



**Report of the Supervisory Board
of TAURON Polska Energia S.A. on the operations
in the financial year 2021**

30 March 2022

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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 *Best Practice for WSE Listed Companies 2021* (hereinafter referred to as: the Best Practice 2021), 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 2021* to the Ordinary General Meeting of the Company (hereinafter referred to as: the Report).

The Report presents a description of the activity and functioning of the Supervisory Board and its committees in the financial year 2021.

Applying the recommendations and principles of *Best Practice 2021*, the Supervisory Board performed an assessment of:

- 1) the situation of the Company from the perspective of consolidation, including the assessment of internal control systems, risk management, compliance and the internal audit function, including information on the activities undertaken by the Supervisory Board to perform the assessment; the assessment covers all relevant control mechanisms, especially those related to financial reporting and operational activities;
- 2) application by the Company of the corporate governance principles and 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 [Giełda Papierów Wartościowych w Warszawie S.A.] (Stock Exchange) and regulations concerning current and periodic information provided by issuers of securities, together with information on activities undertaken by the Supervisory Board to perform the assessment;
- 3) the rationality of the expenses incurred by the Company and TAURON Capital Group to support culture, sports, charities, media, voluntary associations, trade unions, etc.

As a part of implementation of the rules defined in the *Best Practice 2021*, the Supervisory Board presents the aforementioned evaluations contained herein to the Ordinary General Meeting of the Company.

2. Information on the term of office, composition and functions fulfilled 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 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% 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 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% 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, 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% of total votes in the Company, the State Treasury, represented by a minister competent to exercise the rights arising from the State Treasury shares 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 at 31 December 2021 and as at the date of this Report.

Table no. 1 Composition of the Supervisory Board as at 31 December 2021 and as at the date of this report

| No. | Name and surname | Function exercised |
|-----|-----------------------|--|
| 1. | Piotr Tutak | Chairman of the Supervisory Board |
| 2. | Teresa Famulska | Deputy Chairwoman of the Supervisory Board |
| 3. | Katarzyna Taczanowska | Secretary of the Supervisory Board |
| 4. | Stanisław Borkowski | Member of the Supervisory Board |
| 5. | Dariusz Hryniów* | Member of the Supervisory Board |
| 6. | Leszek Kozirowski | Member of the Supervisory Board |
| 7. | Ryszard Madziar | Member of the Supervisory Board |
| 8. | Grzegorz Peczkis | Member of the Supervisory Board |
| 9. | Marcin Wawrzyniak | Member of the Supervisory Board |

**Dariusz Hryniów was appointed to the Supervisory Board on 26 January 2022*

As at 1 January 2021 the Supervisory Board consisted of the following Members: 1) Andrzej Kania (Chairman of the Supervisory Board), 2) Teresa Famulska (Vice-Chairwoman of the Supervisory Board), 3) Katarzyna Taczanowska (Secretary of the Supervisory Board), 4) Ryszard Madziar, 5) Grzegorz Peczkis and 6) Barbara Piątek.

Changes in the composition of the Supervisory Board during the financial year 2021 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 2021 and until the date of the Report

| Date | Changes in the composition of the Supervisory Board |
|------------------|--|
| 12 February 2021 | Barbara Piontek submitted a statement of resignation from membership in the Supervisory Board of the Company of the 6 th joint term of office as of 28 February 2021. |
| 6 April 2021 | Minister of State Assets, acting pursuant to § 23(1)(1) and (3) of the Company Articles of Association, appointed Marcin Wawrzyniak to the Company's Supervisory Board of the 6 th joint term of office. |
| 24 May 2021 | The Ordinary General Meeting of the Company, acting pursuant to § 23(1) of the Articles of Association, appointed Stanisław Borkowski and Leszek Kozirowski to the Supervisory Board of the Company of the 6 th joint term of office. |
| 16 November 2021 | Minister of State Assets acting pursuant to § 23(1)(3) of the Articles of Association appointed Piotr Tutak to the Supervisory Board of the Company. |
| 18 November 2021 | Andrzej Kania submitted a statement of resignation from membership in the Supervisory Board of the Company of the 6 th joint term of office as of 18 November 2021. |
| 26 January 2022 | Minister of State Assets acting pursuant to § 23(1)(3) of the Articles of Association appointed Dariusz Hryniów to the Supervisory Board. |

3. Information on the fulfilment of independence criteria by Members of the Supervisory Board and ties to a shareholder holding at least 5% of total number of votes in the Company

The table below presents information on the fulfilment or non-fulfilment of independence criteria by Members of the Supervisory Board as understood by Article 129 (3) of the *Act on Certified auditors, audit firms and public oversight* of 11 May 2017 (hereinafter: Act on certified auditors) and about existence or non-existence of actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company, which is referred to in principle 2.11.1 of Best Practice 2021, as of 31 December 2021 and as at the day of drawing up this report.

Table no. 3 Fulfilment of the independence criteria by Members of the Supervisory Board and actual ties to a shareholder

| Name and Surname | Fulfilment of the independence criteria | | Actual ties to a shareholder | |
|--------------------------|---|-------------------------------|------------------------------|-------------------------------|
| | as at 31 December 2021 | as at the date of this report | as at 31 December 2021 | as at the date of this report |
| 1. Piotr Tutak | Independent | Independent | Did not exist | Do not exist |
| 2. Teresa Famulska | Independent | Independent | Did not exist | Do not exist |
| 3. Katarzyna Taczanowska | Independent | Independent | Existed | Exist |
| 4. Stanisław Borkowski | Independent | Independent | Did not exist | Do not exist |
| 5. Dariusz Hryniów | - | Independent | - | Do not exist |
| 6. Leszek Kozirowski | Independent | Independent | Did not exist | Do not exist |
| 7. Ryszard Madziar | Independent | Independent | Did not exist | Do not exist |
| 8. Grzegorz Peczkis | Independent | Independent | Did not exist | Do not exist |
| 9. Marcin Wawrzyniak | Independent | Independent | Did not exist | Do not exist |

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 2021*.

In the financial year 2021 the Supervisory Board held, in total, 20 meetings and adopted 110 resolutions. All Members of the Supervisory Board participated in 17 meetings. During the remaining three meetings, the individual absences of Members of the Supervisory Board were excused by the relevant resolutions of the Supervisory Board.

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.

Representatives of the Supervisory Board participated in the Ordinary General Meeting of the Company on 24 May 2021 to be able to provide answers to questions posed during the General Meeting.

While exercising its competence, the Supervisory Board permanently supervised operations of the Company in all areas of its activity, in particular, in relation to the achieved economic and financial results of the Company and TAURON Capital Group, as well as execution of the material and financial plan, implementation of strategic investments of key importance to 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.

Table no. 4 Main issues considered by the Supervisory Board during its meetings in 2021

| Main issues considered by the Supervisory Board during its meetings in 2021 |
|--|
| <i>In the scope of its opinion-making / evaluation functions</i> |
| <ol style="list-style-type: none">1) It evaluated the <i>Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2020 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,2) It evaluated the <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2020 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 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 2020,4) It evaluated the <i>Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the 2020 financial year and the Report on non-financial information of TAURON Capital Group for 2020</i>,5) 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 2020 and the motion of the Management Board concerning coverage of net loss for the financial year 2020</i>,6) It issued a positive opinion on the <i>Report of TAURON Polska Energia S.A. on representation 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 2020</i>,7) It issued a positive opinion on the <i>Annual Report on implementation of the sponsoring activity by TAURON Group in 2020</i> as well as plans for sponsoring activity of TAURON Capital Group for the years 2021 and 2022,8) It issued a positive opinion on the motions of the Management Board to the General Meeting for introducing amendments to the Articles of Association of TAURON and By-laws of the General Meeting of TAURON,9) It discussed and presented comments to the draft of <i>TAURON Group's 2022-2030 Strategy with 2050 outlook</i>. |
| <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 2020</i> containing: |

- 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,
 - 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,
 - the assessment of the rationality of the policy of sponsorship, charity or other similar activities carried out by the Company,
 - the assessment of compliance with the criteria of independence by members of the Supervisory Board,
- 2) it adopted the unified text of the *Articles of Association of TAURON Polska Energia S.A.* and the amended *By-laws of the Supervisory Board of TAURON Polska Energia S.A.*
 - 3) it approved the amended *By-laws of the Management Board of TAURON Polska Energia S.A.* and *Organizational By-laws of TAURON Polska Energia S.A.*,
 - 4) it approved the *Material and financial plan of TAURON Group for 2021* and the *Material and financial plan of TAURON Polska Energia S.A. for 2021*,
 - 5) it adopted the *Procedure for data verification for the Report on remunerations of Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A.*,
 - 6) it adopted the *Report on remuneration of Members of Management Board and Supervisory Board of TAURON Polska Energia S.A. for the years 2019-2020* and submitted it to the General Meeting for opinion,
 - 7) it adopted the amended wording of the *Procedure for periodic assessment of transactions with related entities*,
 - 8) it adopted the *Concept of RES Segment reorganization*,
 - 9) it adopted the *Report on availability of aid funds and the readiness of the Company to apply for them*,
 - 10) 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,
 - 11) 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: changes in the rules of remuneration of members of management boards, decrease in the share capital, merger of companies, change of company name, head office, activity,
 - 12) it monitored the functioning of the Committees of the Supervisory Board and filled in vacancies in them.

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

- 1) it met with the certified auditor to discuss the results of the audit of the financial statements of the company and TAURON Capital Group for the financial year 2020,
- 2) it reviewed the conclusions and results of the audit of the financial statements of the Company and TAURON Capital Group for the year 2020, as well as the additional report prepared for the Audit Committee,
- 3) it reviewed the report of the certified auditor on the evaluation of the *Report on remuneration of Members of the Management Board and Supervisory Board of TAURON Polska Energia S.A. for the years 2019-2020*,
- 4) it adopted the resolution to appoint Ernst & Young Audyty Polska sp. z o.o. sp. K. as the audit firm to perform audit and review of financial statements and consolidated financial statements of TAURON for the years 2022-2024,

In the scope of supervision over the current activities of the Company and TAURON Capital 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, debt, utilisation of the generation potential, the process of asset recovery as well as projected revenues and profits in individual business areas,
- 2) it analysed current information concerning, inter alia, status of implementation of strategic investment projects, key corporate and specific risks in TAURON Capital Group, completed and ongoing audit tasks in TAURON Capital Group, compliance management area, court disputes of the company Polska Energia – Pierwsza kompania Handlowa sp. z o.o., list of resolutions adopted by the Management Board,
- 3) it reviewed the information concerning application of principles defined in Best Practice 2021 by TAURON,
- 4) it monitored the process of implementation of the social dialogue in the Company and in TAURON Capital Group, organized meetings with representatives of the trade unions and employers' associations, explained reported comments,

- 5) it reviewed the information concerning the expenses incurred on advisory services in TAURON and in TAURON Capital Group in the period of H1 2021 broken down by business and strategic advice, legal advice, audit services, tax advice and other,
- 6) it analysed issues concerning potential conflict of interest in the activities of the Supervisory Board,
- 7) it reviewed the report on implementation of the Regulation of the European Parliament and of the Council on Personal Data Protection (GDPR).

In the scope of its competence concerning the Management Board

- 1) based on the recruitment procedures, it appointed Members to the Management Board of TAURON Polska Energia S.A. of the 6th joint term of office,
- 2) it submitted motions to the Ordinary General Meeting to acknowledge the fulfilment of duties by Members of the Company Management Board in the financial year 2020,
- 3) 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 of the 5th and 6th terms of office for 2020,
- 4) it amended Attachment No. 1 to Resolution No. 94/IV/2016 of the Company of 19 December 2016 on formation of the remuneration of Members of the TAURON Polska Energia S.A. Management Board entitled: *Terms and conditions for defining and division of Management Objectives together with their weight and criteria for performance and settlement*,
- 5) in connection with the adopted remuneration system, it specified the management objectives for Members of the Company Management Board to be implemented in 2021, together with the weight of these objectives and the objective criteria for their implementation and settlement,
- 6) it gave consent to the Members of the Management Board to hold positions in governing bodies of other companies and associations.

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 approved of the Report of the Management Board of TAURON Polska Energia S.A. on oversight of investment projects in TAURON Group in 2020,
- 2) it adopted the Report of the Supervisory Board of TAURON Polska Energia S.A. on oversight of the Management Board's execution of investments, including purchase of fixed assets in the year 2020 and issued positive opinion without objections as to the adequacy and effectiveness of expenditures on fixed assets,
- 3) it agreed to sign the agreement between TAURON and Izba Rozliczeniowa Giełd Towarowych S.A. for transfer of ownership to secure, that stipulates buy back of parts of fixed assets in the form of CO₂ emission allowances from Izba Rozliczeniowa Giełd Towarowych S.A. by TAURON,
- 4) it agreed to incur contingent liabilities in the form of bank guarantees in favour of entities other than zba Rozliczeniowa Giełd Towarowych,
- 5) it expressed its consent to incurring a contingent liability by TAURON in the form of granting a surety for the liabilities of the subsidiary, TAURON Sprzedaż sp. z o.o. towards Polska Spółka Gazownictwa sp. z o.o.,
- 6) it agreed to purchasing by TAURON of the shares of Nowe Jaworzno Grupa TAURON sp. z o.o. from a minority shareholder, i.e. Fundusz Inwestycji Infrastrukturalnych - Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, managed by PFR Towarzystwo Funduszy Inwestycyjnych S.A. and represented by Polski Fundusz Rozwoju S.A.,
- 7) it agreed to sell shares in PGE EJ 1 sp. z o.o. to the State Treasury, without tender procedure and to sign agreement for termination of the Founders Agreement of 2014,
- 8) it reviewed current information concerning the removal of the failure of the 910 MWe supercritical power unit in Jaworzno,
- 9) it reviewed the issues related to the participation of the TAURON Capital Group's generating units in the capacity market,
- 10) it granted its consent to the conclusion, jointly with PGE Polska Grupa Energetyczna S.A. and ENEA S.A., of an agreement with KPMG Advisory sp. z o.o. sp.k. for strategic advisory services in the process of separation of coal production assets,
- 11) it discussed the progress of works related to carve out of conventional generation assets to National Energy Security Agency,
- 12) it reviewed the operating periods of the existing generation units at TAURON Wytwarzanie S.A. until 2030 and their impact on further operations of the company, as well as the status of work on investment concepts aimed at capacity replacement,
- 13) it discussed the information of the Management Board concerning acquisition of external funds and internal system for financing of projects implemented by companies from TAURON Capital Group,
- 14) it discussed the plan and schedule of distribution of funds acquired from issue of bonds in the amount of PLN 1 billion,

- 15) it reviewed the status of implementation in 2021 of the adopted work schedules related to RES projects, as well as with the refurbishment and overhauls of hydroelectric power plants planned by TAURON EKOENERGIA S.A,
- 16) it accepted the implementation schedules of selected R&D projects launched and reviewed the R&D projects implemented using external funds.

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 2021, including the purchase of fixed assets.

The Supervisory Board does not have any reservations as to the cooperation with the Management Board.

5. Committees of the Supervisory Board

While implementing the principles defined in the Best Practice 2021, in the financial year 2021, 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 the Committees of the Supervisory Board.

Table no. 5 Tasks and competence of Committees of the Supervisory Board

| Tasks and competence of Committees of the Supervisory Board |
|--|
| Audit Committee |
| <ol style="list-style-type: none">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.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 the 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 on statutory auditors 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 |
| <ol style="list-style-type: none">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 Audit Committee of the Supervisory Board is meets the requirements of Article 129(3) of the Act on statutory auditors. All members of the Audit Committee met the statutory independence requirements. Two members of the Audit Committee have knowledge and skills in the scope of accounting and audit of financial statements, including the Chairwoman of the Audit Committee. One Member of the Audit Committee has knowledge and skills in the scope of 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 Committees of the Supervisory Board as at 31 December 2021 and as at the date of this report.

Table no. 6 Composition of the Supervisory Board Committees as at 31 December 2021 and as of the date of this Report

| No. | Name and surname | Audit Committee | Nominations and Compensation Committee | Strategy Committee |
|-----|-----------------------|-----------------|--|--------------------|
| 1. | Piotr Tutak | - | Chairman | Member |
| 2. | Teresa Famulska | Chairwoman | - | - |
| 3. | Katarzyna Taczanowska | Member | - | - |
| 4. | Stanislaw Borkowski | Member | - | Member |
| 5. | Dariusz Hryniów* | - | - | Member |
| 6. | Leszek Koziarowski | Member | Member | - |
| 7. | Ryszard Madziar | - | Member | Member |
| 8. | Grzegorz Peczkis | Member | - | Chairman |
| 9. | Marcin Wawrzyniak | - | Member | Member |

*Dariusz Hryniów was appointed in 2022, so the table shows his membership of committees only as of the date of this Report

In the financial year 2021:

- The Audit Committee held a total of 8 meetings and adopted 18 resolutions,
- The Nominations and Compensation Committee held a total of 7 meetings and adopted 14 resolutions,
- The Strategy Committee held a total of 7 meetings (including 2 meetings at TAURON Group companies) and adopted 8 resolutions.

Table no. 7 Main issues considered by the Committees of the Supervisory Board during their meetings in 2021.

Main issues considered by the Committees of the Supervisory Board during their meetings in 2021.

Audit Committee

- 1) 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 2020 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 2020,*
 - *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the financial year ended 31 December 2020 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 2020 and Report on non-financial information of TAURON Capital Group for 2020,*
 - *Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the first quarter of 2021,*
 - *Extended consolidated semi-annual report of TAURON Polska Energia S.A. Capital Group for the first half of 2021,*
 - *Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the third quarter of 2021,*
- 2) it cooperated with the statutory auditor in the scope of:
 - audit of the Company financial statements and consolidated financial statements of TAURON Capital Group for the financial year 2020 (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 2021 (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 2021 (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),
- 3) it presented to the Supervisory Board a positive assessment of the independence of the financial audit process and assessment of the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and key certified auditor and members of the team performing the financial audit, as to their fulfilment of independence criteria towards TAURON Capital Group companies and their independence towards the audited company in the period from the previous assessment of independence.,

- 4) it presented to the Supervisory Board a recommendation to adopt the *Report of the Supervisory Board on evaluation of the financial statements 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 on 31 December 2020 and the motion of the Management Board concerning coverage of net loss for the financial year 2020,*
- 5) 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,
- 6) it agreed to launch public tender procedure for *“Audit and review of standalone and consolidated financial statements of TAURON Polska Energia S.A., audit of financial statements of selected subsidiaries of TAURON Polska Energia S.A., assessment of annual reports of the Supervisory Board on remunerations of the Management Board and Supervisory Board of TAURON Polska Energia S.A. for the years 2022-2024 and provision of other allowed services”,* appoint tender commission by the Management Board of the Company and approve of the Purchase Request as well as presented to the Supervisory Board a recommendation concerning appointment of audit firm for the years 2022-2024,
- 7) it approved of the *Report and conclusions from the procedure of selection of audit firm to conduct audit and examination of financial statements and consolidated financial statements of TAURON Polska Energia S.A. for the years 2022-2024,*
- 8) it analysed the financial results of the Company and TAURON Capital Group for 2020, 2020 Q1, 2020 H1 and 2020 Q3,
- 9) it reviewed and positively 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 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 2020, the implementation of the plan of audit tasks for TAURON Group adopted for 2021 and ad hoc checks in individual quarters,
- 12) it reviewed the self-assessment of the activities of the audit area in the period of three years, in terms of the effectiveness of audit and control projects in TAURON Capital Group and covering all significant areas of activity of the TAURON Capital Group companies,
- 13) 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,
- 14) monitored issues in the area of key corporate and specific risks in TAURON Capital Group, as well as discussed the results of the analysis of electricity market price volatility in comparison to CO₂ price development,
- 15) it monitored the quarterly reports on the tasks carried out by the compliance area, as well as reviewed the *TAURON Polska Energia S.A. Compliance Report for 2020, TAURON Group Compliance Plan for 2021* and the reports on periodic assessment of transactions concluded with related parties for the periods of 2020 H1 and 2021 H1.
- 16) it reviewed the information concerning the application of principles defined in Best Practice 2021 by TAURON,
- 17) it analysed the participation of TAURON Group companies in industry organisations, as well as the costs of membership of individual TAURON Group companies in industry organisations in 2021,
- 18) it reviewed quarterly information in the area of procurement, covering in particular: the analysis of procurement proceedings in the framework of monitoring the effectiveness of the internal control system, including the proceedings under the procurement by direct agreement in the TAURON Capital Group companies, conclusions and findings resulting from the analysis of contracts awarded under the emergency procedure in the Company and the TAURON Capital Group companies, reviewed the changes to *the Procurement Regulations in TAURON Group,*
- 19) it adopted the *Report on activities of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2020* and submitted it to the Supervisory Board,
- 20) it performed other tasks assigned by the Supervisory Board, including the analysis and assessment of documents or legal actions performed by the Company, in terms of their compliance with the applicable laws and internal regulations.

Nominations and Compensation Committee

- 7) it recommended to the Supervisory Board to amend Attachment No. 1 to Resolution No. 94/IV/2016 of the Supervisory Board of TAURON Polska Energia S.A. of 19 December 2016 on the formation of remuneration of Members of TAURON Polska Energia S.A. Management Board entitled: *Terms and conditions for defining and division of Management Objectives together with their weight and criteria for performance and settlement*,
- 8) it recommended to the Supervisory Board to adopt detailed Management Objectives for Members of the Management Board of TAURON Polska Energia S.A. of the 6th joint term of office to be completed in 2021, including determining of the weight of those objectives and measurable criteria of their implementation and settlement,
- 9) it conducted the analysis and assessment of the implementation of the Management Objectives set for the Members of the Company Management Board of the 5th and 6th term of office to be achieved in 2020 and presented appropriate recommendations to the Supervisory Board, including the amount of the Variable Remuneration payable to the Members of the Management Board of both terms of office in 2020,
- 10) 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 2020* and submitted it to the Supervisory Board,
- 11) 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*,
- 12) it recommended to the Supervisory Board to announce and conduct the qualification procedure for the position of President and Vice-Presidents of the Management Board of TAURON for the 6th term of office,
- 13) 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 the Company of the 6th joint term of office,
- 14) 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 2020* and submitted it to the Supervisory Board,
- 2) it adopted the *Report of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. containing the recommendation for the Supervisory Board of TAURON Polska Energia S.A. on the concept of reorganisation of the RES Area*,
- 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 discussed issues related to the implementation of RES projects by TAURON EKOENERGIA sp. z o.o. and the planned investment outlays in the period until 2025 for new capacities and the development of the above company,
- 5) it discussed issues related to the concept of implementation by TEC3 sp. z o.o. (currently TAURON Zielona Energia) of projects in the area of RES, including the construction of competence to implement these projects within own development,
- 6) it discussed issues related to ensuring the continuity of repairs and elimination of failures of the machinery and power equipment fleet in TAURON Ciepło sp. z o.o. and TAURON Wytwarzanie S.A.,
- 7) it discussed the directions of the strategy of the TAURON Capital Group, including: the schedule of development and investments in RES, the assessment of the feasibility of investments in power generation with the use of gas, the conclusions from the analysis of the environment and trends for the energy sector in a long-term perspective in the framework of the European and national regulations and the assumptions of the transformation process in the power sector in Poland,
- 8) it discussed planned and projected capital expenditure in TAURON Dystrybucja S.A. in 2021, with particular emphasis on the expenditure included in the material and financial plan and the development plan approved by the President of the Energy Regulatory Office,

- 9) it examined the activity and functioning of TAURON Wydobycie S.A., including: the status of implementation of investment projects comprising the construction of Janina shaft and Grzegorz shaft, the economic and financial results and the volume of output by individual mining plants,
 - 10) it reviewed issues related to the possibilities of capturing CO₂ in conventional coal-fired power plants and the experience of TAURON Capital Group in this area,
 - 11) it visited hydrotechnical structures of TAURON EKOENERGIA sp. z o.o. and analysed the status of water potential, their operation and their development opportunities as well as with development of electricity volumes, prices and revenues from electricity generation by hydroelectric power plants,
 - 12) it discussed the regulatory environment regarding investment in RES, including issues related to EU climate policy and the Fit for 55 Package, assumptions regarding the operation of the support systems, i.e. RES auctions, green certificates, feed-in-tariff (FIT) and feed-in-premium (FIP), support for prosumers, support for offshore wind energy,
 - 13) it discussed the strategic assumptions of TAURON Capital Group in the area of RES and the concept of implementation of the aforementioned projects, including, the status of progress of the implemented projects, assumptions of the reorganisation, planned capacities and work schedule,
 - 14) it discussed the report on the ongoing and planned strategic investment projects in TAURON Capital Group.
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6. Assessment of the Company standing in consolidated perspective including the assessment of internal control, risk management and compliance systems and the internal audit function

6.1. Evaluation of the situation of the Company in consolidated perspective

Evaluation of TAURON's 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, among others, in the areas of wholesale trade in electricity, gas and related products, in particular in the scope of trading support for companies, securing fuels, CO₂ emission allowances and certificates of origin, 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 activity of the Company is mostly carried out on the territory of Poland. Revenues from sales from foreign entities in the years ended 31 December 2021 and 31 December 2020 amounted to PLN 616 million and PLN 23 million, respectively.

Shares of TAURON have been listed at the Primary Market of GPW since 30 June 2010. In 2021, the price of TAURON shares ranged from PLN 2.39 to PLN 3.86 (according to closing prices). The share price during the last session in 2020 reached the level of PLN 2.72 and at the end of 2021 it amounted to PLN 2.65.

The major sources of the Company income comprise dividends from subsidiaries as well as revenue from 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 on 31 December 2021 indicated a positive operating result of PLN 45 million and a negative net financial result in the amount of PLN 260 million.

In the reporting period ended 31 December 2021 The Company generated 61% higher sales revenues compared to the values obtained in 2020, which resulted from higher revenues from electricity sales as a consequence of selling prices higher by 16% as compared to 2020 and 22% higher sales volume, higher volume of CO₂ emission allowances sold for the redemption needs of the TAURON Group companies and restructuring of allowances in the portfolio of Nowe Jaworzno Grupa TAURON sp. z o.o. due to the delayed commissioning of the unit and 17% higher gas sales volume accompanied by a 54% price increase.

The operating costs of the Company incurred in 2021 were 25% higher than the 2020 level, which was mainly affected by an increase in the cost of purchased electricity as a result of a 22% increase in purchased volume with prices 16% higher than in 2020, 53% for gas, and the recognition of costs for the performance of the capacity obligation by generating units owned by subsidiaries in connection with the operation of the Capacity market since 1 January 2021.

Due to its holding activities, the Company recognises significant financial revenues, 43% higher than in 2020. Financial income includes dividends, which account for 82%, interest income on bonds and loans (11%), other financial income (7%), including measurement of derivatives and gain on disposal of units.

The financial standing of TAURON is stable, which is confirmed by the current rating of Fitch at the BBB-level, with a stable outlook. The agency maintained the rating outlook, taking into account the dominant share of regulated activities in the results of TAURON Capital Group.

The Supervisory Board positively assesses the economic and financial position developed by TAURON in 2021. Despite the highly volatile market and macroeconomic environment in 2021, the Company achieved better results in 2021 than in the previous year with a simultaneous debt reduction. In the opinion of the Supervisory Board, the actions taken by the Company, both at the operational and strategic level, are aimed at mitigating the adverse effects identified in its operations. Both the Supervisory Board and the Audit Committee received periodic reports from the Company Management Board on the financial and economic situation at the Company level with a detailed discussion of the most important financial data, i.e. EBITDA, CAPEX, debt ratio and operational data of the entity. The submitted reports presented the situation of the Company against the material and financial plan approved for 2021 and the reported 2020 results.

Evaluation of TAURON Capital Group situation

TAURON Capital Group is a vertically integrated energy group. 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, Renewable Energy Sources (RES), Distribution, Sales and Other.

The EBITDA result generated by TAURON Capital Group in 2021 at a level of PLN 4,152 million was 2% lower than the result generated in 2020. Segments of TAURON Capital Group with the highest shares in EBITDA include: Distribution, Generation and RES.

In the reporting period ended on 31 December 2021, TAURON Capital Group generated 23% higher revenues on sales compared to the values achieved in 2020, which is the result of growing market prices of electricity and gas. In this group of revenues, a 22% and 70% growth was recorded, respectively. An additional factor contributing to the increased revenues was the restructuring of the CO₂ portfolio carried out in 2021 Q1, which resulted in the roll-over of 3,258 thousand Mg of allowances accompanied the conclusion of new contracts with delivery dates in March 2022, 2023 and 2024. In addition, TAURON Capital Group sold on the market 691 thousand Mg of allowances exceeding the redemption needs of Nowe Jaworzno Grupa TAURON sp z o.o. for 2020 due to the delayed commissioning of the 910 MW unit.

The TAURON Capital Group's operating expenses were 9% higher compared to the 2020 figures, mainly as a result of rising electricity and gas market prices. Moreover, the cost of electricity sold in 2021 includes the cost of the provision for the onerous contract recognised as at 31 December 2021 in the amount of PLN 289 million, which is related to the planned standstill of the 910 MW unit in Jaworzno until 29 April 2022 and the need to repurchase electricity, in place of electricity which is not produced by this unit, at market prices quoted on the intraday market and forward market from the moment the failure occurs until the scheduled date of its removal.

Another significant factor influencing the increase in the costs of TAURON Capital Group's operations are the rising costs of greenhouse gas emission allowances, resulting from the increase in allowance prices and higher CO₂ emissions by generating units due to higher electricity production from conventional sources. As a result of the agreement with the social partners, in the costs of the first half

of 2020, TAURON Capital Group recognised the effect of the release of actuarial provisions by the companies in connection with the amendment of the company collective labour agreements in the scope of payout of the cash equivalent for the discounted use of electricity by the current employees of TAURON Capital Group who would acquire the rights to the tariff after their retirement or pension and other eligible persons. Consequently, an increase in labour costs was recorded in 2021.

It should be noted that the value of the created impairment loss on property, plant and equipment arising from the impairment tests of property, plant and equipment carried out as at 30 June 2021 and 31 December 2021 is lower by PLN 2,617 million in y/y terms.

In the statement of cash flows for 2021, TAURON Capital Group reported a positive flow on operating activity at a level of PLN 5,002 million (124% of the 2020 level), significantly higher than the generated EBITDA result. The above relationship indicates that in 2021 TAURON Capital Group significantly improved the formation of working capital, including by rolling over concluded contracts for the purchase of CO₂ emission allowances for delivery in periods immediately preceding the date of submission of these allowances for redemption.

Expenditure on account of 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 3,255 million in the reporting period and were lower by PLN 653 million than the 2020 level.

Capital expenditure incurred by TAURON Capital Group in 2021 amounted to PLN 2,932 million and was 27% lower than in 2020. The most significant investment implemented in 2021 in individual segments included:

- 1) in the Generation Segment: replacement expenditures and repair components at TAURON Wytwarzanie S.A. (PLN 106 million), adjustment of TAURON Wytwarzanie S.A. generation units to BAT Conclusions (PLN 22 million), construction of new 910 MW capacity at Jaworzno (PLN 26 million), investment related to the development and maintenance of district heating networks (PLN 22 million), connections of new facilities (PLN 20 million),
- 2) in the Distribution Segment: modernisation and replacement of grid assets (PLN 877 million), construction of new connections (PLN 1011 million), dispatch communication system (PLN 38 million),
- 3) in the RES Segment: construction of Piotrków 30 MW Wind Farm (PLN 52 million), PV Choszczno (PLN 15 million), Majewo Wind Farm (PLN 8 million).

Having reviewed the financial results reported in the financial statements of TAURON Capital Group, the Supervisory Board positively assesses the results achieved in 2021 and the overall financial and economic situation. Despite high volatility on the markets of energy, fuel and CO₂ emission allowances, TAURON Capital Group maintains a stable market position. Moreover, the ratios of current liquidity and the net debt to EBITDA ratio remain at a safe level. The foregoing is the result of measures taken by TAURON Capital Group to optimise sales margins in relation to market conditions, reduce costs, increase the efficiency of the use of assets and manage financial liquidity in order to increase financial results, improve the liquidity situation, reduce the debt level of TAURON Capital Group and consequently maintain the calculated net debt / EBITDA ratio at a safe level.

Both the Supervisory Board and the Audit Committee received periodic reports from the Company Management Board on the financial and economic situation of TAURON Capital Group, including a detailed discussion of the most important financial data, i.e. EBITDA, investment expenditure, CAPEX, debt ratio, liquidity situation and operational data broken down by segments of operations. The submitted reports presented the situation of TAURON Capital Group against the background of the approved material and financial plan for 2021 and the reported results for 2020.

Information on the actions taken by the Supervisory Board to assess the financial position of the Company and TAURON Capital Group.

In the reporting period, the Supervisory Board and the Audit Committee reviewed the quarterly, semi-annual and annual results of the Company and the TAURON Capital Group in relation to the approved material and financial plans of the Company and TAURON Capital Group as well as to the results of the

same period of the previous year. Each time, the key operating indicators of individual operating segments were discussed, including: electricity distribution volumes, retail electricity sales, electricity generation from conventional and renewable energy sources, heat generation and commercial coal production.

Furthermore, the Supervisory Board analysed the Net Debt/EBITDA ratio, the EBITDA result and the capital expenditure incurred. The cyclical assessment of the above financial ratios results from their significant importance in the assessment of the economic and financial situation of the Company and TAURON Capital Group. The Net Debt/EBITDA ratio indicates the level of capacity to repay debt with the EBITDA result. Its exceeding results in a possibility of declaring the entire debt of the Company as immediately due and payable, and consequently declaring the bankruptcy of the Company. EBITDA, on the other hand, is a financial category commonly used in the Polish and global capital markets. It is used, among others, by listed companies, analysts as well as business and financial press.

In addition to the analysis of the ratios indicated above, the Supervisory Board reviewed the results of the individual operating segments including the cause-and-effect analysis of the resulting deviations of the reported results against the values adopted in the approved material and financial plan and the results generated in the corresponding period of 2020.

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

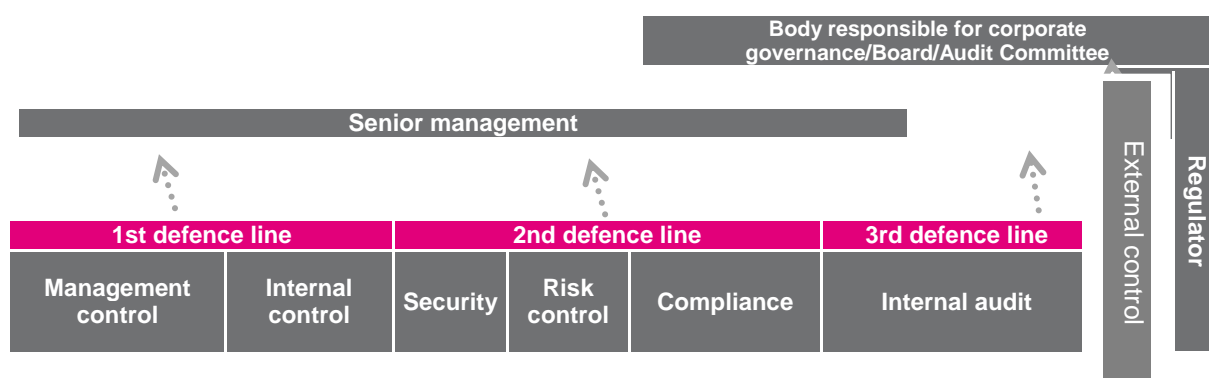
Taking into account the Best Practice 2021, the Supervisory Board assessed the effectiveness of the internal control, risk management systems, compliance and audit and (institutional) control functions, including all significant control mechanisms, in particular, those related to financial reporting and operating activity.

In accordance with rule 3.2 of Best Practice 2021, entities responsible for the systems and functions indicated above were separated, whereas in accordance with rule 3.6 of Best Practice 2021, Executive Director for Audit and Internal Control reports to the President of the Management Board (in organisational terms and does not report in terms of function to the Chairperson of the Audit Committee.

In order to maintain independence, objectivity and due execution of the audit and control function, the Executive Director for Audit and Internal Control has a possibility to report periodically to the Audit Committee and the Supervisory Board of the Company.

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,

Third Line of Defence:

- function of ensuring information security and technical safety.

audit and control function performed by planning and implementing audit tasks of verifying and advisory nature as well as control tasks of detective and preventive nature.

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 the second half of 2021, the Audit and Control Area started to implement the procedure for comprehensive assessment of the Internal Control System (ICS) in TAURON Capital Group. At the initiative of the Audit Committee, the assessment process of the internal control system was designed as an autonomous tool aimed at obtaining reasonable assurance in a calendar year on the effectiveness and efficiency of the control system in place. The process of assessing the internal control system is carried out according to a methodology developed in-house, combining elements of subjective self-assessment with objective tests of the adequacy, implementation and operational effectiveness of control mechanisms. This methodology differs significantly from classic methods of performing audit and control tasks and is organised and supervised by the Audit and Control Area, but is based on close cooperation of the entire organisation - the 3rd Line Model.

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. The basic objective of risk management is to ensure broadly understood security of TAURON Capital Group's operations, in particular, to ensure that TAURON Capital Group increases the predictability of achieving its strategic objectives, stable creation of the financial result, protection of the TAURON Capital Group's current economic value as well as 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.

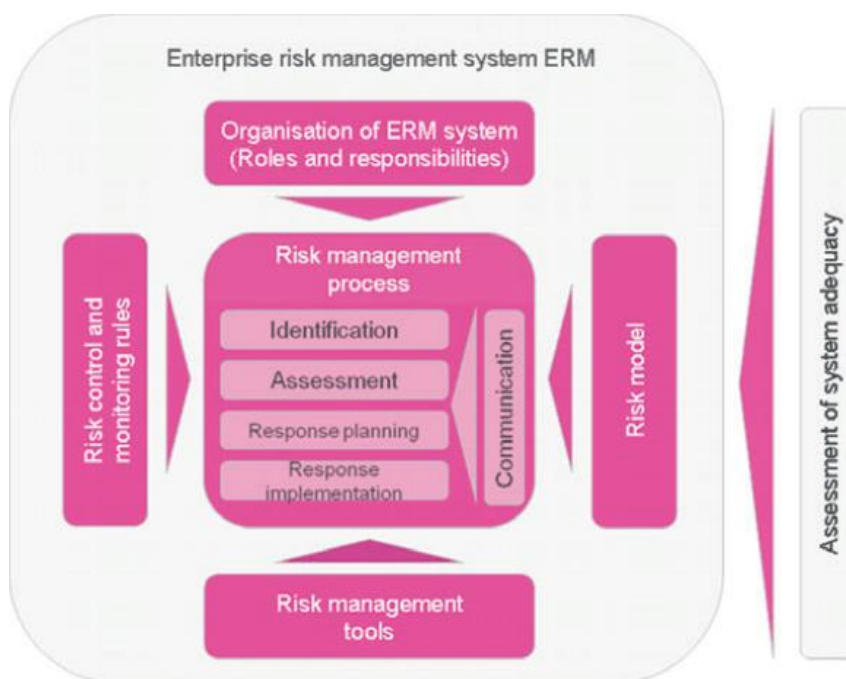
Risk Management Strategy

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 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 key element of the risk management system operating in TAURON Capital Group is the system of risk limits reducing the TAURON Capital Group's exposure to an acceptable level. The acceptable level of risk is determined by the Management Board of TAURON within the Risk Appetite and Risk Tolerance, which is then allocated to operational risk limits dedicated to individual risks and risk groups.

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 adequacy 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 2021, 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 information of both the Audit Committee and the Supervisory Board cyclical reports and reports concerning the risks identified at a level of TAURON Capital Group and the measures taken to mitigate individual risks.

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 continuous process and it is subject to ongoing improvement, adjusted 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 risk management in their daily activities.

2021 was another special year due to the continuing conditions of COVID-19 epidemic, the introduced restrictions and constraints on the functioning of the economy, which translated into the organisational functioning of individual business areas of TAURON Capital Group and the levels of revenues and costs generated by them. The effects of the epidemic were observed in particular in terms of impediments to the implementation of business processes in individual companies of TAURON Capital Group, including impediments to the implementation of Strategic Investment Projects.

The second half of 2021 saw record increases in the levels and volatility of electricity prices, prices of CO₂ emission allowances and related products. A significant increase in inflation and market interest rates was also recorded. This translated into results generated by individual Business Areas in TAURON Capital Group and impeded the planning of investment projects.

The organisation took active and extensive measures, both at the operational and strategic level, which were aimed at minimising the negative effects of the identified risk factors both in terms of business, as well as maintaining the continuity of operations and protecting the health and safety of employees.

In order to ensure the adequacy of the risk management system process in 2021, changes were introduced to the processes, regulations and tools used on an ongoing basis to adapt them to the changing market, regulatory and macroeconomic environment. Moreover, the system of risk control indicators operating in TAURON Capital Group was developed, with particular emphasis on early warning indicators. In 2021, the annual review and update of the TAURON Group's risk registers was also carried out in order to identify new risk factors as well as to review and implement mitigating measures. As a result of this review, the list of key risks was reviewed for which detailed risk response and contingency plans were developed.

In the opinion of the Supervisory Board, the Company maintains an effective risk management system operating in TAURON and has a separate unit responsible for risk management within its structure. 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 business and strategic objectives of TAURON Capital Group. The Company provided adequate resources for the needs of 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 and the organisation of the process itself ensures independence of control functions from the business activity. In particular, both the Supervisory Board and the Audit Committee received from the Executive Director for Risk, responsible for risk management in TAURON Capital Group, cyclical reports and reports on the risks identified at a level of TAURON Capital Group 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)

TAURON Group has introduced and is developing the Compliance Management System as a tool integrated into structures and processes to create a factual situation in TAURON Capital Group in which the risk of non-compliance will be reduced to a minimum.

The system aims to:

- 1) ensure balance in the organisation,
- 2) support employees in the due performance of their daily tasks,
- 3) reduce the risk of sanctions, financial losses, loss of business reputation,
- 4) eliminate potential compliance risks.

The principles of the functioning of the Compliance Management System in TAURON Group, in particular, the objective, structure, tools, stages and areas of compliance management, are defined in the TAURON Group Compliance Policy, which was updated in 2021.

On the other hand, the TAURON Group Code of Responsible Business is a key document on ethical culture in the organisation.

The structuring of the compliance system at TAURON through the separation within the company of the Compliance Officer reporting directly to the Member of the Management Board, with the ensured possibility of reporting to the Supervisory Board and the Audit Committee is compliant with the Best Practice 2021 and 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.

In 2021, the activities of the Compliance Area included, among others:

- 1) conducting ongoing monitoring of the regulatory environment,
- 2) conducting periodic monitoring of compliance risks,

- 3) verification and clarification of reported (potential) cases of non-compliance (whistleblowing) in TAURON Capital Group,
- 4) conducting the periodic evaluation of transactions concluded with related parties,
- 5) examination of the credibility of contractors, suppliers, subcontractors and external entities with whom TAURON Capital Group cooperates,
- 6) providing opinions and participating in the development of compliance-related regulations at TAURON Capital Group,
- 7) responding to employees' compliance questions and issuing communications on compliance within TAURON Capital Group,
- 8) training, including the organisation of the Compliance Day 2021 in TAURON Capital Group,
- 9) cyclical reporting to TAURON statutory bodies.

The Compliance area and the Compliance Coordinators in the TAURON Group companies performed their tasks on the basis of the *TAURON Group Compliance Plan for 2021* which was presented to the Audit Committee.

Throughout 2021, the Compliance Officer submitted regular reports on the scope of the tasks performed: to the Audit Committee after the end of each quarter and to the Supervisory Board after the end of each semi-annual period.

The Compliance Officer prepared the *TAURON Group Compliance Report for 2021* in order to provide the Supervisory Board with comprehensive information in the scope of activities carried out by the Compliance Area in the period from 1 January 2021 to 31 December 2021, including in particular:

- 1) summary in terms of the current and priority tasks completed in 2021 by the Compliance Area based on the TAURON Group Compliance Plan for 2021,
- 2) description of the changes that took place in 2021 in the scope of the operation of the Compliance Management System in TAURON Group,
- 3) information on reported potential cases of irregularities and explanatory proceedings carried out in TAURON Capital Group in 2021.

2021 demonstrated further development in terms of the expansion of the Compliance Management System in place at TAURON Capital Group. The tasks performed were influenced by the epidemiological situation existing at the time, associated with the SARS-COV-2 virus.

In 2021, the Supervisory Board provided oversight and monitored the Compliance Management System in TAURON Capital Group, which it assesses positively due to the diverse and comprehensive nature of the activities undertaken, both preventive, advisory and informative, as well as detection and repair measures. Based on the periodic reports and cyclical information presented by the Compliance Officer, the Supervisory Board positively assesses the effectiveness of the compliance system and the Compliance function in TAURON Capital Group.

THIRD LINE OF DEFENCE

Assessment of the audit and control functions

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

The Audit and Control Area of TAURON plans and implements audit tasks of a verifying and advisory nature and performs tasks in the framework of internal (institutional) control, which fulfils a detecting function (detection control) and preventive function. The primary objective of internal control is to minimise the risk of loss within TAURON Capital Group.

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.

In 2021, as part of Megaprocess 1.5 Audit, the TAURON Group Internal Control System Assessment process was established.

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 allows for maintaining the independence and objectivity necessary for effective and due performance of the audit and control function. The Executive Director for Internal Audit and Internal Control was also provided with the opportunity to periodically report directly to the Chairperson of the Audit Committee, as a representative of the Standing Committee established within the TAURON Supervisory Board. This authorisation is implemented in the current *Organisational Rules of TAURON Polska Energia S.A.*

Audit and advisory activities are performed by the Internal Audit Team, which carries out planned and ad hoc audit tasks, both in TAURON and in the companies of the TAURON Capital Group. Based on the Annual Audit Plan for a given calendar year, while carrying out audit tasks of a process nature, the Internal Audit Team assesses the current level of individual risks and the effectiveness of their management.

The institutional control, understood as a set of activities of an inspection nature within the framework of the internal control system in place, is carried out at the level of TAURON Capital Group by the Internal Control Team and by organisational units competent for internal control functioning in some subsidiaries. The control tasks are carried out in the form of ad hoc and planned inspection. Moreover, the Internal Control Team performs specialised inspections of the IT, OT and security systems of TAURON Capital Group.

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 Audit and Internal Control area provides the evaluators of the internal control system with reliable indications of the efficiency of the system.

As part of the audit task, a cyclical evaluation of the internal control system in the form of a self-assessment was performed for 2020. The criteria for assessing the system of internal control were developed based on the COSO Model (Committee of Sponsoring Organizations of the Treadway Commission), which is a global standard and benchmark for internal control systems.

The Megaprocess owners responsible for the particular business area carried out the assessment of the fulfilment of individual requirements of the internal control elements for the entire TAURON Capital Group:

- 1) Internal control system environment.
- 2) Risk assessment,
- 3) Control mechanisms.
- 4) Information and communication.
- 5) Control and oversight.

The results of the self-assessment were reviewed by the TAURON Audit and Internal Control Area in order to issue its own assessments and communicate them to the Megaprocess Owners.

In areas where the self-assessment identified deficiencies in the internal control system, recommendations were issued to the Megaprocess Owners.

Basic internal audit functions in TAURON Capital Group:

- 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 and in TAURON Capital Group as well as suggesting changes of effectiveness nature.

In 2021, the Audit and Internal Control Area, taking into account the control units in subsidiaries, carried out 35 planned and ad hoc tasks. This work resulted in observations, conclusions and recommendations which contributed to the improvement of the internal control system of 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.

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

In 2021, the Company was subject to the corporate governance rules contained in:

- 1) Best Practice for WSE Listed Companies 2016 introduced by Resolution No. 26/1413/2015 of the WSE Supervisory Board of 13 October 2015, which were in force until 30 June 2021 (Best Practice 2016) and
- 2) Best Practice for WSE Listed Companies 2021 introduced by Resolution No. 13/1834/2021 of the WSE Supervisory Board of 29 March 2021, which are effective as of 1 July 2021 (Best Practice 2021).

Until 30 June 2021, the Company did not apply the following detailed rules contained in Best Practice 2016:

- 1) IV.Z.2. - the rule concerning ensuring of publicly available real-time broadcasts of General Meetings.
- 2) VI.Z.1. - the rule 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 stability of the Company.
- 3) VI.Z.2. - the rule 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.

The following specific rules contained in the Best Practice 2016 did not apply to the Company:

- 1) I.Z.1.10. - the rule 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.
- 2) III.Z.6. - the rule 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.

In addition, the Company did not apply the recommendation included in the Best Practice 2016, designated as IV.R.2. regarding allowing shareholders to participate in the general meeting by means of electronic communication.

In connection with the entry into force of Best Practice 2021 on 1 July 2021, in order to ensure comprehensive information on the current status of application of corporate governance principles, the Company prepared *Information on the status of application by TAURON Polska Energia S.A. of the rules contained in the Collection of Best Practice for WSE Listed Companies 2021 (Information)*, providing a detailed explanation of the rules applied by the Company, and the rules which are not applied by the Company, including the justification.

The above information was presented to the Supervisory Board on 27 July 2021 and approved by the Management Board of the Company on 29 July 2021 and subsequently published via the EIB and on the Company website at <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

Pursuant to § 29(3) and (3a) of the Stock Exchange Rules, the Company monitored the application of corporate governance rules on an ongoing basis in terms of any circumstances justifying a change in the content of the explanations in the scope of failure to apply or method of application of the rules. In December 2021 and in January 2022, a change in the actual status occurred underlying the Information concerning the failure to apply Rules 3.4 and 3.5 of the Best Practice 2021, published by TAURON on 29 July 2021.

The update of the above information was presented to the Supervisory Board on 2 February 2022 and approved by the Management Board of the Company on 8 February 2022 and subsequently published via the EIB and on the Company website.

In accordance with the aforementioned updated Information, as of the date of this Report, the Company did not apply the following rules:

- 1) 1.4.2 - the rule regarding presenting the value of the equity ratio of remuneration paid to its employees, calculated as a percentage difference between the average monthly remuneration paid to women and men for the last year and information on the actions taken to eliminate any potential inequalities in this respect, including the presentation of the associated risks and the time horizon over which the equality is planned to be achieved.
- 2) 2.1. - the rule concerning holding a diversity policy related to the management board and the supervisory board, adopted by the supervisory board or the general meeting respectively, setting out the objectives and the criteria of diversity with regard to, among others, gender, educational background, professional knowledge, age and professional experience, as well as indicating the timeframe and method for monitoring the achievement of those objectives. In terms of gender diversity, the condition for ensuring the diversity of the company governing bodies is the minority participation in the respective body at a level of at least 30%.
- 3) 2.2. - the rule stating that persons deciding on the election of members of the Management Board or the Supervisory Board of the Company should ensure the versatility of these governing bodies by electing persons who ensure diversity, making it possible, among others, to achieve the target ratio of minimum minority participation determined at a level which is not lower than 30%, in accordance with the objectives set out in the diversity policy referred to in section 2.1. of *Best Practice 2021*.
- 4) 3.6. - the rule stating that the head of internal audit reports in organisational terms to the president of the management board and in functional terms - to the chairperson of the audit committee or to the chairperson of the supervisory board if the board acts as an audit committee.
- 5) 3.7. - the rules stating that rules 3.4. - 3.6. shall also apply in the case of entities of the company group that are significant to its business, if they have designated persons to carry out these tasks.

- 6) 4.1. - the rule concerning enabling shareholders to participate in the general meeting by means of electronic communication where this is justified due to the expectations of shareholders, as long as the company is able to provide the technical infrastructure necessary for holding such a general meeting.
- 7) 4.14. - the rule stating that a company should seek to distribute its profits by paying out dividends while retaining the total profits in the company is possible only if any of the following grounds apply:
 - a) the level of this profit is minimal and consequently the dividend would be insignificant in relation to the value of the shares,
 - b) the company recognises uncovered losses of previous years and the profit is allocated to reducing them,
 - c) the company will justify that the use of the profit for investment will generate tangible benefits to the shareholders,
 - d) the company did not generate cash enabling the payment of the dividend,
 - e) the payment of dividend would significantly increase the risk of breaching covenants arising from loan agreements or bond issue terms binding the company,
 - f) keeping the profit in the company is in line with the recommendation of the institution supervising the company by virtue of carrying out a certain activity.
- 8) 6.2. - the rule concerning the construction of incentive schemes in a way necessary, among others, to tie the level of remuneration of members of the company management board and key managers to the actual long-term financial standing of the Company in the scope of financial and non-financial results and long-term growth of shareholder value, sustainable development as well as the stability of the company functioning.
- 9) 6.3. - the rule stating that if one of the company incentive programmes is a managerial options programme, then the implementation of the options programme should be conditional on the fulfilment by the authorised persons, within a period of at least 3 years, of pre-determined, realistic and appropriate financial and non-financial objectives for the company and sustainable development, while the price established for the acquisition of shares by the authorised persons or settlement of the options may not diverge from the value of the shares applicable in the period when the programme was adopted.
- 10) 6.4. - the rule stating that the supervisory board shall carry out its tasks continuously and, therefore, the remuneration of board members shall not depend on the number of meetings held. Remuneration of members of committees, in particular the audit committee, should take into account the additional workload associated with the work in these committees.

In 2021, the Company fulfilled its obligations related to the application of corporate governance rules set out in §29 of the *WSE Rules* and in §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*.

In 2021, the Company did not record any cases of violation of Best Practice 2021, as well as changes in the status of application of the rules or the occurrence of circumstances justifying a change in the content of the explanations other than those indicated above.

Bearing in mind the requirements of §70(6)(5) of the Regulation, the *Report of the Management Board on activities of TAURON Polska Energia S.A. and TAURON Capital Group in the financial year 2020* contained a statement on the application of corporate governance principles, constituting a separate part of the report, including the indication of the set of corporate governance rules which the Company was subject to and the place where the text of the set of principles was publicly available, as well as the indication of the provisions of the set of corporate governance rules which the Company did not apply.

In the opinion of the Supervisory Board, in 2021, the Company correctly applied the principles of corporate governance and properly fulfilled the information obligations regarding their application set out in the Stock Exchange Rules and the regulations concerning current and periodic information provided by issuers of securities. In the opinion of the Supervisory Board, the explanations and

comments published by the Company relating to the set of corporate governance rules present the functioning of the Company governing bodies in a reliable and transparent manner.

8. Assessment of rationality of the expenses incurred by the Company and TAURON Group to support culture, sports, charities, media, social organisations, trade unions, etc.

Activities in the area of developing the brand image, including the implementation of the brand strategy through sponsoring and promotional activities and the implementation of projects based on corporate social responsibility (CSR), are very important aspects of activity of TAURON Capital Group. The perception of the organisation through its image has a key impact on customer purchase readiness and loyalty, which is an essential element in generating profits for any undertaking. TAURON Capital Group is connected with almost 6 million customers, with the provinces of Lower Silesia, Opole, Silesia and Małopolska being the dominant areas of operations.

The corporate regulations in force in TAURON Capital Group regulate in detail the manner and objectives of spending funds in pursuit of the objectives of sponsoring, promotion and CSR activities. They also regulate how to evaluate the effectiveness of these projects. This makes the TAURON Capital Group's image creation and management activities transparent and measurable.

TAURON Capital Group attaches particular importance to the proper fulfilment of its role as a responsible member of the community in which it operates. It addresses pro-social projects broadly, in proportion to the scope of its business activity.

TAURON brand building is largely based on the sponsorship activities of TAURON Capital Group. In addition to CSR and sponsoring projects, TAURON Capital Group also runs projects aimed at promoting the TAURON brand. This is regulated by *the TAURON Group's Principles of Promotional Activity*. The main objective of the promotional activities is to support the business objectives pursued by the Company and the companies of TAURON Capital Group, as well as to increase and consolidate the awareness and range of influence of the TAURON brand. TAURON Capital Group carries out promotional activities in the following areas: culture, sport, science, environmental initiatives, social actions, as well as conferences, congresses and industry events.

The table below shows expenditure on supporting culture, sports, charity institutions, media, social organisations.

Table no. 8 TAURON Capital Group's expenditure on supporting culture, sport, charity institutions, media, social organisations in 2021.

| No. | Category | Value of expenditure* |
|-----|----------------------------------|-----------------------|
| 1. | Sports | PLN 6,427,252 |
| 2. | Culture and arts | PLN 3,718,200 |
| 3. | Social organisations / charities | PLN 1,215,376 |
| 4. | TAURON Foundation | PLN 1,069,350 |
| 5. | Education | PLN 512,297 |

*The expenditure includes the costs of sponsoring, promotional and CSR activities as well as donations provided by TAURON Capital Group companies to foundations, social organisations, etc.

With the aim of promoting a healthy and active lifestyle, as well as the role sport plays in the upbringing of the youngest generations, TAURON Capital Group has established a programme called "TAURON supports young athletes". It supports entities whose statutory activity is based on running sports projects in such disciplines as volleyball, football and swimming. Also in 2021, TAURON Group was involved in promoting sport among children and young people by organising a proprietary football tournament called TAURON Junior Cup. An important project, in terms of the TAURON Capital Group's expenditure supporting sport, is the cooperation with the Polish Volleyball League (agreement concluded in 2020).

In the culture and arts category, TAURON Arena Kraków, which is a nationwide project, receives the highest support. The facility hosts both sporting and cultural events. The long-standing cooperation has helped to consolidate the facility's association with its title sponsor. The recognition of the project is

confirmed by the surveys conducted by Sponsoring Insight in 2021. TAURON Arena Kraków is the most spontaneously recognisable project, achieving a score of 31.1% among individual customers. Also with regard to the criterion of product sales support, the sponsorship of Arena Kraków gained the most indications among individual customers: 40.7%.

Among the social organisations and charitable institutions that receive the highest support is the SIEMACHA Association. In 2021, TAURON was a partner of the ISKIERKA Foundation helping children suffering from cancer. As part of joint activities, hospital wards in Katowice and Gliwice were renovated, carnival balls were organised for wards and an integration family picnic was held. Within the framework of the cooperation, the TAURON Junior Cup was organised as well as smaller, original projects: Mega-Power of Possibilities, Juliada, Joining forces for the climate, Football Children's Day with TAURON, Energy from water.

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 aid is granted based on the preliminary budget of the TAURON Foundation for a given year, developed by the Management Board and consulted with the Foundation Board.

As a leader in the energy sector, TAURON Capital Group uses its specialist competence to promote education and knowledge related to science, as well as the safe use of electricity. The most important project in this area is TAURON Fuses. As part of the project, TAURON Capital Group provides ready-made lesson scenarios for teachers, a guide for parents and interesting games and educational materials about electricity for students. In addition, Wawel Royal Castle has been supported within its educational projects continuously since 2010. In 2021, the cooperation with Wawel had 2 main stages, i.e. The patronage of the summer outdoor music festival Wawel at Sunset, as well as co-organisation of a unique multidisciplinary project, Patriotic Week. Over the years, the cooperation with Wawel also included exhibition projects as well as educational activities for children and young people. Relations with the Wawel Royal Castle ensure dissemination and strengthening of the positive TAURON brand image, as well as the possibility to reach important companies and communities with the TAURON brand message (and sales message).

In 2021, sponsorship activities in TAURON Capital Group were carried out in 2021 on the basis of the sponsorship activity plan positively approved by the Supervisory Board. By separate resolutions, the Supervisory Board approved the conclusion of sponsorship agreements with a value exceeding PLN 500,000. After the closure of the budgetary year 2020, the Supervisory Board issued a positive opinion on the *Report on the implementation of the sponsoring activity by TAURON Group in 2020*,

The activities implemented in 2021 were dependent on epidemiological conditions and restrictions resulting from the COVID-19 pandemic. The Company has been intensively involved in helping to combat the coronavirus, providing support to the health service and carrying out pro-social activities. The forms of cooperation were also adapted to the situation in order to make the tasks performed as effective as possible.

In the opinion of the Supervisory Board, in 2021, the Company correctly and rationally implemented initiatives and tasks in the field of corporate social responsibility. All sponsorship projects carried out in 2021 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.

The perception of the Company through its image has a key impact on customer purchase readiness and loyalty, which is an essential element in generating profits for any undertaking. Therefore, TAURON carries out extensive activities in the areas of CSR, sponsoring and promotion. TAURON Capital Group supports culture, sport, charity institutions and social organisations.

In accordance with the recommendations of the Ministry of State Assets, energy companies can allocate 0.2% of consolidated net sales revenue in the previous year to sponsorship. In 2020, consolidated net sales revenues amounted to PLN 20,367,400,000, thus the amount of PLN 40.73 million could have been allocated to sponsorship. In 2021, PLN 8.23 million, or 0.04% of this revenue, was allocated to sponsorship.

In 2021, the equivalence ratio of sponsorship projects was 20.51. It means that every PLN spent on sponsorship activities generated PLN 20.51 in the form of advertising equivalent. The sponsorship projects carried out by TAURON Capital Group generated the highest TV advertising equivalent in the energy sector.

In the opinion of the Supervisory Board, the TAURON Capital Group's expenditure on supporting sport, culture, education and charity organisations is fully justified since it has a significant impact on building the brand image and positive relations with the environment. These activities are positively perceived by customers of TAURON Capital Group and support the sales of TAURON Capital Group products. It is confirmed by surveys conducted by independent research companies: *Sponsoring Insight Annual report of the TAURON Group's sponsoring activity for 2021*, *Otawa Advisory Group's TAURON brand image awareness* and *ARC Market and Opinion Sponsoring Monitor 2021*.

9. Information on non-application of the rule of Best Practice 2021 concerning the diversity policy with regard to the Management Board and the Supervisory Board

The Company has not adopted for application of Rule 2.1 of Best Practice 2021 concerning holding a diversity policy related to the Management Board and the Supervisory Board.

30 March 2022

Signatures of Members of the Supervisory Board:

Chairman of the Supervisory Board - Piotr Tutak

Vice-Chairperson of the Supervisory Board - Teresa Famulska

Secretary of the Supervisory Board - Katarzyna Taczanowska

Member of the Supervisory Board - Stanisław Borkowski

Member of the Supervisory Board - Dariusz Hryniów

Member of the Supervisory Board - Leszek Koziorowski

Member of the Supervisory Board - Ryszard Madziar

Member of the Supervisory Board - Grzegorz Peczkis

Member of the Supervisory Board - Marcin Wawrzyniak