and heat as well as other products of the energy market. TAURON Capital Group determined operational segments corresponding to its areas of activity: Mining, Generation, RES, Distribution, Sales and Other. Furthermore, due to the qualification of 100% of the shares held in TAURON Ciepło sp. z o.o. (previously recognised within the Generation Segment) as held for sale, TAURON Capital Group presents the results of this company as a disposable group within Discontinued Operations.

The financial standing of TAURON Capital Group is stable, as confirmed by the current liquidity ratio of 1.05, general debt ratio of 0.58 and net debt/EBITDA ratio of 2.5x as at 31 December 2020. The current level of this ratio enables TAURON Capital Group to acquire external financing required to implement the investments planned.

The consolidated financial statement of TAURON Capital Group drawn up for the financial year ended on 31 December 2020 indicated:

- 1) EBITDA result at a level of PLN 4,223 million, higher by PLN 623 million compared to the result generated in 2019,

- 2) operating result of PLN (1,732) million, lower by PLN 2,027 million compared to the result generated in 2019,
- 3) net financial result at a level of PLN (2,374) million, lower by PLN 2,359 million in relation to the result generated in 2019.

The Distribution, Sales and Generation segments have the highest share in EBITDA of TAURON Capital Group. The better EBITDA result of TAURON Group generated in 2020 results from the release of the provision for the electricity equivalent payment in the Group companies in the amount of PLN 533 million and improvement in the Generation Segment result by PLN 343 million. In addition, in the first quarter of 2020, as a result of a change in the strategy of hedging the depreciation needs of the Generation Area, consisting in a one-off replacement of exchange contracts with a delivery date in December 2020 by OTC contracts with a delivery date in March 2021, TAURON Group recognised a charge of PLN 123 million to the result.

The decline in the operating profit by PLN (2,027) million is the result of, among others, the recognition of:

- 1) PLN 1,865 million higher impairment losses on property, plant and equipment recognised in the 2020 result compared to the amount of impairment losses recognised in the 2019 result. The need to recognise impairment losses in 2020 and 2019 is the result of asset impairment testing,
- 2) impairment loss in the amount of PLN (825) million for non-financial fixed assets as a result of revaluation to fair value of net assets of TAURON Ciepło in connection with the classification of these assets as held for sale,
- 3) improvement of EBITDA result by PLN 623 million as described above,
- 4) decrease in depreciation and other impairment losses for the total amount of PLN 40 million.

The balance sheet total of the TAURON Group's consolidated financial statements as at 31 December 2020 showed a value of PLN 39,114 million, 6% lower than the value recognised at the end of 2019. The main reason of the above decline was the recognition of the impairment losses on property, plant and equipment described above. In addition, following the recognition of impairment losses and as a result of the reclassification of non-financial assets of TAURON Ciepło as held for sale to current assets, the structure of assets changed, where the share of non-current assets decreased by 3.1 pp to 80.5%.

The consequence of recognising the impairment losses indicated above in the financial result is a change in the structure of liabilities, where the share of liabilities increased by 3.9 pp to 58.4% as at 31 December 2020.

In the statement of cash flows for 2020, TAURON Capital Group reported a positive flow on operating activity at a level of PLN 4,042 million (116.1% of the 2019 level), which was mostly affected by:

- 1) generated EBITDA result in the amount of PLN 4,223 million,
- 2) negative change of working capital in the amount of PLN 119 million,
- 3) payment of income tax in the total amount of PLN 60 million,
- 4) other factors in the amount of PLN (2) million.

Expenditure due to the purchase of tangible fixed assets represented the factor of the highest impact on the developments of the cash stream of investment nature, which amounted to PLN 3,908 million and were lower by PLN 128 million than the 2019 level. The highest expenditure was incurred by the Distribution and Generation Segments.

The negative value of cash of financing nature mainly results from the higher value of realised expenses from repayment of financial liabilities over the proceeds received from fund raising. The value of credits and loans repaid and bonds redeemed amounted to PLN 4,467 million, with simultaneous credits and loans taken out and bonds issued in the total amount of PLN 4,368 million. Moreover, in 2020 TAURON Capital Group repaid lease liabilities of PLN 102 million. The total value of interest paid by TAURON Capital Group mainly on financial liabilities amounted to PLN 216 million, and for grants and compensations received - it amounted to PLN 68 million.

TAURON Capital Group continues the development process and keeps strengthening its market position. It should be noted that the ratio of current liquidity and the net debt to EBITDA ratio remain at a safe level.

In 2020, TAURON Capital Group incurred capital expenditure of PLN 4,039 million, i.e. 2% lower than the expenditure incurred in 2019, which amounted to PLN 4,128 million. The above decrease is a result of lower expenditures incurred in the Generation and Mining Segments and higher expenditure in the Distribution, RES and Other Operations segments.

The most important investment projects implemented in 2020:

- 1) in the Mining Segment: the construction of the Grzegorz shaft in ZG Sobieski (PLN 17 million), construction of the 800 m level in ZG Janina (PLN 41 million), the investment programme of ZG Brzeszcze (PLN 32 million), purchase of a longwall complex for ZG Sobieski (PLN 38 million) and preparation of future production (PLN 139 million),
- 2) in the Generation Segment: construction of new capacities of 910 MW in Jaworzno (PLN 688 million), adjustment of TAURON Wytwarzanie S.A. generation units to BAT Conclusions (PLN 239 million), replacement expenditure and repair components in TAURON Wytwarzanie S.A. (PLN 187 million), connection of new facilities (PLN 33 million), co-generation in Łagisza Power Plant (PLN 18 million), investments related to the development and maintenance of district heating networks (PLN 16 million), replacement of SDW in Łagisza Power Plant (PLN 7 million),
- 3) in the Distribution Segment: modernisation and replacement of grid assets (PLN 827 million), construction of new connections (PLN 924 million), dispatch communication system (PLN 52 million).

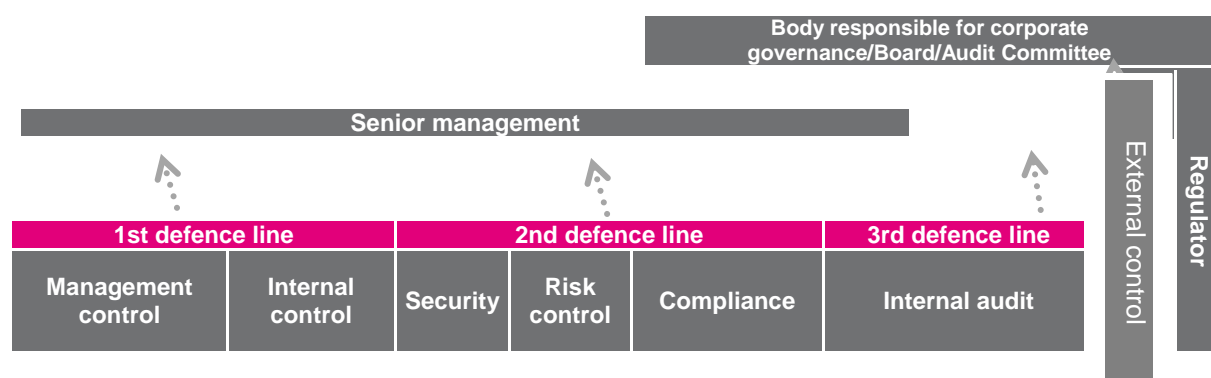
8.2. Assessment of effectiveness of internal control, risk management and compliance systems and the internal audit function

Taking into account *Code of Best Practice for WSE Listed Companies 2016* (hereinafter referred to as Best Practice 2016), the Supervisory Board assessed the effectiveness of the internal control, risk management systems, compliance and audit and (institutional) control functions, including all significant control mechanisms, in particular, those related to financial reporting and operating activity.

In accordance with recommendation III.R.1. of Best Practice 2016, entities responsible for the systems and functions indicated above were separated, whereas in accordance with rule III.Z.2 of Best Practice 2016, persons responsible for risk management, audit and control and compliance report directly to the President of the Management Board or other Member of the Management Board and have a possibility of direct reporting to the Supervisory Board and the Audit Committee.

In order to ensure security, the TAURON Capital Group operates a “Three Lines of Defence Model” which includes functional internal control, independent control within the second line of defence, consisting of risk management, compliance and security management functions, as well as institutional control, i.e. audit and control within the third line of defence.

Figure no.1 Model of three defence lines



Functions of individual defence lines:

First Line of Defence: business units required to perform functional control as part of their business processes,

Second Line of Defence:

- risk management function implemented in accordance with the adopted *Corporate risk management strategy in TAURON Group* and detailed policies related to main risk categories,
- function of assuring the compliance understood as adjustment of the organisation to the applicable legal regulations,
- function of ensuring information security and technical safety.

Third Line of Defence: audit and control function responsible for planning and implementation within the TAURON Capital Group, audit tasks of a verification and advisory nature as well as performing scheduled and ad hoc inspections.

FIRST LINE OF DEFENCE

Assessment of the design of the internal control system implemented by the business units of TAURON Polska Energia S.A.

In 2020, the project aimed at development of a comprehensive methodology for the assessment of the Internal Control System (ICS) together with the concept of the system and structures for its implementation as well as the collection, consolidation and reporting of the results of cyclical assessment in TAURON Group was completed and the pilot study of the developed methodology was carried out. The implementation of the design solutions obtained is scheduled for 2021.

The assessment methodology was developed in accordance with the recommendations and best practices concerning the operation of the internal control system published by COSO, where the internal control system in the organisation consists of all actions taken by management, the supervisory board and all employees, designed to achieve reasonable assurance of:

- 1) effectiveness and efficiency of operations,
- 2) reliability of the financial reporting process,
- 3) the organisation's compliance with applicable laws and internal regulations.

The effectiveness of the Internal Control System will be assessed on the basis of the key risks faced by TAURON Group as well as its business objectives. It is important to note that the internal control system:

- 1) is a means (tool) to achieve the organisation's objectives,
- 2) is dependent on people, their attitudes and behaviour, not just policies and procedures,
- 3) gives rise to only reasonable assurance of the organisation's compliance in the areas mentioned above.

In accordance with the COSO, the elements of the ICS include:

- 1) the internal control system environment,
- 2) risk assessment,
- 3) control mechanisms,
- 4) information and communication,
- 5) monitoring.

In order to ensure continuity of the ICS self-assessment carried out in previous years, parallel to the implementation of the developed methodology, the ICS self-assessment for 2020 will be carried out in the first quarter of 2021 using elements of this methodology. On the other hand, in accordance with the

terms and conditions set out in the methodology - the results of a comprehensive assessment of the ICS, carried out on a continuous basis, consisting of both self-assessment and testing of the adequacy, implementation and effectiveness of control mechanisms will be presented in the form of an annual report.

SECOND LINE OF DEFENCE

Assessment of the risk management system

TAURON Capital Group, taking care of the implementation of the existing TAURON Group Strategy implemented a comprehensive enterprise risk management system - ERM and implements the risk management process in its operations. Risk in TAURON Capital Group is understood as an uncertain event or group of events that, whenever they occur, will have an impact on the achievement of the strategic objectives defined for TAURON Capital Group, both in a negative (threat) and positive (opportunity, chance) way.

Taking care of the implementation of the current Strategy, the Company conducts the process of risk management in the operations of TAURON Capital Group. The basic objective of risk management is to ensure broadly understood security of TAURON Capital Group's operations. Risk management is intended to ensure, in particular, that TAURON Capital Group increases the predictability of achieving its strategic objectives, stable creation of the financial result, protection of the Group's current economic value and support to the decision-making processes.

Risk management in TAURON Capital Group:

- 1) is based on a risk management process that provides a comprehensive and consistent framework for identifying, measuring and responding to risks
- 2) covers all elements of the value chain,
- 3) ensures centralising of the measurement, monitoring and risk control functions as well as a possibility of assessment of the full risk profile in the organisation and consistent principles of its management,
- 4) ensures that the risk-taking function is independent from risk control and monitoring,
- 5) ensures a clear allocation of competences and responsibilities, in particular by introducing a risk ownership function,
- 6) is an active process, aimed at identifying risks early enough to be able to take preventive measures,
- 7) is a systematic and constantly improved process, which allows it to be adapted to the specific nature and organizational structure of TAURON Capital Group as well as to the changing environment,
- 8) places great emphasis on awareness-building, training and encouraging employees to use risk knowledge in their daily activities,
- 9) co-creates a system of internal control in TAURON Capital Group constituting an element of the model of three defence lines, next to the function of ensuring the compliance and security management.

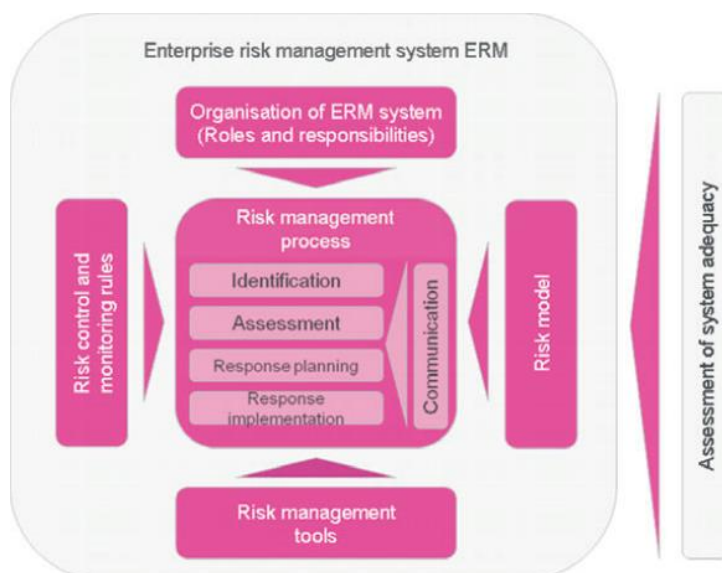
Risk Management Strategy

The Enterprise Risk Management System (ERM System) operating at the level of TAURON Capital Group is a set of rules, standards and tools allowing to achieve the basic objective of risk management, which is broadly understood to ensure the safety of TAURON Capital Group's operations. This system is governed by the document entitled Enterprise Risk Management Strategy in TAURON Group (the ERM Strategy), which defines the framework and principles of corporate risk management in the TAURON Capital Group. The ERM strategy aims to ensure consistency in the management of the different risk categories which are further specified in separate regulations, adapted to the specific features of particular risk groups.

Risk management system architecture

The central element of the ERM System is the risk management process, which includes continuous activities such as risk identification, risk measurement and the development and implementation of risk response. In addition, the ERM system architecture includes elements to ensure the efficient functioning of the process, including a clear division of tasks and responsibilities, principles of risk control and monitoring as well as rules concerning reporting and information flow in the process. The figure below shows the design of the ERM system functioning in TAURON Capital Group.

Figure no. 2 ERM enterprise risk management system



The ERM system operating in TAURON Capital Group ensures comprehensive and consistent risk management rules linked with each other in terms of methodology and information.

The rules of the ERM system are implemented at a level of all significant processes, comprising simultaneously all elements of TAURON Capital Group's value chain, which enables a comprehensive and adequately early risk identification in TAURON Capital Group areas and, as a consequence, provides a possibility to undertake effective risk response.

Roles and responsibilities of the risk management system participants

The key assumption of the risk management system is a clear and precise distribution of tasks and responsibilities, ensuring that no conflicts of interest arise through the functional and organisational separation of the risk-taking and risk management function from its control and monitoring which takes place from the level centralised at a level of TAURON Capital Group. The rules of the TAURON Capital Group introduce the function of the Risk Owner, i.e. a person responsible for managing a given risk and developing and implementing an effective response to the threat. The control function, process coordination, as well as responsibility for the proper functioning of the risk management system, has been placed in TAURON, in the Area of the Executive Director for Risk.

In accordance with the requirements of the *Best Practice of WSE Listed Companies*, the Executive Director for Risk responsible for coordination of the risk measurement and control function reports directly to the member of the Management Board and has a possibility of direct reporting to the Supervisory Board and the Audit Committee. The Executive Director for Risk prepared and submitted for the information of both the Management Board, the Audit Committee and the Supervisory Board cyclical reports and reports concerning the risks identified at the TAURON Group level and the measures taken to mitigate individual risks.

Moreover, within the risk management process the Risk Committee fulfils a special role, as the team of experts that permanently and continuously initiates, analyses, monitors, controls, supports and

supervises the performance of the risk management system in TAURON Capital Group. The Risk Committee comprises persons with relevant knowledge on the Company and its environment as well as the required qualifications and powers.

Assessment of the adequacy and effectiveness of the risk management system

The risk management system operating in TAURON Capital Group is a systematic process and it is subject to continuous improvement in order to adjust it to the specific nature and organisational structure of TAURON Capital Group as well as to the changing environment. TAURON Capital Group puts strong emphasis on building risk management awareness, training and encouraging employees to use knowledge on risks in their daily activities.

It should be indicated that 2020 was a special year due to the occurrence of the COVID-19 epidemic, the effects of which had an impact on the organisational functioning of individual business areas of TAURON Group and on the levels of revenues and costs generated by them. The effects of the epidemic were observed particularly in the area of electricity sales and distribution as well as hindered the execution of business processes in individual TAURON Group companies, including critical processes. The organisation has taken extensive measures aimed at mitigating the negative effects of this risk, both in terms of business as well as maintaining business continuity and protecting employee health and safety.

In 2020, in order to ensure the adequacy of the risk management system process, among others, a set of internal regulations on risk management in force in the TAURON Group was updated and implemented, a formal definition of the Risk Appetite representing the maximum level of risk permitted by the TAURON Management Board was introduced and the approach to Risk Tolerance and the resulting system of risk limits was extended. Furthermore, the system of risk control indicators introduced in previous years was further developed, with particular emphasis on early warning indicators and as a result of the observed high volatility of the market and economic environment, credit and market risk management tools and procedures were reviewed in detail in 2020. The TAURON Group's risk register was also reviewed and updated in 2020 to identify new risk factors and implement mitigating measures. As a result of this review, the list of key risks was updated and the catalogue of risks for which detailed risk response and contingency plans were developed, was reviewed.

In the opinion of the Supervisory Board, the TAURON risk management system ensures an appropriate level of business security. Tools for risk identification, measurement, reporting and control allow for the advance development and implementation of responses to emerging risks and, consequently, the achievement of the TAURON Group's business and strategic objectives. Adequate resources have been provided for the effective operation of the risk management and control system adjusted to the size of the company and the type and scale of its business. The risk management process is compliant with the best market practice and the regulatory requirements while the organisation of the process itself ensures independence of control functions from the business activity. In particular, the Executive Director for Risk responsible for risk management in TAURON Group reports directly to the Member of the Management Board and is ensured the possibility of reporting directly to the Supervisory Board or the Audit Committee. The Executive Director for Risk prepared and submitted for the information of both the Management Board, the Audit Committee and the Supervisory Board cyclical reports and reports concerning the risks identified at the TAURON Group level and the measures taken to mitigate individual risks. Moreover, TAURON continued to develop the existing risk management system, adapting it to the current needs and actively managing risks, aiming at early identification of threats and maximum reduction or elimination of their negative impact on the financial result and the achievement of the operational and strategic objectives of TAURON Capital Group.

Compliance assessment (compliance management)

In order to meet market standards, TAURON Group has introduced and is developing the Compliance Management System to ensure that the organisation operates ethically, in accordance with the law and accepted internal corporate regulations.

The Compliance Management System has been created taking into account the needs and specific character of the whole organisation and comprises the activities of all organisational units of TAURON Capital Group companies.

Compliance management takes place in three areas: compliance with the law, compliance with internal and corporate regulations, and compliance with ethical standards.

Compliance in TAURON Capital Group is ensured through:

- 1) preventive measures - to prevent non-compliance,
- 2) detection activities - aimed at detecting, investigating and eliminating cases of non-compliance,
- 3) analytical activities - consisting of verification and analysis of identified cases of non-compliance.

The basis for the functioning of the Compliance Management System in the TAURON Group, in particular the structure, procedures, tools, stages and areas of compliance management are set out in the *TAURON Group Compliance Policy*.

The culture of compliance at TAURON Group covers all issues related to compliance, including the implementation of the TAURON Group Code of Responsible Business. This Code is a key document on ethical culture in the organisation.

The compliance tasks in 2020 were implemented by: the TAURON Compliance Officer with the support of the Compliance Team and the Compliance Coordinators of TAURON Group companies.

The structuring of the compliance system at TAURON through the separation within the company of the Compliance Officer reporting directly to the President of the Management Board with the ensured possibility of reporting to the Supervisory Board and the Audit Committee is compliant with:

- 1) Best Practice of Companies Listed at GPW, 2016,
- 2) The standards recommended for the compliance management system in the area of counteracting corruption and the whistleblower protection system in companies listed on the markets organised by the WSE.

The activities of the Compliance Area included, among others:

- 1) verification and clarification of reported (potential) cases of non-compliance (*whistleblowing*) in TAURON Group,
- 2) testing the credibility of counterparties and implementing the Counterparty Credibility Assessment Base in the form of an IT application,
- 3) conducting the process of evaluation of external entities with whom the companies of TAURON Capital Group implement PR and marketing projects,
- 4) providing opinions and participating in the development of compliance-related regulations at TAURON Capital Group ,e.g. the implementation of the TAURON Group' s *Rules of conduct in the case of inspection in companies of TAURON Group, Principles for Preventing Conflicts of Interest in TAURON Group, Procedures for Preventing Money Laundering and Terrorist Financing* in TAURON Group,
- 5) responding to employees' compliance questions and issuing communications on compliance within TAURON Group,
- 6) training, including the organisation of the Virtual Compliance Day 2020 in the entire TAURON Group.

The Compliance Officer provided the Audit Committee of the TAURON Polska Energia S.A. Supervisory Board with cyclical reports on the tasks performed after the end of each quarter, and the TAURON Polska Energia S.A. Supervisory Board - after the end of each half-year. *The Report for the Audit Committee of the Supervisory Board of TPE S.A. on the periodic assessment of related party transactions* was also prepared.

In addition, the Compliance Officer prepared the TAURON Group Compliance Report for 2020, which included, among others, the assessment of the adequacy and effectiveness of the adopted Compliance Management System and the level of implementation of the Compliance Plan.

The catalogue of tools, measures, tasks and activities carried out in 2020 by the Compliance Area was diversified and comprehensive, which guaranteed the due fulfilment of the protective, advisory, information and control functions and was important for ensuring the due functioning of the CMS (*Compliance Management System*) in TAURON Group.

In view of the foregoing, when assessing the effectiveness of the TAURON Group's Compliance Management System in 2020, the Supervisory Board concluded that the scope of tasks performed by the Compliance Area had significantly expanded compared to 2019.

The Compliance Management System in TAURON Group is a tool to ensure balance in the organisation and to support employees in performing their daily tasks duly, i.e. in accordance with regulatory requirements and ethics, using proportionate measures to eliminate the risk of undesirable behaviours and activities.

THIRD LINE OF DEFENCE

The internal audit function existing in TAURON, which is a part of the Company's internal control system, is assessed as effective. Nevertheless, due to the dynamic development of the organisation, the Audit and Control Area is constantly being improved in a manner adequate to the changes taking place.

The Audit and Control section plans and implements tasks of audit and control nature, including performance of ordered ad hoc controls, as well as conducts advisory and opinion-forming activities. Methods and rules of functioning of the Internal Audit are defined in the Process Documentation of the Megaprocess 1.5 Audit along with the related document called: *Regulations of Internal Audit in TAURON Group*. The introduction of the aforementioned Megaprocess was a consequence of the adoption of the *Business Model of TAURON Capital Group* by the Management Board of the Company. While implementing the internal audit function, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

The organisational unit managed by the Executive Director for Internal Audit and Internal Control in the TAURON organisational structure reports directly to the President of the Management Board, which ensures independence, objectivity and due performance of the audit and control function. Audit and advisory activities are performed by the Internal Audit Team, which carries out audit tasks both in the strategic area, covering the Capital Group and specialised tasks of an operational nature at the level of individual companies and business areas of TAURON Capital Group.

The control activities are also organised at the level of TAURON Group by the Internal Control Team and at the level of subsidiaries by controllers employed in these companies. In addition, the Internal Control Team performs specialised inspections of the IT, OT and security system areas. The tasks carried out by these units comprise both scheduled inspections and ad hoc inspections ordered on an ongoing basis.

Such an organisation of the area is intended to enable the scope of audits and controls to cover the entire activity of the organisation both from the perspective of the needs of TAURON Capital Group and individual companies. The scope of duties and powers defined in the internal regulations, as well as the adopted working methods and resources available to the Internal Audit and Control allow for effective implementation of the objectives set which in turn translates into the achievement of the objectives of TAURON Capital Group.

The table below presents the basic functions of internal audit and internal control (institutional control) in TAURON Capital Group.

Basic internal audit functions in TAURON Capital Group

No.

1. Supporting TAURON Capital Group in accomplishing the adopted strategic goals.
2. Supporting TAURON Capital Group in the process of ensuring the accurate and effective functioning of organisational and process solutions constituting its corporate governance.
3. Contributing to the improvement of risk management processes and supporting the process of risk identification and assessment.
4. Supporting TAURON Capital Group in maintaining of the effective internal control system and promoting the continuous improvement of the internal control system.
5. Contributing to corporate culture building serving for effective counteracting of abuse.

The Executive Director for Internal Audit and Internal Control carries out his tasks through annual audit and control plans covering both TAURON and other companies of TAURON Capital Group. Results of Internal Audit activities comprise recommendations adjusting control mechanisms operating in TAURON (TAURON Capital Group) as well as suggesting changes of effectiveness nature.

In 2020, the Audit and Control Area carried out 36 planned and ad hoc tasks. This work resulted in observations, conclusions and recommendations which contributed to the improvement of the internal control system in TAURON and in the entire TAURON Capital Group.. Both the progress of implementation of the recommendations issued and the final deadline for their performance is monitored on an on-going basis by the Internal Audit and Control Area supported in this scope by the implemented MRA IT tool.

9. Assessment of the method of fulfilling information obligations related to the application of corporate governance rules by the Company

In 2020, the Company was subject to corporate governance rules, described in the document *Best Practice 2016*, which was adopted for application by the Warsaw Stock Exchange Board on 13 October 2015.

In the period covered by this report, the Company applied the recommendations and rules contained in *Best Practice 2016*, excluding the following rules:

- 1) IV.Z.2. concerning ensuring of publicly available real-time broadcasts of General Meetings. The Company monitors the shareholding structure on an ongoing basis and, should changes occur that justify the need for a universally available real-time broadcast of the General Meeting, the Company will take appropriate action to ensure the broadcast,
- 2) VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of remuneration of members of the Company's management board and key managers to the actual long-term financial standing of the Company and long-term shareholder value creation as well as the Company's stability. This rule was not applied due to the remuneration and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers which stipulates that the level of remuneration will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,
- 3) VI.Z.2. concerning tying the remuneration of members of the management board and key managers to the long-term business and financial objectives. The period between the allocation of options or other instruments linked to the company shares under the incentive scheme and their exercisability should be no less than 2 years. This rule was not applied due to the remuneration and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key

managers does not provide that remuneration should be tied to instruments linked with the Company shares.

In 2020, the following rules did not apply to the Company:

- 1) I.Z.1.10. concerning placing financial projections on the Company website - if the company has decided to publish them - published at least in the last 5 years, including information about the degree of their implementation. This rule did not apply to the Company due to the fact that the Company does not publish financial forecasts,
- 2) III.Z.6. stating that where the Company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated. This rule did not apply to the Company due to the fact that the Company has a separate organisational unit for internal audit in its organisational structure.

In 2020, the document entitled *Diversity Policy in the TAURON Group* was in force, developed and introduced for use in 2017, described the applied diversity policy in relation to the Company's governing bodies and its key managers, referred to in the principle marked as I.Z.1.15. of *Best Practice 2016*.

Obligations related to the application of corporate governance rules are set out in § 29 of the *WSE Rules* and § 70.6(5) of the *Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent* (hereinafter the "*Regulation*").

In accordance with §29 of the *WSE Rules*, should a specific detailed corporate governance rule not be applied on a permanent basis or be breached incidentally, the issuer shall publish a report containing information about which rule is not applied at all or has not been applied, under what circumstances and for what reasons and how the issuer intends to remove effects, if any, of not having applied a given rule on an occasion or what steps it intends to take to mitigate the risk of the rule not being applied in the future. The report should be published at the issuer's official website and in the way analogous to that applied to submission of current reports. The obligation to publish the report should be performed as soon as the issuer becomes reasonably convinced that a given rule will not be applied at all or on an occasion, in any case promptly after an event representing a breach of a detailed corporate governance rule occurs.

In connection with the wording of § 29 of *the WSE Rules* and the entry into force of *Best Practices 2016*, on 1 February 2016, the Company published through the EBI system, a report on their application. Since then, the Company has not recorded any cases of violation of the *Best Practices 2016*.

According to the wording of § 70(6)(5) of the *Regulation*, the report on the issuer's activity should include, inter alia, a separate part of the report on the application of corporate governance, which should include at least the following information:

- 1) indicating:
 - a) the set of corporate governance rules the issuer is subject to and the venue where the text of the set of rules is available to the public, or
 - b) the set of corporate governance rules the issuer could have decided to apply on a voluntary basis and the venue where the text of the set is available to the public, or
 - c) any relevant information related to corporate governance practice used by the issuer, going beyond the requirements stipulated under the national law, including the presentation of information on corporate governance practice used by it,
- 2) to the extent the issuer has waived the provisions of the set of corporate governance rules, indicating such provisions and explaining the reasons for such waiver.

Taking into account the requirements of *the Regulation*, the Company published on its website statements on corporate governance principles, which are a part of the Management Board's reports on TAURON's activities for the years 2010-2020.

In the opinion of the TAURON Supervisory Board, in 2020, the Company duly fulfilled its disclosure obligations related to the application of corporate governance rules set forth in the *WSE Rules* and the *Regulation*, and the explanations and comments published by the Company related to the corporate governance set present the functioning of the Company governing bodies in a reliable, transparent and appropriate manner.

10. Assessment of rationality of the Company policy on sponsorship, charity or other similar activities

Sponsorship activities in TAURON Group are carried out on the basis of the TAURON Group Sponsorship Strategy and the TAURON Group Sponsorship Rules. Since 2019, the sponsorship activities have been carried out exclusively by TAURON Polska Energia S.A. In previous years, they were also carried out in TAURON Sprzedaż sp. z o.o. The activities performed are monitored, analysed and reported on an ongoing basis through detailed reports on the implementation of sponsorship agreements. Surveys and analyses are conducted on a quarterly, semi-annual and annual basis by specialised external entities. Control of the projects and the sponsorship plan is exercised by the Sponsorship Committee which is composed of Executive Directors responsible for: Strategy and Corporate Governance, Security, Risk, Human Resources, Controlling and by the Member of the Management Board responsible for product marketing. Sponsorship projects are managed on an ongoing basis by the Communication and Marketing Area at TAURON Polska Energia S.A. The projects are supervised by the Management Board of TAURON Polska Energia. Sponsorship activities in TAURON Group are carried out on the basis of a sponsorship activity plan. The document is reviewed by the Supervisory Board of TAURON Polska Energia. Individual agreements are executed on the basis of a standard sponsorship agreement template approved by the Supervisory Board of TAURON Polska Energia. Sponsorship agreements with a value exceeding PLN 500,000 are subject to a separate review procedure by the Supervisory Board. A report on the conduct of sponsorship activities is prepared after the closure of each financial year. This document is adopted as a resolution by the Company Management Board and then presented to the Supervisory Board.

The assessment of the effectiveness of activities performed is enabled by the procedures implemented, which include opinion surveys, measurement of the value of brand exposure in the context of the objectives indicated in the Strategy for this area and reporting to the authorities of TAURON Polska Energia (the Management Board and the Supervisory Board).

All sponsorship agreements concluded in 2020 contain additional success fee clauses. This ensures that half of the remuneration for the sponsored entity is linked to the Advertising Value Equivalency (AVE) achieved. This constitutes an additional safeguard of the Company interest.

As a result of the measurement promotional effectiveness, an independent research entity estimated the advertising equivalency achieved for activities completed in 2020. Comparing the summarised value obtained in this manner to the sum of all expenditure arising from sponsorship agreements, a ROI ratio at a level of approximately 9.03 was obtained. It means that each zloty spent for that purpose generated promotional benefits to TAURON Capital Group whose preliminary value is independently, initially estimated at approximately PLN 9. In 2020, the leading projects included cooperation with the Polish Volleyball League and TAURON Arena Krakow. Both projects generate very good AVE results. These are long-term agreements which allow for strengthening of the brand image, influence the brand position in relation to industry competition and support the TAURON Group's marketing activities.

The confirmation of the effectiveness of conducted activities is the high positioning of TAURON brand in an independent research report, Sponsoring Monitor 2020, which is the only source of this type of information concerning the Polish market. According to this report, TAURON improved its position compared to the previous year and reached the seventh place in the TOP 10 sponsors list. The overall result of spontaneous awareness of the TAURON brand is similar to the results achieved by brands such as CocaCola, PZU or PGE. Due to the relatively low level of sponsoring expenditure in TAURON Capital Group, the position in this ranking can be treated as very high.

Sponsorship activities in TAURON Capital Group are carried out in accordance with the following intra-corporate regulations:

- 1) *Sponsorship rules in TAURON Group,*
- 2) *Sponsorship strategy of TAURON Group for 2018-2025,*
- 3) The template of the sponsoring agreement, including the Agreement Template Card in the Regulations on the application of Standard Clauses.

The framework for activities in the field of corporate social responsibility of TAURON Capital Group is the TAURON Group Sustainable Development Strategy for 2017-2025 adopted by the Management Board in 2017. The document was prepared in full compliance with the TAURON Group Strategy for 2016-2025, taking into account the opinions of the environment as well as current and future challenges facing the energy sector.

In accordance with the Strategy in force as well as the update of the Strategic Directions adopted in May 2019, the Group's value growth will be based, among others, on the growth in the Distribution segment and the development of low- and zero-carbon sources as well as the sale of energy and energy-related products and services tailored to customers' needs. The structure of the Strategy is based on five directions - two leading directions: Customer Focus and Needs and Reliability and Quality of Products and Services Delivered to Customers) and three supporting directions: Safety at Work, Ethical Culture and Employee Engagement, Environmental Protection and Social and Business Partnership.

An activity included in this direction is the communication launched under the slogan: TAURON's Green Return, showing consistency in planned activities, investments and the offer addressed to customers in companies of TAURON Group.

The scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. The scale of initiatives conducted varies from one-off activities at the local level, to long-term, systemic programmes and solutions. However, regardless of their scope and duration, all activities in the field of sustainable development have a common denominator, i.e. they fit into the company's core values, mission and vision as a signpost in conducting business activities.

The activities implemented in 2020 were dependent on epidemiological conditions and restrictions resulting from the Covid-19 pandemic. The Company has been heavily involved in helping to combat the coronavirus, providing support to the health service and carrying out pro-social activities. The forms of cooperation have also been adapted to the situation in order to make the tasks carried out as effective as possible.

Charity activities in TAURON are carried out through the TAURON Foundation whose statutory objective is to act for the public welfare mainly in the field of education, upbringing and science and additionally in the field of health care, development of the economy, culture and arts, social care and assistance, sport and recreation, environmental protection, protection of cultural assets and national heritage and promotion and organisation of volunteering. The TAURON Foundation operates on the basis of funds acquired mainly from companies of TAURON Capital Group and charitable activities of employees as part of employee volunteering. The assistance is granted on the basis of the Foundation budget estimate for a given year prepared by the Management Board and assessed by the Foundation Council, according to the procedures specified in the *Regulations for Granting Assistance to Beneficiaries*.

In the opinion of the TAURON Supervisory Board in 2020, the Company correctly and rationally implemented initiatives and tasks in the field of corporate social responsibility. All sponsorship projects carried out in 2020 by companies of TAURON Capital Group and the TAURON Foundation are compliant with the adopted *Sponsorship Strategy of TAURON Group for the years 2018-2025* and are in line with the directions supporting: social and business partnership and occupational safety, ethical culture and employee involvement.

30 March 2021

Chairman of the Supervisory Board - Andrzej Kania

Vice Chairwoman of the Supervisory Board - Teresa Famulska

Secretary of the Supervisory Board - Katarzyna Taczanowska

Member of the Supervisory Board - Ryszard Madziar

Member of the Supervisory Board - Grzegorz Peczkis